

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

13 August 2018

Update

 Rate this Research

#### 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	A1
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.

#### Analyst Contacts

Michael Rohr 49-69-70730-901  
VP-Senior Credit Officer  
michael.rohr@moodys.com

Alexander Hendricks, 49-69-70730-779  
CFA  
Associate Managing Director - Banking  
alexander.hendricks@moodys.com

Carola Schuler 49-69-70730-766  
Managing Director - Banking  
carola.schuler@moodys.com

## Commerzbank AG

Rating upgrade reflects improved financial strength and legislative changes in Germany

### Summary

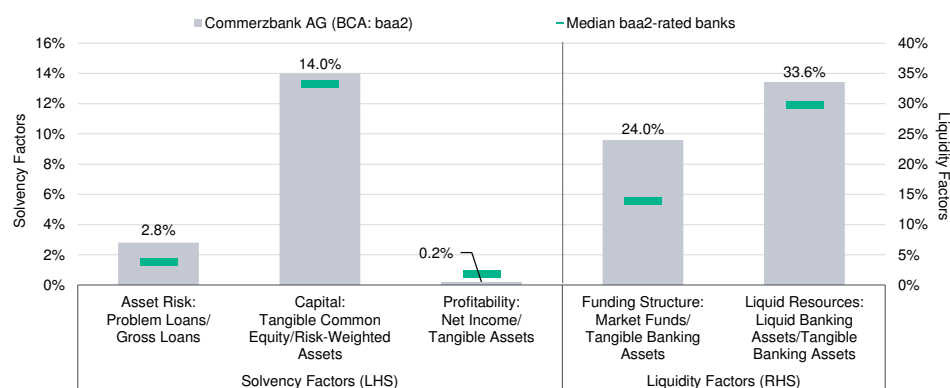
We recently [upgraded Commerzbank AG's](#) (Commerzbank) deposit and senior unsecured debt ratings to A1 from A2 and affirmed the bank's Baa1 junior senior unsecured debt ratings<sup>1</sup>. We further upgraded the bank's issuer ratings to A1 from Baa1, its Counterparty Risk Rating (CRR) to A1 from A2, as well as its Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa3.

Commerzbank's ratings reflect (1) its baa2 BCA and Adjusted BCA; (2) the results of the [amended application](#) of our Advanced Loss Given Failure (LGF) analysis, which provides three notches of rating uplift for deposits and senior unsecured debt; and (3) our assumption of a moderate probability of government support for the bank's deposits and senior unsecured debt ratings, leading to the assignment of one additional notch of rating uplift.

The upgrade of Commerzbank's BCA reflects (1) the bank's achievements in de-risking the bank; (2) its progress in executing its strategic programme Commerzbank 4.0 launched in October 2016; as well as (3) sustaining its solid capitalisation, despite regulatory pressures and the full adoption of IFRS 9 earlier this year. The BCA remains constrained by the bank's low profitability, which we expect to only improve gradually.

Exhibit 1

#### Rating scorecard Commerzbank AG - Key financial ratios



The profitability ratio has been adjusted for exceptional revenue items, but not for restructuring charges (€808 million in 2017).  
Source: Moody's Financial Metrics

## Credit strengths

- » Solid capital position, despite pressure from regulatory and accounting changes
- » Sound liquidity profile
- » De-risked lending book, with manageable exposures to highly cyclical asset classes such as shipping or CRE

## Credit challenges

- » Earnings pressure from the low interest rate environment and generally stubbornly low profitability in the German banking market
- » Regulatory tightening, which will limit capital buildup during the execution of the bank's strategic realignment programme Commerzbank 4.0
- » Ability to sustain its sound asset quality in a normalising and less supportive cycle for credit risks

## Outlook

- » The stable outlook on its ratings takes into account our expectation of a stable development in Commerzbank's financial fundamentals over the next 12-18 months.

