

REPORT

about the Covered bond programme
of Všeobecná úverová banka, a. s.
for the year 2023

Introduction

The report contains in its first part general legislative framework for covered bonds, in the second part there are information on conditions of issuance in Všeobecná úverová banka, a. s. („VÚB“). The third part includes information on covered bond programme in VÚB in the year 2023 and information on activities of covered bond programme monitor during the year 2023.

I. A general legislative framework for covered bonds in the Slovak Republic

Covered bond („CB“) as a special type of secured bond is regulated by an Act No. 530/1990 Coll. on Bonds (as later amended) in § 20b), as well as act No. 483/2001 Coll. on Banks and on Amendments and Supplements to Certain Acts, as amended (hereinafter as „Act on Banks“) in its part 12, Act on Bankruptcy in its sixth part and relevant decrees of National Bank of Slovakia („NBS“). In 2021 the Act on Banks was amended by the act from 2. 11. 2021 in order to align the Slovak legislation with the Directive (EU) 2019/2162 regulating issuance of covered bonds. The new amendment has been effective from 8. 7. 2022 with transition period till the end of 2023.

CB is in accordance with Act on Banks a secured bond, the nominal and accrued interest income of which are fully covered by assets values in a cover pool under Act on Banks, Section 68(1).

Assets covering claims arising from CBs

The owners of the CBs have a preferred security right to assets and other values constituting the cover pool.

Cover pool dedicated to cover claims arising from CBs in accordance with Act on Banks consists of following assets and other assets values:

- Underlying assets,
- Substitute assets,
- Hedging derivatives, and
- Liquid assets.

Underlying assets

In accordance with the amended Act on Banks following categories of underlying assets can be used in cover pool:

- loans to central governments, central banks and other public entities eligible under Article 129(1)(a) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation („CRR“));
- mortgage loans eligible under Article 129(1)(d) and (f) of the CRR which are claims of the issuer of covered bonds, from mortgage loans that are secured by pledge over the residential or commercial property according to Section 71(1), while meeting the requirements according to Article 129(1a) to (3) of the CRR;
- mortgage loans other than those referred to in part (ii) above meeting certain other criteria;
- certain loans to public undertakings or loans guaranteed by these public undertakings.

An issuer of covered bonds may maintain only one type of underlying asset specified above in each covered bond programme.

Register of CBs

The bank issuing CBs is obliged to enter the cover pool, the issued CBs, the liabilities and costs in the register of CBs. Assets and other asset values registered in the register of CBs are used by the bank issuing the CBs preferentially to cover the bank's liabilities registered in the register of CBs and the bank must not dispose of them or use them to secure other liabilities until they are deleted from the register of CBs.

In the event of the issuing bank's failure to pay its liabilities arising from the CBs in a due and timely manner, the assets and other asset values recorded in the register of CBs, including their collateral or proceeds from their transfer, shall be preferentially used to pay liabilities arising from issued CBs.

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Coverage ratio

Coverage ratio is a ratio of the value of the cover pool including claims for payment arising out of hedging derivatives and the sum of an issuer's obligations and costs arising from the covered bonds programme, including payment obligations arising out of hedging derivatives. Over-collateralization is the part of the cover ratio exceeding 100%. The bank issuing the CBs is obligated to calculate the coverage ratio as of the last day of the relevant month.

Stress Test

The bank issuing CBs carries out stress tests in order to identify potential changes in connection with coverage indicator resulting from potential changes in market conditions that might have adverse effect on the coverage indicator. The bank issuing CBs performs stress test at least once per year according to the data available as on 31 December of the preceding calendar year on or before 31 March of the subsequent calendar year. The aim is to prove in the stress test that the bank is able to and can maintain the minimum required coverage ratio.

Covered bonds programme monitor

The CBs programme monitor („CB monitor“) verifies whether the bank issuing CBs fulfils the regulatory obligations in connection with covered bond programme.

On or before 30 April of a current calendar year, the CB monitor is obliged to elaborate and submit to the NBS a report on the CBs programme covering the preceding year.

Information for investors and public

The bank issuing CBs publishes at least once a quarter mainly information on structure of CBs, total value of cover pool, CB issues' volume, geographical distribution of primary assets and real properties which are used as collateral. The bank also publishes information on market risk including interest rate risk, currency risk, credit risk and liquidity risk, as well as information on coverage and overcollateralization and other documents and information relevant to the CB programme.

