

**Report of the Cover Pool Monitor of the Covered Bond Programme at
Slovenská sporiteľňa, a.s. for year 2018**

23 April 2019

Reason of the Report

This report was elaborated and is submitted to the National Bank of Slovakia (hereinafter referred to as “**NBS**”) based on the Act No. 483/2001 on banks and on amendments and supplements of certain acts, as amended (hereinafter referred to as “**Bank Act**”) determining the obligation of the cover pool monitor of the covered bond programme (hereinafter referred to as “**Cover Pool Monitor**”) to submit a report on the covered bond programme (hereinafter referred to as “**Report**”) for the previous year by 30 April of the respective calendar year.

Contents of the Report

The Report contains mainly information on the covered bond programme (hereinafter referred to as “**CB Programme**”) at Slovenská sporiteľňa, a.s. (hereinafter referred to as “**Bank**”), namely:

- a) number, volume, yields and maturity terms of the issued covered bonds (hereinafter referred to as “**CB**”),
- 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 amount, maturity of the Primary Assets, fixation time and weighted interest rate,
- f) volume of default mortgages and the volume of mortgages discarded from the cover pool,
- g) reasons for substantial changes in asset supplementing or discarding of assets from the cover pool,
- h) structure of real estate serving as collateral for the Primary Assets in the cover pool, and that in the breakdown of family houses, flats, building lands and buildings under construction,
- i) proportional distribution of real estate serving as collateral for the Primary Assets according to the territorial breakdown of the Slovak Republic (hereinafter referred to as “**Slovakia**”) 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 activity of the Cover Pool Monitor and the supervision of NBS in relation to the CB programme for the last calendar year,
- m) other facts related to the activity of the bank that is the CB issuer.

Opinion of the Cover Pool Monitor

During the course of 2018, the bank performed activities related to the CB programme in compliance with the Bank Act, the NBS Decree No. 13 dated 6 November 2018 on the register of covered bonds (hereinafter referred to as “**NBS Decree**”) and other related generally binding legal regulations. Within its internal processes and procedures, the bank created the required organisational, technical, legislative and personnel conditions in order to comply with the requirements imposed by the respective regulations of the Bank Act on the CB issuer.

The opinion is based on the findings identified while performing supervision and inspection over the CB programme performance at the bank, mainly in compliance with Section 79 of the Bank Act, which I performed on a regular monthly basis. I performed the activity of the Cover Pool Monitor on my own, independently and impartially, and that in cooperation with the bank, which during the course of the year enabled to inspect the required records, documents, systems, and premises related to the CB programme. In case of my absence, as well as upon the monthly performed supervision and inspection, I also cooperated with my deputy, Ms Ing. Soňa Vágnerová.

Bratislava, 23 April 2019

Ing. Vladimír Jánošík
Cover Pool Monitor of the Covered Bond
Programme

Comments of the Cover Pool Monitor on the Covered Bond Programme for Year 2018

On 1 January 2018, an amendment of the Bank Act entered into force, which in its Part 12 defines the CB programme replacing the mortgage covered bonds (hereinafter referred to as “**MCB**”) programme used in the past. In relation to this amendment of the Bank Act, as well as the assumption of the increasing significance of long-term financing, as of January 2016, the bank started to perform activities related to the CB programme. In parallel with the process of obtaining the prior approval of NBS, which was granted to the bank on 16/07/2018, the bank also applied to the rating agency Moody's to assign a CB rating.

By re-registration of the items of the mortgage register valid as of 30/06/2018 in the CB register, the CB register was created on 23/07/2018. The re-registered MCB, mortgages, pledges and claims and other property values, which served as due or alternative collateral for MCB according to the status registered as of 30/06/2018 and which met the conditions for their inclusion in the cover pool pursuant to the Bank Act. When creating the CB register, the bank did not use any Substitute Assets or hedging derivatives. On 24/07/2018, the rating agency Moody's assigned the rating of Aaa to covered bonds of the bank. After its creation, the CB register was gradually completed with the required items according to the NBS Decree, which entered into force on 31/12/2018.

The substantial statutory criteria applied in the monitoring of the quality of Primary Assets (loans) covering the issued CB include the so-called “Loan-to-Value” ration expressing the ratio of the unpaid mortgage principal and the value of the collateralised real estate, while its value must not be higher than 80% for the CB issued after 1 January 2018 and for the re-registered MCB it must not exceed 70%.

Another important statutory criterion is the condition that the values of the Primary Assets do not include the claims/parts of claims of the bank, where there is a default of an obligor considered (Regulation (EU) No 575/2013, Article 178 setting forth the criteria for the default an obligor, where an obligor is considered to be in default if they have a credit liability past due for more than 90 days). In case of both requirements, the bank chose a significantly more responsible approach and made the criteria for Primary Assets entering into the cover pool stricter.

