

Update: Commerzbank AG

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Update: Commerzbank AG

SACP	bbb	+	Support	+1	+	Additional Factors	0
Anchor	bbb+		ALAC Support	+1		Issuer Credit Rating	
Business Position	Moderate	-1	GRE Support	0		BBB+/Negative/A-2	
Capital and Earnings	Adequate	0	Group Support	0		Resolution Counterparty Rating	
Risk Position	Adequate	0	Sovereign Support	0		A-/--/A-2	
Funding	Average	0					
Liquidity	Adequate						

Credit Highlights

Overview	
Key strengths	Key risks
Sound market position in domestic corporate banking, particularly among large and midsize enterprises and in trade finance, benefitting from an established franchise.	Protracted restructuring and material execution risk in delivering on its multi-year strategic plan amid a different operating environment.
Sufficient capital buffers to support the transformation process and material additional loss-absorbing capital (ALAC) to protect senior creditors in the event of a resolution.	Weak structural profitability that will only meaningfully improve after 2022, when major cost measures finally play out.
Prudent funding and liquidity management and metrics, benefitting from its retail branch network and stable relationships with domestic retail and corporate clients.	Tail risk to the bank's earnings and capitalization from Polish subsidiary mBank's legacy Swiss franc retail mortgage portfolio.

Commerzbank needs to demonstrate tangible progress in its transformation. We consider proof of continuous substantial progress in its ambitious multi-year plan as a key consideration for our ratings on Commerzbank. While previous restructuring attempts had shown very limited success, the revised multi-year strategic plan that the bank announced in early 2021 again targets its main rating weakness of structurally low profitability. Commerzbank's top priorities are to achieve a significantly leaner cost base while preserving most of its revenue, and to accelerate the digitalizing of its operating platforms. We consider the plan as broadly achievable but ambitious with regards to revenues, considering an ongoing difficult operating environment with low interest rates and high competition. If it reaches its targeted pretax return on tangible equity of 7% and cost efficiency of 61% by 2024, we think this would bring Commerzbank's profitability closer to its cost of capital, and in line with similarly rated peers.

Commerzbank's first steps in its restructuring process in 2021 were promising overall. Commerzbank has performed ahead of market expectations for the first nine months of 2021. It reported an operating profit after credit losses at around €1 billion and net income close to zero after already absorbing a large part of its expected total restructuring costs. We believe that the measures Commerzbank implemented to reduce its structural cost base are on track, with reported revenues even slightly outperforming our expectations. These revenues were partly driven by the significant benefits from the European Central Bank's targeted longer-term refinancing operations III program, at around €168

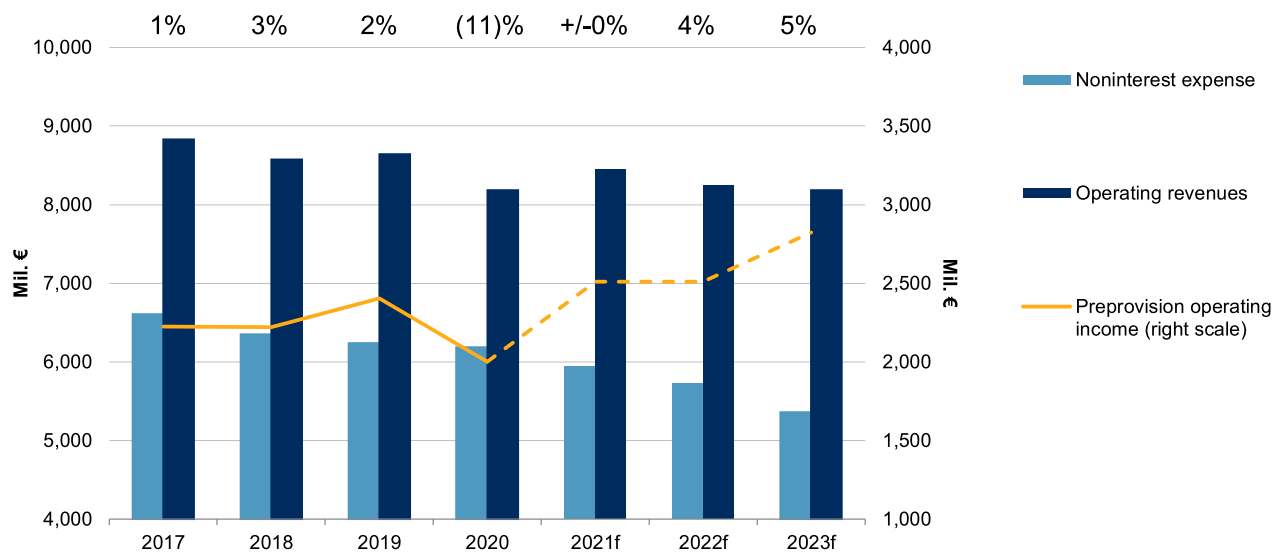
million according to the bank's reporting. However, the revenues also stem from Commerzbank's strong growth in fee income due to the revival of German clients' interest in securities, its Polish subsidiary mBank's solid operating performance, more broad repricing of deposits, and to date lower than anticipated revenue churn because of repricing actions and client exits.

