

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

8 February 2019

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.

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Commerzbank AG

Semiannual update

Summary

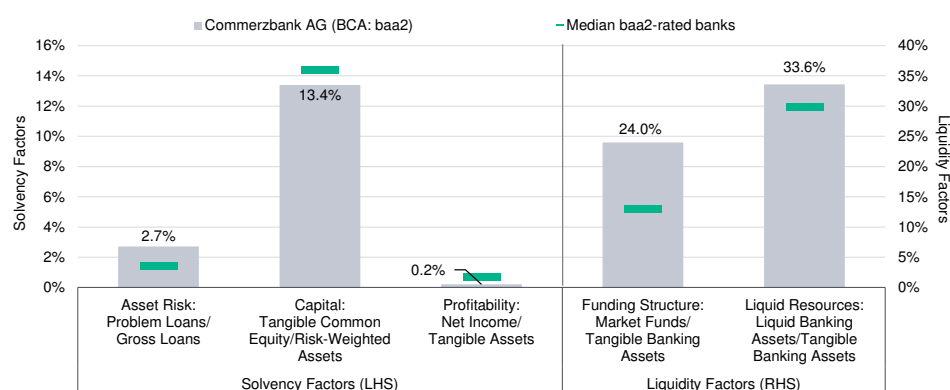
We assign A1 stable deposit and senior unsecured debt ratings to [Commerzbank AG](#) (Commerzbank). We also assign Baa1 junior senior unsecured debt ratings and an A1 Counterparty Risk Rating (CRR), as well as a baa2 Baseline Credit Assessment (BCA) and Adjusted BCA to Commerzbank.

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 to these debt classes.

Commerzbank's BCA reflects (1) the bank's moderate volume of problem loans and low exposure to highly-cyclical lending assets; (2) its sound capitalisation displaying a total capital ratio of 16.8% as of 30 September 2018; and (3) its solid liquidity profile supported by a meaningful volume of liquid assets offsetting potential strain resulting from the bank's moderate reliance on confidence-sensitive market funding. The BCA further reflects the bank's low profitability as measured by net income/tangible assets, which we do not expect to improve significantly from levels achieved in 2018.

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, and improved leverage
- » Sound liquidity profile displaying a high proportion of cash and other highly liquid assets
- » Diversified lending book focused on residential mortgages in Germany as well as German corporate loans, with negligible exposures to highly cyclical asset classes such as shipping or commercial real estate (CRE)

Credit challenges

- » Continued earnings pressure from the low interest rate environment
- » High cost base and pressure on corporate lending margins results in stubbornly low profitability, in-line with the German banking market
- » Secure sufficient funds to be able to invest in digital offerings and modernisation of the bank's IT backbone in order to achieve some efficiency gains
- » Turning cycle for credit risks may gradually result in higher loan loss charges

Outlook

- » The stable outlook reflects our expectation that Commerzbank's financial fundamentals will not change meaningfully 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.
- » Upward pressure on Commerzbank's baa2 BCA could result from a combination of (1) a persistent and meaningful 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, as well as geographical 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 significantly.

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 Commerzbank's asset quality and capital adequacy metrics; (3) a material deviation from the bank's currently pursued Germany-focused retail and corporate banking model; or (4) a significant weakening of its 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 for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Commerzbank AG (Consolidated Financials) [1]

