

Commerzbank AG

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Commerzbank AG

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

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> A sound domestic market position in corporate banking, supported by Germany's robust economy. Strong capitalization, rapid progress in derisking noncore activities, and material levels of additional loss-absorbing capital (ALAC) to protect senior creditors in the event of a resolution. Adequate funding and liquidity. 	<ul style="list-style-type: none"> Below-average market share and earnings from domestic retail activities. Must generate sufficient shareholder returns absent a cyclical recovery and in light of high competition and low yields. Loan book quality metrics and composition still below those of many peers.

Outlook: Negative

S&P Global Ratings' negative outlook on Germany-based global financial institution, Commerzbank AG, indicates the possibility of a downgrade within the next two years if Commerzbank encounters major setbacks to its multiyear strategy to strengthen its leading franchise in German corporate banking and to improve the market share and performance of its retail banking and private wealth management divisions, which are important for sustainable improvements in its overall risk adjusted earnings and capital position.

Downside scenario

We could lower our issuer credit rating (ICR) and related issue ratings on the bank's senior preferred debt if it doesn't maintain a sustainable ALAC buffer of 5%-8% of S&P Global Ratings' risk-weighted assets (RWA). This is important to protect senior creditors in the event of a resolution, which currently results in a one-notch uplift in the ICR. However, a one-notch downgrade alone would not affect our 'BBB' issue ratings on Commerzbank's senior subordinated debt or our ratings on its regulatory capital instruments, because these are derived from our assessment of Commerzbank's 'bbb+' stand-alone credit profile (SACP).

However, if the bank's capitalization and earnings fail to strengthen, with our forecast risk-adjusted capital (RAC) ratio falling below 10%, we could revise our assessment of its SACP downward, which could lead us to lower our issue ratings on the senior subordinated debt and regulatory capital instruments. On its own, such a downgrade would not necessarily affect our ICR and related senior unsecured issue ratings, since we are likely to recognize higher amounts of excess RAC in the bank's ALAC buffer.

Upside scenario

We could revise the outlook to stable if Commerzbank succeeds in strengthening its business position with more stable, diverse retail and midsize corporate banking, alongside a less volatile and sustainably improved earnings and risk position than that of similarly rated international peers.

We could also revise the outlook to stable if the bank's capitalization and ALAC buffers strengthened beyond our base-case assumptions, providing an ample cushion against unexpected setbacks in its transformation process and underpinning the one-notch uplift in our long-term ICR.

Rationale

We base our ratings on Commerzbank on its domicile and main lending focus, Germany, which we view as having the lowest economic risk of all banking systems globally. Commerzbank's anchor of 'a-', therefore represents our view on the economic environment in countries where it operates and on banking industry risk in Germany. Our assessment of Commerzbank's SACP at 'bbb+', reflects our view that the bank retains a leading franchise in German corporate banking, particularly among large and midsize enterprises and in trade finance, and maintains its retail banking division's strong focus on private wealth management, despite its downsizing over recent years.

We assess capital and earnings as strong because we expect our projected RAC ratio for Commerzbank will gradually improve to a sustainable 10%-11% over the next two years, after 10.2% at year-end 2017. At this stage, however, we still see challenges ahead for Commerzbank, notably, in delivering sufficient and more stable shareholder returns, absent the currently supportive economic business cycle. We estimate that the bank will generate only a 3%-6% return

on equity (ROE), even in 2018. Our moderate risk position assessment acknowledges the tangible progress that management has already made in restructuring the bank, reducing the nonstrategic asset portfolio, and restoring a degree of profitability. While the bank still has problem exposures to industries such as shipping, we now see them as likely to be manageable and absorbable by preprovision earnings, since they reduced substantially in 2017. However, we believe that Commerzbank's nonperforming loans (NPLs) and loan loss provisions (LLPs) remain higher than those of many of its peers with similar weighted economic risk exposure.

We assume that Commerzbank will maintain the strong improvements in its liquidity and funding ratios that it has achieved in recent years. We view as positive the availability of refinancing from the bank's large retail branch network and its close relationships with domestic corporate clients. We incorporate one notch of uplift into our long-term ICR on Commerzbank, since we forecast that the bank will maintain an ALAC buffer of between 6% and 7.5% over the next two years, comfortably above our 5% threshold for a one-notch uplift. Commerzbank's ALAC buffer enlarged materially after the reclassification of standard term debt as senior subordinated instruments under the retroactive change to German law introduced in January 2017.

