

EuroRating affirmed 'BBB-' credit rating with a negative outlook assigned to the bank mBank S.A.

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	mBank S.A.
Type of the rated entity	bank
Type of the credit rating	long-term, international scale
Date of rating affirmation	08.03.2024
Rating level	BBB-
Rating outlook	negative

Warsaw, 8 March 2024 – EuroRating credit rating agency has revised the credit rating for the bank mBank S.A. The rating has been affirmed at 'BBB-' with a negative outlook.

KEY RATING DRIVERS

Low level of equity financing: In the years 2021-2022, mBank's balance sheet total continued to grow, however, due to losses incurred during this period, the value of equity decreased by almost 1/4. As a result, the share of equity in the balance sheet total fell significantly - from 9.3% at the end of 2020 to 6.1% at the end of 2022. This ratio maintained on a similar low level in 2023.

Satisfactory regulatory capital ratios: The decrease of equity value resulted in a reduction of regulatory capital ratios. However, given their prior high levels and a substantial decrease in the proportion of loans in total assets, these ratios still remain at relatively high and safe levels. At the end of 2023, the consolidated Tier 1 ratio amounted to 14.7%, and the total capital ratio reached 17%, surpassing KNF requirements by 5.6 percentage points and 5.9 percentage points, respectively.

Significant portfolio of foreign currency mortgage loans in CHF: mBank has a significant portfolio of foreign currency mortgage loans and is among the banks most susceptible to the economic and legal risks inherent to this loan type. Despite creating high reserves in prior years, the portfolio's net value is currently PLN 1.9 billion, constituting over 1.5% of the bank's total loan portfolio and around 1% of its total assets.

Further increase in the number of lawsuits: At the end of 2023, mBank recorded over 21.4 thousand individual lawsuits related to foreign currency mortgage loans, compared to approximately 18.4 thousand in the previous year. In response to the growing legal risk, mBank allocated a total of PLN 4.9 billion for reserves in 2023. As a result, the coverage ratio of active Swiss franc loans with reserves increased to almost 100%.

Risk of lawsuits from former borrowers: Despite the currently very high coverage of the portfolio of active foreign currency mortgage loans with reserves, it is likely that the bank may need to create additional reserves if a significant number of borrowers, who have already repaid such loans in previous years, decide to file lawsuits against the bank.

Another unfavourable CJEU judgment: The CJEU judgment from June 2023 confirmed that banks do not have the right to compensation from clients for the unjustified use of provided capital. This decision significantly increases the potential final losses for banks on foreign currency mortgage loans and it may also encourage more borrowers (including former ones) to take legal action.

Generating net losses by the bank: In 2021-2022, mBank incurred significant net losses of PLN 1.2 billion and PLN 0.7 billion, respectively. The main factor influencing these negative results were write-offs for legal risk costs related to foreign currency loans, which reached PLN 2.8 billion and PLN 3.1 billion in those years, respectively. However, in 2023, the bank managed to report a modest profit of PLN 24 million.

Good operating results: The high level of NBP interest rates, which has been maintained for the second year, had a significant impact on the growth of mBank's interest income and profit. Commission income has also increased significantly in recent years. These factors had a very positive impact on the bank's total net profit, allowing it to cover to a large extent the high costs of reserves for foreign currency mortgage loans.

Good quality of the loan portfolio: The ratio of non-performing loans (NPL) to total gross loans showed a declining trend from 2014 to 2021. In the last two years, the share of NPLs in the total loans portfolio has remained at a low and safe level of around 4-4.2%.

High liquidity: For over a decade, the ratio of deposits collected to loans granted has been on an upward trend. At the end of 2023, this ratio amounted to 1.63, indicating that the bank exhibits a relatively high level of liquidity.

Long history of operation and very large scale of activity: mBank has been operating since 1986 (previously as BRE Bank) and with assets of PLN 225 billion is the 5th largest bank in Poland. Since 1992, the bank's shares have been listed on the Warsaw Stock Exchange (the bank is part of the WIG20 index).

Relatively good diversification of activity: mBank operates in the retail and corporate banking segments, as well as in the investment and brokerage businesses. The mBank Group includes companies offering financial services such as leasing, factoring and real estate financing. mBank also operates in the Czech Republic and Slovakia.

Moderate probability of support: The majority shareholder of mBank (owning nearly 70% of the shares) is Commerzbank AG from Germany. EuroRating assesses the probability of support for the bank in a crisis situation by the main shareholder as moderate.

NEGATIVE RATING OUTLOOK

The negative outlook attributed to the rating means, that according to current estimates of the EuroRating credit rating agency, the probability of downgrading the assigned rating for the company within the next 12 months is currently greater than 1 in 3.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating, EuroRating includes: a further significant increase in the number of lawsuits against the bank by foreign currency mortgage borrowers, requiring the bank to create substantial additional reserves; a possible faster than currently expected decline in NBP interest rates, negatively impacting the bank's interest income; the generation of negative financial results by the bank and/or a decrease in the value of its equity and its share in the balance sheet total; as well as a significant decline in the value of the bank's regulatory capital ratios.

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to stable or positive and/or rating upgrade), EuroRating includes: achieving consistently strong financial results by the bank; an increase in the value of the bank's equity and its share in the balance sheet total; implementing by the bank a large-scale settlement program with borrowers, spreading the costs associated with foreign currency loans risk over several years; a lower than expected number of new lawsuits filed by borrowers against the bank.

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

REGULATORY DISCLOSURES

Information on the EuroRating credit rating agency

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Methodology

The presented credit rating for the bank mBank S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for banks" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

Public status of the credit rating / terms of use

The presented credit rating for the bank mBank S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

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Solicitation status and main sources of information

The rating assigned to the bank mBank S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process and the EuroRating had no access to internal documents or the management of the rated entity. The analytical process relied solely on publicly available information. Key sources of information included: interim financial statements, presentations and reports from the rated entity, along with media coverage of the economy and relevant industries, as well as public information about the rated entity itself. The assigned credit rating was presented to the rated entity in advance and issued without any changes resulting from this disclosure.

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