	9-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg ³
Total Assets (EUR billion)	448	400	408	446	462	-0.9 ⁴
Total Assets (USD billion)	520	480	431	484	560	-1.9 ⁴
Tangible Common Equity (EUR billion)	24	26	26	26	23	1.9 ⁴
Tangible Common Equity (USD billion)	28	31	27	29	28	0.8 ⁴
Problem Loans / Gross Loans (%)	1.7	2.6	3.4	3.3	5.1	3.2 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	13.4	15.1	13.7	13.3	10.7	13.2 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.0	19.3	23.3	23.7	41.5	24.4 ⁵
Net Interest Margin (%)	1.1	1.0	1.0	1.3	1.1	1.1 ⁵
PPI / Average RWA (%)	1.0	0.7	1.0	1.2	1.1	1.0 ⁶
Net Income / Tangible Assets (%)	0.2	-0.0	0.3	0.2	0.2	0.2 ⁵
Cost / Income Ratio (%)	80.6	84.0	79.0	73.5	73.8	78.2 ⁵
Market Funds / Tangible Banking Assets (%)	31.6	24.0	27.7	28.3	32.6	28.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	33.4	33.6	35.8	40.2	36.9	36.0 ⁵
Gross Loans / Due to Customers (%)	86.0	86.1	85.1	83.8	94.2	87.1 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 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 September 2018, Commerzbank held a consolidated asset base of €493 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 the foreign exchange and 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).

Detailed credit considerations

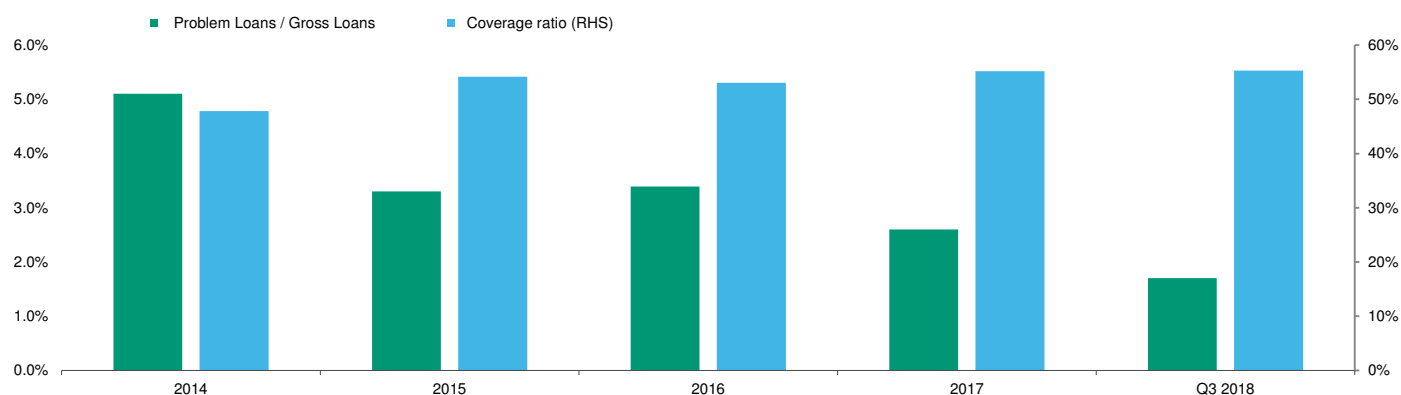
Stable asset risk profile post re-alignment of the bank's higher-risk segments

We assign a baa1 Asset Risk score to Commerzbank, two notches below the a2 initial score. The adjustment mainly captures remaining 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.

Having made significant progress in de-risking the bank, Commerzbank's nonperforming loans (NPLs) stood at €3.8 billion as of 30 September 2018, down from €6.9 billion as of year-end 2016 (Exhibit 3). The decline was largely owing to further divestments as well as 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 Asset and Capital Recovery (ACR) unit displayed a manageable €217 million of NPLs, equivalent to a segment NPL ratio of 2.5% as of 30 September 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.

Exhibit 3

Commerzbank has successfully reduced its problem loan stock Coverage ratio also maintained at solid levels



Note: Problem loan ratio as per Moody's definition. Since 2018, according to IFRS 9 reporting standards.

Sources: Company reports, Moody's Investors Service

Remaining risk concentrations, in particular to highly cyclical industries such as CRE and shipping¹, have also been successfully reduced to €1.7 billion, or 7% of Commerzbank's tangible common equity (TCE) as of 30 September 2018, down from €7.3 billion, or 28%, as of year-end 2016.

