

**Rating Action: Moody's takes rating actions on seven CEE banks following update to Banks Methodology**

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Frankfurt am Main, July 13, 2021 -- Moody's Investors Service (Moody's) has today taken rating actions on seven banks in Central and Eastern Europe (CEE), including the upgrade of the deposit and issuer ratings of one bank and the upgrade of the junior senior unsecured debt rating of another bank. These two rating actions were driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operation Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. Concurrently, Moody's upgraded the issuer ratings of three covered bond issuing subsidiaries, because the updated Banks Methodology also introduced a single, simplified and principle-based framework for rating highly integrated entities.

This methodology is available at this link: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625).

A full list of affected ratings and assessments can be found at the end of this Press Release.

A separate rating announcement for OTP Bank NyRt and its mortgage bank subsidiary can be found here: [https://www.moodys.com/research/--PR\\_449321](https://www.moodys.com/research/--PR_449321).

**RATINGS RATIONALE**

Today's rating actions on four CEE banks were driven by revisions to the Advanced LGF framework within Moody's updated banks methodology.

In particular, ratings were mostly affected by revised LGF notching guidance thresholds at lower levels of subordination and volume in the liability structure that have been applied to all CEE banks.

For CEE banks that are subsidiaries of multinational banking groups the rating actions also reflect Moody's view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue internal loss absorbing capital (ILAC), leading to a likely transfer of losses from subsidiaries to parents at the point of failure. For banks that are subsidiaries of international parents and subject to ILAC requirements, the rating actions reflect the required and expected issuance of such instruments.

The upgrade of ratings and assessments of the mortgage banks, which issue covered bonds on behalf of their parent banks, reflects the methodological harmonization to a more simplified and principles-based rating approach concerning highly integrated entities. The rating action reflects a re-assessment of interlinkages between the specialized covered bond issuing subsidiaries and their respective parents and concluded there is a low probability that a parent would de-prioritize meeting the debt obligations of the related entity relative to meeting its own obligations in circumstances of financial stress for the parent or group.

**RATINGS RATIONALE FOR INDIVIDUAL BANKS**

**- Alpha Bank Romania S.A. (ABR)**

Moody's affirmed ABR's Ba2/NP long-term/short-term deposit ratings, as well as its b1 Baseline Credit Assessment (BCA) and adjusted BCA. Concurrently, Moody's affirmed the bank's Ba1/NP Counterparty Risk Ratings (CRRs) and its Ba1(cr)/NP(cr) Counterparty Risk Assessments (CR Assessments).

The affirmation of ABR's b1 BCA reflects the rating agency's view that the financial and operational linkages between ABR and its Greek parent Alpha Bank S.A. remain moderate, despite ILAC expected to be issued by ABR to its parent. Moody's therefore believes that the risk of contagion from its weaker rated parent remains limited and appropriately reflected in the current BCA positioning of ABR. At the same time, the rating agency views the interlinkages to remain a constraining factor for ABR's BCA in case of improving intrinsic strength of its parent.

The affirmation of ABR's deposit ratings, CRRs and CR Assessment reflects a broadly unchanged loss severity for these instrument classes as indicated by Moody's Advanced LGF analysis, despite the expected ILAC issuances providing an increasing protection for the bank's senior creditors.

- Ceskoslovenska obchodna banka (Slovakia) (CSOB-SK)

Moody's upgraded CSOB-SK's long-term deposit rating to A3 from Baa1, and its long-term issuer ratings to Baa1 from Baa2.

The upgrade reflects reduced loss severity for senior creditors as indicated by Moody's Advanced LGF Analysis, considering the expectation of future ILAC issuances by CSOB-SK to its parent KBC Bank N.V., which is designated as the single point of entry in the group's resolution plans, in combination with the bank's strong deposit growth in 2020. The rating agency expects that CSOB-SK will be resolved in a unified manner alongside its parent, and that the inclusion of ILAC in CSOB-SK's Advanced LGF analysis and the resulting greater level of protection afforded to the bank's senior creditors is additive to any extraordinary support the bank might receive from its parent prior to the point of failure, as incorporated in Moody's unchanged affiliate support assumptions.

