

**Bulletin:**

## **Commerzbank And Deutsche Bank Potential Merger Holds Promise Of Increased Efficiencies But Also Risks**

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FRANKFURT (S&P Global Ratings) March 18, 2019--A potential merger between Germany's Commerzbank AG (A-/Negative/A-2) and Deutsche Bank AG (BBB+/Stable/A-2) could, in time, offer considerable efficiency gains but also entails significant uncertainties and risks, according to S&P Global Ratings. If the merger discussions, announced by the banks yesterday following mounting media speculation, result in an agreed transaction, we will analyze the terms of the deal and assess the potential rating implications for both banks.

In our view, the possible merger reflects the substantial structural and cyclical challenges facing Commerzbank and Deutsche Bank as they seek to improve their earnings and growth prospects while the European economies slow down and cyclical credit costs normalize from very low levels in the past. Germany's structurally lower margin, high cost retail and commercial banking market, and an unsupportive eurozone interest rate environment are squeezing returns at the banks. Deutsche Bank is also wrestling with the turnaround of its large, underperforming corporate and investment banking (CIB) division.

In theory, a well-executed merger between Commerzbank and Deutsche Bank could, in time, offer considerable efficiency gains, funding synergies, and franchise

benefits, particularly within the domestic market. Media reports suggest that parts of the German government support a deal, although it remains questionable whether the substantial job cuts that would likely be necessary to deliver synergies, would be politically palatable. The combined group would derive the majority of revenues from relatively annuity-like activities, but Deutsche Bank's CIB division would likely remain a meaningful influence on the overall business position and risk profile.

At the same time, a merger deal would likely entail significant uncertainties and risks. First, it would need antitrust and regulatory approval, which could be declined or come with unattractive conditions. Second, a merger would likely consign Commerzbank and Deutsche Bank to several more years of significant internal restructuring while competitors remain focused on serving customers and improving earnings. Both banks are currently part-way through implementing revised business plans and, in our view, they have patchy track records in executing strategic programs. At the best of times, a merger of this size would be a huge undertaking. Right now, it might stretch the banks' capacity to manage change. The parties might delay the operational integration of the two banks until Deutsche Bank, in particular, has completed its existing restructuring of its retail bank following the Postbank integration, but this would delay also the realization of synergies.

Our analysis of any deal would also take account of its structure and financing. As the larger institution, Deutsche Bank may acquire Commerzbank and may raise capital to support the transaction, either directly from shareholders or potentially through the sale of certain of the combined group's assets.

A minority shareholding by the German government in the newly created institution might raise investor confidence. However, for several years we have viewed the prospect of government solvency support for systemic commercial banks in Germany as uncertain and include no ratings uplift.

#### RELATED RESEARCH

- Bulletin: Deutsche Bank Fourth-Quarter Results Show Continued Challenges, Feb. 4, 2019
- Deutsche Bank AG, Dec. 21, 2018
- Commerzbank AG, Nov. 20, 2018

This report does not constitute a rating action.

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