

BASE PROSPECTUS

UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S.

(incorporated with limited liability in the Czech Republic)

€5,000,000,000

Covered Bond (in Czech, *hypoteční zástavní list*) Programme

Under this €5,000,000,000 Covered Bond (in Czech, *hypoteční zástavní list*) Programme (the "**Programme**"), UniCredit Bank Czech Republic and Slovakia, a.s. (the "**Issuer**") may from time to time issue mortgage covered bonds in accordance with Czech Act No. 190/2004 Coll., Act on Bonds, as amended (the "**Czech Bonds Act**"), Section 28 *et seq.*, Part 2, Clause III (the "**Covered Bonds**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Covered Bonds may be issued in bearer or registered form (respectively, "**Bearer Covered Bonds**" and "**Registered Covered Bonds**"). The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme (or, in relation to the nominal amount of any Covered Bonds which are not denominated in euro, its equivalent in other currencies calculated as described in the Programme Agreement) will not exceed €5,000,000,000.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

An investment in Covered Bonds issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the "**Prospectus Act 2005**") to approve this document as a base prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange.

References in this Base Prospectus to Covered Bonds being "**listed**" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and have been listed on the Official List of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a final terms document (the "**Final Terms**") which, with respect to all Covered Bonds will be filed with the CSSF. Copies of this Base Prospectus and Final Terms in relation to Covered Bonds to be listed on the Official List of the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

Moody's Investor Service, Inc ("**Moody's**" and the "**Rating Agency**") is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The list of registered and certified rating agencies is published by the European Securities and Markets Authority ("**ESMA**") on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. The Covered Bonds issued under the Programme are expected to be assigned an "A3" rating by Moody's. However, the Issuer may also issue Covered Bonds which are unrated or rated by another rating agency. Where a Tranche of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to other Tranches of Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale*".

Arranger

UniCredit Bank

Dealers

UniCredit Bank Czech Republic and
Slovakia, a.s.

UniCredit Bank

The date of this Base Prospectus is 28 November 2014.

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IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Covered Bonds issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Prospectus Directive**").

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus and the Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read and construed in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. For the avoidance of doubt the content of websites referred to herein do not form part of this Base Prospectus except to the extent that such websites contain published versions of documents incorporated by reference.

The requirement to publish a prospectus under the Prospectus Directive only applies to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)).

Neither the Arranger, the Dealers nor the Trustee (as defined below) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer or the Trustee to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Arranger, the Dealers or the Trustee.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer, any of the Arranger, the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer, solicitation of an offer or invitation by or on behalf of the Issuer, any of the Arranger, the Dealers or the Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF COVERED BONDS GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealers and the Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers or the Trustee which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States and the European Economic Area (including the United Kingdom and the Czech Republic): see "*Subscription and Sale*".

This Base Prospectus has been prepared on a basis that would permit an offer of Covered Bonds with a denomination of at least €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer of Covered Bonds in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Covered Bonds and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain

authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) Covered Bonds are legal investments for it; (2) Covered Bonds can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

"U.S. dollars", "U.S.S" and "\$" refer to United States dollars, the currency of the United States of America;

"Czech Koruna" and "CZK" refer to Czech Koruna, the currency of the Czech Republic; and

"EUR", "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

The definitions for the capitalised terms used in this Base Prospectus can be found using the Index of the defined terms on pages 172-173 of this Base Prospectus.

STABILISATION

In connection with the issue of any Tranche of Covered Bonds, one or more relevant Dealers (if any) (the Stabilising Manager(s)) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.

Words and expressions defined in "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*" shall have the same meanings in this overview.

Issuer:	UniCredit Bank Czech Republic and Slovakia, a.s.
Risk Factors:	<p>There are certain factors that may affect the Issuer's ability to fulfil its obligations under Covered Bonds issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme. These risk factors are set out under "<i>Risk Factors</i>" on pages 14 – 40 below and include:</p> <ul style="list-style-type: none">(a) insolvency considerations and risks – including, in particular, single asset pool risk, commingling risk, acceleration risk, set-off risk and risks related to ineligibility of assets and refinancing;(b) currency risk – the Mortgage Loans in the Cover Pool will primarily be denominated in Czech Koruna;(c) risks relating to the Issuer's ability to fulfil its obligations under Covered Bonds issued under the Programme;(d) risks relating to the Czech mortgage market and certain other market risks; and(e) certain risks relating to the structure of particular Series of Covered Bonds.
Description:	Covered Bond (in Czech, <i>hypoteční zástavní list</i>) Programme
Arranger:	UniCredit Bank AG
Dealers:	UniCredit Bank AG UniCredit Bank Czech Republic and Slovakia, a.s. and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.

Covered Bonds having a maturity of less than one year

Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination

of at least £100,000 or its equivalent (see "*Subscription and Sale*").

Trustee:	Citicorp Trustee Company Limited
Issuing and Principal Paying Agent:	Citibank N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG
Asset Monitor:	From the date of the first issuance of Covered Bonds to a person or an entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates), Deloitte Audit s.r.o. will act as asset monitor pursuant to the terms of an asset monitor agreement (the " Asset Monitor "). The Asset Monitor will be required to carry out various testing and notification duties in relation to the checks and calculations performed by the Issuer in accordance with the Czech Bonds Act and CNB Measure (see " <i>General Description of Czech Legislation relating to Covered Bonds – 1. Czech Legislation</i> " below) and the Conditions (see " <i>Issuer Covenants</i> " and " <i>Cover Pool</i> " below).
Programme Size:	The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme (or, in relation to the nominal amount of any Covered Bonds which are not denominated in euro, its equivalent in other currencies calculated as described in the Programme Agreement) is €5,000,000,000 outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Covered Bonds may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealers.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Covered Bonds:	The Covered Bonds will be issued in bearer or registered form as specified in the applicable Final Terms and as described in " <i>Form of the Covered Bonds</i> ". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and vice versa.
Clearing Systems:	Euroclear, Clearstream, Luxembourg and/or, in relation to any Tranche of Covered Bonds, any other clearing system as may be specified in the relevant Final Terms.

Fixed Rate Covered Bonds: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Covered Bonds: Floating Rate Covered Bonds will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Covered Bonds.

Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption: The applicable Final Terms will indicate either that the relevant Covered Bonds cannot be redeemed prior to their stated maturity (other than for taxation reasons, illegality or invalidity or following an Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders upon giving notice to the Covered Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Covered Bonds having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Covered Bonds having a maturity of less than one year*" above.

Extended Maturity Date: If specified in the applicable Final Terms, an Extended Maturity Date will apply to a Series of Covered Bonds.

As regards redemption of Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two

Business Days thereafter), the maturity of the principal amount outstanding of the Covered Bonds not redeemed will automatically extend on a monthly basis up to but, not later than, the Extended Maturity Date. In that event the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

As regards interest on Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Maturity Date to (but excluding) the earlier of the date on which the Covered Bonds are redeemed in full or the Extended Maturity Date and will be payable in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

In the case of a Series of Covered Bonds to which an Extended Maturity Date so applies, those Covered Bonds may for the purposes of the Programme be:

- (a) Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date; and
- (b) Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from (but excluding) the Maturity Date to (and including) the Extended Maturity Date, as set out in the applicable Final Terms.

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the relevant Covered Bonds on the Maturity Date.

Denomination of Covered Bonds:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Covered Bond will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Covered Bonds having a maturity of less than one year*" above, and save that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:	<p>All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, unless such deduction is required by law as provided in Condition 7 (<i>Taxation</i>). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 (<i>Taxation</i>), be required to pay additional amounts to cover the amounts so deducted.</p> <p>All payments in respect of the Covered Bonds will be made subject to any deduction or withholding required by FATCA, as provided in Condition 5.2 (<i>Payments – Payments subject to fiscal and other laws</i>) and no additional amounts will be paid to cover the amounts so deducted.</p>
Negative Pledge:	<p>The terms of the Covered Bonds will not contain a negative pledge provision.</p>
Contractual Asset Cover Test:	<p>For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, whilst such breach is continuing the Issuer must not issue any Czech Covered Bonds which have the benefit of the Cover Pool.</p>
Status of the Covered Bonds:	<p>The Covered Bonds are mortgage covered bonds (in Czech, <i>hypoteční zástavní listy</i>) issued in accordance with Section 28 <i>et seq.</i>, Part 2, Clause III of the Czech Bonds Act.</p> <p>The Czech Covered Bonds are all instruments and/or securities issued by the Issuer as mortgage covered bonds (in Czech, <i>hypoteční zástavní listy</i>) pursuant to section 28 <i>et seq.</i>, Part 2, Clause III of the Czech Bonds Act, whether issued under and governed by Czech or foreign law and whether issued under the Programme (as the Covered Bonds), under the Domestic Bond Programmes, under a programme yet to be established by the Issuer or on a standalone basis, which are then outstanding (the "Czech Covered Bonds", which definition includes the Covered Bonds).</p> <p>The Covered Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank <i>pari passu</i> among themselves and with all other outstanding Czech Covered Bonds and with all other obligations of the Issuer that have been provided the same priority as the Covered Bonds.</p> <p>Any obligations of the Issuer arising from the Covered Bonds are obligations of the Issuer the repayment of which can be realised from any assets of the Issuer. Although the Covered Bonds constitute unsecured obligations of the Issuer, in any insolvency proceedings against the Issuer, the Czech Insolvency Act provides for a special regime in respect of the obligations arising from the outstanding Czech Covered Bonds (including Covered Bonds issued under the Programme) issued by the Issuer (see further "<i>General Description of Czech Legislation relating to Covered Bonds</i>").</p> <p>Each Covered Bond will bear the designation "<i>hypoteční zástavní list</i>" to be recognised as such under the Czech Bonds Act, CNB Measure and the Czech Insolvency Act.</p>
Issuer's other programmes:	<p>In addition to the Programme, the Issuer has an active (third) CZK100,000,000,000 domestic bond programme for the</p>

issuance of both: (i) mortgage covered bonds (in Czech, *hypoteční zástavní listy*) under Czech law which satisfy the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds); and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act; the Issuer has an inactive (second) CZK 20,000,000,000 domestic bond programme with outstanding mortgage covered bonds (in Czech; *hypoteční zástavní listy*) under Czech law which satisfy the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds) (the "**Domestic Bond Programmes**").

All Covered Bonds issued by the Issuer under the Programme, Czech Covered Bonds issued under the Domestic Bond Programmes and any other Czech Covered Bonds issued by the Issuer and, in each case, which are then outstanding: (i) have, and will have, the benefit of a statutory priority under the Czech Bonds Act, CNB Measure (as defined below) and the Czech Insolvency Act over a single Cover Pool maintained by the Issuer; and (ii) constitute and will constitute unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and with all other obligations of the Issuer that have been provided the same priority as Czech Covered Bonds.

Issuer Covenants:

Pursuant to the Trust Deed, the Issuer covenants in favour of the Trustee on behalf of the Covered Bondholders in connection with the value and maintenance of the Cover Pool and its compliance with certain other key obligations imposed on it under the Czech Bonds Act, CNB Measure and the Slovak Banking Act (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*").

In addition, the Issuer also covenants, amongst other things, to ensure that it does not breach the Statutory Tests and the Contractual Asset Cover Test (see "*The Cover Pool – Statutory Tests*" and "*The Cover Pool – Contractual Asset Cover Test*").

Pursuant to the Czech Bonds Act and CNB Measure (as to which see further "*General Description of Czech Legislation relating to Covered Bonds*"), one Cover Pool provides cover for all Czech Covered Bonds. Therefore, all Czech Covered Bonds issued by the Issuer and then outstanding (regardless of whether they are Covered Bonds issued under the Programme or mortgage covered bonds issued under the Domestic Bond Programme or on a standalone basis or otherwise) will all have the benefit of the same Cover Pool.

The Issuer currently operates its Domestic Bond Programme under which it has issued, and may issue further, Czech Covered Bonds. The Issuer may also operate further programmes for the issuance of Czech Covered Bonds (other than this Programme and the Domestic Bond Programme) in the future or it may also issue Czech Covered Bonds on a standalone basis. Therefore, the Cover Pool must be maintained in a way that satisfies and complies with the terms and conditions and legal requirements applicable to all Czech Covered Bonds then outstanding.

Assets included in the Cover Pool may not, according to the Czech Bonds Act and CNB Measure (as to which see further

"General Description of Czech Legislation relating to Covered Bonds"), be pledged or be subject to any security right in favour of a third party.

In addition, the Issuer covenants that assets included in the Cover Pool satisfy all of the Statutory Eligibility Criteria see "*The Cover Pool – Composition of Assets – Statutory Eligibility Criteria for Eligible Assets (the Statutory Eligibility Criteria)*" and the Contractual Eligibility Criteria see "*The Cover Pool – Composition of Assets – Contractual Eligibility Criteria for Eligible Assets*".

Rating:

The Covered Bonds issued under the Programme are expected to be assigned an "A3" rating by Moody's. However, the Issuer may also issue Covered Bonds which are unrated or rated by another rating agency. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to other Tranches of Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Approval, Listing and Admission to Trading:

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Covered Bonds issued under the Programme to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

Covered Bonds may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Covered Bonds which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

The Covered Bonds and any non-contractual obligations arising out of or in connection with the Covered Bonds will be governed by, and shall be construed in accordance with, English law.

Czech Law applicable to the Covered Bonds

The Covered Bonds and the Cover Pool, although otherwise governed by, and construed in accordance with, English law, will be subject to and will benefit from those provisions of the Czech Bonds Act, the CNB Measure, the Czech Insolvency Act and any other provisions of Czech law applicable to or relevant for the Czech Covered Bonds. Therefore, the Covered Bonds will need to satisfy requirements of Sections 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the Cover Pool and its maintenance will be governed by Czech law. Also, Section 375 of the Czech Insolvency Act and other relevant provisions of the Czech Insolvency Act will apply to the Covered Bonds and the Cover Pool in the case of insolvency proceedings against the Issuer.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the European Economic Area (including the United Kingdom and the Czech Republic) and such other restrictions as may be required in connection with

the offering and sale of a particular Tranche of Covered Bonds, see "*Subscription and Sale*".

**United States Selling
Restrictions:**

Regulation S, Category 2. TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms.

RISK FACTORS

In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There are a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Covered Bonds. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and/or ability to make payments due under the Covered Bonds.

Factors which have been identified as material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described in the list below.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and should consider carefully whether an investment in the Covered Bonds is suitable for them in light of the information in this Base Prospectus and their personal circumstances.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER COVERED BONDS ISSUED UNDER THE PROGRAMME

The global financial crisis, the Eurozone credit crisis and the related economic downturn has had, and may continue to have, an adverse effect on the Czech banking industry, including the Issuer

The global financial system has been experiencing difficulties since approximately mid-2007 and financial markets deteriorated dramatically since the bankruptcy filing of Lehman Brothers Holdings Inc. and certain of its affiliates in September 2008. Despite measures taken by the Eurozone and United States governments, the European Central Bank and other central banks to stabilise the financial markets, volatility and disruption in the capital and credit markets has continued. The Czech National Bank lowered its main interest rate three times during 2012. The last decrease in November 2012 reduced the repo rate to a "technical zero" of 0.05 per cent., which is its lowest ever level. Together with the significant declines in the property markets in the Eurozone (in particular Portugal, Spain, Greece, Italy and Cyprus), the United States and other countries, these events over the past three years have contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major retail, commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions.

Czech financial institutions, including the Issuer, were exposed to the global financial crisis, the Eurozone credit crisis and the related economic downturn primarily through decreases in the value of their investments in bonds, shares, mutual fund units and real property. While the governments and central banks of some other countries responded to the build-up of losses in the global financial system with numerous measures aimed at bolstering the balance sheet liquidity and solvency of key financial institutions, the Czech Republic has not needed to adopt any substantial new measures to strengthen banking sector solvency. Nevertheless, the decrease in economic activity in the Czech Republic has adversely affected the Czech financial system, including the Issuer, through the increasing credit risk and worsening quality of the banking sector's loan portfolio. See "*As a result of the global financial crisis, the Eurozone credit crisis and the related economic downturn, Czech financial institutions, including the Issuer, experienced a deterioration in credit quality*" below.

Potential investors in Covered Bonds should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby the secondary market for instruments similar to the Covered Bonds has been experiencing disruptions resulting from reduced investor demand for such instruments and as a result of which there exist significant additional risks to the Issuer and the investors which may have a material effect on the returns on the Covered Bonds to potential investors.

In addition, the primary market for a number of financial products including instruments similar to the Covered Bonds has also been experiencing disruptions as a result of the liquidity crisis. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets,

there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

Access to the capital markets

The Issuer's funding depends in part upon public and private placements on local markets and upon issues of retail bonds and Czech Covered Bonds. The continuing ability of the Issuer to access such funding sources on favourable economic terms is dependent upon a variety of factors, including factors outside its control, such as prevailing market conditions. There can be no assurance that the Issuer will continue to be able to access such funding sources on favourable terms in the future.

Risks concerning liquidity

The Issuer's business is subject to liquidity risks which could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend. In order to ensure that the Issuer continues to meet its funding obligations and to maintain or grow its business generally, it relies on customer savings as well as ongoing access to the wholesale lending markets. The ability of the Issuer to access retail and wholesale funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and confidence in the Czech banking system. The continued concern about sovereign credit risks in the Eurozone has progressively intensified over the last two years, resulting in the downgrading of the sovereign debt of several European countries by rating agencies. The large sovereign debts and/or fiscal deficits in certain European countries have raised concerns regarding the financial condition of European financial institutions and their exposure to such countries. If the current concerns over sovereign and bank solvency continue, or if the conditions further deteriorate, there is a danger that interbank funding may become generally unavailable or available only at elevated interest rates, which might impact the Issuer's access to, and cost of, funding. Should the Issuer be unable to continue to source a sustainable funding profile, the Issuer's ability to fund its financial obligations at a competitive cost, or at all, could be adversely impacted. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

As a result of the global financial crisis, the Eurozone credit crisis and the related economic downturn, Czech financial institutions, including the Issuer, experienced a deterioration in credit quality

The immediate effects of the global financial crisis, the Eurozone credit crisis and the related economic downturn in the Czech Republic, such as the decline of gross domestic product, significantly reduced private consumption and corporate investments, increased unemployment rates and reduced private and commercial property values, have had a negative effect on the credit quality of the Issuer's loan portfolio.

Financial institutions such as the Issuer are exposed to the risk that borrowers will not repay their loans according to their contractual terms and that the collateral or income stream securing payment of these loans may be insufficient. As a consequence of the economic downturn, Czech banks and financial institutions, including the Issuer, experienced an increase in non-performing loans as well as a downgrading of previously highly-rated loans into lower-rated categories. As the uncertainties relating to the recovery from the economic downturn in the Czech Republic remain, it remains difficult to estimate the extent of any potential further deterioration in the Issuer's loan portfolio quality and/or increase in non-performing loans. Such deterioration could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer is exposed to credit risks not only as a result of providing loans but also as a result of its trading activities, hedging transactions, investment and intermediation activities. Such credit risk exposure could adversely affect the Issuer's finances and therefore its ability to pay interest and/or principal on the Covered Bonds.

Defaults by counterparties may lead to losses that exceed the Issuer's provisions and the maximum probable losses predicted by the Issuer's risk management processes and procedures

The Issuer is exposed to the risk that third parties who owe it cash, securities or other assets will not duly perform their obligations. The Issuer is exposed to such risk from its counterparties in the financial services industry. Counterparties include brokers and dealers, commercial banks, investment banks, and other institutional customers. Exposures can arise through trading, lending, deposit-taking, clearance and

settlement and many other activities and relationships. The Issuer may incur losses if its counterparties default on their obligations. If losses due to counterparty defaults significantly exceed the amounts of the Issuer's provisions or require an increase in provisions, it could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects. This risk may be exacerbated if the collateral held by the Issuer cannot be realised or can only be liquidated at prices below the level necessary to recover the full amount of the loan, derivative or other contractual exposures.

Counterparty risk between financial institutions increased substantially during the recent turmoil in financial markets following the bankruptcy of Lehman Brothers. Concerns about potential defaults by one financial institution can lead to significant liquidity problems, losses for, or defaults by, other financial institutions. The commercial and financial stability of many financial institutions is interrelated due to credit, trading and other relationships, and consequently even a perceived lack of creditworthiness may lead to market-wide liquidity problems. This could lead to a need for the Issuer to raise additional capital while at the same time making it more difficult to do so. If the levels of the counterparty risk return, whether as a result of the Eurozone credit crisis or otherwise, it could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer is exposed to volatility in interest rates and interest spread risks

Like most commercial banks, the Issuer earns interest from loans and other assets, and pays interest to its depositors and lenders. Banks, including the Issuer, usually make loans at interest rates that are different from the interest rates paid on deposits and borrowed funds. If the Issuer's interest spread (the difference between the rate of interest that the Issuer pays on funds from depositors and lenders and the rate of interest that it charges on loans it grants to its customers) decreases, then its net interest income will also decrease unless it is able to compensate by increasing the total amount of funds it lends to customers. A decrease in rates charged to customers will often have a negative effect on interest spread, particularly when interest rates on deposit accounts are already very low, because the bank has little ability to make a corresponding reduction in the interest it pays to depositors and lenders.

Furthermore, an increase in rates charged to customers can also negatively impact interest income if it reduces the amount of customer borrowings. A decrease in the general level of interest rates may affect the Issuer through, among other things, increased pre-payments on its loan portfolio and increased competition for deposits. Interest rates are sensitive to many factors beyond the Issuer's control, including monetary policies implemented by the Czech National Bank (the "CNB"), as well as domestic and international economic and political conditions. Central banks' interest rate cuts could also lead to a further compression of interest spreads. Overall, large decreases in interest rates can be expected to have an adverse effect on the Issuer's net interest income and continued low interest rates will make it more difficult to achieve growth. Spreads on interest rates are also affected by economic conditions.

Deposits usually have shorter maturities than loans and, therefore, can adjust to changing interest rates faster than loans. Accordingly, interest rates paid by banks, including the Issuer, on shorter term deposits tend to increase faster than the rates banks can earn from their loans. As a result of this mismatch between loans and deposits, a decrease in or instability of the interest rates charged on loans may have an adverse effect on the Issuer's net interest income. In addition, for competitive reasons, the Issuer may also choose to raise the rates of interest it pays on deposits without being able to make a corresponding increase in the interest rates it charges to its customers or re-price the securities portfolio at the same time. If the Issuer is unable for any reason to re-price or adjust the rates on its interest earning assets in response to changes in rates on its interest bearing liabilities in an expedited or an effective manner as a result of economic or other reasons, the Issuer's interest income margins would be adversely affected, which could have a materially adverse effect on its business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer relies on customer deposits, which are mostly short-term or demand deposits, as its primary source of funding

The Issuer relies on customer deposits to meet a substantial portion of its funding requirements. The majority of the Issuer's deposits are corporate deposits, a significant proportion of which are demand deposits. As of 30 September, 2014, the Issuer's deposits comprised 61 per cent. of its balance sheet amount and, from the total amount of the Issuer's deposits, 80.9 per cent. were demand deposits that may

be withdrawn at any time without penalty. Such deposits are subject to fluctuation due to factors outside of the Issuer's control, and the Issuer can provide no assurance that it will not experience a significant outflow of deposits within a short period of time as a reaction to factors outside its control, which may result in liquidity gaps that the Issuer may not be able to cover. Any material decrease in deposits could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation. Additionally, if depositors in other financial institutions in the Czech Republic or other countries were to withdraw significant amounts of savings generally, resulting in a failure of that institution, this could create a systematic effect among depositors and investors in the Czech Republic. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer faces the possibility of losses from operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements.

The Issuer's business operations are dependent on the ability to process a large number of complex transactions across different markets in many currencies. Operational losses, including monetary damages, costs, and direct and indirect financial losses and/or write-downs, may result from inadequacies or failures in internal processes, systems (for example, ICT systems), licences from external suppliers, fraud or other criminal actions, employee errors, outsourcing, failure to properly document transactions or agreements with customers, vendors, sub-contractors, co-operation partners and other third parties, or to obtain or maintain proper authorisation, or from customer complaints, failure to comply with regulatory requirements, including but not limited to anti-money laundering, data recording, data protection and antitrust regulations, conduct of business rules, equipment failures, failure to protect its assets, including intellectual property rights and collateral, failure of physical and security protection, natural disasters or the failure of external systems, including those of the Issuer's suppliers or counterparties and failure to fulfil its obligations, contractual or otherwise.

Although the Issuer has implemented risk controls and taken other actions to mitigate exposures and/or losses, there can be no assurances that such procedures will be effective in controlling each of the operational risks faced by the Issuer, or that the Issuer's reputation will not be damaged by the occurrence of any operational risks.

As a part of its banking activities, the Issuer provides its customers with investment advice, access to internally as well as externally managed funds and serves as custodian of third-party funds. In the event of losses incurred by its customers due to investment advice from the Issuer, or the misconduct or fraudulent actions of external fund managers, the Issuer's customers may seek compensation from the Issuer. Such compensation might be sought even if the Issuer has no direct exposure to such risks, or has not recommended such counterparties to its customers. Any claims in this respect could have a material adverse effect on the Issuer's reputation, business, financial condition and results of operations.

The Issuer's risk management strategies and procedures may prove insufficient or fail

The Issuer's strategies and procedures for managing credit risk, country risk, market risk, liquidity risk and operational risk may prove insufficient or fail. Some of the Issuer's methods for managing risk are based upon observations of historical market behaviour. The Issuer also applies statistical techniques to observations to arrive at quantifications of its risk exposures. However, these methods may not accurately quantify the Issuer's risk exposures. As additional information becomes available, the Issuer may need to make additional provisions if default rates are higher than expected. If circumstances arise whereby the Issuer did not identify, anticipate or correctly evaluate certain risks in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. Any material deficiency in the Issuer's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

In addition, if any of the instruments and strategies that the Issuer uses to hedge its exposure to various types of risk is not effective, the Issuer may incur losses. Unexpected market developments also may

adversely affect the effectiveness of the Issuer's hedging strategies, and the Issuer may choose not to hedge all of its risk exposures in all market environments or against all types of risk. In addition, the methodology by which gains and losses resulting from certain ineffective hedges are recorded may result in additional volatility in the Issuer's reported results of operations. If the measures used to assess and mitigate risk prove insufficient or fail, the Issuer may experience material unanticipated losses, which could have a material adverse effect on its business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The value of collateral securing the Issuer's loans and advances may not be sufficient to recover the full amount of any such loans and advances in the event of a default

A deterioration in economic conditions in the Czech Republic or a decline in certain markets may reduce the value of collateral securing the Issuer's loans and advances, increasing the risk that the Issuer would not be able to recover the full amount of any such loans and advances in the event of a default.

In particular, the Issuer has significant exposure to real property loans, including mortgage loans, in the Czech Republic. Real property prices in the Czech Republic declined in the second half of 2008 and in 2009, and have been stagnating since 2010. Property developers have been forced to cease or delay construction of planned projects due to a lack of customers or an inability to finance construction. These factors have led to declines and subsequent stagnation in real property prices and contraction of the market for mortgages and other real property loans. As such, the Issuer may have difficulty realising collateral securing its real property loans, including mortgage loans, when debtors default. If the downturn in economic conditions in the Czech Republic continues or further intensifies, there could be further declines in the value of collateral securing real property loans (including mortgage loans) resulting in the Issuer's loan portfolio impairment losses increasing materially. Declines in the value and liquidity of collateral securing loans, including mortgage loans, could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Furthermore, the Issuer undertakes certain types of lending without tangible collateral, relying only on personal guarantees, which may not be sufficient to cover the outstanding amount following a default. As of 30 September 2014, approximately 73 per cent. of the Issuer's loans were materially uncollateralised. This does not mean that in the case of a default of such a loan the Issuer has no recourse to collateral, however the liquidation value of such collateral may be limited (e.g. assignment of receivables, pledge on movables). As a result of this if a large proportion of these borrowers were to default due to deteriorating economic conditions or otherwise this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer is exposed to foreign exchange and currency risks

As of 30 September 2014, approximately 42.4 per cent. of the Issuer's assets and 41.9 per cent. of the Issuer's liabilities were denominated in foreign currencies, particularly in EUR and in USD. The Issuer translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and/or losses realised upon the sale of such assets, to Czech Koruna in preparing its financial statements. The overall effect of exchange rate movements on the Issuer's results of operations depends on the rate of depreciation or appreciation of the Czech Koruna against its principal trading and financing currencies (EUR and USD). In addition, the Issuer has a portfolio of derivative securities which expose it to fluctuations in the value of the Czech Koruna against foreign currencies.

The Issuer has established a system of currency risk limits based on its net currency exposure in individual currencies. The Issuer has determined a currency risk limit of EUR 45m with respect to the total net currency exposure and to individual main currencies (CZK, EUR) and of EUR 25m to the USD. For remaining currencies valid limits range from EUR 2m to EUR 8m according to the risk profile of a particular currency. Although the Issuer sets such limits and performs certain other measures aimed at reducing exchange rate risk, including but not limited to entering into foreign exchange derivative contracts, fluctuations in exchange rates may adversely affect the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer is subject to risks in its trading activities

The Issuer holds trading positions in certain financial instruments, including financial derivatives and equity instruments. The majority of the Issuer's business activities are conducted according to the

requirements of its customers. Depending on the estimated demand of its customers, the Issuer holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Issuer's business strategy is thus affected by speculation and market making and its goal is to maximise the net income from trading. If the Issuer incurs any losses from these exposures, then it could reduce the Issuer's income or cause the Issuer to suffer losses, either of which could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base and prospects. As of 30 September 2014 trading results are at CZK 1.15 billion.

Changes in laws or regulations in the Czech Republic and the European Union, including legislation relating to the financial and banking sectors, may have a material adverse impact on the Issuer

The Issuer is subject to a number of laws and regulations including, among others, banking regulations designed to maintain the safety and financial soundness of banks and limit their exposure to risk, regulations relating to financial services, securities products and other businesses, and tax, accounting and financial reporting regulations. Changes in these laws or regulations are not entirely predictable and any changes could have an adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base and prospects.

In addition, a new Czech government may propose to increase existing direct taxes or introduce new direct taxes applicable to regulated sectors, including the financial and banking sector, from 2015. If such an increase or introduction is enacted, this could negatively affect the Czech banking market, including the Issuer (whether directly or indirectly through a negative impact on the gross domestic product of the Czech Republic).

The value of the Eligible Assets in the Cover Pool might be adversely affected by the unenforceability of legal documentation relating to the Mortgage Loans and mortgage agreements relating to the Mortgage Property entered into or substantially amended after 31 December 2013

As of 1 January 2014, the whole of Czech private law as it has gradually developed via amendments and judicial interpretation since the early 1990s has been changed. The principal legal codes, such as the Civil Code (Act No. 40/1964 Coll., as amended), the Commercial Code (Act No. 513/1991 Coll., as amended), the Private International Law and Procedure Act (Act No. 97/1963 Coll.), the Securities Act (Act No. 591/1992 Coll., as amended) and other laws and regulations were repealed or amended by the new Civil Code (Act No. 89/2012 Coll.) (the "**New Civil Code**"), the Business Corporations Act (Act No. 90/2012 Coll.), the Private International Law Act (Act No. 91/2012 Coll.) (the "**New International Private Law Act**"), and other related laws and regulations ("**New Czech Civil Law**").

Some of the new rules are ambiguous or unclear and there is no unanimous expert opinion on which of the provisions of New Czech Civil Law may be changed by way of agreement of the contracting parties and which cannot. The legislative proposals were accompanied with legislative reports (explanatory reports providing explanation and justification of a draft piece of legislation) that were insufficient in many respects, with a number of the new rules receiving no background explanation at all, resulting in increased legal uncertainty and legal risk in contractual relationships.

Legal documents documenting the Mortgage Loans and any mortgage agreement creating a mortgage over any Mortgage Property entered into (or, in some cases, substantially amended) after 31 December 2013 (the "**New Mortgage Loans**" or the "**New Mortgages**", as applicable) will most likely be subject to terms and requirements imposed by New Czech Civil Law. The New Mortgage Loans form approximately 4.45 per cent. of the Eligible Assets contained in the Cover Pool as of 30 September 2014.

Standardised legal documentation of the Issuer relating to the New Mortgage Loans and New Mortgages was prepared in cooperation with a reputable international law firm and the Issuer is not aware of any legal documents concerning any of its rights arising in relation to any New Mortgage Loan or any New Mortgage being noncompliant with New Czech Civil Law. The approach which the Czech courts will take in interpreting the New Czech Civil Law is uncertain and so there is a risk that Czech courts may interpret the New Czech Civil Law or certain aspects thereof differently from the interpretation thereof by the Issuer or the Issuer's legal counsels as at the time of preparation of the relevant legal documentation. Consequently, no assurance can be given as to whether the legal documents giving rise to the New Mortgage Loans or the New Mortgages would be found fully compliant with the requirements of New

Czech Civil Law nor as to whether the rights and obligations arising under these legal documents (including the valid existence and priority of the mortgages) would be found valid and fully enforceable.

Social, economic or political developments in the Czech Republic could adversely affect the Issuer

The Issuer's operations in the Czech Republic are exposed to risks such as currency fluctuations, regulatory changes, inflation, deflation, economic recession, local market disruption, social unrest, changes in disposable income or gross national product, variations in interest rates and taxation policies, levels of economic growth and other similar factors. The adverse effects of these factors could lead to an increase in defaults by the Issuer's customers resulting in a decrease in the Issuer's earnings.

