

**Report of the Cover pool monitor of the Covered Bond Programme of
Slovenská sporiteľňa, a.s. for 2019**

27 April 2020

Reason for Report Submission

This report is prepared and submitted to the National Bank of Slovakia (hereinafter referred to as “NBS”) on the basis of the Act No 483/2001 on banks and on amendments to certain laws, as amended (hereinafter referred to as “Banks Act”) laying down the obligation of the Cover pool monitor of the covered bond programme (hereinafter referred to as “Monitor”) to submit a report on the Covered Bond Programme (hereinafter referred to as “Report”) for the previous year by 30 April of the current calendar year.

Contents of the Submitted Report

The Report contains mainly information on the Covered Bond Programme (hereinafter referred to as “CB Programme”) of Slovenská sporiteľňa, a.s. (hereinafter referred to as “Bank”), namely:

- a) number, volume, yields and maturities of issued covered bonds (hereinafter referred to as “CB”) and assignment of primary assets and substitution assets to the issues;
- b) volume of assets in the cover pool and CB in EUR or in a foreign currency;
- c) cover pool structure;
- d) coverage ratio;
- e) average amounts and maturities of primary assets; fixation times and weighted interest rates; categorisation of weighted interest rates and credit volumes by fixation time; categorisation of primary assets by maturity;
- f) volume of defaulted mortgage loans and volume of mortgage loans excluded from the cover pool;
- g) reasons for substantial changes in adding or excluding assets to and from the cover pool;
- h) structure of the real estate by which primary assets in the cover pool are secured, i.e. a breakdown into family houses, flats, building land plots and buildings under construction;
- i) proportional distribution of the real estate/collateral assets by which primary assets are secured across the territorial divisions of the Slovak Republic (hereinafter referred to as “SR”) and the loan-to-value ratio;
- j) method of calculation and the amount of estimated liabilities and bank costs,
- k) methodology and results of stress testing;
- l) the Monitor’s activity and NBS’s supervision in relation to the CB Programme for the last calendar year;
- m) other facts related to the activity of the Bank being the CB issuer.

Opinion of the Manager

In the course of 2019, the Bank performed activities related to the CB programme in compliance with the Banks Act, Measure No 13 of NBS of 6 November 2018 on the register of covered bonds (hereinafter referred to as “NBS Measure No 13”) and other related legislation of general application. As part of its internal processes and procedures, the Bank created the required organisational, technical, legal and personnel conditions in order to comply with the requirements imposed on a CB issuer by the respective provisions of the Banks Act.

My opinion is based on the findings identified in executing the supervision and inspection of the operation of the CB Programme at the Bank, mainly with regard to compliance with Section 79 of the Banks Act, which I performed on a regular monthly basis. I performed the Monitor’s activity autonomously, independently and impartially, in coordination with the Bank which allowed me to inspect the required records, documents, systems, and premises related to the CB Programme in the course of the year. In case of my absence and during the monthly supervision and inspection I also cooperated with my deputy, Ing. Soňa Vágnerová.

Bratislava, 27/04/2020

Ing. Vladimír Jánošík
Monitor of the Covered Bond Programme

Report of the Monitor on the Covered Bond Programme for 2019 - Information Requirements

- a) number, volume, yields and maturities of the CD issues and assignment of primary assets and substitution assets to the issues

Table 1 - Covered Bonds issued in 2019

ISIN	Number of issued CB	Volume of issued CB, in EUR million	Bond issue date	Maturity date	Currency	Rate structure	Current IR value (31/12/2019)
SK4000015400	5 000	500.0	12/06/2019	12/06/2026	EUR	FIX	0.125%

Prior to each CB issue, the Monitor's written certificate was issued proving the existence of coverage of CB in compliance with the Banks Act.