II. Main information on legal and organizational framework for issuing of Covered Bonds in Všeobecná úverová banka, a.s.

By decision No.: 100-000-105-179 to file No.: NBS1-000-0204-409 dated 14. 5. 2018, the NBS granted a prior approval to VÚB to carry out activities related to the covered bond programme. VÚB is authorised by the NBS to issue individual issues of covered bonds under the Covered Bond Programme in accordance with generally binding legal regulations, up to a maximum volume of 7 billion EUR of outstanding covered bonds with the duration until 6. 5. 2033 („Offering Programme“).

As of 30. 9. 2022 VÚB has fulfilled the conditions in accordance with the Act on Banks valid and effective from 8. 7. 2022 and from 30. 9. 2022 all its outstanding issues of covered bonds are considered European (premium) covered bonds in accordance with the regulations in force from 8. 7. 2022.

Under the Offering programme the underlying assets are and will continue to consist of mortgage loans pursuant to Section 71(1)(b) of Act on Banks, but only mortgage loans pledged by residential real estate.

In case of the Offering programme with the underlying assets consisting solely of mortgage loans secured by residential real estate, VÚB is in line with the Article 129(3a) of the CRR obliged to maintain the minimum over-collateralization of 5 %.

VÚB, has established the personnel, technical and organisational conditions that enable it to implement the Offering programme in accordance with the relevant legislative rules and internal regulations.

III. Covered bond programme report of VÚB for 2023

The report contains in this section information on covered bond programme of VÚB for the year 2023, structured in accordance with Section 79 (6) of Act on Banks.

a) the number, volume, yields and maturities of the CB issuances as of 31. 12. 2023

ISIN CODE	ISSUE DATE	NOMINAL VALUE (EUR)	NO. OF PIECES	ISSUED VALUE (EUR)	OUTSTANDING VALUE (EUR)	COUPON	MATURITY DATE
SK4120005547	05.09.2007	33,193,20.00	1,000	33,193,920.00	33,193,920.00	5.00 %	05.09.2032
SK4120005679	29.11.2007	19,916,52.00	600	19,916,352.00	19,916,352.00	4.90 %	29.11.2037
SK4120006271	26.09.2008	16,596,60.00	500	16,596,960.00	16,596,960.00	5.10 %	26.09.2025
SK4120008228	29.11.2011	15,000,00.00	300	15,000,000.00	15,000,000.00	5.35 %	29.11.2030
SK4120008608	21.06.2012	25,000,00.00	250	25,000,000.00	25,000,000.00	4.70 %	21.06.2027
SK4120009887	27.03.2014	38,000,00.00	38	38,000,000.00	38,000,000.00	2.55 %	27.03.2024
SK4120010364	14.11.2014	50,000,00.00	500	50,000,000.00	50,000,000.00	2.25 %	14.11.2029
SK4120010794	09.06.2015	100,000,00.00	1,000	100,000,000.00	100,000,000.00	1.25 %	09.06.2025
SK4120011065	29.09.2015	100,000,000.00	1,000	100,000,000.00	100,000,000.00	1.20 %	29.09.2025
SK4120011149	29.10.2015	100,000,000.00	1,000	100,000,000.00	100,000,000.00	1.60 %	29.10.2030
SK4120012469	18.01.2017	250,000,000.00	2,500	250,000,000.00	250,000,000.00	0.50 %	18.01.2024
SK4120012824	27.04.2017	250,000,000.00	2,500	250,000,000.00	250,000,000.00	1.05 %	27.04.2027
SK4120014531	05.10.2018	50,000,000.00	500	50,000,000.00	50,000,000.00	1.50 %	15.12.2027
SK4120015108	26.03.2019	500,000,000.00	5,000	500,000,000.00	500,000,000.00	0.25 %	26.03.2024
SK4000015475	25.06.2019	500,000,000.00	5,000	500,000,000.00	500,000,000.00	0.50 %	26.06.2029
SK4000017455	23.06.2020	500,000,000.00	5,000	500,000,000.00	,500,000,00.00	0.01 %	23.06.2025
SK4000018693	24.03.2021	500,000,000.00	5,000	500,000,000.00	500,000,000.00	0.01 %	24.03.2026
SK4000020491	22.03.2022	500,000,000.00	5,000	500,000,000.00	500,000,000.00	0.88 %	22.03.2027
SK4000022828	13.04.2023	500,000,000.00	5,000	500,000,000.00	500,000,000.00	3.50 %	13.10.2026
SK4000023685	05.09.2023	500,000,000.00	5,000	500,000,000.00	500,000,000.00	3.88 %	05.09.2028

b) the volume of assets in the cover pool and volume of covered bonds in euro or in a foreign currency as of 31. 12. 2023