## Factors that could lead to an upgrade

- » Although considered unlikely at present, an upgrade of Commerzbank's ratings could be triggered by a higher BCA.
- » Further upward pressure on Commerzbank's baa2 BCA could result from a combination of (1) a persistent and significant strengthening of the bank's profitability across economic cycles; (2) a further significant and sustained improvement in its capital ratios and balance-sheet leverage; (3) a further reduction in its problem loans, including lower sector concentrations; and (4) a material decrease in Commerzbank's moderate reliance on wholesale funding sources, coupled with a further buildup of high-quality liquid assets.
- » In addition, junior senior unsecured and subordinated instrument ratings could be upgraded because of lower loss given failure, for example, if subordination were to increase, although this seems unlikely at present.

## Factors that could lead to a downgrade

- » A downgrade of Commerzbank's ratings could be triggered following (1) a deterioration in the bank's financial fundamentals supporting its BCA; (2) fewer notches of rating uplift as a result of our Advanced LGF analysis; or (3) a lower likelihood of government support.
- » A downgrade of the bank's BCA could result from (1) a weakening of the operating environment in Germany; (2) a significant deterioration in its asset quality and capital adequacy metrics; (3) a material deviation from the bank's currently pursued Germany-focused retail and corporate banking model; and/or (4) a significant weakening of the bank's combined liquidity profile.
- » Moreover, downward rating pressure could result from a significant decrease in the bank's bail-in-able debt buffer, leading to a higher loss severity of Commerzbank's different liability classes at failure, resulting in a lower rating uplift as a result of our Advanced LGF analysis.

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.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Commerzbank AG (Consolidated Financials) [1]

	3-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	CAGR/Avg <sup>3</sup>
Total Assets (EUR billion)	422	400	408	446	462	-2.8 <sup>4</sup>
Total Assets (USD billion)	519	480	431	484	560	-2.3 <sup>4</sup>
Tangible Common Equity (EUR billion)	24	26	26	26	23	1.3 <sup>4</sup>
Tangible Common Equity (USD billion)	29	31	27	29	28	1.8 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.9	2.6	3.4	3.3	5.1	3.3 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	14.0	15.1	13.7	13.3	10.7	13.3 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.0	19.3	23.3	23.7	41.5	24.8 <sup>5</sup>
Net Interest Margin (%)	1.0	1.0	1.0	1.3	1.1	1.1 <sup>5</sup>
PPI / Average RWA (%)	0.5	0.7	1.0	1.2	1.1	0.9 <sup>6</sup>
Net Income / Tangible Assets (%)	0.3	-0.0	0.3	0.2	0.2	0.2 <sup>5</sup>
Cost / Income Ratio (%)	89.2	84.0	79.0	73.5	73.8	79.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	28.2	24.0	27.7	28.3	32.6	28.2 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	32.1	33.6	35.8	40.2	36.9	35.7 <sup>5</sup>
Gross Loans / Due to Customers (%)	84.5	86.1	85.1	83.8	94.2	86.7 <sup>5</sup>

[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 due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

## Profile

Commerzbank AG (Commerzbank) is one of Germany's largest universal commercial banks which primarily focuses on the German and Polish banking markets. As of 30 June 2018, Commerzbank held a consolidated asset base of €488 billion, representing a market share of around 6% in the German banking system in terms of total assets.

Through its two core business segments, Private and Small Business Customers, and Corporate Clients, Commerzbank provides a wide range of banking and other financing products and services to its clients. The bank has a strong market position in foreign trade finance business and is one of the most prominent banks financing corporate clients in Germany, also providing a wide array of capital market products.

Commerzbank serves more than 18 million private and small business customers, as well as more than 60,000 corporate clients through a network of around 1,000 branches in Germany and 373 foreign branches (including its Polish subsidiary [mBank S.A.](#)) in more than 50 countries, and employs more than 40,000 people.

For more information, please see Commerzbank's [Issuer Profile](#).

