

Report of the Cover Pool Monitor of the Covered Bond Programme of Slovenská sporiteľňa, a. s. for 2023

21 April 2024

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"), including the:

- a) Number, volume, yields and maturities of issued covered bonds (hereinafter referred to as "CBs") and allocation of primary assets (hereinafter referred to as "PA") 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 PA; fixation times and weighted interest rates; categorisation of the weighted interest rates and credit volumes by fixation time; categorisation of the PA 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 cover pool PA are secured, i.e. breakdown into single-family homes, flats, building land plots and buildings under construction;
- i) Proportional distribution of the real estate by which the PA are secured across the territorial divisions of the Slovak Republic (hereinafter referred to as "SR") and loan-to-value ratio;
- j) Method of calculation and amount of estimated liabilities or costs of the Bank being the CB issuer;
- 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 2023, the Bank performed activities related to the CB Programme in compliance with the Banks Act, NBS Measure No 13 of 2018 and NBS Measure No 5 of 2023 on the register of covered bonds (hereinafter "NBS Measure") and other related legislation of general application. As a 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 and 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.

Report of the Monitor on the Covered Bond Programme for 2023 – Information Requirements

- a) Number, volumes, yields and maturities of the CB issues and assignment of primary assets and substitution 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 31/12/2023)

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	344.5	41.5	137.8
SK4120008947	4.4	6.1	42.4	140.6
SK4120012683	100.0	137.8	41.7	137.8
SK4120010950	10.0	13.9	41.3	138.8
SK4120014507	250.0	344.6	41.0	137.8
SK4000022398	500.0	689.0	41.5	137.8
SK4120011586	9.0	12.5	43.7	138.7
SK4000015400	500.0	689.1	41.4	137.8
SK4000020673	500.0	689.1	41.5	137.8
SK4120005505	16.6	22.9	40.9	138.0
SK4000023636	500.0	689.1	41.2	137.8
SK4000017190	500.0	689.0	41.1	137.8
SK4000021820	500.0	689.0	46.6	137.8
SK4120009218	6.6	9.2	41.1	139.3
SK4000021119	500.0	689.0	41.3	137.8
SK4120009804	4.9	6.7	41.4	138.2

Based on the Bank's approved "Funding, Interest Rate Positioning & Investment Strategy for 2023" document, the Bank issued in 2023 two benchmark issues (with a minimum issue volume of EUR 500 million) of a premium European CB in the total amount of one billion euros.

Table 2 – Overview of covered bonds issued in 2023

ISIN	No of CBs issued	Volume of CBs issued, (mil. eur)	Issue date	Maturity date	Currency	Rate type	Actual interest rate (31.12.2022) (%)
SK4000022398	5 000	500.0	30/01/23	12/01/26	EUR	FIX	3.250
SK4000023636	5 000	500.0	30/08/23	30/09/27	EUR	FIX	3.875

- 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*	12/2022	12/2023
Primary assets	5 468.5	5 721.5
Covered bonds	3 151.4	4 151.4

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

The rate of coverage of the total nominal value of the issued CBs by the cover pool assets (coverage ratio) is at least 105% (Section 69 of the Banks Act).

c) Cover pool structure

Table 4 – Cover pool change, in EUR million

Item	12/2022	12/2023
Cover pool	5 518.5	5 771.5
Primary assets	5 468.5	5 721.5
Substitution assets	-	-
Hedging derivatives	-	-
Liquid assets	50.0	50.0

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

Using the cash inflows from the cover pool PA, the Bank fully covers the cash outflows on account of CB coupons up to 180 days, while reasonably accumulating cash to pay out the CB principal within 180 days (Section 74 of the Banks Act). When additional cash is needed, i.e. when the CB principal payment is misaligned in time/the Bank's liquidity situation has changed, the Bank has demonstrated its capability to sufficiently supplement its liquid assets by level 1 assets.

d) Coverage ratio

The coverage ratio as of 31/12/2023 is 137.5%, which greatly exceeds the required level of 105% (Section 69, Banks Act) as well as the minimum level of voluntary over-collateralisation set by the bank (107.5%) and the level of over-collateralisation required by the Moody's rating agency (109%) for meeting the highest rating for CBs, "Aaa".

The reduction in the coverage ratio in 2023 is in conformity with the Bank's approved "Funding, Interest Rate Positioning & Investment Strategy for 2023" document which sets the coverage ratio at 130% for the period till 2027.

Table 5 – Coverage ratio change, in %

Item	12/2022	12/2023
Coverage ratio	174.2	137.5

e) Average amounts and maturities of the PA; fixation times and weighted interest rates; categorisation of weighted interest rates and credit volumes by fixation time; categorisation of PA by maturity

Table 6 – Characteristics of PA

Item	12/2022	12/2023
Average volume (mil. eur)	47 393.0	47 527.5
Maturity (year)	21.3	21.2
Fixation period (year)	4.9	4.9
Weighted interest rate (%)	1.39	1.77

The increase in the weighted-average interest rate is due to the rising ECB base rate and market rates in 2022 and 2023.