PERIOD	UNDERLYING ASSETS VALUE (EUR)	SUBSTITUTE ASSETS VALUE (EUR)
31.01.2023	4,404,850,484.74	3,982,291,352.75
28.02.2023	4,408,558,085.33	3,984,657,897.84
31.03.2023	4,292,418,945.03	3,879,781,134.52
30.04.2023	4,845,983,098.29	4,380,368,511.60
31.05.2023	4,850,537,866.26	4,384,174,639.86
30.06.2023	4,572,655,242.36	4,131,703,687.22
31.07.2023	4,576,605,217.63	4,135,405,648.88
31.08.2023	5,248,097,720.46	4,139,107,610.54
30.09.2023	5,134,143,338.15	4,640,492,322.17
31.10.2023	4,896,785,791.65	4,635,463,313.27
30.11.2023	4,894,348,903.50	4,637,866,037.87
31.12.2023	4,827,989,763.18	4,570,185,291.88

ISIN CODE	UNDERLYING ASSETS VALUE (EUR)	SUBSTITUTE ASSETS VALUE (EUR)
SK4120005547	35,723,526.19	0.00
SK4120005679	21,172,140.28	0.00
SK4120006271	17,801,150.06	0.00
SK4120008228	15,925,670.90	0.00
SK4120008608	27,074,785.76	0.00
SK4120009887	40,929,451.25	0.00
SK4120010364	52,979,998.78	0.00
SK4120010794	106,452,308.29	0.00
SK4120011065	105,961,537.08	0.00
SK4120011149	105,942,037.73	0.00
SK4120012469	265,363,004.72	0.00
SK4120012824	266,030,275.36	0.00

SK4120014531	52,869,723.01	0.00
SK4120015108	529,342,171.07	0.00
SK4000015475	529,727,967.18	0.00
SK4000017455	528,286,793.69	0.00
SK4000018693	528,082,420.88	0.00
SK4000020491	531,604,927.02	0.00
SK4000022828	532,050,071.55	0.00
SK4000023685	534,669,802.38	0.00
TOTAL	4,827,989,763.18	0.00

The total value of liquid assets in cover pool as of 31. 12. 2023 was 712,540,535.94 EUR. Assets in cover pool in the amount of 5,534,203,578.76 were in EUR currency and a part of liquid assets in cover pool in the amount of 6,326,720.36 EUR were in Polish currency PLN.

c) the structure of the cover pool under Section 68(1) as of 31. 12. 2023

PERIOD	COVER POOL (EUR)	UNDERLYING ASSETS (EUR)	SUBSTITUTE ASSETS (EUR)	HEDGING DERIVATES (EUR)	LIQUID ASSETS (EUR)
31.01.2023	4,695,644,968.88	4,404,850,484.74	0.00	0.00	290,794,484.14
28.02.2023	4,702,448,014.37	4,408,558,085.33	0.00	0.00	293,889,928.84
31.03.2023	4,471,867,069.00	4,292,418,945.03	0.00	0.00	179,448,123.97
30.04.2023	5,016,359,610.86	4,845,983,098.29	0.00	0.00	170,376,512.57
31.05.2023	5,033,931,779.41	4,850,537,866.26	0.00	0.00	183,393,913.15
30.06.2023	4,572,655,242.36	4,572,655,242.36	0.00	0.00	0.00
31.07.2023	4,815,819,908.59	4,576,605,217.63	0.00	0.00	239,214,690.96
31.08.2023	5,481,699,891.42	5,248,097,720.46	0.00	0.00	233,602,170.96
30.09.2023	5,913,648,297.26	5,134,143,338.15	0.00	0.00	779,504,959.11
31.10.2023	5,664,819,904.99	4,896,785,791.65	0.00	0.00	768,034,113.34
30.11.2023	5,665,623,170.44	4,894,348,903.50	0.00	0.00	771,274,266.94
31.12.2023	5,540,530,299.12	4,827,989,763.18	0.00	0.00	712,540,535.94

d) the coverage indicator under Section 69(2) and (3) or coverage indicator under Section 69(4), if applicable, as of 31. 12. 2023