We set the resolution counterparty rating on Commerzbank at 'A', one notch above the 'A-' long-term ICR, reflecting the typical approach under our framework when the ICR ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessment on Germany.

Anchor: 'a-', since lending exposure is predominantly to Germany

Our bank criteria use our Banking Industry Country Risk Assessment's economic and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. Our anchor for a commercial bank operating mainly in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'. We view the economic risk trend and the industry risk trend in the German banking industry as stable.

Our 'a-' anchor for Commerzbank reflects its domicile in Germany, where it is primarily regulated, and our view of the blended economic risk of the markets in which it operates. The anchor is based on our understanding that Commerzbank's strategy will remain focused on Germany. About 65% of the bank's private-sector credit exposure is domestic. This has a favorable impact on the anchor because we view Germany as having the lowest economic risk of all banking systems globally.

However, about 40% of Commerzbank's credit exposure is in countries with higher economic risk, mainly Poland and other European countries. Consequently, our weighted economic risk score for Commerzbank is '2', weaker than for banks operating solely in Germany. This means that the anchor is sensitive to a potential downward revision of our economic risk assessment for Germany by one category, or a shift in geographic strategy.

Germany has a highly diversified and competitive economy, and we continue to expect that its robust export-led economy will remain vigorous amid a broader European recovery over our forecast horizon through 2020. We believe that the impact of the U.K.'s referendum decision to leave the EU (Brexit) is manageable and will have only a limited negative effect for the German economy. We see a low likelihood of a nationwide credit-driven housing bubble, in light of limited credit growth and historically favorable affordability ratios, which suggest that house prices will remain undervalued until the end of 2020. We forecast that house price inflation will soften to below 2% in 2019 and 2020, on par with expected GDP growth, compared with our estimate for 2017-2018 of about 4.6% attributable to recent years

of favorable economic conditions, strong national and international demand, tight housing supply in economic centers, a buoyant labor market, high net immigration, and low interest rates.

We continue to regard industry risk for German banks as intermediate, in line with that for peers in many other European countries. The industry benefits from Germany's extensive funding market, banks' domestic funding surpluses, and a material strengthening of banking regulation and supervision, owing to the ongoing EU-wide regulatory harmonization and convergence under Basel III. Returns in the German banking industry have compared well with those of many European banking industries in recent years, thanks to a continued track record of low credit losses. Although we believe the low-interest-rate environment and intense competition act as a drag on profitability, this is partly compensated by the German banking industry's progress in implementing measures to improve cost efficiency and fee generation.

We regard the likelihood of the German government providing extraordinary support to systemic domestic banks as uncertain, as we do for most other European banks. This is because, following the full implementation of the EU's enhanced bank resolution framework in 2015, governments are constrained from providing bailouts to distressed banks directly.

Table 1

Commerzbank AG Key Figures					
--Year ended Dec. 31--					
(Mil. €)	2018*	2017	2016	2015	2014
Adjusted assets	489,966.0	449,181.0	477,403.0	529,116.0	554,279.0
Customer loans (gross)	241,022.0	224,460.0	204,156.0	207,757.0	215,644.0
Adjusted common equity	25,272.0	26,140.5	25,952.0	26,494.0	23,936.0
Operating revenues	6,726.0	8,830.0	9,555.0	10,040.0	9,775.0
Noninterest expenses	5,412.0	6,606.0	7,086.0	7,209.0	7,795.0
Core earnings	832.0	962.9	1,342.9	1,502.9	592.7

*Data as of Sept. 30.

Business position: A sound domestic market position, particularly in corporate banking

We recognize Commerzbank's progress in further building up its leading franchise in German corporate banking, particularly among large and midsize enterprises and in trade finance, and the strong focus of its retail banking division on private wealth management. We also consider that the bank has regained market share, in particular attracting high numbers of net new retail banking clients, and increasing assets under custody for private customers.

Moreover, Commerzbank has made tangible progress on its restructuring program by further substantially reducing nonstrategic exposures and strengthening capital. However, over the past few years, its asset and capital recovery segment has remained under pressure, due to a material worsening of conditions in the shipping industry. This resulted in a significant reduction of Commerzbank's shipping portfolio to €0.8 billion as of Sept. 30, 2018, after disproportionately high credit losses of €336 million in on its €2.6 billion shipping portfolio as of year-end 2017.

