MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 December 2023

New Issue

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Ceskoslovenska obchodna banka (Slovakia) – Mortgage Covered Bonds

New Issue – Slovak covered bonds

Ratings

Exhibit 1

Cover Pool (€)	Ordinary Cover Pool Assets	Covered Bonds (€)	Rating
784,046,580	Residential Mortgage Loans	650,000,000	Aaa

All data in the report is as of November 30, 2023 unless otherwise stated
Source: Moody's Investors Service

Summary

The covered bonds issued by Ceskoslovenska obchodna banka (the issuer or CSOB, A1(cr)) under its Ceskoslovenska obchodna banka (Slovakia) – Mortgage Covered Bonds programme are full recourse to the issuer and are secured by a cover pool of assets consisting entirely of residential mortgage loans in Slovakia.

Credit strengths include the full recourse of the covered bonds to the issuer and support provided by the Slovak legal framework for covered bonds which provides for the issuer's regulation and supervision.

Credit challenges include the high level of dependency on the issuer. As with most covered bonds in Europe, there will be few restrictions on the future composition of the cover pool. The cover pool also has geographical concentration risks.

Our credit analysis takes into account the cover pool's credit quality, which is reflected in the collateral score of 4.0%, and the current over-collateralisation (OC) of 20.6% (on a nominal value basis)

Credit strengths

» ***Recourse to the issuer***: The covered bonds are full recourse to CSOB (A1(cr)). (See "Covered bond analysis")

Closing date

14 December 2023

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This report was republished on 18 December 2023 with a corrected reference to the issuer name in the legal framework section.

» ***Support provided by the Slovak legal framework***: The covered bonds are governed by the Slovak legal framework for covered bonds, which provides for the issuer's regulation and supervision and sets certain minimum requirements for the covered bonds and the cover pool. (See "Slovak Legal Framework for Covered Bonds")

» ***High credit quality of the cover pool***: The covered bonds are supported by a cover pool of high-quality residential mortgage loans backed by properties in Slovakia. The collateral quality is reflected in the collateral score, which is 4.0%. (See "Cover pool analysis")

» ***Refinancing risk*****:** Following what we call a covered bond (CB) anchor event, refinancing risk should be mitigated by an established market for Slovak covered bonds, as well as the mitigants provided in the Slovak legal framework for covered bonds such as the maturity extension and the administrator's attempt to transfer the cover pool assets and the covered bonds to another bank. A CB anchor event occurs when the issuer, or another entity within the issuer group that supports the issuer, ceases to service the payments on the covered bonds. (See "Covered bond analysis")

» ***Interest rate and currency risks***: Interest rate risk is limited due to good matching of fixed rate periods of assets and liabilities. Currencies are matched in this programme because all assets and liabilities are denominated in euros. (See "Covered bond analysis")

Credit challenges

» ***High level of dependency on the issuer:*** As with most covered bonds, before the insolvency of the issuer, the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises and enter into new hedging arrangements. Also similar to most covered bonds in Europe, this programme has few restrictions on the future composition of the cover pool. These changes could affect the credit quality of the cover pool as well as the overall refinancing and market risks. Further, if the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. (See "Covered bond analysis")

» ***Market risks***: Following a CB anchor event, covered bondholders, to achieve timely principal payment, might need to rely on proceeds raised through the sale of, or borrowing against, the cover pool assets. The market value of these assets may be subject to high volatility after a CB anchor event. (See "Covered bond analysis")

» ***Time subordination****:* After a CB anchor event, later-maturing covered bonds will be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This subordination could lead to the erosion of OC before any payments are made to later-paying covered bonds. (See "Covered bond analysis")

» ***Lack of liquidity facility*****:** The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. (See "Covered bond analysis")

ESG considerations

In general, we consider environmental and governance credit risks to be low and social credit risks to be moderate for this transaction.

Environmental credit risk is low in this programme as covered bondholders benefit from the cover pool's geographical diversification. Social credit risk is moderate in this programme, mainly because social issues that affect lenders can also affect the cover pool. Social credit risks are partially mitigated by the cover pool's diversification. Governance credit risk is low in this programme due to (i) Slovakia's covered bond law; and (ii) the fact that the issuer maintains the cover pool on its balance sheet, incentivising it to maximise cover pool value and aligning its interest with that of covered bond investors.

For further details, please see "ESG Considerations" section below.

