FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Millennium Bank Hipoteczny's Pass-Through Covered Bonds at 'AAA'; Outlook Stable

Fri 09 May, 2025 - 08:25 ET

Fitch Ratings - Frankfurt am Main - 09 May 2025: Fitch Ratings has affirmed Millennium Bank Hipoteczny S.A.'s (MBH) pass-through covered bonds at 'AAA' with a Stable Outlook.

The affirmation follows Fitch's periodic review of the programme.

KEY RATING DRIVERS

10 Notches Above IDR: The covered bonds are rated 10 notches above the reference of Bank Millennium S.A.'s (BM) Long-Term Issuer Default Rating (IDR) of 'BB+', using all notches of uplift granted to the programme, which comprise a resolution uplift of zero notches, a payment continuity uplift (PCU) of eight notches and a recovery uplift of two notches. The rating also considers the programme's over-collateralisation (OC) protection for covered bond holders. The Outlook on the covered bonds is Stable, even though the Outlook on BM's IDR is Positive, because the covered bonds are rated at the highest level on our scale.

Sufficient OC Protection: MBH has committed to holding OC in line with Fitch's break-even (BE) OC for the rating. Polish covered bond legislation stipulates a minimum OC of 5% for this type of covered bond programme. Fitch relies on the increased committed OC of currently 11.0%, which corresponds to its updated 'AAA' BE OC.

No Resolution Uplift: Fitch does not assign any resolution uplift to MBH's mortgage covered bonds as information on the resolution strategy for Polish specialised mortgage banks remains insufficient. As a result, the possibility of separate resolutions for mortgage and parent banks that could lead to an enforcement of the cover pool cannot be excluded.

Eight-notch PCU: The eight-notch PCU reflects the bonds' conditional pass-through feature and 180-day liquidity buffer as stipulated in Polish covered bond legislation. The bonds can extend the bond principal maturity by 12 months following an issuer bankruptcy and can then ultimately switch to pass-through with a bond maturity three years after that of the longest asset.

The liquidity buffer is based on the maximum cumulative net outflows over 180 days, including maturity extension for the bonds. We expect the programme to hold a stable amount of liquid assets, sufficient to cover at least three months of senior fees and interest expenses. Liquid assets held under the buffer are considered at their market value.

'AAA' BE OC: Fitch calculated an increased 'AAA' BE OC of 11.0% (10.5% previously). The 'AAA' BE OC allows the covered bonds to attain a timely payment rating level of 'AA' and supports two notches of recovery uplift to 'AAA'. In accordance with its Covered Bonds Rating Criteria, Fitch carried forward the results of its asset model as the credit loss assumption is driven by the application of the portfolio loss floor, the weighted average current loan-to-value of the cover pool has not increased by more than 5pp, and the asset characteristics, origination practices, criteria assumptions, the IDR and sovereign ratings have not materially changed since the rating was assigned in June 2024.

Two-notch Recovery Uplift: The two-notch recovery uplift is based on the covered bonds being Polish złoty-denominated, the same currency as the cover assets. Furthermore, the 'AA' timely payment rating level is in the investment-grade range, and Fitch expects outstanding recoveries on the cover pool consisting of standard residential mortgage loans.

ALM Loss Drives BE OC: The main component of the 'AAA' BE OC is the ALM (assets-liabilities mismatch) loss component of 7.3%, which represents the non-credit loss component of the BE OC for the rating and reflects modelled interest-rate mismatches. No principal maturity mismatches were modelled for the programme, reflecting the CPT structure embedded in Polish covered bond legislation. The increase is due to Fitch previously factoring in another five-year covered bond estimated at the same size as the inaugural issue into the modelled liability structure. Bonds have since been issued with a higher variable spread than originally modelled, leading to a slight impact on our ALM loss component.

Unchanged Credit Loss: The credit loss is driven by a minimum loss assumption of 3.5% at a 'AA' timely payment rating, which Fitch applied to address the idiosyncratic risks of low-risk portfolios and translates into a 'AA' credit loss of 3.6%. The modelled credit results are better than Fitch's portfolio loss floor assumption and are based on the originator's mortgage lending performance history and a current weighted average (WA) loan-to-value of 36.1%, which allow for outstanding recoveries in a default.

The weighted average (WA) foreclosure frequency at the 'AA' timely payment rating is 24.9% and the WA 'AA' recovery rate is 85.9%. This is equivalent to an expected loss rate of 3.6% at the 'AA' rating. Recovery rates are adjusted down to apply Fitch's minimum loss assumptions for Polish residential mortgage loans, which drive the asset-analysis results.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The mortgage covered bonds' 'AAA' rating would be vulnerable to a downgrade following a downgrade of BM's 'BB+' Long-Term IDR or a decline in Fitch's relied-on OC to below the 'AAA' BE OC of 11.0%. The rating would also be downgraded following a downgrade of Poland's sovereign rating.

If the OC that Fitch relies on in its analysis decreases to the legal minimum OC of 5%, the covered bonds' rating would likely be downgraded to 'A+'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The mortgage covered bonds are rated 'AAA', which is the highest level on Fitch' scale and cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bonds' rating is driven by the credit risk of BM as measured by its Long-Term IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Millennium Bank Hipoteczny S.A.				
senior secured, Mortgage Covered Bonds, Hipoteczne listy zastawne	LT	AAA	Affirmed	AAA

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 28 Nov 2023)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 20 Jun 2024)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 24 Oct 2024)

Originator-Specific Residential Mortgage Analysis Rating Criteria (pub. 08 Nov 2024) (including rating assumption sensitivity)

Originator-Specific Residential Mortgage Analysis Rating Criteria - Supplementary Data File (pub. 12 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Covered Bonds Cash Flow Model, v2.2.3 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Millennium Bank Hipoteczny S.A.	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's

Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.