MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades mBank Hipoteczny S.A. - Mortgage Covered Bonds

13 Jul 2021

Madrid, July 13, 2021 -- Moody's Investors Service ("Moody's") has upgraded to Aa1 from Aa2 the ratings assigned to covered bonds issued by mBank Hipoteczny S.A. ("mBank" or the issuer, issuer rating Baa1, stable; counterparty risk (CR) assessment A2(cr)) under its mBank Hipoteczny S.A. - Mortgage Covered Bonds programme.

RATINGS RATIONALE

The upgrade of the covered bond ratings follows the upgrade of the CR assessment of the issuer by one notch. For details please refer to the press release "Moody's takes rating actions on seven CEE banks following update to Banks Methodology" published on 13 July 2021.

The ratings of mBank Hipoteczny S.A. - Mortgage Covered Bonds is now constrained by the long-term country ceiling for local and foreign currency bonds of Aa1.

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 the CR assessment plus 1 notch.

The cover pool losses for this programme are 32.6%. 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 22.1% and collateral risk of 10.5%. 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 15.6%.

The over-collateralisation in the cover pool is 26.7%, of which the issuer provides 10.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 13.0%. These numbers show that Moody's is 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.

TPI FRAMEWORK: Moody's assigns a Timely Payment Indicator ("TPI"), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. 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.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in October 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1234823. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Please note that a Request for Comment was published in which Moody's requested market feedback on potential revisions to one or more of the methodologies used in determining these Credit Ratings. If the revised methodologies are implemented as proposed, it is not currently expected that Credit Ratings referenced in this press release will be affected. Request for Comments can be found on the rating methodologies page on www.moodys.com.

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.

REGULATORY DISCLOSURES

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.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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

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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

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 http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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.

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