

# Report of the Cover Pool Monitor of the Covered Bond Programme at Slovenská sporiteľňa, a. s. for 2022

21 April 2023

## Reason for Report Submission

This report is prepared and submitted to the National Bank of Slovakia (hereinafter "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"), including the:

- a) Number, volume, yields and maturities of issued covered bonds (hereinafter referred to as "CBs") and assignment of primary assets and substitution assets to the issues,
- b) Volume of assets in the cover pool and CBs in EUR or in a foreign currency,
- c) Cover pool structure,
- d) Coverage ratio,
- e) Average amounts and maturities of the underlying assets; fixation times and weighted interest rates; categorisation of the weighted interest rates and credit volumes by fixation time; categorisation of the underlying 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 the underlying assets in the cover pool are secured, i.e., breakdown into family houses, flats, building land plots and buildings under construction,
- i) Proportional distribution of the real estate/collateral assets by which the underlying 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 amount of estimated liabilities or costs of the Bank,
- k) Methodology and results of stress testing,
- l) Monitor's activity and NBS supervision in relation to the CB Programme for the last calendar year, and
- m) Other facts related to the activity of the Bank being the CB issuer.

## Opinion of the Monitor

In the course of 2022, 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 "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, impartially and in coordination with the Bank, which allowed me to inspect the required records, documents, systems, and premises related to the CB Programme over the year. In case of my absence and during the monthly supervision and inspection I also cooperated with my deputy, Ing. Soňa Vágnerová.

## Report of the Monitor on the Covered Bond Programme for 2022 – Information Requirements

- a) Number, volume, yields and maturities of the CB issues and allocation of primary assets and supplementary assets to the issues

Table 1 – Allocation of primary assets and substitution assets to the issues (no substitution assets were recorded at the Bank as of 31/12/2022)

ISIN	Volume of CB issue (mil. eur)	Volume of primary assets (mil. eur)	Weighted Average LTV for the issue (%)	Primary assets to CBs issue ratio (%)
SK4120014812	250.0	458.6	46.1	183.4
SK4120008947	4.4	8.0	47.5	184.6
SK4120012683	100.0	183.4	46.3	183.4
SK4120010950	10.0	18.3	46.2	183.4
SK4120014507	250.0	458.5	46.1	183.4
SK4120011586	9.0	16.5	46.6	183.7
SK4000015400	500.0	917.2	46.1	183.4
SK4000020673	500.0	917.2	46.0	183.4
SK4120005505	16.6	30.5	45.4	184.1
SK4000017190	500.0	917.1	46.0	183.4
SK4000021820	500.0	604.7	50.0	120.9
SK4120009218	6.6	12.2	46.4	184.7
SK4000021119	500.0	917.1	46.0	183.4
SK4120009804	4.9	9.0	48.1	186.4

Based on the increased need for loan financing (an increase in mortgage loans for the retail clients in 2022 in the amount of approximately EUR 1 billion), the bank issued three benchmark issues of covered bonds (minimum issue volume of EUR 500 million) in the total volume of EUR 1.5 billion during 2022, of which two syndicated issues (one issue entitled to use the label as "Green European Covered Bond (Premium)") and one issue the bank kept on its account as a collateral for the transactions with the ECB.

Table 2 – An overview of covered bonds issued in 2022

ISIN	No of CBs issued	Volume of CBs issued, (mil. eur)	Issue date	Maturity date	Currency	Rate type	Actual interest rate (31.12.2022) (%)
SK4000020673	5 000	500.0	12/04/2022	12/04/2027	EUR	FIX	1.125
SK4000021820	5 000	500.0	05/10/2022	05/04/2028	EUR	FIX	3.500
SK4000021119	5 000	500.0	08/06/2022	08/06/2028	EUR	FIX	2.000

- b) Volume of primary assets in the cover pool and CBs in EUR or in a foreign currency

Table 3 – Volume of primary assets and covered bonds, EUR million

Item*	12/2021	12/2022
Primary assets	3 297.1	5 468.5
Covered bonds	1 862.4	3 151.4

\* SLSP, a.s. keeps primary assets and covered bonds only in EUR

The total nominal value of issued CBs is covered by the cover pool assets at least in the amount of the coverage ration/requirement of 105% (Section 69, Act on Banks).

c) Cover pool structure

Table 4 – Cover pool change, in EUR million

Item	12/2021	12/2022
<b>Cover pool</b>	<b>3 417.7</b>	<b>5 518.5</b>
Primary assets	3 297.1	5 468.5
Substitution assets	-	-
Hedging derivatives	-	-
Liquid assets	120.6	50.0

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

The bank reduced the volume of liquid assets by the end of 2022 by EUR 70 million, due to the fact, that no CB is due in 2023. The bank covers the net liquidity outflow from CBs within 180 days with sufficient reserves (Section 74, Act on Banks) through positive cash flows from loans in the cover pool even with a reduced volume of liquid assets in the amount of EUR 50 million. In the event of an unexpected change in the liquidity situation, the bank has demonstrated the ability to increase the volume of liquid assets with credit quality step 1 (Section 74, Act on Banks) in a sufficient volume.

d) Coverage ratio

The coverage ratio as of 31/12/2022 is 174.2%, which significantly exceeds the required level of 105% (Section 69, Act on Banks) as well as the minimum level of voluntary overcollateralisation set by the bank (107.5%) and the level of overcollateralisation required by the Moody's rating agency (109.5%) for meeting the highest rating for CBs, grade "Aaa".

