

CREDIT OPINION

12 June 2018

Update

 Rate this Research

RATINGS

Domicile	Frankfurt am Main, Germany
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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

Semiannual update

Summary

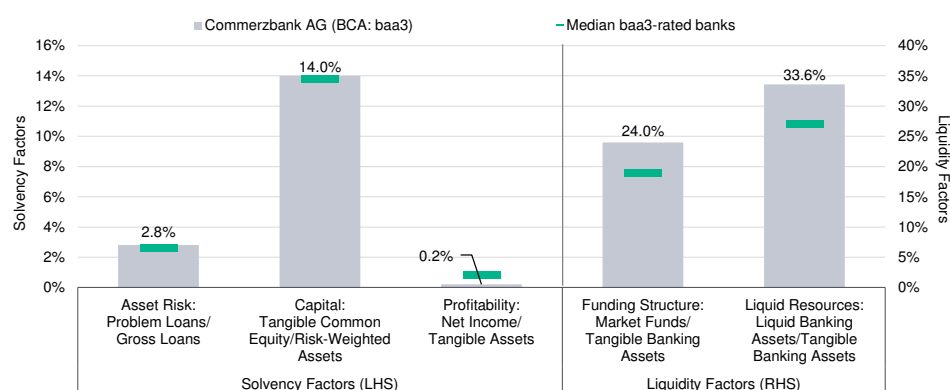
We assign A2 positive/P-1 deposit ratings, Baa1 stable/P-1 senior unsecured debt ratings, a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as an A2(cr)/P-1(cr) Counterparty Risk (CR) Assessment to Commerzbank.

Commerzbank's ratings reflect (1) the bank's baa3 BCA and Adjusted BCA; (2) the results of our Advanced Loss Given Failure (LGF) analysis, which provides three notches of rating uplift to the bank's deposit ratings and one notch of rating uplift to its senior unsecured debt ratings; and (3) a moderate likelihood of government support, resulting in one additional notch of rating uplift.

Commerzbank's baa3 BCA reflects the bank's (1) solid capitalisation, despite regulatory pressures and the full adoption of IFRS 9; (2) further improved asset quality, as displayed by a problem loan ratio of 1.9% as of end-March 2018 (Moody's calculation) and only small remaining legacy exposures to shipping and commercial real estate (CRE) lending; and (3) sustained lower market funding reliance and sound liquidity profile. The BCA remains constrained by the bank's low profitability, although we expect benefits from progress on the bank's transformation programme (Commerzbank 4.0) will become visible later in 2018. Based on the performance during 2017 and the first quarter of 2018, we see Commerzbank on track towards a higher BCA.

Exhibit 1

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 strain from regulatory and accounting changes
- » Improved funding and continued sound liquidity profile
- » De-risked lending book, with manageable exposures to highly cyclical asset classes such as shipping or CRE

Credit challenges

- » Regulatory tightening will limit capital buildup during the execution of the bank's strategic realignment program 'Commerzbank 4.0'
- » Earnings pressures from the persistently low interest rate environment may strain the bank's solvency metrics
- » Ability to sustain the bank's meanwhile sound asset quality in a normalising and less supportive cycle for credit risks

Outlook

- » The positive outlook on the bank's deposit ratings reflects upward pressure on the bank's BCA and takes into account our expectation of a continued strengthening in Commerzbank's financial fundamentals over the next 12-18 months.
- » The stable outlook on Commerzbank's senior unsecured debt and issuer ratings reflects the balancing implications of (1) a declining probability of government support following the transposition of the Bank Recovery and Resolution Directive (BRRD) [amendments](#) into German law¹; and (2) the positive fundamental drivers for the bank's BCA.

Factors that could lead to an upgrade

- » An upgrade of Commerzbank's ratings would be likely in the event of (1) a higher BCA; or (2) a higher rating uplift as a result of our Advanced LGF analysis.
- » Upward pressure on Commerzbank's baa3 BCA could result from a stabilisation of its financial profile at the current level, provided that (1) the bank manages to further improve its asset risk metrics, and further reduce concentrations to highly cyclical sectors; (2) Commerzbank maintains the achieved capital ratios and balance-sheet leverage despite regulatory headwinds; and (3) the bank's recurring earnings power improves further, withstanding competitive pressure and the extremely low interest-rate environment.
- » Commerzbank's senior unsecured and subordinated debt ratings could also be upgraded if the volume of subordinated instruments significantly increases relative to the bank's tangible banking assets. This could result in one additional notch of rating uplift resulting from our Advanced LGF analysis.