We do not expect the bank to evidence improvement in structural profitability before end-2022 and consider the plan's execution risk as material. We think that Commerzbank's further implementation of its goals, especially regarding revenue targets, remain subject to material uncertainty (see chart 1). We are particularly cautious of the extent to which the departure of many employees, including senior management, will affect the bank's revenue potential from 2022 onward. We also note that there have been constant disruptions during the early phase of the transformation. We highlight for instance, the provision that was made considering the German court ruling on the increase in banking fees without explicit customer consent and the stop of the project for outsourcing securities settlement that led to a significant write off and the departure of the chief transformation officer.

Chart 1

Performance In 2021 Slightly Ahead Of Our Expectations, But Evidence Of Structural Improvement Will Only Be Visible After 2022

We consider material uncertainty in our revenue forecast amid challenging operating conditions



Source: S&P Global Ratings. Percentages reflect return on adjusted common equity, our measure that is similar to return on tangible equity.

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We think that mBank's Swiss franc retail mortgage portfolio is a tail risk to Commerzbank's earnings and capitalization. We expect that mBank's legacy Swiss franc retail mortgage loans could lead to further elevated provisioning needs, with the potential to disrupt the success of restructuring. Legal provisions on Swiss franc loans were €164 million for the first nine months of 2021 and €477 million in total, and we include further provisioning needs in our forecast. At mBank, the amount of required provisioning is a function of the expected number and outcome of individual court cases and out of court settlements. We expect to receive clarity on that matter over 2022, once the

EU's Court of Justice has addressed the important questions raised by the Polish supreme court, which will then likely lead to a decision by the Polish supreme court about the validity of those lending contracts.