Key characteristics

Exhibit 2
Covered bond characteristics

Moody's Programme Number:	511
Issuer:	Ceskoslovenska obchodna banka
Covered Bond Type:	Residential mortgage covered bond
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Sloval legal framework for covered bonds
Entity used in Moody's TPI analysis:	Ceskoslovenska obchodna banka
CR Assessment:	A1(cr)
CB Anchor:	Aa3
Senior unsecured/deposit rating:	A2
Total Covered Bonds Outstanding:	€650,000,000
Main Currency of Covered Bonds:	Euro
Extended Refinance Period:	Yes
Principal Payment Type:	Soft bullet (24 months extension)
Interest Rate Type:	Fixed rate covered bonds (100.0%)
Committed Over-Collateralisation:	5.0% (on nominal value basis)
Current Over-Collateralisation:	20.6% (on nominal value basis)
Intra-group Swap Provider:	n/a
Monitoring of Cover Pool:	n/a
Trustees:	n/a
Timely Payment Indicator:	Probable
TPI Leeway:	3 notches

Sources: Moody's Investors Service, issuer data

Exhibit 3
Cover pool characteristics

Size of Cover Pool:	€784,046,580
Main Collateral Type in Cover Pool:	Residential assets
Main Asset Location of Ordinary Cover Assets:	Slovakia (100.0%)
Main Currency:	Euro (100.0%)
Loans Count:	14,336
Number of Borrowers:	14,029
WA unindexed LTV:	68.2%
WA indexed LTV:	51.7%
WA Seasoning (in months):	52
WA Remaining Term (in months):	243
Interest Rate Type:	Fixed rate assets(100.0%)
Collateral Score:	4.0%
Cover Pool Losses:	22.0%
Further Cover Pool Details:	See Appendix 1
Pool Cut-off Date:	30 November 2023

Sources: Moody's Investors Service, issuer data

Exhibit 4
Transaction counterparties

Counterparty Type	Transaction Counterparty
Sponsor	n/a
Servicer	n/a
Back-up Servicer	n/a
Back-up Servicer Facilitator	n/a
Cash Manager	n/a
Back-up Cash Manager	n/a
Account Bank	n/a
Standby Account Bank	n/a
Account Bank Guarantor	n/a

Sources: Moody's Investors Service, issuer data

Covered bond description

The covered bonds issued under the mortgage covered bond programme of Ceskoslovenska obchodna banka are full recourse to the issuer. Upon a CB anchor event, covered bondholders have access to a cover pool of residential mortgage loan receivables.

Structure description

The bonds

All outstanding covered bonds have a soft bullet repayment at maturity, with an extension period for the repayment of the bonds.

Issuer recourse

The covered bonds are full recourse to the issuer. Therefore, the issuer is obliged to repay principal and pay interest on the covered bonds.

Recourse to cover pool and over-collateralisation

If the issuer becomes insolvent, the covered bondholders would have priority claims over a pool of assets (cover pool). (See "Cover pool description" for the cover pool characteristics and "Cover pool analysis" for our analysis of the pool)

The level of OC in the programme is 20.6% on a nominal value basis.

The covered bond rating relies on an OC level beyond the minimmum legal requirement by the Slovak legal framework for covered bonds. The act requires the OC to exceed the principal balance of the bonds by 5.0%. Based on data as of 30 November 2023, 11.5% of OC is sufficient to maintain the current covered bond rating, which exceeds the level of committed OC. This shows that our analysis currently relies on OC that is not in committed form.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

Legal framework

The covered bonds are governed by the Banking Act, the Bonds Act and the Insolvency Act (together, the Slovak covered bond legislation). No specific structural features beyond the statutory requirements are implemented for Ceskoslovenska obchodna banka's mortgage covered bond programme. (See Covered Bonds: Slovakia - Legal Framework for Covered Bonds, April 2019, for a description of the general legal framework for mortgage covered bonds governed by the Slovak covered bond legislation.)

Covered bond analysis

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk, interest rate risk and currency risk, as well as the probability that payments on the covered bonds would be made in a timely fashion following a CB anchor event, which we measure using the Timely Payment Indicator. (See "Timely Payment Indicator")

Primary analysis

Issuer analysis - Credit quality of the issuer

The credit quality of the covered bonds depends primarily on the credit quality of the issuer. The issuer's CR Assessment is A1(cr).

The reference point for the issuer's credit strength in our analysis is the CB anchor, which for covered bond programmes under the covered bond law in Slovakia is the CR Assessment plus one notch.