Factors that could lead to a downgrade

- » A downgrade of Commerzbank's debt and deposit ratings could be triggered following (1) a downgrade of its BCA; (2) fewer notches of rating uplift as a result of our Advanced LGF analysis; or (3) a reduction in our government support assumptions.
- » Downward pressure on the bank's BCA could result from (1) a weakening of the bank's Strong+ Macro Profile, (2) significant renewed pressure on its asset quality or capital adequacy metrics, and (3) a significant weakening in the bank's combined liquidity profile.
- » Commerzbank's ratings could further be downgraded should there be a significant decrease in the bank's bail-in-able debt buffer, leading to a higher loss severity for Commerzbank's different debt classes. This may lead to fewer notches of 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 for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Commerzbank AG (Consolidated Financials) [1]

	3-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg ³
Total Assets (EUR billion)	422	400	408	446	462	-2.8 ⁴
Total Assets (USD billion)	519	480	431	484	560	-2.3 ⁴
Tangible Common Equity (EUR billion)	24	26	26	26	23	1.3 ⁴
Tangible Common Equity (USD billion)	29	31	27	29	28	1.8 ⁴
Problem Loans / Gross Loans (%)	1.9	2.6	3.4	3.3	5.1	3.3 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	14.0	15.1	13.7	13.3	10.7	13.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.0	19.3	23.3	23.7	41.5	24.8 ⁵
Net Interest Margin (%)	1.0	1.0	1.0	1.3	1.1	1.1 ⁵
PPI / Average RWA (%)	0.5	0.7	1.0	1.2	1.1	0.9 ⁶
Net Income / Tangible Assets (%)	0.3	-0.0	0.3	0.2	0.2	0.2 ⁵
Cost / Income Ratio (%)	89.2	84.0	79.0	73.5	73.8	79.9 ⁵
Market Funds / Tangible Banking Assets (%)	28.2	24.0	27.7	28.3	32.6	28.2 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	32.1	33.6	35.8	40.2	36.9	35.7 ⁵
Gross Loans / Due to Customers (%)	84.5	86.1	85.1	83.8	94.2	86.7 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 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 Germany's second-largest universal commercial bank that primarily focuses on the German, Polish and other core European markets. As of 31 March 2018, Commerzbank held a consolidated asset base of €453 billion, representing a market share of around 6% in the German banking system in terms of total assets.

In 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 leading market position in foreign trade finance business and is one of the leading 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](#).

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 Macro-Adjusted score. The adjustment mainly captures risk concentrations towards more cyclical industries within the bank's corporate loan book, as well as exposures to non-European countries.

Despite being focused on Germany (Aaa stable) and to some extent [Poland](#) (A2 stable), Commerzbank continues to run significant exposures to countries in the European periphery, mainly to [Italy](#) (Baa2 review for downgrade; €9.4 billion, excluding non-sovereign exposures, as of 31 March 2018), as well as to non-European countries such as [China](#) (A1 stable; €6.8 billion), [Russia](#) (Ba1 positive; €2.5 billion) and [Turkey](#) (Ba2 possible 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.

The assigned score further captures risk concentrations, in particular to highly cyclical industries such as CRE and shipping, totaling €2.6 billion as of the end of March 2018², equivalent to 12% of the bank's fully phased-in Common Equity Tier 1 (CET1) capital. 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 ACR unit. Overall, we expect Commerzbank to be able to manage the remaining UK exposures without a meaningful impact on its profit and loss and capital.

Group nonperforming loans (NPLs) were €4.1 billion as of 31 March 2018, a significant decrease from €6.9 billion as of year-end 2016. The decline was largely owing to further divestments and the implementation of the fair value approach for Commerzbank's shipping exposures in Q1 2018 (net decreasing effect on NPL €1.0 billion). Following these problem exposure reductions, the bank's Asset and Capital Recovery (ACR) unit displayed €256 million of NPLs, equivalent to an NPL ratio of 2.5% as of the end of March 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 our definition, was 2.0% as of the same date, meaningfully below the 3.3% recorded as of year-end 2016.