Table 7 – Categorisation of weighted-average interest rates

Interest rate type	Primary assets	Weighted interest rate (%)
Variable	-	-
Fix up to 1 year	66.5	4.42
Fix from 1 to 3 years	1 140.4	2.22
Fix from 3 to 5 years	4 174.9	1.60
Fix from 5 to 10 years	322.5	1.78
Fix over 10 years	17.2	2.57
Total	5 721.5	1.77

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

Remaining maturity of primary assets	Primary assets
from 0 - to 1 year	2.5
from 1 - to 2 years	9.3
from 2 - to 5 years	74.5
from 5 - to 10 years	336.8
from 10 - to 15 years	640.2
from 15 - to 20 years	964.5
from 20 - to 25 years	1 582.1
from 25 - to 30 years	2 111.5
Total	5 721.5

- 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	12/2022	12/2023
Exclusion total	51.0	68.6
Exclusion due to repayment	27.8	21.0
Exclusion due to default	1.4	2.2

An essential indicator of the quality of the PA is the long-lasting low volumes of exclusion of PA 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 2023, the Bank provided mortgage loans for the population in the amount of approximately EUR 0.5 billion (the total volume of mortgage loans is EUR 10.8 billion, of which 85.7% are eligible loans, i.e. loans that meet the conditions for inclusion in PA). By decision of the Bank, loans in the total volume of EUR 0.3 billion were gradually added to the cover pool, while all legal and internal criteria were met and, also, a high coverage ratio of 146.5% on average was maintained during the whole year 2023.

Exclusion of assets from the cover pool:

Exclusions of PA from the cover pool were due to the following reasons:

- 1) Non-compliance with the legal criteria for the inclusion of PA in the covered bond register (hereinafter "CBR"):
 - The remaining mortgage loan repayment term exceeds 30 years;
 - The borrower is 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 obligor is past due more than 90 days on any material credit obligation"); The Bank has resolved to take a significantly more responsible approach and adopt a stricter criterion of 30 days for the addition of PA to the cover pool;

- The mortgage loan not secured by residential real estate, as required by the Act No 90/2016 on housing 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 and must not be higher than 80% for covered bonds issued after 1 January 2018 and 70% for re-registered mortgage bonds, is not 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 a set of additional internal criteria, or use of internal criteria for asset management of the cover pool. 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 Banks Act and the NBS Measure No 13.
 - 5) (Premature) loan repayment.

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

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

Table 10 – Structure of the real estate by which the PA in the cover pool are secured: type, volume and ratio as of 31/12/2023, EUR million

Item	Real estate value	Primary assets	Primary assets ratio (%)
Multi-family house	6 368.1	2 301.5	40.2
Single-family house	9 583.3	3 117.3	54.5
Buildings under construction	725.4	302.7	5.3
Total	16 676.8	5 721.5	

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 PA 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 (regions) and by ratio of the property value to the mortgage loan amount (LTV ratio) as of 31/12/2023, EUR million

Region	Primary assets	Proportional distribution (%)	Wighted LTV (%)
Bratislava - city	605.4	10.6	39.7
Banskobystrický region	536.5	9.4	41.9
Bratislavský región (excl. Bratislava - city)	491.6	8.6	40.2
Košický region	709.8	12.4	41.7
Nitriansky region	613.2	10.7	44.8
Prešovský region	605.3	10.6	41.9
Trenčiansky region	662.2	11.6	42.5
Trnavský region	772.0	13.5	43.1
Žilinský region	725.5	12.7	41.4
Total	5 721.5	100.0	42.0

- j) Method of measurement and value of estimated liabilities or expenses of the Bank

In 2023, the estimated liabilities and expenses of the Bank as a CB issuer incurred based on the Banks Act and directly related to the management and settlement of the CBs vis-à-vis persons pursuing business under the Banks Act 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 31/12/2023. 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 31/12/2023, 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 coverage ratio in 2024 based on scenarios developed by the Market Analysis and Client Experience Department for the years 2024 to 2026. The Bank quantified the coverage ratio using a scenario based on the internal requirements for cover pool PA (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 risk, i.e. the total impact of the test scenario on the coverage ratio is the sum of the impacts of the individual types of risk.

Based on the stress testing, there was a slight decline in the coverage ratio and even after the stress testing, its value highly exceeds the statutory minimum level of 105.0%.

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.

According to the submitted cover pool stress testing analyses, the Bank ensures compliance with its obligations under the CB Programme sufficiently and securely, beyond statutory obligations.

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

During 2023, the Monitor and the Deputy Monitor of the CB Programme carried out the following activities:

- Monthly controls of the CBR/controls of CBR upon new CB issue, consisting in checks of the underlying data kept in the CBR under the Banks Act and the NBS Measure. Identified errors were reported to the Bank and corrections were subsequently verified;
- Communication with the Bank upon change in the CBR methodology and the IT configuration;
- Inspection of random samples of loan documentation for the mortgage loans included in the CBR and regular (monthly) reviews of the mortgage loan documentation inspections.

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

- Even after the amendment to the Banks Act, the Bank continued to include and plans to include in the cover pool only mortgage loans secured by real estate intended for housing and meeting the requirements of Section 71 of the Banks Act and, therefore, the Bank does not plan to include loans secured by business real estate;
- Preparation (methodological and technical) for the implementation of the current NBS No 13/2018 as of 30/09/2024;
- An internal audit of the CBR was performed in 2023 and concluded without material findings;
- The Bank is taking steps to enhance and control the quality and automate the management of the whole CB Programme.

