

Rating Action: Moody's changes outlook on mBank's A3 long-term deposit ratings to negative

27 Sep 2019

Outlook on mBank Hipoteczny's Baa2 issuer rating also changed to negative

Madrid, September 27, 2019 -- Moody's Investors Service has today affirmed mBank S.A.'s (mBank) long-term deposit ratings at **A3** and changed the outlook to negative from stable. The bank's short-term deposit ratings were also affirmed at **Prime-2**. Concurrently, the bank's Adjusted Baseline Credit Assessment (BCA) was affirmed at **baa2**, its Counterparty Risk Assessments (CR Assessments) at **A2(cr)/Prime-1(cr)** and its Counterparty Risk Ratings (CRRs) at **A2/Prime-1**. The bank's BCA of **baa3** was unaffected by today's rating action.

This rating action follows the announcement made by Commerzbank AG (Commerzbank; Long-term Deposits A1 stable; BCA **baa2**) on 20 September that it intends to sell its majority stake in mBank.

At the same time, Moody's has also affirmed the **Baa2/Prime-2** issuer ratings of mBank Hipoteczny S.A. (MBH), a mortgage bank which is a subsidiary of mBank, and changed the outlook on the long-term issuer rating to negative from stable. The bank's CR Assessment was affirmed at **A3(cr)/Prime-2(cr)** and its CRRs at **A3/Prime-2**.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- RATIONALE FOR AFFIRMING MBANK'S LONG-TERM DEPOSIT RATINGS WITH A NEGATIVE OUTLOOK

The affirmation of mBank's long-term deposit ratings reflects: (1) the bank's BCA of **baa3**; (2) Moody's assumption of a "moderate" probability of affiliate support from Commerzbank (from "high" previously) which results into an unchanged one notch of uplift and an Adjusted BCA of **baa2**; and (3) maintaining two notches of uplift for deposit ratings from the rating agency's Advanced Loss-Given-Failure (LGF) analysis.

In affirming the ratings, Moody's has considered the announcement made by Commerzbank of its intention to sell its majority stake in mBank as part of its renewed strategic course. As a result of this announcement, Moody's has lowered the probability of parental support to mBank to "moderate" from "high" previously, reflecting the assumption of diminishing likelihood of support from Commerzbank for mBank owing to the change in strategic importance of the Polish subsidiary for the group. However, during the sale process, Moody's anticipates that Commerzbank would be willing to assist its subsidiary in case of need. The revised parental support assumption still results into a one-notch uplift for the bank's Adjusted BCA. Commerzbank currently owns 69% of mBank.

The negative outlook on the long-term deposit ratings reflects the downward pressure that could develop on these ratings in case mBank is finally sold, provided that the acquiror has a weaker credit profile than the current parent company and/or the rating agency views the probability of such acquiror providing support as low.

-- RATIONALE FOR AFFIRMING MBANK HIPOTECZNY'S LONG-TERM ISSUER RATINGS WITH A NEGATIVE OUTLOOK

MBH's **Baa2** issuer ratings are positioned one notch below the rating level that would have been assigned to mBank's senior unsecured debt in the absence of a full and irrevocable guarantee obligation of mBank to stand in for MBH's liabilities. At the same time, the positioning of the issuer ratings at **Baa2** reflects (1) mBank's full ownership of MBH, as well as its strategic fit and high operational integration within the group; and (2) mBank's public commitment to maintain the capital and liquidity of its subsidiary at satisfactory levels, meeting all regulatory requirements.

The negative outlook on MBH's long-term issuer ratings reflects the negative outlook on mBank's long-term deposit ratings.

-- WHAT COULD CHANGE THE RATINGS UP/DOWN

mBank's deposit ratings could be upgraded by (1) a combination of an upgrade of both mBank's and Commerzbank's BCAs, which will lead to a higher Adjusted BCA or (2) additional volumes of subordinated instruments implying higher protection for senior creditors and a lower loss given failure in resolution, which could lead to additional uplift for the deposit ratings under the Advanced LGF analysis. mBank's BCA could be upgraded in the event of a reduction in asset risk, while maintaining good capitalisation, profitability and funding profile. A mild improvement of the bank's credit profile is unlikely to result in upward ratings pressure but rather in the compression of the current one notch affiliate support uplift from Commerzbank with its standalone BCA at baa2 at present.

A downgrade of mBank's deposit ratings could be triggered by (1) a downgrade of its BCA; (2) a downgrade of Commerzbank's BCA; (3) the sale of mBank by its parent, if the acquiror is not a bank with a similar or stronger credit profile than Commerzbank; and/or (4) a reduction in the volume of deposits or subordinated instruments in the liability structure of the bank, which could imply a possible higher loss-given-failure in a resolution as a result of the Advanced LGF analysis. mBank's BCA could be downgraded in case of a material weakening of the bank's capital driven by significantly higher loan loss provisions or regulatory costs.

MBH's ratings would experience positive or negative pressure in the event of changes in the ratings of mBank. Furthermore, Moody's could reconsider the ratings of MBH in case the relationship between the subsidiary and its parent changes to an extent that would materially reduce the level of integration between the two.

LIST OF AFFECTED RATINGS

Issuer: mBank S.A.

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed **A2**

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

...Long-term Bank Deposits, affirmed **A3**, outlook changed to Negative from Stable

...Short-term Bank Deposits, affirmed **P-2**

...Long-term Counterparty Risk Assessment, affirmed **A2(cr)**

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

...Adjusted Baseline Credit Assessment, affirmed **baa2**

..Outlook Action:

...Outlook changed to Negative from Stable

Issuer: mBank Hipoteczny S.A.

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed **A3**

...Short-term Counterparty Risk Ratings, affirmed **P-2**

...Long-term Counterparty Risk Assessment, affirmed **A3(cr)**

...Short-term Counterparty Risk Assessment, affirmed **P-2(cr)**

...Long-term Issuer Ratings, affirmed **Baa2**, outlook changed to Negative from Stable

...Short-term Issuer Ratings, affirmed **P-2**

..Outlook Action:

...Outlook changed to Negative from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Items color coded in purple in this Press Release relate to unsolicited ratings for a rated entity which is non-participating.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Maria Vinuela
VP-Senior Analyst
Financial Institutions Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives,

licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.