Solid level and quality of capital

We assign a Capital score of a3, two notches below the bank's a1 Macro-Adjusted score, to reflect the fully phased-in leverage ratio of below 5% (4.7% as of the end of March 2018), our expectation of a temporary reduction in regulatory capital during the first half of 2018, as well as challenges relating to sustainably building a buffer over and above the stricter [Supervisory Review and Evaluation Process \(SREP\) requirements](#) set by the European Banking Authority in an environment that continues to provide regulatory challenges.

As of 31 March 2018, and including the full effects from the adoption and implementation of the IFRS 9 accounting regime – under which Commerzbank opted to mark-to-market its entire ship lending portfolio – Commerzbank reported a CET1 ratio of 13.3%, up 100 basis points from that as of year-end 2016. Since end-March 2017, Commerzbank reduced its risk-weighted assets by a further 9% to €170 billion as of 31 March 2018, meaningfully supporting stability of its solid capital adequacy ratios as well as its regulatory leverage ratio. For the remainder of 2018, we expect the CET1 ratio to fluctuate around its current level.

Because Commerzbank's re-engineering proceeds into 2019 and 2020, we expect its CET1 ratio to vary between 12% and 13%, leaving only a modest buffer above the bank's current 10.75% 2019 SREP³ ratio requirement. On the back of the bank's 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, equivalent to net income/tangible assets of between 0.125% and 0.25% and reflecting our expectation of an only gradual improvement in the bank's profitability over the next 12-18 months. 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.

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 Corporate Clients, the key challenge will be to stabilise and later grow revenue following the selective business downsizing and de-risking as part of the plan⁴. In particular, the bank has to prove it can withstand competition on margins in this important business pillar. While Commerzbank has been successful in doing so in 2017, the performance during the first quarter of 2018 stayed below expectations for the Corporate Client segment and Commerzbank only reported a segment pre-tax profit of €145 million for the first three months of 2018, largely driven by pricing and margin pressure in its Mittelstand client business. This was partially offset by solid pre-tax profits in the Private and Small Business Customer (PBC) segment (€202 million for the first quarter of 2018) and the ACR unit reposting a small pre-tax profit of €18 million for the same period, after having returned 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 group wide, 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 decline following the final cleanup of the shipping portfolio and stay well below €800 million per year.

In the first three months of 2018, total group revenue (excluding exceptional revenue items) increased 1% from the year-earlier period, largely reflecting stable net interest income (45% of total revenue). Operating costs, however, increased 4% year-over-year in Q1 2018, reflective of a strong increase of investments due to digitalisation initiatives and project costs for the separation of the bank's Equity Markets & Commodities (EMC) business. As a result, in absence of exceptional (positive) revenue items and supported by very low loan loss charges (€77 million for the first quarter of 2018), the bank's operating profit decreased 12% to €289 million year-over-year.

Continued solid funding and liquidity profile

We assign a baa2 Funding Structure score to Commerzbank, one notch below the bank's baa1 Macro-Adjusted score, capturing our expectations that the group's market funding ratio will stay within the 25%-30% range needed for a baa2 Funding Structure score. We nevertheless continue to view positively Commerzbank's sustained and significantly diminished refinancing risk:

- » Commerzbank's funding largely consists of €197 billion of granular retail customer deposits, as well as corporate deposits, together constituting 42% of its total liabilities (including equity) as of the end of March 2018.
- » Debt capital market funds outstanding totaled €65 billion, equivalent to around 14% of total liabilities and included around €33 billion in covered bonds. In 2017, Commerzbank issued only €5.7 billion of capital market funding 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.

The a3 Liquid Resources score we assign to Commerzbank sits one notch below its a2 Macro-Adjusted score and captures the bank's generally solid liquidity profile as well as encumbrance of parts of the bank's liquid assets. Commerzbank held €53 billion of cash on its balance sheet as of 31 March 2018. The bank's liquid asset ratio of 32% is further supported by Commerzbank holding a relatively large and liquid financial investment and trading portfolio totaling approximately €120 billion as of the end of March 2018.

