

**Rating Action: Moody's downgrades Commerzbank's senior unsecured debt ratings to A2; changes outlook to stable from negative**

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30 Jun 2022

**Rating agency affirms the bank's baa2 Baseline Credit Assessment**

Frankfurt am Main, June 30, 2022 -- Moody's Investors Service (Moody's) has today downgraded by one notch Commerzbank AG's (Commerzbank) long-term senior unsecured debt ratings to A2 from A1 and changed the outlook to stable from negative. Concurrently, the rating agency affirmed Commerzbank's long-term A1 deposit ratings with stable outlook and the bank's Baa2 junior senior unsecured debt ratings. Further, Moody's affirmed Commerzbank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA at, as well as the bank's P-1 short-term ratings.

For a list of all affected ratings, please refer to the end of this press release.

**RATINGS RATIONALE**

**-- AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT**

Moody's affirmation of Commerzbank's baa2 BCA reflects the resilience in the bank's fundamental credit profile, supported by its regional focus on Germany and Poland, as well as its diversified businesses, including retail and corporate banking. Commerzbank's credit profile is solidly positioned among a peer group of similar BCA-rated banks.

Moody's believes that Commerzbank's ongoing strategic transformation will result in an improved risk-adjusted profitability over time, while execution risks remain, in particular as regards the bank's revenue generation ambition. Commerzbank has thus far delivered on its financial objectives and its revenues benefit from rate hikes in its core markets, helping to offset inflationary pressure on costs.

Commerzbank's capitalization, expressed by a 13.2% Tangible Common Equity ratio as of year-end 2021, remains at a level with sufficient headroom over regulatory capital requirements, despite the bank's growth ambitions and announced capital return policy, including the resumption of dividend payments.

While Moody's believes that the bank's conservative risk strategy will enable it to maintain a well-balanced corporate loan portfolio, the rating agency considers that Commerzbank remains inherently linked to the health of the German corporate sector. Significant parts of Germany's industry face material headwinds from the required adjustment process towards reduced or eliminated dependence on Russian gas within a short time frame. These prominent risks are only partly mitigated by ample provisions that Commerzbank has set aside to provide cover in case of future asset quality deterioration and tail risks from its Swiss franc loans in Poland.

Commerzbank's sound liquidity and moderate market funding dependence strongly back the BCA affirmation. Given the bank's established market positions in Germany and Poland, Commerzbank benefits from sizeable and growing deposits, accounting for 55% of assets at the end of 2021. Further, Commerzbank operates with sound yet somewhat reduced liquidity, reflecting targeted lending growth to support its profitability goals.

**-- DOWNGRADE OF SENIOR UNSECURED DEBT AND LONG-TERM ISSUER RATINGS**

Today's one-notch downgrade of Commerzbank's senior unsecured debt and long-term issuer ratings to A2 from A1 was prompted by the expected reduction in the volume of this loss-absorbing debt class, relative to the size of the bank's balance sheet. This development results in a higher loss severity for senior unsecured debt under Moody's Advanced Loss Given Failure (LGF) analysis. Moody's LGF analysis now indicates a very low loss-given-failure for senior unsecured debt, resulting in two notches of uplift from the bank's baa2 Adjusted BCA, while the previous LGF analysis resulted in an extremely low loss-given-failure and three notches of uplift.

Moody's assumes an unchanged moderate probability of government support, which continues to result in one notch of rating uplift for senior unsecured debt instruments issued by Commerzbank.

## -- AFFIRMATION OF DEPOSITS AND JUNIOR SENIOR UNSECURED DEBT RATINGS

The affirmation of Commerzbank's long-term deposits and junior senior unsecured debt ratings reflects the affirmation of its BCA and the unchanged results from Moody's Advanced LGF analysis.

Because of still significant volume of outstanding loss-absorbing instruments ranking below deposits in resolution, the rating agency's Advanced LGF analysis results in three notches of rating uplift for deposits ratings. Similar to senior unsecured debt, deposits continue to benefit from the rating agency's moderate government support assumption, resulting in one notch of rating uplift.

For Commerzbank's junior senior unsecured debt ratings, Moody's Advanced LGF analysis indicates a moderate loss given failure which does not result in any rating uplift. Moody's assumes a low probability of government support for the junior senior instrument, also resulting in no rating uplift.

## -- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on the long-term deposit, issuer and senior unsecured debt ratings balances Commerzbank's achieved milestones on its strategic transformation, including initial momentum in its targeted sustained improvement in profitability, and the elevated uncertainty for Germany's economy related to the necessary adjustments for a significant share of the corporate sector towards materially reduced availability of attractively priced commodities, at least temporarily threatening the competitiveness of the industrial backbone of the German economy.

Moody's expects that Commerzbank will maintain its conservative risk strategy, strong transformation management, and solid capitalization in light of the possible resumption of dividends and share buy backs.