Issuer analysis - Dependency on the issuer's credit quality

The credit quality of the covered bonds depends primarily on the credit quality of the issuer. If the issuer's credit strength were to deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds. Consequently, the credit quality of the covered bonds would deteriorate unless other credit risks were to decrease.

In the event that the CB anchor deteriorates, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to a negative rating action.

Reasons for the high level of dependency of the covered bonds with the issuer also include exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For example, before a CB anchor event, the issuer may add new assets to the cover pool and remove assets from the cover pool, issue further bonds and enter new hedging arrangements. Such actions could reduce the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, which creates substitution risk. Nevertheless, cover pool quality over time will be protected by, among other things, the requirements of the Slovak legal framework for covered bonds, which specifies what types of assets are eligible. (See "Covered Bond Legal Frameworks")

Refinancing risk

Following a CB anchor event, the "natural" amortisation of the cover pool assets alone cannot be relied on to repay the principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our rating methodology. (See "Moody's Approach to Rating Covered Bonds")

The refinancing-positive factors outweigh the negative ones. The refinancing-positive aspects of this covered bond programme include:

» A portfolio of prime residential mortgage loans is perceived to be of better credit quality and thus could improve sale conditions.

» The 180-day liquidity requirement could provide more time for arranging and negotiating the terms of refinancing.

» Covered bonds are soft bullet. The maturity of the covered bonds can be extended up to 24 months under the covered bond law. (See "Covered bond analysis - Additional analysis - Extension period").

The refinancing-negative aspects of this covered bond programme include the relatively small size of the Slovak economy and low systemic importance of covered bonds as a funding tool, which could make it difficult to sell a relatively large mortgage portfolio at moderate prices.

Interest rate and currency risk

As with the majority of European covered bonds, there is potential for interest rate and currency risks, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

Exhibit 5

Overview of assets and liabilities

	WAL Assets (Years)	WAL Liabilities (Years)	Assets (%)	Liabilities (%)
Fixed rate	17.4	3.5	100.0%	100.0%
Variable rate	n/a	n/a	0.0%	0.0%

WAL = weighted average life
n/a = not applicable
Sources: Moody's Investors Service, issuer data

In the event of issuer insolvency, we currently do not assume that the insolvency administrator would always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following a CB anchor event, our model would separately assess the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest rate and currency stresses used over different time horizons are published in our Rating Methodology.

Aspects of this covered bond programme that are market-risk positive include:

» All assets in the cover pool and the covered bonds pay fixed rate interest. This limits the potential interest-rate mismatches in case of rate movements.

» No currency risk. Currently, all the assets and liabilities are denominated in euros.

Aspects of this covered bond programme that are market-risk negative include:

» All of the cover pool assets are fixed rate. A potential sale of fixed-rate assets to meet payments due on covered bonds following a CB anchor event could lead to a crystallisation of mark-to-market losses caused by interest rate movements upon issuer default. The amount of mark-to-market losses is mitigated by the general short-term fixed rate periods of Slovak residential mortgage loans. The remaining fixed rate period of the mortgage loans in the initial cover pool is relatively long (5.9 years) compared to other Slovak cover pools because in 2022, CSOB originated a large portion of loans with 10-year fixed rate due to the larger demand for long-term fixed periods by borrowers who anticipated rising interest rates. These longer fixed rate periods protect borrowers against raising interest rates but increase market value risk in case the cover pool would need to be sold.

Timely Payment Indicator

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments would be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable level of OC. We have assigned a TPI of Probable to CSOB's covered bonds, in line with other mortgage covered bonds issued under the Slovak covered bond legislation.

The TPI leeway for this programme is three notches. The TPI leeway implies that we might downgrade the covered bonds' rating because of a TPI cap if we were to lower the CB anchor by more than three notches, all other variables being equal.

The TPI-positive aspects of this covered bond programme include:

» Covered bonds have a soft bullet repayment at maturity, with an extension period of 24 months for the repayment of the bonds.

» The issuer is required to cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and payments due under the outstanding covered bonds. (See “Covered bond analysis - Additional analysis - Liquidity”)

» The strength of the Slovak covered bond legislation and the level of support provided to covered bonds in Slovakia.

» The credit quality of the cover pool assets, reflected by the collateral score of 4.0%.