- Komerční Banka, a.s. (KB)

Moody's affirmed KB's long-term/short-term A1/P-1 deposit ratings. Concurrently, Moody's affirmed the bank's a3 BCA and adjusted BCA, its Aa3/P-1 CRRs and its Aa3(cr)/P-1(cr) CR Assessments.

The affirmation of KB's a3 BCA reflects the rating agency's view that the financial and operational linkages between KB and its French parent Société Générale remain moderate, despite ILAC expected to be issued by KB to its parent. Moody's therefore believes that the risk of contagion from its weaker rated parent remains limited and appropriately reflected in the current BCA positioning of KB. The rating agency also considers that KB's ownership structure is granting it access to external capital through its listing at the Prague Stock Exchange, in case of need.

The affirmation of the deposit ratings, CRRs and CR Assessments reflects the affirmation of the a3 BCA and the rating agency's assessment of an unchanged rating uplift as a result of its Advanced LGF analysis, despite an increasing protection for the bank's senior creditors resulting from ILAC expected to be issued by KB to its parent Société Générale.

- Raiffeisenbank, a.s. (RBCZ);

Moody's upgraded the long-term junior senior unsecured rating of RBCZ to Baa2 from Baa3.

The upgrade reflects the benefits at the lower level of subordination from the change in the LGF notching guidance. The rating agency believes the outstanding volume of preference shares and subordinated debt to remain largely unchanged during the next years and sufficient to absorb the expected balance sheet growth while still maintaining the required protection under the revised LGF notching guidance to position the junior senior instruments at the level of the Adjusted BCA.

- ING Bank Hipoteczny S.A. (ING BH)

Moody's upgraded ING BH's issuer ratings to A3 from Baa1. Concurrently, the rating agency upgraded the mortgage bank's long-term CRRs and CR Assessment by one notch to A1 from A2 and A1(cr) from A2(cr) respectively while it affirmed the short-term CRRs and CR Assessment at P-1 and P-1(cr), as well as the bank's short-term issuer ratings at P-2.

The rating actions reflect the rating agency's re-assessment of interlinkages between ING BH and its parent, ING Bank Śląski S.A. and conclusion that there is a low probability that its parent would de-prioritize meeting the debt obligations of ING BH relative to meeting its own obligations in circumstances of financial stress for the parent or group.

- mBank Hipoteczny S.A. (MBH)

Moody's upgraded MBH's long-term issuer ratings to Baa1 from Baa2. Concurrently, the rating agency upgraded the mortgage bank's CRRs to A2/P-1 from A3/P-2 and its CR Assessments to A2(cr)/P-1(cr), from A3(cr)/P-2(cr), while it affirmed the short-term issuer ratings at P-2.

The rating actions reflect the rating agency's re-assessment of interlinkages between MBH and its parent mBank S.A. and conclusion that there is a low probability that its parent would de-prioritize meeting the debt obligations of MBH relative to meeting its own obligations in circumstances of financial stress for the parent or group.

- PKO Bank Hipoteczny S.A. (PKO BH)

Moody's upgraded PKO BH's long-term issuer ratings to A3 from Baa1. Concurrently, the rating agency upgraded the mortgage bank's CRRs to A2/P-1 from A3/P-2 and its CR Assessments to A2(cr)/P-1(cr) from A3(cr)/P-2(cr), while it affirmed the short-term issuer ratings at P-2.

The rating actions reflect Moody's re-assessment of interlinkages between PKO BH and its parent, Powszechna Kasa Oszczednosci Bank Polski S.A. (PKO BP) and conclusion that there is a low probability that its parent would de-prioritize meeting the debt obligations of PKO BH relative to meeting its own obligations in circumstances of financial stress for the parent or group.

## OUTLOOK

The rating outlooks for the banks affected by today's rating action were maintained, except of the outlook on RBCZ's ratings which was unaffected.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The affected long-term deposit ratings, issuer ratings, junior senior unsecured debt rating, CRRs and CR Assessments could be upgraded following an improvement in the standalone creditworthiness of the banks or parent banks of the three Polish mortgage subsidiaries.

The long-term deposit and issuer ratings could also be upgraded following a significant increase in the stock of more junior bail-in-able liabilities.

The affected ratings and assessments could be downgraded following a substantial deterioration in the standalone creditworthiness of the banks or parent banks of the three mortgage subsidiaries or following a significant reduction in the stock of bail-in-able liabilities.