A change in the composition of the Czech Parliament and the Czech Government and any political developments or changes in the political and budgetary policy of the Czech Republic may have an adverse effect on the overall economic and political stability of the Czech Republic and on the economic, financial and regulatory policies of the Czech Republic. There can be no assurance that political or economic instability will not occur in the Czech Republic or that any such instability will not adversely affect the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation. As substantially all of the Issuer's business is conducted in the Czech Republic, the Issuer is particularly exposed to macroeconomic or other factors that may adversely affect growth in the Czech banking market and the credit-worthiness of Czech retail and corporate customers. A decline in the credit-worthiness of its customers or the number of those customers or sovereign downgrade could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Legal and regulatory safeguards in the Czech Republic are not as developed compared to some Western European countries

Legal and regulatory safeguards in the Czech Republic have undergone significant changes in recent years. In many cases, they are not yet as developed as in countries with more developed democracies or legislative or judicial systems, which may adversely affect enforceability of existing laws and regulations. For instance, the restrictions on the inappropriate use of funds to influence official decisions are not regularly enforced, which has had an adverse effect on Czech business culture. Additionally, in some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Although institutions and legal and regulatory systems characteristic of parliamentary democracies have begun to develop in the Czech Republic, the lack of an institutional history remains a problem. As a result, shifts in government policies and regulations tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies in a timely manner or at all may have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Legal and regulatory claims could have an adverse impact on the Issuer's business

In the ordinary course of its business, the Issuer is subject to regulatory oversight and liability risk. The Issuer carries out operations through a number of legal entities in a number of jurisdictions and is subject to regulation in each such jurisdiction. Regulation and regulatory requirements are continuously amended and new requirements are imposed on the Issuer, including, but not limited to, regulations on the conduct of business, anti-money laundering, payments, consumer credits, capital requirements, reporting and corporate governance. The Issuer is involved in a variety of claims, disputes, legal proceedings and governmental investigations in jurisdictions where it is active. These types of claims and proceedings expose the Issuer to monetary damages, direct or indirect costs (including legal costs), direct or indirect financial loss, civil and criminal penalties, loss of licences or authorisations, or loss of reputation, as well as the potential for regulatory restrictions on its businesses, all of which could have a material adverse effect on the Issuer's business, financial condition and results of operations. Adverse regulatory actions against the Issuer or adverse judgments in litigation to which the Issuer is a party could result in restrictions or limitations on the Issuer's operations or result in a material adverse effect on the Issuer's business, financial condition, results of operations, liquidity, capital base, prospects or reputation.

A change in the European Central Bank or the CNB collateral standards could have an adverse effect on the funding of the Issuer and its access to liquidity

The European Central Bank (the "ECB") and the CNB currently accept certain debt instruments, such as Czech sovereign bonds, as collateral for repo operations. If the ECB or CNB were to impose more stringent requirements or conditions on the determination of eligible collateral or if they were to increase the rating requirements for securities posted as collateral, it could materially increase the Issuer's funding costs and limit the Issuer's access to liquidity, especially if deposits or other sources of liquidity are inadequate in the short term, and this could accordingly have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Resignation or loss of key personnel could have an adverse effect on the Issuer's ability to execute its strategy

The Issuer's key personnel, including the members of the board of directors of the Issuer (the "**Board of Directors**") and other members of the Issuer's senior management, have been instrumental in establishing and implementing the Issuer's key strategies. Their continued service at the Issuer is critical to the overall management of the Issuer and its ability to implement its strategies. The loss of their services, or the inability to attract and retain other suitably qualified senior management personnel, could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer may have difficulty recruiting or retaining qualified employees

The continued growth of the Issuer's existing operations and its ability to successfully expand its business depends on its ability to retain existing employees and to identify, recruit and retain additional individuals who are not only familiar with the local language, customs and market conditions, but also have the necessary qualifications and level of experience in banking and related businesses. In the Czech Republic, where the Issuer operates, the pool of individuals with the required set of skills is smaller than in most Western European countries. Increasing competition for labour in the Czech Republic from other financial institutions may also make it more difficult for the Issuer to attract and retain qualified employees and could lead to increases in labour costs. If the Issuer is unable to attract and retain new talent or if competition for qualified employees increases its labour costs, this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer may have difficulty detecting or deterring employee misconduct

The Issuer further faces the risk of loss due to its employees' lack of knowledge, employee error, including clerical or record keeping errors, wilful or negligent violation of laws, rules, regulations and internal policies and procedures or other misconduct. Misconduct by employees occurs in the financial services industry and could involve, among other things, improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse, including insider trading, money laundering, embezzlement and fraud, any of which could result in regulatory sanctions and fines as well as serious reputational and financial harm. Misconduct by employees, including violation of the internal risk management or other policies and procedures of the Issuer, could also include binding the Issuer to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. It is not always possible to deter employee misconduct and the precautions the Issuer takes to detect such activity may not be effective. Given the Issuer's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect quickly or at all. The direct and indirect costs of employee misconduct and reputational harm could be substantial.

The Issuer faces significant operational risks inherent in the banking business

The banking and financial services industry is, by its nature, subject to numerous and substantial operational risks, particularly in volatile or illiquid markets, and in developing markets. Among other things, banks and financial institutions, including the Issuer, are dependent on information and communication technology ("**ICT**") systems. The ICT systems are vulnerable to a number of problems,

such as software and hardware malfunctions, malicious hacking, physical damage to vital ICT centres and computer virus infection. If the ICT systems fail, even for a short period of time, the Issuer may be unable to service some or all of its customers' needs on a timely basis and could thus lose business. Likewise, a temporary shut-down of the ICT systems could result in costs that are required for information retrieval and verification. ICT systems require regular upgrading to meet the needs of changing business and regulatory requirements and to keep pace with the growth of banks' and financial institutions' existing operations and possible expansion into new business lines and markets. The Issuer or its service providers may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. In addition to costs incurred as a result of any failure or interruption of its ICT systems, the Issuer could face fines from the CNB if its ICT systems fail to enable it to comply with the applicable banking or other regulations.

Moreover, the Issuer is exposed to significant risks resulting from failure of internal processes or systems, unauthorised transactions by employees, operational errors (including clerical or record-keeping errors resulting from faulty computer or telecommunications systems), data losses, customer fraud or misconduct as well as risks related to the failure of counterparties to perform their obligations. There can be no assurances that the procedures and controls put in place by the Issuer will be effective in preventing or managing each of the operational risks faced by the Issuer. Any resulting loss could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer competes against several large international financial institutions and may face increased competition from less established banks or new entrants

As banking and financial services markets in Central and Eastern Europe ("CEE"), and the Czech Republic in particular, continue to mature, the Issuer may experience increased competition from both global financial institutions and local competitors, which may lead to reductions in interest rate spreads, pricing of loans and other products, fee and commission income and business volumes, as well as increased costs of deposits and other funding. Currently, the Czech banking market is highly concentrated. Although there are only a few competitors comparable in size and scope of business to the Issuer, the Issuer may also face increased competition from less established banks and financial institutions or new entrants seeking to offer more attractive interest or deposit rates or other aggressively priced products to penetrate the market. Recently, the Czech banking market has seen the emergence of several low-cost banks primarily focused on providing internet-based banking services. The Issuer's ability to compete effectively will depend on the ability of its businesses to adapt quickly to such new market and industry trends. If the Issuer fails to compete effectively with either local competitors or large international financial institutions, it may have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Compliance with anti-money laundering, anti-corruption and anti-terrorism financing rules involves significant ongoing costs and efforts and non-compliance may have severe legal and reputational consequences

The Issuer must comply with national and international rules and regulations regarding money laundering, anti-corruption and the financing of terrorism. In recent years, these rules and regulations have been tightened and may be further tightened and more strictly enforced in the future. Compliance with these rules and regulations puts a significant financial burden on banks and other financial institutions and poses significant technical problems. Any violation of these or similar rules, or even the suspicion of such violations, may have severe legal, monetary and reputational consequences, including sanctions imposed by the CNB, and thus could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Insolvency and other laws and regulations governing creditors' rights in the Czech Republic and Slovakia may limit the Issuer's ability to obtain payments on defaulted credits

Insolvency proceedings in the Czech Republic and Slovakia often take several years and the level of the creditors' satisfaction is relatively low. Therefore, the Issuer cannot ensure that its creditors' rights in insolvency proceedings will be adequate to enable the Issuer to successfully collect amounts owed by debtors. Moreover, the Issuer's litigation costs stemming from insolvency proceedings may increase substantially as a result of any newly adopted and untested procedures and potential changes in the

regulation. This could have an adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Laws and regulations governing collateral enforcement and their application in the Czech Republic and Slovakia are not as developed as in many Western European countries. Accordingly, the process of collateral enforcement in the Czech Republic and Slovakia is costly and often takes several years. As a result, the Issuer may be unable to enforce in a timely manner, for reasonable costs or at all, collateral securing loans and other credit extended by the Issuer, including mortgage loans. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer is dependent on its banking and other licences

The banking and other operations performed by the Issuer require it to obtain licences from the CNB and other Czech authorities. A large majority of the Issuer's business depends on its banking licence from the CNB. If the Issuer loses its general banking licence, it will be unable to perform any banking operations in the Czech Republic. Although the Issuer believes that it has the necessary licences for its banking and other operations and that it is currently in compliance with its existing material licence and reporting obligations, there is no assurance that it will be able to maintain the necessary licences in the future. The loss of a licence, a breach of the terms of any licence or failure to obtain or renew any required licences in the future could have a material adverse effect on the Issuer's business, financial condition, results of operations, liquidity, capital base, prospects or reputation.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME

Risks related to the Issuer's Cover Pool

The Covered Bondholders share the Issuer's Cover Pool with the holders of all Czech Covered Bonds issued by the Issuer

The Covered Bonds are not guaranteed by any person and constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, which will rank *pari passu* among themselves and with all other Czech Covered Bonds and all other obligations of the Issuer that have been provided the same priority as the Covered Bonds.

Pursuant to the Czech Bonds Act and CNB Measure, there is only one Cover Pool providing cover for all Czech Covered Bonds. Therefore, all holders of Czech Covered Bonds (the "**Czech Covered Bondholders**") will have the benefit of the same Cover Pool. The Czech Bonds Act and CNB Measure does not permit the maintenance of a "variety of pools" for calculation, insolvency or other purposes under Czech law (e.g., on issue-by-issue or programme-by-programme basis). The Issuer has another active bond programme, the Domestic Bond Programme, under which it has issued and may continue to issue Czech Covered Bonds. The Issuer may also issue further Czech Covered Bonds in the future on a standalone basis or otherwise. In order to ensure that any default under the Issuer's Domestic Bond Programme results in an Event of Default under the Covered Bonds, any event which constitutes a "Default" in respect of any Series of mortgage covered bonds (in Czech, *hypoteční zástavní listy*) under the terms and conditions set out in the Issuer's Domestic Bond Programme, would cause each Covered Bond to become due and payable, without presentment, demand, protest or other notice of any kind.

If the Issuer became insolvent, and the Covered Bonds were accelerated in accordance with their terms, the proceeds of the Issuer's Mortgage Estate on insolvency formed from the Cover Pool would be distributed among all Czech Covered Bondholders. However, in a post-insolvency scenario, pursuant to Clause 10 (*Application of Moneys*) of the Trust Deed, the fees, costs and expenses of the Trustee will be deducted from the proceeds paid to the Trustee for distribution prior to such proceeds being distributed to Covered Bondholders. In a post-enforcement scenario, this may result in Covered Bondholders receiving less than the total interest and principal they were expecting in respect of the Covered Bonds. Although the Issuer will comply with the Statutory Tests and the Contractual Asset Cover Test (each as defined and set out below in "*The Cover Pool*"), there can be no assurance that the Ordinary Cover Assets and Substitute Assets (each as defined below in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*") which are eligible assets for the purposes of

the Czech Bonds Act and CNB Measure and which comprise the Cover Pool will have sufficient value to meet all payments due in respect of the Czech Covered Bonds.

Due to the Issuer's Cover Pool including receivables from mortgage loans governed by Slovak law, Slovak law should be taken into account under certain circumstances (e.g. in consideration of eligibility and enforceability of mortgage loans governed by Slovak law)

Generally, the Cover Pool receivables have to meet Czech eligibility criteria (as described in "General Description of Czech Legislation relating to Covered Bonds" below) in order for the Covered Bondholders to benefit from the Cover Pool. However, as the Cover Pool includes receivables from mortgage loans governed by Slovak law, such mortgage loans are to meet Slovak law requirements to be enforceable in Slovakia in accordance with applicable Slovak legislation. A change in the Czech eligibility criteria may lead to the exclusion of the Slovak law-governed receivables from mortgage loans into the Cover Pool.

Pursuant to Slovak Act No. 483/2001 Coll., on Banks, as amended, assets used to secure the nominal value of Slovak covered bonds, including the related mortgages, cannot be pledged by the bank or otherwise used to secure its liabilities. However, a portion of the Slovak law governed receivables are included in the cover pools for the existing Slovak covered bonds of the Issuer. Consequently, the receivables from mortgage loans already covering the existing Slovak covered bonds would not fall into the Cover Pool and the Covered Bondholders would only be able to benefit from those receivables which are not used for covering the Slovak covered bonds of the Issuer.

The CNB may take action if it determines that there are Shortcomings in the Issuer's activities whilst operating as a bank

If the CNB discovers Shortcomings (i.e., "shortcomings in the activities" of the Issuer as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of certain Issuer's shortcomings"), which include, for instance, violation or circumvention of laws and other regulations, such as failure by the Issuer to comply with or remedy the breach of the applicable tests set out in the Czech Bonds Act (e.g., the Par Value Test, the Individual 200 per cent. LTV Limit and the Aggregate 70 per cent. LTV Limit) (as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets" below), the CNB may, for so long as the Issuer holds its banking licence and until insolvency proceedings have been opened against the Issuer, impose an Ordinary Measure or an Extraordinary Measure (as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's shortcomings") upon the Issuer (including Involuntary Administration). As a result of the Ordinary Measure or the Extraordinary Measure, the Issuer may be restricted in, or prohibited from, certain activities, operations, trades, transfers or transactions, including that the Issuer may not be allowed to issue further Covered Bonds or Czech Covered Bonds, refinance the existing Covered Bonds or any other Czech Covered Bonds or make any payments under the Covered Bonds or any other Czech Covered Bonds to any party or the Issuer may have to cease payments only to those parties who are closely associated with the Issuer or persons who are a part of the same consolidated unit or Connected Persons (as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings" below) to the Issuer.

Therefore, there can be no assurance, upon the CNB having discovered the Shortcoming and, consequently, having imposed the Ordinary Measure or the Extraordinary Measure, that the Issuer will be able to issue further Covered Bonds, refinance existing Covered Bonds, make payments under the Covered Bonds or comply with any other obligations the Issuer has under the Conditions. During such period the Covered Bondholders will have no access to the Cover Pool.

In addition, if any of the Covered Bondholders are persons who are closely associated with the Issuer or persons who are a part of the same consolidated unit or Connected Persons (as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings" below) to the Issuer, such Covered Bondholders are unlikely to receive payments under the Covered Bonds and will not have immediate recourse to the Cover Pool, **provided that** the relevant Extraordinary Measure has been imposed by the CNB and for so long as that Extraordinary Measure is in effect.

The Trust Deed, the Programme Agreement or other agreement entered into by the Issuer in connection with the establishment of the Programme or any issue of the Covered Bonds may become unenforceable if the CNB determines that such an agreement provides for control over the Issuer and that such control is detrimental to the due and prudent conduct of the business activity of the Issuer.

Under the Czech Banking Act, if the CNB is of the view that the influence of an individual or an entity is detrimental to the due and prudent conduct of the business activity of a bank, the CNB may suspend the effectiveness of "an agreement that allows for control of a bank" (the "**Suspended Agreement**") and may order the bank to terminate the contractual arrangement created on the basis of the Suspended Agreement in the shortest period allowed under the applicable law. In the intervening time between the suspension of the effectiveness of the Suspended Agreement and termination of the contractual relationships created under the Suspended Agreement, the obligations of the bank under the Suspended Agreement would not be enforceable. It cannot be entirely excluded that the Trust Deed, the Programme Agreement or other agreement entered into by the Issuer in connection with the establishment of the Programme or any issue of the Covered Bonds will not be qualified by the CNB as "an agreement that allows for control of the Issuer" and that the CNB will not proceed to suspend it.

Risks associated with the Issuer being put into Involuntary Administration

Following the declaration of Involuntary Administration and throughout the Involuntary Administration, payments under the Covered Bonds in favour of Covered Bondholders who are Connected Persons to the Issuer may be suspended

If the CNB discovers Shortcomings, depending on the nature of the relevant Shortcoming it may take various steps, including declaring Involuntary Administration (as described in "*General Description of Czech Legislation relating to Covered Bonds - 8. Involuntary Administration of the Issuer*"), **provided that** the Issuer's Shortcomings endanger the stability of the banking or financial system. Although the primary effect of the Involuntary Administration is that the exercise of the powers of all corporate bodies are suspended and that an involuntary administrator, appointed by the CNB, takes over, the Issuer may (subject to the CNB's prior approval) suspend (either fully or in part) the depositors' right to deal with deposits. Also, while the Issuer is in Involuntary Administration it could, in full or in part, temporarily discontinue the performance of its obligations towards Connected Persons (as defined and described in "*General Description of Czech Legislation relating to Covered Bonds - 7. Consequences of Certain Issuer's Shortcomings*" below) to the Issuer, such as a member of the Issuer's bodies or his or her close person or a person which is controlled by the Issuer, **provided that** such obligations arose before the Involuntary Administration. Therefore, in the case of Involuntary Administration and for the duration of Involuntary Administration, any Covered Bondholders who are Connected Persons to the Issuer may experience a suspension of the payments under the Covered Bonds while having no access to the assets in the Cover Pool.

The Covered Bondholders' position might deteriorate during Involuntary Administration as a result of the transfer of assets included in the Cover Pool and the transfer of the Issuer's obligations under the Covered Bonds

If Involuntary Administration has been declared against the Issuer, the Issuer may, subject to the prior consent of the CNB, enter into an agreement with a bank or a branch of a foreign bank for the transfer of its assets and/or liabilities (or obligations) to that other bank or branch of the foreign bank without the need for approval of the respective Issuer's creditors. This may include the transfer of the Issuer's assets included in the Cover Pool and transfer of the Issuer's obligations under the Covered Bonds (or any other Czech Covered Bonds). The agreement for the transfer of the Issuer's assets in the Cover Pool or the Issuer's obligations under the Covered Bonds would require the CNB's prior consent which can only be given under the condition that the other bank (or branch of the foreign bank) ensures "proper and continuous clients' relationships" (in Czech, *řádné a plynulé pokračování klientských vztahů*) in respect of the assumed assets or obligations. However, there can be no assurance that the Covered Bondholders' position would not deteriorate as a result of the transfer of the Issuer's assets included in the Cover Pool and transfer of the Issuer's obligations under the Covered Bonds during the Involuntary Administration.

Risks relating to the Issuer's insolvency

Following the Commencement of Insolvency Proceedings, the Issuer may not be allowed to make certain or all payments under the Covered Bonds

As of the Commencement of Insolvency Proceedings, the Czech Insolvency Act imposes specific restrictions on the Issuer as well as on the Issuer's creditors to protect the General Insolvency Estate (as defined and described in "*General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*"). Specifically, as of the moment of publication of an insolvency petition and unless the insolvency court rules otherwise, the Issuer is obliged to refrain from any disposals of the assets that form part of the General Insolvency Estate and those assets which may potentially form part of the General Insolvency Estate, if such disposal would cause significant changes in the composition, usage or determination of these assets (other than a negligible reduction in those assets). In addition, the Issuer's monetary obligations which occurred before the Commencement of Insolvency Proceedings can only be performed by the Issuer to the extent allowed under the terms of the Czech Insolvency Act. All the Issuer's actions in breach of these limitations would be ineffective *vis-à-vis* its creditors. These restrictions do not apply, in particular, to the actions necessary for the Issuer's: (i) performance of the obligations stipulated by special regulation; (ii) operation of its business in the ordinary course of business; (iii) diversion from imminent damage; and (iv) performance of procedural sanctions. However, there can be no assurance that following the Commencement of Insolvency Proceedings any payments which the Issuer makes under the Covered Bonds fall within the exemption of acting in the ordinary course of business and it is likely that the Issuer might not be able to make payments under the Covered Bonds in such a situation.

Following the Commencement of Insolvency Proceedings, a Declaration of Insolvency, a Declaration of Bankruptcy or the issuance of a Preliminary Injunction, any payments received in respect of Mortgage Loans or any other Eligible Assets in the Cover Pool may not form part of the Cover Pool, and therefore the Mortgage Estate, and thus the Czech Covered Bondholders (including the Covered Bondholders) will have no recourse to these cash flows

The Czech Insolvency Act as well as other provisions of the Czech Bonds Act and CNB Measure are silent and contain no express provision as to whether, following the Commencement of Insolvency Proceedings, a Declaration of Insolvency, a Declaration of Bankruptcy or the issuance of a Preliminary Injunction, cash flows from the Eligible Assets in the Cover Pool will become part of the Cover Pool (before the Mortgage Estate is created) or Mortgage Estate (after the Mortgage Estate is created) and, thus, it is not clear whether such cash flows will be ring-fenced from the Issuer's General Insolvency Estate or not. Although there are arguments that, for instance, by way of analogy with Section 205 of the Czech Insolvency Act, cash flows received from the Eligible Assets after the Mortgage Estate is created should be ring-fenced from the Issuer's General Insolvency Estate, this is not expressly set out in the applicable laws. It cannot therefore be excluded that an insolvency administrator would seek to exclude such cash flows from the Mortgage Estate. Also, cash flows received from the Eligible Assets before the Mortgage Estate is created might not become part of the Cover Pool.

Consequently, although the Issuer's Cover Pool could be overcollateralised in compliance with the Contractual Asset Cover Test, there can be no assurance that, following the Commencement of Insolvency Proceedings, a Declaration of Insolvency, a Declaration of Bankruptcy or the issuance of a Preliminary Injunction, any payments received in respect of Mortgage Loans or any other Eligible Assets in the Cover Pool will be interpreted as forming part of the Mortgage Estate (as opposed to the Issuer's General Insolvency Estate) and therefore the value of the Cover Pool, and thus the Mortgage Estate, may not be sufficient to pay all amounts due and payable under all Czech Covered Bonds.

Following a Declaration of Bankruptcy, all of the Issuer's liabilities (including all Czech Covered Bonds, and thus the Covered Bonds) will become due and payable but, due to the length of time that the bankruptcy proceedings in respect of the Issuer could take, there can be no assurance that the Covered Bondholders will receive timely payments of interest or principal

Following a Declaration of Bankruptcy all the Issuer's liabilities (including all the Covered Bonds and any other Czech Covered Bonds, and thus the Covered Bonds) will become due and payable by operation of law. Since the relevant provision of the Czech Insolvency Act is mandatory, this automatic acceleration of the Issuer's liabilities cannot be excluded in the Conditions of the Covered Bonds.

The Mortgage Estate exists primarily for the satisfaction of all Czech Covered Bondholders' claims. This statutory priority in satisfaction of amounts from the Mortgage Estate benefits all Czech Covered Bondholders and not only the Covered Bondholders as only a single Cover Pool is contemplated by the Czech Bonds Act and CNB Measure and a single Issuer's Mortgage Estate is contemplated by the Czech Insolvency Act. After a Declaration of Bankruptcy, the insolvency administrator cannot make any regular payments on the Covered Bonds. The insolvency administrator will, within 60 days of the Declaration of Bankruptcy, notify the Czech Covered Bondholders (including the Covered Bondholders) about the registration of their claims under the Covered Bonds. The claims of the Covered Bondholders may only be settled through the bankruptcy proceedings following the Declaration of Bankruptcy. In addition, as described in *"General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool"*, the liquidation of the Mortgage Estate as well as distribution of proceeds from that liquidation to the Czech Covered Bondholders in the bankruptcy proceedings in respect of the Issuer should precede the distribution of proceeds from the sale of assets which form part of the General Insolvency Estate. This is mainly because the unsatisfied portion of the Czech Covered Bondholders' claims must be reflected with other general creditors' claims either in the "distribution list" (in Czech, *rozvrhové usnesení*) issued following the final report (in Czech, *konečná zpráva*) or, in certain circumstances, in the "partial distribution list" (in Czech, *rozvrhové usnesení o částečném rozvrhu*). The proceeds from the liquidation of the General Insolvency Estate may be distributed among all creditors, including the Covered Bondholders to satisfy their claims in respect of the Covered Bonds (to the extent they were not satisfied from the proceeds resulting from the liquidation of the Mortgage Estate) after the issuance of the "distribution list" or the "partial distribution list".

However, no assurance can be given as to the timely distribution of proceeds from the liquidation of the Mortgage Estate in the Issuer's bankruptcy proceedings. Due to the time that the bankruptcy proceedings could take there can be no assurance that the Covered Bondholders will receive timely payments of interest or principal under the Covered Bonds. The Covered Bondholders can accelerate payments on the Covered Bonds following the occurrence of an Event of Default but this is likely to be ineffective, given that the insolvency administrator cannot make any payments on the Covered Bonds prior to the final decision of the insolvency court on the distribution of insolvency proceeds to the insolvency creditors.

There might be "adversary disputes" in respect of claims of a Czech Covered Bondholder (including a Covered Bondholder) against the Mortgage Estate

Pursuant to Section 192 of the Czech Insolvency Act, the debtor, the insolvency administrator and any creditor who has its claim registered with the insolvency court, which could include each individual Covered Bondholder, have the right to dispute the authenticity, amount or ranking of a registered claim (in Czech, *popření pravosti, výše a pořadí pohledávek*) filed by another creditor. Such dispute is an "adversary dispute" (in Czech, *incidenční spor*) within the meaning of Section 159 of the Czech Insolvency Act and may also concern a claim of the Czech Covered Bondholder being challenged by another creditor. Adversary disputes may result in delays in the insolvency proceedings as they could overwhelm the insolvency court which has to deal with them in the course of insolvency proceedings. However, the Czech Insolvency Act contains certain tools aimed at eliminating abusive adversary disputes filed by creditors and to speed up the insolvency decisions of the insolvency court. For example, one such tool is the obligatory use of a form issued by the Czech Ministry of Justice to make a filing of an adversary dispute and the obligation to submit financial security for each such filing.

In addition, if the results of adversary disputes could have a significant impact on a conclusion made in the final report (in Czech, *konečná zpráva*) (which is prepared by an insolvency administrator after a liquidation of the General Insolvency Estate (in Czech, *zpeněžení majetkové podstaty*) and serves as a basis for the amount of monies to be distributed among creditors), pursuant to Section 302(1)(a) of the Czech Insolvency Act, such a final report cannot be submitted to the insolvency court for approval. This approval is however necessary for a preparation of the "distribution list proposal" (in Czech, *návrh rozvrhového usnesení*).

Therefore, if an adversary dispute concerns a claim of a Czech Covered Bondholder (including a Covered Bondholder) with potential significant impact on the distribution of proceeds solely from liquidation of the Mortgage Estate, by way of analogy with Section 302(1)(a) of the Czech Insolvency Act, this may delay the process of payments to the Czech Covered Bondholders (and thus the Covered Bondholders) from the liquidated Mortgage Estate.

Consequently, no assurance can be given that adversary disputes in general (i.e., those adversary disputes relating to the claims of the Czech Covered Bondholders as well as those adversary disputes relating to the claims of the creditors generally) will not adversely affect the speed of the distribution of proceeds from the liquidated Mortgage Estate and timely payments to the Czech Covered Bondholders (including the Covered Bondholders).

Some or all payments to the Covered Bondholders may not be made as a result of a Preliminary Injunction having been issued by the insolvency court and some or all payments under the Mortgage Loans or any other Eligible Assets in the Cover Pool may not be made to the Issuer upon the corresponding order having been issued by the insolvency court

If the insolvency court finds it necessary for the protection of the General Insolvency Estate, it may, at its discretion, for the period from the Commencement of Insolvency Proceedings to the Declaration of Bankruptcy, prohibit the Issuer from making disposals of the assets in the General Insolvency Estate or make such disposals subject to the preliminary insolvency administrator's (in Czech, *předběžný správce*) approval by issuing a Preliminary Injunction. In such a case, the Cover Pool might not be transferred or sold to a third party along with the liabilities from the Covered Bonds. The insolvency court may further order the Issuer's debtors to perform their obligations to the preliminary insolvency administrator rather than to the Issuer.

Consequently, there is a risk that the payments to the Covered Bondholders which flow from the General Insolvency Estate may be suspended whilst the Preliminary Injunction is in effect. Also, there can be no assurance that, in the insolvency proceedings in respect of the Issuer, the payments under the Mortgage Loans or any other Eligible Assets in the Cover Pool will be made to the Issuer.

The Issuer's ability to make payments under the Covered Bonds or to issue further Covered Bonds may be restricted or discontinued by a preliminary injunction issued by a Czech court

Under Section 74 of the Czech Act. No 99/1963 Coll., as amended (the "**Civil Procedure Code**"), a Czech court may, at its discretion and upon a petition from any third person filing a claim against the Issuer, issue a preliminary injunction (in Czech, *předběžné opatření*) if: (i) it is necessary to temporarily govern the relationship between the Issuer and that third person; or (ii) there is doubt whether the enforcement of a court decision issued will be carried out. Such preliminary injunction may stay effective until the end of the relevant court proceedings. This is a general regulation of the civil procedure under Czech law and, thus, regardless of the Issuer's insolvency, there can be no assurance that such a preliminary injunction would not impose upon the Issuer the obligation to stop or delay payments under Czech Covered Bonds (including the Covered Bonds) or restrict or prohibit the Issuer from issuing further Czech Covered Bonds (including the Covered Bonds).

The value of the Mortgage Loans in the Cover Pool (before the Mortgage Estate is created) or in the Mortgage Estate (after the Mortgage Estate is created) might reduce becoming insufficient to meet the relevant Contractual Asset Cover Test and Statutory Tests and thus insufficient to provide cover for the issued and outstanding Czech Covered Bonds as a result of some debtors of the Mortgage Loans having exercised the right of unilateral set-off of their claims and obligations vis-à-vis the Issuer

If the Issuer enters into separate transactions (including transactions under various agreements on current or other bank accounts) with the debtors of Mortgage Loans, which are in the Cover Pool, such debtors may, under certain conditions, have a right of set-off of their obligations under the Mortgage Loans against any amounts owed by the Issuer.

Czech law allows for two means of set-off - unilateral set-off and contractual set-off. In both cases the law requires that the subject matter of mutual claims to be set-off is of the same kind. In broad terms, a unilateral set-off refers to circumstances when one of the parties ("**Party X**") takes a unilateral action towards the other party ("**Party Y**") invoking a set-off without any action being taken whatsoever by Party Y. The general rule is that a unilateral set-off of mutual claims is only possible when (i) a claim of Party X to be set-off is due and payable and (ii) Party X is entitled to perform its obligation corresponding to the claim of Party Y to be set-off against the claim of Party X. In the case of a debtor under a Mortgage Loan, apart from the situations in which such an obligation becomes due and payable, such an entitlement might for example be constituted as a right for voluntary prepayment of the relevant Mortgage Loan. In contrast, a contractual set-off, which is always based on an agreement between the parties, can always

take place regardless of whether any of the mutual claims to be set-off is due and payable or whether any of the parties is entitled to perform its obligations corresponding to a claim to be set-off.

Czech law allows not only for pre-insolvency but also post-insolvency set-off, although additional restrictions apply in post-insolvency set off compared to the pre-insolvency regime described immediately above. Mutual claims of the Issuer and its creditor may generally be set-off after the Commencement of Insolvency Proceedings, **provided that** the statutory conditions for set-off have been fulfilled prior to the decision on the manner of resolution of the debtor's insolvency. Also, the post-insolvency set-off will not be possible if: (i) the creditor did not file the claim to be set off in the insolvency proceedings; (ii) the creditor acquired its claim through an ineffective legal act; (iii) the creditor was aware of the debtor's insolvency at the time it acquired the claim to be set off; (iv) the creditor has not yet satisfied the debtor's due and payable claim for the amount owing which exceeds the creditor's claim to be set off; and (v) in certain other circumstances described in the Czech Insolvency Act, such as upon the issuance of the Preliminary Injunction by the insolvency court. There is only one available method of resolving the Issuer's insolvency and that is bankruptcy (in Czech, *konkurs*). The insolvency court would therefore always decide simultaneously on a Declaration of Insolvency to confirm the state of affairs and on a Declaration of Bankruptcy to decide on the use of method to resolve the insolvency. Therefore, the statutory conditions for set-off must be met prior to the Declaration of Insolvency and Declaration of Bankruptcy in respect of the Issuer. According to the conservative interpretation this means that set-off must be perfected prior to such decision, i.e. that the set-off must also be invoked against the Issuer prior to the Declaration of Bankruptcy. However, there is also a view that the legal conditions of set-off do not comprise the act by which set-off is invoked against the Issuer.

In summary, the above means that the right of unilateral set-off of (i) the claims of the debtors of the Mortgage Loans against (ii) the claims of the Issuer under the Mortgage Loans, may be exercised not only prior to the insolvency but also after the Commencement of Insolvency Proceedings or even after the Declaration of Bankruptcy in respect of the Issuer. Although the Issuer may contractually eliminate such debtors' rights to set-off and such contractual arrangements would continue to apply following the Commencement of the Insolvency Proceedings in respect of the Issuer, the Issuer has not done that in its agreements or contracts on Mortgage Loans and/or agreements or contracts on current or other bank accounts it has entered into with its clients as the debtors under the Mortgage Loans, nor has the Issuer done that in its Standard Contractual Terms and Conditions applicable to those agreements or contracts.

Hence, the Issuer's clients, who are the debtors of the Mortgage Loans and at the same time have a claim against the Issuer from separate transactions (including transactions under various agreements on current or other bank accounts), may exercise the right of unilateral set-off of their claims against the Issuer and the possibility of that set-off taking place cannot be completely excluded. Consequently, no assurance can be given that, if the right of unilateral set-off has been duly exercised by some debtors of the Mortgage Loans, the value of the Eligible Assets in the Cover Pool, and thus the Mortgage Estate, will be sufficient to pay all amounts due and payable under all Czech Covered Bonds (including the Covered Bonds).

Assets in the Cover Pool might become ineligible and not be replaced whilst Covered Bonds are still outstanding if the assets become ineligible in the period between the Commencement of Insolvency Proceedings against the Issuer and the Declaration of Bankruptcy in respect of the Issuer

The assets which comprise the Cover Pool may become ineligible whilst Covered Bonds are outstanding. Pursuant to section 5(1) of the CNB Measure, the Issuer must immediately exclude any assets from the Cover Pool if they cease to satisfy the relevant statutory eligibility criteria for inclusion in the Cover Pool. Normally, the Issuer would replace such assets with other eligible assets in order to remain in compliance with the Statutory Tests and the Contractual Asset Cover Test, however, if an asset becomes ineligible in the period between the Commencement of Insolvency Proceedings against the Issuer and the Declaration of Bankruptcy in respect of the Issuer, such asset must be excluded from the Cover Pool even if the Issuer has not substituted a new asset in respect thereof and such asset will not become part of the Mortgage Estate once the Declaration of Bankruptcy is issued. The same will apply to a Mortgage Loan if refinanced during this period. Although the Issuer complies with the Contractual Asset Cover Test and this may provide overcollateralisation for the Cover Pool, there can be no assurance that, in the event that assets are removed from the Cover Pool during this period, the value of the Mortgaged Property would be sufficient to pay all amounts due under the Covered Bonds.