PARAMETER	TOTAL VALUE (EUR)
Cover pool	5,540,530,299.12
Covered bonds	4,570,185,291.88
Estimated costs	1,030,610.00

PERIOD	COVERAGE RATIO
31.01.2023	117.77 %
28.02.2023	117.87 %
31.03.2023	115.12 %
30.04.2023	114.38 %
31.05.2023	114.68 %
30.06.2023	110.53 %
31.07.2023	116.31 %
31.08.2023	132.27 %
30.09.2023	127.29 %
31.10.2023	122.07 %
30.11.2023	122.02 %
31.12.2023	120.84 %

VÚB does not apply the coverage ratio pursuant to § 69(4).

e) the average amount and maturity of the primary assets, as well as the fixation period and weighted interest rate as of 31. 12. 2023

RESIDUAL MATURITY INTERVAL OF UNDERLYING ASSETS	TOTAL VALUE OF UNDERLYING ASSETS (EUR)
0 - 1 year (incl.)	1,729,618.52
1 - 2 year (incl.)	5,190,069.23
2 - 5 year (incl.)	50,600,996.85
5 - 10 year (incl.)	210,644,099.57
10 - 15 year (incl.)	447,682,156.57
15 - 20 year (incl.)	748,196,736.32
20 - 25 year (incl.)	1,232,332,688.31
25 - 30 year (incl.)	2,126,248,700.00

As of 31. 12. 2023 the average residual maturity of underlying assets was 22.25 years. The average value of loan was 58,936.12 EUR and the weighted average interest rate of underlying assets reached 1.76% at the end of 2023.

The underlying assets bear fixed rates. The fixation period was in intervals of up to 1 year, between 1 and 3 years, between 3 and 5 years, between 5 and 10 years and over 10 years. The highest volume of underlying assets has the fixation period in the interval of 3 to 5 years (54.5% or 2.63 billion EUR).

f) the volume of non-performing mortgage loans and the volume of mortgage loans removed from the cover pool

During the year 2023 VÚB excluded from the covered pool mortgage loans in the total value of 450.89 million EUR, out of it mortgage loans in default in the amount of 10.88 million EUR were removed.

g) the reasons of significant changes in the topping-up or removing of cover pool assets

During the year 2023, VÚB replenished to the cover pool mainly underlying assets. The main reason of their replenishment was the issuance of CB issues placed in April and September 2023 in the total value of 1 billion EUR and replacing assets eliminated from the cover pool.

There were no substitute assets nor derivatives in the cover pool in 2023.

The bank excluded from the cover pool 7,946 mortgage loans in 2023.

The main reasons for eliminating of underlying assets from the cover pool were:

- early or regular repayment of loan by borrower (71.70%),
- exceeding of regulatory required level of Loan to Value ratio (12.17%),
- residential estate was not insured (11.82%),

Considering the value of excluded loans the largest portion of loans eliminated from the cover pool was from the reason of repayment of loan by borrower, the second reason was the exceedance of the statutory LTV ratio, followed by the fact that residential estate was not insured.

h) the structure of real properties used to secure primary assets in the cover pool, broken down to family houses, apartments, building plots and building under construction as of 31. 12. 2023

PROPERTY TYPE	PROPERTY VALUE (EUR)
Houses	6,073,919,008.41
Flats	5,208,725,161.02
Unfinished structures	602,065,661.72
Building lands	13,776,274.61

i) the proportional distribution of real properties used to secure primary assets, broken down by the regions of the Slovak Republic and by the LTV ratio as of 31. 12. 2023

TERRITORIAL DIVISION OF SLOVAKIA	PROPERTY VALUE (EUR)	WEIGHTED AVERAGE LTV
Bratislava - city	2,953,659,488.48	49.83 %
Banská Bystrica region	832,619,176.52	51.39 %
Bratislava region (outside Bratislava - city)	1,385,878,507.09	49.88 %
Košice region	1,086,003,484.68	51.67 %
Nitra region	1,142,382,506.00	51.75 %
Prešov region	881,931,296.75	52.37 %
Trenčín region	1,044,434,106.90	50.95 %
Trnava region	1,393,589,641.64	50.80 %
Žilina region	1,177,987,897.69	50.36 %

j) the calculation method and the amount of the estimated obligations or costs of VÚB under Section 68(3)