Despite being focused on Germany and to some extent Poland, Commerzbank continues to have significant exposures to countries in the European periphery, mainly to [Italy](#) (Baa3 stable; €8.4 billion, excluding non-sovereign exposures, as of 30 September 2018), as well as to non-European countries such as [China](#) (A1 stable; €7.3 billion), [Russia](#) (Ba1 positive; €2.6 billion) and [Turkey](#) (Ba3 stable; €2.2 billion). A resurgence of the European sovereign debt crisis, in particular if arising from Italy, as well as continued geopolitical uncertainties surrounding Russia or Turkey, may therefore burden the bank's financial metrics.

In addition, Commerzbank manages around [€15 billion of exposures in the UK](#), derived largely from internationally operating groups 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 significant impact on its profits and, ultimately, capital.

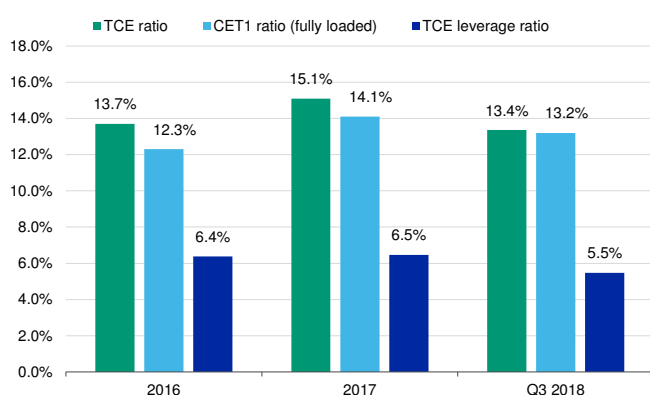
Solid level and quality of capital

We assign a Capital score of a3, one notch below the bank's a2 initial score, to reflect the fully phased-in leverage ratio of below 5% (4.5% as of 30 September 2018), as well as challenges related to sustainably building a larger buffer over and above the stricter Supervisory Review and Evaluation Process (SREP) requirements set by the European Banking Authority (EBA).

As of 30 September 2018, Commerzbank reported a CET1 capital ratio of 13.2%, slightly down from the prior-year ratio of 13.5% (Exhibit 4). The bank's tangible common equity (TCE) ratio further declined to 13.4% as of the same date from 14.1% as of year-end 2017; the decrease largely being reflective of the full adoption of the IFRS 9 accounting regime effective 1 January 2018. Risk-weighted assets (RWAs) remained virtually unchanged from the year-earlier period and stood at €178 billion (9M 2017: €177 billion). Owing to the persistent strain on profitability from the low interest-rate environment as well as remaining costs related to Commerzbank's ongoing reengineering, we expect the bank's retained earnings to grow in-line with its RWAs, resulting in its TCE ratio (as well as its CET1 capital ratio) to fluctuate around the current levels.

Exhibit 4

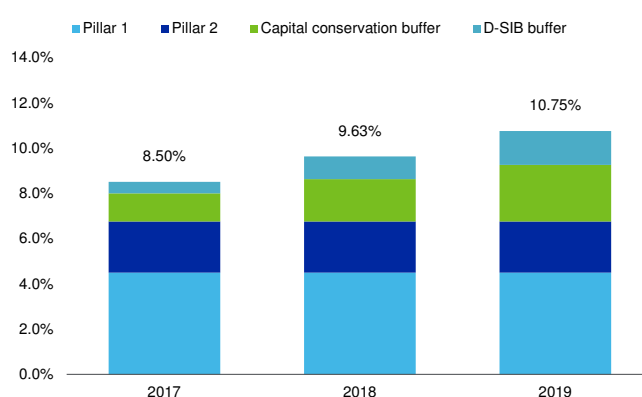
Commerzbank exceeds its capital requirements



TCE = Tangible Common Equity (Moody's calculation); CET1 = Common Equity Tier 1
Sources: Company reports, Moody's Investors Service

Exhibit 5

Commerzbank's SREP CET1 requirements in detail



Note: Exhibit displays transitional SREP requirements.

