

EuroRating has changed the credit rating outlook for mBank S.A. to stable; the rating has been affirmed at 'BBB-'

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	27.05.2024
Rating level	BBB-
Rating outlook	stable

Warsaw, 27 May 2024 – EuroRating credit rating agency has changed the credit rating outlook for mBank S.A. from negative to stable. The rating has been affirmed at 'BBB-'.

KEY RATING DRIVERS INFLUENCING CHANGE IN THE RATING OUTLOOK

High coverage of the foreign currency mortgage loan portfolio with reserves: At the end of the first quarter of 2024 the total value of reserves for legal risk of foreign currency mortgage loans exceeded PLN 8.2 billion and the coverage of this portfolio with reserves amounted to 116%. Such a high level of reserves indicates that the bank is already very well protected against the risk of ultimately incurring losses on these loans, which means that they should no longer significantly burden the bank's results in the future.

Settlement program: From September 2022 mBank has been implementing a settlement program with borrowers who have loans indexed to CHF, including persons in legal dispute with the bank. At the end of the first quarter of 2024 the bank concluded a total of 15.2 thousand of this type of settlements.

Expiry of the additional capital requirement for CHF loans: In December 2023 mBank received a decision of the Polish Financial Supervision Authority, confirming the expiry of the additional capital requirement maintained to secure the risk arising from foreign currency mortgage loans for households at the individual and consolidated level. The last level of the buffer imposed on the mBank group by the decision of 14 June 2023 was 1.18 p.p. for the total capital ratio and 0.89 p.p. for the Tier 1 capital ratio.

Improvement of generated financial results: In 2021-2022 mBank generated significant net losses (PLN -1.2 billion and PLN -0.7 billion, respectively), which significantly reduced the value of the bank's equity. This was mainly related to the creation of reserves for the costs of legal risk of foreign currency

mortgage loans. In 2023 mBank already generated a small net profit (PLN 24 million), while in the first quarter of 2024 the profit amounted to PLN 263 million.

OTHER KEY RATING DRIVERS

Low level of equity financing: In the years 2021-2022 mBank's balance sheet continued to grow. However, due to the losses incurred during this period, the equity decreased by nearly a quarter. As a result, the share of equity in financing assets significantly declined, from 9.3% at the end of 2020 to 6.1% at the end of 2022. In 2023 and in the first quarter of 2024, this share remained at a similarly low level.

Satisfactory regulatory capital ratios: The decline in the equity value has also led to a reduction in regulatory capital ratios. However, due to their previously high levels and a significant reduction in the share of loans in total assets, they still remain at relatively high and safe levels. At the end of the first quarter of 2024 the consolidated Tier 1 ratio amounted to 14.1%, while the total capital ratio reached 16.0%, exceeding KNF requirements by 4.9 percentage points in both cases.

Potential litigation risk from former mortgage borrowers: Despite establishing substantial reserves in previous years, the value of the bank's foreign currency mortgage portfolio amounted to PLN 1.5 billion (net) as of the first quarter of 2024. This represents over 1.5% of the bank's total loan portfolio and approximately 0.6% of its total assets. While the current reserve coverage for the active foreign currency mortgage portfolio is already very high, it is likely that the bank will need to create additional reserves if more borrowers who have already repaid such loans in previous years decide to file lawsuits against the bank. As of the first quarter of 2024 the bank was facing 21.8 thousand individual legal proceedings related to indexation clauses initiated by its customers, of which 3.9 thousand concerned repaid loans (compared to 18.3 thousand and 2.7 thousand, respectively, at the end of 2022).

Another unfavourable CJEU ruling: The CJEU's ruling from June 2023 confirmed that banks are not entitled to compensation from customers for the unauthorized use of provided capital. This ruling significantly increases banks' potential ultimate losses on foreign currency mortgages and may also encourage more borrowers (including former ones) to pursue legal action.

Good quality of the loan portfolio: The ratio of non-performing loans (NPLs) to total gross loans from 2014 to 2021 was characterized by a decreasing trend. Over the last two years, the share of NPLs in the total loan portfolio remained at a low and safe level of approximately 4-4.2%.

Moderate share of loans in assets: Loans granted to customers in recent years have accounted for approximately 50-65% of the bank's total assets. This level is moderate and safe.

High liquidity: The ratio of deposits collected to loans granted has been on an upward trend for over ten years. In recent quarters this ratio fluctuated around 1.6, which means that the bank is characterized by relatively high excess liquidity.

High NBP interest rates: The sustained relatively high level of the NBP reference rate significantly influenced the growth of interest income and net interest income, thus positively impacting the bank's overall net result.

Long operating history and large scale of operations: mBank, established in 1986 (formerly known as BRE Bank), is the 5th largest bank in Poland with assets amounting to PLN 225 billion. Since 1992 the bank's shares have been listed on the Warsaw Stock Exchange and are included in the WIG20 index.

Relatively diversified business model: mBank operates across various segments, including retail and corporate banking, investment banking and brokerage services. The mBank Group encompasses subsidiaries 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 (holding nearly 70% of the shares) is the German Commerzbank AG. EuroRating assesses the likelihood of support for the bank in a crisis situation from the main shareholder as moderate.

STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the bank should most likely remain unchanged in the horizon of the next 12 months.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

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

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

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>

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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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