

mBank Hipoteczny

Mortgage Covered Bonds

Update

Rating/Outlook

Mortgage Covered Bonds	A/Positive
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Rating Rationale

IDR/Outlook	BBB/Stable
IDR uplift	0 notches
Payment continuity uplift	4 notches
Tested rating on a probability of default basis	
Recovery given default uplift	1 notch
Covered bond rating	A
OC Fitch considers in analysis (%)	30.8
'A' breakeven OC (%)	21.0

Key Data

	Mar 17
Asset type	Mortgage
Cover assets (EURbn)	7.4
Covered Bonds (EURbn)	5.3
Nominal OC including substitute assets (%)	39.7
WAL of assets (years)	10.0
WAL of assets stressed (years)	3.6
WAL of liabilities (years)	4.3

Key Rating Drivers

Rating Rationale: The 'A' rating of mBank Hipoteczny's mortgage covered bonds is based on the bank's Long-Term Issuer Default Rating (IDR) of 'BBB', the unchanged payment continuity uplift (PCU) of four notches, the recovery uplift of one notch and the overcollateralisation (OC) that Fitch Ratings gives credit to of 30.8%, which provides more protection than the 'A' breakeven OC of 21% for the programme. The Positive Outlook reflects our expectation that the cover pool's credit risk and open foreign-currency (FC) position will fall over the next 12 months.

FC Limits OC Relied Upon: The OC Fitch that relies upon is 30.8% and is based on the lowest OC of the previous 12 months, which is 39.1% reduced for the unhedged FC position exceeding 10%, which amounts to PLN435 million (down from PLN553.9 million last year).

Credit Loss Remains Main Driver: The credit loss component of 13.2%, down from 16.4%, remains the main driver of the 'A' breakeven OC. The lower credit risk is primarily driven by the higher share of residential assets.

Cash Flow Valuation Increased: The cash flow valuation component has risen to 6.4% from 0.9%, mainly due to a more precise modelling of the foreign-exchange (FX) risk in Fitch's cash flow model. To a lesser extent, it also reflects a slightly higher interest-rate mismatch.

IDR Uplift not Assigned: Fitch does not assign any IDR uplift to mBH's mortgage covered bonds as information on the resolution strategies for Polish specialised mortgage banks remains insufficient. The possibility of separate resolutions for mortgage and parent bank that could lead to an enforcement of the cover pool cannot be excluded as a result.

PCU of Four Notches: The PCU assessment of four notches reflects the conditional pass-through maturity profile and a six-month interest reserve. The PCU has been limited to four notches because of the risk of a payment suspension before the announcement of insolvency and the weak replacement language of liquid assets held as interest reserve.

One-Notch Recovery Uplift: The program has a one-notch recovery uplift. A further recovery uplift is constrained by the OC Fitch gives credit to and severe stresses in rating scenarios above the sovereign (A-).

Programme Highlights

Mixed Cover Pool: The Polish zloty-denominated residential sub-portfolio accounted for about half of total assets at end-March 2017, compared with about 35% a year before. The remainder are loans collateralised by Polish commercial real estate properties.

FX Risk Remains High: The well-matched initial FC position increases significantly over the lifetime of the programme. This is because zloty assets (predominantly residential loans) have a longer weighted average remaining life (WAL), 12.2 years, than euro assets (WAL of 6.6 years). On the opposite the zloty bonds (WAL 3.5 years) are shorter than the euro bonds (WAL 4.7 years). Consequently, this leads to euro bonds being repaid by zloty cash inflows.

Criteria Variation: See Page 3 for a detailed explanation on the criteria variation applied in the analysis for mBH's mortgage covered bonds.

Related Research

Fitch Affirms mBank Hipoteczny's Mortgage Covered Bonds at 'A'; Outlook Positive (June 2017)

Fitch Affirms Three Polish Banks (January 2017)

2017 Outlook: Covered Bonds (December 2016)

Covered Bonds Surveillance Snapshot (April 2017)

'B' Portfolio Loss Rates for Covered Bonds (September 2016)

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Cover Pool

Characteristics: March 17

Total balance (PLNbn)	7.37
Commercial	3.88
Residential	3.45
Substitute	0.04

Number of loans	14,215
-Thereof commercial	313
-Thereof residential	13,902

Repayment type (%)	
Bullet/interest only	0
Instalment	22
Annuity	78

Top 10 exposures (%)	12.5
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Interest rate type (%)

	Assets	Bonds
Fixed	0.0	18.6
Floating	100.0	81.4

Currency breakdown (PLNbn)

