

**Rating Action: Moody's assigns provisional (P)Aaa to Prima banka Slovensko, a.s. - Mortgage Covered Bonds**

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Madrid, September 03, 2019 -- Moody's Investors Service ("Moody's") has today assigned a provisional (P)Aaa long-term rating to the mortgage covered bonds to be issued by Prima banka Slovensko, a.s. (the "issuer"/"Prima banka", ratings unpublished) which are governed by the Slovak legal framework for covered bonds.

**RATINGS RATIONALE**

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The rating therefore reflect the following factors:

- (1) The credit strength of Prima banka (ratings unpublished) and a CB anchor of CR assessment plus 1 notch.
- (2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 26.4%.

Moody's considered the following factors in its analysis of the cover pool's value:

- a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed Slovak residential mortgage loans. The collateral score for the cover pool is 7.8%.
- b) The legal framework. Notable aspects of the Slovak legal framework for covered bonds include a requirement to have a buffer of liquid assets to cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds. Primary cover pool assets are limited to residential mortgage loans made to consumers and secured by property located in Slovakia. The law includes a mandatory extension period of 12 months extendable to 24 months following issuer's bankruptcy.
- c) The exposure to market risk, which is 21.2% for this cover pool.
- d) The over-collateralisation (OC) in the cover pool is 181.1%, of which the issuer provides 5.0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable. Moody's TPI framework does not constrain the rating.

At present, the total value of the assets included in the cover pool is approximately EUR 1.4 billion, comprising 35,953 residential mortgage loans. The residential mortgage loans have a weighted-average (WA) seasoning of 27 months and a WA indexed loan-to-value (LTV) ratio of 57.5%.

Moody's issues provisional ratings in advance of the final sale of securities and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation Moody's will endeavour to assign a definitive rating to the covered bonds.

At the request of Prima banka, the CR assessment is not published.

**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 this programme is CR assessment plus 1 notch.

The cover pool losses for this programme are 26.4%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 21.2% and collateral risk of 5.2%. 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 measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 7.8%.

The over-collateralisation in the cover pool is 181.1%, of which Prima banka provides 5.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 29.0%, of which 0% needs to be in "committed" form to be given full value. These numbers show that Moody's is 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 measures the likelihood of timely payments 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 Prima banka Slovensko, a.s. - Mortgage Covered Bonds, Moody's has assigned a TPI of Probable.

#### RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in February 2019. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### FACTORS THAT WOULD LEAD TO A DOWNGRADE OF THE RATING:

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 a 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 Leeway for this programme is unpublished.

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 of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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