



PRESS RELEASE

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High-grade financial instrument introduced to the capital market

The mortgage bonds were replaced by the covered bonds. It is important high-grade financial instrument of the European market, not only in the Slovak Republic. Harmonisation of the issuance conditions for covered bonds should contribute to creation of the capital markets union and also to prudent business practices in the banks. The business entities and potential investors oriented mainly towards safe investments can take advantage of this financial instrument too. Centrálny depozitár cenných papierov SR, a.s. (CDCP SR) is also ready for this new situation.

Introduction of covered bonds to the Slovak market was facilitated due to amendment of two acts – Act No. 483/2001 Coll. on banks and Act No. 530/1990 Coll. on bonds. The covered bonds are special type of secured bond. This bond can be issued only by banks, except branches of foreign banks. Only those banks can issue the covered bonds, which have so called Covered Bonds Programme approved by the National Bank of Slovakia. „ *The programme is sort of a framework which can include multiple issues, so new bonds will be continuously added.*“ mentioned Eduard Kalina from the Issue Department in CDCP SR. „*Presently two banks have the covered bonds programme approved, but their number is rising.*“

According to the existing practice the mortgage bond automatically ceases to exist if it was repurchased by the issuer. There is a difference in case of the covered bonds. The security exists until the issuer decides to cancel it and can be used as collateral. „*That is important in situation when, for example, the banks want to obtain financing in the National Bank of Slovakia.*“ clarifies Eduard Kalina. „*In case of crisis or temporary adverse situation the banks can use these securities as collateral. That is another reason why the covered bonds are regarded as high-grade liquid asset*“

Centrálny depozitár cenných papierov SR, a.s. responded to new conditions operatively by adapting its information system. „*This will make issuance of securities more simple for those issuers who are also participants in CDCP SR.*“ said Dagmar Kopuncová, the Commercial Director of CDCP SR. „*According to the standard practice, the issuer had to place the*

instruction personally to credit issued securities to the buyers' accounts. At the present is sufficient to place the instruction to the information system. Moreover, the issuer can request also for a list of security owners via the information system."

Further benefit is that fees for CDCP SR services related to covered bonds are the same as fees charged for their „ancestor“ - the mortgage bonds. Even despite it concerns securities of higher quality. According to new general terms cancellation of securities issues is simpler, what applies also to covered bonds. „Further simplification in connection with issuance of securities is planned in the future,“ added Dagmar Kopunová. „Particularly in connection with allocation of the ISIN code which is mandatory essential of the security. The issuers who are participants in CDCP SR will be allowed to apply for allocation of the ISIN code also through the information system.“

Change introduced to the financial market in form of the covered bonds will be welcomed mainly by the banks, but the information is interesting also for business firms or potential investors who pursue low risk investment. This innovation represents advancement toward the European practice, mainly with regard to criteria and standards of the European Banking Authority aiming to harmonise processes in the European Union. The covered bonds can serve as interesting investment also for natural persons as they bring higher returns than the government bonds, despite they still represent conservative investment. Furthermore in case of natural persons - non-enterprisers the withholding tax is imposed to returns from the covered bonds (no need to place tax return) and the returns are not subject to the health insurance. In this connection it is interesting to mention that the government bonds are the only type of standard securities with obligation for natural persons to contribute to the health insurance. The bonds would surely become more attractive investment instrument for the natural persons if also the taxation rules were unified and equal for both the natural persons and legal persons.

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