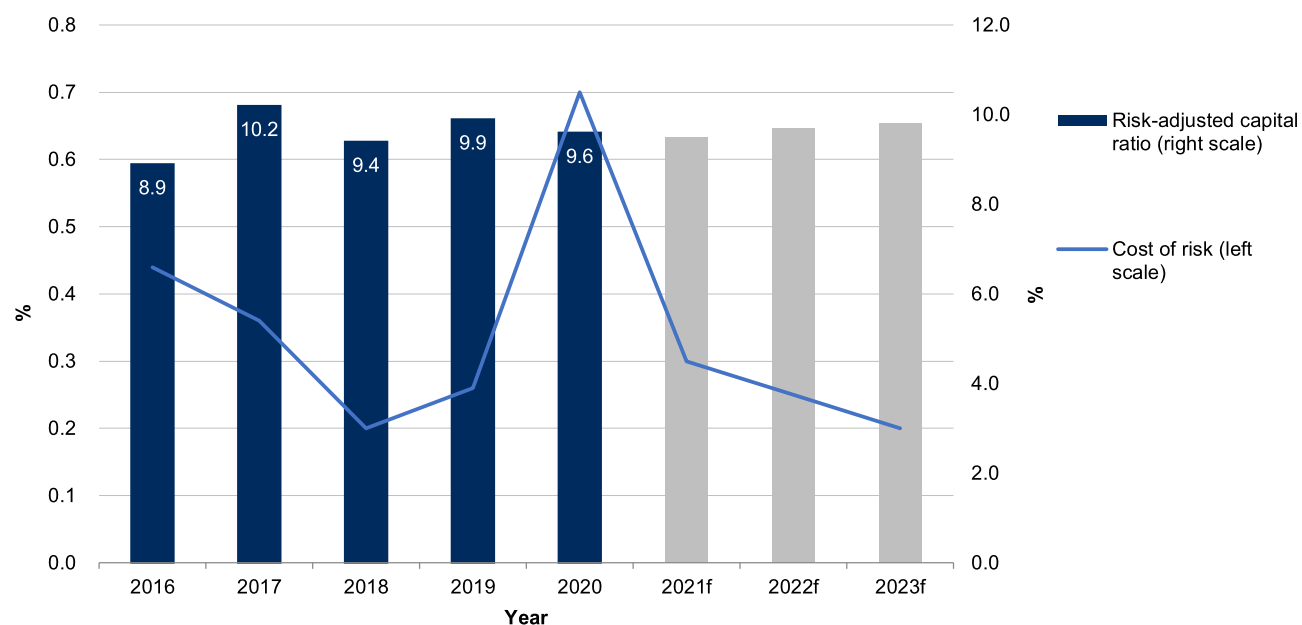
We expect Commerzbank's balance sheet and capitalization to remain robust, supporting the bank's transformation.

We anticipate that the bank's portfolio quality will continue to demonstrate resilience and we forecast only moderate levels of loss provisions until 2023 (see chart 2). This will support the bank through the most critical phase of its restructuring. The booking of a €500 million management overlay by end-2020 will allow the bank to report lower provisioning needs if economic recovery is to continue. The bank's core equity capital ratio has improved slightly to 13.5% at end-September 2021. This currently provides a sizeable buffer above Commerzbank's maximum distributable amount requirement at 9.4% and allows the bank to absorb some potentially larger losses from its Polish subsidiary's Swiss franc portfolio.

Chart 2

We Expect Commerzbank's Asset Quality And Capitalization To Be Supportive Elements Of Its Transformation Success

Risk-adjusted capital ratio and cost of risk between 2016 and 2023f



f--Forecast. Cost of risk defined as new loan loss provisions as % of average customer loans. Source: S&P Global Ratings.

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Outlook: Negative

The negative outlook reflects the significant challenges management faces to recover Commerzbank to more solid and sustainable profitability amid weak operating conditions. The success of the revised restructuring plan is the key consideration for S&P Global Ratings' credit ratings on Commerzbank.

Downside scenario

We could lower our ratings on Commerzbank within the next 12-24 months if we observe a material setback in the bank's transformation, for example because of a significant delay in anticipated cost savings or increasing uncertainty over whether Commerzbank can widely preserve its revenue base during the restructuring process. While less likely, a downgrade could follow if asset quality was to develop materially weaker than we anticipate.

Upside scenario

We could revise our outlook to stable if we saw tangible progress in the restructuring process. This would require improved profitability and reduced execution risk.

Key Metrics**Commerzbank AG--Key Ratios And Forecasts**

(%)	--Fiscal year ended Dec. 31--				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	0.9	(5.3)	2.4-4.0	(1.8)-(3.1)	(0.5)-(0.9)
Growth in customer loans	8.3	1.5	3.2-4.8	0.8-1.2	0.8-1.2
Cost to income ratio	72.2	75.6	68.5-72.1	67.8-71.3	63.9-67.1
Return on average common equity	2.3	(10.8)	(0.5)-0.5	3.5-4.3	4.5-5.6
New loan loss provisions/average customer loans	0.3	0.7	0.2-0.3	0.2-0.3	0.1-0.2
Gross nonperforming assets/customer loans	1.5	1.9	1.7-2.1	1.9-2.3	1.7-2.0
Risk-adjusted capital ratio	9.9	9.6	9.3-9.7	9.5-9.9	9.5-9.9

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast.