Non-compliance with rules relating to matching of assets and liabilities in the Cover Pool could lead to measures being taken by the CNB preventing payments being made under the Covered Bonds

The Czech Bonds Act and CNB Measure requires the Issuer to comply with the Par Value Test so that at any given time the aggregate of the Issuer's receivables under Eligible Assets included in the Cover Pool at least equals the aggregate of all the Issuer's obligations under the Czech Covered Bonds outstanding. Because the Czech Bonds Act does not require the aggregate of the Issuer's receivables under Eligible Assets to exceed the aggregate of the Issuer's obligations under the Czech Covered Bonds by any specific amount, the Eligible Assets included in the Cover Pool may not be sufficient to ensure that the Issuer will have sufficient assets and cashflow to meet all of its obligations under the Covered Bonds. In order to mitigate this position, pursuant to the Trust Deed, the Issuer covenants to ensure compliance with the Contractual Asset Cover Test. If the Issuer fails to maintain sufficient Eligible Assets in the Cover Pool, this would not only mean a breach of the Contractual Asset Cover Test but could also lead to the CNB imposing certain measures (i.e., Ordinary Measures or Extraordinary Measures) upon the Issuer as a result of which the Issuer will be restricted or prohibited from doing certain activities, operations, trades, transfers or transactions, including that the Issuer may not be allowed to issue further Covered Bonds or any other Czech Covered Bonds, refinance the existing Covered Bonds or any other Czech Covered Bonds or make any payments under the Covered Bonds or any other Czech Covered Bonds to any party or alternatively that the Issuer may have to cease payments to those parties who are closely associated with the Issuer or parties who are a part of the same consolidated unit or Connected Persons (as defined and described in "General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings" below) to the Issuer.

The Cover Pool consists of limited assets which may decline in value in the event of a general downturn in the value of properties located in the Czech Republic or Slovakia

Covered Bondholders will not receive detailed statistics or information in relation to the Mortgage Loans or other assets contained or to be contained in the Cover Pool, as it is expected that the constitution of the Cover Pool will change from time to time due to, for example, the purchase or origination of further Mortgage Loans by the Issuer. The Issuer is, pursuant to Section 32 of the Czech Bonds Act and the CNB Measure, required to maintain the Cover Evidence and, pursuant to the Decree of the CNB No. 346/2013 Coll., on reporting by banks and foreign bank branches to the Czech National Bank, as amended- (in Czech, *Vyhláška o předkládání výkazů bankami a pobočkami zahraničních bank České národní bance*), required to file quarterly reports with the CNB (within 25 calendar days following the end of each calendar quarter) containing summary information about the Cover Pool and the Issuer's obligations in respect of the Czech Covered Bonds, however, neither the Cover Evidence nor the quarterly reports are publicly available. Deloitte Audit s.r.o. has been appointed to act as the Asset Monitor pursuant to the terms of an asset monitor agreement, pursuant to which it will be required to conduct certain checks and calculations on the statutory tests performed by the Issuer in accordance with the Czech Bonds Act and CNB Measure and the Trust Deed. The Asset Monitor will only be required to perform its role from the date on which a Series of Covered Bonds is issued by the Issuer for the first time to a person or entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates). The outcome of these checks and calculations will not be publicly available or otherwise available to Covered Bondholders.

The Covered Bondholders will receive limited information in respect of the Cover Pool

Covered Bondholders will not receive detailed statistics or information in relation to the Mortgage Loans or other assets contained or to be contained in the Cover Pool, as it is expected that the constitution of the Cover Pool will change from time to time due to, for example, the purchase or origination of further Mortgage Loans by the Issuer. The Issuer is, pursuant to Section 32 of the Czech Bonds Act and the CNB Measure, required to maintain the Cover Evidence and, pursuant to the Decree of the CNB No. 346/2013 Coll., on reporting by banks and foreign bank branches to the Czech National Bank, as amended (in Czech, *Vyhláška o předkládání výkazů bankami a pobočkami zahraničních bank České národní bance*), required to file quarterly reports with the CNB (within 25 calendar days following the end of each calendar quarter) containing summary information about the Cover Pool and the Issuer's obligations in respect of the Czech Covered Bonds, however, neither the Cover Evidence nor the quarterly reports are publicly available. Deloitte Audit s.r.o. has been appointed to act as the Asset Monitor pursuant to the terms of an asset monitor agreement, pursuant to which it will be required to conduct certain checks and calculations on the statutory tests performed by the Issuer in accordance with

the Czech Bonds Act and CNB Measure and the Trust Deed. The Asset Monitor will only be required to perform its role from the date on which a Series of Covered Bonds is issued by the Issuer for the first time to a person or entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates). The outcome of these checks and calculations will not be publicly available or otherwise available to Covered Bondholders.

Although the Issuer complies with the Statutory Tests and the Contractual Asset Cover Test in respect of the Cover Pool, the Mortgaged Property Value might reduce over time causing the value of the Mortgage Loans becoming insufficient to meet the relevant Contractual Asset Cover Test and Statutory Tests and insufficient to provide cover for the issued and outstanding Czech Covered Bonds

Pursuant to the Czech Bonds Act, for an individual Mortgage Loan to become an Ordinary Cover Asset and to be included as such in the Issuer's Cover Pool, it must comply with the applicable requirements or criteria including, amongst other things, the Individual 200 per cent. LTV Limit (as defined in "General Description of Czech Legislation relating to Covered Bonds - 3. Cover Pool - Composition of Assets"). Also, pursuant to the Czech Bonds Act, the Mortgage Loans or their parts to be included as Ordinary Cover Assets in the Issuer's Cover Pool must not, on a portfolio basis, exceed the Aggregate 70 per cent. LTV Limit (as defined in "General Description of Czech Legislation relating to Covered Bonds - 3. Cover Pool - Composition of Assets"). In addition, the Issuer covenants, pursuant to the Trust Deed, to ensure compliance with the Contractual Eligibility Criteria and the Contractual Asset Cover Test. However, the Mortgaged Property Value may reduce over time causing the value of the Mortgage Loans becoming insufficient to meet the relevant Contractual Asset Cover Test and Statutory Tests and insufficient to provide cover for the issued and outstanding Czech Covered Bonds (including the Covered Bonds).

There is no explicit requirement for overcollateralisation in Czech law and there is no assurance that overcollateralisation of the Cover Pool would be recognised under Czech law

There are neither provisions under the Czech Bonds Act and CNB Measure nor under any other Czech Legislation that would impose on the Issuer an obligation to overcollateralise the Cover Pool. Therefore, as mentioned above under "Risk Factors - Non-compliance with rules relating to matching of assets and liabilities in the Cover Pool could lead to measures being taken by the CNB preventing payments being made under the Covered Bonds", Czech law only requires that the Par Value Test is met by the Eligible Assets with respect to all outstanding Czech Covered Bonds. In addition, there are no specific Czech law provisions relating to a voluntary overcollateralisation of the Cover Pool and the Issuer's covenant to comply with the Contractual Asset Cover Test. As a result of the Issuer's compliance with the Contractual Asset Cover Test, the Cover Pool could contain Eligible Assets exceeding the requirements of the Par Value Test and may therefore be overcollateralised. As at the moment when the Mortgage Estate is created (either the Commencement of Insolvency Proceedings or Declaration of Insolvency and simultaneous Declaration of Bankruptcy, as applicable) all Eligible Assets (including those Eligible Assets included in the Cover Pool in order to meet the Contractual Asset Cover Test and so exceeding the requirements of the Par Value Test) should form the Mortgage Estate. However, this conclusion is untested in the Czech insolvency courts and no assurance can therefore be given that if there are Eligible Assets which provide overcollateralisation for the Cover Pool above the level required by the Par Value Test that they will form part of the Mortgage Estate.

Risks related to all Covered Bonds

Set out below is a brief description of certain risks relating to all Covered Bonds:

If the Issuer has the right to redeem any Covered Bonds at its option, this may limit the market value of the Covered Bonds concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Covered Bonds from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Covered Bonds concerned

Fixed/Floating Rate Covered Bonds are Covered Bonds which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Covered Bonds which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The Maturity Date may be delayed to the Extended Maturity Date under the Covered Bonds

If the applicable Final Terms specify that an Extended Maturity Date (as defined below) is applicable to a Series of Covered Bonds and the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter) the maturity of the principal amount outstanding of the Covered Bonds not redeemed will automatically extend on a monthly basis up to but not later than 12 months from the Maturity Date (the "**Extended Maturity Date**"). In that event, the Issuer may redeem all or part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. In that event also, the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds in accordance with the applicable Final Terms, save in respect of Zero Coupon Covered Bonds.

The extension of the maturity of the principal amount outstanding of the Covered Bonds from the Maturity Date to the Extended Maturity Date will not result in any right of the Covered Bondholders to accelerate payments or take action against the Issuer, and no payment will be payable to the Covered Bondholders in that event other than as set out in the "*Terms and Conditions of the Covered Bonds*".

As discussed in "*The Covered Bondholders share the Issuer's Cover Pool with the holders of all Czech Covered Bonds issued by the Issuer*" above, the Issuer's Cover Pool is shared by all Czech Covered Bondholders. This means that if particular Final Terms specify "**Extended Maturity Date**" as applicable, there is a risk that, in the event that the Issuer were in financial difficulty the Covered Bondholders in relation to that Series of Covered Bonds would not be paid as quickly as Covered Bondholders in respect of similar Series without an Extended Maturity Date. This would put such Covered Bondholders at a disadvantage if the Issuer entered into financial difficulties in the period between the Maturity Date and the Extended Maturity Date as other Series of Czech Covered Bonds might be paid by the Issuer after the Maturity Date of the Covered Bonds before any financial difficulty or increased financial difficulty were obvious. After an Event of Default, the Covered Bonds could be accelerated (subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction) either at the discretion of the Trustee or as directed by 25 per cent. of the Covered Bondholders (subject in the case of some Events of Default, to the Trustee certifying that such Event of Default is materially

prejudicial to the Covered Bondholders) in which case Covered Bondholders would seek to recover payments in respect of principal and interest from the Cover Pool which it shares with all other Czech Covered Bondholders. The Conditions of the Covered Bonds contain a cross-default in respect of the Issuer's Domestic Bond Programme and certain other obligations so it is likely that an Event of Default would be triggered before the Extended Maturity Date occurred if the delay in payment arose as a result of the financial difficulty of the Issuer. Although there can be no assurance that this would be the case.

The Conditions of the Covered Bonds contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Covered Bondholders and without regard to the individual interests of particular Covered Bondholders

The Conditions of the Covered Bonds contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority.

The Conditions of the Covered Bonds also provide that the Trustee may, without the consent of Covered Bondholders and without regard to the interests of particular Covered Bondholders, agree to: (i) any modification (other than in relation to a Series Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Covered Bonds; or (ii) determine without the consent of the Covered Bondholders that any Event of Default or potential Event of Default shall not be treated as such where, in the case of (i) and (ii) it is not, in the sole opinion of the Trustee, materially prejudicial to the interests of the Covered Bondholders of any Series or such modification is of a formal, minor or technical nature or to correct a manifest error; or (iii) the substitution of another company as principal debtor under any Covered Bonds in place of the Issuer, in the circumstances described in Condition 16 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*).

At the written request of the Issuer, the Trustee shall, without the consent of the Covered Bondholders or Couponholders, in the case of an update in the published Rating Agency criteria applicable to the Programme, concur with the Issuer in making any modification (notwithstanding that such modification may be prejudicial to the interests of the Covered Bondholders or the Couponholders) to the Conditions (other than a Series Reserved Matter) provided that the Issuer has certified to the Trustee that:

- (a) the updated Rating Agency criteria have been published and the relevant modification to the Conditions, as determined by the Issuer, is being made solely to implement and reflect such updated, published Rating Agency criteria; and
- (b) the proposed modifications do not constitute a Series Reserved Matter;
- (c) the then current ratings of the Covered Bonds of any Series will not be downgraded or withdrawn by the Rating Agency as a result of such modification.

Any such modification shall be made on such terms and subject to such conditions (if any) as the Trustee shall reasonably determine and shall be binding on the Covered Bondholders and the Couponholders.

The Issuer is also entitled to make any modification to any of the provisions of the Covered Bonds or the other agreements in respect of the Programme to reflect and/or implement any new provisions of applicable law, including the Czech Bonds Act and CNB Measure and/or the Czech Insolvency Act, arising as a consequence of a change in, or a change in interpretation of, law and the Trustee shall, without the consent of the Covered Bondholders, concur with the Issuer in making such modification (notwithstanding that such modification may be prejudicial to the interests of the Covered Bondholders) **provided that** the Issuer has certified to the Trustee that such modification is being made to reflect and/or implement such new provisions of applicable law and that the rating of each Series of the Covered Bonds then outstanding would not be adversely affected by such modification and provided further that such modification would not have the effect of (a) exposing the Trustee to any Liabilities against which it has not been indemnified and/or secured and/or pre funded to its satisfaction, or (b) increasing the obligations or duties, or decreasing the protections, of the Trustee under or in relation to the Trust Deed, the Covered Bonds or the Coupons. Any such modification will be binding on the Covered Bondholders and Couponholders and shall be notified to Covered Bondholders by the Issuer in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

Therefore, it is possible that the conditions of the Covered Bonds will be modified without consent of all investors or that a modification of the conditions of the Covered Bonds will only be agreed to by the Trustee without regard to the consent or the individual interests of the Covered Bondholders.

Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all Czech Covered Bonds then outstanding and all other obligations of the Issuer which have been provided the same priority as the Czech Covered Bonds (issued pursuant to Section 28 *et seq*, Part 2, Clause III of the Czech Bonds Act). Any obligations of the Issuer arising from the Covered Bonds are obligations of the Issuer the repayment of which can be realised from any assets of the Issuer, subject to the special regime that applies in respect of the obligations arising from the outstanding Czech Covered Bonds (including Covered Bonds issued under the Programme) in the Issuer's insolvency (see "*General Description of Czech Legislation relating to Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool*").

An investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds.

The proposed financial transactions tax ("FTT") may negatively affect holders of Notes or the Issuer

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT. Although the effect of these proposals on the Issuer will not be known until the legislation is finalised, the FTT may also adversely affect certain of its businesses.

The Covered Bonds may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross-up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Covered Bonds

Covered Bonds acquired by the Issuer

There are a number of different interpretations of Czech tax law in respect of the tax treatment in situations where the Covered Bonds are sold by an investor, who is an individual, back to the Issuer. Under some of these interpretations the difference between the sale price and the Issue Price would be subject to 15 per cent. withholding tax (to be withheld by the Issuer). Neither the Issuer, the Registrar nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax.

Withholding under the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 18 March 2014, the Luxembourg government has submitted to the Luxembourg Parliament draft Bill N° 6668 on taxation of savings income putting an end to the current withholding tax regime as from 1 January 2015 and implementing the automatic exchange of information as from that date. This draft Bill is in line with the announcement of the Luxembourg government dated 10 April 2013.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive and are required to apply these new requirements from 1 January 2017. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover additional types on income payable on securities.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of tax were to be withheld from that payment, neither the Issuer, the Registrar nor any Paying Agent (as defined in the Conditions of the Covered Bonds) nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

FATCA withholding may affect payments on the Covered Bonds

In certain circumstances payments made on or with respect to the Covered Bonds after 31 December 2016 may be subject to U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "FATCA").

While the Covered Bonds are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Covered Bonds are discharged once the Principal Paying Agent has paid the clearing systems and the Issuer has therefore no

responsibility for any amount thereafter transmitted through the hands of the clearing systems and custodians or intermediaries. Potential investors should be aware that no additional amounts will be payable if any payments in relation to the Covered Bonds are subject to withholding or deduction under FATCA. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them.

Investors who purchase Covered Bonds in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Covered Bonds are subsequently required to be issued.

In relation to any issue of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

If such Covered Bonds in definitive form are issued, holders should be aware that definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Legal and regulatory risks related to the Covered Bonds

The value of the Covered Bonds could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Covered Bonds are based on English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Covered Bonds affected by it.

The concept of the Czech Covered Bonds issued under and governed by foreign law was adopted by the Czech Bonds Act only recently and it is not certain how the Czech Bonds Act as well as the CNB Measure and the relevant provisions of the Czech Insolvency Act will be interpreted in judicial, administrative or other relevant practice following the date of issue of the Covered Bonds

The Czech Bonds Act provides in Section 28(1) that Czech Covered Bonds (in Czech, *hypoteční zástavní listy*) are either: (i) bonds (in Czech, *dluhopisy*) which are issued under and governed by Czech law; or (ii) similar debt securities representing a right for repayment of an owed amount issued under foreign law, **provided that** such bonds or debt securities have their aggregate nominal value and proportionate yield at all times fully covered by receivables from mortgage loans or parts of those receivables (ordinary cover) or, in the alternative, by substitute means according to the Czech Bonds Act (substitute cover).

The Czech Bonds Act has been amended only recently to enable the Czech Covered Bonds (in Czech, *hypoteční zástavní listy*) to be issued not only as Czech law governed bonds (in Czech, *dluhopisy*) but also as foreign law (e.g., English law) governed debt securities such as the Covered Bonds. The Czech Bonds Act is relatively new legislation in the Czech Republic and, for this reason, there is no relevant case law available.

It is uncertain how the Czech Bonds Act will be interpreted or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme. Therefore, no assurance can be given as to the impact of any possible judicial decision or change to Czech law (including the Czech Bonds Act, CNB Measure or the Czech Insolvency Act) or administrative or other relevant practice after the date of issue of the relevant Covered Bonds.

Additionally, the interpretation of certain provisions of Czech law, in particular commercial, financial and insolvency laws, is not well established due to little precedent in respect of sophisticated commercial and financial transactions between private parties. Furthermore, these laws are subject to changes and interpretation in a manner which cannot be currently foreseen and anticipated, and which may affect the rights and obligations arising in connection with the Covered Bonds.

In addition, any change in legislation or in practice in the Czech Republic, Luxembourg, the United Kingdom or in any other relevant jurisdiction could adversely impact: (i) the ability of the Issuer to service the Covered Bonds; and (ii) the market value of the Covered Bonds.

In any proceedings taken in the Czech Republic for the enforcement of the obligations of the Issuer under any contract governed by English law, the Czech courts should recognise the choice of English law as the governing law of such contract subject to the provisions of Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (the "**Rome I Regulation**"). To the extent the rules of the Rome I Regulation do not apply to unilateral acts, the New International Private Law Act, steps in. Under this newly effective act, free choice of law is expressly available also for unilateral acts. Consequently, English law should be recognised even if a Czech court considered the Trust Deed (although additional conditions might be applicable for recognition of English trust, see "*Enforceability of the concept of trust in Czech law*" below), the Conditions or the Covered Bonds as such unilateral acts. The New International Private Law Act has not yet been tested before the Czech courts and therefore no assurance can be given that over time Czech courts will not interpret these new rules on choice of law applicable to unilateral acts differently from the Issuer's understanding of them as at the date of this Base Prospectus. The conclusions concerning provisions of the New International Private Law Act relating to choice of law in the case of unilateral acts are without prejudice to, and should be read in conjunction with the section headed "The value of the Eligible Assets in the Cover Pool might be adversely affected by the unenforceability of legal documentation relating to the Mortgage Loans and mortgage agreements relating to the Mortgage Property entered into or substantially amended after 31 December 2013" on page 19 of this Base Prospectus.

Enforceability of the concept of trust in Czech law

Neither the concept of trust nor a similar legal concept exists under Czech law which is in effect as at the date of this Base Prospectus. The concept of trust is therefore relatively untested in the Czech Republic. The Czech Republic is not a signatory to the Hague Convention on the Law Applicable to Trusts and on their Recognition (the "Convention") which provides for the recognition of trusts and claims by trustees. Hence, there is a risk that Czech authorities would not (based on Czech procedural rules) recognise the Trustee and the trust as contemplated under the Trust Deed and that a Czech court would not recognise enforcement proceedings undertaken by the Trustee on behalf of the Covered Bondholders.

Although a direct liability has been created in favour of the Trustee under the Trust Deed by way of a parallel debt structure which is commonly used for cross-border transactions of this kind with a Czech element, the enforceability of such a provision has not yet been ultimately resolved under Czech law, and it is not clear whether such an obligation is an enforceable obligation in favour of the Trustee under the Trust Deed in respect of the Covered Bonds. Consequently, there can be no assurance that the Trustee will have an enforceable claim against the Issuer in Czech courts.

The Basel II framework may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors and the Issuer may incur substantial costs in monitoring and complying with new capital adequacy requirements

In 1988, the Basel Committee on Banking Supervision (the "**Basel Committee**") adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines ("**Basel II**"). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Basel II has not been fully implemented in all participating jurisdictions. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework was implemented in the European Union by the Directive 2006/48/EC and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (the "**Capital Adequacy Directives**"). The Basel Committee on Banking Supervision has approved a sequence of major reforms to the Basel II framework (the set of reform measures being commonly referred to as "**Basel III**") which envisages a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and

minimum leverage ratios for financial institutions. In particular, the changes include amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Basel III set an implementation deadline on member countries to implement the new capital standards from January 2013, the new Liquidity Funding Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

Basel III has been implemented in the European Union by Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("CRD IV") and Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms ("CRR"). CRD IV and CRR were published in the Official Journal of the European Union on 27 June 2013. Most of the provisions in CRD IV and CRR took effect on 1 January 2014. The full application of all CRD IV measures should be completed by 1 January 2019. In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

There is no certainty as to the final framework for, or the timing of, the capital adequacy standards that will be ultimately developed and implemented, and the Issuer may incur substantial costs in monitoring and complying with the new capital adequacy requirements. The new capital adequacy requirements may also impact existing business models. In addition there can be no assurances that breaches of legislation or regulations by the Issuer will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

The Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Covered Bonds.

On 6 May 2014, the Council of the European Union adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**). The BRRD was adopted on 6 May 2014 and published in the Official Journal on 12 June 2014. The BRRD came into force on 2 July 2014 and is required to be implemented in member states by 1 January 2015, except for certain bail-in provisions which are to be implemented by 1 January 2016. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four principal resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including Covered Bonds to equity (the **general bail-in tool**), which equity could also be subject to any future application of the general bail-in tool.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Although covered bonds are, in principal, outside of the scope of the general bail-in tool, resolution authorities may nevertheless apply the bail-in tool to the Covered Bonds where liability represented by the Covered Bonds exceeds the value of the collateral against which they are secured. Once the BRRD is implemented, holders of Covered Bonds may therefore be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

The BRRD provides that it will be applied by Member States from 1 January 2015, except for the general bail-in tool which is to be applied from 1 January 2016. As a result, there remains uncertainty regarding the ultimate nature and scope of these powers and, when implemented, how they would affect the Issuer and the Covered Bonds. Accordingly, it is not yet possible to assess the full impact of the BRRD. There can be no assurances that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated (including any earlier implementation of such requirements in the Czech Republic) would not adversely affect the price or value of an investment in the Covered Bonds and/or the ability of the relevant Issuer to satisfy its obligations under such Covered Bonds.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Covered Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Covered Bonds

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Covered Bonds which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Covered Bonds could result in an investor not receiving payments on those Covered Bonds

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Covered Bonds; (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds; and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect

of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Covered Bonds may be adversely affected by movements in market interest rates

Investment in Fixed Rate Covered Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Covered Bonds, this will adversely affect the value of the Fixed Rate Covered Bonds.

Credit ratings assigned to the Issuer or any Covered Bonds may not reflect all the risks associated with an investment in those Covered Bonds

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Covered Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

The Issuer may also be evaluated by other rating agencies on an "unsolicited basis" and if their "unsolicited rating" is lower than the comparable reports prepared by the designated rating agencies, the aforesaid informal ratings may adversely affect the value of the Covered Bonds.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

The Programme is a €5,000,000,000 Covered Bond Programme under which the Issuer may, from time to time, issue Covered Bonds, including without limitation Fixed Rate Covered Bonds and Floating Rate Covered Bonds, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The applicable terms of any Covered Bonds will be agreed between the Issuer and the Dealers prior to the issue of the Covered Bonds and will be set out in the Final Terms of the Covered Bonds endorsed on, or attached to the Covered Bonds.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Base Prospectus:

- (a) the auditors' report and non-consolidated audited annual financial statements for the financial year ended 31 December 2012 of the Issuer (data for Czech Republic) including the information set out at the following pages in particular (but excluding the cover page which is not relevant for investors in the Covered Bonds):

Statement of Comprehensive Income.....	19
Statement of Financial Position	20
Cash Flow Statement	21
Statement of Changes in Equity	22
Accounting Principles and Notes	23-64
Auditor's Report.....	65-66

- (b) the auditors' report and non-consolidated audited annual financial statements for the financial year ended 31 December 2012 of UniCredit Bank Slovakia a.s. including the information set out at the following pages in particular (but excluding the cover page which is not relevant for investors in the Covered Bonds):

Auditor's Report.....	28
Statement of Financial Position	29
Statement of Comprehensive Income.....	30
Statement of Changes in Equity.....	31-32
Cash Flow Statement	33
Accounting Principles and Notes	34-105

- (c) non-consolidated unaudited financial data for the nine months ended 30 September 2013 of the Issuer (data for Czech Republic) including the information set out at the following pages in particular:

Balance Sheet.....	2-3
Income Statement	4-5

- (d) non-consolidated unaudited financial data as at 30 September 2013 and for the 3 months period from 1 July 2013 to 30 September 2013 of the Issuer (data for Slovak Republic) including the information set out at the following pages in particular:

Statement of Financial Position	3
Statement of Comprehensive Income.....	4
Statement of Changes in Equity.....	6
Cash Flow Statement	8

- (e) the auditors' report and non-consolidated audited annual financial statements for the financial year ended 31 December 2013 of the Issuer (data for Czech Republic) including the information set out at the following pages in particular (but excluding the cover page which is not relevant for investors in the Covered Bonds):

Statement of Comprehensive Income.....	19
Statement of Financial Position	20
Cash Flow Statement	21
Statement of Changes in Equity	22
Accounting Principles and Notes	23-64
Auditor's Report.....	66-67

- (f) non-consolidated unaudited financial data for the nine months ended 30 September 2014 of the Issuer including the information set out at the following pages in particular:

Balance Sheet.....	2-3
Income Statement.....	4-5

- (g) the terms and conditions set out on pages 59 to 87 of the base prospectus dated 29 November 2013 relating to the Programme under the heading "Terms and Conditions of the Notes" (the "**2013 Conditions**").

The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of Commission Regulation (EC) No. 809/2004.

Documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in Luxembourg.

SUPPLEMENTS TO THE BASE PROSPECTUS

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds. Any such supplement to this Base Prospectus will be approved by the CSSF.

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond (a "**Temporary Bearer Global Covered Bond**") or, if so specified in the applicable Final Terms, a permanent global covered bond (each a "**Permanent Bearer Global Covered Bond**", together with any Temporary Bearer Global Covered Bonds, the "**Bearer Global Covered Bonds**") which, in either case, will:

- (i) if the Bearer Global Covered Bonds are intended to be issued in new global covered bond ("**NGCB**") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"); and
- (ii) if the Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg.

Where the Global Bearer Covered Bonds issued in respect of any Tranche are in NGCB form, the applicable Final Terms will also indicate whether or not such Global Bearer Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Bearer Covered Bonds are to be so held does not necessarily mean that the Covered Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Bearer Covered Bond is represented by a Temporary Bearer Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Temporary Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Covered Bond if the Temporary Bearer Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Temporary Bearer Global Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (a) interests in a Permanent Bearer Global Covered Bond of the same Series; or (b) if an Exchange Event (as defined below) has occurred, definitive Bearer Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Bearer Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Covered Bond if the Permanent Bearer Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered Bonds with, where applicable, interest coupons and talons attached either: (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) to the Principal Paying Agent as described therein; or (b) upon the occurrence of an Exchange Event; or (c) at any time at the request of the Issuer. For these purposes, "**Exchange Event**" means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Covered Bonds which have an original maturity of more than one year and on all interest coupons relating to such Covered Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Covered Bonds or interest coupons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Covered Bonds

The Registered Covered Bonds of each Tranche will initially be represented by a global covered bond in registered form (a "**Registered Global Covered Bond**"). Prior to expiry of the distribution compliance period (as defined in Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended) applicable to each Tranche of Covered Bonds, beneficial interests in a Registered Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Registered Covered Bonds*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Registered Global Covered Bond will bear a legend regarding such restrictions on transfer.

Registered Global Covered Bonds will either: (i) in the case of Registered Global Covered Bonds not to be held under the New Safekeeping Structure, be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of, the common depositary or (ii) in the case of Registered Global Covered Bonds to be held under the New Safekeeping Structure, be registered in the name of a nominee of the common safekeeper for Euroclear and Clearstream, Luxembourg, each as specified in the applicable Final Terms.

Registered Global Covered Bonds will be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered

Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Covered Bonds in fully registered form.

The Registered Global Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.5 (*Payments – Payments in respect of Registered Global Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, any Paying Agent, the Trustee or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.5 (*Payments – Payments in respect of Registered Global Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Registered Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form and a certificate to that effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale*".**

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds at a point after the Issue Date of the further Tranche, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Covered Bonds of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

APPLICABLE FINAL TERMS

Set out below is the form of the Applicable Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme.

[Date]

UniCredit Bank Czech and Slovakia, a.s.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
under the €[•]
Covered Bond (in Czech, *hypoteční zástavní list*) Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 28 November 2014 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Base Prospectus**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the Luxembourg Stock Exchange's website (www.bourse.lu).

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date are incorporated by reference in this Base Prospectus].

Terms used herein shall be deemed to be defined as such for the purposes of the 2013 Conditions (the "**Conditions**") incorporated by reference in the Base Prospectus dated 28 November 2014. These Final Terms contain the final terms of the Covered Bonds and must be read in conjunction with the Base Prospectus dated 28 November 2014 [and the supplemental Base Prospectus dated [date]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive, save in respect of the Conditions which are set forth in the base prospectus dated 29 November 2013 and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the Luxembourg Stock Exchange's website (www.bourse.lu).

[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[If the Covered Bonds have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (a) Series Number: [•][Not Applicable]
- (b) Tranche Number: [•]
- (c) Date on which the Covered Bonds will be consolidated and form a single Series: The Covered Bonds will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Bearer Global Covered Bond for interests in the Permanent Bearer Global Covered Bond, as referred to in paragraph 22 below, which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency or Currencies: [•]

3. Aggregate Nominal Amount:
- (a) Series: [•]
- (b) Tranche: [•]
4. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
5. (a) Specified Denominations: [•]
- (As referred to under Condition 1 (*Form, Denomination and Title*)) (in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)
- (N.B. Covered Bonds must have a minimum denomination of €100,000 (or equivalent))
- (Note – where multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:
- "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Covered Bonds in definitive form will be issued with a denomination above €199,000.")
- (b) Calculation Amount: [•]
- (As referred to under Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) and Condition 4.2(d) (*Interest on Floating Rate Covered Bonds – Determination of Rate of Interest and calculation of Interest Amounts*)) (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
6. (a) Issue Date: [•]
- (b) Interest Commencement Date:
- (As referred to under Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) and Condition 4.2(a) (*Interest on Floating Rate Covered Bonds – Interest Payment Dates*))
- (i) Period to Maturity Date: [specify/Issue Date/Not Applicable]
- (ii) Period from Maturity Date to Extended Maturity Date: [Maturity Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)
7. Maturity Date: [Fixed rate – specify date/
- Floating rate – Interest Payment Date falling in or

nearest to [specify month]]

8. Extended Maturity Date:

[Applicable/Not Applicable]

[The Extended Maturity Date is [•].

In accordance with the Conditions and these Final Terms, if the Issuer fails to redeem the Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the principal amount outstanding of the Covered Bonds will automatically be extended up to one year to the Extended Maturity Date without constituting an event of default or giving holders of the Covered Bonds any right to accelerate payments on the Covered Bonds. In that event, the interest rate payable on, and the interest periods and Interest Payment Dates, in respect of the Covered Bonds, will change from those that applied up to the Maturity Date and the Issuer may redeem all or part of the principal amount outstanding of those Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, all in accordance with the Conditions and these Final Terms. See Condition 6.9.]

9. Interest Basis:

(As referred to under Condition 4 (*Interest*))

(a) Period to (and including) Maturity Date: [[•] per cent. Fixed Rate]

[[LIBOR/EURIBOR/PRIBOR] +/- [•] per cent. Floating Rate]

[Zero Coupon]

(further particulars specified below)

(b) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date: [Not Applicable]

[[•] per cent. Fixed Rate]

[[LIBOR/EURIBOR/PRIBOR] +/- [•] per cent. Floating Rate]

[Zero Coupon]

(further particulars specified below)

10. Change of Interest Basis:

[Specify the date when any fixed to floating rate change

(As referred to under Condition 4 (*Interest*))

occurs (or visa versa) or cross refer to paragraphs 14 and 15 below and identify there][Not Applicable]

11. Issuer Call: [Applicable/Not Applicable]
 (As referred to under Condition 6.4 -Redemption at the option of the Issuer (Issuer Call)) [(further particulars specified below)]
12. Date of [Board] approval for issuance obtained: [•]/[Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Covered Bond Provisions

(As referred to under Condition 4.1 (*Interest on Fixed Rate Covered Bonds*))

- (I) To Maturity Date: [Applicable/Not Applicable]
- (II) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]

(If (I) and (II) above are not applicable, delete the remaining sub-paragraphs of this paragraph)

(a) Rate(s) of Interest:

- (i) To Maturity Date: [Not Applicable/[•] per cent. per annum payable in arrear on each Interest Payment Date]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/[•] per cent. per annum payable in arrear on each Interest Payment Date]

(b) Interest Payment Date(s):

- (i) To Maturity Date: [Not Applicable/[•] in each year up to and including the Maturity Date/Not Applicable]
(Amend to indicate each Interest Payment Date in the case of irregular coupons)
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/[•] in each month up to and including the Extended Maturity Date/specify other]
(Amend to indicate Interest Payment Dates in the case of irregular coupons)

(c) Fixed Coupon Amount(s):

- (i) To Maturity Date: [Not Applicable/[•] per Calculation Amount]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/[•] per Calculation Amount]

(d) Broken Amount(s):

(Applicable to Covered Bonds in definitive form.)

