



## Fitch Downgrades mBank to 'BBB-' on Sale Announcement; on Rating Watch Positive

Fitch Ratings - Warsaw - 15 October 2019:

Fitch Ratings has downgraded mBank S.A.'s (mBank) and mBank Hipoteczny's (mBH) Long-Term Issuer Default Ratings (IDR) to 'BBB-' from 'BBB'. At the same time we have placed both banks' ratings on Rating Watch Positive (RWP). A full list of rating actions is at the end of this rating action commentary.

The downgrade reflects our opinion that mBank is no longer a strategically important subsidiary for Commerzbank AG (BBB+/Negative/bbb+). On 27 September 2019, Commerzbank announced its decision to sell its 69.33% stake in its Polish subsidiary. The buyer has not yet been announced.

### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
mBank S.A.	LT IDR BBB- Downgrade	BBB
	ST IDR F3 Downgrade	F2
	Natl LT A+(pol) Downgrade	AA-(pol)
	Natl ST F1(pol) Downgrade	F1+(pol)
	Viability bbb- Rating Watch On	bbb-
	Support 3 Downgrade	2
senior unsecured	LT BBB- Downgrade	BBB
senior unsecured	ST	F2

	F3 Downgrade	
mFinance France S.A.		
senior unsecured	LT BBB- Downgrade	BBB
mBank Hipoteczny SA	LT IDR BBB- Downgrade	BBB
	ST IDR F3 Downgrade	F2
	Natl LT A+(pol) Downgrade	AA-(pol)
	Natl ST F1(pol) Downgrade	F1+(pol)
	Support 2 Affirmed	2

### Key Rating Drivers

### IDRS, NATIONAL RATINGS AND SENIOR DEBT

Following the sale announcement the ratings of mBank are now driven by its standalone financial strength, as reflected in its Viability Rating (VR) of 'bbb-'. This is because we now view the overall probability of support from Commerzbank as having weakened. mBank's institutional support-driven IDR would be notched down three times from Commerzbank's 'BBB+' Long-Term IDR, which is lower than the Polish bank's VR.

The RWP indicates that the ownership change should be positive for mBank's credit profile. This reflects our expectation that the Polish regulator will require Commerzbank to retain the risks associated with mBank's portfolio of foreign-currency (FC) mortgages (primarily Swiss franc). This portfolio represented 16% of mBank's loans and 110% of its Fitch Core Capital (FCC) at end-1H19 and acts as a constraint on the bank's VR. The RWP is also underpinned by our view that it is unlikely that the regulator would allow a sale to a buyer with a weaker credit profile than that of the current owner.

The ruling of the Court of Justice of the European Union (CJEU) delivered on 3 October 2019 heightens the risk that Polish banks will face losses on FC mortgages. However, in our view, the impact will not be immediate as it will depend on the Polish courts' reaction to the ruling and the future inflow of legal cases against banks. This

risk is not currently a key rating driver for the bank's ratings because we believe mBank's FC mortgages will be transferred to Commerzbank at the time of the sale or earlier. We assume that the carve-out of this portfolio will not materially erode mBank's capitalisation.

The National Ratings reflect the bank's creditworthiness relative to Polish peers'.

### SUPPORT RATING

The bank's Support Rating (SR) of '3' reflects only moderate support probability from Commerzbank, reflecting its own credit profile and (particularly overall low financial flexibility) and its decision to exit the Polish market.

### VR

The bank's VR primarily reflects mBank's material exposure to legacy FC retail mortgages, which negatively impact our assessment of the bank's asset quality and capitalisation. FC mortgage holders are vulnerable to a potential sharp and prolonged weakening of the Polish zloty relative to the Swiss franc and to an increase in the Swiss franc LIBOR. These exposures are also a material source of litigation risk. According to the bank, most borrowers can withstand a moderate depreciation of the zloty, but in our view, defaults would likely generate large credit losses because most loans have high loan-to-value ratios. FC mortgages have performed well to date, despite a substantial weakening of the zloty since their origination (before 2009), supported by a favourable economic environment, wage increase and low Swiss franc LIBOR.

Our VR assessment also reflects mBank's well-established and large domestic market franchise, stable business model and conservative risk appetite. The bank's financial metrics remain solid and compare well with large domestic peers'. mBank is a systemically important bank. It was ranked fourth by assets at end-1H19 and its market shares in loans and deposits equalled about 6%. mBank operates a traditional universal banking model. Its well-established domestic retail and corporate franchise is underpinned by a sophisticated and innovative mobile banking offer.

mBank's impaired loans ratio has been stable and coverage of bad debts by loan loss allowances is prudent. Underwriting standards are reasonable and commensurate with the bank's business model and country risks. The bank's approach to new lending is cautious.

mBank's capitalisation is negatively impacted by exposure to the FC mortgages because the Polish regulator requires the bank to hold a material 3.64% regulatory capital buffer, 75% of which must comprise Tier 1 capital, to protect against the risks associated with this portfolio. The bank's FCC/weighted risks ratio was a robust 18% at end-1H19, the share of unreserved impaired loans is modest and solid recurring profitability supports internal capital generation.

### SUBSIDIARY COMPANIES

mBH's ratings are equalised with those of direct parent, mBank, as we view the subsidiary as core to mBank. Potential support for mBH would be manageable relative to mBank's ability to provide it.

mFinance France is a special-purpose vehicle used by mBank to issue Eurobonds, which are fully guaranteed by mBank. Guaranteed debt issued by mFinance France is rated at the same level as mBank's IDRs.

### RATING SENSITIVITIES

VR, IDRS, NATIONAL RATINGS AND SENIOR DEBT

mBank's ratings are sensitive to changes in the bank's VR.

We expect to resolve the RWP following completion of the sale of mBank or when information regarding the carve-out of FC mortgages becomes available.

The bank's rating could be upgraded if mBank maintains its currently sound financial metrics and risks relating to FC mortgages are materially reduced without negatively impacting capitalisation. mBank's ratings could also be upgraded if the new shareholder is rated at least 'BBB+' and our assessment of support is favourable.

mBank's ratings could be negatively impacted by a large and sustained depreciation of the Polish zloty against the Swiss franc. This could result in significant deterioration of its capitalisation and deterioration of the quality of its FC loans. A marked and prolonged weakening of the Polish economy (not Fitch's base scenario), materially affecting the bank's asset quality, capitalisation and profitability, could also lead to mBank's VR being downgraded.

The National Ratings are sensitive to changes in the bank's credit profile relative to peers'.

SUPPORT RATING

mBank's Support Rating is sensitive to changes in our view of Commerzbank's propensity or ability to support its Polish subsidiary. We do not expect to change our assessment of support probability until the completion of mBank's sale. If the transaction fails to complete, we will reassess Commerzbank's support probability.

SUBSIDIARY COMPANIES

The ratings of mBH and mFinance France are sensitive to changes in mBank's IDRs.

Public Ratings with Credit Linkage to other ratings

The Support Rating of mBank is linked to Long-Term IDR of Commerzbank. The ratings of mBH and mFinance France are linked to mBank's ratings.

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**Applicable Criteria**

National Scale Ratings Criteria (pub. 18 Jul 2018)  
Bank Rating Criteria (pub. 12 Oct 2018)  
Short-Term Ratings Criteria (pub. 02 May 2019)

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