Table 5 – Coverage ratio change, in %

Item	12/2021	12/2022
Coverage ratio	183.2	174.2

e) average volumes and maturities of primary assets; fixation periods and weighted interest rates; categorisation of weighted interest rates and loan volumes by fixation period; categorisation of primary assets by maturity

Table 6 – Characteristics of primary assets

Item	12/2021	12/2022
Average volume (mil. eur)	39 524.0	47 393.0
Maturity (year)	19.5	21.3
Fixation period (year)	4.6	4.9
Weighted interest rate (%)	1.27	1.39

Table 7 – Categorisation of weighted interest rates and credit volumes by fixation time, EUR million

Interest rate type	Primary assets	Weighted interest rate (%)
Variable	-	-
Fix up to 1 year	61.6	1.81
Fix from 1 to 3 years	1 107.3	1.57
Fix from 3 to 5 years	3 979.0	1.30
Fix from 5 to 10 years	303.8	1.68
Fix over 10 years	16.8	2.57
<b>Total</b>	<b>5 468.5</b>	<b>1.39</b>

Table 8 – Categorisation of primary assets by maturity period, EUR million

Remaining maturity of primary assets	Primary assets
from 0 - to 1 year	2.0
from 1 - to 2 years	7.7
from 2 - to 5 years	75.0
from 5 - to 10 years	334.5
from 10 - to 15 years	621.2
from 15 - to 20 years	935.6
from 20 - to 25 years	1 480.5
from 25 - to 30 years	2 012.0
<b>Total</b>	<b>5 468.5</b>

The increase of the average loan volume is primarily related to the year-on-year growth in real estate prices, with the subsequent increase in the average amount of loans drawn by clients in 2022 and a higher average weighted "Loan to value" parameter of loans (hereinafter referred to as "LTV") entering the cover pool, from 43.5% in 2021 to 46.5% in 2022.

The extension of the maturity is related to a higher loan volume, which clients need to spread over a longer time and to the fulfilment of the conditions of the currently valid NBS measure No. 10 of 13 December 2016, as amended, establishing the details of the assessment of the consumer's ability to repay a mortgage loan.

The main reason for extension of the interest rate fixation period is the requirement of clients to have the same rate for a longer fixation period, mainly due to the expected further increase in interest rates. Clients mainly preferred fixations for 5 years or more.

The increase in the weighted average interest rate is related to the growth of market interest rates throughout 2022 and to the gradual increase in the key ECB interest rate in the last quarter of 2022.

- 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	12/2021	12/2022
Exclusion total	139.6	51.0
Exclusion due to repayment	48.2	27.8
Exclusion due to default	1.6	1.4

The decrease in the item "Total exclusions" was caused by the active cover pool management through the legal as well as internal criteria.

The main reason for the exclusion of assets from the covered bonds register (hereafter referred to as "CBR") was primarily the repayment of loans included in primary assets. An essential criterion for the quality of primary assets in CBR is the ongoing low volume of primary assets being excluded from the cover pool due to mortgage loan defaults.

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

**Supplementation of the cover pool:**

In 2022, the bank provided mortgage loans for the retail clients in the amount of approximately EUR 1 billion (the total volume of mortgage loans is EUR 10.3 billion, of which 84% are eligible loans, i.e., loans that meet the conditions for inclusion in primary assets). By decision of the bank, the cover pool was gradually supplemented with loans in the total volume of EUR 2.1 billion, while all legal and internal criteria were met. In addition, the high level of coverage indicator was maintained during the whole year 2022 at an average of 182%.