The TPI-negative aspects of this covered bond programme include:

» The relatively small size of the Slovak economy and low systemic importance of covered bonds as a funding tool could make it difficult to sell a relatively large mortgage portfolio at moderate prices.

» Set-off risk. (See “Cover pool analysis - Additional cover pool analysis - Set-off risk”)

» The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.

Additional analysis

Liquidity

The Slovak covered bond legislation requires the issuer to check on an ongoing basis the overall maturity matching of cash flows within the covered bond programme during a rolling 180-day period. The test, which is calculated as the maximum cumulative daily net liquidity outflow for the next 180 days, limits liquidity risk in Slovak cover pools. If outgoings are higher at any point than the cash flow generated, the issuer is obliged to cover the difference with a buffer of liquidity reserve assets, which form part of the cover pool.

However, the covered bond programme would not benefit from any designated source of liquidity if scheduled cash flow collections were to be interrupted and lead to greater-than-expected liquidity gaps.

The issuer is also required to maintain a minimum OC level of 5% on a nominal basis.

After an issuer default, and provided that the transfer of the covered bond programme to another entity fails, the general insolvency administrator would have the ability to sell a portion of the cover pool to make timely payments on the bonds.

Time subordination

After a CB anchor event, later-maturing covered bonds would be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. Such payments could result in the erosion of OC before any payments are made to later-paying covered bonds.

Cover pool description

Pool description as of 30 November 2023

As of 30 November 2023, the cover pool consisted entirely of residential assets located in Slovakia. The majority of the cover pool assets are loans backed by properties located in Bratislavský kraj (33.1%) region of Slovakia.

On a nominal value basis, the cover pool assets total €784.0million, which will back the initial covered bond issuance. The level of OC is 20.6%. The weighted average loan-to-value (LTV) ratio of the residential loans is 51.7%. (For Ceskoslovenska obchodna banka underwriting criteria, see "Appendix: Income underwriting and valuation")

Following Exhibits show more details about the cover pool characteristics.

Residential mortgage loans

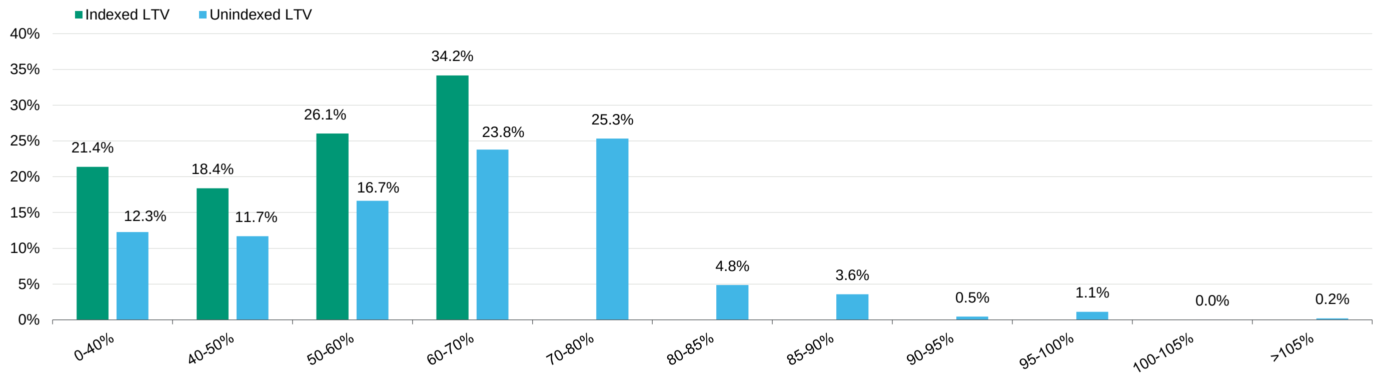
Exhibit 6
Cover pool summary

Overview		Specific Loan and Borrower characteristics	
Asset type:	Residential	Loans with an external guarantee in addition to a mortgage:	0.0%
Asset balance:	784,046,580	Interest only Loans	0.0%
Average loan balance:	54,577	Loans for second homes / Vacation:	1.7%
Number of loans:	14,336	Buy to let loans / Non owner occupied properties:	1.2%
Number of borrowers:	14,029	Limited income verified:	0.0%
Number of properties:	14,336	Adverse credit characteristics (**)	0.0%
WA remaining term (in months):	243		
WA seasoning (in months):	52	**Performance**	
		Loans in arrears (≥ 2months - < 6months):	0.0%
Details on LTV		Loans in arrears (≥ 6months - < 12months):	0.0%
WA unindexed LTV (*)	68.2%	Loans in arrears (≥ 12months):	0.0%
WA Indexed LTV:	51.7%	Loans in a foreclosure procedure:	0.0%
Valuation type:	Market Value		
LTV threshold:	80.0%	**Multi-Family Properties**	
Junior ranks:	n/a	Loans to tenants of tenant-owned Housing Cooperatives:	n/d
Loans with Prior Ranks:	0.0%	Other type of Multi-Family loans (***)	n/d

