MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive Aa3 to mBank Hipoteczny S.A. - Mortgage Covered Bonds

27 May 2019

PLN 7.3 billion of notes affected

Frankfurt am Main, May 27, 2019 -- Moody's Investors Service ("Moody's") has today assigned Aa3 definitive ratings to the mortgage covered bonds issued by mBank Hipoteczny S.A. (the issuer, issuer rating Baa2, stable; counterparty risk (CR) assessment A3(cr)) which are governed by the Polish legal framework for covered bonds.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The ratings therefore reflect the following factors:

(1) The credit strength of mBank Hipoteczny S.A. (A3(cr)) and a CB anchor of CR assessment plus 1 notch.

(2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 27.9%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Polish residential and commercial mortgage loans. The collateral score for the cover pool is 22.0%.

b) The legal framework. Notable aspects of the Polish legal framework include a minimum statutory nominal over-collateralisation (OC) of 10% and a maturity extension feature of the covered bonds that reduces refinancing risk.

c) The exposure to market risk, which is 13.2% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 33.9%, of which mBank Hipoteczny S.A. provides 10% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable. Moody's TPI framework does not constrain the rating.

The ratings of the covered bonds are constraint at the Aa3 level by the local and foreign currency bond ceiliings for Poland.

At present, the total value of the assets included in the cover pool is equivalent to approximately PLN 9.7 billion, comprising 21,083 residential mortgage loans, 308 commercial mortgage loans and substitute assets. The residential mortgage loans represent 56% of the aggregate loan amount of the mortgage loans in the cover pool and have a weighted-average (WA) seasoning of 34 months and a WA loan-to-value (LTV) ratio of 78%. The commercial mortgage loans represent 44% of the total mortgage loans in the cover pool and have a WA seasoning of 49 months and a WA LTV ratio of 68%. While all residential mortgage loans are denominated in PLN, about 77% of the commercial mortgage loans are denominated in EUR and less than 1% is denominated in USD.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is CR assessment plus 1 notch. Moody's may use a CB anchor of CR assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

The cover pool losses for mBank Hipoteczny S.A. - Mortgage Covered Bonds are 27.9%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 13.2% and collateral risk of 14.7%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 22.0%.

The over-collateralisation in the cover pool is 33.9%, of which the issuer provides 10% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa3 rating is 0%, of which 0% needs to be in "committed" form to be given full value. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Covered Bonds Sector Update", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data as of 31 March 2019).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For mBank Hipoteczny S.A. - Mortgage Covered Bonds, Moody's has assigned a TPI of Probable.

Factors that would lead to an upgrade or downgrade of the ratings:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable", the TPI Leeway for this programme is 3 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 4 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in February 2019. 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 of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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