Sources: Company reports, European Banking Authority (EBA) [stress test results](#), Moody's Investors Service

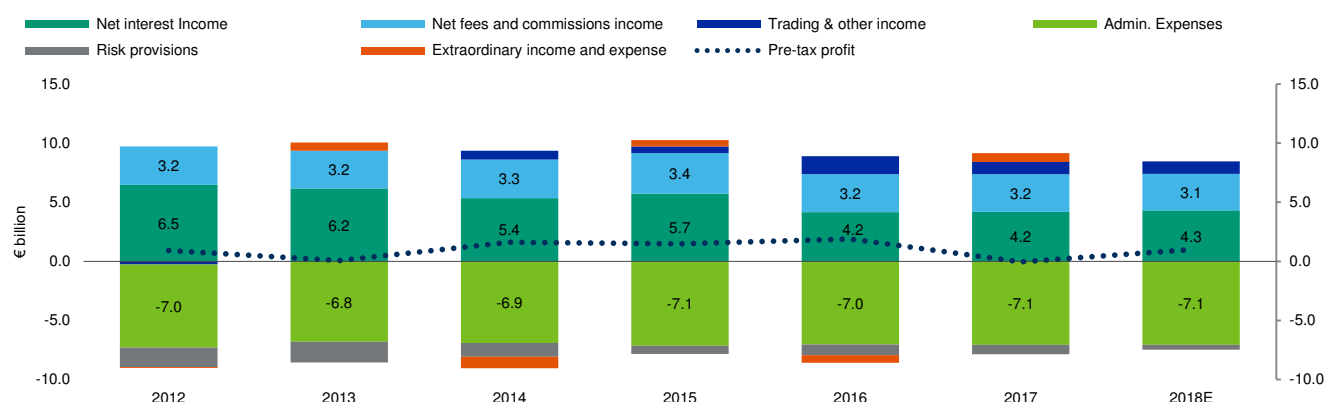
Commerzbank was also subject to the 2018 EU-wide stress test² conducted by the EBA. The application of the adverse scenario in the stress test resulted in a fully loaded Common Equity Tier 1 (CET1) capital ratio of 9.9% (as of year-end 2020). Based on the starting point of a 13.3% CET1 capital ratio as of the end of 2017, the stress-induced CET1 capital ratio decline amounted to -340 basis points (bps), significantly reduced from the 2016 result of -470 bps. The meaningful decline in the CET1 capital ratio effect under the EBA's stress scenario was largely driven by the de-risking measures the bank proactively carried out since.

Commerzbank's profitability will benefit from lower restructuring costs, but low interest rates and rising loan loss provisions will constrain significant improvements

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.

This assessment incorporates a potential strain on earnings from the persistently low interest rates; lower margins in the bank's newly arranged Corporate Clients segment as a result of heightened competition; as well as slightly rising loan loss provisions in 2019. As a result, we expect Commerzbank's net income / tangible assets ratio to reside within a range of 0.125%-0.25%, commensurate with our assigned score.

Exhibit 6

Commerzbank's dependence on net interest income will continue straining its profitability

Sources: Company reports, Moody's Financial Metrics, Moody's Investors Service estimates