Key Statistics**Table 1****Commerzbank AG--Key Figures**

(Mil. €)	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
Adjusted assets	542,432.0	505,496.0	460,583.0	459,123.0	449,181.0
Customer loans (gross)	264,881.0	254,607.0	250,770.0	231,519.0	224,460.0
Adjusted common equity	24,874.0	23,688.5	26,010.1	24,445.7	26,140.5
Operating revenues	4,353.0	8,186.0	8,645.0	8,572.0	8,830.0
Noninterest expenses	3,128.0	6,185.0	6,241.0	6,351.0	6,606.0

Table 1

Commerzbank AG--Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. €)	2021*	2020	2019	2018	2017
Core earnings	1,033.0	(11.0)	1,368.1	1,504.8	962.9

*Data as of June 30.

Table 2

Commerzbank AG--Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Total revenues from business line (currency in millions)	4,353.0	8,215.0	8,645.0	8,572.0	9,163.0
Commercial & retail banking/total revenues from business line	53.6	51.3	53.9	53.3	52.7
Trading and sales income/total revenues from business line	35.8	24.8	33.5	38.0	43.5
Other revenues/total revenues from business line	10.6	23.8	12.5	8.7	3.7
Investment banking/total revenues from business line	35.8	24.8	33.5	38.0	43.5
Return on average common equity	(3.2)	(10.8)	2.3	3.0	0.5

*Data as of June 30.

Table 3

Commerzbank AG--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	15.3	15.0	14.3	13.4	15.2
S&P Global Ratings' RAC ratio before diversification	N/A	9.6	9.9	9.4	10.2
S&P Global Ratings' RAC ratio after diversification	N/A	10.6	10.6	10.0	10.8
Adjusted common equity/total adjusted capital	88.9	90.0	95.2	98.3	98.4
Net interest income/operating revenues	55.8	60.8	58.7	55.4	47.6
Fee income/operating revenues	41.4	40.5	35.3	36.0	36.0
Market-sensitive income/operating revenues	10.4	2.8	4.4	5.1	13.5
Cost to income ratio	71.9	75.6	72.2	74.1	74.8
Preprovision operating income/average assets	0.5	0.4	0.5	0.5	0.5
Core earnings/average managed assets	0.4	(0.0)	0.3	0.3	0.2

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Commerzbank AG--Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	8.1	1.5	8.3	3.1	9.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(9.7)	(7.0)	(6.1)	(5.9)
Total managed assets/adjusted common equity (x)	21.9	21.4	17.8	18.9	17.3
New loan loss provisions/average customer loans	0.2	0.7	0.3	0.2	0.4
Gross nonperforming assets/customer loans + other real estate owned	1.7	1.9	1.5	1.7	2.5

Table 4

Commerzbank AG--Risk Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Loan loss reserves/gross nonperforming assets	63.4	63.7	57.1	55.0	55.2

*Data as of June 30. RWA--Risk-weighted assets. N/A--Not applicable.

Table 5

Commerzbank AG--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	68.8	70.1	74.6	70.8	70.3
Customer loans (net)/customer deposits	82.3	85.8	89.5	87.2	86.5
Long-term funding ratio	76.7	79.1	83.8	80.2	85.5
Stable funding ratio	121.0	118.9	113.6	114.5	124.6
Short-term wholesale funding/funding base	24.7	22.3	17.4	21.2	15.6
Broad liquid assets/short-term wholesale funding (x)	1.7	1.8	2.0	1.9	2.4
Net broad liquid assets/short-term customer deposits	33.1	31.3	28.7	32.2	34.4
Short-term wholesale funding/total wholesale funding	77.5	73.0	67.6	72.5	52.2

*Data as of June 30.

