MOODY'S
INVESTORS SERVICE

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

11 Jun 2019

Madrid, June 11, 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 Tatra banka, a.s. (the issuer, deposits A3 positive; adjusted baseline credit assessment baa3; counterparty risk (CR) assessment A2(cr)) 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 reflects the following factors:

(1) The credit strength of Tatra banka, a.s. (deposits A3 positive; adjusted baseline credit assessment baa3; CR assessment A2(cr)) 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 33.2%.

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 primarily by Slovak residential mortgage loans. The collateral score for the cover pool is 8.7%.

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, although the maturity of the covered bonds issued before 1 January 2018 cannot be extended.

c) The exposure to market risk, which is 27.4% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 48.5%, of which the issuer provides 5.0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Improbable. 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 850 million, comprising 19,813 residential mortgage loans and substitute assets. The residential mortgage loans have a weighted-average (WA) seasoning of 65 months and a WA loan-to-value (LTV) ratio of 50%. Substitute assets represent 5.2% of the cover pool.

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.

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 CR assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of CR assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

The cover pool losses for this programme are 33.2%. 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 27.4% and collateral risk of 5.8%. 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 8.7%.

The over-collateralisation in the cover pool is 48.5%, of which Tatra banka, a.s. provides 5.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 33.0%, 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. All numbers in this section are based on Moody's most recent modelling (based on data, as per 26 May 2019).

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 Tatra banka, a.s. - Mortgage Covered Bonds, Moody's has assigned a TPI of Improbable.

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.

Based on the current TPI of "Improbable", the TPI Leeway for this programme is 0 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor, 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.

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.moodys.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 of the disclosure form.

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

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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