

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

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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.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_1234823](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_1234823). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.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](http://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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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

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