## Weighted Macro Profile of Strong (+)

Although Commerzbank is focused on the German market, the bank's assigned Strong (+) Weighted Macro Profile is set one notch below the Very Strong (-) [Macro Profile of Germany](#), reflecting the issuer's activities in other EU countries with a less benign operating environment, in particular [Poland](#) (A2 stable).

## Recent developments

The aforementioned various rating actions combined the effect of Commerzbank's improved standalone financial strength — as reflected in the one-notch upgrade of Commerzbank's BCA to baa2 from baa3 — with that of the [legal changes](#) to Germany's bank insolvency rank order, which took effect on 21 July 2018.

On 3 August 2018, we reclassified a range of senior debt instruments issued by German banks and took rating actions on them. The changes came in response to the revised German insolvency legislation, transposing an amendment to the European Union's (EU) Bank Recovery and Resolution Directive (BRRD) into domestic law. This amendment broadly aligned German banks' liability ranking in insolvency and resolution with that of their counterparts in other EU countries.

As a result, we downgraded most of the German banks' senior unsecured bonds that were already outstanding on 20 July 2018, as the legislative change led us to abandon our previous assumption that these instruments would benefit from government support if required. This is because the new law ranks these legacy instruments alongside new "junior senior" instruments introduced to help EU banks achieve the minimum holdings of loss absorbing debt stipulated under the BRRD's minimum requirements for own funds and eligible liabilities (MREL). The resulting negative effect on Commerzbank's junior senior unsecured debt ratings was, however, balanced by the one-notch upgrade of its BCA, leading to the affirmation of Commerzbank's (junior) senior unsecured instrument ratings at Baa1.

We also upgraded the German banks' (and Commerzbank's) issuer ratings and senior unsecured program ratings. This is because the law now allows German banks to issue new preferred senior unsecured debt in "plain vanilla" format. These instruments, which rank as German lenders' most senior plain vanilla unsecured bonds, have therefore become the reference point for their issuer ratings.

## Detailed credit considerations

### Sustainably improved asset risk profile, despite continued challenges from the bank's higher-risk segments

We assign a baa1 Asset Risk score to Commerzbank, two notches below the a2 initial<sup>2</sup> score. The adjustment mainly captures risk concentrations towards more cyclical industries within the bank's corporate loan book, as well as exposures to potentially more vulnerable European and non-European countries.

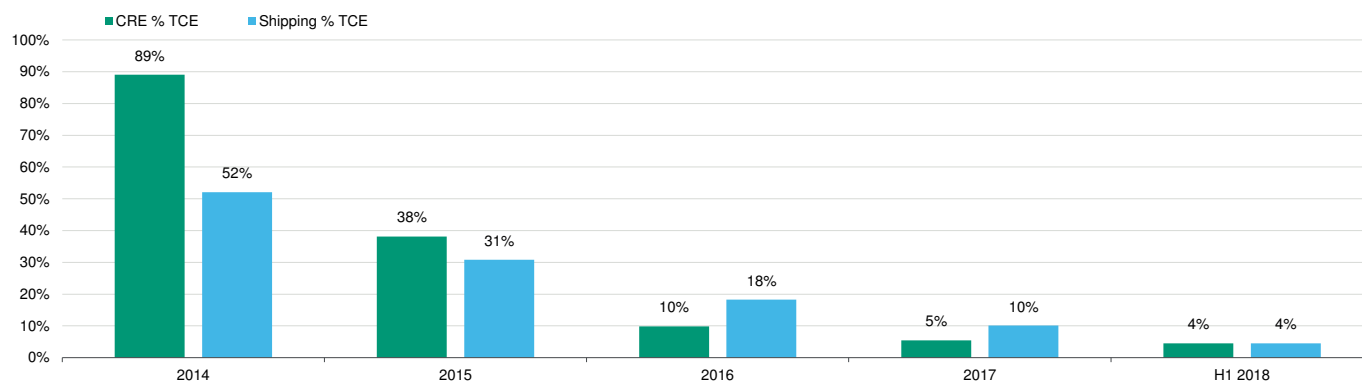
Commerzbank has made significant progress in de-risking the bank. Group nonperforming loans (NPLs) were €4.0 billion as of 30 June 2018, a significant decrease from €6.9 billion as of year-end 2016. The decline was largely because of further divestments and the implementation of the fair value approach for Commerzbank's shipping exposures in the first quarter of 2018 (net decreasing effect on NPLs of €1.0 billion). Following these problem exposure reductions, the bank's ACR unit displayed €249 million of NPLs, equivalent to an NPL ratio of 2.6% as of 30 June 2018 (30 September 2017: €1.9 billion or 14%, on the bank's CRE and ship finance exposures), while the total group problem loan ratio according to Commerzbank's definition was 0.9% as of the same date.

