

Bulletin:

# Sustainable Profitability Remains A Challenge For Commerzbank Despite Further Cost Cuts Under Revised Strategy

January 29, 2021

FRANKFURT (S&P Global Ratings) Jan. 29, 2021--S&P Global Ratings said today that the announcement of further changes to Commerzbank AG's (BBB+/Negative/A-2) strategy underlines the significant efforts required for the bank to achieve adequate profitability.

Subject to board approval on Feb. 3, 2021, a sharp reduction of the cost base remains the focus of Commerzbank's revised strategic plan under its new CEO Manfred Knof. Cuts announced on Jan. 21, 2021, go well beyond the measures already agreed on as part of the bank's "Commerzbank 5.0" strategy under its previous CEO. The bank aims to lower costs by about 20% until 2024, mainly through a further sharp reduction in head counts and branches, which will require additional restructuring costs of about €0.9 billion in 2021 (see "Restructuring Costs And Goodwill Write-Off Highlight Challenges Facing New Commerzbank CEO," published Jan. 8, 2021, on RatingsDirect). Additionally, the bank plans to exit its nonprofitable business, most likely that outside of Germany, while further investing in digitalization.

Under its revised plan, Commerzbank targets a return on tangible equity of 6.5%-7.0% by 2024, which would bring its profitability closer to that of peers and likely near its cost of capital. However, while most peers had already addressed their larger restructuring needs before the COVID-19 pandemic, Commerzbank's past efforts to improve profitability have had limited success so far (see "CEO's Exit Complicates Commerzbank's Strategy Execution," published July 6, 2020, on RatingsDirect).

We are awaiting further details on Commerzbank's strategic plan to assess the impact on our view of its creditworthiness. We currently lack, in particular, information on the bank's planned measures to defend its revenue base in an environment with ultra-low rates and intense competition. We expect Commerzbank will disclose more details on its strategy day, scheduled for Feb. 11, 2021. We note that the success of this restructuring remains a key consideration for our ratings on Commerzbank.

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## Related Research

- Restructuring Costs And Goodwill Write-Off Highlight Challenges Facing New Commerzbank CEO, Jan 8, 2021

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- CEO's Exit Complicates Commerzbank's Strategy Execution, July 6, 2020
- Bulletin: Commerzbank's Q1 2020 Loss And Abandoned Sale Of mBank Highlight Restructuring Hurdles, May 13, 2020
- Research Update: Commerzbank AG Downgraded To 'BBB+' On Vulnerability In The Wake Of COVID-19 Pandemic; Outlook Negative, April 23, 2020

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