We expect remaining exposures to be manageable via Commerzbank's preprovision earnings capacity. As part of its "Commerzbank 4.0" strategy, the bank continuous to adhere to a more stringent focus on business backed by core

competencies and franchise, digitalization, and efficiency measures. Commerzbank aims to deliver a post-tax ROE of more than 6% by 2020, after 4% on Sept. 30, 2018, 0.6% in 2017, and 1.1% in 2016, and a cost-to-income ratio below 66% (75% in 2017 and 77% in 2016) under its base case. In addition, Commerzbank targets a fully phased-in regulatory Basel III core tier 1 capital ratio higher than 13%, compared with 13.2% in Sept. 30, 2018 (factoring the 2018 pro forma impact of International Financial Reporting Standard [IFRS] No. 9, in 2017). In our view, Commerzbank has remained consistent in its philosophy of setting strategic targets without major shifts in focus. The bank has adjusted its targets in light of higher regulatory capital requirements and unfavorable interest rates by continuing to focus on cost management, rather than by increasing its risk appetite materially or by embarking on costly large-scale restructurings.

While we recognize Commerzbank's well-focused and consistent strategy, the main reason we consider Commerzbank's business position to be only moderate is due to a comparison with its domestic peers. In Germany, traditional retail lending and small business banks with strong annuity characteristics are dominated by savings banks and mutually owned cooperative banks. Furthermore, the low-margin, high-cost German retail banking market squeezes profit margins to absorb potential revenue volatility.

We also compare Commerzbank's business position with the positions of its international peers in countries with similar banking industry risk as Germany, such as the U.K., France, and Belgium. Banks with adequate or stronger business positions relative to Commerzbank's tend to have higher market shares, particularly in retail banking. Some of these banks have broad international diversification. Commerzbank's international diversification hinges mainly on Poland, where it has a 69.4% stake in mBank, the country's fourth-largest bank, which contributes about 25% of Commerzbank's pretax profit, excluding one-time charges.

We generally believe that Commerzbank's current strategy has the potential to strengthen its business position over time, by further balancing its business mix with stable retail and midsize corporate banking. This should occur once Commerzbank has fully emerged from the multiyear restructuring program it initiated after receiving support from the German government following its acquisition of Dresdner Bank in 2008. Additionally, Commerzbank's mix of businesses, in particular its lower reliance on lending and deposit-taking, could make the bank less sensitive to low interest rates than some of its domestic peers.

Table 2

Commerzbank AG Business Position					
		--Year ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Total revenues from business line (currency in millions)	6,726.0	9,163.0	9,770.0	10,215.0	9,902.0
Commercial & retail banking/total revenues from business line	55.8	52.7	48.7	72.2	72.8
Trading and sales income/total revenues from business line	40.3	43.5	44.8	19.6	20.1
Other revenues/total revenues from business line	3.9	3.7	6.5	8.2	7.1
Return on average common equity	3.5	0.5	1.0	3.8	1.0

*Data as of Sept. 30.

Capital and earnings: Capital strengthening set to continue, albeit at a slower pace

We assess Commerzbank's capital and earnings as strong, which mainly reflects our projection that the bank's RAC ratio (our measure of a bank's capital adequacy), before diversification effects, will rise moderately to about 11% by

year-end 2019, compared with 10.2% at year-end 2017 and our 10.0% threshold for a strong assessment. We base this forecast on our expectations of improved profitability and retention of related earnings as capital, further risk reductions in nonstrategic portfolios, and completion of the restructuring.

Commerzbank is set to meet future regulatory capital requirements. It reported a fully phased-in Basel III common equity Tier 1 (CET1) ratio of 13.2% on Sept. 30, 2018, down from 14.1% in 2017, but up from 12.3% in 2016, 12.0% in 2015, and 9.3% in 2014. The CET1 ratio decreased to 13.2% as of Sept. 30, 2018, mainly due to the impact of IFRS No. 9. This compares with the 10.75% requirement that the European Central Bank has communicated to the bank as part of its supervisory review and evaluation process (SREP) for 2019.