Remaining risk concentrations, in particular to highly cyclical industries such as CRE and shipping<sup>3</sup> have also been successfully reduced to €2.2 billion, or 8% of Commerzbank's tangible common equity (TCE) as of 30 June 2018, down from €7.3 billion, or 28%, respectively, as of year-end 2016.

Exhibit 3

### Commerzbank has successfully cut exposures to high-risk lending

CRE and ship lending exposures\* as a percentage of tangible common equity (TCE), 2014-to-date



\*As reported in the bank's ACR unit.

Sources: Commerzbank, Moody's Investors Service

Despite being focused on Germany and to some extent, Commerzbank continues to have significant exposures to countries in the European periphery, mainly to [Italy](#) (Baa2 review for downgrade; €8.5 billion, excluding non-sovereign exposures, as of 30 June 2018), as well as to non-European countries such as [China](#) (A1 stable; €7.5 billion), [Russia](#) (Ba1 positive; €2.8 billion) and [Turkey](#) (Ba2 review for downgrade; €2.5 billion). A resurgence of the European sovereign debt crisis, in particular if arising from Italy, as well as continued geopolitical uncertainties surrounding Russia and/or Turkey, may therefore burden the bank's financial metrics.

In addition, Commerzbank manages around €28 billion of exposures in the UK, derived largely from internationally operating groups and including public finance. The bank has very little revenue exposure to UK clients and has fully hedged its foreign-currency risks. Commerzbank's UK exposures also include a long-dated interest-only lending portfolio to British local authorities with maturities of 15-60 years (so-called Lobo loans) that were subscribed at a time of significantly higher interest rates. These exposures are managed within the bank's Asset and Capital Recovery (ACR) unit. Overall, we expect Commerzbank to be able to manage the remaining UK exposures without a significant impact on its profit and loss, and capital.

### **Solid level and quality of capital**

We assign a Capital score of a3, two notches below the bank's a1 initial score, to reflect the fully phased-in leverage ratio of below 5% (4.5% as of 30 June 2018), as well as challenges related to sustainably building a larger buffer over and above the stricter Supervisory Review and Evaluation Process requirements set by the European Banking Authority.

As of 30 June 2018, the bank reported a CET1 ratio of 13.0%, unchanged versus the prior-year ratio. The bank's TCE ratio slightly declined to 13.8% as of the same date, from 14.2% the year prior; the decrease being reflective of the full adoption of the IFRS 9 accounting regime effective 1 January 2018. Risk-weighted assets decreased slightly year-over-year to €176 billion (H1 2017: €178 billion), with the increase in the second quarter (from €170 billion as of the end of March 2018) largely owing to increased lending volumes and currency effects. Commerzbank's solid capitalisation metrics enable it to withstand sudden market shocks, and has meanwhile improved to a level slightly above its similarly rated peers.

Because Commerzbank's re-engineering proceeds into 2019 and 2020, we expect its TCE ratio (as well as its CET1 capital ratio) to fluctuate around current levels. With a de-risked financial profile, the challenge for the bank will be to succeed in its strategic plan and demonstrate a sustained higher earnings generation power that supports the buildup of additional going-concern capital.

