

Rating Action: Moody's assigns Ba2(hyb) rating to Commerzbank AG's low trigger Additional Tier 1 instrument

25 Jun 2019

Frankfurt am Main, June 25, 2019 -- Moody's Investors Service (Moody's) has today assigned a Ba2(hyb) rating to the expected USD500 million low-trigger Additional Tier 1 (AT1) securities ("Undated Non-Cumulative Fixed to Reset Rate Additional Tier 1 Notes of 2019 ") to be issued by Commerzbank AG (Commerzbank).

Moody's said that Commerzbank's existing ratings and rating inputs are unaffected by today's rating action.

RATINGS RATIONALE

The Ba2(hyb) rating assigned to Commerzbank's "low trigger" Additional Tier 1 (AT1) securities, or "contractually non-viability preferred securities", takes into account the instrument's undated deeply subordinated claim in liquidation, as well as the security's non-cumulative coupon deferral features, and is positioned three notches below Commerzbank's baa2 Adjusted Baseline Credit Assessment (BCA).

According to Moody's framework for rating non-viability securities under its bank rating methodology, the agency typically positions the rating of low-trigger AT1 securities three notches below the bank's Adjusted BCA. One notch reflects the high loss-given-failure that these securities are likely to face in a resolution scenario, owing to their deep subordination, relatively small volume and limited protection from residual equity. Moody's rating for non-viability securities also incorporates two additional notches to reflect the higher risk associated with the non-cumulative coupon skip mechanism, which could take effect prior to the issuer reaching the point of non-viability.

The AT1 securities are senior only to Commerzbank's ordinary shares and other capital instruments that qualify as Common Equity Tier 1 (CET1). The instrument's principal is subject to a write-down on a contractual basis if Commerzbank's CET1 ratio falls below 5.125%. Furthermore, a write-down or conversion into common equity could occur if the bank's regulator or the relevant resolution authority determine that the conditions for a write-down of the instrument are fulfilled and resolution authorities order such a write-down.

RATING OUTLOOK

Ratings on AT1 instruments do not carry outlooks.

WHAT COULD CHANGE THE RATINGS UP / DOWN

The rating of this instrument could be upgraded in case of an upgrade of Commerzbank's 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, in particular if achieved through sustained 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.

The rating could also be upgraded following a massive increase in its volume of equal-ranking AT1 capital instruments, meaningfully beyond Moody's current expectations and assumptions. This may lead to an improved notching result under Moody's Advanced Loss Given Failure analysis for this debt class.

Downward pressure on the instrument's ratings could be exerted as a result of a downgrade of Commerzbank's BCA. 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.

Moody's may also consider a wider notching between Commerzbank's Adjusted BCA and this instrument, if

Commerzbank's capitalisation and subsequently its available distributable items for instrument coupon payments were to weaken beyond Moody's expectations.

LIST OF AFFECTED RATINGS

Issuer: Commerzbank AG

Assignment:

...Preferred Stock non-cumulative rating (low-trigger AT1) of Ba2(hyb)

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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