Because regulators consider Commerzbank to be a domestically systemic important institution, management estimates that an additional systemic buffer requirement of about 150 basis points (bps) will be added to this SREP requirement. We consider this estimate reasonable, given that systemic buffers will range between 100bps and 200bps. All this implies that Commerzbank might need to meet an 11.75% CET1 ratio by 2019, notwithstanding any potential changes in the regulatory environment until then.

Although Commerzbank already meets its estimated capital requirement, we still project that it will gradually bolster its CET1 ratio further by retaining earnings as capital. The bank's announced strategic goal is higher than its 12% CET1 regulatory ratio on a fully phased-in Basel III basis, but it is reasonable on a peer comparison basis. We assume that management will aim to build a buffer of at least 100bps above the 11.75% threshold. We consider this to be achievable, and important to ensure that Commerzbank remains able to service its "may pay" hybrid instruments.

Limited growth opportunities in Germany, pressure on net interest margins from low interest rates, and loan losses from nonstrategic loan legacies will render material revenue improvements difficult for Commerzbank. Nevertheless, we project that, over the next three years, net income before minorities will slowly recover to modestly higher than the 2015 level of €1.2 billion, after €0.2 billion in 2017. In our projection, the potential for higher revenues from Commerzbank's enlarged customer base is offset by headwinds from low interest rates and relatively higher LLPs for legacy portfolios. In addition, we estimate a fairly stable cost base, despite increased general and regulatory costs. Our projection also incorporates a flexible dividend policy that remains conducive to further strengthening of the capital base.

We anticipate that our RWAs figure for Commerzbank will remain largely unchanged, based on our understanding that Commerzbank will expand its strategic businesses, mainly by reallocating risk capital from the wind-down of its noncore asset portfolio and financial institutions business. Commerzbank's earnings predictability has increasingly converged toward the domestic industry average, thanks to a reduction of nonstrategic exposures and strategic refocusing on its everyday business. Nonrecurring items and market-sensitive income affected earnings more materially before 2017.

Table 3

Commerzbank AG Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Tier 1 capital ratio	13.7	15.2	13.9	13.8	11.7

Table 3

Commerzbank AG Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
S&P Global Ratings' RAC ratio before diversification	N/A	10.2	8.9	10.2	8.8
S&P Global Ratings' RAC ratio after diversification	N/A	10.8	9.4	11.8	10.3
Adjusted common equity/total adjusted capital	98.4	98.4	98.5	98.7	98.7
Net interest income/operating revenues	50.6	47.6	51.4	54.6	56.5
Fee income/operating revenues	34.6	36.0	33.6	34.1	32.8
Market-sensitive income/operating revenues	12.1	13.5	5.7	4.9	4.9
Noninterest expenses/operating revenues	80.5	74.8	74.2	71.8	79.7
Preprovision operating income/average assets	0.4	0.5	0.5	0.5	0.4
Core earnings/average managed assets	0.2	0.2	0.3	0.3	0.1

*Data as of Sept. 30. N/A--Not applicable.

Table 4

Commerzbank AG Risk-Adjusted Capital Framework Data					
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	109,227	5,781	5	9,270	8
Of which regional governments and local authorities	21,274	1,513	7	1,311	6
Institutions and CCPs	49,813	19,353	39	20,984	42
Corporate	147,868	76,541	52	105,330	71
Retail	122,541	20,561	17	48,099	39
Of which mortgage	80,173	9,303	12	17,786	22
Securitization§	19,213	2,767	14	7,966	41
Other assets†	6,374	3,843	60	14,387	226
Total credit risk	455,037	128,845	28	206,035	45
Credit valuation adjustment					
Total credit valuation adjustment	--	4,169	--	13,115	--
Market risk					
Equity in the banking book	3,750	2,357	63	10,250	273
Trading book market risk	--	8,673	--	14,325	--
Total market risk	--	11,030	--	24,575	--
Operational risk					
Total operational risk	--	21,041	--	17,192	--
(Mil. €)		Basel III RWA		S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification		171,369		260,917	100
Total Diversification/Concentration Adjustments		--		(15,394)	(6)

Table 4

Commerzbank AG Risk-Adjusted Capital Framework Data (cont.)				
RWA after diversification	171,369		245,523	94
(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	25,985	15.2	26,557	10.2
Capital ratio after adjustments†	25,985	15.2	26,557	10.8

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Reduced amount of noncore assets appear manageable in light of preprovisioning earnings

Our assessment of Commerzbank's overall risk position mainly takes into account sound new business from core customers, balanced by the residual risks from the nonstrategic asset portfolio, weaker loss experience than its peers, and risks to our RAC ratio forecast. What's more, the strong capital and earnings and moderate risk position assessments offset each other. This aligns with our view that capitalization at Commerzbank--after taking into account its risk exposures--remains a neutral factor compared with peers. In particular, we put risks into the context of our projected RAC ratio, which had improved modestly above the 10% threshold by year-end 2017 and therefore remains vulnerable to unexpected charges.