n/a: not available.
(*) May be based on property value at the time of origination or further advance or borrower refinancing.
(**) Typically borrowers with a previous personal bankruptcy or borrowers with a record of court claims against them at the time of origination.
(***) This "other" type refers to loans directly to Housing Cooperatives and to Landlords of Multi-Family properties (not included in Buy to Let).
Sources: Moody's Investors Service and issuer data

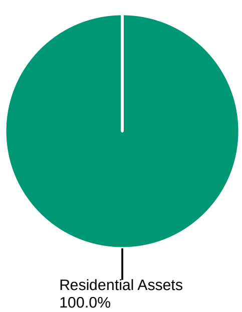
Cover pool characteristics

Exhibit 7
Balance per LTV band



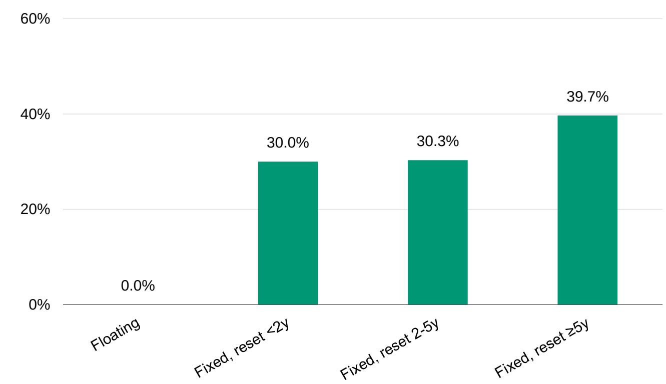
Sources: Moody's Investors Service and issuer data

Exhibit 8
Percentage of residential assets



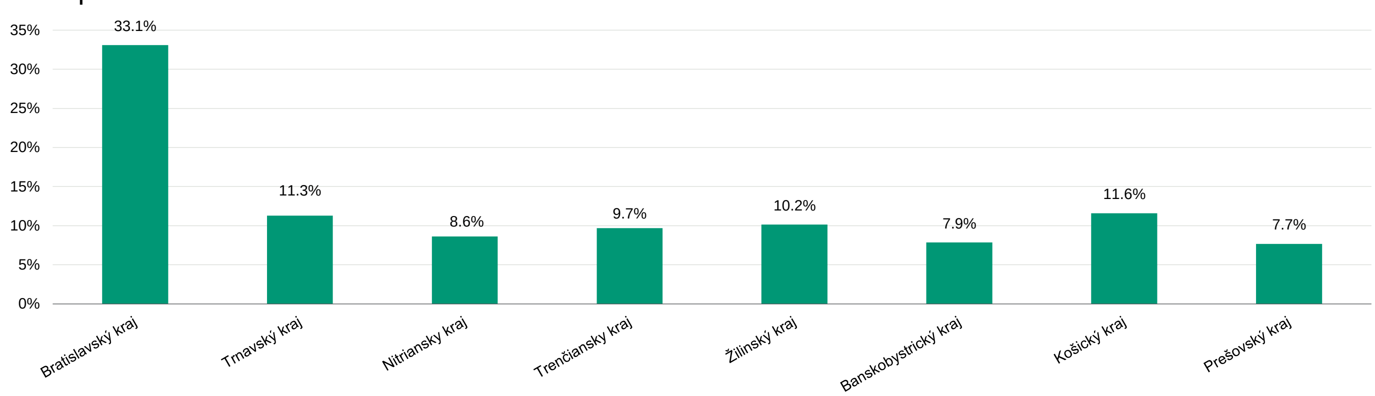
Sources: Moody's Investors Service and issuer data