In the field of liquidity management of the CB Programme, an important statutory requirement is to maintain a buffer of liquid assets in case of a discrepancy between the positive and negative cash flows at any moment during the next 180 days as of the monitored period. In 2018, the bank maintained the volume of the buffer of liquid assets exclusively at the quality level 1 according to Regulation (EU) No 575/2013, which safely covered all the negative cash flows in the monitored period. At the same time, the bank did not apply any exception, specified in the transitional provisions of the Bank Act, the requirements for calculation of the buffer of liquid assets according to Section 74 (3) lit. b) of this act, and so each negative and positive cash flow from the principal and the interests was assigned with full value (the transitional period finishes on 1 January 2020).

Due to improvement of the quality of Primary Assets, the bank decided to create and apply a set of additional internal criteria. Since from the aspect of the bank, this information is considered to be confidential, it is not included herein; however, I consider the setting and application of these internal criteria to be a relevant additional protection of the investors.

Lastly, the bank undertook to maintain for the CB programme the coverage ratio higher than defined in Section 69 of the Bank Act (105.0%), namely at the level of 107.5%. This higher coverage is specified and declared to the investors in the basic prospectus for the programme for issuing debt securities. For the purpose of keeping the achieved CB rating, the value of the coverage ratio is set at the level of at least 119.5%.

Comments of the Cover Pool Monitor on the Covered Bond Programme for Year 2018 - Information Requirements

a) Number, volume, yields and maturity terms of the issued covered bonds

Table 1 - Issued Covered Bonds in 2018

ISIN	CB volume in mil. EUR	Date of bond issue	Maturity date	Currency	Fee structure	Current IR value (31/12/2018)
SK4120014507	250	22/08/2018	22/08/2025	EUR	FIX	0.63%
SK4120014812	250	05/12/2018	05/12/2024	EUR	FIX	0.50%

Prior to each CB issuance, a written certificate of the Cover Pool Monitor was issued to prove collateralising of CB in compliance with the Bank Act.

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

Table 2 - Development of the volume of Primary Assets and covered bonds in 2018, in million EUR

Item ⁽¹⁾	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Primary Assets	3,091.0	3,114.5	3,169.9	3,214.0	3,188.7	3,226.0
Covered bonds	1,129.8	1,334.6	1,324.6	1,324.4	1,321.3	1,471.2

(1) SLSP, a.s. records Primary Assets and covered bonds only in EUR currency

The total nominal value of the issued CB together with the aliquot interest yields is covered by the cover pool assets at least in the amount of the coverage ration pursuant to Section 69 of the Bank Act (105.0%).

c) Cover Pool structure

Table 3 - Cover pool development, in million EUR

Item	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Cover pool	3,202.4	3,226.0	3,281.4	3,325.7	3,301.6	3,339.3
Primary Assets	3,091.0	3,114.5	3,169.9	3,214.0	3,188.7	3,226.0
Substitute Assets	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-
Liquid assets	111.4	111.5	111.6	111.7	112.9	113.2

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

d) Coverage Ratio

Ad of 31/12/2018, the coverage ratio is 226.5%, which highly exceeds the required 105.0% and 107.5% respectively.

Table 4 - Development of the coverage ratio

Item	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Coverage ratio	282.8%	241.3%	247.2%	250.5%	249.3%	226.5%

e) Average amount, maturity of the Primary Assets, fixation time and weighted interest rate

Table 5 - Development of Primary Assets

Item	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Average loan amount (in EUR)	35,447.1	35,524.0	35,669.5	35,862.4	35,964.9	36,035.0
Maturity (in years)	19.8	19.8	19.8	19.8	19.9	19.8
Fixation time (in years)	4.5	4.4	4.5	4.4	4.4	4.4
Weighted interest rate	1.94%	1.92%	1.90%	1.87%	1.84%	1.82%

f) Volume of default mortgages and the volume of mortgages discarded from the cover pool

Table 6 - Development of deletions from the covered bond register, in million EUR

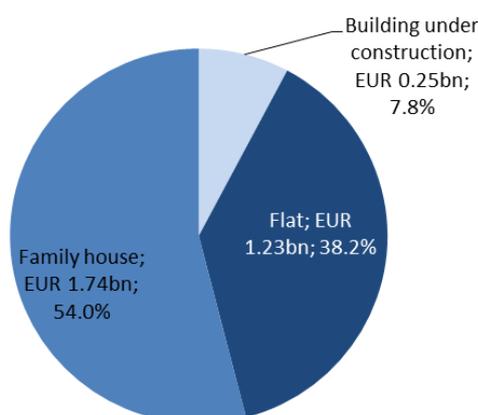
Item	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Deletions in total	59.2	47.9	41.7	48.4	92.7	56.4
out of that due to mortgage default	9.2	1.0	1.0	0.4	0.5	0.6

g) Reasons for substantial changes in asset supplementing or discarding of assets from the cover pool

In 2018, the bank did not make any substantial changes in the supplementation or discarding of assets from the cover pool.