The affected ratings and assessments of the three Polish covered bond issuing subsidiaries could also be downgraded if their strategic importance is reduced and their parent banks withdraw their commitment to support the mortgage bank's liquidity and capital buffers.

## LIST OF AFFECTED RATINGS:

..Issuer: Komerčni Banka, a.s.

### Affirmations:

- .... Adjusted Baseline Credit Assessment, Affirmed a3
- .... Baseline Credit Assessment, Affirmed a3
- .... LT Counterparty Risk Assessment, Affirmed Aa3(cr)
- .... ST Counterparty Risk Assessment, Affirmed P-1(cr)
- .... LT Counterparty Risk Rating, Affirmed Aa3
- .... ST Counterparty Risk Rating, Affirmed P-1
- .... ST Bank Deposits, Affirmed P-1
- ....LT Bank Deposits, Affirmed A1 outlook remains Stable

### Outlook Actions:

....Outlook, Remains Stable

..Issuer: Ceskoslovenska obchodna banka (Slovakia)

Upgrades:

.... LT Issuer Rating, Upgraded to Baa1 from Baa2, outlook remains Positive

.... LT Bank Deposits Rating, Upgraded to A3 from Baa1, outlook remains Positive

Outlook Actions:

.... Outlook, Remains Positive

..Issuer: Alpha Bank Romania S.A.

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed b1

.... Baseline Credit Assessment, Affirmed b1

.... ST Counterparty Risk Assessment, Affirmed NP(cr)

.... LT Counterparty Risk Assessment, Affirmed Ba1(cr)

.... ST Counterparty Risk Rating, Affirmed NP

.... LT Counterparty Risk Rating, Affirmed Ba1

.... ST Bank Deposits Rating, Affirmed NP

....LT Bank Deposits Rating, Affirmed Ba2 outlook remains Stable

Outlook Actions:

.... Outlook, Remains Stable

..Issuer: Raiffeisenbank, a.s.

Upgrades:

.... Junior Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: mBank Hipoteczny S.A.

Upgrades:

.... LT Counterparty Risk Assessment, Upgraded to A2(cr) from A3(cr)

.... ST Counterparty Risk Assessment, Upgraded to P-1(cr) from P-2(cr)

.... LT Counterparty Risk Rating, Upgraded to A2 from A3

.... ST Counterparty Risk Rating, Upgraded to P-1 from P-2

.... LT Issuer Rating, Upgraded to Baa1 from Baa2, outlook remains Stable

Affirmations:

.... ST Issuer Rating, Affirmed P-2

Outlook Actions:

.... Outlook, Remains Stable

..Issuer: ING Bank Hipoteczny S.A.

Affirmations:

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

.... ST Counterparty Risk Rating, Affirmed P-1

.... ST Issuer Rating, Affirmed P-2

Upgrades:

.... LT Counterparty Risk Assessment, Upgraded to A1(cr) from A2(cr)

.... LT Counterparty Risk Rating, Upgraded to A1 from A2

.... LT Issuer Rating, Upgraded to A3 from Baa1, outlook remains Stable

Outlook Actions:

....Outlook, Remains Stable

..Issuer: PKO Bank Hipoteczny S.A.

Affirmations:

.... ST Issuer Rating, Affirmed P-2

Upgrades:

.... LT Counterparty Risk Assessment, Upgraded to A2(cr) from A3(cr)

.... ST Counterparty Risk Assessment, Upgraded to P-1(cr) from P-2(cr)

.... LT Counterparty Risk Rating, Upgraded to A2 from A3

.... ST Counterparty Risk Rating, Upgraded to P-1 from P-2

.... LT Issuer Rating, Upgraded to A3 from Baa1, outlook remains Stable

Outlook Actions:

....Outlook, Remains Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## 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.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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The person who approved Komerčni Banka, a.s., Ceskoslovenska obchodna banka (Slovakia), ING Bank Hipoteczny S.A., mBank Hipoteczny S.A., PKO Bank Hipoteczny S.A., Raiffeisenbank, a.s. credit ratings is Maria Jose Mori, VP-Sr Credit Officer, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454. The person who approved Alpha Bank Romania S.A. credit ratings is Constantinos Kypreos, Senior Vice President, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454.

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