## -- COMMERZBANK FINANCE & COVERED BOND S.A. (CFCB)

The affirmation of CFCB's baa2 BCA and Adjusted BCA reflects the affirmation of Commerzbank's baa2 BCA. In Moody's opinion, the Luxemburg entity's operations are very closely integrated with those of its parent bank and highly dependent on funding and capital support from Commerzbank. Accordingly, CFCB's ratings follow Commerzbank's ratings, based on Moody's rating approach for highly integrated entities (HIE). Therefore, Moody's also affirmed CFCB's long-term and short-term Counterparty Risk Rating (CRR) at A1 and P-1, as well as its Counterparty Risk (CR) Assessment of A1(cr) and P-1(cr).

The downgrade of CFCB's long-term issuer rating to A2 with stable outlook from A1 negative follows the downgrade of Commerzbank's long-term senior unsecured debt rating.

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

Commerzbank's long-term ratings could be upgraded as result of an upgrade of its BCA. Upward pressure on Commerzbank's BCA could be prompted by a sustained strengthening of its solvency profile, including the development of a strong track record achieving its profitability targets without changing its risk appetite, an improvement in its risk-weighted capitalization and leverage ratios, and provided an improved visibility how its corporate counterparties can cope with the energy-related business challenges.

In addition, 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 a weakening of the operating environment in Germany; a material deterioration of its solvency profile, through a sizeable weakening of its asset quality or capital adequacy metrics or materially weaker profitability; or a meaningful deterioration of its liquidity profile.

## LIST OF AFFECTED RATINGS

Issuer: Commerzbank AG

..Downgrades:

...Long-term Issuer Rating, downgraded to A2 from A1, outlook changed to Stable from Negative

...Senior Unsecured Regular Bond/Debenture, downgraded to A2 from A1, outlook changed to Stable from Negative

...Senior Unsecured Medium-Term Note Program, downgraded to (P)A2 from (P)A1

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A1

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed A1, outlook remains Stable

...Short-term Bank Deposits, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed A1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Baseline Credit Assessment, affirmed baa2

...Adjusted Baseline Credit Assessment, affirmed baa2

...Junior Senior Unsecured Regular Bond/Debenture, affirmed Baa2

...Junior Senior Unsecured Medium-Term Note Program, affirmed (P)Baa2

...Subordinate Regular Bond/Debenture, affirmed Baa3

...Subordinate Medium-Term Note Program, affirmed (P)Baa3

...Preferred Stock Non-cumulative, affirmed Ba2(hyb)

...Preferred Stock Non-cumulative Medium-Term Note Program, affirmed (P)Ba2

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

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

Issuer: Commerzbank AG, London Branch

..Affirmations:

...Long-term Counterparty Risk Rating, affirmed A1

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed A1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Commercial Paper, affirmed P-1

..Outlook Action:

...Outlook remains Stable

Issuer: Commerzbank AG, New York Branch

..Downgrade:

...Senior Unsecured Medium-Term Note Program, downgraded to (P)A2 from (P)A1

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A1

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed A1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Subordinate Medium-Term Note Program, affirmed (P)Baa3

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook remains Stable

Issuer: Commerzbank Finance & Covered Bond S.A.

..Downgrades:

...Long-term Issuer Rating, downgraded to A2 from A1, outlook changed to Stable from Negative

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A1

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed A1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Baseline Credit Assessment, affirmed baa2

...Adjusted Baseline Credit Assessment, affirmed baa2

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Commerzbank U.S. Finance Inc.

..Downgrade:

...Backed Senior Unsecured Medium-Term Note Program, downgraded to (P)A2 from (P)A1

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Dresdner Bank AG

..Downgrades:

...Senior Unsecured Regular Bond/Debenture, downgraded to A2 from A1, outlook changed to Stable from Negative (assumed by Commerzbank AG)

..Affirmations:

...Junior Senior Unsecured Regular Bond/Debenture, affirmed Baa2 (assumed by Commerzbank AG)

...Subordinate Regular Bond/Debenture, affirmed Baa3 (assumed by Commerzbank AG)

..No Outlook assigned

Issuer: Dresdner Funding Trust I

..Affirmation:

...Preferred Stock Non-cumulative, affirmed Baa3(hyb)

..No Outlook assigned

Issuer: Dresdner U.S. Finance Inc.

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Hypothekbank Frankfurt AG

..Affirmations:

....Junior Senior Unsecured Regular Bond/Debenture, affirmed Baa2 (assumed by Commerzbank AG)

...Subordinate Regular Bond/Debenture, affirmed Baa3 (assumed by Commerzbank AG)

..No Outlook assigned

Issuer: RHEINHYP Rheinische Hypothekbank AG

..Affirmations:

....Junior Senior Unsecured Regular Bond/Debenture, affirmed Baa2 (assumed by Commerzbank AG)

..No Outlook assigned

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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