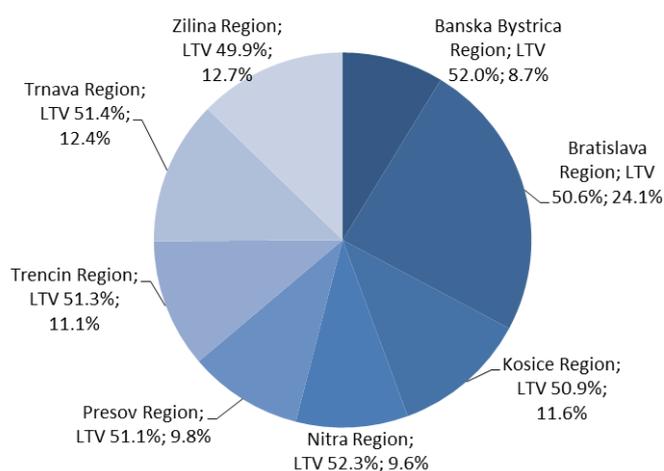
h) Structure of real estate serving as collateral for the Primary Assets in the cover pool, and that in the breakdown of family houses, flats, building lands and buildings under construction,

Chart 1 - Structure of real estate collateralising Primary Assets in the cover pool, type, volume, ratio as of 31/12/2018



i) Proportional distribution of real estate serving as collateral for the Primary Assets according to the territorial breakdown of the Slovakia and the loan-to-value ratio,

Chart 2 - distribution of real estate according to the territorial breakdown of the Slovakia (regions) - and according to the loan-to-value ratio (LTV ratio) as of 31/12/2018



j) Method of calculation and the amount of estimated liabilities and bank costs

Table 7 - Development of estimated liabilities, in thousand EUR

Item	7/2018	8/2018	9/2018	10/2018	11/2018	12/2018
Estimated liabilities	25.2	25.2	25.2	25.2	25.2	25.2

The table above shows the estimated liabilities and costs of the bank, which is the CB issuer and which result from the Bank Act and are directly connected with their administration and settlement against persons performing activities pursuant to the law or result from the issuance conditions. I consider the above-mentioned liabilities to be justified.

k) Methodology and results of stress testing

Pursuant to the statutory obligation according to Section 76 of the Bank Act to perform stress testing at least once a year, the bank performed stress testing to identify possible changes of the coverage ratio on the date as of 31/12/2018. The actual stress testing was performed in compliance with Section 27 (7) of the Bank Act for the purpose of Internal Capital Adequacy Assessment (ICAAP). In the internal regulations, the bank defined in detail the procedures of quantifying the individual types of risks.

As of 31/12/2018, 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
Substitute Assets	X	X	X	X	X		
Hedging derivatives		X	X	X	X		
Liquid assets	X	X	X	X	X		
X -risk relevant for the given part of the cover pool							
X -risk relevant for the bank							

The Bank performed a one-year stress testing, i.e. quantified the value of coverage ratio within the year of 2019 based of the scenarios prepared by the Market Research & Customer Experience Department for years 2018 to 2021 stating that for the risk with the highest impact on the coverage ratio calculation - the risk of decline in real estate prices, they used for 2019 estimation of the decline in residential real estate prices by 11%. The bank quantified the coverage ratio on the scenario based on the statutory requirements for Primary Assets of the cover pool (value of LTV 80% and with a maximum of 90-day credit obligation past due). 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 31/12/2018, the bank sufficiently and safely, beyond the statutory obligations, ensures compliance with its obligations resulting from the CB programme.

The individual scenarios and results of the calculation of individual risks is considered confidential by the bank and due to this reason, they are not included herein.

l) The activity of the Cover Pool Monitor and the supervision of NBS in relation to the CB programme for the last calendar year

The Cover Pool Monitor and the representative of the Cover Pool Monitor of the CB programme started to perform their activities based on appointment by NBS of 11/07/2018. During the second half-year of 2018, we became familiar with the processes at the bank, which are connected with the CB programme and that through the internal directives, methodical guidelines and communication with the competent bank units. We have learned about the archiving regulations and the archiving premises and at the same time, we can observe that the conditions determined for the storage of documents based on which entries in the CB register are made, and they are secured against abuse, destruction, damage, theft or loss. We have become acquainted with the accounting records, where analytical records are ensured in the form of an attribute within the bank systems. We were informed of the rules of collateral management and retail risk, and also based on the requirements of the bank, we provided the bank with necessary assistance in the activities related to the CB programme. At the same time, regularly, on a monthly basis, we checked the loan documentation that the Primary Assets (loans) are generated from as the main part of the cover pool. We continuously checked the liquid assets and bank liabilities as well. During the course of the year, the bank did not report any Substitute Assets or hedging derivatives within the cover pool. During the course of 2018, NBS did not perform supervision of the bank in relation to the CB programme.

m) Other facts related to the activity of the bank that is the CB issuer

During the course of 2018, based on the Bank Act and NBS Decree, the bank was preparing the IT system and an automated solution and management of the CB programme. The bank also ensured provision of the necessary data and collection of new data due to reconciliation of the data monitored by the bank with the determined legislative rules.

