

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

20 May 2020

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

Frankfurt am Main, May 20, 2020 -- Moody's Investors Service, ("Moody's") has today affirmed mBank S.A.'s (mBank) long-term deposit ratings at **A3** and changed the outlook to stable from negative. The bank's short-term deposit ratings were also affirmed at **Prime-2**. Concurrently, the bank's Baseline Credit Assessment (BCA) was affirmed at baa3 and its Adjusted BCA at baa2, its Counterparty Risk Assessments (CR Assessments) at A2(cr)/Prime-1(cr) and its Counterparty Risk Ratings (CRRs) at **A2/Prime-1**.

This rating action follows the announcement made by Commerzbank AG (Commerzbank; Long-term Deposits A1 stable; BCA baa2) on 11 May 2020 that it terminated the planned sale of its majority stake in mBank[1].

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 ratings to stable from negative. The bank's CR Assessments were affirmed at A3(cr)/Prime-2(cr) and its CRRs at A3/Prime-2.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL424613 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

-- AFFIRMATION OF mBANK'S LONG-TERM DEPOSIT RATINGS

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 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 to abandon the plan to sell its majority stake in mBank due to the adverse market conditions following the coronavirus outbreak, considered an impediment for achieving a valuation acceptable to the parent bank. While the likelihood of mBank being disposed is reduced, it is, however, not entirely eliminated according to the rating agency's assessment. At the same time, and as long as mBank remains majority owned by Commerzbank, Moody's expects parental support to be forthcoming, in case of need, which is reflected in Moody's unchanged "moderate" affiliate support assumption, resulting into a one-notch uplift for the bank's baa2 Adjusted BCA. Commerzbank owns 69% of mBank.

As part of today's rating action mBank's baa3 BCA has been affirmed, reflecting the resilience of the bank's intrinsic financial strength against the background of a deteriorating operating environment following the coronavirus outbreak in Europe. Moody's regards the coronavirus outbreak as a social risk under its Environmental Social and Governance framework, given the substantial implications for public health and safety. The affirmation of the BCA considers mBank's profitability to moderate in the currently adverse environment. However, this view is balanced by the bank's solid capitalization which provides a buffer to rising asset-related risks, as well as mBank's solid liquidity and funding profile.

-- AFFIRMATION OF mBANK HIPOTECZNY'S LONG-TERM ISSUER RATINGS

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.

-- OUTLOOK CHANGE TO STABLE FROM NEGATIVE

The revision of the outlook to stable from negative on mBank's long-term deposit ratings reflects the improved visibility around the bank's strategic shareholder structure and thus on the probability of parent support, combined with the relative resilience of mBank's creditworthiness to the coronavirus shock on the Polish economy. The stable outlook on MBH's long-term issuer ratings reflects the stable outlook on mBank's long-term deposit ratings.

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

As indicated by the stable outlook, upward pressure on the ratings is currently limited.

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 a downgrade of the BCA of either mBank or Commerzbank. Resuming the intention to dispose of mBank could also result in downward rating pressure and challenge the one notch affiliate support uplift from Commerzbank which is currently factored into the baa2 Adjusted BCA.

mBank's BCA could be downgraded in case of a material deterioration in its asset quality and capital, a significant and sustained drop in profitability, or an overall weakening of the bank's combined liquidity profile. Further, downward pressure on mBank's deposit ratings could also result from 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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL424613 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Disclosure to Rated Entity

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004 .

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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

REFERENCES/CITATIONS

[1] source:

https://www.commerzbank.com/en/hauptnavigation/presse/pressemitteilungen/archiv1/2020/quarter_20_02/presse_archiv_detail_20_02_88202.html

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

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