MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ratings of covered bonds in Hungary and Poland

09 Dec 2020

Madrid, December 09, 2020 -- Moody's Investors Service ("Moody's") has today taken a rating action on the following covered bonds:

- Upgrade the mortgage covered bonds issued by OTP Jelzalogbank Zrt. (OTP Mortgage Bank) ("OTP") to A2 from Baa1

- Upgrade the mortgage covered bonds issued by UniCredit Jelzalogbank Zrt. ("UniCredit") to A2 from Baa1

- Upgrade the mortgage covered bonds issued by ING Bank Hipoteczny S.A. ("ING") to Aa1 from Aa3

- Upgrade the mortgage covered bonds issued by PKO Bank Hipoteczny S.A. ("PKO") to Aa1 from Aa3

- Upgrade the mortgage covered bonds issued by mBank Hipoteczny S.A. ("mBank") to Aa2 from Aa3

This rating action follows Moody's update of its "Country Ceilings Methodology" published in December 2020.

For further information, please refer to Moody's press release published on 7 December 2020: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1250209.

RATINGS RATIONALE

Today's rating action on the covered bond ratings referenced above follows Moody's raising of Hungary's local-currency and foreign-currency bond ceilings to A2 from Baa1 and Poland's local-currency and foreign currency bond ceilings to Aa1 from Aa3 on 7 December 2020, which follows the methodology update.

The ratings of OTP Jelzalogbank Zrt. (OTP Mtge Bk) - Mortgage Covered Bonds and UniCredit Jelzalogbank Zrt. - Mortgage Covered Bonds are now constrained by the long-term country ceiling for local currency bonds of A2.

The rating of ING Bank Hipoteczny S.A. - Mortgage Covered Bonds is now constrained by the long-term country ceiling for local currency bonds of Aa1.

The ratings of PKO Bank Hipoteczny S.A. - Mortgage Covered Bonds are now constrained by the long-term country ceilings for local and foreign currency bonds of Aa1.

The current level of over-collateralisation (OC) for mBank Hipoteczny S.A. - Mortgage Covered Bonds exceeds the minimum level consistent with Aa1 ratings but looking ahead, Moody's does not expect that OC will be maintained at levels consistent with covered bond ratings higher than Aa2.

Full details of the ceilings movements can be found at http://www.moodys.com/viewresearchdoc.aspx?docid=PR_436193.

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 Hungarian and Polish programmes is the CR assessment plus 1 notch.

The cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. 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 is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

The cover pool losses of OTP Jelzalogbank Zrt. (OTP Mtge Bk) - Mortgage Covered Bonds are 44.4%, with market risk of 36.1% and collateral risk of 8.3%. The collateral score for this programme is currently 12.4%. The over-collateralisation in this cover pool is 21.7%, of which the issuer provides 0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the A2 rating is 0%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of UniCredit Jelzalogbank Zrt. - Mortgage Covered Bonds are 45%, with market risk of 38.3% and collateral risk of 6.7%. The collateral score for this programme is currently 10%. The over-collateralisation in this cover pool is 11.2%, of which the issuer provides 0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the A2 rating is 0%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of PKO Bank Hipoteczny S.A. - Mortgage Covered Bonds are 17.9%, with market risk of 13.7% and collateral risk of 4.2%. The collateral score for this programme is currently 6.2%. The over-collateralisation in this cover pool is 42.8%, of which the issuer provides 10% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 4.5%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of ING Bank Hipoteczny S.A. - Mortgage Covered Bonds are 12.2%, with market risk of 8.3% and collateral risk of 3.9%. The collateral score for this programme is currently 5.8%. The over-collateralisation in this cover pool is 648%, of which the issuer provides 10% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 0%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of mBank Hipoteczny S.A. - Mortgage Covered Bonds are 33.2%, with market risk of 20.9% and collateral risk of 12.3%. The collateral score for this programme is currently 18.3%. The over-collateralisation in this cover pool is 35.6%, of which the issuer provides 10% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa2 rating is 8.5%. These numbers show that Moody's is not 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. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For all Hungarian mortgage covered bonds, Moody's has assigned a TPI of Improbable.

For all Polish 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.

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.

The TPI assigned to OTP's mortgage covered bonds is Improbable. The TPI Leeway for this programme is 2 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by more than 2 notches all other variables being equal.

The TPI assigned to UniCredit's mortgage covered bonds is Improbable. The TPI Leeway for this programme is 2 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by more than 2 notches all other variables being equal.

The TPI assigned to ING's mortgage covered bonds is 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 more than 3 notches all other variables being equal.

The TPI assigned to PKO's mortgage covered bonds is Probable. The TPI Leeway for this programme is 2 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by more than 2 notches all other variables being equal.

The TPI assigned to mBank's mortgage covered bonds is 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 more than 3 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.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

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