- (i) To Maturity Date: [[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/Not

Applicable]

- (ii) From Maturity Date up to Extended Maturity Date: [[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/Not Applicable]
- (e) Day Count Fraction:
 - (i) To Maturity Date: [30/360/ Actual/ Actual (ICMA) /Not Applicable]
 - (ii) From Maturity Date up to Extended Maturity Date: [30/360/ Actual/ Actual (ICMA)/ Not Applicable]
- (f) Determination Date(s):
 - (i) To Maturity Date: [[•] in each year/Not Applicable]

(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
 - (ii) From Maturity Date up to Extended Maturity Date: [[•] in each year/Not Applicable]

(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)

14. Floating Rate Covered Bond Provisions

(As referred to under Condition 4.2 (*Interest on Floating Rate Covered Bonds*))

- (I) To Maturity Date: [Applicable/Not Applicable]
- (II) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]

(If (I) and (II) above are not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates:
 - (i) To Maturity Date: [[•]/Not Applicable]
 - (ii) From Maturity Date up to Extended Maturity Date: [[•]/Not Applicable]
- (b) Business Day Convention:
 - (i) To Maturity Date: [Not Applicable/Floating Rate Convention/ Following Business Day Convention/Modified

- Following Business Day Convention/Preceding Business Day Convention]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (c) Additional Business Centre(s):
- (i) To Maturity Date: [[•]/Not Applicable]
- (iii) From Maturity Date up to Extended Maturity Date: [[•]/Not Applicable]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined:
- (i) To Maturity Date: [Not Applicable/Screen Rate Determination/ISDA Determination]
- (ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) [and address] (if not the Principal Paying Agent): [Not Applicable/[•]]
- (f) Screen Rate Determination:
- (i) To Maturity Date: [Applicable/Not Applicable]
- Reference Rate and Relevant Financial Centre: Reference Rate: [•] month [LIBOR/ EURIBOR/ PRIBOR].
- Relevant Financial Centre: [London/ Brussels/ Prague]
- Interest Determination Date(s): [•]

(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and the second Prague business day prior to the start of each Interest Period if PRIBOR)

- Relevant Screen Page: *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate)*

(ii) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]

- Reference Rate and Relevant Financial Centre: Reference Rate: [•] month [LIBOR/ EURIBOR/ PRIBOR].

Relevant Financial Centre: [London/ Brussels/Prague]

- Interest Determination Date(s): [•]

(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and the second Prague business day prior to the start of each Interest Period if PRIBOR)

- Relevant Screen Page: [•]

(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate)

(g) ISDA Determination:

(i) To Maturity Date: [Applicable/Not Applicable]

- Floating Rate Option: [•]
- Designated Maturity: [•]
- Reset Date: [•]

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

(ii) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]

- Floating Rate: [•]

Option:

- Designated Maturity: [•]
- Reset Date: [•]

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

(h) Margin(s):

- (i) To Maturity Date: [[+/-] [•] per cent. per annum /Not Applicable]
- (ii) From Maturity Date up to Extended Maturity Date: [[+/-] [•] per cent. per annum /Not Applicable]

(i) Minimum Rate of Interest:

- (i) To Maturity Date: [[•] per cent. per annum /Not Applicable]
- (ii) From Maturity Date up to Extended Maturity Date: [[•] per cent. per annum /Not Applicable]

(j) Maximum Rate of Interest:

- (i) To Maturity Date: [[•] per cent. per annum/Not Applicable]
- (ii) From Maturity Date up to Extended Maturity Date: [[•] per cent. per annum/Not Applicable]

(k) Day Count Fraction:

- (i) To Maturity Date: [Applicable/Not Applicable]
[Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)]
(See Condition 4 (Interest) for alternatives)
- (ii) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]
[Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)]
(See Condition 4 (Interest) for alternatives)

15. Zero Coupon Covered Bond Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Accrual Yield: [•] per cent. per annum

- (b) Reference Price: [•]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

PROVISIONS RELATING TO REDEMPTION

16. Notice periods for Condition 6.2 Minimum period: [•] days
(Redemption and Purchase – Redemption for tax reasons): Maximum period: [•] days
17. Notice periods for Condition 6.3 Minimum period: [•] days
(Redemption and Purchase – Redemption due to illegality or invalidity): Maximum period: [•] days
18. Issuer Call: [Applicable/Not Applicable]
(As referred to under Condition 6.4 (Redemption at the option of the Issuer (Issuer Call))) (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): [•]
- (b) Optional Redemption Amount: [•] per Calculation Amount
- (c) If redeemable in part: [Not Applicable]
- (i) Minimum Redemption Amount: [•]
- (ii) Maximum Redemption Amount: [•]
- (d) Notice periods: Minimum period: [•] days Maximum period: [•] days
(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent, the Registrar or Trustee)
19. Final Redemption Amount: [•] per Calculation Amount
(As referred to under Condition 6.1 (Redemption at maturity))
20. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [•] per Calculation Amount
(As referred to under Condition 6.5 (Early Redemption Amounts))

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21. Form of Covered Bonds:

Form:

[Bearer Covered Bonds:

[Temporary Bearer Global Covered Bond exchangeable for a Permanent Bearer Global Covered Bond which is exchangeable for definitive Bearer Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Bearer Global Covered Bond exchangeable for definitive Bearer Covered Bonds on and after the Exchange Date]

[Permanent Bearer Global Covered Bond exchangeable for definitive Bearer Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

[Covered Bonds shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.]¹

(Ensure that this is consistent with the wording in the "Form of the Covered Bonds" section in the Base Prospectus and the Covered Bonds themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Global Covered Bond exchangeable for definitive Covered Bonds.)

[Registered Covered Bonds:

[Registered Global Covered Bond (€[•] nominal amount) registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]

[New Global Covered Bond/New Safekeeping Structure: [Yes][No]]

22. Additional Financial Centre(s):

[Not Applicable/London/Prague/Other]

(As referred to under Condition 5.7 (Payment (Covered Bond that this paragraph relates to the place of payment and not Interest Period end dates

¹ Include for Covered Bonds that are to be offered in Belgium.

Day))

to which sub-paragraph 15(c) relates)

23. Talons for future Coupons to be attached to definitive Covered Bonds: [Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

[THIRD PARTY INFORMATION]

[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

SIGNED on behalf of UniCredit Bank Czech Republic and Slovakia, a.s.:

By:
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listing on the Official List of the Luxembourg Stock Exchange with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listing on the Official List of the Luxembourg Stock Exchange with effect from [•].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [•]

2. RATINGS

- Ratings: [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The list of registered and certified rating agencies is published by the European Securities and Markets Authority on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.]/[Not Applicable.]
- (The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [[•] (the "**Managers**")/Dealers], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) [Reasons for the offer [•]]
- (ii) [Estimated net proceeds: [•]]

(iii) [Estimated total expenses: [•]]

5. **YIELD** (*Fixed Rate Covered Bonds Only*)

Indication of yield: [•]

6. **HISTORIC INTEREST RATES** (*Floating Rate Covered Bonds Only*)

Details of historic [LIBOR/EURIBOR/specify other Reference Rate] rates can be obtained from [Reuters].

7. **OPERATIONAL INFORMATION**

(i) ISIN Code: [•]

(ii) Common Code: [•]

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme[, address] and the relevant identification number(s): [Not Applicable/give name(s), [address] and number(s)]

(iv) Names and addresses of additional Paying Agent(s) (if any): [•][Not Applicable]

(v) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)]*[include this text for registered covered bonds]* and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)] *[include this text for registered covered bonds]*. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8. **DISTRIBUTION**

- (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Date of [Subscription] Agreement: [•]
- (iii) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (iv) U.S. Selling Restrictions: [TEFRA D/TEFRA C/TEFRA not applicable]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and definitive Covered Bond. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

This Covered Bond (*hypoteční zástavní list*) is one of a Series (as defined below) of Covered Bonds issued by UniCredit Bank Czech Republic and Slovakia, a.s. (the "**Issuer**") constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated on or about 28 November 2014 made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include any successor as Trustee).

References herein to the "**Covered Bonds**" shall be references to the Covered Bonds of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a "**Global Covered Bond**"), units of each Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond;
- (c) any definitive Covered Bonds in bearer form ("**Bearer Covered Bonds**") issued in exchange for a Global Covered Bond in bearer form;
- (d) any definitive Covered Bonds in registered form ("**Registered Covered Bonds**") (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated on or about 28 November 2014 and made between the Issuer, the Trustee, Citibank N.A., London Branch as issuing and principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents) and Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**", which expression shall include any successor registrar) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents).

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which complete these Terms and Conditions (the "**Conditions**"). References to the "**applicable Final Terms**" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

Interest bearing definitive Bearer Covered Bonds have interest coupons ("**Coupons**") and, in the case of Covered Bonds which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

The Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the "**Covered Bondholders**" (which expression shall mean (in the case of Bearer Covered Bonds) the holders of the Covered Bonds and (in the case of Registered Covered Bonds) the persons in whose name the Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, (unless this is a Zero Coupon Covered Bond) Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Issuer being on 28 November 2014 at Želetavská 1525/1, 140 92 Prague 4, Czech Republic and at the specified office of each of the Principal Paying Agent, the other Paying Agents and the Transfer Agents (together, the "**Agents**"). If the Covered Bonds are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Covered Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In these Conditions, "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. **FORM, DENOMINATION AND TITLE**

The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Covered Bonds, serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Where the applicable Final Terms specifies that an Extended Maturity Date applies to a Series of Covered Bonds, those Covered Bonds may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms in respect of the period from the Issue Date to and including the Maturity Date, and Fixed Rate Covered Bonds or Floating Rate Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms in respect of the period from the Maturity Date up to and including the Extended Maturity Date.

Definitive Bearer Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds and an Extended Maturity Date is not specified in the applicable Final Terms to the relevant Series of Covered Bonds, in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, each of the Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or

notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of a common depositary, or, as the case may be, registered in the name of a nominee of a common depositary (in the case of a Bearer Global Covered Bond where the applicable Final Terms specify that it is not a new global covered bond or in the case of a Registered Global Covered Bond when the applicable Final Terms specify that it is not held under the new safekeeping structure) or common safekeeper (in the case of a Bearer Global Covered Bond where the applicable Final Terms specify that it is a new global covered bond or a Registered Global Covered Bond where the applicable Final Terms specify that it is held under the safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations (the "**New Safekeeping Structure**")) for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, each of the Agents and the Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, each of the Agents and the Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions "**Covered Bondholder**" and "**holder of Covered Bonds**" and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Covered Bonds as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

2. TRANSFERS OF REGISTERED COVERED BONDS

2.1 Transfers of interests in Registered Global Covered Bonds

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of definitive Registered Covered Bonds

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the

Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 2 to the Trust Deed). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 **Registration of transfer upon partial redemption**

In the event of a partial redemption of Covered Bonds under Condition 6 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

2.4 **Costs of registration**

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 **Exchanges and transfers of Registered Covered Bonds generally**

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

3. **STATUS OF THE COVERED BONDS**

The Covered Bonds are mortgage covered bonds (in Czech, *hypoteční zástavní listy*) issued in accordance with Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act.

The Covered Bonds and any related Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all other outstanding Czech Covered Bonds and with all other obligations of the Issuer that have been provided the same priority as the Covered Bonds. Although the Covered Bonds constitute unsecured obligations of the Issuer, in any insolvency proceedings against the Issuer, a special regime applies in respect of the obligations arising from the outstanding Czech Covered Bonds issued by the Issuer.

Each Covered Bond will bear the designation "*hypoteční zástavní list*" to be recognised as a mortgage covered bond under the Czech Bonds Act, CNB Measure and the Czech Insolvency Act.

In these Conditions:

"**CNB Measure**" means the Measure of the Czech National Bank No. 5 of 11 June 2004 (in Czech, *Opatření České národní banky č. 5 ze dne 11. června 2004*) implementing certain provisions of the Czech Bonds Act and setting out the content, manner of keeping as well as

other requirements for the records of an issuer's cover assets in respect of all the outstanding Czech Covered Bonds;

"**Czech Bonds Act**" means the Czech Act No. 190/2004 Coll., as amended;

"**Czech Covered Bonds**" means all instruments and/or securities issued by the Issuer as mortgage covered bonds (in Czech, *hypoteční zástavní listy*) pursuant to Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act, whether issued under and governed by Czech or foreign law and whether issued under the Programme (as the Covered Bonds), under the Domestic Bond Programme, under a programme yet to be established by the Issuer or on a standalone basis, which are then outstanding;

"**Czech Insolvency Act**" means the Czech Act No. 182/2006 Coll., as amended;

"**Domestic Bond Programmes**" means the (third, active) CZK100,000,000,000 domestic bond programme of the Issuer for the issuance of both (i) mortgage covered bonds (in Czech, *hypoteční zástavní listy*) under Czech law which satisfy the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds) and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act and the (second, inactive) CZK 20,000,000,000 domestic bond programme with outstanding mortgage covered bonds (in Czech *hypoteční zástavní listy*) under Czech law which satisfy the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds).

4. **INTEREST**

4.1 **Interest on Fixed Rate Covered Bonds**

This Condition 4.1 applies to Fixed Rate Covered Bonds only. The applicable Final Terms contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4.1 for full information on the manner in which interest is calculated on Fixed Rate Covered Bonds. In particular, the applicable Final Terms will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Covered Bonds in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or
- (b) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such

sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

- (a) if **"Actual/Actual (ICMA)"** is specified in the applicable Final Terms:
 - (i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **"Accrual Period"**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if **"30/360"** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a 360-day year consisting of 12 months' of 30 days each) divided by 360.

- (c) In these Conditions:

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"sub-unit" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

4.2 **Interest on Floating Rate Covered Bonds**

- (a) ***Interest Payment Dates***

This Condition 4.2 applies to Floating Rate Covered Bonds only. The applicable Final Terms contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 4.2 for full information on the manner in which interest is calculated on Floating Rate Covered Bonds. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional

Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Principal Paying Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

Each Floating Rate Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest on Floating Rate Covered Bonds*) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls into the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means a day which is both:

- (I) a day on which commercial banks and foreign exchange markets settle payments and are open for general business

(including dealing in foreign exchange and foreign currency deposits) in the case of Covered Bonds in definitive form only, the relevant place of presentation and in each Additional Business Centre specified in the applicable Final Terms; and

- (II) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the TARGET2 System) is open.

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) ***ISDA Determination for Floating Rate Covered Bonds***

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) ***Screen Rate Determination for Floating Rate Covered Bonds***

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or

- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or (if applicable), no offered quotation appears or (if applicable), fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the eighth decimal place, with 0.000000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

For the purposes of this subparagraph (ii), "**Specified Time**" means 11.00 a.m. (London time, in the case of determination of LIBOR, Brussels time, in the case of a determination of EURIBOR or Prague time, in the case of a determination of PRIBOR);

(c) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bond; or

- (B) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

- (i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer,

the Trustee and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bondholders in accordance with Condition 15 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) ***Determination or Calculation by Trustee***

If for any reason at any relevant time the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

(g) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest on Floating Rate Covered Bonds*) by the Principal Paying Agent shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Principal Paying Agent, the other Paying Agents and all Covered Bondholders and Couponholders and (in the absence of wilful default or fraud) no liability to the Issuer, the Covered Bondholders or the Couponholders shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 **Accrual of interest**

Subject as provided in Condition 4.4 (Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date), each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Covered Bond have been paid; and
- (b) the seventh day after notice is given to the relevant Covered Bondholder(s) (whether individually or in accordance with Condition 15 (*Notices*)) that the full amount (including interest as aforesaid) in the relevant currency in respect of such Covered Bond is available for payment, provided, upon further presentation thereof being duly made, such payment is made.

4.4 Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date

- (a) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.9 (*Extension of Maturity up to Extended Maturity Date*), the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3 (*Accrual of interest*). In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(b) on the principal amount outstanding of the Covered Bonds in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date. The final Interest Payment Date shall fall no later than the Extended Maturity Date.
- (b) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.9 (*Extension of Maturity up to Extended Maturity Date*), the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Principal Paying Agent two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.
- (c) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4.4 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (d) This Condition 4.4 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Covered Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 6.9 (*Extension of Maturity up to Extended Maturity Date*).

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

5.2 Payments subject to fiscal and other laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*)

and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto.

5.3 **Presentation of definitive Bearer Covered Bonds and Coupons**

Payments of principal in respect of definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Covered Bonds, and payments of interest in respect of definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Covered Bond**" is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Covered Bond.

If the due date for redemption of any definitive Bearer Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Covered Bond.

5.4 **Payments in respect of Bearer Global Covered Bonds**

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Covered Bonds or otherwise in the manner specified in the relevant Global Covered Bond, where applicable against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Covered Bond by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

5.5 Payments in respect of Registered Global Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the "**Register**") (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

5.6 General provisions applicable to payments

The holder of a Global Covered Bond shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and will be discharged by payment to, or to the order of, the holder of such Global Covered Bond in respect of each amount

so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

5.7 **Payment Day**

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 8 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits):
 - (i) in the case of Covered Bonds in definitive form only, the relevant place of presentation;
 - (ii) in each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

5.8 **Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds;

- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5 (*Early Redemption Amounts*)); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

6. REDEMPTION AND PURCHASE

6.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms, subject as provided below if an Extended Maturity Date is specified in the applicable Final Terms. Subject to any early redemption or purchase and cancellation, the Covered Bonds will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.

6.2 Redemption for tax reasons

Subject to Condition 6.5 (*Early Redemption Amounts*), the Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Trustee and the Principal Paying Agent and, in accordance with Condition 15 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (a) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee/Principal Paying Agent to make available at its specified office to the Covered Bondholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Covered Bondholders and the Couponholders.

Covered Bonds redeemed pursuant to this Condition 6.2 (*Redemption for tax reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 (*Early Redemption Amounts*) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3 **Redemption due to illegality or invalidity**

- (a) The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Trustee, the Principal Paying Agent, the Registrar (if applicable) and, in accordance with Condition 15 (*Notices*), all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to allow to remain outstanding any Covered Bonds as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered Bonds redeemed pursuant to Condition 6.3(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.5 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.4 **Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period (being no less than 5 Business Days) nor more than the maximum period of notice specified in applicable Final Terms to the Covered Bondholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed ("**Redeemed Covered Bonds**") will be selected individually by lot, in the case of Redeemed Covered Bonds represented by definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Covered Bonds represented by definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.4 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 15 (*Notices*) at least five days prior to the Selection Date.

6.5 **Early Redemption Amounts**

For the purpose of Conditions 6.2 and 6.3 above and Condition 9 (*Events of Default*), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

- (b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Covered Bond, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

"**RP**" means the Reference Price;

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator will be 365).

6.6 Purchases

The Issuer or any holding company of the Issuer or any Subsidiary of the Issuer or such holding company may at any time purchase Covered Bonds (**provided that**, in the case of definitive Bearer Covered Bonds, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. The Issuer may, at its option, surrender (if applicable) any Covered Bonds (with any unmatured Coupons and Talons appertaining thereto) which have been purchased by the Issuer or any holding company of the Issuer or any Subsidiary of the Issuer or such holding company for cancellation in accordance with Condition 6.7.

For the purposes of these Conditions, "**Subsidiary**" means any corporation or other business entity of which the Issuer owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes shall or might have voting power upon the occurrence of any contingency).

6.7 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered to be cancelled pursuant to Condition 6.6 (*Purchases*) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent or, as the case may be, the Registrar and cannot be reissued or resold.

6.8 **Late payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 6.1, 6.2, 6.4 or 6.5 above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent, the Registrar or the Trustee and notice to that effect has been given to the Covered Bondholders in accordance with Condition 15 (*Notices*).

6.9 **Extension of Maturity up to Extended Maturity Date**

- (a) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

The Issuer shall give to the Covered Bondholders (in accordance with Condition 15 (*Notices*)), the Transfer Agents and the Paying Agents, notice as to whether or not it intends to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the Maturity Date or the relevant Interest Payment Date. The relevant Paying Agent will notify Clearstream, Luxembourg and Euroclear of the notification (if any) given by the Issuer promptly upon such receipt (and in any event by no later than three Business Days prior to the Maturity Date of the Covered Bonds). For the avoidance of doubt, if the Paying Agents have not received a notice from the Issuer in accordance with this Condition 6.9(a), the relevant Paying Agent shall endeavour to notify Euroclear and Clearstream, Luxembourg that the relevant Series of Covered Bonds will not be redeemed on the Maturity Date and/or the relevant Interest Payment Date, as the case may be.

- (b) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6.9 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (c) Any extension of the maturity of Covered Bonds under this Condition 6.9 shall be irrevocable. Where this Condition 6.9 applies, any failure to redeem the Covered Bonds on the Maturity Date (except where the Issuer has given notice in accordance with Condition 6.9(a) that it will redeem the Covered Bonds) or any extension of the maturity of Covered Bonds to the Extended Maturity Date under this Condition 6.9 shall not constitute an event of default for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Conditions.

- (d) In the event of the extension of the maturity of Covered Bonds under this Condition 6.9, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4 (*Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*).
- (e) If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.
- (f) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.9, subject as otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains in issue, the Issuer shall not issue any further mortgage Covered Bonds, unless the proceeds of issue of such further mortgage Covered Bonds are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.
- (g) This Condition 6.9 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds in full on the Maturity Date (or within two Business Days thereafter).

7. TAXATION

All payments of principal and interest in respect of the Covered Bonds and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon:

- (a) presented for payment in the Czech Republic; or
- (b) the holder of which is liable for such taxes or duties in respect of such Covered Bond or Coupon by reason of his having some connection with the Tax Jurisdiction other than the mere holding of such Covered Bond or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.7 (*Payments – Payment Day*)); or
- (d) where such withholding or deduction is imposed on a payment and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond or Coupon to another Paying Agent in a Member State of the European Union.

Notwithstanding anything to the contrary in this Condition 7 (*Taxation*), no additional amounts will be paid where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretation thereof or law implementing an intergovernmental approach thereto or an agreement between the United States

of America and the Czech Republic to implement FATCA or any law implementing or complying with, or introduced in order to conform to, such agreement (as provided in Condition 5.2 (*Payments – Payments subject to fiscal and other laws*)).

As used herein:

- (i) "**Tax Jurisdiction**" means the Czech Republic or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 15 (*Notices*).

8. PRESCRIPTION

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7 (*Taxation*)) therefore.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 8 or Condition 5.3 (*Payments – Presentation of definitive Bearer Covered Bonds and Coupons*) or any Talon which would be void pursuant to Condition 5.3 (*Payments – Presentation of definitive Bearer Covered Bonds and Coupons*).

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in nominal amount of the Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to below means the Covered Bonds of all Series then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in euro converted into euro at the Relevant Exchange Rate)) or if so directed by an Extraordinary Resolution of the Covered Bondholders of all Series shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), (but in the case of the happening of any of the events described in paragraph (b) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series), give notice in writing to the Issuer that each Covered Bond is, and each Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any one or more of the following events (each an "**Event of Default**") shall occur:

- (a) Non-payment of any payment obligations by the Issuer under or in connection with the Covered Bonds of any Series which lasts for more than ten Business Days from the date when such obligations became due;
- (b) The Issuer fails to comply with, perform or observe any of its other Significant Obligations and (except, in any case where, in the sole opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) such failure continues and remains unremedied for the period of 30 calendar days following the service by the Trustee on the Issuer of notice requiring the same to be remedied;

For the purposes of (b) above, "**Significant Obligations**" means any material (in the opinion of the Trustee) obligations of the Issuer as set out in the Trust Deed, the Conditions, the Agency Agreement, the Programme Agreement and the Asset Monitor Agreement.

- (c) The Issuer fails to comply with the Statutory Tests for a period longer than three months;

- (d) The Issuer has:
 - (i) ceased to be licensed to operate as a bank; or
 - (ii) ceased to be authorised to issue Czech Covered Bonds (in Czech, *hypoteční zástavní listy*); or
 - (iii) in its general meeting, decided that the Issuer will no longer operate as a bank;
- (e) The Issuer has become insolvent, or the Issuer has become obliged to file for insolvency, or the Issuer has been declared insolvent, or an insolvency filing in respect of the Issuer has been dismissed by the competent court for lack of the Issuer's assets; and
- (f) The competent court has issued a final decision on the liquidation of the Issuer.

In addition, if any event occurs which would constitute a "Default" in respect of any Series of mortgage covered bonds (in Czech, *hypoteční zástavní listy*) under the terms and conditions under the Issuer's Domestic Bond Programmes then each Covered Bond shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, whilst such breach is continuing the Issuer must not issue any Czech Covered Bonds which have the benefit of the specified assets which satisfy the relevant eligibility criteria set out in the Trust Deed and which cover the obligations of the Issuer arising from the Czech Covered Bonds (i.e., their aggregate nominal value and proportionate yield) (the "**Cover Pool**").

In this Condition 9, "**Relevant Exchange Rate**" means the equivalent in euro determined by the Principal Paying Agent: (i) in the case of Czech Koruna, at the rate available from the website of the Czech National Bank (currently located at www.cnb.cz) or any successor source for the conversion of Czech Koruna into euro; and (ii) in the case of any other currency, at the rate specified as the FX Fix rate available from Reuters or any successor rate displayed by Reuters or, if Reuters is not showing such rate, an alternative rate from a recognised market source for the conversion of the relevant currency or currencies into euro, in each case on the Business Day on which the direction or request from the Covered Bondholders is received by the Trustee.

10. **ENFORCEMENT**

The Trustee, at its discretion and without notice, may take such steps or proceedings against or in relation to the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Coupons, the Agency Agreement or the Asset Monitor Agreement; but the Trustee shall not be bound to take any such steps or proceedings unless so requested in writing by the holders of at least 25 per cent. in nominal amount of the Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to below means the Covered Bonds of all Series then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in euro converted into euro at the Relevant Exchange Rate)) or if so directed by an Extraordinary Resolution of the Covered Bondholders of all Series (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction).

No Covered Bondholder or Coupon holder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Trust Deed, the Covered Bonds or the Coupons unless the Trustee, having become bound so to proceed or to take such action, fails to do so within a reasonable period (including where it is unable to take such action) and such failure shall be continuing.

11. **REPLACEMENT OF COVERED BONDS, COUPONS AND TALONS**

Should any Covered Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith.

and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

12. AGENTS

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, **provided that:**

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.6 (*Payments – General provisions applicable to payments*). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Covered Bondholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. ISSUER COVENANTS

Pursuant to the Trust Deed, the Issuer covenants in favour of the Trustee on behalf of the Covered Bondholders in connection with the value and maintenance of the Cover Pool and its compliance with certain other key obligations imposed on it under the Czech Bonds Act, CNB Measure and the Slovak Banking Act.

In addition, the Issuer also covenants, amongst other things, to ensure that it does not breach the Statutory Tests and the Contractual Asset Cover Test.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

15. **NOTICES**

All notices regarding the Bearer Covered Bonds will be deemed to be validly given if published, if and for so long as the Bearer Covered Bonds are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing. In addition, if and for so long as any Registered Covered Bonds are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange, all notices shall be published on the Luxembourg Stock Exchange's website, www.bourse.lu. If any Registered Covered Bonds are listed on another stock exchange or admitted to trading by another relevant authority, published in such manner as the rules of that stock exchange or relevant authority so require and such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Covered Bonds are issued, there may, so long as any Global Covered Bonds representing the Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or Covered Bonds, with the Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. **MEETINGS OF COVERED BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of one or more Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds, the Coupons or any of the provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than ten per cent. in nominal amount of the Covered Bonds of the relevant Series for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned meeting one or more persons being or

representing Covered Bondholders of the relevant Series whatever the nominal amount of the Covered Bonds of the relevant Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds of the relevant Series or the Coupons or the Trust Deed (including modifying the date of maturity of the Covered Bonds of the relevant Series or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds of the relevant Series or altering the currency of payment of the Covered Bonds of the relevant Series or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of the relevant Series shall be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Couponholders. The quorum at any such meeting for transacting other business is one or more persons holding or representing not less than 5 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant series for the time being outstanding.

The Trust Deed provides that:

- (a) subject to (d) below, a resolution which, in the sole opinion of the Trustee, affects the interests of the Covered Bondholders of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the Covered Bondholders of such Series;
- (b) subject to (d) below, a resolution which, in the sole opinion of the Trustee, affects the interests of the Covered Bondholders of more than one Series but does not give rise to a conflict of interest between the Covered Bondholders of any of the affected Series shall be deemed to have been duly passed at a single meeting of the Covered Bondholders of the affected Series;
- (c) subject to (d) below, a resolution which, in the sole opinion of the Trustee, affects the interests of the Covered Bondholders of more than one Series and gives or may give rise to a conflict of interest between the Covered Bondholders of any of the affected Series shall be deemed to have been duly passed only if passed at separate meetings of the Covered Bondholders of the affected Series; and
- (d) a Programme Resolution (as defined in the Master Definition Schedule) shall be deemed to have been duly passed only if passed at a single meeting of the Covered Bondholders of all Series.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the Relevant Exchange Rate. Where "**Relevant Exchange Rate**" means the equivalent in euro determined by the Principal Paying Agent: (i) for conversion of Czech Koruna into euro, at the rate available from the website of the Czech National Bank (currently located at www.cnb.cz) or any successor source for the conversion of Czech Koruna into euro; and (ii) for the conversion of any other currency into euro, at the rate specified as the FX Fix rate available from Reuters or any successor rate displayed by Reuters or, if Reuters is not showing such rate, an alternative rate from a recognised market source for the conversion of the relevant currency or currencies into euro, in each case on the seventh Business Day prior to the day of such meeting.

The Trustee may agree, without the consent of the Covered Bondholders or Couponholders of any Series, to any modification of (other than in relation to a Series Reserved Matter (as defined in the Master Definitions Schedule)), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Covered Bonds, the Programme Agreement, the Asset Monitor Agreement, the Agency Agreement or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the sole opinion of the Trustee, materially prejudicial to the interests of the Covered Bondholders of any Series so to do or may agree,

without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Covered Bondholders and the Couponholders and any such modification, waiver, authorisation or determination shall be notified by the Issuer to the Covered Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

At the written request of the Issuer, the Trustee shall, without the consent of the Covered Bondholders or Couponholders, in the case of an update in the published Rating Agency criteria applicable to the Programme, concur with the Issuer in making any modification (notwithstanding that such modification may be prejudicial to the interests of the Covered Bondholders or the Couponholders) to the Trust Deed (including the Conditions), the Agency Agreement, the Programme Agreement or the Asset Monitor Agreement (other than a Series Reserved Matter (as defined in the Trust Deed)) **provided that** the Issuer has certified to the Trustee that:

- (a) the updated Rating Agency criteria have been published and the relevant modification to the Trust Deed (including the Conditions), as determined by the Issuer, is being made solely to implement and reflect such updated, published Rating Agency criteria;
- (b) the proposed modifications do not constitute a Series Reserved Matter; and
- (c) the then current ratings of the Covered Bonds of any Series will not be downgraded or withdrawn by the Rating Agency as a result of such modification,

and provided that the Trustee shall not verify or investigate any further the statements set out in such certificate and shall be entitled to assume that the certificate is true and accurate in all material respects.

Such certification shall be conclusive and binding on the Trustee, the Covered Bondholders and the Couponholders, **provided that** the Trustee shall not be obliged to concur in any modification which, in the opinion of the Trustee, would have the effect of (i) exposing the Trustee to any Liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the protections, of the Trustee under or in relation to the Trust Deed, the Covered Bonds or the Coupons. Any such modification shall be made on such terms and object to such conditions (if any) as the Trustee shall reasonably determine and shall be binding on the Covered Bondholders and the Couponholders and shall be notified to the Covered Bondholders by the Issuer in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

The Issuer is entitled to make any modification to any of the provisions of the Covered Bonds, the Agency Agreement, the Programme Agreement, the Asset Monitor Agreement, or the Trust Deed to reflect and/or implement any new provisions of applicable law, including the Czech Bonds Act and CNB Measure and/or Czech insolvency law, arising as a consequence of a change in, or a change in interpretation of, law and the Trustee shall, without the consent of the Covered Bondholders, concur with the Issuer in making such modification (notwithstanding that such modification may be prejudicial to the interests of the Covered Bondholders) **provided that** the Issuer has certified to the Trustee that such modification is being made to reflect and/or implement such new provisions of applicable law and that the rating of the Covered Bonds of each Series then outstanding would not be adversely affected by such modification and **provided further that** such modification would not have the effect of (a) exposing the Trustee to any Liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction, or (b) increasing the obligations or duties, or decreasing the protections, of the Trustee under or in relation to the Trust Deed, the Covered Bonds or the Coupons. Such modification includes, but is not limited to, changes as a result of changes in the Czech Bonds Act and CNB Measure and/or the Czech Insolvency Act. Such certification shall be conclusive and binding on the Trustee, the Covered Bondholders and the Couponholders. Any such modification shall be binding on the Covered Bondholders and Couponholders and shall be notified to Covered Bondholders by the Issuer in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Covered Bondholders of each Series equally and shall have regard to the interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Covered Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders or Couponholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

The Trustee may, without the consent of the Covered Bondholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Covered Bonds, the Coupons and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (i) the Covered Bonds being unconditionally and irrevocably guaranteed by the Issuer, (ii) the Trustee being satisfied that the interests of the Covered Bondholders of each Series will not be materially prejudiced by the substitution and (iii) certain other conditions set out in the Trust Deed being complied with.

17. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

20.1 Governing law

The Trust Deed, the Agency Agreement, the Covered Bonds, the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency

Agreement, the Covered Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

The Covered Bonds and the Cover Pool, although otherwise governed by, and construed in accordance with, English law, will be subject to and will benefit from those provisions of the Czech Bonds Act, the CNB Measure, the Czech Insolvency Act and any other provisions of Czech law applicable to or relevant for the Czech Covered Bonds. Therefore, the Covered Bonds will need to satisfy requirements of Sections 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the Cover Pool and its maintenance will be governed by Czech law. Also, Section 375 of the Czech Insolvency Act and other relevant provisions of the Czech Insolvency Act will apply to the Covered Bonds and the Cover Pool in the case of insolvency proceedings against the Issuer.

The Cover Pool, although otherwise governed by, and construed in accordance with, English law, will be subject to and will benefit from, in respect of Mortgage Loan governed by Slovak law comprised in the Cover Pool, those provisions of the Slovak Banking Act and any other provisions of Slovak law applicable to or relevant for the Slovak mortgage loans.

20.2 **Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Trustee, the Covered Bondholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Covered Bonds and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Covered Bonds and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Covered Bondholders and the Couponholders may take any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Covered Bonds and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Covered Bonds and the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20.3 **Appointment of Process Agent**

The Issuer appoints UniCredit Bank AG, London Branch, Moor House; 120 London Wall, EC2Y 5ET, as its agent for service of process, and undertakes that, in the event of UniCredit Bank AG, London Branch ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.4 **Other documents**

The Issuer has in the Trust Deed and the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

GENERAL DESCRIPTION OF CZECH LEGISLATION RELATING TO COVERED BONDS

1. CZECH LEGISLATION

The following description is of a general nature and sets out certain features of Czech law governing the issuance of the Covered Bonds as Czech Covered Bonds (in Czech, *hypoteční zástavní listy*), as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Czech legislative and regulatory framework pertaining to the Czech Covered Bonds.