Overall, we believe that 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 BRRD, which we consider to be an Operational Resolution Regime. We, therefore, apply our Advanced LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure at failure. We assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and a 100% probability to certain liabilities being preferred to senior unsecured debt. This is in line with the German insolvency legislation that subordinates senior unsecured bonds and notes to deposits and senior senior debt in resolution, effective on 1 January 2017.

- » For deposits and senior-senior unsecured debt, our LGF analysis indicates an extremely low loss given failure, leading to three notches of rating uplift from the bank's baa3 Adjusted BCA.
- » For senior debt, our LGF analysis indicates a low loss given failure, leading to one notch of rating uplift from the bank's baa3 Adjusted BCA.
- » For subordinated debt, our LGF analysis indicates a high loss given failure, leading to a one-notch deduction from the bank's baa3 Adjusted BCA. The resulting Ba1 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 Ba2(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 Ba2(hyb), two notches below the Adjusted BCA. Investors benefit from an indemnity agreement⁵ of [Allianz SE](#) (Aa3 stable⁶) to pay coupons on the German GAAP book value of the underlying silent participation.

Government support

We currently 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 subordinated debt and hybrid instruments, we believe that potential government support is low and these ratings, therefore, do not benefit from any government support uplift.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider 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) apply 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 (for example, 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 A2(cr)/P-1(cr)

For Commerzbank, our LGF analysis indicates an extremely low loss given failure for the CR Assessment, leading us to position its CR Assessment three notches above the baa3 Adjusted BCA, prior to the one additional notch of rating uplift from government support. The three-notch uplift is based on the substantial buffer against default provided to the senior counterparty obligations by more junior instruments, such as senior unsecured debt and dated subordinated debt.

Methodology

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

About Moody's Bank Scorecard

Our 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 3

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				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

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 Assessment	--	--	--	--	--	--	--	3	0	a3 (cr)
Senior senior unsecured bank debt	--	--	--	--	--	--	--	3	0	a3
Deposits	--	--	--	--	--	--	--	3	0	a3
Senior unsecured bank debt	--	--	--	--	--	--	--	1	0	baa2
Dated subordinated bank debt	--	--	--	--	--	--	--	-1	0	ba1

Instrument class	Loss Given		Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
	Failure	notching					
Counterparty Risk Assessment	3	0		a3 (cr)	1	A2 (cr)	--
Senior senior unsecured bank debt	3	0		a3	1	A2	A2
Deposits	3	0		a3	1	A2	A2
Senior unsecured bank debt	1	0		baa2	1	Baa1	Baa1
Dated subordinated bank debt	-1	0		ba1	0	Ba1	Ba1

Source: Moody's Financial Metrics

Volume of in-scope liabilities per instrument class is currently not displayed in 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 4

Category	Moody's Rating
COMMERZBANK AG	
Outlook	Positive(m)
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	Baa1
Senior Senior Unsecured	A2
Senior Unsecured	Baa1
Subordinate	Ba1
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
COMMERZBANK FINANCE & COVERED BOND S.A.	
Outlook	Stable
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating -Dom Curr	Baa1
MBANK S.A.	
Outlook	Positive
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 Assessment	A2(cr)/P-1(cr)
Senior Unsecured MTN	(P)Baa1
Subordinate MTN	(P)Ba1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

- [1](#) The proposed BRRD amendment may call into question the moderate probability of government support we currently assume for Commerzbank's senior unsecured debt instruments and, thereby, the government support rating uplift of one notch currently incorporated into the rating of these instruments.
- [2](#) As reported in the bank's Asset and Capital Recovery (ACR) segment. Commerzbank targets to almost fully rundown 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 expected to accumulate operating losses of €1.1 billion during the 2017-20 period.
- [3](#) The capital requirements for 2019 under the European Banking Authority's Supervisory Review and Evaluation Process (SREP), including a 1.5% buffer as a local systemically important bank (D-SIB; so-called O-SII buffer).
- [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 (RoTE) of more than 6% by year-end 2020. The cost to achieve the bank's numerous ambitious targets capped profits 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](#) 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.
- [6](#) The ratings shown are Allianz SE's insurance financial strength rating and its outlook.

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