### **The burden on Commerzbank's profitability from its strategic programme will be lifted starting in 2018, if executed carefully**

We assign a b1 Profitability score to Commerzbank, in-line with the initial score. The positioning of the score reflects our expectation of an only gradual improvement in the bank's profitability over the next 12-18 months, and we expect its profitability to reside within a range between 0.125% and 0.25% net income/tangible assets. This assessment incorporates a potential strain on earnings from persistently low interest rates, as well as continued uncertainties regarding the contribution to revenue from the bank's newly arranged two core segments, focused on retail and corporate banking in Germany.

While net new customer gains, as well as new business growth (largely in residential mortgages), have exceeded targets since the announcement of Commerzbank's strategic plan, the bank needs to prove it can turn these new relationships profitable on a sustained basis, thereby fostering underlying progress in newly generated client-driven revenue.

In the Corporate Clients segment, the key challenge will be to stabilise and later grow revenue following the selective business downsizing and de-risking as part of the plan<sup>4</sup>. In particular, the bank has to prove it can withstand competition on margins in this important business pillar. While Commerzbank was successful in doing so in 2017, its performance in H1 2018 remained below expectations for the Corporate Clients segment and the bank only reported a segment pretax profit of €357 million for the first six months of 2018, largely driven by pricing and margin pressure in its Mittelstand client business, and because of a continued highly competitive banking market in Germany. This 29% decline in the segment's pretax profit was partially offset by solid pretax profit growth in the Private and Small Business Customers segment (+11% year-over-year to €373 million for H1 2018) and the ACR unit generating a small pretax profit of €76 million for the same period, after having recorded losses for several consecutive quarters.

We further believe that earnings will be supported by significantly lower loan-loss charges in the bank's ACR unit, as well as within the group, in particular reflecting the aforementioned mark-to-market valuation under IFRS 9 that will be aided by the accelerated rundown of the shipping portfolio. Together with a continued benign credit cycle, we expect the bank's loan-loss charges to remain within a range of €400-€600 million during the next two years.

In the first six months of 2018, total group revenue (excluding exceptional revenue items) increased 4% from the year-earlier period, largely reflecting growth in net interest income (49% of total revenue) offsetting lower fee and commission as well as trading income. Operating costs, however, increased 3% in H1 2018 from the year-earlier period, reflective of a strong increase in investments because

of digitalisation initiatives and project costs for the separation of the bank's Equity Markets and Commodities business. As a result, and meaningfully supported by very low loan-loss charges (€161 million for H1 2018 versus €362 million for H1 2017), the bank's operating profit increased 36% to €689 million from the year-earlier period.

### Continued solid funding profile

We assign a baa2 Funding Structure score to Commerzbank, one notch below the bank's baa1 initial score, capturing our expectations that the group's market funding ratio will stay within the 25%-30% range required for a baa2 Funding Structure score. We nevertheless continue to view positively Commerzbank's sustained and significantly diminished refinancing risk if compared with the years prior to its de-risking and restructuring program.

Commerzbank's funding largely consists of €200 billion of granular retail customer deposits, as well as corporate deposits, together constituting 41% of its total liabilities (including equity) as of 30 June 2018. Debt capital market funds outstanding totaled €63 billion, equivalent to around 13% of total liabilities and included around €32 billion in covered bonds. In H1 2018, Commerzbank issued €4.5 billion of capital market funding with longer tenors to fund business growth and replace maturing senior debt, equivalent to just above 1% of its average total balance sheet. The remainder of the funds is sourced in the interbank markets and is mostly used to finance assets of similar tenors, as well as to support the bank's large trade finance and repo activities.

With a high stock of loss-absorbing debt comfortably exceeding the minimum levels stipulated under the EU's MREL<sup>5</sup>, Commerzbank may replace some maturing junior senior unsecured debt with less costly preferred senior unsecured debt over time. This could potentially lead to a higher loss severity for Commerzbank's junior senior debt, and the subsequent reduction of the one notch of rating uplift for the bank's junior senior unsecured debt as a result of our Advanced LGF analysis.