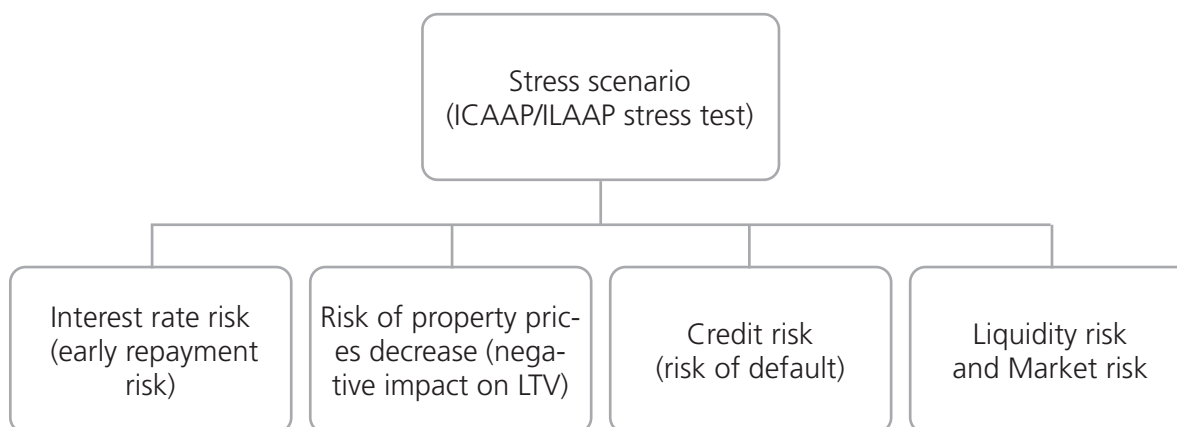
In 2023, the estimated costs within the CB programme of VÚB consisted of remuneration of CB monitor and his deputy, costs of Listing Agent as well as other estimated costs. The total amount of estimated costs as of 31. 12. 2023 represented 1,030,610.00 EUR.

k) methodology and results of stress test

Methodology

According to Section (76) of Act on Banks, VÚB as an CBs issuer is obliged to perform stress test at least once per year according to the data as of 31 December of the preceding calendar year. Stress test covers the entire calendar year for which the stress test is performed.

Considering individual types of risks the relevant types for stress test of VÚB covered bonds are mentioned in the chart below. The first three are relevant to base assets and the last one is relevant to substitute and liquid assets:



- Interest rate risk of banking book and the risk of early repayment – the interest rate risk is managed only on banking book level, VÚB does not use hedging derivatives in the cover pool. Therefore, mainly the risk of early repayment as a part of interest rate risk is relevant. For the calculation of the cover pool, the amount of mortgage loans without early repaid loans excluded from the cover pool is used.
- The risk of property prices decrease – decrease of market prices of properties has a negative impact on LTV ratio. The increase of LTVs lowers the volume of mortgage loans eligible for cover pool
- Credit risk is defined as the risk of loss in case of default of the loan. Therefore, during stress testing any mortgage loans in default are excluded from the cover pool.
- Liquidity risk and counterparty risk – fair value of substitute or liquid assets in the cover pool is negatively affected by potential negative change of credit spreads. In case of negative cash flow the bank has to exclude liquid assets from the cover pool, therefore the liquidity risk is also relevant. Short-term liquid assets are for this reason not used in the cover pool.

Following values were the inputs for stress testing of CB programme:

- nominal value of underlying assets,
- fair value of substitute and liquid assets,
- nominal value of principal and accrued interest of outstanding CBs (including estimated costs)

VÚB realizes stress test of underlying assets, substitute assets and liquid assets using risk parameters for integrated ICAAP/ILAAP stress scenario, considering that the output after using of each single stress parameter was the input for the next step of test. In every step of stress test the bank monitors the fulfilment of 90% as the required minimum level of underlying assets in the cover pool.

After conducting of stress test, the coverage ratio is calculated and VÚB provides an analysis of possible measures, which could be taken in case of necessity to replenish the assets to the cover pool.

Results

After assuming of all stress parameters applied on the cover pool as of 31. 12. 2023 the resultant coverage ratio was 87.53% without liquid assets, when in every step of stress test VÚB fulfils the condition of 90% of the value of underlying assets of total value of CBs. The total impact of stress test on the cover pool was decrease by 1.54 billion EUR, which was compensated by the buffer of available additional eligible mortgage loans and liquid assets amounting to 2.85 billion EUR as of 31. 12. 2023.