Exhibit 9
Interest rate type



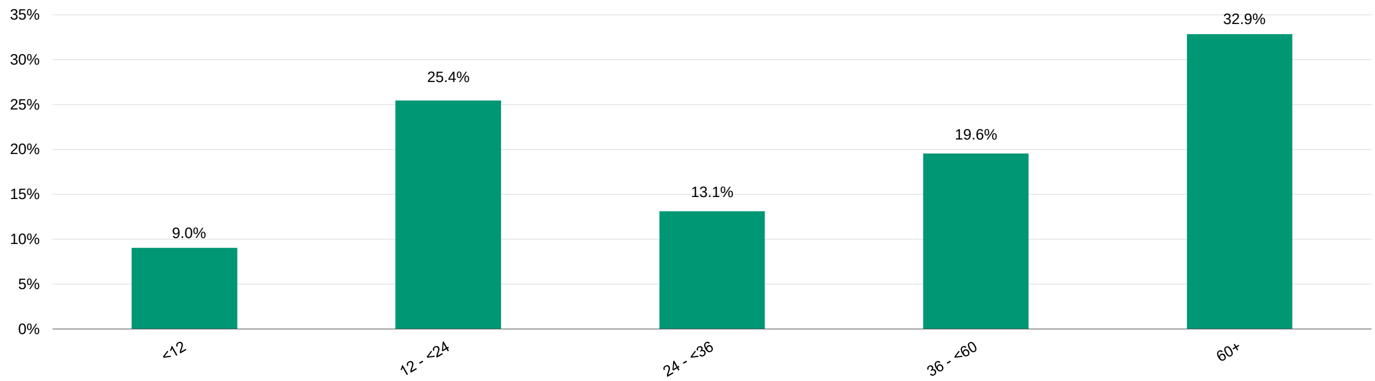
Sources: Moody's Investors Service and issuer data

Exhibit 10
Balance per LTV band



Sources: Moody's Investors Service and issuer data

Exhibit 11
Balance per LTV band



Sources: Moody's Investors Service and issuer data

Substitute assets

Pursuant to the Slovak covered bond legislation, the regulator (National Bank of Slovakia) has appointed a cover pool monitor and a backup cover pool monitor. (See "Covered Bond Legal Frameworks")

Cover pool analysis

Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

Primary cover pool analysis

We calculate the collateral score for the cover pool using a scoring model to assess the credit risk for the residential assets in the cover pool. Our analysis takes into account, among other factors, the LTV ratios of the mortgage loans, the seasoning and the geographical distribution.

For this programme, the collateral score of the current pool is 4.0%, which is in line with the average collateral score of 4.2% in other Slovak mortgage covered bonds and in line with other cover pools that consist of residential mortgage loans only. (For details, see "Moody's Global Covered Bonds Sector Update, Q4 2023").

The following factors support the credit quality of the pool:

» All the assets are performing (or less than three months in arrears).

» All the loans are granted to individuals and are secured by a first economic lien on residential properties in Slovakia.

» All the residential mortgage loans are denominated in euros (local currency). Therefore, borrowers are not exposed to currency risk.

Comparables

Exhibit 12

Comparables - Ceskoslovenska obchodna banka (Slovakia) - Mortgage Covered Bonds and other selected Slovak deals