**Exclusion of assets from the cover pool:**

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

- 1) Non-compliance with the legal criteria for entering the primary asset into the 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 the Regulation of the European Parliament and of the Council (EU) No 575/2013, namely "the debtor 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 primary assets to be added to the cover pool;
  - Mortgage loan not secured by residential real estate, as required by the Act No 90/2016 on mortgage loans and on amendments to certain laws, as amended;
  - The LTV, which expresses the ratio of the outstanding mortgage loan principal amount to the real estate collateral value, which must not be higher than 80% for covered bonds issued after 1 January 2018 and 70% for re-registered mortgage bonds, is met. The Bank's internal limit is 70% for all mortgage loans entered in the CBR.
- 2) Failure to comply with the conditions resulting from setting of additional internal criteria, or use of internal criteria for cover pool management. 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 the internal criteria to provide relevant additional protection for investors.
- 3) With effect from 30/06/2019, the Bank includes in the CBR only mortgage loans supported by an expert opinion/appraisal (Articles 125, 208 and 229 of the Regulation of the European Parliament and of the Council (EU) No 575/2013) and other types or valuation have been excluded from the criteria for inclusion of a mortgage loan in the CBR.
- 4) Potential low quality of data, arising mainly from non-compliance with the Act on Banks and the NBS Measure No 13.
- 5) (Premature) loan repayment.

The most common reason for excluding assets from the cover pool was loan repayment and insufficient value of the LTV parameter (regular revaluation of the collateral value).

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

Table 10 – Structure of the real estate by which the primary assets in the cover pool are secured: type, volume and ratio as of 31/12/2022, EUR million

Item	Real estate value	Primary assets	Primary assets ratio (%)
Multi-family house	5 212.2	2 166.1	39.6
Single-family house	7 979.7	2 914.0	53.3
Buildings under construction	883.0	388.3	7.1
<b>Total</b>	<b>14 074.9</b>	<b>5 468.5</b>	

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

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

Table 11 – Distribution of the real estate by territorial division of the SR (regions) and by property value ratio to the amount of the mortgage loan (LTV ratio) as of 31/12/2022, EUR million

Kraj	Primary assets	Proportional distribution (%)	Wighted LTV (%)
Bratislava - city	621.7	11.4	44.6
Banskobystrický region	502.3	9.2	46.5
Bratislavský region (excl. Bratislava - city)	524.7	9.6	45.6
Košický region	667.5	12.2	46.7
Nitriansky region	547.5	10.0	48.6
Prešovský region	571.3	10.4	46.3
Trenčiansky region	613.1	11.2	46.9
Trnavský region	739.2	13.5	47.7
Žilinský region	681.3	12.5	45.7
<b>Total</b>	<b>5 468.5</b>	<b>100.0</b>	<b>46.5</b>

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

In 2022, the estimated liabilities and expenses of the Bank as a CB issuer incurred in connection with the Act on Banks and directly related to the management and settlement of CBs vis-à-vis persons pursuing business under the Act on Banks or incurred on the basis of the terms and conditions of issue, included only the fees 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 (before 31 March), the Bank performed the stress testing to identify possible changes in the coverage ratio over the data as of 31/12/2022. The stress testing was performed in compliance with Section 27 (7) of the Act on Banks 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 31/12/2022, the Bank identified the following risks for the individual cover pool items:

Cover pool	Credit risk	Interest rate risk	Currency risk	Liquidity risk	Counterparty risk	Operational risk	Property price decrease risk
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 for given cover pool asset  
X - risk relevant for the bank

The bank carried out one-year stress testing, i.e., quantified the value of the coverage indicator within the year 2023 based on scenarios developed by the Strategy and Client Experience division for the years 2023 to 2025. The Bank quantified the coverage ratio using a scenario based on the internal requirements for primary assets of the cover pool (70% LTV value and a maximum of 30 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 decline in the coverage indicator and its value, even after the stress testing, highly exceeds the statutory minimum level of the coverage indicator 105.0%, as well as the higher level of coverage indicator declared by the investor, namely 107.5%. According to the submitted analyses of cover pool stress testing as of 31/12/2022, the Bank ensures compliance with its obligations under the CB Programme sufficiently and securely, beyond statutory obligations.

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.

l) Activity of the Monitor and NBS supervision in relation to the CB Programme for the last calendar year

During 2022, the Monitor and the Deputy Monitor of the CB Programme carried out the following activities:

- Monthly controls of the CBR/controls of CBR in case of a new CB issue consisting in checks of the underlying data kept in the CBR under the Act on Banks, , including new CBR items effective from 1<sup>st</sup> July 2019 on the basis of the NBS Measure No 13. Identified errors and findings were reported to the Bank and corrections made by the Banks were subsequently verified,
- communication with the bank in case of changes to the CBR methodology (mainly changes to the Act on Banks in 2022) and setting of IT system,
- inspection of random samples of loan documentation for the mortgage loans included in the CBR,
- regular evaluation of the control of mortgage loans o monthly basis.

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

- participation in the preparation and implementation of the EU directive on CBs into Slovak legislation, cooperation with NBS and other parties involved,
- preparation of the first CB issue on the Slovak market – "Green European Covered Bond (Premium)",
- even after the amendment to the Act on Banks, the bank continued to include and for the future plans to include in the cover pool only mortgage loans secured by the residential real estates and meeting the conditions of Section 71 of the Act on Banks, and therefore does not plan to include loans secured by commercial real estates.