As of the date of this Base Prospectus, the main legislation which governs the Czech Covered Bonds comprises (i) Section 28 *et seq.*, Part 2, Clause III of Czech Act No. 190/2004 Coll., Act on Bonds, as amended (the "**Czech Bonds Act**"); (ii) the Measure of the Czech National Bank (the "**CNB**") No. 5 of 11 June 2004 (in Czech, *Opatření České národní banky č. 5 ze dne 11. června 2004*) implementing certain provisions of the Czech Bonds Act and setting out the content, manner of keeping as well as other requirements for the records of an issuer's cover assets in respect of all the outstanding Czech Covered Bonds (the "**CNB Measure**") and (iii) Section 375 as well as some other provisions of the Czech Act No. 182/2006 Coll., as amended (the "**Czech Insolvency Act**").

2. FINANCING LEGISLATION

In accordance with Section 28(1) of the Czech Bonds Act, the Czech Covered Bonds (in Czech, *hypoteční zástavní listy*) are either (i) bonds (in Czech, *dluhopisy*) which are issued under and governed by Czech law; or (ii) similar debt securities representing a right for the repayment of an owed amount which are issued under and governed by foreign law. Each Czech Covered Bond must bear a designation "*hypoteční zástavní list*" to be recognised as such under the Czech Bonds Act, the CNB Measure and the Czech Insolvency Act. Other securities are prohibited from using this designation.

Under the Czech Bonds Act, the Czech Covered Bonds may only be issued by a bank with its seat in the Czech Republic which holds a Czech banking licence issued to it by the CNB in accordance with the Czech Act No. 21/1992 Coll., the Act on Banks, as amended (the "**Czech Banking Act**"). Under the Czech Banking Act, a bank is defined as a legal entity which is established as a joint-stock company that may accept deposits from the public and grant loans in accordance with its banking licence. This banking licence may list other activities permitted for a specific bank. No specific licence is required by Czech law for the issuance of the Czech Covered Bonds.

The Czech Covered Bonds (in Czech, *hypoteční zástavní listy*), and thus the Covered Bonds issued by the Issuer under the Programme, constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all Czech Covered Bonds issued by the Issuer and then outstanding and all other obligations of the Issuer which have been provided the same priority as the Czech Covered Bonds (issued pursuant to section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act). Any obligations of the Issuer arising from the Czech Covered Bonds are obligations of the Issuer the repayment of which can be realised from any assets of the Issuer, subject to a special regime that applies in respect of the obligations arising from the Czech Covered Bonds in the case of Issuer's insolvency (see "*General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below). However, the Czech Bonds Act provides that the obligations of the Issuer arising from the Czech Covered Bonds (i.e., their aggregate nominal value and proportionate yield) must be at all times fully covered. The specified assets which satisfy the relevant eligibility criteria set out in the Master Definitions Schedule and which cover the obligations of the Issuer arising from the Czech Covered Bonds (i.e., their aggregate nominal value and proportionate yield) are defined as the "**Cover Pool**" but neither the Czech Bonds Act and the CNB Measure nor the Czech Insolvency Act explicitly use the term "cover pool" or provide for an express definition of the term "cover pool" as such. The Czech Bonds Act and the CNB Measure merely specify certain assets and the criteria (i.e., eligibility criteria) which must be met in order for those assets to be eligible to constitute cover in respect of the Czech Covered Bonds (or, in other words, to be included in the Cover Pool). Those assets which satisfy the relevant eligibility criteria are sometimes also referred to as Eligible Assets (see "*General*

Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets" immediately below).

Under the Czech Bonds Act and the CNB Measure, the legal title to any assets (or any Eligible Assets) included in the Cover Pool continues to be held by the Issuer and such assets remain on the balance sheet of the Issuer. Subject to a special regime applicable in the insolvency proceedings in respect of the Issuer (see "9. *Insolvency of the Issuer and the Cover Pool*" below), there is no direct link between the assets included in the Cover Pool (or the Mortgage Estate, as defined and described below in "General Description of Czech Legislation relating to Covered Bonds – 9. *Insolvency of the Issuer and the Cover Pool*") and the Czech Covered Bonds or the holders of the Czech Covered Bonds. In insolvency proceedings in respect of the Issuer, the Mortgage Estate (which, as described below, is essentially identical to the Cover Pool as at a certain point in time) will be primarily for the benefit of all holders of the Czech Covered Bonds issued by the Issuer and in satisfaction of their claims under the Czech Covered Bonds against the Issuer. However, the holders of the Czech Covered Bonds have at no time any right *in rem* or similar right to the assets included in the Cover Pool or the Mortgage Estate (as defined and described below).

In addition, pursuant to Section 337c(1) of the Civil Procedure Code the Issuer's receivables or any parts of those receivables under the Mortgage Loans, which are included in the Cover Pool, will be satisfied from the proceeds of the liquidation of the Mortgaged Property (up to the amount in which the Mortgage Loans are included in the Cover Pool) in priority to any claims of all other creditors of the borrowers of those Mortgage Loans and any claims of all other mortgagees in respect of the Mortgaged Property securing those Mortgage Loans following only deduction of the costs of the state of the Czech Republic arising in connection with the foreclosure auctions.

3. COVER POOL – COMPOSITION OF ASSETS

The Issuer is required by the Czech Bonds Act to maintain a Cover Pool (*also described as the Cover Pool elsewhere in this Base Prospectus*) for the benefit of all Czech Covered Bonds. Therefore, all Czech Covered Bondholders (i.e. holders of the Czech Covered Bonds issued by the Issuer (i) under all of its programmes and (ii) on a standalone basis) will have the benefit of the same Cover Pool which must be maintained in a way so that it satisfies and complies with the terms and conditions and legal requirements applicable to all Czech Covered Bonds. The Cover Pool must be in compliance with, *inter alia*, statutory tests and eligibility criteria set out in or implied by the Czech Bonds Act and CNB Measure. In addition, the Cover Register (as defined and described below) must be established and maintained in accordance with the Czech Bonds Act and CNB Measure.

The Cover Pool must only comprise the Ordinary Cover Assets and Substitute Assets (each described below) which are eligible assets for the purposes of the Czech Bonds Act and CNB Measure ("**Eligible Assets**"). The Ordinary Cover Assets and, subject to the limits set out below, the Substitute Assets must at any time when the Czech Covered Bonds are issued and outstanding provide full cover for the aggregate nominal value and proportionate yield of the issued and outstanding Czech Covered Bonds (the "**Par Value Test**"). In other words, the aggregate of the Issuer's receivables under the Ordinary Cover Assets and Substitute Assets included in the Cover Pool cannot decrease below a level equal to the aggregate of all the Issuer's obligations arising under the Czech Covered Bonds issued and outstanding at that time. Under the Czech Bonds Act and CNB Measure, any interest accrued and unpaid in respect of the Ordinary Cover Assets and Substitute Assets included in the Cover Pool and any interest accrued and unpaid on the Czech Covered Bonds are included for the purposes of calculation of the Par Value Test.

Ordinary Cover Assets (in Czech, *řádné krytí*)

Ordinary Cover Assets in the Cover Pool (the "**Ordinary Cover Assets**") comprise solely the Issuer's receivables or parts of those receivables (for repayment of the principal and other related payments (including interest)) *vis-à-vis* borrowers under eligible mortgage loans (the "**Mortgage Loans**"). For a Mortgage Loan to be eligible to be included in the Cover Pool it must be secured by way of a legally perfected first ranking mortgage in favour of the Issuer over real property (subject to the exceptions below) (including real property under construction, (in Czech,

rozestavěný)) located in the Czech Republic or any other member state of the European Economic Area ("EEA") (the "**Mortgaged Property**") and the amount of each individual Mortgage Loan must not exceed twice the value of the Mortgaged Property securing that particular Mortgage Loan ("**Individual 200 per cent. LTV Limit**"). A Mortgage Loan becomes eligible to be an Ordinary Cover Asset when the Issuer learns about the legal perfection of the mortgage relating to the Mortgage Loan.

In addition, the following criteria apply to the Mortgage Loans in the Cover Pool. The Mortgage Loans are granted by or legally-owned by the Issuer. The Mortgaged Property cannot be encumbered by a mortgage or a similar right of security of a third party, which would rank *pari passu* or in priority to the mortgage securing the repayment of the Mortgage Loans in favour of the Issuer with the exemptions of the mortgages over the Mortgaged Property securing mortgage loans (i) granted by a building society (in Czech, *stavební spořitelna*) in accordance with the Czech Act No. 96/1993 Coll., as amended; (ii) granted by the National Fund for a Development of the Co-operative Flat Construction (in Czech, *Státní fond rozvoje bydlení na výstavbu družstevních bytů*) in accordance with the Czech Act No. 378/2005 Coll., as amended, and (iii) for the purposes of a construction of flats built with financial, credit and other assistance in accordance with special legal regulations governing a financial, credit and other assistance for a co-operative flat construction (loans referred under (ii) and (iii) jointly, the "**Co-operative Loans**"), provided that a building society or a creditor under the Co-operative Loan in whose favour a mortgage of a priority ranking has been created gives its prior written consent with the Issuer's next-ranking mortgage over the Mortgaged Property. Without this prior written consent, the Mortgage Loan secured by this Mortgaged Property encumbered with this "other" allowed mortgage cannot be included in the Cover Pool. Also, a transfer of any Mortgaged Property securing the Mortgage Loan cannot be restricted. Moreover, if any of the Mortgaged Property is mortgaged in favour of a building society or a creditor under the Co-operative Loans or both, only a maximum amount which corresponds to a difference between 70 per cent. of the value of that Mortgaged Property and a building society's receivable from a loan or a receivable of a creditor under the Co-operative Loan or both, as applicable, is permitted to be included in the Cover Pool in relation to this respective Mortgage Loan.

If the Individual 200 per cent. LTV Limit is breached in respect of a Mortgage Loan, the individual Mortgage Loan immediately ceases to qualify as an Eligible Asset and the Issuer must remove that Mortgage Loan from the Cover Register (as defined and described below). In addition, the amount of the Mortgage Loans or parts of those Mortgage Loans included as Ordinary Cover Assets in the Cover Pool must not exceed, on a portfolio basis, 70 per cent. of the Mortgaged Property Value (as defined below) of the Mortgaged Property securing those Mortgage Loans or their parts ("**Aggregate 70 per cent. LTV Limit**").

Substitute Assets (in Czech, *náhradní krytí*)

Substitute Assets may be included in the Cover Pool provided they do not exceed cover for a maximum of 10 per cent. of the nominal value of the Issuer's obligations arising under the issued and outstanding Czech Covered Bonds. These assets may only consist of: (i) cash; (ii) deposits with the central bank of any EEA Member State or the ECB; (iii) bonds issued by the Czech Republic or the CNB; (iv) securities issued either by any EEA Member State or its central bank, or the ECB; or (v) bonds issued either by the financial institutions established by an international treaty to which the Czech Republic is a party or by the financial institutions with which the Czech Republic entered into the international treaty (the "**Substitute Assets**").

Eligible Assets (i.e. Ordinary Cover Assets as well as Substitute Assets) included in the Cover Pool, may not, according to the Czech Bonds Act, be pledged or otherwise used in a different manner as security for any other obligation of the Issuer or any third party.

4. **VALUATIONS OF THE MORTGAGED PROPERTY**

The Issuer must determine the value of the Mortgaged Property (the "**Mortgaged Property Value**") and issue guidelines for these valuations in the form of its internal rules (the "**Valuation Guidelines**") while respecting the following principles. Pursuant to Section 29(2) of the Czech Bonds Act, the value of the Mortgaged Property is to be determined using its current market price (in Czech, *cena obvyklá*) in accordance with the Czech Act No. 151/1997 Coll., as amended

(the "**Property Valuation Act**"), and with special regard to: (a) characteristics of the Mortgaged Property which are sustainable on a permanent and a long-term basis; (b) income achievable by a third party operating the Mortgaged Property with due care; (c) rights and encumbrances attached to the Mortgaged Property; and (d) conditions prevailing on the local property market and anticipated development of that market. The Mortgaged Property Value cannot be higher than the current market price of the Mortgaged Property.

Pursuant to Section 2(1) of the Property Valuation Act, the "**current market price**" is defined as a price which would be achieved for the same or similar property in the ordinary course of business in the Czech Republic as of the relevant valuation date. All circumstances with an impact on the price must be taken into account, however, the influence of extraordinary market conditions (e.g. natural disasters or states of distress of a purchaser/seller), personal relations of a seller *vis-à-vis* a purchaser and vice versa or any special personal affections of a purchaser/seller towards a piece of property, will be disregarded. The current market price reflects the value of a piece of property and shall be determined by comparison.

5. VALUATIONS OF THE ELIGIBLE ASSETS

The Czech Bonds Act requires the Issuer to comply with the Par Value Test. For the purposes of the Par Value Test, Eligible Assets included in the Cover Pool must be valued using the same accounting methods and principles as those used for the Issuer's general accounting purposes and in the preparation of the Issuer's financial statements.

6. COVER EVIDENCE

Pursuant to Section 32 of the Czech Bonds Act, the Issuer must maintain a separate register with respect to the Cover Pool providing cover for all of the Issuer's obligations under issued and outstanding Czech Covered Bonds (in Czech, *samostatná evidence*) (the "**Cover Evidence**"). The Cover Register must be able to provide a complete basis for the assessment of the Issuer's compliance with its respective obligations under the Czech Bonds Act.

Legal requirements for the content, manner of keeping as well as other requirements for the Cover Register are set out in the CNB Measure. In principle, the Issuer must maintain the records in such a manner as to be able to submit to the CNB without undue delay and upon its request, documentation that justifies the inclusion of a particular Ordinary Cover Asset or Substitute Asset in the Cover Pool. Such documentation would mainly include a loan agreement relating to the Mortgage Loan (including its amendments), documentation relating to the Mortgaged Property including the relevant security agreement, an up-to-date extract from the cadastral register of real property, the Mortgaged Property Value, the Valuation Guidelines and other documentation relating to each Substitute Asset included in the Cover Pool and each issue of the Czech Covered Bonds.

The Cover Register primarily consists of a register (in Czech, *registr krytí*) and a book of cover (in Czech, *kniha krytí*). The register contains a list of: (i) all Mortgage Loans in the Cover Pool; and (ii) all Substitute Assets in the Cover Pool.

The "**register**" must contain at least the following details in relation to each Mortgage Loan: (i) the identification of the relevant Mortgage Loan; (ii) the identification of the Mortgaged Property securing this Mortgage Loan; (iii) a Mortgaged Property Value; (iv) an agreed amount of the Mortgage Loan as of the end of the availability period for a disbursement under the relevant loan agreement (in Czech, *sjednaná výše hypotečního úvěru k okamžiku ukončení čerpání hypotečního úvěru*); (v) an up-to-date amount of receivables under the Mortgage Loan serving as ordinary cover; (vi) an up-to-date amount of a building society's receivable under a loan granted which has been secured by a *pari passu* or priority ranking mortgage and the identification of a building society; and (vii) an up-to-date amount of the creditor's receivable under the Co-operative Loan which has been secured by a *pari passu* or priority ranking mortgage and the identification of a creditor.

In respect of each Substitute Asset, the register must contain at least: (i) straightforward identification of the Substitute Asset; and (ii) the amount of the Substitute Asset which represents its acquisition price if the Substitute Assets comprise of bonds. Under the CNB Measure, the

value of the Substitute Assets (other than bonds) is determined using the same valuation methods as are used for the purposes of the Issuer's accounting and financial statements.

The "**book of cover**" must contain: (i) the amount of the Issuer's obligations under the issued and outstanding Czech Covered Bonds; and (ii) the value of the Ordinary Cover Assets and Substitute Assets.

As of each day when the Czech Covered Bonds are issued by the Issuer and outstanding, a book of cover must state at least the following:

- (a) in relation to the Issuer's obligations under the Czech Covered Bonds outstanding on that particular day: (i) the aggregate nominal value of all the outstanding Czech Covered Bonds; (ii) the aggregate amount of the proportionate yield from all the outstanding Czech Covered Bonds; and (iii) the aggregate amount of all of the Issuer's obligations under the outstanding Czech Covered Bonds; and
- (b) in relation to the Ordinary Cover Assets and Substitute Assets included in the Cover Pool: (i) a valuation of each receivable under the Mortgage Loan (or any of its relevant part included in the Cover Pool) and each item of the Substitute Asset; and (ii) the aggregate value of all Eligible Assets with a breakdown into the aggregate value of the Ordinary Cover Assets; and (iii) the aggregate value of the Substitute Assets.

Unless the context advises otherwise, the term Cover Register is further used for both, the "register" and the "book of cover".

The Issuer maintains the Cover Register in a paper or electronic format. The Cover Register is denominated in Czech Koruna. If either a receivable under the Mortgage Loan (i.e., the Ordinary Cover Asset), a Substitute Asset or the Mortgaged Property Value is denominated in a currency other than Czech Koruna, the Issuer will use for conversion into Czech Koruna the foreign exchange rate published by the CNB on the date of that conversion. In each case, the Cover Register must be kept up-to-date in a manner that makes it possible to trace back the individual actions of the Issuer. Entries in the Cover Register must be recorded by a department that is independent of and separate from departments that are responsible for the provision of the Mortgage Loans or the issuance of the Czech Covered Bonds. Also, members of the board of directors of the Issuer who direct and supervise departments responsible for the provision of the Mortgage Loans or the issuance of the Czech Covered Bonds may not at the same time direct and supervise those departments or employees responsible for making records in the Cover Register.

The registration of a certain asset in the Cover Register is not in itself conclusive evidence that such an asset qualifies as an Eligible Asset. If an asset ceases to satisfy the relevant eligibility criteria or, in other words, if an asset no longer qualifies as an Eligible Asset, the Issuer must immediately remove that asset from the Cover Register.

7. CONSEQUENCES OF CERTAIN ISSUER'S SHORTCOMINGS

Under the Czech Banking Act, the CNB may take certain steps or actions against or impose certain measures upon the Issuer, being a bank with its seat in the Czech Republic and holding a Czech banking licence (a "**Czech Bank**"), **provided that** the CNB discovers "shortcomings in the activities" of the Issuer (the "**Shortcomings**"). The CNB may only take such steps or actions or impose measures for so long as the Issuer holds its banking licence (i.e., before its banking licence has been revoked by the CNB) and until insolvency proceedings under the Czech Insolvency Act have been opened against the Issuer.

The Czech Banking Act contains an exhaustive list of the Shortcomings, which include, in particular, the following: (i) a breach of terms stated in the banking licence; (ii) violation or circumvention of the Czech Banking Act and other laws and regulations; (iii) violation or circumvention of the obligations or terms and conditions stated in the CNB's decisions (in Czech, *rozhodnutí*) or CNB's general measures (in Czech, *opatření obecné povahy*); and (iv) a realisation of or decisions on trades, transfers of finances or other transactions which endanger or harm depositors' interests or endanger the stability of the bank. Therefore, for instance, failure by the Issuer to comply with the applicable statutory tests (as set out in "*General Description of Czech*

Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets" above), may lead to the CNB taking steps or actions against, or imposing measures, upon the Issuer.

Upon the discovery of the Shortcoming, and depending on the nature of that Shortcoming, the CNB may require the Issuer to adopt certain remedial measures (each an "**Ordinary Measure**"), including: (a) suspending its activities, operations, trades, transfers of finances or transactions; (b) limiting its distribution network; (c) changing the people in its top management or its supervisory board; or (d) decreasing its interest in another entity or transfer its interest in that entity or otherwise limit the risks associated with its interest in that entity.

If, following an Ordinary Measure having been imposed by the CNB, the Issuer fails to remedy the Shortcoming within a time limit set by the CNB in the Ordinary Measure or, if the matter is urgent and requires that there are no delays, the CNB may depending again on the nature of the particular Shortcoming, invoke certain extraordinary measures (each an "**Extraordinary Measure**"), including: (a) changing the Issuer's banking licence by excluding or restricting some banking activities; (b) ordering an extraordinary audit of the Issuer; (c) declaring involuntary administration (in Czech, *nucená správa*) of the Issuer (the "**Involuntary Administration**"); (d) imposing a financial penalty of up to CZK 50,000,000; or (v) restricting or prohibiting certain activities, operations, trades, transfers or transactions of the Issuer with the persons who are closely associated with the Issuer or persons who are a part of the same consolidated unit or persons with special relations to the Issuer (in Czech, *osoby, které mají k bance zvláštní vztah*). Section 19 of the Czech Banking Act defines persons with special relations as: (i) a member of the supervisory board or a person in the top management of the bank; (ii) a member of the board of directors of the bank; (iii) a person controlling the bank, a shareholder of such controlling person and management of these two; (iv) a person close to a member of the board of directors, a supervisory board, a person in top management and a person controlling the bank; (v) an entity in which a person mentioned in (i) – (iv) above has a qualified majority; (vi) a person with a qualified majority in the bank and any person controlled by them; (vii) a member of the banking council of the CNB; and (viii) a person which is controlled by the bank (the "**Connected Persons**").

8. INVOLUNTARY ADMINISTRATION OF THE ISSUER

Involuntary Administration is regulated under the Czech Banking Act and is independent of insolvency aspects or insolvency law in general. Although the Czech Insolvency Act does not apply to the Issuer when it is licensed to conduct its activity as a bank (i.e., for so long as it holds its banking licence), if a situation arises whereby the Shortcomings (see "*General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings*" above) endanger the stability of the banking or financial system, the Issuer, being a Czech Bank, could also become subject to the Involuntary Administration declared by the CNB as regulated by the Czech Banking Act.

If the CNB discovers Shortcomings (see "*General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings*" above), depending on the nature of the relevant Shortcoming it may, among other Ordinary Measures and Extraordinary Measures under Section 26(1) of the Czech Banking Act, impose Involuntary Administration. Also, Section 30(1) of the Czech Banking Act further specifies that Involuntary Administration may only be declared by the CNB if the Shortcomings endanger the stability of the banking or financial system. The CNB's decision ordering Involuntary Administration must contain the reasons for the introduction of the Involuntary Administration and provide basic details regarding the involuntary administrator and its deputy. The decision may also include restrictions or a prohibition on the accepting of deposits, the granting of loans or other activities. The Issuer has a right of appeal against the CNB's decision ordering the Involuntary Administration.

The administrator is a CNB employee and the CNB may recall the administrator and/or its deputy and appoint a new administrator and/or its deputy. Under Section 29(1) of the Czech Banking Act, the decision of the CNB to introduce Involuntary Administration becomes effective *vis-à-vis* all persons upon its delivery. It is almost certain that this moment will precede the registration of the Involuntary Administration in the publicly available Czech Commercial Register. It is further likely that the Involuntary Administration would precede the Commencement of Insolvency Proceedings (see "*General Description of Czech Legislation*

relating to Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool" below) against the Issuer which may only take place once the Issuer has ceased to be licensed to operate as a bank (i.e., its banking licence has been revoked). Yet, the relevant Involuntary Administration may or may not end in insolvency proceedings since it may also lead to the stabilisation of the business of the Issuer and be lifted or, as described below, the Issuer's business or part of it may be sold. The CNB may provide the relevant Czech Bank with financial aid to eliminate any temporary lack of liquidity. The claim of the CNB for the repayment of the financial aid ranks ahead of all other obligations of the Czech Bank (including any obligations under the Czech Covered Bonds).

The primary effect of the Involuntary Administration on the Issuer is that the exercise of the powers of all its corporate bodies is suspended and that an involuntary administrator, appointed by the CNB, takes over. Also, the Issuer can no longer convene a general meeting as the involuntary administrator makes the decisions falling within the powers of the Issuer's general meeting. If the Issuer is subject to Involuntary Administration, it may (subject to the CNB's prior approval) suspend (either fully or in part) the depositors' right to deal with deposits. Separately, the Issuer while in Involuntary Administration could, fully or in part, temporarily discontinue performance of its obligations towards the Issuer's Connected Persons where the agreement with such person was entered into before the imposition of the Involuntary Administration.

Pursuant to Section 29a of the Czech Banking Act, if the Issuer while being subject to Involuntary Administration enters into an agreement with a bank or a branch of a foreign bank (in each case, the "**New Counterparty**") under which the New Counterparty assumes the Issuer's obligations, no approval of the respective Issuer's creditors is required. However, entry into such agreement is subject to the prior approval of the CNB, which is required, and is only given under the condition that the New Counterparty ensures "proper and continuous clients' relationships" (in Czech, *řádné a plynulé pokračování klientských vztahů*) in respect of the assumed obligations.

If the involuntary administrator determines that the Issuer is over-indebted (in Czech, *předlužen*) the administrator is required to promptly notify the CNB of this fact and provide it with evidence showing that this is the case. The Involuntary Administration terminates upon the earliest of: (a) delivery of the CNB's decision terminating the Involuntary Administration; (b) the appointment of a liquidator; (c) the Declaration of Bankruptcy (see "*General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below); or (d) the date 24 months after the introduction of Involuntary Administration.

Unlike upon the Commencement of Insolvency Proceedings, the Declaration of Insolvency, the Declaration of Bankruptcy or the Preliminary Injunction (each as defined and described in "*General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below), the declaration of the Involuntary Administration does not *per se* trigger any segregation or ring-fencing of the assets in the Cover Pool from the rest of the Issuer's assets. The Mortgage Estate (as defined and described in "*General Description of Czech Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below) which serves primarily to provide priority satisfaction of claims of the Czech Covered Bondholders would not be created upon the declaration of Involuntary Administration, nor would it be created upon any other Extraordinary Measure or upon an Ordinary Measure having been imposed on the Issuer by the CNB.

9. **INSOLVENCY OF THE ISSUER AND THE COVER POOL**

The Czech Insolvency Act does not apply to the Issuer, being a Czech Bank, when it is licensed to conduct its activity as a bank (i.e., for so long as it holds its banking licence). The Issuer's banking licence may only be revoked by the CNB if there are significant Shortcomings (see "*General Description of Czech Legislation relating to Covered Bonds - 7. Consequences of Certain Issuer's Shortcomings*" above) or if the Issuer is insolvent (in Czech, *v úpadku*). The Involuntary Administration (as defined and described in "*General Description of Czech Legislation relating to Covered Bonds - 8. Involuntary Administration of the Issuer*" above) may but does not have to precede the revocation of the Issuer's banking licence.

The Czech Insolvency Act distinguishes between:

- (a) an initiation or opening of insolvency proceedings (in Czech, *zahájení insolvenčního řízení*) (the "**Commencement of Insolvency Proceedings**") against the Issuer;
- (b) a declaration of insolvency (in Czech, *rozhodnutí o úpadku*) (the "**Declaration of Insolvency**"); and
- (c) a declaration of bankruptcy (in Czech, *rozhodnutí o prohlášení konkursu*) (the "**Declaration of Bankruptcy**").

The "**Commencement of Insolvency Proceedings**" implies solely the commencement of the court proceedings ascertaining whether insolvency (in Czech, *úpadek*) or threatened insolvency (in Czech, *hrozící úpadek*) of the Issuer exists. The occurrence of these proceedings does not automatically lead to the Declaration of Insolvency or the Declaration of Bankruptcy.

The insolvency proceedings are opened by an insolvency petition (in Czech, *insolvenční návrh*) having been filed by the Issuer itself, a creditor of the Issuer or the CNB, being the Czech regulator. After the Commencement of Insolvency Proceedings, the insolvency court would examine whether the Issuer is insolvent, and if it so finds, it would declare the Issuer insolvent (the "**Declaration of Insolvency**").

As of the Commencement of Insolvency Proceedings, the Czech Insolvency Act imposes specific restrictions on the Issuer as well as on the Issuer's creditors to protect the general insolvency estate (in Czech, *majetková podstata*) (the "**General Insolvency Estate**"). Specifically, as of the moment of publication of an insolvency petition and unless the insolvency court rules otherwise, the Issuer is obliged to refrain from any disposals of the assets that form part of the General Insolvency Estate and those assets which may potentially belong there, **provided that** such disposal would cause significant changes in a composition, usage or determination of these assets (other than negligible reduction in these assets). Also, the Issuer's monetary obligations which arose before the Commencement of Insolvency Proceedings can only be performed by the Issuer to the extent permitted under the terms of the Czech Insolvency Act. All the Issuer's actions contradicting these limitations are ineffective *vis-à-vis* its creditors, unless prior consent of the insolvency court had been obtained before such action was taken. These restrictions do not apply, in particular, to the Issuer's actions necessary for: (i) the performance of the obligations stipulated by special regulation; (ii) operating its business within an ordinary course of business; (iii) in order to avoid diversion of imminent damage; (iv) the performance of procedural sanctions; (v) post-insolvency claims; and (vi) claims treated equally as post-insolvency claims. Under Czech Insolvency Act, post-insolvency claims include, but are not limited to, (a) expenses and remuneration of the insolvency administrator, (b) expenses connected to the maintenance and administration of the insolvency estate, (c) reimbursement of expenses and remuneration of the liquidator or any other person in an equivalent position, (d) reimbursement of expenses and remuneration of an expert appointed by the insolvency court, (e) reimbursement of expenses and remuneration of members of the creditor committee, (f) reimbursement of allowances for expenses connected to insolvency proceedings, (g) claims arising from post-insolvency financing, (h) taxes and other similar payments, creditors' claims arising from contracts concluded by a person with rights to dispose of the insolvency estate or any part thereof and (i) reimbursement of expenses of persons who have co-operated with the insolvency administrator as required by law. In accordance with Section 169 of the Czech Insolvency Act the following claims would, among other claims, be treated equally as post-insolvency claims: (a) claims of debtor's employees arising from their employment contracts, (b) creditors' claims for compensation for health damages, (c) claims of the Labor Bureau of the Czech Republic for wage compensation paid to employees and for funds paid pursuant special legislation, (d) claims of the participants in pension insurance schemes with state contribution, (e) claims over statutory alimony and (f) reimbursement for expenses paid by third parties for appreciation of the insolvency estate. If the insolvency court finds it necessary for the protection of the General Insolvency Estate, it may, at its discretion, for the period from the Commencement of Insolvency Proceedings to the Declaration of Bankruptcy, issue a preliminary injunction prohibiting the Issuer from making disposals of the assets in the General Insolvency Estate or by making such disposals subject to the preliminary insolvency administrator's (in Czech, *předběžný správce*) approval (the "**Preliminary Injunction**"). The insolvency court may further order the Issuer's

debtors to perform their obligations to the preliminary insolvency administrator rather than to the Issuer.

The Declaration of Insolvency is a moment as of which, among others, the Issuer's right to deal with the General Insolvency Estate is transferred to the insolvency administrator and any subsequent legal acts of the Issuer are ineffective *vis-à-vis* its creditors. As of the publication of the Declaration of Bankruptcy, the Involuntary Administration would be terminated, liquidation of the Issuer would be interrupted and any Preliminary injunctions (including Preliminary Injunctions) issued so far (unless the insolvency court decides otherwise) cease to apply. For a Czech bank like the Issuer there is only one available method of resolving the insolvency, bankruptcy (in Czech, *konkurs*). The insolvency court would always decide simultaneously on the Declaration of Insolvency to confirm the state of affairs (i.e., that the Issuer is insolvent) and on the Declaration of Bankruptcy to decide on the use of method to resolve the insolvency. The outcome of bankruptcy would be that all the Issuer's assets would be liquidated and the Issuer wound up.

After the Declaration of Bankruptcy, the insolvency administrator could not make any regular payments on the Covered Bonds and the claims of the Covered Bondholders might only be settled through the bankruptcy proceedings which follow the Declaration of Bankruptcy. Also, following the Declaration of Bankruptcy, all the Issuer's liabilities (including all Czech Covered Bonds, and thus the Covered Bonds) would become due and payable by operation of law and since the relevant provision of the Czech Insolvency Act is mandatory this automatic acceleration of the Issuer's liabilities could not be excluded in the Conditions of the Covered Bonds. The insolvency administrator would within 60 days of the Declaration of Bankruptcy notify the Czech Covered Bondholders about the registration of their claims under the Covered Bonds as it would notify all other creditors of claims kept in the Issuer's books.

The Cover Pool in the Issuer's insolvency – the Mortgage Estate

Section 375(1) of the Czech Insolvency Act provides that if the debtor is a bank, whose banking licence has been revoked, the assets that serve as cover for the Czech Covered Bonds form part of the mortgage estate. This should be interpreted so that, at a certain point in time (see below), the Cover Pool becomes the Mortgage Estate (as defined and described below). In other words, as at that point in time, the Cover Pool will comprise the very same assets as the Mortgage Estate but the name and legal regime will change.

The Czech Insolvency Act is not clear as to when exactly the Mortgage Estate (as defined and described immediately below) would be created. By way of analogy with Section 205 of the Czech Insolvency Act, it can be concluded that the assets in the Cover Pool would be segregated and ring-fenced from any other assets of the Issuer and would not form part of the Issuer's General Insolvency Estate but will form a separate mortgage estate (in Czech, *hypoteční podstata*) (the "**Mortgage Estate**") in accordance with Section 375 of the Czech Insolvency Act:

- (a) if the insolvency petition is filed by the Issuer (as the debtor), upon the Commencement of Insolvency Proceedings, the Mortgage Estate should comprise the Issuer's assets in the Cover Pool as of the day of the Commencement of Insolvency Proceedings as well as the assets acquired by the Issuer and put into the Cover Pool during the insolvency proceedings; or
- (b) if the insolvency petition is filed by the Issuer's creditor(s), upon the earlier of – (i) the Declaration of Insolvency and simultaneous Declaration of Bankruptcy or (ii) the Preliminary Injunction being issued by an insolvency court, whereby the Mortgage Estate should then comprise the Issuer's assets in the Cover Pool as of the day of these decisions as well as the assets acquired by the Issuer and put into the Cover Pool during the insolvency proceedings after an issuance of any of these decisions.

It is not clear when the Mortgage Estate will be created if the insolvency petition is filed by the CNB but there is a strong argument that the same regime as that of the Issuer's creditors' insolvency petition (see under (b) above) will apply.

Also, neither the Czech Bonds Act nor the Czech Insolvency Act contain express provisions as to whether, following the Commencement of Insolvency Proceedings, Declaration of Insolvency, Declaration of Bankruptcy or issuance of a Preliminary Injunction, cash flows from the Eligible Assets in the Cover Pool will become part of the Cover Pool (before the Mortgage Estate is created) or Mortgage Estate (after the Mortgage Estate is created) and, thus, ring-fenced from the Issuer's General Insolvency Estate or not. There are plausible arguments that, for instance, by way of analogy with Section 205 of the Czech Insolvency Act, cash flows received from the Eligible Assets after the Mortgage Estate is created should be ring-fenced from the Issuer's General Insolvency Estate. Yet, this is not expressly set out in the applicable laws and an insolvency administrator could seek to exclude such cash flows from the Mortgage Estate. Also, cash flows received from the Eligible Assets before the Mortgage Estate is created will not become part of the Cover Pool. Although it may be possible to argue that cash collections received before the Mortgage Estate is created should constitute part of the Cover Pool, and later the Mortgage Estate, in particular if such cash collections are retained by the Issuer in separate and clearly designated accounts, such argument is more likely to be challenged by the insolvency administrator or other creditors.

The Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) is administered by the insolvency administrator (in Czech, *insolvenční správce*) who has the sole responsibility of running the Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) in the Issuer's insolvency proceedings. A separate insolvency administrator for the Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) could theoretically be appointed at the discretion of the insolvency court if the insolvency court comes to conclusion that a person with expertise is required. The Czech Covered Bondholders are not entitled to give any instructions to the insolvency administrator. The insolvency administrator must uphold the common interest of all of the Issuer's creditors. The insolvency administrator has an obligation to administer the Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) with professional care. The primary task of the insolvency administrator in respect of the Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) will be either (i) to collect proceeds from the Mortgage Loans as the maturity of the principal and interest payments under the Mortgage Loans remain generally unaffected by the Commencement of Insolvency Proceedings, the Declaration of Insolvency or the Declaration of Bankruptcy, or (ii) to sell the Mortgage Loans to a third party. Any statutory restrictions on the assignment of the Mortgage Loans to another creditor must however be followed. However, contractual provisions restricting the Issuer from assigning the Mortgage Loans to a third party shall not apply to a sale within bankruptcy proceedings which follow a Declaration of Bankruptcy.

The Mortgage Estate will serve primarily for the satisfaction of all Czech Covered Bondholders' claims. This statutory priority right of satisfaction in respect of the Mortgage Estate benefits all Czech Covered Bondholders and not just the holders of the Covered Bonds because there is a single Cover Pool per issuer contemplated by the Czech Bonds Act and CNB Measure and a single Issuer's Mortgage Estate contemplated by the Czech Insolvency Act. However, the costs connected with administration and liquidation of the Mortgage Estate in the Issuer's insolvency will rank ahead of a claim for payment in respect of the Czech Covered Bonds (including Covered Bonds).

Any part of the Mortgage Estate that remains after the satisfaction of Czech Covered Bondholders' claims will be applied towards the satisfaction of all other general creditors' claims in accordance with the court-approved distribution schedule. If, however, the proceeds from the liquidation of the Mortgage Estate are not sufficient to satisfy the claims of the Czech Covered Bondholders in full, the unsatisfied portion of those claims will rank *pari passu* with all the unsecured and unsubordinated obligations of the Issuer and will be satisfied on a *pro rata* basis with all other general creditors' claims. Such unsatisfied portion of the claims will be included with other general creditors' claims in the court-approved "distribution list" (in Czech, *rozvrhové usnesení*) issued following the final report (in Czech, *konečná zpráva*) or, alternatively, in the "partial distribution list" (in Czech, *rozvrhové usnesení o částečném rozvrhu*). The partial distribution may be allowed during the bankruptcy proceedings by the insolvency court upon the creditor's committee (in Czech, *věřitelský výbor*) approval and satisfaction of the following conditions: (i) the status of the proceeds from the liquidation of the General Insolvency Estate

allows for the partial distribution; (ii) neither the rights of the secured creditors nor the final distribution following the final report can be endangered; and (iii) the proposed satisfaction of claims included in the partial distribution are undisputable.

Adversary Disputes

Pursuant to Section 192 of the Czech Insolvency Act, the debtor, the insolvency administrator and, as of 1 April 2011, also creditors who have their claims registered with the insolvency court, which could include each individual Covered Bondholder, have the right to dispute the title, amount or ranking of a claim (in Czech, *popření pravosti, výše a pořadí pohledávek*) filed by another creditor. Such dispute is an "adversary dispute" (in Czech, *incidenční spory*) within the meaning of Section 159 of the Czech Insolvency Act and may also concern a claim of the Czech Covered Bondholder being challenged by another creditor. Adversary disputes may result in delays in the insolvency proceedings as they could overwhelm the insolvency court which has to deal with them in the course of insolvency proceedings. On the other hand, the Czech Insolvency Act contains certain tools aimed at eliminating abusive adversary disputes filed by creditors and to speed up the decisions of the insolvency court. For example, one such tool is the obligatory use of a form issued by the Czech Ministry of Justice to make a filing of an adversary dispute and the obligation to submit financial security for each such filing.

ENFORCEMENT OF JUDGMENTS AND FOREIGN EXCHANGE REGULATION IN THE CZECH REPUBLIC

The Conditions provide, *inter alia*, that the courts of England shall have jurisdiction to settle any disputes, which may arise out of or in connection with the Trust Deed and/or the Covered Bonds (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Covered Bonds). The Issuer has appointed UniCredit Bank AG, London Branch as agent for the service of process in England.

In EC Regulation No. 44/2001 of 22 December 2000 on jurisdiction, recognition and enforcement of court judgments in civil and commercial matters is directly applicable in the Czech Republic. Based on this regulation, court rulings issued by court authorities in the EU member countries, including United Kingdom, with regard to civil and commercial matters are now enforceable in the Czech Republic, subject to the rules of the EC Regulation 44/2001 and, *vice versa*, court rulings issued by court authorities in the Czech Republic with regard to civil and commercial matters are now enforceable in EU member countries, including the United Kingdom.

As from 17 December 2009, EC Regulation No. 593/2008 of 17 June 2008 on the law applicable to contractual obligations has been effective and parties to a contract may, subject to the terms set out therein, select the law which will govern their contractual relations and Czech courts will give effect to such choice of law. In addition, EC Regulation No. 864/2007 on the law applicable to non-contractual obligations of 11 July 2007 allows parties to make a choice with respect to governing law of their non-contractual obligations in civil and commercial matters, subject to the terms set out therein. Foreign entities are able to bring civil proceedings in the Czech courts against a Czech citizen or a Czech legal entity. Czech judicial procedures will apply and a judgment of the Czech court will be enforceable in the Czech Republic, subject to certain statutory limitations on the ability of judgment creditors to execute on a judgment by protecting certain assets from forced sale.

Any person bringing an action in the Czech Republic may be required to: (i) submit to the court in the Czech Republic a translation in the Czech language (apostilled if applicable pursuant to respective international treaties) of any relevant document prepared by a sworn translator authorised by such court; and (ii) pay a court filing fee.

In addition, under the Act of the Czech Republic No. 219/1995 Coll., the Foreign Exchange Act, as amended (the "**Foreign Exchange Act**"), the Government of the Czech Republic may declare a foreign exchange emergency (in Czech, *nouzový stav v devizovém hospodářství*) in the case of adverse developments in the balance of payments which immediately and seriously endanger solvency *vis-à-vis* foreign countries or internal monetary balance of the Czech Republic. The declaration of the foreign exchange emergency takes effect as of the day on which it is announced by the Government of the Czech Republic in the Czech mass media. If the foreign exchange emergency is declared by the Government of the Czech Republic, payments in foreign currency or abroad generally, interbank transfers of monies from abroad to the Czech Republic and/or sale of securities (including the Covered Bonds) abroad may be suspended for the duration of such emergency (not to exceed three months at any one time).

THE COVER POOL

Composition of assets

Statutory Eligibility Criteria for Eligible Assets (the Statutory Eligibility Criteria)

The Czech Bonds Act and CNB Measure prescribe that the Issuer's Cover Pool may only consists of Ordinary Cover Assets and Substitute Assets which are Eligible Assets for the purposes of the Czech Bonds Act and CNB Measure (for details see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above). The Ordinary Cover Assets may only comprise Mortgage Loans if the Individual 200 per cent. LTV Limit, the Aggregate 70 per cent. LTV Limit and certain other eligibility criteria are satisfied. Substitute Assets in the Cover Pool may only contribute a maximum of 10 per cent. of the nominal value of the Issuer's obligations arising under the issued and outstanding Czech Covered Bonds (both the Ordinary Cover Assets and the Substitute Assets as described in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above).

Contractual Eligibility Criteria for Eligible Assets

In addition to the Statutory Eligibility Criteria, pursuant to the Trust Deed, the Issuer covenants to apply contractual eligibility criteria to the Cover Pool (the "**Contractual Eligibility Criteria**") and to ensure that the Contractual Eligibility Criteria are met by the Cover Pool.

The "**Contractual Eligibility Criteria**" are that:

- (a) The Mortgage Loans are governed by Czech or Slovak law;
- (b) The Mortgaged Property is real property, as evidenced by an extract from the Czech Land Registry or the respective land registry in the relevant jurisdiction;
- (c) The Mortgage Loans have been granted to one or more individuals or one or more legal entities;
- (d) The Mortgage Loans are performing and there are no payments in respect of such loans that are due and unpaid for more than 90 days;
- (e) The Mortgage Loan amount included in the Cover Pool is capped at a maximum LTV ratio of 100 per cent.; and
- (f) The Mortgage Loans are not collateralised by agricultural land or other land not designated for construction purposes.

As at the date of this Base Prospectus, approximately 6 per cent. of the Mortgage Loans are governed by Slovak Law, with the remainder being governed by Czech Law.

Valuation of assets

Statutory Tests

The Czech Bonds Act and CNB Measure stipulate that the Issuer's Cover Pool must at any time when the Czech Covered Bonds are issued and outstanding (including the Czech Covered Bonds under this Programme, the Domestic Bond Programme and, if applicable, by way of the Issuer's standalone issues) provide full cover for the aggregate nominal value and proportionate yield of the issued and outstanding Czech Covered Bonds (the Par Value Test) (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above). Also, the Ordinary Cover Assets included in the Cover Pool must comply with, among others, the Individual 200 per cent. LTV Limit and the Aggregate 70 per cent. LTV Limit and certain other eligibility criteria.

Pursuant to the Trust Deed, the Issuer is required to maintain the Cover Pool in accordance with the following requirements for Ordinary Cover Assets and Substitute Assets set out in the Czech Bonds Act and CNB Measure:

The Issuer covenants to ensure that it maintains the Cover Pool in compliance with the Aggregate 70 per cent. Limit and the Par Value Test (together the "**Statutory Tests**").

The Aggregate 70 per cent. LTV Limit Test:

The Issuer covenants to ensure that the Average Loan-to-Value Ratio of the Cover Pool is a percentage that is no greater than 70 per cent. (the "**Aggregate 70 per cent. LTV Limit Test**"). This test is meant to reflect and operate as the Aggregate 70 per cent. LTV Limit as contained in the Czech Bonds Act and CNB Measure (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above). For the purposes of this test, the "**Average Loan-to-Value Ratio of the Cover Pool**" is calculated as follows:

$$\frac{L}{V}$$

Where:

L = the sum of the outstanding Nominal Values of all Ordinary Cover Assets, where the Nominal Value is, for each Mortgage Loan, deemed to be zero if such Mortgage Loan is a Defaulted Loan,

provided that in the case of any Mortgage Loan that is subject to a prior ranking mortgage, as regulated by Section 30(2) of the Czech Bonds Act, such Mortgage Loan shall be subject to an individual value calculated in accordance with Sections 30(4), 30(5) and 30(6) of the Czech Bonds Act; and

V = the Mortgaged Property Value of all the Mortgaged Property securing the relevant Ordinary Cover Assets.

"**Mortgaged Property Value**" means the total value of all the Mortgaged Property as determined by the Issuer in accordance with applicable laws (including Section 29 of the Czech Bonds Act and the Property Valuation Act) and the Issuer's internal rules for valuation of the Mortgaged Property. The Issuer must determine the Mortgaged Property Value using the current market price (in Czech: *cena obvyklá*) and with special regard to: (a) characteristics of the Mortgaged Property which are sustainable on a permanent or a long-term basis; (b) income achievable by a third party operating the Mortgaged Property with due care; (c) rights and encumbrances attached to the Mortgaged Property; and (d) conditions prevailing on the local real property market and anticipated development of that market. The Mortgaged Property Value cannot be higher than the current market price (in Czech: *cena obvyklá*) of the Mortgaged Property. The Mortgaged Property Value shall be calculated in relation to any amount which is denominated in (i) a currency other than Czech Koruna, the Czech Koruna equivalent of such amount ascertained using the Relevant Exchange Rate relating to such amounts as at the relevant date and (ii) Czech Koruna, the applicable amount in Czech Koruna.

"**Nominal Value**" means the sum of the outstanding principal balances and any accrued and unpaid interest relating to the Czech Covered Bonds, Mortgage Loans or any other debt or security as the case may be, calculated in relation to any amount which is denominated in (i) a currency other than Czech Koruna, by applying the Relevant Exchange Rate relating to such amounts and (ii) Czech Koruna, the applicable amount in Czech Koruna.

"**Defaulted Loan**" means any Mortgage Loan included in the Cover Pool which is more than 90 days in arrears.

"**Relevant Exchange Rate**", for the purposes of the definitions of "Adjusted Aggregate Cover Pool Balance", "Contractual Adjusted Aggregate Cover Pool Balance", "Mortgaged Property Value", "Outstanding Principal Balance" and "Nominal Value", means the equivalent in Czech Koruna the equivalent in Czech Koruna determined by the Issuer at the rate available from the Czech National Bank or any successor source for the conversion of the relevant currency or currencies into Czech Koruna on the Business Day before the relevant determination.

The Par Value Test:

The Issuer covenants to ensure that the Adjusted Aggregate Cover Pool Balance is an amount at least equal to the outstanding Nominal Value of the Czech Covered Bonds (the "**Par Value Test**").

For the purposes of the Par Value Test, the "**Adjusted Aggregate Cover Pool Balance**" is calculated as follows:

$$A + B$$

Where:

A = the sum of the outstanding Nominal Values of all Ordinary Cover Assets, where the Nominal Value is, for each Mortgage Loan, deemed to be zero if such Mortgage Loan is a Defaulted Loan,

provided that in the case of any Mortgage Loan that is subject to a prior ranking mortgage, as regulated by Section 30(2) of the Czech Bonds Act, such Mortgage Loan shall be subject to an individual value calculated in accordance with Sections 30(4), 30(5) and 30(6) of the Czech Bonds Act; and

B = the sum of the balances of the Substitute Assets (including any cash balances to the extent that they form part of the Issuer's Cover Pool), where any Substitute Asset is not denominated in Czech Koruna such balance shall be converted to its equivalent in Czech Koruna at the Relevant Exchange Rate.

Contractual Asset Cover Test

In addition to the Statutory Tests, pursuant to the Trust Deed, the Issuer covenants to ensure that the Contractual Adjusted Aggregate Cover Pool Balance is an amount at least equal to the Outstanding Principal Balance of the Czech Covered Bonds (the "**Contractual Asset Cover Test**").

For the purposes of the Contractual Asset Cover Test:

(a) the "**Contractual Adjusted Aggregate Cover Pool Balance**" is calculated as follows:

$$A + B$$

Where:

A = the sum of the Outstanding Principal Balances of all Ordinary Cover Assets, where the Outstanding Principal Balance is, for each Mortgage Loan, deemed to be the lower of: (a) the Outstanding Principal Balance of the Mortgage Loan and (b) the corresponding Mortgaged Property Value, *multiplied* by M, where M = 100 per cent. if such Mortgage Loan is not a Defaulted Loan and M = 0 per cent. if such Mortgage Loan is a Defaulted Loan,

provided that in the case of any Mortgage Loan that is subject to a prior ranking mortgage, as regulated by Section 30(2) of the Czech Bonds Act, such Mortgage Loan shall be subject to an individual value calculated in accordance with Sections 30(4), 30(5) and 30(6) of the Czech Bonds Act,

multiplied by the Asset Percentage;

B = the sum of the balances of the Substitute Assets (including any cash balances to the extent that they form part of the Issuer's Cover Pool), where any Substitute Asset is not denominated in Czech Koruna such balance shall be converted to its equivalent in Czech Koruna at the Relevant Exchange Rate; and

(b) the "**Asset Percentage**" is the lower of 100 per cent. and any other figure determined by the Issuer and notified to the Trustee, Moody's (or another rating agency which has rated the Covered Bonds) and the Asset Monitor from time to time.

"**Outstanding Principal Balance**" means the sum of the outstanding principal balances relating to the Czech Covered Bonds, Mortgage Loans or any other debt or security as the case may be, calculated in relation to any amount which is denominated in (i) a currency other than Czech

Koruna, the Czech Koruna equivalent of such amount ascertained using the Relevant Exchange Rate relating to such amounts and (ii) Czech Koruna, the applicable amount in Czech Koruna.

For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, whilst such breach is continuing the Issuer can not issue any Czech Covered Bonds which have the benefit of the Issuer's Cover Pool.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on or about 29 November 2013 between the Issuer, the Asset Monitor and the Trustee (the "**Asset Monitor Agreement**"), the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Issuer to the Asset Monitor, to carry out certain agreed upon procedures in relation to the Statutory Eligibility Criteria, the Contractual Eligibility Criteria, the Statutory Tests, the Contractual Asset Cover Test and any other requirement imposed by Czech law or the agreements in respect of the Cover Pool on each relevant Asset Monitor Calculation Date. The Asset Monitor will only be required to perform its role from the date on which a Series of Covered Bonds is issued by the Issuer for the first time to a person or entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates) ("**Third Party Investors**").

If the Statutory Eligibility Criteria and/or the Contractual Eligibility Criteria have been breached or the Statutory Tests and/or Contractual Asset Cover Test had been failed on the relevant Asset Monitor Calculation Date or the reported Adjusted Aggregate Cover Pool Balance or the reported Contractual Adjusted Aggregate Cover Pool Balance, as applicable, was misstated by the Issuer by an amount exceeding one per cent. of the Adjusted Aggregate Cover Pool Balance or the Contractual Adjusted Aggregate Cover Pool Balance, as applicable (as at the date of the relevant Statutory Tests or the Contractual Asset Cover Test), the Asset Monitor shall conduct the agreed upon procedures on a monthly basis for a six-month period subject to the receipt of the relevant information from the Issuer.

Within ten Prague Business Days (as defined in the Master Definitions Schedule) of receiving the relevant information from the Issuer, the Asset Monitor shall notify the parties to the Asset Monitor Agreement, the Arranger and the Dealers of their findings in a report following a specified form (the "**Asset Monitor Report**").

The Asset Monitor is entitled to assume that all information provided to it by the Issuer for the purpose of reporting on the arithmetic accuracy is true and correct and is complete and not misleading and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or completeness of such information save that the Asset Monitor will be required to advise the Issuer if it has not been provided with any of those figures which it is required to provide. However, if information required to be provided by the Issuer contains what appear to be manifest errors, the Asset Monitor shall notify the parties to the Asset Monitor Agreement and the Issuer shall provide further amended information to the Asset Monitor or shall confirm the accuracy of information previously provided. The Asset Monitor shall not be required to confirm whether the information provided to it by the Issuer (i) has been accurately extracted from the sources identified therein or agrees with any underlying accounting or other information or (ii) is presented in compliance with any relevant accounting or other definitions as to its elements and composition.

The Asset Monitor Report will be delivered to the Issuer, the Arranger, the Dealers and the Rating Agency.

From the first issue of Covered Bonds to Third Party Investors, the Issuer will pay to the Asset Monitor a fee of up to CZK 178 000 (exclusive of VAT) for each time that the Asset Monitor is required to perform the tests set out in the Asset Monitor Agreement. The liability of the Asset Monitor will be limited to five times the fees paid under the Asset Monitor Agreement by the Issuer to the Asset Monitor in accordance with the Asset Monitor Agreement during any twelve months preceding an event that resulted in the Asset Monitor's liability specified therein. If such event occurs during the first 12 months of the effectiveness of the Asset Monitor Agreement, the liability of the Asset Monitor shall be limited by five times fees paid under the Asset Monitor Agreement since the date stated at the beginning of the Asset Monitor Agreement.

The Issuer may, at any time, terminate the appointment of the Asset Monitor by giving the Asset Monitor 60 days' written notice, **provided that** such termination may not be effected unless and until a replacement has been found by the Issuer (such replacement to be approved by the Trustee who shall only give such approval if in the Trustee's sole discretion the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor.

The Asset Monitor may, at any time, resign from its appointment by giving the Issuer and the Trustee 60 days' prior written notice (the Issuer shall provide a copy of such notice to the Rating Agency), **provided that** such termination may not be effected unless and until a replacement has been found for the Asset Monitor by the Issuer (such replacement to be approved by the Trustee who shall only give such approval if in the Trustee's sole discretion the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor. In addition, the Asset Monitor may resign from its appointment upon giving 30 days' prior written notice if any action taken by any of the parties to the Asset Monitor Agreement causes a professional conflict of interest for the Asset Monitor under the rules of the professional and/or regulatory bodies regulating the activities of the Asset Monitor. The Asset Monitor will inform the Recipients as soon as reasonably practicable of any action of which the Asset Monitor is aware that may cause a professional conflict of interest for the Asset Monitor which could result in termination under the relevant clause.

The Trustee will not be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement is governed by English law.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes, which include making a profit.

DESCRIPTION OF THE ISSUER

History and Development of the Issuer

The Issuer launched its activities in the Czech market on 5 November 2007 but was incorporated in 1996 (then with business name UniCredit Bank Czech Republic, a.s.). It was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, Postcode 113 80, Company ID: 000 01 368, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 1350, were assumed by the successor company, HVB Bank Czech Republic a.s., as a result of the merger. The effective date of the merger was 1 October 2006. The merger contract is filed in the collection of documents at the appropriate court of registry.

HVB Bank Czech Republic a.s. was established by the merger of HypoVereinsbank CZ a.s. and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s. were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 3608. HVB Bank Czech Republic, a.s., became a member of the Bank Austria group in 2005.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Commercial Register maintained by the Municipal Court in Prague in Section B, file 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorization to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatization of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16 per cent. share in the issued capital of Živnostenská banka, a.s. from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

On 1 December 2013, a cross-border merger through an amalgamation of the Issuer (as the successor company named UniCredit Bank Czech Republic and Slovakia, a.s.) and UniCredit Bank Slovakia a.s. (which has been wound up thereby) became effective. The decisive date was set up on 1 July 2013. The merger integrated business activities of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. previously performed by two independent entities.

The Bank offers a wide range of products to both corporate and private clients in areas including project, structured and syndicated corporate finance, acquisition finance and commercial real estate finance.

Among other services, the Issuer's clients can utilise services to obtain project financing from the EU structural funds offered through the Issuer's European Competence Centre.

In the sphere of services for private clients, the Issuer offers private banking, securities, credit cards and mortgages, and serves clients in the freelance professions (including doctors, judges, attorneys-at-law and notaries). The Issuer's Competence Centre for Freelance Professions is devoted to these clients.

After the merger, the Issuer operates 174 branches and 365 ATMs in all regional cities of the Czech Republic and Slovakia. Out of these numbers, three branches, seven franchise outlets branded as UniCredit Expres and 13 points of sale based on cooperation with company Partners were opened as part of the Issuer's expansion in 2013.

Competitive environment and regulatory change

The Issuer is a universal bank providing retail, commercial and investment banking services, in Czech and foreign currencies for domestic and foreign clients, mainly in the Czech Republic and Slovakia but also in other European Union countries.

Business name:	UniCredit Bank Czech Republic and Slovakia, a.s.
Registered office:	Želetavská 1525/1, 140 92 Prague 4, Czech Republic
Company identification no.:	64948242
Commercial register:	entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 3608
Tax identification no.:	CZ64948242
Date of incorporation:	1 January 1996, for an indefinite period
Legal form:	joint-stock company
Internet address:	www.unicreditbank.cz
Email:	info@unicreditgroup.cz
Telephone:	+420 955 911 111
Fax:	+420 221 112 132

The Issuer fulfils all of its financial, legal and tax obligations in a due and timely manner. No changes have occurred that could be of material significance in evaluating the Issuer's solvency since the date of the last audited financial statements to the date of this Base Prospectus.

In the conduct of its activities, the Issuer is governed by the Czech legal order, in particular the Banking Act, Business Corporations Act and regulations governing operations on the banking and capital markets.

Issuer's Share Capital

As at the date of this Base Prospectus, the Issuer has share capital of CZK 8,754,617,898 divided as follows:

- (a) 100 dematerialised, registered ordinary shares, each with a nominal value of CZK 16,320,000;
- (b) 200 dematerialised, registered ordinary shares, each with a nominal value of CZK 13,375,000;
- (c) 436,500 dematerialised, registered ordinary shares, each with a nominal value of CZK 10,000;
- (d) 10 dematerialised, registered ordinary shares, each with a nominal value of CZK 7,771,600; and
- (e) 106,563 book-entered registered shares with a nominal value of CZK 46.

The Issuer's shares have not been accepted for trading on a regulated market. All of the shares stated above are registered in the central securities depository. The Issuer's share capital has been fully paid up.

The Issuer has issued no shares providing their holders a right to exchange such shares for other shares or a right to priority subscription of other shares.

The Issuer does not hold any of its own shares nor does any entity in which the Issuer has a direct or indirect ownership interest exceeding 50 per cent. of that entity's share capital or voting rights hold any such securities.

No prior approval of any Issuer's body is required to transfer shares of the Issuer. Voting rights pertaining to these shares are in no way limited.

Statutory Auditors

The financial statements of UniCredit Bank Czech Republic, a.s, for the year ended 31 December 2012 were audited by:

Business name:	KPMG Česká republika Audit, s.r.o.
Licence number:	71
Registered office:	Pobřežní 648/1a, 186 00 Prague 8, Czech Republic
Membership in a professional org:	Chamber of Auditors of the Czech Republic
The responsible person:	Ing. Jindřich Vašina
Licence number:	2059
Residence:	Volutová 2522/16, 158 00 Prague 5, Czech Republic

The financial statements of UniCredit Bank Slovakia a.s. for the year ended 31 December 2012 were audited by:

Business name:	KPMG Slovensko spol. s.r.o.
Licence number:	96
Registered office:	Dvořákovo nábrežie 10, 811 02 Bratislava, Slovakia
Membership in a professional org:	Chamber of Auditors of Slovakia
The responsible person:	Ing. Richard Farkaš, PhD.
Licence number:	406
Residence:	J. Hronca 25, 84101 Bratislava, Slovakia

The financial statements of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2013 were audited by:

Business name:	Deloitte Audit s.r.o.
Licence number:	079
Registered office:	Nile House, Karolinská 654/2, 186 00, Prague 8 – Karlín, Czech Republic
Membership in a professional org:	Chamber of Auditors of the Czech Republic
The responsible person:	Ing. Rádl Rogerová Diana
Licence number:	2045
Residence:	Nile House, Karolinská 654/2, 186 00, Prague 8 – Karlín, Czech Republic

Overview of Business Activities

Scope of Business Activities

The Issuer's business activities include banking transactions and provision of financial services fully in accordance with Banking Act No. 21/1992 Coll., as amended, and Act No. 219/1995 Coll., the Foreign Exchange Act, as amended, and including the following:

- (a) receiving deposits from the public;
- (b) granting loans;
- (c) financial leasing;
- (d) investing in securities on its own behalf;
- (e) operating a system of payments and clearing;
- (f) issuing and administering payment products;
- (g) granting guarantees;
- (h) opening letters of credit;
- (i) administering cash collection;
- (j) providing investment services:
 - (i) main investment service pursuant to Section 4, para. 2(a) of the Czech Capital Market Act taking receipt of and conveying instructions related to investment instruments, with respect to investment instruments pursuant to Section 3, para. 1(a)–1(k) of the Czech Capital Market Act;
 - (ii) main investment service pursuant to Section 4, para. 2(b) of the Czech Capital Market Act, executing instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 3, para. 1(a) –1(k) of the Czech Capital Market Act;

- (iii) main investment service pursuant to Section 4, para. 2(c) of the Czech Capital Market Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 3, para. 1(a)–1(k) of the Czech Capital Market Act;
- (iv) main investment service pursuant to Section 4, para. 2(d) of the Czech Capital Market Act, management of the customer's assets, if investment instruments form a part of such assets at its own discretion within the terms of a contractual covenant with respect to investment instruments pursuant to Section 3, para. 1(a)–1(k) of the Czech Capital Market Act;
- (v) main investment service pursuant to Section 4, para. 2(g) of the Czech Capital Market Act, underwriting or placing the investment instruments with obligation of their subscription, with respect to investment instruments pursuant to Section 3, para. 1(a)–1(b) of the Czech Capital Market Act;
- (vi) supplementary investment service pursuant to Section 4, para. 3(a) of the Czech Capital Market Act, custody and management of the investment instruments, with respect to investment instruments including related services pursuant to Section 3, para. 1(a)–1(c) of the Czech Capital Market Act;
- (vii) supplementary investment service pursuant to Section 4, para. 3(b) of the Czech Capital Market Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 3, para. 1(a)–1(d) of the Czech Capital Market Act;
- (viii) supplementary investment service pursuant to Section 4, para. 3(c) of the Czech Capital Market Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to transformations (in Czech *přeměna*) of the companies and transfers of the enterprises (in Czech *závod*);
- (ix) supplementary investment service pursuant to Section 4, para. 3(f) on Business Activities on the Capital Market, services related to underwriting or placing the investment instruments with respect to investment instruments pursuant to Section 3, para. 1(a)–1(b) of the Czech Capital Market Act;
- (x) supplementary investment service pursuant to Section 4, para. 3(d) of the on Business Activities on the Capital Market, providing investment recommendations and analysis of investment opportunities or similar general recommendations relating to trading of the investment instruments pursuant to Section 3, para. 1(a)–1(k) of the Czech Capital Market Act; and
- (xi) supplementary investment service pursuant to Section 4, para. 3(e) of the Czech Capital Market Act, executing of foreign currency operations related to provision of investment services;
- (k) issuing mortgage bonds;
- (l) engaging in financial brokerage;
- (m) providing depository services;
- (n) providing foreign currency exchange services (purchase of foreign currencies);
- (o) providing banking information;
- (p) trading foreign currencies and gold on its own behalf or on behalf of clients;
- (q) renting safe-deposit boxes; and
- (r) other activities directly related to the activities specified above.

The Issuer's Products and Services

The Issuer is a universal bank providing retail, commercial and investment banking services, in Czech and foreign currencies for domestic and foreign clients, mainly in the Czech Republic and Slovakia but also in other European Union countries. The products and services in the main spheres of activities can be summarised as follows: ***Corporate, investment and private banking***

The Issuer's corporate, investment and private banking division covers various segments including SME (companies with an annual turnover of CZK 50-150 million), large enterprises (companies with an annual turnover of CZK 150-2,500 million), corporate clients (companies with an annual turnover exceeding CZK 2.5 billion), financial institutions (insurance companies, pension funds and other non-bank financial institutions), real estate financing (developers and investors in commercial and residential real estate), public administration (regions, cities, municipalities and associations of municipalities), agriculture (farmers, biogas plants and subsidy programmes) and private banking (individuals with assets above CZK 10 million).

- Lending operations
 - Commercial real estate finance
 - Project and structured finance
 - Trade and export finance
 - Documentary transactions
 - Treasury & custody services
 - Asset management
 - EU funds
 - Maintaining accounts and deposits
 - Payments
 - Electronic banking
 - Direct banking
 - SWIFT services
 - Cash pooling
 - Payment cards
 - Card acquiring
 - Trading on the Prague Energy Exchange
 - Comprehensive offer of banking products for private clients
 - Comprehensive management of client assets, including portfolio management
 - Global Investment Strategy – strategic advice for capital market investments
 - Providing investment products on open architecture basis
 - Art Banking
2. ***Retail banking***

The retail banking division of the Issuer services individuals with assets under CZK 10 million, freelancers, and small business (companies with an annual turnover of up to CZK 50 million).

- Personal accounts and packages
- Business accounts and packages
- Mortgages, consumer loans and overdrafts for private clientele
- Operating capital, investment and mortgage loans for business clientele
- Payment cards including insurance (debit, credit and partner cards)
- Deposit, savings and investment products (the Bank's own or in cooperation with Pioneer Investments)
- Internet, telephone and mobile banking
- Cash and money changing operations and complementary services

Recent Product Developments

Loans

In the first half of 2013, the Bank presented an improved successful product of consumer financing – PRESTO loan in the form of the Loan Optimization (consolidation of loans into one more advantageous loan). That solution placed third in the category “Loans” within the Golden Crown contest. Due to the adjusted credit platform, www.splatkomat.cz, our clients can simply and quickly calculate themselves how much they will save due to the loan consolidation.

Another new product, PRESTO MAXI loan, enables clients to borrow up to CZK 1 million. Loans up to CZK 600 thousands can be granted based on the individual consideration of the loan application without another co-applicant needed.

In support of the sale of Loan Optimization / PRESTO loans, in August 2013 UniCredit Bank joined a long-term project called “Good Result” organized by the Ringier Axel Springer CZ publisher. The project connected with our Bank was entitled “GOOD SAVING” and was followed by the autumn campaign “Loan Optimization”.

In September 2013, we presented a new account for entrepreneurs. It includes free withdrawals from UniCredit’s ATMS both in the Czech Republic and abroad, two payment cards (an embossed and the so-called electronic card), internet banking including Smart Banking in the mobile phone and ten electronically given standard domestic payments (incoming and outgoing). If entrepreneurs use the account actively, they do not have to pay a monthly fee for its maintaining.

In the area of accounts for individuals we have prepared an attractive savings account, MULTI konto, with a payment card, internet banking and interesting appreciation for AXA Bank’s clients.

Investments and deposits

Insurance and investments were dominated by individual tranches of investment life insurance. In February 2013 we were the first to offer clients TOP 20 investment life insurance with 102% capital protection as at the expiry date of insurance. Clients were offered new opportunities to appreciate their funds in the area of investments in share funds. The Pioneer Investments group introduced currency-hedged CZK classes of funds with various investment strategies. Clients of the bank could thus invest e.g. in the Multi Asset Real Return fund aimed at bringing higher revenue than inflation in the USA in each phase of the economic cycle. The offer of CZK-hedged share funds was also extended by such funds as Pioneer Funds – Emerging Markets Bond or Pioneer Funds – Global High Yield. In the first quarter, the CZK- and EUR-hedged closed-end fund Pioneer S.F. – Euro Financials Recovery 2018 was successfully established.

Online channels

The online sales channel, UniCredit Shop.cz, has been improved in many respects as for new functionalities and available products. A significantly improved version of Smart Banking was launched. It has gone through a full change in the user environment to make electronic payments for clients even easier.

Payment cards

In early September 2013 we launched 3Dsecure, a security system for payment cards to protect against misuse that is currently the most secure method for online card payments. Each card payment is confirmed by a 3Dsecure authorisation code sent to the card holder's mobile phone as an SMS message.