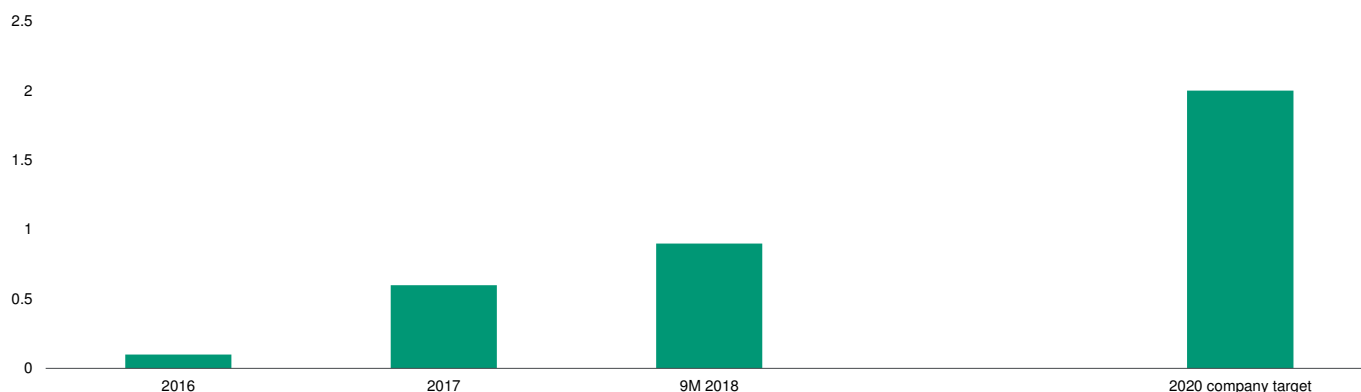
In the Corporate Clients segment, the key challenge will be to stabilise and later grow revenue following the selective business downsizing and de-risking as part of the strategic plan³. In particular, the bank has to prove it can withstand rising competition on margins in this segment: Its performance during the first nine months of 2018 remained below expectations for the Corporate Clients segment and the bank only reported a segment pretax profit of €564 million for the same period, representing a 30% year-over-year decrease. The decline was largely driven by pricing and margin pressure in its Mittelstand client business and because of a continued highly competitive corporate banking market in Germany.

The weak Corporate Clients segment performance could not be offset by pretax profit growth in the Private and Small Business Customers segment, largely because of the absence of one-off gains (recorded in Q3 2017). While net new customer gains, as well as new business growth – largely in residential mortgages – exceeded targets since the announcement of Commerzbank's strategic plan (Exhibit 7), 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.

Exhibit 7

Commerzbank is on track gaining net new customers

Net new customers in Germany, million cumulative



Sources: Commerzbank Q3 2018 analyst presentation, Moody's Investors Service

While 2018 earnings will be supported by significantly lower loan-loss charges in the bank's ACR unit, as well as within the group, we expect the very benign credit cycle to start turning gradually during 2019, thereby no longer presenting a tailwind to the group's profitability. At the same time, we do not expect a similarly strong increase in operating expenses directed towards investments in digitalisation, as well as restructuring initiatives⁴, which will help safeguard profitability in 2019.

With its 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; and enabling it to withstand potential sudden market shocks.

