

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms mBank's Baa1 long-term deposit ratings, changes outlook to positive from negative

26 Apr 2024

mBank Hipoteczny S.A.'s Baa2 long-term issuer ratings were also affirmed with the outlook changed to positive from negative

Limassol, April 26, 2024 -- Moody's Ratings (Moody's) has today affirmed mBank S.A.'s (mBank) **Baa1/P-2** long- and short-term deposit ratings and changed the outlook on the long-term deposit ratings to positive from negative. Further, Moody's affirmed the bank's ba1 Baseline Credit Assessment (BCA) and baa3 Adjusted BCA, its **A3/P-2** long- and short-term Counterparty Risk Ratings (CRR), as well as its **A3(cr)/P-2(cr)** long- and short-term Counterparty Risk (CR) Assessments.

Concurrently, the rating agency has also affirmed the Baa2/P-2 long- and short-term issuer ratings of mBank Hipoteczny S.A. (mBank BH), mBank's fully owned mortgage bank subsidiary and changed the outlook on the long-term ratings to positive from negative. mBank BH's **A3/P-2** long- and short-term Counterparty Risk Ratings (CRR), and its **A3(cr)/P-2(cr)** long- and short-term Counterparty Risk (CR) Assessments were also affirmed.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL489026 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

mBank

--AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of the ba1 BCA captures the significant improvement in mBank's solvency due to its strong core earnings generation and reduced one-off and regulatory costs, the bank's large liquidity buffers and sound funding, predominantly

through deposits, although with some reliance on less stable corporate deposits, as well as relatively weaker than peers asset quality with a higher allocation to riskier consumer and SME loans.

The bank's strong profitability has enabled it to increase its provisioning buffers against the legal risks stemming from its Swiss-franc mortgage exposure to 100% as of December 2023 from 52% as of September 2022, while at the same time improving its excess capitalization to significantly above regulatory requirements.

Given the significant increase in the stock of provisions, the agency expects mBank's costs relating to Swiss-franc loans to continue to decline further supporting mBank's organic capital generation.

--AFFIRMATION OF THE DEPOSIT RATINGS

The affirmation of mBank's **Baa1** long-term deposit ratings is driven by the affirmation of the bank's **ba1** BCA, Moody's unchanged assumption of a moderate likelihood of parental support in case of need from Commerzbank AG (long-term deposits **A1** positive/senior unsecured **A2** positive, BCA **baa2**), mBank's majority shareholder, which results in one notch of uplift to a **baa3** Adjusted BCA, as well as two notches of uplift for the bank's long-term deposit ratings following the application of Moody's Advanced Loss Given Failure (LGF) analysis. The agency's unchanged assumption of a low likelihood of support from the Government of Poland (**A2** stable) does not result in any additional uplift to the deposit ratings.

mBank Hipoteczny S.A. (mBank BH)

The affirmation of mBank BH's ratings and assessments reflects the agency's unchanged view that mBank will treat the liabilities of the mortgage bank as its own and will not deprioritize the repayment of the mortgage bank's liabilities in favor of its own. The agency's view is driven by the high levels of operational integration between the mortgage bank and its parent, mBank's public commitment to the Polish authorities to ensure that liquidity and capital at the mortgage bank are at all times at adequate levels, the already established track record of support and the mortgage bank's small relative size and high reputational risk to the parent bank if it were to allow the mortgage bank to fail.

--OUTLOOKS

The positive outlook on mBank's long-term deposit ratings reflects the rating agency's view that the additional provisions necessary to address the legal risks stemming from its Swiss franc mortgages will decline over the next 12 -18 months. As a result, Moody's expects a sustainable enhancement of mBank's profitability and restoration of its organic capital generation.

The positive outlook on mBank BH's long-term issuer ratings reflects the positive outlook on mBank's long-term deposit ratings and the agency's expectation that

mBank's commitment towards its subsidiary will not change.

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

An upgrade of mBank's ratings could be prompted by an upgrade of its BCA. mBank's BCA could be upgraded if the bank's solvency continues to improve by further reducing the risks stemming from its Swiss-franc mortgages, while improving its profitability and capital creation and maintaining asset risk stable.

An upgrade of mBank's long-term deposit ratings could also be prompted by an increase in the uplift resulting from Moody's Advanced LGF analysis because of additional volumes of subordinated instruments reducing losses for depositors.

mBank BH's ratings could be upgraded if the corresponding ratings of its parent bank are upgraded.

mBank's ratings could be downgraded in the event of a downgrade of its BCA and Adjusted BCA or due to changes in its liability structure that would result in a lower notching following the application of Moody's Advanced LGF analysis.

mBank's BCA could be downgraded following a substantial deterioration in its solvency, principally because of weaker capitalization or asset quality, or if its funding and liquidity profile materially deteriorates.

mBank BH's ratings could be downgraded if the corresponding ratings of its parent bank are downgraded.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moody.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office

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