### Sound liquidity profile

The a3 Liquid Resources score we assign to Commerzbank is one notch below its a2 initial score and captures the bank's generally solid liquidity profile as well as the encumbrance of parts of the bank's liquid assets.

The bank held €56 billion of cash on its balance sheet as of 30 June 2018. Commerzbank's liquid asset ratio of above 30% (as of the end of June 2018) is further supported by the bank's relatively large and liquid financial investment and trading portfolio totaling around €75 billion as of 30 June 2018.

Overall, we believe Commerzbank's funding and liquidity profiles are well balanced because liquid unencumbered assets exceed market funds (and also taking account of the bank's continued low funding needs in 2018 and beyond), supporting our overall baa1 Combined Liquidity score.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

Commerzbank is subject to the EU Bank Recovery and Resolution Directive, which we consider 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.

Our Advanced LGF analysis follows the recently [revised insolvency legislation](#) in Germany that became effective on 21 July 2018. Following the change in law, the legal hierarchy of bank claims in Germany is now consistent with most other European Union (EU) countries, where statutes do not provide full preference to deposits over senior unsecured debt. However, in our Advanced LGF analysis we now consider not only the results of both the formal legal position (*pari passu*, or 'de jure' scenario), to which we assign a 75% probability, but also an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or 'de facto' scenario), to which we assign a 25% probability.

In line with our standard assumptions, we further assume residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits.

- » For deposits and senior unsecured debt, 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 junior senior unsecured debt, our LGF analysis indicates a low loss given failure, leading to one notch of rating uplift from 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. The resulting Baa3 rating also applies to the debt instruments issued by Dresdner Funding Trust IV because these display the same risk profile as Commerzbank's senior subordinated debt.

### 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 Ba1(hyb), two notches below the Adjusted BCA, reflecting 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.
- » The Tier 1 instruments (Tier 1 capital securities; ISIN: DE000A0KAAA7) issued by HT1 Funding GmbH, which represent a repacked silent participation in Dresdner Bank AG (now Commerzbank AG), are rated Ba1(hyb), two notches below the Adjusted BCA. Investors benefit from an indemnity agreement<sup>6</sup> of [Allianz SE](#) (Aa3 stable<sup>7</sup>) to pay coupons on the German GAAP book value of the underlying silent participation.

### Government support

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.

In particular, for junior senior unsecured debt, the [legal changes to Germany's bank insolvency rank](#) order has lowered the likelihood of government support being available for these instruments, because legally they rank pari passu with most of the outstanding (statutorily subordinated) senior unsecured instruments issued up until 20 July 2018. This pari passu ranking of new junior senior unsecured debt with legacy (statutorily subordinated) senior unsecured instruments makes it less likely that German authorities would selectively support the legacy instruments (which we reclassified into junior senior unsecured debt), following clarification that the German authorities expect these liabilities to bear losses in a resolution. As a result, we have reduced our government support assumption for these instruments to Low from Moderate.

### Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

### Commerzbank's CRR is positioned at A1/P-1.

The bank's CRRs, prior to government support, are positioned 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, that are subordinated to CRR liabilities. Commerzbank's CRRs also benefit from one notch of rating uplift provided by government support, in line with our support assumptions on deposits and senior unsecured debt.

## Counterparty Risk (CR) Assessment

Our CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and (2) applies to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

### Commerzbank's CR Assessment is positioned at A1(cr)/P-1(cr).

The bank's CR Assessment is positioned four notches above the baa2 Adjusted BCA, based on (1) the substantial buffer against default provided by more subordinated instruments, primarily junior senior unsecured debt, to the senior obligations represented by the CR Assessment; and (2) government support uplift assuming a Moderate level of support.

## Methodology and Scorecard

### Methodology

The principal methodology we use in rating Commerzbank is our [Banks](#) rating methodology, published in August 2018.