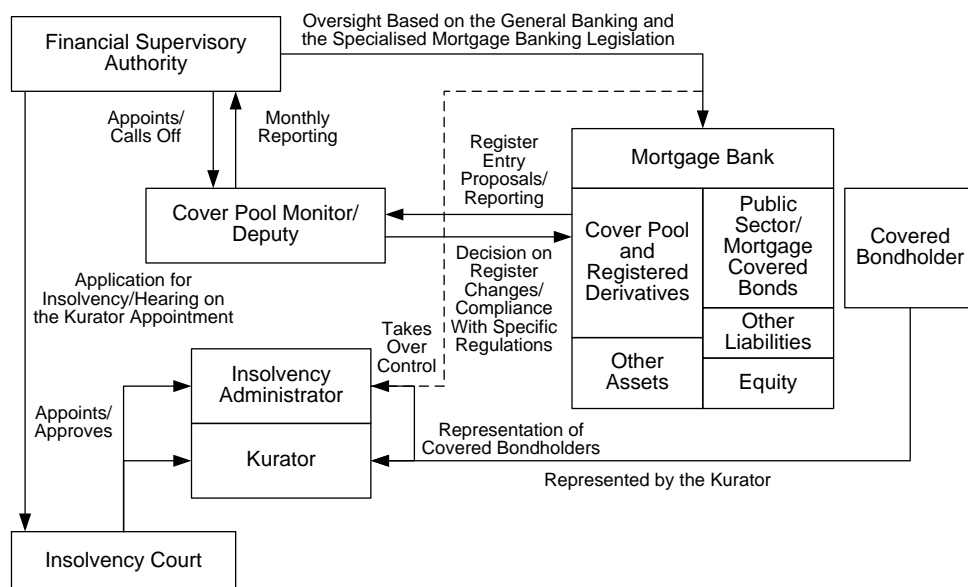
	Assets	Bonds
PLN	4.44	3.24
EUR	2.87	2.04
USD	0.06	0.00

Weighted average life (years)

	Assets	Bonds
PLN	12.2	3.5
EUR	6.6	4.7
USD	4.3	n.a.

Source: Fitch/mBH

Diagram of Polish Covered Bonds Issuance



Source: Fitch

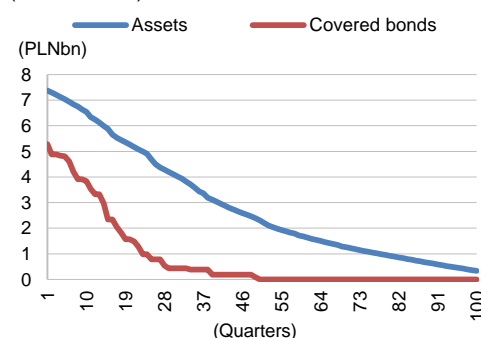
Fitch Default Model Output (%)

Rating level	AA-	A+	A	A-
Rating default rate (RDR)	46.9	43.8	40.7	29.2
Rating recovery rate (RRR)	37.4	39.8	42.5	60.0
Rating loss rate (RLR)	29.4	26.4	23.4	11.7

Source: Fitch

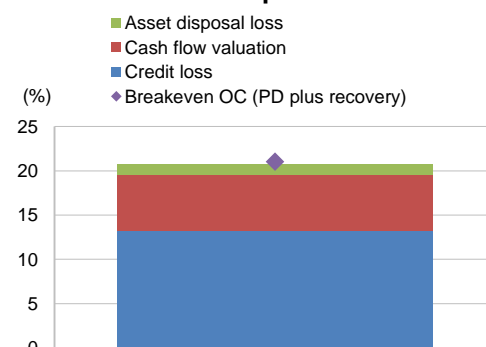
Amortisation Profile

(As of Mar 17)



Source: Fitch/mBH

Breakeven OC Components



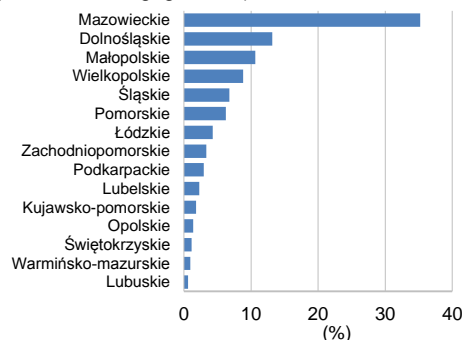
Source: Fitch

Related Criteria

- [Covered Bonds Rating Criteria \(October 2016\)](#)
- [Criteria for Country Risk in Global Structured Finance and Covered Bonds \(September 2016\)](#)
- [Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds \(November 2016\)](#)
- [Fitch's Cover Assets Refinancing Spread Level \(RSL\) Assumptions - Excel File \(January 2017\)](#)
- [Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File \(February 2017\)](#)
- [Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Excel File \(October 2016\)](#)
- [Global Bank Rating Criteria \(November 2016\)](#)
- [Poland Residential Mortgage Bespoke Rating Criteria Addendum \(June 2017\)](#)
- [SME Balance Sheet Securitisation Rating Criteria \(March 2017\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(May 2017\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(May 2017\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(February 2017\)](#)

Domestic Region

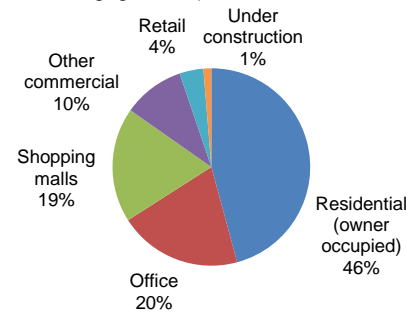
(% of total mortgage loans)



Source: Fitch/mBH

Property Type

(% of total mortgage loans)



Source: Fitch/mBH

Criteria Variations

Fitch applied a variation from its Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds, dated 17 November 2016. Fitch assumed default assumptions for the Polish tenants to be in line with the assumptions for Italy (4.75%) in the absence of a country default benchmark for loans to operating companies for Poland in the Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs) as a representative default rate assumption for tenants. Without applying this variation credit loss would increase by a maximum of 2pp for this programme.

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