In our risk position assessment, we compare Commerzbank with peers with a similarly strong weighted economic risk profile. Besides some internationally active German banks, this includes peers in countries like Sweden, Switzerland, Belgium, and Canada. Commerzbank has more than halved its gross NPL ratio since 2012 to about 1.6% of customer loans as of Sept. 30, 2018. New LLPs also reduced materially to about 17bps of customer loans on that date, from 73bps in 2013, a large chunk of which resulted from the setback in the shipping industry. Nevertheless, these levels are still higher than those of most of Commerzbank's peers, many of which record immaterial amounts of NPLs or LLPs. Excluding one customer, for which a single-event risk materialized in 2017, Commerzbank's strategic businesses contributed only about one-third of total LLPs in 2016 and 2017. However, the bank expects the nonstrategic portfolios, in particular shipping finance, to continue burdening profitability in the future, although less so than in the past.

Commerzbank's German retail mortgage lending is showing the strongest growth, exceeding the market-average. But we believe Commerzbank achieves this without weakening underwriting standards. We also recognize recent years of strengthening capital ratios and a significant reduction of nonstrategic and high-risk portfolios, particularly in commercial real estate (CRE) and shipping finance. These portfolios' exposure at default has reduced more than management's target: to about €0.8 billion in shipping, €0.9 billion in CRE, and €7.5 billion in public finance at Sept. 30, 2018, from about €50 billion in total at year-end 2013. The majority of CRE exposures are now in Germany, which we consider to be generally lower risk in light of favorable economic conditions.

While we continue to see the bank's exposure to industries such as shipping as problematic, we do not think they pose an immediate risk to the bank's capitalization in 2018. We assume that these exposures are manageable and

absorbable by preprovision earnings, as they were in 2017. The bank has materially strengthened the reserve coverage of its NPLs in shipping, sold material parts of the NPL portfolio, and reduced single-name concentration risks generally. However, as we anticipated, the bank incurred credit losses, totaling €336 million, in 2017 after €599 million in 2016. We consider that amount to be manageable and it was much lower than the bank's initial loan provision forecast of €450 million-€600 million in 2017 given difficult conditions in the shipping industry.

Nevertheless, the CRE and shipping finance portfolios still represent about 7% of Commerzbank's total adjusted capital (TAC). More generally, the loan portfolio remains skewed toward corporate and public sector lending, which tends to be more exposed to event risk than retail lending. For example, Commerzbank's public finance assets represented about 1.5x TAC at year-end 2017, and we believe that our standard assumptions in the RAC calculation may not appropriately capture the potential risks from these exposures.

In terms of Commerzbank's focus portfolios, sovereign exposure to Italy and Spain diminished markedly to €10.0 billion on Dec. 31, 2017, of which by far most is from Italy.

Table 5

Commerzbank AG Risk Position					
	--Year ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Growth in customer loans	9.8	9.9	(1.7)	(3.7)	(3.8)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(5.9)	(5.1)	(14.3)	(14.4)
Total managed assets/adjusted common equity (x)	19.5	17.3	18.5	20.1	23.3
New loan loss provisions/average customer loans	0.2	0.4	0.4	0.3	0.5
Net charge-offs/average customer loans	N.M.	0.7	0.6	1.1	1.0
Gross nonperforming assets/customer loans + other real estate owned	1.6	2.5	3.4	3.4	5.5
Loan loss reserves/gross nonperforming assets	54.3	55.2	53.1	54.2	47.8

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Benefit from increasing core deposits and deleveraging

We continue to view Commerzbank's funding and liquidity as neutral for the ratings, given that we consider funding to be average and liquidity to be adequate. The bank's funding and liquidity metrics have improved substantially over the past several years. However, they do not qualify for a higher assessment because they compare unfavorably with those of the German savings and cooperative bank groups, particularly when considering the qualitative factors that these metrics do not fully reflect.