Table 2 - Assignment of primary assets and substitution assets to the issues (no supplementary assets were recorded at the Bank as of 31/12/2019)

Issue	Issue volume (in EUR million)	Primary asset value (EUR million)	Weighted LTV of the issue (%)	Primary asset value to issue volume ratio (%)
SK4120009283	2.2	3.8	48.3	174.6
SK4120010521	4.2	7.5	49.6	179.1
SK4120010745	4.8	8.4	52.0	173.7
SK4120010877	4.8	8.5	52.7	176.1
SK4120010943	50.0	85.9	50.5	171.9
SK4120009754	9.8	17.0	50.4	172.9
SK4120010984	4.9	8.4	50.0	171.5
SK4120011024	4.3	7.3	49.8	171.7
SK4120011081	3.5	6.3	50.3	179.1
SK4120011206	40.0	68.8	50.6	172.0
SK4120010356	15.0	25.7	50.3	171.5
SK4120011685	50.0	85.7	50.0	171.5
SK4120011198	3.0	5.1	49.6	171.9
SK4120011453	50.0	85.8	50.7	171.7
SK4120011479	6.9	12.2	50.4	176.7
SK4120009812	8.2	14.2	50.2	172.9
SK4120011552	4.9	9.0	51.0	182.0
SK4120005927	16.6	28.5	51.6	171.5
SK4120011602	4.9	8.6	48.4	174.8
SK4120009333	4.8	8.3	49.1	172.2
SK4120011644	3.9	6.8	50.9	175.0
SK4120010034	9.4	16.2	48.5	172.4
SK4120011768	4.9	8.4	49.0	172.3

Issue	Issue volume (in EUR million)	Primary asset value (EUR million)	Weighted LTV of the issue (%)	Primary asset value to issue volume ratio (%)
SK4120010075	3.5	6.2	50.2	179.5
SK4120011875	4.9	8.5	52.2	172.4
SK4120011974	4.9	8.4	50.5	172.1
SK4120012014	4.9	8.5	50.5	172.7
SK4120012089	4.9	8.8	48.7	177.4
SK4120012295	100.0	171.5	50.6	171.5
SK4120011321	17.0	29.4	50.0	173.0
SK4120012303	9.8	17.0	50.8	173.6
SK4120010489	35.0	60.2	50.0	172.0
SK4120009895	11.0	19.2	50.2	174.7
SK4120013020	5.0	8.7	50.4	174.0
SK4120010968	10.0	17.2	51.5	172.1
SK4120013392	150.0	258.4	50.4	172.3
SK4120014812	250.0	429.1	50.6	171.7
SK4120008947	4.4	7.7	50.4	178.0
SK4120012683	100.0	171.6	50.2	171.6
SK4120010950	10.0	17.2	49.3	172.0
SK4120014507	250.0	429.5	50.2	171.8
SK4120011586	9.0	15.5	51.5	172.5
SK4000015400	500.0	857.9	50.5	171.6
SK4120005505	16.6	28.6	51.1	172.1
SK4120009218	6.6	11.4	52.3	172.5
SK4120009804	4.9	8.4	50.2	172.5

- b) volume of assets in the cover pool and CB in EUR or in a foreign currency

Table 3 - Volume of Primary assets and covered bonds, EUR million

Item*	12/2018	12/2019
Primary assets	3,226.0	3,135.6
Covered bonds	1,471.2	1,823.4

* SLSP, a.s. records primary assets and covered bonds only in the EUR currency

The rate of coverage of the total nominal value of issued CB together with pro-rata interest yields by cover pool assets is at least equal to the coverage ratio laid down in Section 69 of the Banks Act (105.0%).

- c) cover pool structure

Table 4 - Cover pool change, in EUR million

Item	12/2018	12/2019
Cover pool	3,339.3	3,255.5
Primary assets	3,226.0	3,135.6
Substitution assets	-	-
Hedging derivatives	-	-
Liquid assets	113.2	119.9

The Bank meets the requirements for the cover pool structure in compliance with the Banks Act.

d) coverage ratio

As of 31/12/2019, the coverage ratio is 178.2%, which highly exceeds the required 105.0% and 107.5%, respectively.