### About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 4

### Commerzbank AG

#### Macro Factors

**Weighted Macro Profile**      **Strong +**      **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.8%	a2	↓	baa1	Sector concentration	Quality of assets
Capital						
TCE / RWA	14.0%	a1	← →	a3	Nominal leverage	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.2%	b1	↓	b1	Expected trend	Return on assets
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	24.0%	baa1	← →	baa2	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.6%	a2	← →	a3	Asset encumbrance	Stock of liquid assets
Combined Liquidity Score		a3		baa1		
Financial Profile				baa2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA 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	--	--	--	--	--	--	--	3	0	a2
Junior senior unsecured bank debt	--	--	--	--	--	--	--	1	0	baa1
Dated subordinated bank debt	--	--	--	--	--	--	--	-1	0	baa3

Instrument class	Loss Given		Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
	Failure	notching					
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	3		0	a2	1	A1	A1
Junior senior unsecured bank debt	1		0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1		0	baa3	0	Baa3	Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Financial Metrics

## Disclaimer

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

## Ratings

Exhibit 5

Category	Moody's Rating
<b>COMMERZBANK AG</b>	
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	A1
Senior Unsecured	A1
Junior Senior Unsecured	Baa1
Subordinate	Baa3
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
<b>COMMERZBANK FINANCE &amp; COVERED BOND S.A.</b>	
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	A1
<b>MBANK S.A.</b>	
Outlook	Positive
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)A1
Subordinate MTN	(P)Baa3
Other Short Term	(P)P-1

Source: Moody's Investors Service

## Endnotes

- 1 At the same time, rated instruments have been reclassified as senior unsecured debt from senior senior unsecured and as junior senior unsecured debt from senior unsecured debt.
- 2 This is referred to as the 'Macro-Adjusted Score' in our Bank Scorecard.
- 3 As reported in the bank's Asset and Capital Recovery (ACR) segment. Commerzbank targets to almost fully run down its exposures to CRE and shipping by year-end 2020. This also includes a low proportion of other performing exposures to these debt classes that are managed within the bank's two core operating segments. The ACR unit is likely to accumulate operating losses of €1.1 billion during 2017-20.
- 4 Commerzbank's strategic plan, Commerzbank 4.0, aims to increase profitability, efficiency and reduce the complexity of the banking group by 2020. Following the strategic revamp, Commerzbank targets a cost base of €6.5 billion by 2020, down from an annualised €7.1 billion in the first nine months of 2016. This target will chiefly be achieved by a net reduction of 7,300 full-time positions, or 15% of the bank's year-end 2015 workforce. Commerzbank is further targeting revenue of between €9.8 billion and €10.3 billion for 2020, up from an annualised €9.3 billion in the first nine months of 2016. Overall, Commerzbank is aiming for a net return on tangible equity of more than 6% by year-end 2020. The cost to achieve the bank's numerous ambitious targets capped profit and capital expansion in 2016 and 2017: the bank recorded a €627 million impairment charge in Q3 2016 and booked €807 million of restructuring costs in Q2 2017, although the latter was significantly below the bank's original expectation of €1.1 billion. For a detailed analysis, please see our Issuer In-Depth report [Digital Revamp Will Cap Profits and Capital Build-Up](#), published on 19 October 2016.
- 5 MREL = Minimum requirement for own funds and eligible liabilities.
- 6 The instruments were written down in 2008 (by 15.75%) and written back up in 2013 (for 2012). Despite the principal write-back, Commerzbank did not resume coupon payments in 2013 (for 2012), which Allianz SE covered based on the indemnity agreement. Because coupon payments are non-cumulative, coupons that were not paid in 2008-11 (corresponding to the proportion of the principal written down) were lost and will not become subject to payment at a later date.
- 7 The ratings shown are Allianz SE's insurance financial strength rating and its outlook.

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### Contributors

Christina Holthaus  
*Analyst*