Branches

The Bank also continued extending its network of business places in 2013 when 3 new branches of UniCredit Bank and 7 franchise outlets branded as UniCredit Expres were opened. As this concept works, the extension of the franchise business network will also continue in 2014 with an aim to complete the construction and achieve an optimum number of 60 such franchises. As a part of the Issuer's expansion in 2013, 13 points of sale based on cooperation with company Partners were opened.

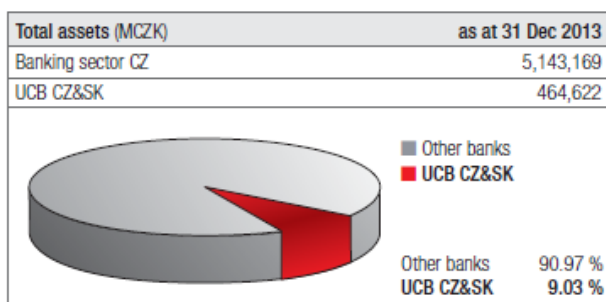
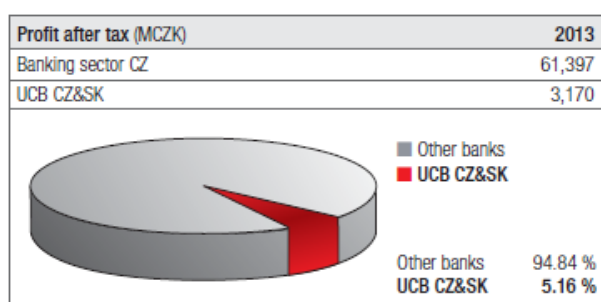
Each of these innovative services is provided to the customer whilst maintaining the highest security standards.

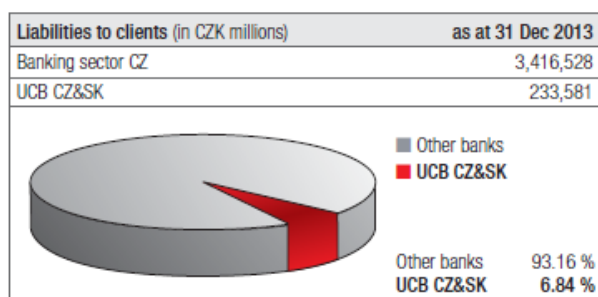
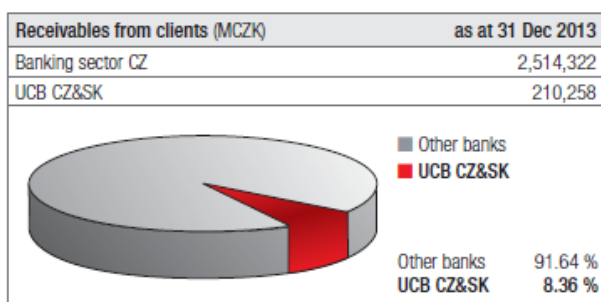
Main Markets

The Issuer operates in the Czech and Slovak markets and is present in all regions of the Czech Republic and Slovakia. The Issuer holds more than 9 per cent. of the Czech market with total assets of approximately CZK 464 billion (according to the Czech National Bank).

Competitive Position of the Issuer

The following diagrams have been extracted from the Issuer's annual report for the financial year ended 31 December 2013 and represent the market share of the Issuer measured in terms of profit, assets, income and customer deposits. The diagram named "Receivables from clients" represents gross figures, excluding provisions.





Pursuant to the CNB method, receivables from clients and liabilities to clients are only included for the Czech part of the bank.

Issuer Rating and its Debt Securities

No rating has been assigned to the Issuer.

The following bonds issued under the Domestic Bond Programmes were assigned a rating of "A3" by Moody's Investor Service Inc, which is a rating agency registered under the CRA Regulation:

UCB HZL 6.00/2018 (ISIN CZ0002002520)

UCB HZL 10Y floater 2037 (CZ0002001910)

UCB HZL 2,00/2020 (ISIN CZ0002003080)

UCB HZL 3,04/2028 (ISIN CZ0002003114)

UCB HZL EUR VAR/2020 (ISIN CZ0002003148)

The bond UCB HZL EUR 1.875/2018 (ISIN XS1002162136) issued under the Programme was assigned a rating of "A3" by Moody's Investor Service Inc, which is a rating agency registered under the CRA Regulation.

The same rating was assigned to three other non-public issues of covered bonds issued under the Domestic Bond Programmes.

Organisational Structure

The Issuer is part of the UniCredit Group, registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of the Banking Law under number 02008.1 (the "**UniCredit Group**"). As a member of the UniCredit Group, the Issuer must comply, subject to applicable law, with directives issued by UniCredit Bank Austria AG, as the group's sub-holding. The sub-holding company monitors the proper implementation and observation of the directives issued by UniCredit S.p.A. (hereinafter the "**Holding Company**").

With total assets of more than €838 billion as at June 2014, ranking it among the largest financial groups in Europe, UniCredit Group has a direct presence in 17 countries, around 7,800 branches and some 130,000 employees. In the CEE region, UniCredit Group operates the largest international banking

network with around 2,400 branches and outlets, 47,000 employees² as at 30 September 2014. The UniCredit Group operates in the following countries: Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, Hungary, Italy, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

The Issuer is a sole shareholder of UniCredit Leasing CZ, a.s.

Information on Trends

Since the date of presenting the last audited financial statements, no substantial changes have occurred to the Issuer's outlook.

The improved consumer sentiment, the recovery in investments and a cyclical growth in export demand in the car industry were the main factors that helped the Czech economy to achieve the highest speed of growth for the last three years in the first half of 2014. The Czech Republic has thus renewed the process of economic catching-up of West European countries that was interrupted by the recession in 2012-2013.

The Czech National Bank has been maintaining extremely relaxed monetary conditions. The CNB's repo rate was kept at the technical zero and the EUR/CZK exchange rate was subject to the intervention regime not allowing its decrease below the level of CZK 27/EUR. The year-on-year inflation continued to be near zero despite the depreciation of the Czech crown in November 2013, which made the CNB to extend its exchange rate obligation to "at least the year 2016". The vision of a long-term relaxed monetary policy not only in the Czech Republic but especially in the Eurozone resulted in further decreases in bond yields to a new record-low level.

The domestic banking industry remained to be well equipped as for capital and resistant towards external shocks in the first half of 2014, although the environment of low interest rates resulted in reduced profit generation. Banks disposed of a considerable liquidity surplus. Their capital and financial situation were no obstacle to increasing their credit exposure towards the non-financial sector that is expected to respond, with a certain time postponement, to the economic recovery by demand for new loans.

Economic conditions in the second half of 2014 will be characterized by an increased risk rate due to the weak recovery in the Eurozone and the Russian-Ukrainian conflict.

Recent Developments

The merger with UniCredit Bank Slovakia a.s. was the dominant project of 2013.

The cross-border merger of UniCredit Bank Slovakia a.s. under UniCredit Bank Czech Republic, a.s. integrated business activities of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. formerly performed by two independent entities.

The establishment of an entity capable of managing business activities on both the Czech and Slovak markets by the merger has enabled the Bank to serve customers more effectively due to the costs savings and dynamic growth of business activities in the two countries and optimised liquidity management. Integration has also simplified the organisational structure of the UniCredit Group.

The operative date for the merger was 1 July 2013. The merger became legally effective as from 1 December 2013, and the merger was entered into the Commercial Register as at this date.

The united positions of the two banks have not resulted in a change of the defined limits or a change in the business strategy.

After the merger, the Bank validates, in cooperation with the local regulators, the internal model used for measuring and managing market risks in order to use the model for calculating the capital requirement for the market risk of the trading book.

NPL Ratios: For the purposes of this section, "NPL Ratio" means the amount of customer non-performing loans over total customer loans, expressed as a percentage. Current NPL Ratio as of 30

² Source of branches and employees figures: UniCredit Bank Austria AG.

September 2014 is at 5.6 per cent., having increased since end of year 2013 but still below the market average both in Czech Republic (6.3 per cent.) and Slovakia (6.2 per cent.)³. Within corporate loan portfolio, the NPL Ratio is 6.3 per cent while in retail loan portfolio, the NPL Ratio stands at 3,7 per cent. The main driver of NPL volumes growth are big individual corporate cases (mostly well secured) as well as continuing credit expansion in retail. NPL portfolio growth is mitigated by (i) NPL management efforts (portfolio sale, extraordinary recoveries), as well as (ii) performing portfolio growth, especially in retail.

Funding: as of 30 September 2014, the key Issuer's funding sources have continued to be customer sight deposits (49.3 per cent. of total balance sheet amount), followed by customer term deposits (9.6 per cent. of total balance sheet amount) and issued debt securities (9.5 per cent. of total balance sheet amount). The bank also raises funds from the European Investment Bank ("**EIB**"), European Bank for Reconstruction and Development ("**EBRD**"), and Council of Europe Development Bank ("**CEDB**"). Current outstanding loans from the EIB, EBRD and CEDB represent 3.18 per cent. of total balance sheet amount.

In order to strengthen its funding position, the Issuer has recently obtained a rating for its covered bonds and is working on an Eurobond issue. The goal is to diversify the EUR funding sources by attracting new investors in the bank's EUR- and CZK-denominated own debt securities issues.

An important project of 2014 was the acquisition of UniCredit Leasing CZ, a.s.

On 14 February 2014, the Issuer signed contracts for the purchase of a 100 per cent. ownership interest in UniCredit Leasing CZ, a.s. and a 71.3 per cent. ownership interest in UniCredit Leasing Slovakia, a.s. Ownership interests were acquired for the acquisition price of CZK 3.21bn. Contracts were entered into between the Issuer and UniCredit Leasing SpA, which means that those transactions were under the joint control. The sale of both above mentioned companies to the Issuer was held due to the reorganization of ownership interests within the Issuer's group. Within the transaction, a 91.2 per cent. ownership interest in UniCredit Leasing Slovakia, a.s. (this ownership interest equals to 71.3 per cent. of the purchased ownership interest and a 19.9 per cent. ownership interest owned by the Issuer at the end of 2013) was transferred as a non-monetary contribution to the registered capital of UniCredit Leasing CZ, a.s. On 18 June 2014, the value of the Bank's investment in UniCredit Leasing CZ, a.s. ("UniCredit Leasing") thus increased by CZK 569m to CZK 3.78bn compared with the acquisition price at 14 February 2014.

Consolidated financial statements under the IFRS rules reflecting the acquisition of an ownership interest in UniCredit Leasing will be compiled as at 31.12.2014.

The acquisition of UniCredit Leasing was especially to extend an offer of financial services to clients of the Issuer and UniCredit Leasing by the creation of a new service model based on an approach to the client from one place and by the creation of a comprehensive offer of services especially in the credit area including leasing services. By the merger the Issuer expects cost savings especially due to synergies in the company's management, process effectiveness and the mentioned new service model. The acquisition will also optimize the Group's refinancing. The combination of the Issuer with a surplus of liquidity resources and the leasing company fully dependant on external refinancing resources creates a space for an increase in the net interest income of both the Issuer and UniCredit Leasing.

By the merger of the Issuer with UniCredit Bank Slovakia, a.s. at the end of 2013 together with the acquisition of UniCredit Leasing CZ, a.s. and UniCredit Leasing Slovakia, a.s. the Group has created a strong entity providing a wide offer of financial services on the Czech and Slovak market. This strategy is a good basis for the growing profitability, market shares and maintaining the liquidity and capital stability despite an expected difficult economic environment of low interest rates and a low economic growth.

Administrative, Management and Supervisory Bodies

The Bank's bodies are the:

- (a) General Meeting;
- (b) Supervisory Board;

³ Source of market average figures: Czech Banking Association and National Bank of Slovakia.

- (c) Board of Directors; and
- (d) Audit Committee.

The General Meeting of Shareholders is the supreme governing body of the Issuer. It decides all matters of the Issuer falling within its competence by law or under the Issuer's Articles of Association.

The following activities fall within the General Meeting's exclusive competence:

- (a) deciding on changes in the Articles of Association if these are not changes resulting from an increase in share capital by the Board of Directors pursuant to Section 511 et seq. of the Business Corporations Act or on changes occurring on the basis of other legal facts;
- (b) deciding on any increase of the share capital, or on authorising the Board of Directors pursuant to Section 511 et seq. of the Business Corporations Act, or on the possibility of setting off financial claims due to the Bank against a claim for payment of the issue price;
- (c) deciding about a decrease of the share capital and about issuing bonds pursuant to Section 286 et seq. of the Business Corporations Act;
- (d) electing and dismissing members of the Supervisory Board, Audit Committee and other bodies determined by the Articles of Association;
- (e) approving the regular or extraordinary financial statements and consolidated financial statements, and, in cases established under law, interim financial statements; deciding on distributing profits or other funds of the Issuer or on the payment of a loss and setting a profit share of the Board of Directors and Supervisory Board members;
- (f) deciding on the remuneration of the Supervisory Board and Audit Committee;
- (g) on filing any application for the acceptance of participating securities of the Issuer for trading on a European regulated market or for withdrawal of these securities from trading on a European regulated market;
- (h) deciding on winding up of the Issuer through liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration, and approving the proposal for distributing the liquidation balance;
- (i) approve any transfer or pledge of an enterprise or such a part of the enterprise that would mean a material change to the scope of business or activities of the Issuer;
- (j) approving contracts on silent partnership including any amendments thereof and its cancellation;
- (k) appointing auditors of the Issuer on the recommendation of the Audit Committee;
- (l) deciding on the establishment of non-compulsory funds of the Issuer and on procedures for their creation and utilisation; and
- (m) deciding on other issues that the Business Corporations Act, other legal regulations or Articles of Association entrust to the competence of the General Meeting.

Board of Directors of the Issuer

Members of the Board of Directors are:

Ing. Jiří Kunert

Chairman of the Board of Directors and Chief Executive Officer responsible for the Issuer's overall results and for managing the Chief Operating Officer and the Director of the Risk Management Division. He also is responsible to the Issuer's Board of Directors for the management of the finance, human resources and legal areas.

Work Address: Želetavská 1521/1, Praha 4

Born: 31 January 1953

Paolo Iannone

Vice-Chairman of the Board of Directors and Chief Operating Officer responsible for managing and supervising the Issuer's business activities and co-ordinating the activities of the Issuer's other departments so that they contribute to achieving the Issuer's business results to as great an extent as possible, whether directly or indirectly.

Work Address: Želetavská 1521/1, Praha 4

Born: 15 December 1960

Ing. David Grund

Member of the Board of Directors and Director of the Corporate, Investment and Private Banking Division responsible for managing and supervising the Issuer's business activities in the relevant business segment.

Work Address: Želetavská 1521/1, Praha 4

Born: 24 February 1955

Ing. Aleš Barabas

Member of the Board of Directors and Director of the Risk Management Division responsible for preparing the Issuer's credit policy, maintaining the quality of the loan portfolio, managing all activities in the area of credit risks and adhering to the limits set by banking regulations, as well as for managing activities in the area of market and operational risks.

Work Address: Želetavská 1521/1, Praha 4

Born: 28 March 1959

Mgr. Jakub Dusílek, MBA

Member of the Board of Directors and Director of the Global Banking Services Division responsible for activities aimed at optimizing costs and internal processes in order to guarantee the best possible synergies and success throughout the Issuer as well as for the quality of services provided to third parties.

Work Address: Želetavská 1521/1, Praha 4

Born: 17 December 1974

Gregor Peter Hofstaetter-Pobst

Member of the Board of Directors and Director of the Finance Division

Work Address: Želetavská 1521/1, Praha 4

Born: 15 April 1972

Miroslav Štrokendl Member of the Board of Directors and Director of the Slovak Branch
Work Address: Želetavská 1521/1, Praha 4
Born: 12 November 1958

The Board of Directors is the statutory body of the Issuer, and as at 28 November 2014 it had seven members. The members of the Board of Directors exercise their functions personally and are elected by the Supervisory Board for the period of 3 years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office. Only persons meeting the relevant legal requirements may be appointed as members of the Board of Directors. The Board of Directors makes decisions by resolutions adopted at its meetings. The Board of Directors shall have a quorum if an absolute majority of all its members is present or otherwise participates (e.g. via telephone conference). The approval of an absolute majority of the Board members present is required for a resolution to be valid. In the event of a parity of votes, the presiding chairperson of the meeting shall cast the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the Bank's registered office or elsewhere by any means of communication that enables all its members simultaneously to hear one another during the meeting (i.e. via telephone conference) or in writing without holding a meeting (*per rollam*). Those voting are regarded as present in such case.

Supervisory Board of the Issuer

The Supervisory Board has nine members of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the Bank's employees, election order of the Issuer approved by the Board of Directors and after consultation with trade unions. Members of the Supervisory Board exercise their functions personally. Members of the Supervisory Board are elected for a period of 3 years. The Supervisory Board shall have a quorum if an absolute majority of all its members is present or otherwise participates (e.g. via telephone conference). The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to be valid. In the event of a parity of votes, the presiding chairperson shall cast the deciding vote. The Chairman is represented by the Vice-Chairman in case of absence. If a majority of members so agree, the Supervisory Board may adopt resolutions at the Bank's registered office or elsewhere by any means of communication that enables all its members simultaneously to hear one another during the meeting (i.e. via telephone conference) or in writing without holding a meeting (*per rollam*). Those voting are regarded as present in such case. The Supervisory Board established the Remuneration Committee, which consists of two members of the Supervisory Board. Each year, the Remuneration Committee approves the principles for remuneration of members of the Board of Directors and also the respective amounts.

Members of Supervisory Board are:

Francesco Giordano Chairman of the Supervisory Board
Work Address: Piazza Cordusio, Milan, Postal Code 20 1 23, Italy
Born: 13 October 1966

Heinz Meidlinger Member of the Supervisory Board
Work Address: Vordere Zollamtsstrasse 13, 1030 Vienna, Austria
Born: 6 September 1955

Mauro Maschio Member of the Supervisory Board
Work Address: Kyev, Anri Barbyusa Str. 5, Postal Code 03150, Ukraine
Born: 8 May 1969

Suzanne Malibas	Member of the Supervisory Board
Work Address:	Pfarrwiesengasse 21/6, Vienna, Postal Code A-1190, Austria
Born:	14 July 1967
Giorgio Ebreo	Vice-Chairman of the Supervisory Board
Work Address:	Via Cervignano 16, Milan, Italy
Born:	4 November 1948
Ing. Jana Szászová	Member of the Supervisory Board
Work Address:	Hany Meličkovej 2989/18, Bratislava, Postal Code 84105, Slovakia
Born:	17 January 1963
Eva Mikulková	Member of the Supervisory Board
Work Address:	Želetavská 1521/1, Prague 4, Czech Republic
Born:	29 January 1957
Mgr. Miloš Bádal	Member of the Supervisory Board
Work Address:	Podhorská 88/19, Prague 5 – Motol, Postal Code 150 00, Czech Republic
Born:	11 April, 1970

JUDr. Ivana Burešová resigned on 30 November 2013

No member of the Supervisory Board is conducting any other business activity in the Czech Republic or any business activity that might be relevant for the purpose of appraising the Issuer other than his or her activities for the Issuer as stated above.

Audit Committee

The Audit Committee is an independent committee with the task to oversee, monitor and advise in matters regarding accounting and financial reporting, the internal control, audit and risk management, the external audit, and monitoring compliance with laws, the Issuer's regulations and the Code of Conduct. The Audit Committee consists of three members appointed and dismissed by the General Meeting for a term of three years from among the Supervisory Board members or independent persons. At least one member of the Audit Committee must be independent from the Issuer and must have at least three years practical experience in accounting or statutory auditing. Meetings of the Audit Committee shall have a quorum if attended in person or via videoconference by the majority of its members. Decisions are passed by a simple majority vote of the attending members, with the exception of "per rollam" resolutions, which must be approved by all Audit Committee members.

Members of Audit Committee are:

Giorgio Ebreo	Member of the Audit Committee
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Work Address: Via Cervignano 16, Milan, Italy
 Born: 4 November 1948

Cotini Stefano
 Work Address: Chairman of the Audit Committee
 Piazza Cordusio, 20123 Milan, Italy
 Born: 4 November 1948

Heinz Meidlinger
 Work Address: Member of the Audit Committee
 Vordere Zollamtsstrasse 13, 1030 Vienna, Austria
 Born: 6 September 1955

Conflicts of Interest at the Level of Administrative, Management and Supervisory Bodies

The Bank is not aware of any possible conflicts of interest between the duties to the Bank of the aforementioned persons and their private interests or other duties. The Issuer has prepared an ethics code based on guidelines prepared by the Group that stipulates how to proceed in case of a conflict of interest.

Employees

The Issuer's average number of employees (including UCI Group expatriates) was as follows:

	1 Jan – 30 Dec 2013	1 Jan – 31 Dec 2012
Employees	3,071	1,952
Members of the Board of Directors	10	6
Members of the Supervisory Board	6	3
Other executives directly reporting to the Board of Directors	52	25

Main Shareholder

The Bank's main shareholder is UniCredit Bank Austria AG, having its registered office at Schottengasse 6–8, 1010 Vienna, Austria.

No agreements that could lead to a change of control over the Issuer are known.

UniCredit Bank Austria AG

UniCredit Bank Austria AG ("**Bank Austria**") is a member of the UniCredit Group. The main shareholder of Bank Austria AG is UniCredit S.p.A. with a 99.996 per cent. share as at 30 September 2014. As a modern and dynamic universal bank, Bank Austria provides its clients with access to international financial markets. Within the UniCredit Group, it is responsible for the growth region that is Central and Eastern Europe (CEE), with the exception of Poland. As at 30 June 2014, Bank Austria had total assets of EUR 183.12 billion.

History

Bank Austria is a stock corporation subject to the laws of Austria. It was created through the merger of Zentralsparkasse and Kommerzbank AG and Österreichische Länderbank AG, which together formed Bank Austria in 1991, and the subsequent integration with Creditanstalt AG which was acquired by Bank Austria in 1997. Bank Austria is established as a "Savings Bank" and consequently takes part in the deposit insurance system of the Austrian savings banks. In 2000, Bank Austria became a subsidiary of Bayerische Hypo- und Vereinsbank AG, Munich ("**HVB**") and together with its consolidated subsidiaries, "**HVB Group**", which was renamed UniCredit Bank AG in 2009), which in turn was acquired in 2005 by UniCredit, whereupon the Issuer became a new member of UniCredit Group. In March 2006, the shareholders defined the future role of Bank Austria within UniCredit Group in the Restated Bank of the Regions Agreement ("**REBORA**"). Through this 10-year contract, Bank Austria's role as the competence centre of the group for the CEE region (without Poland) was reconfirmed. Hence, Bank Austria assumed responsibility in the group for additional units in 11 different countries. In January 2007, HVB sold its shares in the Issuer to UniCredit S.p.A., Vienna branch. On 21 May 2008, the resolution of Bank Austria's shareholder meeting dated 3 May 2007 resolving on the squeeze-out of Bank Austria's free float

shareholders was incorporated in the Company's Register by the commercial court of Vienna, leading to an increase of UniCredit's share in the Issuer to 99.995 per cent. and to the delisting of the Issuer's shares from the Vienna and the Warsaw Stock Exchanges. On 6 August 2008, UniCredit S.p.A., Vienna branch, released the payments for the outstanding minority shares. Previous shareholders requested the commercial court of Vienna to assess the price paid, which amounted to € 137.94 million including statutory interest as per the decision of Bank Austria's shareholder meeting dated 3 May 2007. This currently pending court decision may lead to an additional payment by UniCredit. As an important milestone, at the beginning of 2007 Bank Austria assumed the function of sub-holding company for the CEE region (without Poland) and this perimeter of operations was subsequently further enlarged through strategic acquisitions. Consequently, in 2007, UniCredit's shareholdings in CEE banks (except those in Poland) were transferred to Bank Austria in the form of a contribution in kind. Furthermore, Bank Austria acquired HVB's shareholdings in CEE banks. Finally, a merger of banking subsidiaries in countries with double or triple presence following the aforementioned transfer was completed. These transactions led to an increase in business volume, revenues and profits of between 90 per cent. and 100 per cent.. Bank Austria further extended its CEE network through the acquisition of a majority shareholding in Joint Stock Commercial Bank for Social Development Ukrspbank, Kiev, Ukraine (on 21 January 2008) which has a significant market share in the Ukraine. As part of the concentration of certain activities in specific competence centres within UniCredit Group, in 2008 and 2009, Bank Austria transferred the following companies to other UniCredit Group entities:

- Pioneer Investments Austria GmbH, Vienna (PIA) – the fund management company
- BA-CA Administration Services GmbH, Vienna (AS) – back-office services
- Banking Transaction Services s.r.o., Prague (BTS) – transaction services
- WAVE Solutions Information Technology GmbH, Vienna (WAVE) – IT services

Under UniCredit Group's new branding strategy that took effect at the end of the first quarter 2008, the Issuer operates under the "Bank Austria" brand name, using the design and logo of the UniCredit Group master brand. In February 2010, Bank Austria announced the intra-group sale of CAIB AG to UniCredit Bank AG. After all regulatory approvals had been obtained, this sale was completed on 1 June 2010. Before completion of the sale, all customer-related investment banking activities, the funding activities of Bank Austria and the local capital markets business were re-integrated from CAIB AG into the Issuer. On the basis of an independent valuation by external experts, the restructured CAIB AG (including CAIB UK) was transferred to UniCredit Bank AG for €1.24 billion plus excess capitalisation.

RISK MANAGEMENT

The Issuer is exposed to the following types of risk:

- credit risk,
- market risk,
- operational risk.

The Issuer's Board of Directors is responsible for, and approves, the overall strategy of risk management, which is reviewed on a regular basis. The Board has established an Assets and Liabilities Committee (ALCO), Credit Committee and Committee for the Management of Operational Risk in order to monitor and manage particular risks for its specific areas. These Committees report to the Issuer's Board on a regular basis.

Credit risk

The Issuer is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and intermediation activities. Failure of the Issuer's customers to meet repayments on their loans could adversely affect the Issuer's finances and therefore its ability to pay interest and/or principal on the Covered Bonds. Credit risk is managed at two levels: at the level of the individual client (transaction) and at the portfolio level. The Credit Underwriting, Credit Models & Reporting, and Credit Operations departments are directly responsible for credit risk management. All are organizationally independent of the Issuer's business divisions and directly accountable to the member of the Board of Directors responsible for risk management. The Issuer defines within its credit policy the general principles, methods and instruments used for the purpose of identification, measurement and management of credit risk. The Credit Models & Reporting Department is responsible for setting loan policy, which is revised at least once a year. The Issuer defines within its internal guidelines approval competencies for credit deals, including definition of responsibilities and competencies of the Credit Committee.

Credit risk management at individual client level

The credit risk at the client level is managed by analysing the client's financial standing and setting limits on the credit extended. The analysis is focused on, *inter alia*, the client's standing in the relevant market, rating of the client's financial statements and prediction of future liquidity. The result of this analysis is, among other things, to establish a rating that reflects the probability of default by a client and takes into account quantitative, qualitative and behavioural factors. The financial standing analysis is carried out, and a credit limit and rating set, both before credit is granted as well as regularly during the course of the credit relationship with the client.

The internal rating system comprises 26 rating levels (1 to 10 with the use of "+" and "-" in several rating classes: 1+, 1, 1-, 2+, etc.). This system assesses not only the client's possible delay in making loan payments, but also, among other things, the client's financial ratios and indicators (such as the structure of, and relationships between, the balance sheet, income statement, and cash flows), quality of management, ownership structure, market position, quality of reporting, production equipment and account-use history and behaviour. Clients with receivables categorised as substandard, doubtful or loss are always assigned to a rating class for clients in default, i.e. one of 8-, 9 or 10.

If an external rating of the borrower prepared by a reputable rating agency is available, those rating results are also taken into account in assessing the borrower. However, this rating does not replace the Issuer's internal rating system.

For receivables from individuals, the ability of the client to fulfil his or her obligations is determined using a standardised system of credit scoring based on risk-relevant characteristics (credit application scoring). The Issuer sets and regularly updates the probability of client default for individuals using the behavioural scoring method. A client's final rating combines both application and behavioural components.

As an additional source of information for assessing a client's financial standing, the Issuer uses information from credit registries, mainly the CBCB–Czech Banking Credit Bureau, a.s., the CNB Central Credit Registry, and the SOLUS association registry.

In accordance with its credit risk management strategy, the Issuer requires collateral for all credit to be provided before the credit is granted (according to the client's financial standing and the nature of the transaction). The Issuer considers the following to be acceptable types of collateral: cash, prime securities, a guarantee from another reputable entity (including bank guarantees) and security over real estate. The Issuer takes a conservative approach to the appraisal of the net realisable value of the collateral and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Issuer's specialist department. The net realisable value of the collateral is determined using this value and a correction coefficient, which reflects the Issuer's ability to realize the collateral if and when necessary.

Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting including analyses and monitoring of trends in certain credit sub-portfolios. The Issuer monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Issuer regularly monitors its credit exposure to individual sectors of the economy, countries, or economically connected groups of debtors. The Issuer assesses the concentration risk of the loan portfolio on a regular basis and establishes concentration limits as appropriate in relation to specific industries, countries, or economically connected groups of debtors.

Classification of receivables, impairment and provisions

The Issuer categorises its receivables arising from financial activities on a monthly basis, in accordance with Decree No. 163/2014 Coll. of the CNB. The Issuer regularly assesses whether any possible permanent decrease in the balance sheet value of receivables has occurred. Where the Issuer identifies such a decrease, it creates provisions for each account receivable or portfolio of receivables, respectively, in accordance with IFRS.

(a) Impairment of individual loans

The Issuer recognises the impairment of an individual loan if the loan's carrying amount decreases and the Issuer does not write off such amount (or that part of the loan receivable corresponding to the loss from the loan's carrying amount). The Issuer assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default. The Issuer writes off a receivable when it does not expect any income from that receivable or from realising collateral related to such receivable.

The Issuer calculates an individual impairment loss as the discounted value of estimated future cashflows from the loan.

(b) Impairment of loan portfolios

The Issuer recognises impairment losses of a typical loan portfolio if it identifies a decrease in the portfolio's carrying amount as a result of events indicating a decrease of expected future cash flows from such portfolio. Provisions are assigned to individual portfolios, not to individual loan cases.

The Issuer uses the concept of "incurred loss" when identifying portfolio impairment, considering the time delay between an impairment event's occurrence and the time the Issuer obtains information on the impairment event (i.e. when the receivable is removed from the portfolio of standard receivables and the decrease in the value is considered in accordance with the common practice used for individual receivables; that is, when the loss in value of the individual receivable is recognised). The method currently used is in accordance with the UCI Group methodology used for incurred loss determination.

(c) Provisions for off-balance sheet items

- (i) Provisions for off-balance sheet items with the Issuer's clients for whom there is currently recorded a particular balance sheet receivable fulfilling the conditions for ranking into the watched loan category or a loan with debtor's default category and the

Issuer creates the provisions for such loans. Note: The Issuer does not create such provisions for undrawn credit lines for credit cards issued.

- (ii) Provisions for selected off-balance sheet items with the Issuer's clients for whom the Issuer records no balance sheet receivable in a given period, even though, in a case that such receivable would exist, the conditions for ranking it into watched loan or loan with debtor's default category would be fulfilled.
- (iii) Provisions for selected off-balance sheet items that are ranked into portfolios. The Issuer recognizes such provisions in the same way as used in creating impairment of loan portfolios.

(d) Recovery of receivables

The Issuer has established a Credit Workout & Restructuring Unit to deal with the recovery of loans in respect of receivables considered to be at risk. This unit aims to achieve one or more of the following goals:

- (i) "revitalisation" of the credit relationship, restructuring and subsequent reclassification to standard receivables;
- (ii) full repayment of the loan;
- (iii) minimisation of the loss from the loan (realization of collateral, sale of receivable with a discount, etc.); and
- (iv) prevention of further losses from the loan (comparison of future income versus expenses).

Market risk

Trading

The Issuer holds trading positions in certain financial instruments, including financial derivatives. The majority of the Issuer's business activities are conducted according to the requirements of its customers. Depending on the estimated demand of its customers, the Issuer holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Issuer's business strategy is thus affected by speculation and market making and its goal is to maximise the net income from trading. However, should the positions held by the Issuer perform badly, this could adversely affect the Issuer's financial position and its ability to make payments of interest and/or principal on the Covered Bonds.

The Issuer manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in the following section "*Market risk management*".

The majority of derivatives are negotiated on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

Market risk management

Below are described selected risks to which the Issuer is exposed through its trading activities, principles of managing positions resulting from these activities, and also management of these risks. The procedures that the Issuer uses to measure and manage these risks are described in detail in the following paragraphs.

The Issuer is exposed to market risks which flow from its open positions in interest rate, equity and foreign currency instruments that are sensitive to changes in financial market conditions. The Issuer's risk management concentrates on management of the total net exposure resulting from the Issuer's structure of assets and liabilities. The Issuer monitors interest rate risks by observing the sensitivity of particular

assets or liabilities in individual time periods, which is expressed by change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes the Issuer identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of hedge accounting.

In connection with the merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. both banks has integrated its risk positions and unified reporting of market risk index.

(e) Value at Risk

Value at Risk ("**VaR**") represents the main method for managing the market risks arising from the Issuer's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Issuer determines the Value at Risk through the stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a 1-day holding period and a confidence level of 99 per cent. The assumptions upon which the Value at Risk model is based have the following limitations:

- (i) The 1-day holding period supposes that all the positions can be closed during a single day. This assumption need not always apply on less liquid markets.
- (ii) The 99 per cent. confidence level does not reflect all possible losses that can occur at this confidence level.
- (iii) VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened "intra-day".
- (iv) Using historical data as a basic determinant of possible future development does not necessarily cover all of the possible future scenarios, especially crisis scenarios.

The Issuer uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with negative movements in the prices of market factors (spread risk, option risk, etc.). The structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO), and at least once a year the structure and the amount of limits are revised in accordance with the Issuer's needs and developments on the financial markets. The results of VaR calculation are published daily for selected users (Board of Directors, plus selected employees of the Financial Markets Department, Market Risk Department, Assets & Liabilities Management Unit, and the MARS of the parent bank and sub-holding).

Due to the merger, the calculation of risk figures (VaR, BPV) has changed. It is currently made in a new single IT platform within the entire Group. A new platform was launched in the second half of 2014 as planned.

(f) Back-testing – Value at Risk

The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Issuer identifies any inaccuracies, the model is adjusted to be consistent with current developments in the financial markets.

In 2014, the Issuer continued implementing a new IT system for Treasury (launched in the first half of 2013). It should allow to further develop a portfolio of products offered to clients and thus keep the leading position in this segment on the Czech market. The first stage of the system was launched in the second quarter of 2014.