PROGRAMME NAME	Ceskoslovenska obchodna banka (Slovakia) - Mortgage Covered Bonds	Prima banka Slovensko, a.s. - Mortgage Covered Bonds	Slovenska Sporitelna, a.s. - Mortgage Covered Bonds	Tatra Banka, a.s. - Mortgage Covered Bonds	Vseobecna Uverova Banka a.s. - Mortgage Covered Bonds
Overview					
Programme is under the law	Slovakia	Slovakia	Slovakia	Slovakia	Slovakia
Main country in which collateral is based	Slovakia	Slovakia	Slovakia	Slovakia	Slovakia
Country in which issuer is based	Slovakia	Slovakia	Slovakia	Slovakia	Slovakia
Total outstanding liabilities	650,000,000	2,500,000,000	4,151,396,960	2,388,000,000	4,617,707,232
Total assets in the Cover Pool	784,046,580	3,837,420,161	5,771,412,044	2,888,503,783	5,919,894,249
Issuer name	Ceskoslovenska obchodna banka	Prima Banka Slovensko, a.s	Slovenská sporitelna, a.s.	Tatra banka, a. s.	VUB
Issuer CR assessment	A1(cr)	Unpublished	A1(cr)	A2(cr)	A2(cr)
Group or parent name	n/a	n/a	n/a	n/a	n/a
Group or parent CR assessment	n/a	n/a	n/a	n/a	n/a
Main collateral type	Residential	Residential	Residential	Residential	Residential
Collateral types	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%	Residential 99%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 1%	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%	Residential 87%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 13%
Ratings					
Covered bonds rating	Aaa	Aaa	Aaa	Aaa	Aa1
Entity used in Moody's EL & TPI analysis	Ceskoslovenska obchodna banka	Prima banka Slovensko, a.s.	Slovenska sporitelna, a.s.	Tatra banka, a.s.	Vseobecna uverova banka, a.s.
CB anchor	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch
CR Assessment	A1(cr)	Unpublished	A1(cr)	A2(cr)	A2(cr)
SUR / LT Deposit	A2	n/a	A2	A3	n/a
Unsecured claim used for Moody's EL analysis	Yes	No	Yes	Yes	Yes
Value of Cover Pool					
Collateral Score	4.0%	4.7%	4.0%	4.0%	4.0%
Collateral Score excl. systemic risk	n/a	n/a	n/a	n/a	n/a
Collateral Risk (Collateral Score post-haircut)	2.7%	3.1%	2.7%	2.7%	2.7%
Market Risk	19.3%	14.7%	15.0%	9.1%	18.8%
Over-Collateralisation Levels					
Committed OC*	5.0%	5.0%	7.5%	5.0%	5.0%
Current OC	20.6%	53.5%	39.0%	21.0%	28.2%
OC consistent with current rating	11.5%	15.5%	9.0%	8.5%	1.0%
Surplus OC	9.1%	38.0%	30.0%	12.5%	27.2%
Timely Payment Indicator & TPI Leeway					
TPI	Probable	Probable	Probable	Probable	Probable
TPI Leeway	3	Unpublished	3	2	3
Reporting date	30 November 2023	30 September 2023	30 September 2023	30 September 2023	30 September 2023

*We consider this level of OC as committed according to our methodology even though the level of OC provided via the asset cover test might be higher because the issuer could reduce the level of OC down to this level without a rating impact on our covered bond rating.

Source: Moody's Investors Service, issuer data

ESG considerations

Our Cross-Sector Rating Methodology "General Principles for Assessing Environmental, Social and Governance Risks" explains our general principles for assessing ESG credit risks in our credit analysis for all sectors globally.

Environmental considerations

Overall exposure to meaningful environmental credit risks is low in this programme.

» In respect of physical risks to the cover pool, the geographical diversification of the pool, the largest concentration being 33.1% in the Bratislava region.

» In respect of regulatory risk, we expect that over time buildings that do not meet climate-aligned standards for energy efficiency or carbon emissions will face regulatory sanctions and value impairment. However, we expect much of this risk to be gradually absorbed into the periodic updating of property valuations and income underwriting or ongoing capex for modernisation. This will impact key credit metrics such as LTVs.

In the event of shocks in connection with regulation or physical hazards, the impact on property/building collateral will be partly mitigated by borrowers' liability to repay mortgage loans regardless of property value.

Social considerations

Overall exposure to social factors is moderate for this programme. Misconduct, poor handling of data security and customer privacy breaches by lenders are the most significant social risks that may in due course affect the credit quality of the cover pool, although lenders' financial and operational flexibility and track record of adjusting to social issues may mitigate this. In addition, the diversified nature of the cover pool is a mitigant to exposure to social factors.

Social factors that potentially affect the cover pool have varied implications. Social risks can arise from changing demographic trends such as aging, urbanization, an increase in telecommuting and flight from cities, population declines or ways of living trends in general that impact the supply or demand for housing in particular areas, which can reduce home values. Societal and demographic trends will be relevant but typically develop over an extended timeframe that smooths out materiality for expected loss.

Social issues may also be driven also by a political agenda related to housing and consumer protection, particularly in down cycles, creating pressure on recovery values. Borrower-friendly legislation as a reaction to consumer activism can affect both the underwriting and the servicing of mortgage loans in the cover pool. Social policy-driven decisions, such as lowering underwriting standards at government-sponsored enterprises to increase homeownership, would reduce the credit quality of the cover pool.

Governance considerations

Overall exposure to meaningful governance credit risks is low and similar to other covered bond programmes under Slovak law.

The principal sources of governance for this programme are Slovakia's covered bond law. In this programme, there are control mechanisms in place that are designed to protect covered bondholders from mistakes, misallocation of cash flows and misappropriation of assets, and that promote compliance with the covered bond legal framework and operational and reporting requirements.