Commerzbank's restructuring and deleveraging in recent years have significantly reduced its dependence on wholesale funding and strengthened its liquidity position. Our stable funding ratio for Commerzbank was 125% on Dec. 31, 2017, indicating appropriate matching of assets and liabilities. Furthermore, broad liquid assets covered short-term wholesale funding 2.4x.

However, we believe that our funding and liquidity metrics do not fully capture Commerzbank's refinancing and liquidity risks because some of its liquid securities are needed to secure steadily decreasing public-sector covered bonds, and require stable funding since they are not available for liquidity purposes. What's more, a considerable

amount of the bank's securities formerly classified as available for sale were reclassified as loans and receivables with a view to holding the assets until maturity, due to inactive markets.

In terms of strengths, Commerzbank's large and expanding retail branch network and relationships with domestic corporate clients provide it with a stable core deposit base to meet its funding needs. Furthermore, Commerzbank's longer-term covered bonds refinance its real estate and public finance exposures. By Sept. 30, 2018, about 50% of the bank's long-term capital market funding of €8.2 billion was sourced from covered bonds. Due to the bonds' collateralized nature and the more favorable treatment of covered bond assets in banks' regulatory liquidity metrics, we anticipate that these instruments would benefit from more reliable investor demand in a stressed environment than unsecured bonds.

We expect Commerzbank's funding needs will continue to benefit from further reductions of public finance, CRE lending, and shipping finance. We believe that Commerzbank's partial ownership by the German government (about 15%) supports its access to funding markets. However, we consider such ownership to be temporary.

Table 6

Commerzbank AG Funding And Liquidity					
		--Year ended Dec. 31--			
(%)	2018*	2016	2015	2014	
Core deposits/funding base	67.7	70.3	64.6	61.0	54.1
Customer loans (net)/customer deposits	85.6	86.5	82.2	81.8	91.8
Long-term funding ratio	76.5	85.5	82.5	77.5	73.3
Stable funding ratio	N/A	124.6	128.6	123.4	113.6
Short-term wholesale funding/funding base	N/A	15.6	18.8	24.0	28.2
Broad liquid assets/short-term wholesale funding (x)	N/A	2.4	2.2	1.8	1.5
Net broad liquid assets/short-term customer deposits	N/A	34.4	39.5	36.7	27.0
Short-term wholesale funding/total wholesale funding	77.1	52.2	53.0	61.3	61.4

*Data as of Sept. 30. N/A--Not applicable.

External support: A one-notch uplift for the stronger ALAC buffer

Our assessment of Commerzbank's stand-alone credit profile (SACP) is one notch higher than that for the unsupported SACP. This is because we estimate that the bank will continue to moderately improve its total loss-absorbing capacity to roughly 7.5% by 2019, comfortably above the 5% threshold for a one-notch rating uplift. Commerzbank's ALAC buffer increased significantly after accounting for the reclassification of standard term debt as senior subordinated instruments under the retroactive change to German law, introduced in January 2017. In line with our expectations, Germany's parliament passed a legislative effective July 21, 2018 that aligned German law with an EU directive that enables German banks to issue plain-vanilla term bonds as higher-ranking senior unsecured instruments.

As we expected, the amendment did not alter the seniority of existing plain-vanilla term bonds, which remain subordinated based on a grandfathering provision in the new legislation, therefore, they will rank *pari passu* with the new senior nonpreferred instruments (see "Senior Nonpreferred Notes In Germany: The Best Of Both Worlds For German Banks, And Clarity For Investors," July 10, 2018). As a result Commerzbank's considerable buffers of senior subordinated liabilities, which are intended to absorb losses in the event of resolution remain available.

We assess Commerzbank's ALAC to S&P Global Ratings' RWA at about 6%, including senior subordinated instruments, as of year-end 2017, and forecast that its ALAC buffer will improve to about 7.5% over the next two years. Our forecast continues to include Commerzbank's Tier 1 and Tier 2 issuance plans, senior subordinated instruments and respective debt maturities, and our forecast of a gradual rise in the bank's RAC ratio.