Related Criteria

- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Group Rating Methodology, July 1, 2019
- Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

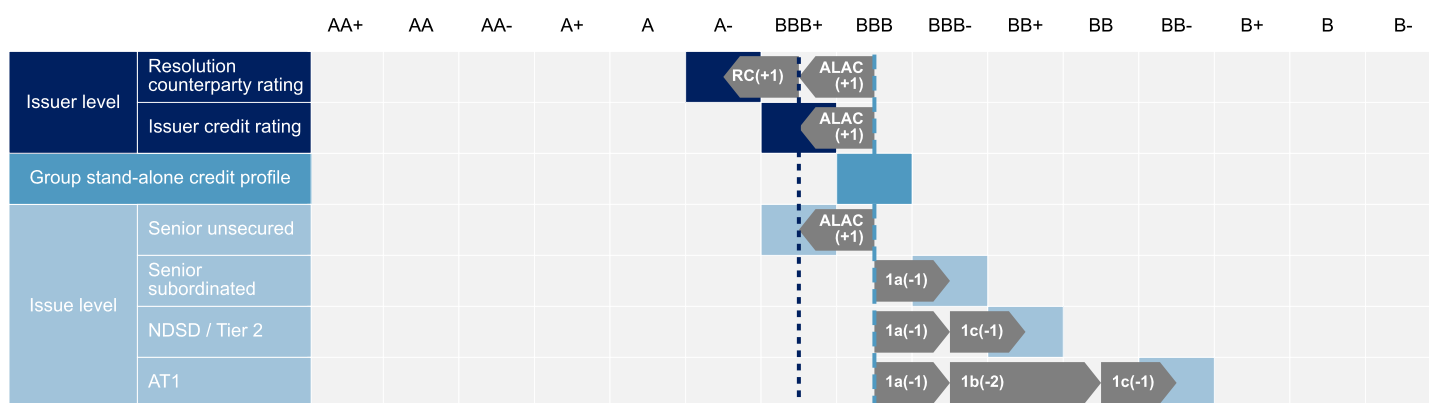
Related Research

- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021
- Poland-Based mBank S.A.'s Senior Nonpreferred Debt Issuance Program Rated 'BBB-', Sept. 10, 2021

- Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress, June 24, 2021
- Ratings On Three Polish Banks Affirmed Upon Resilience To The Pandemic; Outlook On Alior Bank To Stable, June 24, 2021
- Commerzbank AG, April 16, 2021
- Research Update: Commerzbank AG 'BBB+/A-2' Ratings Affirmed On Strategy Announcement; Outlook Remains Negative, Feb. 26, 2021,
- mBank's 2020 Results Reflect The Ongoing Swiss Franc Legacy Mortgage Loan Saga In Poland And Pandemic-Induced Recession, Feb. 9, 2021
- Sustainable Profitability Remains A Challenge For Commerzbank Despite Further Cost Cuts Under Revised Strategy, Jan. 29, 2021
- Restructuring Costs And Goodwill Write-Off Highlight Challenges Facing New Commerzbank CEO, Jan. 8, 2021
- mBank, Dec. 9, 2020

Appendix

Commerzbank AG: Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

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Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 22, 2021)*

Commerzbank AG

Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Junior Subordinated	BB-
Senior Subordinated	BBB-
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+

Issuer Credit Ratings History

23-Apr-2020	BBB+/Negative/A-2
28-Mar-2017	A-/Negative/A-2
15-Dec-2016	BBB+/Watch Pos/A-2

Sovereign Rating

Germany	AAA/Stable/A-1+
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Related Entities**Dresdner Funding Trust I**

Junior Subordinated	BB-
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Dresdner Funding Trust IV

Subordinated	BB+
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mBank S.A.

Issuer Credit Rating	BBB/Negative/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Senior Subordinated	BBB-
Senior Unsecured	A-2
Senior Unsecured	BBB

Ratings Detail (As Of November 22, 2021)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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