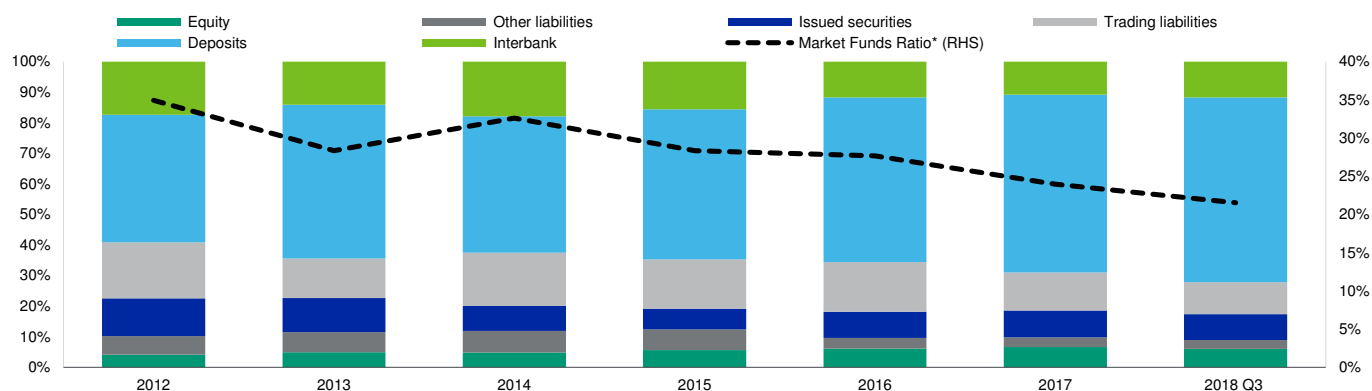
Continued solid funding profile

We assign a baa2 Funding Structure score to Commerzbank, one notch below the bank's baa1 initial score, capturing our expectation that the group's moderate dependence on market funding ratio will remain unchanged over the next 12-18 months. We view positively Commerzbank's sustained and significantly diminished refinancing risk compared with the years before its de-risking and restructuring programme, supporting the build-up of a more liquid balance sheet (Exhibit 8).

Exhibit 8

Commerzbank reduced its reliance on confidence sensitive wholesale funding sources

Composition of market funding sources



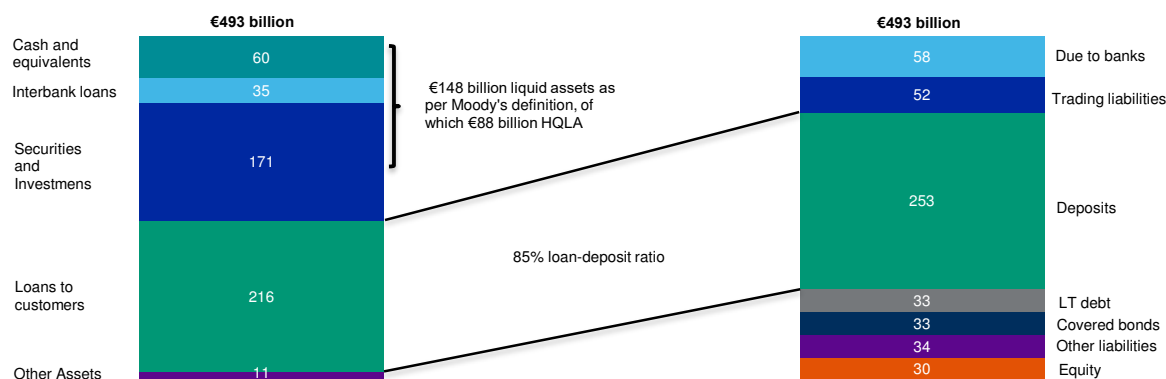
*Market Funding Ratio = Market Funds / Tangible Banking Assets

Sources: Company reports, Moody's Investors Service

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 September 2018 (Exhibit 9). Debt capital market funds outstanding totaled €66 billion, equivalent to around 13% of total liabilities and included around €33 billion in covered bonds. During the first nine months of 2018, Commerzbank issued €8.2 billion of capital market funding with longer tenors to fund business growth and replace maturing senior debt, equivalent to just above 2% of its average total balance sheet. The remainder of the funds was 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.

Exhibit 9

Commerzbank's balance sheet is highly liquid, a credit positive



Sources: Company reports, Moody's Investors Service

With a high stock of loss-absorbing debt comfortably exceeding the minimum levels stipulated under the EU's MREL⁵, 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

