

Rating Action: Moody's affirms Commerzbank AG's A1 senior unsecured debt and issuer ratings, outlook changed to negative from stable

25 Sep 2020

Frankfurt am Main, September 25, 2020 -- Moody's Investors Service (Moody's) today affirmed Commerzbank AG's (Commerzbank) long-term senior unsecured debt and issuer ratings at A1 and changed the outlook on these ratings to negative from stable. Concurrently, the rating agency affirmed the bank's (P)A1 senior unsecured MTN programme ratings.

Commerzbank's other ratings and its rating inputs, including standalone Baseline Credit Assessment (BCA) were unaffected by today's rating action.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF SENIOR UNSECURED DEBT AND ISSUER RATINGS

The affirmation of Commerzbank's long-term senior unsecured debt and issuer ratings at A1 reflects the agency's assessment that the bank will be able to increase the volume of outstanding senior unsecured debt instruments (and more junior liability classes), in order to support and protect its rating uplift of three notches from Moody's Advanced Loss Given Failure (LGF) analysis.

Moody's assessment takes into account that a present reduction in the volume of senior unsecured debt and lower ranking loss-absorbing instruments relative to its balance sheet results predominantly from a temporarily inflated balance sheet but also lower outstanding issuance volumes. The balance sheet inflation is mostly the result of the usage of economically attractive central bank funding in combination with an increase in lending to corporates, which made use of credit lines to ensure sufficient liquidity amid the pandemic.

The rating agency expects that Commerzbank will manage its liability structure in a way that it is again compliant with the assigned benefit from the Advanced LGF analysis through a combination of rising senior unsecured issuances - based on its medium-term funding plan - and a repayment of the lion share of the central banking funding it tapped in the second quarter of 2020.

Commerzbank's consolidated assets grew by around 18.8% to €550.6 billion at the end of June 2020, compared with €463.6 billion in 2019, including the impact from use of the European Central Bank's (ECB) Targeted Longer-term Refinancing operations (TLTRO III) of €32.3 billion.[1]

The senior unsecured debt and issuer ratings are derived from Commerzbank's baa2 BCA, three notches of rating uplift from the Advanced LGF analysis and one notch of rating uplift from the rating agency's assumption for government support, with Commerzbank being considered of domestic systemic relevance.

The rating agency did not review Commerzbank standalone intrinsic strength, summarized in the bank's BCA. Commerzbank's baa2 BCA continues to reflect the bank's de-risked balance sheet displaying solid asset quality, its sound balance-sheet liquidity and adequate capitalisation, further supported by a moderate dependence on confidence-sensitive market funding. Commerzbank's BCA also takes account of the bank's very low profitability owing to the persistent low interest-rate environment and its low efficiency metrics.

-- OUTLOOK CHANGE TO NEGATIVE FROM STABLE

The negative outlook on Commerzbank's long-term senior unsecured debt and issuer ratings reflects uncertainty regarding Commerzbank's future liability structure. In particular, the negative outlook reflects Moody's assessment of uncertainties around Commerzbank's full delivery on the bank's medium-term funding plan, uncertainty of the future balance sheet development in particular as regards to lending volumes, and uncertainty as to the bank's repayment plan for participation in the ECB's TLTRO III.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Commerzbank's ratings could be upgraded as result of an upgrade of its BCA. Upward pressure on Commerzbank's BCA could be prompted by a combination of (1) a significant and sustained improvement in its risk-weighted capitalization and leverage ratio; (2) an improvement in its asset quality through a sustained reduction in its problem loans and lower sector and geographical concentrations; (3) a persistent and meaningful strengthening of the bank's profitability across economic cycles; 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 if Commerzbank issued sizeable volumes of liabilities specifically designated to absorb losses in resolution.

Downward pressure on Commerzbank's ratings could be exerted as a result of a downgrade of its BCA, or a further reduction in the share of senior unsecured debt (and lower ranking volumes) outstanding, which could result in fewer notches of rating uplift from Moody's Advanced LGF analysis.

Downward pressure on Commerzbank's BCA could be exerted following: (1) a weakening of the operating environment in Germany; (2) a large increase in Commerzbank's dependence on confidence-sensitive market funding, (3) a significant reduction in the volume of its liquid resources; and (4) a significant deterioration of Commerzbank's solvency profile, through a weakening of its asset quality and capital adequacy metrics or materially weaker profitability.

LIST OF AFFECTED RATINGS

Issuer: Commerzbank AG

..Affirmations:

....Long-term Issuer Rating, affirmed A1, outlook changed to Negative from Stable

....Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Negative from Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)A1

..Outlook Action:

....Outlook changed to Stable(m) from Stable

Issuer: Commerzbank AG, New York Branch

..Affirmation:

....Senior Unsecured Medium-Term Note Program, affirmed (P)A1

..Stable Outlook remains unaffected

Issuer: Commerzbank Finance & Covered Bond S.A.

..Affirmation:

....Long-term Issuer Rating, affirmed A1, outlook changed to Negative from Stable

..Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Commerzbank U.S. Finance Inc.

..Affirmation:

....Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A1

..No Outlook assigned

Issuer: Dresdner Bank AG

..Affirmations:

...Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Negative from Stable (assumed by Commerzbank AG)

..No Outlook assigned

Issuer: Hypothekenbank Frankfurt AG

..Affirmation:

...Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Negative from Stable (assumed by Commerzbank AG)

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

REFERENCES/CITATIONS

[1] Company Interim Report 30-Jun-2020

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