In particular, we note that (i) the issuer is a regulated credit institution with experience and expertise in carrying out residential mortgage lending and servicing activities; (ii) the issuer maintains the cover pool on its balance sheet, incentivising it to maximise cover pool value and aligning its interest with that of covered bond investors; (iii) the cover pool monitor and general insolvency administrator are independent roles mandated and governed by the covered bond law and the cover pool monitor/administrator owe duties to bondholders; and the covered bond law (iv) ensures the bankruptcy remoteness of the cover pool; and (v) contains detailed reporting requirements and sanctions for issuer noncompliance.

Methodology and monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in December 2023. Other methodologies and factors that may have been considered in the rating process can also be found on https://ratings.moodys.com. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at //www.moodys.com/SFQuickCheck.

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This lack of data availability could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

Appendix: Income underwriting and valuation

Exhibit 13

Income underwriting and valuation - Residential assets

A. Residential Income Underwriting	
1 Is income always checked?	Yes
2 Does this check ever rely on income stated by borrower ("limited income verification") ?	No
3 Percentage of loans in Cover Pool that have limited income verification	N/A
4 If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	N/A
5 Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST")?	We apply payment capacity: NBS Indicator of ability to pay, NBS DTI - Total loan exposure to the yearly income , KBC DSTI -Debt Service to Income
6 If not, what percentage of cases are exceptions.	N/A
For the purpose of any IST:	
7 Is it confirmed that income after tax is sufficient to cover both interest and principal?	1. Income as salary - it is always verified as netto (after taxation). 2. self-employed , company owners - 15% or 35% from turnover /sales (we have low %, because we accept this income before taxation). 3. pensions - it is always after taxation.
8 If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	Every customers have monthly installment, when it is always paid the both -the pricipal and interest (we apply anuity repayment)
9 Does the age of the borrower constrain the period over which principal can be amortised?	N/A
10 Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	Yes - in NBS Indicator of ability to pay we are stressing interest rate by 200 bps
11 Are all other debts of the borrower taken into account at the point the loan is made?	Yes
12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax)	1. NBS Payment capacity is dependent on the living minimum amount, which is updated once a year by the parliament of SR. Living minimum (LM) is applicable for all applicants and also children. Indicator of ability to pay: Value is max.1 (100%). $Indicator = \frac{Install_{SBCB} + 0{,}03 * (OVD + CC) + 1{,}3 * MTGinst.}{(1 - 0{,}40) * (income\ - LM\ - alimony\ - involuntary\ deductions\ from\ income)}$ 2. NBS DTI=(loans exposure+limit now processed loan)/(monthly income x 12) The value is max. 8 3. KBC DSTI: $DSTI\ = \frac{MTG_{SBCB} +\ CL_{SBCB} + 0{,}03 * (OVD + CC) + MTGinst.}{income}$ max. DSTI 70%
Other comments	

B. Residential Valuation	
1 Are valuations based on market or lending values?	Valuation are based on market value.
2 Are all or the majority of valuations carried out by external valuers (with no direct ownership link to any company in the Sponsor Bank group)?	In all cases the external expert opinion has to be submitted. External valuers do not have direct ownership link to any company from CSOB financial group.
3 How are valuations carried out where an external valuer not used?	In majority case also supervision of external expert opinion by internal qualified experts is used.
4 What qualifications are external valuers required to have?	External valuers must have university degree in civil engineering, post-gradual education in evaluation of real estates, state exam valid for external experts, and they also have to be registered in list of external experts kept by Ministry of Justice of SR (i.e. they are alowed to prepare external expert opinion).
5 What qualifications are internal valuers required to have?	Internal valuers must have the same qualification as external valuers - they have university degree in civil engineering, post-gradual education in evaluation of real estates, state exam valid for external experts, and majority of them is also registered in list of external experts kept by Ministry of Justice of SR (i.e. they are alowed also to prepare external expert opinion).
6 Do all external valuations include an internal inspection of a property?	Yes, external expert are obliged to do full on-site visit of the evaluated real estate.
7 What exceptions?	
8 Do all internal valuations include an internal inspection of a property?	Internal valuations are not used as single valuation - internal qualified experts provide the supervision of external expert opinion (these include also on-site visit).Internal qualified experts, in case they assesed it as needed, provide also internal inspection (at least drive by)
9 What exceptions?	
Other comments	

Source: Issuer

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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