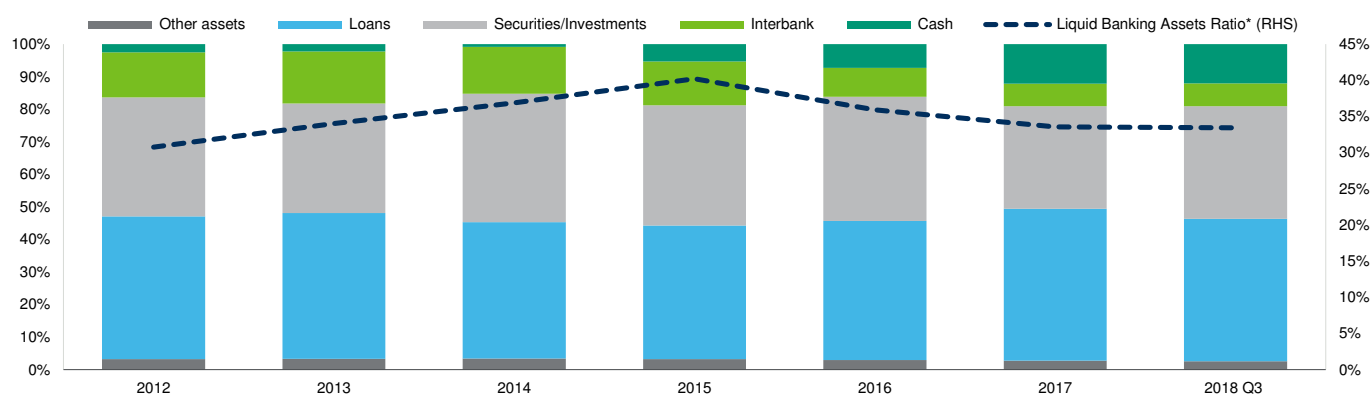
The a3 Liquid Resources score we assign to Commerzbank is one notch below its a2 initial score and captures the bank's generally solid liquidity profile, as well as the encumbrance of parts of the bank's liquid assets.

The bank held €58 billion of cash on its balance sheet as of 30 September 2018. Commerzbank's liquid asset ratio of well above 30% (34% as of 30 September 2018) is further supported by the bank's relatively large and liquid financial investment and trading portfolio (part of securities and investments in Exhibit 10) totaling around €77 billion as of the same date.

Exhibit 10

Commerzbank has built up significant balance sheet liquidity

Composition of liquid assets



*Liquid Banking Assets Ratio = Liquid Assets / Tangible Banking Assets

Sources: Company reports, Moody's Investors Service

Overall, we believe Commerzbank's funding and liquidity profiles are well balanced because liquid unencumbered assets exceed market funds (and also taking into account the bank's continued low funding needs in 2019 and beyond), supporting our overall baa1 Combined Liquidity score.

Support and structural considerations

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 [insolvency legislation](#) in Germany. Following the change in law in June 2018, the legal hierarchy of bank claims in Germany is now consistent with most other EU countries, where statutes do not provide full preference to deposits over senior unsecured debt. In line with our standard assumptions, we assume a residual TCE of 3%, as well as asset losses of 8% of tangible banking assets in a failure scenario. We also assume a 25% run-off of junior wholesale deposits and a 5% run-off in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior.

The results of our Advanced LGF analysis are:

- » 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 agreement⁶ of [Allianz SE](#) (Aa3 stable⁷) 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.

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 CRRs are 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, 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

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 (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 positioned at A1(cr)/P-1(cr)

The bank's CR Assessment, prior to government support, is positioned 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.

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 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 11

Commerzbank AG

Macro Factors

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

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.7%	a2	← →	baa1	Sector concentration	Quality of assets
Capital						
TCE / RWA	13.4%	a2	← →	a3	Nominal leverage	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.2%	b1	← →	b1	Expected trend	Return on assets
Combined Solvency Score		baa1		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	Sub-volume + ordination	Instrument	Sub-volume + 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 12

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	A1
Senior Unsecured	A1
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN	(P)Baa1
Subordinate	Baa3
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	A1
MBANK S.A.	
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 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.
- 2 The 2018 EU-wide stress test is designed to be used as an important source of information for the purposes of the supervisory review and evaluation. The results will assist competent authorities in assessing the bank's ability to meet applicable prudential requirements under stressed scenarios. The adverse stress test scenario covered a three-year time horizon (2018-2020) and has been carried out applying a static balance sheet assumption as of year-end 2017 (adjusted for IFRS9 implementation), and therefore does not take into account future business strategies and management actions. The stress test also does not contain a pass/fail threshold.
- 3 Commerzbank's strategic plan, Commerzbank 4.0, aims to increase profitability and 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 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.
- 4 Such as project costs for the separation of the bank's Equity Markets and Commodities business.
- 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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