Table 5 - Coverage ratio change, in %

Item	12/2018	12/2019
Coverage ratio	226.5	178.2

e) average amounts and maturities of primary assets; fixation times and weighted interest rates; categorisation of weighted interest rates and credit volumes by fixation time; categorisation of primary assets by maturity

Table 6 - Characteristics of primary assets

Item	12/2018	12/2019
Average volume (EUR million)	36,015.0	39,846.0
Maturity (in years)	19.8	19.9
Fixation time (in years)	4.4	4.3
Weighted IR (%)	1.82	1.57

Table 7 - Categorisation of weighted interest rates and credit volumes by fixation time

Interest rate type	Primary assets (EUR million)	Weighted IR (%)
Variable	-	-
Fixed, up to 1 year	20.3	2.00
Fixed, 1 to 3 years	1,128.8	1.39
Fixed, 3 to 5 years	1,961.9	1.65
Fixed, 5 to 10 years	18.1	1.90
Fixed, over 10 years	6.5	6.09
Total	3,135.6	1.57

Table 8 - Categorisation of primary assets by maturity

Residual maturities of primary assets	Underlying assets (EUR million)
0 to 1 year	3.0
1 to 2 years	7.4
2 to 5 years	73.5
5 to 10 years	316.6
10 to 15 years	479.6
15 to 20 years	620.6
20 to 25 years	734.4
25 to 30 years	900.4
Total	3,135.6

f) volume of defaulted mortgage loans and volume of mortgage loans excluded from the cover pool

Table 9 - Excluded and defaulted mortgage loans, EUR million

Item	12/2018	12/2019
Total exclusions	56.4	78.9
out of that, due to mortgage loan default	0.6	0.7

g) reasons for substantial changes in adding or excluding assets to and from the cover pool

Primary assets were excluded from the cover pool for the following reasons:

- 1) Non-compliance with the basic criteria for including an primary asset in the covered bond register (hereinafter referred to as "CBR"):
 - Mortgage loan repayment term exceeding 30 years;
 - Borrower deemed to be in default (as per the default criteria laid down in Article 178 of EU Regulation 575/2013, namely "the obligor is past due more than 90 days on any material credit obligation"). The bank chose to take a significantly more responsible approach and adopted a stricter criterion of 30 days for underlying assets to be added to the cover pool;
 - Mortgage loan not secured by a residential property, as provided in the Housing Loan Act
 - The LTV ratio, expressing the ratio of the outstanding mortgage loan principal amount to the real estate collateral value, must not be higher than 80% for covered bonds issued after 1 January

2018 and 70% for re-registered mortgage bonds. The Bank's internal limit is 70% for all mortgage loans entered in CBR.

- 2) Non-compliance with conditions arising from a set of additional internal criteria. Since this information is considered confidential from the Bank's perspective, it is not specifically covered in this Report; nevertheless, I consider the introduction and application of these internal criteria to provide relevant additional protection for investors.
- 3) With effect from 30/06/2019, the Bank includes in CBR only mortgage loans supported by an expert opinion/appraisal and other types or valuation have been excluded from the criteria for inclusion of a mortgage loan in CBR.
- 4) Potential low quality of data.
- 5) (Premature) loan repayment.

In 2019, the Bank did not make any substantial changes in the addition or exclusion of assets to and from the cover pool;

- h) structure of the real estate/collateral assets by which primary assets in the cover pool are secured, i.e. a breakdown into family houses, flats, building land plots and buildings under construction

Table 10 - Structure of the real estate by which primary assets in the cover pool are secured: type, volume and ratio as of 31/12/2019

Item	Real estate value (EUR million)	Underlying assets (EUR million)	Proportion of underlying assets (%)
Flats	2,255.5	1,067.1	34.0
Single-family homes	4,538.6	1,800.9	57.4
Buildings under construction	622.2	267.6	8.5
Total	7,416.2	3,135.6	

Primary assets secured by building land plot collateral are not included in CBR.

- i) proportional distribution of the real estate by which the primary assets are secured across the territorial divisions of the SR and LTV ratios

Table 11 - Distribution of the real estate by territorial division of the SR (region) and by LTV ratio as of 31/12/2019

County	Primary assets (EUR million)	Proportional distribution (%)	Weighted IR (%)
Bratislava City	408.9	13.0	49.8
Banská Bystrica region	267.2	8.5	51.5
Bratislava region (except Bratislava City)	317.4	10.1	49.6
Košice region	362.6	11.6	50.9
Nitra region	304.8	9.7	51.4
Prešov region	318.2	10.1	50.6
Trenčín region	350.4	11.2	50.5
Trnava region	405.9	12.9	50.6
Žilina region	400.2	12.8	49.5
Total	3,135.6		

- j) method of calculation and amount of estimated liabilities and expenses of the Bank

In 2019, the estimated liabilities and expenses of the Bank as a CB issuer incurred in connection with the Banks Act and directly related to the management and settlement of CB vis-à-vis persons carrying out business under that Act, or incurred on the basis of the terms and conditions of issue, included only the compensations of the CB Programme monitor and its deputy in the amounts determined by NBS.

