

# Commerzbank AG Proposed Low-Trigger Tier 1 Capital Notes Assigned 'BB' Rating

June 25, 2019

FRANKFURT (S&P Global Ratings) June 25, 2019--S&P Global Ratings said today that it assigned its 'BB' long-term issue rating to the proposed low-trigger additional Tier 1 (AT1) perpetual capital notes to be issued by Commerzbank AG. The rating is subject to our review of the notes' final documentation. This is the bank's first issuance of Basel III-compliant AT1 notes. It has some legacy tier 1 notes in issuance that are subject to regulatory grandfathering.

In accordance with our criteria for hybrid capital instruments ("Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions," published Jan. 29, 2015), the 'BB' issue rating reflects our analysis of the proposed instrument and our 'bbb+' assessment of the stand-alone credit profile (SACP) of Commerzbank. The issue rating stands four notches below the SACP due to the following deductions:

- One notch because the notes are contractually subordinated;
- Two notches reflecting the notes' discretionary coupon payments and regulatory Tier 1 capital status; and
- One notch because the notes contain a contractual write-down clause.

Although the principal is subject to write-down if the bank's common equity Tier 1 (CET1) ratio falls below 5.125%, we see this as a gone-concern trigger that does not pose additional default risk.

As an EU-domiciled bank, Commerzbank's AT1 instruments also face coupon nonpayment risk if the bank has insufficient additional distributable items (ADI), or if it breaches its capital requirements--defined as the sum of the Pillar 1 and Pillar 2 requirements plus combined buffers--known as the minimum distributable amount (MDA) thresholds.

We see Commerzbank's ADIs of €21 billion (under the updated capital requirements regulation) as comfortable. Its MDA thresholds in 2019 are CET1 of 10.1%, regulatory Tier 1 capital of 11.6%, and total capital of 13.6%, against which the bank reported ratios of 12.7%, 13.2%, and 16.0% at end-March. We regard its regulatory Tier 1 capital ratio headroom of only 1.5% as notable, although this level is not unusual among European peers and should be viewed also in the context of the bank's moderate but fairly predictable earnings. We therefore do not constrain the issue credit ratings on its deferrable instruments. However, we will continue to monitor the bank's MDA headroom, not least because its MDA thresholds could increase in 2020 when it fully phases in its domestic systemically important bank buffer.

Once Commerzbank has issued the securities and confirmed them as part of the bank's regulatory Tier 1 capital base, we would expect them to qualify as having intermediate equity content under

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our criteria. This reflects our understanding that the notes are perpetual, regulatory Tier 1 capital instruments that have no step-up. The notes can absorb losses on a going-concern basis through the nonpayment of coupons, which are fully discretionary.

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

### Related Research

- Bulletin: As Commerzbank And Deutsche Bank Talks End, What Now For The Two Banks? April 26, 2019 Commerzbank AG

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