However, we believe the bank will have a smaller surplus in its TAC as a component of ALAC buffers, since the bank's RAC ratio is modestly above our 10% minimum for a strong capital assessment. In our calculation, we exclude subordinated instruments issued under U.S. law, which do not explicitly refer to bail-in, given the risk that bail-in by the European regulator could be challenged by investors holding these instruments.

In our view, Commerzbank has high systemic importance in Germany, mainly reflecting its material share of the country's retail deposits. Since June 2015, we have regarded the prospect of extraordinary government support for German banks as uncertain, in view of the clear intent of the authorities to avoid taxpayer bail-outs of failing banks, and the well-advanced and effective resolution framework. As a result, systemically important banks in Germany are not eligible for any rating uplift for possible future government support.

We view the German resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. We consider Commerzbank to be systemically important to Germany, and, given its complexity, expect that it will be subject to a well-defined bail-in plan.

Additional rating factors: None

No other factors affect the ratings.

Group structure, rated subsidiaries

Commerzbank is by far the largest operating company in the group that it heads. In Poland, it operates through mBank, a subsidiary that we regard as being strategically important to Commerzbank.

Issue ratings: Hybrid capital instruments

Commerzbank has issued hybrid capital instruments directly and through special-purposes entities, whose issuances it has guaranteed. We notch down from Commerzbank's 'bbb+' unsupported SACP to derive the ratings on these instruments, in accordance with tables 1 and 2 of our bank hybrid criteria, depending on their features. Accordingly, we assess Commerzbank's funding vehicles Dresdner Funding Trust I, and Dresdner Funding Trust IV under the loan participation note approach, according to our Group Rating Methodology (Appendix F), because all relevant conditions are met. In the case of HT1 Funding GmbH, we expect timely support in our assessment of HT1 Funding as a core member of the Commerzbank group (see "Commerzbank's Financing Vehicle HT1 Funding GmbH Assigned 'A-' Rating; Outlook Negative," published March 26, 2018).

In addition, the change to German law on Jan. 1, 2017, turned certain standard long-term senior unsecured bonds into subordinated instruments in a resolution and liquidation. Accordingly, we reclassified such affected instruments as senior subordinated debt. For the senior subordinated instruments, the starting point for the issue ratings is each bank's SACP. We then deduct one notch for subordination, given that the starting point for rating all four of Germany's

systemic banks, including Commerzbank, is 'bbb-' or higher.

A default on the hybrid instruments would not automatically lead to a default on the ICR.

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
- Criteria - Financial Institutions - Banks: Banks: Rating 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

- Banking Industry Country Risk Assessment: Germany; Nov. 2, 2018
- European Bank M&A: More Talk Than Action, Aug. 6, 2018
- Senior Nonpreferred Notes In Germany: The Best Of Both Worlds For German Banks, And Clarity For Investors, July 10 2018
- The Resolution Story For Europe's Banks: The Clock Is Ticking, April 25, 2018
- German Commerzbank Long-Term Rating Raised To 'A-' On Higher ALAC Buffer; Outlook Neg; Sr Subordinated Debt Cut To 'BBB', March 28, 2017
- Commerzbank's Financing Vehicle HT1 Funding GmbH Assigned 'A-' Rating; Outlook Negative, March 26, 2018
- Chasing Shadows Or Rainbows? Sustainable Profitability Still Eludes Some Major European Banks, March 15, 2018

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 20, 2018)

Commerzbank AG

Issuer Credit Rating A-/Negative/A-2

Resolution Counterparty Rating A/--/A-1

Commercial Paper

Local Currency A-2

Senior Subordinated A-

Senior Subordinated BBB

Senior Unsecured A-

Short-Term Debt A-2

Subordinated BBB-

Issuer Credit Ratings History

28-Mar-2017 A-/Negative/A-2

15-Dec-2016 BBB+/Watch Pos/A-2

11-Mar-2016 BBB+/Stable/A-2

09-Jun-2015 BBB+/Negative/A-2

03-Feb-2015 A-/Watch Neg/A-2

Sovereign Rating

Germany AAA/Stable/A-1+

Related Entities**Dresdner Funding Trust I**

Junior Subordinated BB

Dresdner Funding Trust IV

Subordinated BBB-

HT1 Funding GmbH

Issuer Credit Rating A-/Negative/--

Junior Subordinated BB-

Ratings Detail (As Of November 20, 2018) (cont.)

mBank

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

*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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