- k) methodology and results of stress testing

Carrying out its statutory obligation under Section 76 of the Banks Act to perform stress testing at least once a year (by 31/03), the Bank performed stress testing over data as of 31/12/2019 to identify possible changes in the coverage ratio. The stress testing was performed in compliance with Section 27 (7) of the Banks Act for the purposes of Internal Capital Adequacy Assessment (ICAAP). The bank has defined in its internal regulations the details of procedures for quantifying the various types of risk.

As of 31/12/2019, the Bank identified the following risks for the individual cover pool items:

Cover pool	Credit risk	Interest risk	Foreign exchange risk	Liquidity risk	Counterparty risk	Operational risk	Risk of decline in real estate prices
Primary assets	X		X			X	X
Substitution assets	X	X	X	X	X		
Hedging derivatives		X	X	X	X		
Liquid assets	X	X	X	X	X		

X - risk relevant to the given cover pool component

X - risk relevant to the Bank

The Bank performed a one-year stress test, i.e. quantified the coverage ratio value in 2020 on the basis of scenarios prepared by the Market Research & Customer Experience Department for 2019 to 2024 and with the application of a 21% decline in residential real estate prices for 2020 for risks with the highest impact on the coverage ratio calculation. The Bank quantified the coverage ratio using a scenario based on the statutory requirements for primary assets of the cover pool (80% LTV value and a maximum of 90 days past due for a credit obligation). During the stress testing, the bank did not consider the diversification effect between the individual types of risks, i.e. the total impact of the test scenario on the coverage ratio is the sum of impacts of the individual types of risks.

Based on the stress testing, there was a slight decline in the coverage ratio and its value, even after the stress testing, highly exceeds the statutorily defined minimum level of 105.0%, as well as the higher level of coverage rate declared by the investor, namely 107.5%. According to the submitted analyses of cover pool stress testing as of 31/12/2019, the bank sufficiently and safely, beyond the statutory obligations, ensures compliance with its obligations resulting from the CB programme.

The Bank treats the individual scenarios and results of the calculation of individual risks as confidential and, accordingly, they are not included in this report.

Given the analysis date, the Bank has not yet incorporated possible COVID-19 development scenarios for the economic environment;

l) Monitor's activity and NBS's supervision in relation to the CB Programme for the last calendar year;

During 2019, the Cover pool monitor and his deputy carried out the following activities:

- Monthly controls of CBR consisting in checks of the underlying data kept in CBR under the Banks Act, including new CBR items effective as of 1 July 2019 on the basis of the NBS Measure No 13. Errors identified were reported to the Bank and corrections were subsequently reviewed;
- Issuance of a written certificate in respect of the set-up of CBR for the CB issue of 06/2019;
- Review of random samples of the loan documentation for mortgage loans included in CBR;
- Meetings concerning the CB Programme project implemented under Section 75 (5) of the Banks Act for the keeping of separate analytical accounts, and under Section 68 (5) of the Banks Act for the redirection of cash flows from covered bond liabilities in case the Bank is unable to pay its financial debts as due.

In 2019, a meeting took place at NBS, which was attended by representatives of the Banking Supervision Department and the Banking and Payment Services Regulation Department.

m) other facts related to the operations of the Bank as a CB issuer

- In line with its commitment, the Bank maintained a coverage ratio higher than defined in Section 69 of the Banks Act (105.0%), namely 107.5%. This higher coverage is specified and declared to the investors in the basic prospectus of the programme for issuing debt securities. In order to

maintain the achieved CB rating and demonstrate the quality of the CB Programme, the value of the coverage ratio set as of 31/12/2019 is 120.5% as minimum;

- In 2019, the Bank was working towards completing its fully automated CB Programme management IT system (CRDS - Consolidated Data Reporting Store) (the full completion is scheduled for 30/06/2020).