When adding of abovementioned buffer of liquid assets and eligible mortgage loans (i.e. fulfilling all the regulatory criteria for underlying assets in the cover pool) and application of the same stress parameters on them, the resultant coverage ratio was at the level of 149.93%.

The results of stress testing of the cover pool demonstrated that VÚB is able to maintain the coverage ratio at a level of at least 105% even in adverse conditions.

I) the activities of the covered bond programme monitor and the supervisory activities of Národná banka Slovenska related to the covered bond programme for the previous year

During the year 2023 the CB monitor of VÚB Mr. Rudolf Šujan and his deputy Mrs. Judita Bischofová were carrying out their activities individually, independently and impartially in accordance with Section 78 and Section 79 of Act on Banks.

The CB monitor issued 2 certificates, namely for the issue Covered Bonds VÚB, a. s., 8 (ISIN: SK4000022828) in the amount of EUR 500 million realized in April 2023 with maturity date on 13. 10. 2026 and for the issue Covered Bonds VÚB, a. s., 9 (ISIN: SK4000023685) in the amount of EUR 500 million realized in September 2023 with maturity date on 5. 9. 2028. The certificates were issued after verification of the accuracy of the data in the CBs register, as well as after verification of the facts that the pledge rights to real estate in favor of VÚB were established to secure those claims VÚB, which form the coverage for the abovementioned issues and these pledges have been registered in the relevant land registers.

During 2023 the CB monitor and his deputy supervised the covered bond register with the focus on compliance of data in the CB register with Act on Banks and the Decree of NBS No. 13/2018. In case of finding of incorrect data it was reported to bank, which subsequently managed a relevant correction or deleted data from the register. On a monthly basis, the inspection of fulfilment of coverage ratio for all issues recorded in the CB register as well as regulatory requirements to allow including of mortgage loans in the cover pool (LTV, maximum maturity, lien to real estate recorded in the land register) and the control of completeness of data was realized.

In connection with the amendment of the Act on Banks, conditions of which VÚB applied on 30. 9. 2022, the activities of the CB monitor and his deputy in 2023 continued to focus on controlling changes made to CB register, especially with regard to amended eligibility condition of mortgage loans (in particular, the condition of the real estate insurance) as well as controlling the change in the coverage ratio calculation.

In 2023 regular checks were carried out on loans excluded from the cover pool in terms of the reasons of their removal, which were mainly repayment of the loan, the reason that the property was not insured, exceeding the LTV limit, default of borrower and exceeding of maximum allowed maturity (30 years).

During 2023 the eligibility of Liquid assets for the inclusion in the CB register was also verified. According to the methodology in force in 2023, VÚB included in the liquid assets mainly securities issued by credit institutions and sovereign bonds issued by EU countries, where these securities met the established criteria. Neither substitute assets nor hedging derivatives were used in the cover pool in 2023.

Following the new Decree of NBS No. 5/2023 dated 23. 10. 2023, which amends the Decree of NBS No. 13/2018 on the CB register, the CB monitor and his deputy communicated with the relevant employees the intention, method and estimated timeframe in which the application of this decree in the bank is expected.

As the decree sets out in its 5 appendices and 12 modules the structure of data entering in the CB register, VÚB intends to apply a new methodology in line with the new decree by 30. 9. 2024.

m) the other factors related to the activities of the bank issuing CBs

In 2023 VÚB issued two issues of covered bonds, the first in April 2023 and the second in September 2023, both in the value of 500 million EUR. Within the year 2023 three CB issues in the total amount of 420 million EUR matured. During the whole year 2023 VÚB kept the overcollateralization on the level above 10%.

In the year 2023 VÚB in line with the decrees of NBS No. 14/2018 and 15/2018, submitted reports on quarterly basis on the CBs register to NBS, as well as published information on covered bonds on its website www.vub.sk.

In 2023 the CB programme of VÚB has kept the rating Aa1, which was assigned by rating agency Moody's on 21. 12. 2021 after the amendment of the Slovak legislation for covered bonds and after the legal adjustments of the Slovak deposit protection system.

In Bratislava, 15. 4. 2024

Ing. Rudolf Šujan

The covered bond programme monitor for VÚB