(g) Interest rate risk

The Issuer is exposed to interest rate risk as a result of the fact that interest-bearing assets and liabilities have different maturities or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Issuer is exposed to a risk as a result of the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest rates on deposits, etc. The activities in the area of interest risk management are focused on optimising the Issuer's net interest revenue in accordance with the strategy approved by the Board of Directors.

The Issuer's overall interest rate position as at 31 December 2013 is characterised by greater interest rate sensitivity on the liability side. This is seen in the positive overall BPV, whereby in the case of a simultaneous decline in interest rates for individual currencies there could occur a modest decline in market valuation. The Issuer's interest rate position is diversified into individual time bands and several currencies, whereby the divergent interest rate risks of individual currencies are compensated with regard to the overall portfolio of assets and liabilities. The major sensitivity is connected to the CZK and EUR. The Issuer's overall position is approximately balanced.

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Issuer's strategy for managing the assets and liabilities approved by the Board of Directors. Part of the Issuer's income is generated by the intentional incongruity between the interest rate sensitive assets and liabilities.

The Issuer applies a "Basis Point Value (BPV)" approach for measuring interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01 per cent.), i.e. it represents the sensitivity of instruments to interest rate risks.

The Issuer set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01 per cent. (the "**BPV limit**").

(h) Stress testing of interest rate risk

The Issuer carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the Issuer's financial results. Due to the fact that the Issuer enters into derivatives transactions in order to hedge the interest rate risk for the entire interest rate-sensitive part of the balance sheet, the stress tests are not performed separately for trading and investment portfolios but on an aggregated basis.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve for major currencies (CZK, EUR, USD), with a maturity of up to 2 years, by 250 basis points.

(i) Hedge accounting

As part of its market risk management strategy, the Issuer hedges against interest rate risk. The Issuer's hedge strategy uses both fair value hedges and cash flow hedges.

(j) Fair value hedging

Hedged instruments can be financial assets and liabilities recognized at their carrying amounts (except securities held to maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognised in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

The Issuer performs a fair value hedge effectiveness test on the basis of future cash flows of hedged and hedging instruments and of expected interest rates movements (a so-called "prospective test"). On the basis of real interest rate developments, the test of effectiveness is carried out at the last day of each month.

The Issuer has chosen to carry out effectiveness testing on a monthly basis to detect possible non-effectiveness of hedge relationships.

For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc.), the amounts of cash flows and dates are determined from the beginning of a hedged relationship until the maturity of the hedged instrument, or until the end of the hedge relationship. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of discount factors for specific currencies. The fair value of the trade is the total of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further

netted for realized cash flows by subtracting or adding them back. The hedge is considered as effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80 per cent. and 125 per cent.

In line with a change in group strategy in the area of hedge accounting, the Issuer discontinued fair value hedge accounting for selected financial instruments in December 2003. In connection with this change, the Issuer still reports the remaining fair value of those instruments, which is amortised until maturity.

Cash flow hedging

The Issuer uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense sensitive to changes in market interest rates. Future anticipated transactions ensue from contracts actually concluded as well as from future transactions established on the basis of replication models. The hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

The effectiveness of a cash flow hedge is determined in accordance with shareholder standards, which are contained in an approved methodology. First, the nominal values (divided into assets and liabilities) of external trades for which the interest cash flow (established on the basis of refinancing the “funding” rate) may be considered as variable are identified for specific currencies (hedged cash flows). Second, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (i.e. cash in net of cash out).

The Issuer compares the absolute value of future variable interest cash flows from hedged deals for specific time periods with the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedging derivatives. The time periods are defined as follows: for individual months up to 2 years, thereafter for individual years, up to 10 years, and greater than 15 years. The hedge is judged effective if the absolute volume of variable interest cash flows from hedged deals is greater in each of the time periods, and this is measured separately for each monitored currency.

Currency risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, comprise the Issuer’s exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the income statement.

The Issuer has established a system of currency risk limits based on its net currency exposure in individual currencies. The Issuer has determined a currency risk limit of MEUR 45 with respect to the total net currency exposure and to individual main currencies (CZK, EUR) and of MEUR 45 to the EUR, of MEUR 40 to the CZK and of MEUR 25 to the USD. For remaining currencies valid limits range from MEUR 2 to MEUR 8 according to the risk profile of a particular currency.

Equity risk

Equity risk is the risk of movement in the prices of equity instruments held in the Issuer’s portfolio and of financial derivatives derived from these instruments. The main source of this risk is trading in equity instruments, although some equity risk also arises as a result of the Issuer’s non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity risk

Liquidity risk arises as a result of the manner of financing the Issuer’s activities and managing its positions. It includes both the risk that the Issuer would be unable to finance its assets using instruments with appropriate maturity and the risk that the Issuer would be unable to dispose of its assets for an appropriate price within the necessary time period.

Every year, the Issuer plans its liquidity position on a consolidated basis (Funding Plan) within the creation of the budget for the year concerned and this plan is subject to the approval by the Asset and Liability Committee. During the year, the fulfilment of the plan is subject to a review.

The Issuer has access to diverse sources of funds, which comprise of deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Issuer flexible and limits its dependency on any single funding source. The Issuer regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Issuer's liquidity risk management strategy, which is approved by the Board of Directors. The Issuer also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and other similar bonds in accordance with CRD IV/CRR IV rules.

Liquidity risk is evaluated regularly by the Issuer using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Issuer monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If limits are breached, the Issuer takes action to reduce the liquidity risk. In the long-term perspective, the Issuer monitors the difference between the maturity of assets and liabilities both on individual and consolidated basis in periods longer than 1 year. In addition to these internally determined limits the Issuer manages its liquidity position to fulfil the LCR figure according to the current definition arising from the regulation (CRD IV/CRR IV) or another liquidity figure determined by a regulator on a consolidated or individual basis. For products with a non-specified maturity (i.e. current accounts) the Issuer has developed a model for their expected residual maturity. The Issuer again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing).

The Issuer has drawn up a contingency plan for the possible case of a liquidity crisis. This plan defines roles, responsibilities and the process of managing a crisis. It also defines the possible measures which should be considered if there is a crisis situation.

Stress tests of short-term liquidity are performed by the Issuer on a weekly basis. Such stress tests verify the Issuer's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Issuer's credit rating, IT system breakdowns, reputation risk to the Issuer and combinations of the above. The stress scenarios' results are presented to the ALCO.

Operational risk

Operational risk constitutes the risk of a loss due to the absence, violation or exceedance of rules, or failure to uphold these rules, and to damages caused by a failure of internal processes, human or system error, or external events. Strategic risk, business risk and reputation risk differ from operational risk while legal risk and compliance risk are included within the definition of operational risk.

The Issuer's organisational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. Internal rules unambiguously define rights and obligations of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to the member of the Board of Directors responsible for risk management. The Operational Risk Department is entrusted with ensuring unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company. The operational risk management and monitoring themselves are performed by the designated employees of the individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and it assesses the control and management system's functionality.

In 2014, the Issuer continued developing and setting up a comprehensive system for identifying, monitoring and managing operational risk.

To ensure effective collection of operational risk events and data, the Issuer uses an online information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management, in accordance with the Basel III regulation. The data acquired through the system is taken into account when calculating the capital requirement as well as in managing operational risk and forms one of the bases for designing processes that will lead to a reduced number of particular events and the mitigation of their consequences (e.g. in preparing a strategic insurance plan for the Issuer). The data is also used for rechecking the reliability of proposed measures for operational risk mitigation. Data is

collected continuously in cooperation with the Issuer's departments. All significant events are reported and resolved immediately. Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Issuer. The Board of Directors, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or immediately if necessary. The data is regularly reconciled with the accounting and other sources in order to ensure their completeness and accuracy.

In 2013, the Issuer also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) constitutes another important part of operational risk management. The Issuer has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. The Operational Risk Department also is increasing the overall awareness of operational risk within the Issuer and is training the Issuer's staff by means of e-learning, among other training methods.

In 2013, the merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia, a.s. was held. It went through a standard system of operational risk management related to the process change and the project. The independent Operational Risk Unit was authorized to ensure within its standard working tasks the single and co-ordinated monitoring and validation of analyzed operational risks and control measures with individual proposed changes. Appointed employees at the level of individual functions considered, quantified and recorded all impacts that such changes can cause. If a new and specific operational risk appeared related to the process change that could have a significant impact on the financial management, operation or reputation of the Issuer or its contracting counterparty, such risk had to be registered in a standard way and regularly monitored by the Operational Risk Unit together with the taking of a corresponding remedial measure. It was clear from the operational risk analyses made that in connection with the merger no significant risk event had occurred and the Issuer does not register any exceptional adverse trend or a threatening significant operational risk event with an impact on the Bank's financial management.

The Issuer did not register any material impact of the merger on the Issuer's operational risk profile.

Based on consent obtained from the regulatory body in 2008, the Issuer calculates the capital requirement for operational risk under the AMA advanced approach. It uses the Group's model in calculating capital adequacy for operational risk, which is based on internal and external data, results of scenarios analysis, and risk indicators data.

Capital management

Issuer's management monitors development of capital adequacy of the Issuer and its capital position. The banking market regulator, the Czech National Bank (CNB), establishes rules for calculating capital requirements and monitors their development. Since 1 January 2014, the Issuer met its requirements in accordance with Basel III. These were implemented by CNB decree No. 163/2014 Coll., on the business carried out by banks, savings and loan co operatives and securities traders, as amended. Basel III responds to the financial crisis and introduces requirements for higher capital quality, requirements for the better risk coverage; it introduces minimum standards for the liquidity management, figures of the leverage adequacy and improves the risk management and corporate governance.

The transfer to Basel III did not bring any significant impacts on the Issuer. Former Tier 1 is now part of common equity Tier 1 (CET1) which is capital of the most quality. Issuer included new capital requirement for Credit Valuation Adjustment risk which has immaterial impact on total capital.

In the area of risk-weighted assets several new requirements were introduced which did not have any significant impact on risk weighted assets in general. An increase in correlation coefficients with certain exposures towards large financial institutions and non-regulated financial entities was decreased on the other hand by the reduction coefficient influence on exposures towards small and medium-size enterprises. The Issuer also newly calculates the capital requirement to the credit remedy risk in the valuation with certain derivative instruments traded out of regulated markets.

The Issuer complies with newly defined minimum levels of capital adequacy including capital cushions as the current capital adequacy is substantially higher than minimum requirements arising from Basel III.

As the potential risks will be taken into consideration in valuing the ownership interests, consolidated results of the Issuer show no material impact on the Issuer's financial results.

Operational risk related to the merger

In connection with operational risk arising from the merger of the Issuer and UniCredit Bank Slovakia a.s., the Issuer has applied a standard management system of the operational risks related to the procedural change, while an analysis of the separate risk types and validation of control measures is addressed at the level of separate activities that have been newly implemented or modified according to the specific areas. The independent Operational Risk Department, as part of its standard job description, was tasked also with providing for uniform and coordinated monitoring and validation of operational risk relevant to separate proposed changes, while individuals appointed at the level of separate units assess, quantified and recorded any impacts such changes may cause.

Under the merger project for the UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s., the following relevant operational risk event categories were analysed:

- (a) **Category 2 "External Fraud"** – includes events where the offender intends forgery or theft of assets, or evasion of law, without any participation by any employee;
- (b) **Category 3 "Employment Practices and Workplace Safety"** – includes events occurring due to the breaches of the labour law, legislation and agreements on the health and safety protection, losses arising from claims for personal compensations for damages, as well as events related to discrimination based on difference;
- (c) **Category 4 "Clients, Products, & Business Practice"** – may be a source of loss for the Issuer due to an unintentional or negligent failure to meet the obligations towards a client (including also the requirements of trustworthiness and appropriateness) or due to the features of a product in question or due to an inappropriate business procedure;
- (d) **Category 6 "Business Disruption & Systems Failures"** – includes events that result from the technology failures; and
- (e) **Category 7 "Execution, Delivery, & Process Management"** – includes events due to transaction processing or process management errors or due to loss from the counterparty and customer relations.

Category 1 and Category 5 are not related to the merger risks.

The merger process of the Issuer and UniCredit Bank Slovakia a.s., as two member entities of UniCredit Group, was proceeded not only as a legal issue but – in the long term – at the level of converging towards the target group-based technological platform and information systems, which become more intensive once the amalgamation of the two entities is completed. The unification, or implementation of the new information systems at the uniform technological platform level, was scheduled and gradually put into practice in accordance with the long-term strategy of the Group and Bank and with the view of its contingent impact on operational risk at the Issuer. Mitigation of the impact of operational risk was managed both at the merger project level (involving the technological change scope, target technological solution, resourcing for the required support, technological change implementation timing) and at the level of separate entities in the course of the migration or at creation of the new information systems (by applying standard project tools of risk management). Contingent operational risk at the merger project level existed in connection with erroneous implementation of strategic decisions with respect to the target technological solution, whether due to insufficient support at the respective project stage or due to inadequate implementation in terms of its timing. Moreover, contingent operational risk exists relating to the implementation of comprehensive information systems that, due to their complexity, may affect the proper functioning of the information systems – most importantly the required data availability and quality, with an effect on the reporting systems. Since the merger, the Issuer has applied the operational risk management system identical to the one applied in UniCredit Bank Czech Republic, a. s. (the advanced capital adequacy measurement approach).

Relating to the business and reputational risk arising from the implementation of the merger of the Issuer and UniCredit Bank Slovakia a.s., the Issuer applied a standard management system to those risks.

Capital Adequacy

Consolidated capital adequacy as of 30 September 2014 was 14.63 per cent.. This figure has not been audited.

Financial Information Concerning Assets and Liabilities, Financial Situation and Profit and Losses of the Issuer

Financial information for the last two financial years (i.e. for 2013 as at 31 December 2013 and for 2012 as at 31 December 2012) in the form of audited financial statements is incorporated by reference and is available on the Issuer's website, where the auditor's reports (see Chapter VI. of the Prospectus – "Documents Incorporated by Reference") are also available. According to the auditor's opinion, for financial year 2012, the financial statements present a true and fair view of the Issuer's assets and liabilities as well as of its expenditures, revenues, net results and cash flows for 2012. The financial statements for 2012 were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). According to the auditor's opinion for financial year 2013, the non-consolidated financial statements give a true and fair view of the financial position of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Information on the Issuer's Operation

Data on UniCredit Bank Czech Republic and Slovakia, a.s., as at 31 December 2012 and 2013

The selected data shown in the table below is extracted from the non-consolidated audited financial statements in accordance with IFRS and contains information on the Issuer's operations, in particular, data on the Issuer's assets and liabilities, as at 31 December 2012 and 2013. The statement of financial position as of 31 December 2013 includes the balances of the merged bank UniCredit Bank Czech Republic and Slovakia, a.s. The 2012 comparative period includes information for standalone UniCredit Bank Czech Republic, a.s. as of 31 December 2012. Due to the cross border merger with UniCredit Bank Slovakia a.s. with effective date as of 1 July 2013, the statement of financial position is not fully comparable to the prior period.

Statement of financial position as at 31 December 2013

	31.12.2013* IN CZK millions	31.12.2012** IN CZK millions
ASSETS		
Financial assets held for trading	8,909	7,684
Receivables from banks	71,460	36,641
Receivables from clients	289,945	184,715
Financial investments	82,228	80,120
Remaining assets ⁴	12,080	9,749
Total assets	464,622	318,909
LIABILITIES		
Deposits from banks	49,798	34,230
Deposits from clients	306,298	195,120
Debt securities issued	43,041	36,194
Financial liabilities held for trading	5,388	5,956
Remaining liabilities ⁵	9,350	8,472
Total liabilities	413,875	279,972
SHAREHOLDER'S EQUITY		
Total shareholder's equity	50,747	38,937

*UniCredit Bank Czech Republic and Slovakia, a.s. (after the merger)

** UniCredit Bank Czech Republic, a.s.

⁴ "Remaining assets" comprises all remaining assets not explicitly stated in the table above.

⁵ "Remaining liabilities" comprises all remaining liabilities not explicitly stated in the table above.

As a result of the cross-border merger with a decisive date of 1 July 2013, according to which UniCredit Bank Slovakia a.s. was integrated into UniCredit Bank Czech Republic a.s., the total assets of the Issuer increased by 31.99 per cent. to CZK 417,844 million, the amount of loans and receivables owing from customers increased by 41.48 per cent. to CZK 268,724 million, deposits from customers increased by 33.72 per cent. to CZK 264,093 million and the Issuer's total shareholder equity was increased by 31.90 per cent. to CZK 48,346 million. The percentage has been calculated on the basis of the extraordinary financial statements of the Issuer as at 30 June 2013 before the merger and the opening balance sheet of the merged banks as at 1 July 2013.

Data on UniCredit Bank Czech Republic and Slovakia, a.s., as at 30 September 2013 and as at 30 September 2014

The selected data shown in the table below extracted from the non-consolidated unaudited financial statements in accordance with IFRS and contains information on the Issuer's operations as at 30 September 2014 and 2013. Data as of 30 September 2013 is stated separately for UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. as both UniCredit banks were not legally merged at that time. Data for UniCredit Bank Czech Republic, a.s. is extracted from the non-consolidated unaudited financial statements as at 30 September 2013 and for the 9 months period then ended and data for UniCredit Bank Slovakia a.s. is extracted from non-consolidated unaudited financial statements as at 30 September 2013 and for the 3 months period from 1 July 2013 to 30 September 2013. The 1 July 2013 represents the effective date of the acquisition (merger) of UniCredit Bank Slovakia a.s. Data as of 30 September 2014 is extracted from non-consolidated unaudited financial statements as at 30 September 2014 and for the 9 months period then ended. The extracted data contains information on the Bank's operations, in particular, data on the Issuer's assets and liabilities, financial situation and profit and losses, for the period from 1 January 2013 to 30 September 2013 (unaudited) for UniCredit Bank Czech Republic, a.s., for the period from 1 July 2013 to 30 September 2013 for UniCredit Bank Slovakia a.s. and for the period from 1 January 2014 to 30 September 2014 (unaudited) for the merged Issuer.

	30.9.2014*	30.9.2013**	30.9.2013**
	<i>UniCredit Bank Czech Republic and Slovakia, a.s.</i>	<i>UniCredit Bank Czech Republic, a.s.</i>	<i>UniCredit Bank Slovakia a.s.</i>
	<i>non-consolidated unaudited date</i>	<i>non-consolidated unaudited date</i>	<i>non-consolidated unaudited date</i>
	<i>In CZK millions</i>	<i>In CZK millions</i>	<i>In CZK millions</i>
Operating performance			
Net interest income	6,717	4,572	540
Net fee and commission income	2,531	1,564	273
Profit from ordinary activities before income tax	3,901	3,042	239
Net profit for the year	3,208	2,479	185
Key ratios			
Return on average equity (ROAE)	9.23%	10.12% ⁺	N/A
Return on average assets (ROAA)	0.92%	1.05% ⁺	N/A
Statement of financial position figures			
Total assets	479,195	325,054	94,946
Loans and receivables	354,299	206,612	77,378
Deposits and other financial liabilities at amortization costs	346,380	215,137	73,892
Issued capital	8,755	8,750	6,060
Total shareholder's equity	54,738	37,926	11,865
Other regulatory indicators according to CNB regulations			
Tier 1	46,923	32,958 ⁺	11,160 ⁺
Total capital	48,281	33,716 ⁺	10,244 ⁺
Capital adequacy	15.73%	15.83%	14.37%

⁺ Value was calculated in compliance with legislation valid until 31 December 2013 (Basel II rules).

* UniCredit Bank Czech Republic and Slovakia, a.s. (after the merger)

** Single banks before the merger

Due to the cross border merger with UniCredit Bank Slovakia a.s. with effective date as of 1 July 2013, the financial data are not fully comparable to the prior period.

RELATED PARTY TRANSACTIONS

Entities are deemed to be entities under special arrangements in the event that one entity is able to control the activities of the other or is able to exercise significant influence over the other entity's financial or operational policies. As part of its ordinary business, the Bank enters into transactions with related entities. These transactions principally comprise loans, deposits and other types of transactions and are concluded under arm's length conditions and at arm's length prices in order to prevent any detriment to any party.

Related parties principally include the parent companies and fellow subsidiaries as part of the UniCredit Group /HVB Group /BA Group, subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

The selected data shown in the table below extracted and recalculated from the non-consolidated unaudited financial statements in accordance with IFRS and contains information on the Issuer's related party transactions as at 30 June 2014 and for the 6 months period then ended and from the non-consolidated audited financial statements in accordance with IFRS as at 30 June 2013 and for the 6 months period then ended.

	<u>30 June 2014*</u>	<u>30 June 2013**</u>
	<i>UniCredit Bank Czech Republic and Slovakia, a.s</i>	<i>UniCredit Bank Czech Republic, a.s</i>
	<i>non-consolidated, unaudited data</i>	<i>non-consolidated, audited data</i>
	<i>In CZK millions</i>	<i>In CZK millions</i>
Assets		
Financial assets held for trading	763	580
<i>of which:</i>		
UniCredit Bank AG	734	550
Available-for-sale securities	2,235	-
<i>of which:</i>		
UniCredit Bank Austria AG	2,235	-
Receivables from banks	6,954	9,566
<i>of which:</i>		
UniCredit Bank Austria AG	5,724	7,502
UniCredit Bank Slovakia a.s.	-	530
UniCredit Bank AG	219	855
UniCredit Bank Serbia Jsc	54	195
UniCredit Bank Hungary Zrt.	130	251
UniCredit S.p.A.	785	196
Receivables from clients	9,422	3,571
<i>of which:</i>		
UniCredit Leasing Group	8,942	3,259
Board of Directors	7	9
Other executives	84	80
UCTAM CZ	279	-
Positive fair value of hedging derivatives	1,958	1,509
<i>of which:</i>		
UniCredit Bank AG	1,958	1,509
Total	21,332	15,226
Liabilities		
Deposits from banks	16,799	4,543
<i>of which:</i>		
UniCredit Bank Austria AG	15,808	3,192
UniCredit Luxembourg S.A.	48	23
UniCredit Bank AG	620	568
UniCredit Bank Slovakia a.s.	-	93
UniCredit Bank Hungary Zrt.	58	219
UniCredit S.p.A.	222	426
Deposits from clients	1,689	1,297
<i>of which:</i>		
UniCredit Leasing Group	738	118
Pioneer Asset Management	339	468
Pioneer Investment Company	103	146
UniCredit Business Integrated Solutions S.p.A.	112	291
Board of Directors	85	60
Other executives	65	54

Financial liabilities held for trading.....	1,664	1,389
<i>of which:</i>		
UniCredit Bank AG	1,658	1,374
Negative fair value of hedging derivatives	2,038	1,459
<i>of which:</i>		
UniCredit Bank AG	2,038	1,459
Other liabilities.....	-	1,809
<i>of which:</i>		
UniCredit Bank Austria AG	-	1,763
UniCredit S.p.A.	-	26
Total	22,190	10,497

* *UniCredit Bank Czech Republic and Slovakia, a.s. (after the merger)*

** *UniCredit Bank Czech Republic, a.s.*

	1 Jan – 30 June 2014	1 Jan – 30 June 2013
	<i>UniCredit Bank Czech Republic and Slovakia, a.s</i>	<i>UniCredit Bank Czech Republic and Slovakia, a.s</i>
	<i>non-consolidated, unaudited data</i>	<i>non-consolidated, unaudited data</i>
	<i>In CZK millions</i>	<i>In CZK millions</i>
Interest income and similar income	117	125
<i>of which:</i>		
UniCredit Bank Austria AG	45	38
UniCredit Bank AG	10	39
UniCredit Leasing Group	53	41
Interest expenses and similar charge	(24)	(6)
<i>of which:</i>		
UniCredit Bank Austria AG	(23)	(4)
UniCredit Bank Hungary Zrt.	-	(1)
UniCredit Bank AG	-	(1)
Fee and commission income	23	5
<i>of which:</i>		
UniCredit Bank AG	2	3
UniCredit Bank Austria AG	8	1
UniCredit Leasing Group	3	1
Fee and commission expense	(3)	-
<i>of which:</i>		
UniCredit Bank AG	(1)	-
Net income from financial assets and liabilities held for trading	(166)	56
<i>of which:</i>		
UniCredit Bank AG	(180)	55
UniCredit Bank Austria AG	11	-
Net income from hedging against risk of changes in fair value	87	94
<i>of which:</i>		
UniCredit Bank AG	87	94
General administrative expenses	(662)	(492)
<i>of which:</i>		
UniCredit S.p.A.	(33)	(21)
UniCredit Bank Austria AG	25	-
UniCredit Business Integrated Solutions S.p.A.	(637)	(455)
Total	(628)	(218)

* *UniCredit Bank Czech Republic and Slovakia, a.s. (after the merger)*

** *UniCredit Bank Czech Republic, a.s.*

Due to the cross border merger with UniCredit Bank Slovakia a.s. with effective date as of 1 July 2013, the financial data are not fully comparable to the prior period.

CZECH BANKING REGULATION

Banking Regulation and Supervision

This section contains selected information on certain aspects of Czech banking regulation and supervision. The information in this section is intended to provide a brief overview of Czech banking regulation and supervision to which the Issuer is subject, and is not intended to provide a comprehensive or complete description of Czech banking regulation and supervision.

The structure of the regulation and supervision of the Czech banking system is set forth in a number of statutes, including Czech Act No. 6/1993 Coll., on the Czech National Bank, as amended (the "**Czech CNB Act**"), the Czech Banking Act, Czech Act No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended (the "**Czech Capital Market Act**"), Czech Act No. 15/1998 Coll., on Supervision in the Capital Market Area and Amendment of Certain Other Acts, as amended (the "**Czech Capital Market Supervision Act**"), Czech Act No. 253/2008 Coll., the Act on Some Measures against Money-Laundering and Financing of Terrorism, as amended (the "**Czech Anti-Money-Laundering Act**"), Czech Act No. 284/2009 Coll., on Payment Services, as amended (the "**Czech Payment Services Act**"), Czech Act No. 89/2012 Coll., the Civil Code, as amended (the "**Civil Code**"), and the Czech Bonds Act, the Czech Act No. 93/2009 Coll., on Auditors, as amended (the "**Czech Auditors Act**"), Czech Act No. 377/2005 Coll., on Supplementary Supervision over Banks, Credit Unions, Electronic Money Institutions, Insurance Companies and Investment Firms in Financial Conglomerates and amending some other acts (the "**Czech Financial Conglomerates Act**"), and certain regulations issued by the CNB (known as measures and decrees).

CNB

The CNB exercises regulatory and supervisory powers over the banking sector, as well as the rest of the Czech financial sector (including capital markets, insurance, pension funds, credit unions and electronic money institutions as well as the foreign exchange sector). The CNB also carries out the traditional activities of a central bank including fostering price stability through monetary policy as well as fostering financial stability and safe functioning of the financial system in the Czech Republic.

As a general rule, the CNB exercises banking supervision over Czech Banks (including subsidiaries of foreign banks incorporated in the Czech Republic) and Czech branches of banks established outside the EEA. Banks established in EEA countries other than the Czech Republic conducting their banking business in the Czech Republic through a Czech branch passported in the Czech Republic, or without establishment of a Czech branch on the basis of freedom of cross-border provision of services, are primarily subject to supervision by their home country regulators, although some limited supervision is carried out by the CNB.

Under the Czech CNB Act and the Czech Banking Act, the CNB is afforded an array of powers to regulate and supervise the Czech banking system. These powers include the power to: (i) grant banking licences; (ii) issue regulations containing the terms and conditions of entry into the banking sector and setting prudential rules for specific areas of banking business; (iii) monitor the activities of banks, foreign bank branches and credit unions; (iv) perform examinations (inspections) in banks, including foreign bank branches and credit unions; (v) grant prior consents to certain activities involving a bank, including the acquisition of a participation in a bank, the disposal of a bank's business, the merger or winding up of a bank, or the termination of a bank's activities; and (vi) impose remedial measures and penalties for shortcomings detected in banks' activities (see "*Czech Banking Regulation – Remedial Measures and Penalties*").

Licensing

As a general rule, only companies that have been granted a banking licence by the CNB in compliance with the Czech Banking Act are permitted to operate in the Czech Republic as a bank. Certain exceptions apply to foreign banks established within the EEA which intend to provide banking services in the Czech Republic through their Czech branch or on the basis of the freedom of cross-border provision of services. Licences are issued for an indefinite period of time and contain a list of the activities that the bank is permitted to perform. In some cases, licences also contain conditions the bank must meet prior to commencing a particular permitted activity or while performing that activity. Some of the activities listed

in the licence, such as the provision of investment services and certain custodian services, may be conditional upon the receipt of a special authorisation.

Activities Requiring Prior Consent of or Notification to CNB

In a number of cases, the Czech Banking Act requires banks or other legal or natural persons to apply for consent from the CNB or to notify the CNB before executing particular transactions or operations.

Prior consent of the CNB is required, without limitation: (i) where a person proposes to acquire or increase a direct or indirect participation in a Czech bank so that it would reach or exceed 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of the registered capital or of the voting rights, or so that the acquirer would become the bank's controlling entity or have the possibility to exercise a significant influence over the bank's management (this duty also applies to persons acting in concert); (ii) in order to enter into an agreement pursuant to which the business of the bank or a part thereof is disposed of; (iii) in order to merge or divide the bank or to transfer its assets to its shareholder; (iv) for a resolution of the General Meeting of shareholders to wind up the bank or cease to carry out any activity for which a licence is required; and (v) in order to reduce the capital of the bank, unless the capital is being reduced to cover a loss.

A prior notification to the CNB is required, without limitation: (i) where a person proposes to completely dispose of or reduce a direct or indirect participation in a bank so that it would fall below 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of the registered capital or of the voting rights, or so that the acquirer would cease to be the bank's controlling entity or cease to have the possibility of exercising a significant influence over the bank's management (this duty also applies to persons acting in concert); (ii) of most changes proposed to a bank's Articles of Association; (iii) of proposed personnel changes in the Board of Directors and senior management of the bank; (iv) of the bank's intent to establish a legal entity (subsidiary), branch or representation abroad or to provide services abroad without establishing a branch, (v) of the bank having acquired a participation in another legal entity (other than another bank or financing institution) which exceeds 15 per cent. of the bank's capital and which exceeds, jointly with other such participations held by the bank, 60 per cent. of the bank's capital (a qualified participation, see "*Czech Banking Regulation – Qualified Participations*"); and (vi) of the identity of a bank's auditor.

Capital Adequacy Requirements

The Capital Adequacy Directives (which have since been recast and replaced on 1 January 2014 by CRD IV and CRR) were implemented into Czech law by amendment of the Czech Banking Act and adoption by the CNB of the Regulation No. 123/2007 Coll., on the rules of prudent business carried out by banks, savings and loan co-operatives and securities traders, as amended (the "**Prudential Rules Decree**").

Pursuant to the Prudential Rules Decree banks must have at their disposal Capital (as defined below) equal to or higher than the aggregate capital requirement, which is calculated as the sum of the capital requirements for credit, market and operational risks. In line with EU law and Basel II recommendations, the minimum capital adequacy ratio for Czech banks is 8 per cent. The Prudential Rules Decree defines "**Capital**" as the sum of original capital (Tier 1) and additional capital (Tier 2) less deductible items, and increased by capital to cover market risk (Tier 3). With certain exceptions, capital adequacy rules must be met by a bank on an individual as well as a consolidated basis.

Original capital consists principally of: (i) paid-up registered capital decreased by the amount of purchased own shares and participations (if applicable); (ii) share premiums; (iii) reserve funds plus profit brought forward, or less losses brought forward; (iv) profit for the current accounting period less estimated dividends and certain other estimated distributions of profit; (v) solely for the purposes of calculating original capital on a consolidated basis, minority participations (participations of minority partners) relating to items included in original capital; and (vi) exchange rate differences from the consolidation of a foreign branch or foreign organisational unit in the regulated consolidated group (if these are negative they must be deducted). When calculating original capital, certain items must be deducted, including: (a) loss for the current year; (b) goodwill, excluding goodwill of persons in the regulated consolidated group (if applicable); (c) intangible assets other than goodwill; (d) the valuation difference (if negative) from changes in the fair values of capital instruments assigned for accounting purposes to the available sale portfolio; (e) net profit from the capitalisation of future income from securitisations (if included under items (iii) or (iv) above); and (f) participating securities, issued by a person with a

qualifying holding in the bank, acquired for the purpose of market making and assigned to the trading portfolio.

Additional capital consists principally of the sum of: (i) core additional capital corresponding to the excess in the coverage of expected credit losses on an individual basis; (ii) supplementary additional capital comprising: (a) certain subordinated debt (specified in the Prudential Rules Decree as subordinated debt A), and (b) the valuation difference from changes in the fair values of capital instruments, for which an active market exists and which are assigned to the available for sale portfolio for accounting purposes (if this is positive), whereas the valuation difference is calculated after reducing it for any liabilities arising from deferred tax) and, in relation to credit unions only, certain payment obligations of members of the relevant credit union.

Deductible items include, among other things: (i) certain investment portfolio capital investments, such as investments into banks, insurance companies, securities brokers and other financial institutions exceeding 10 per cent. of the registered capital of such institutions; (ii) the value of certain exposures to securitisations with a specified risk weight; (iii) a shortfall in the coverage of expected credit losses; and (iv) certain significant prudential adjustments of assets, liabilities and off-balance sheet items made as part of a marking to market or marking to model.

Capital for the coverage of market risk consists principally of certain subordinated debt (specified in the Prudential Rules Decree as subordinated debt B) reduced by items specified in the Prudential Rules Decree. Capital for the coverage of market risk may only be used to cover foreign exchange, commodity and settlement risk, interest rate risk in the trading portfolio, or risk related to the engagement in the trading portfolio.

Pursuant to the Prudential Rules Decree, the calculation of Capital is subject to certain limits, including that: (i) the sum of additional capital and capital to cover market risk shall not be considered to the extent that this exceeds original capital; (ii) supplementary additional capital shall not be considered to the extent that it exceeds 50 per cent. of original capital; and (iii) 50 per cent. of the value of deductible items is deducted from original capital and 50 per cent. of their value is deducted from additional capital (this does not affect the limits described under points (i) and (ii) above) (if 50 per cent. of the value of deductible items exceeds additional capital, the amount equivalent to this excess shall be deducted from original capital).

A bank may use either a standardised or internal ratings-based approach for the calculation of its capital requirements. A bank may use an internal ratings-based approach, or change the internal ratings-based approach it has been using, only upon obtaining prior approval from the CNB. At the date of this Base Prospectus, the Issuer is using internal ratings-based approach across all its segments except retail business lines.

The CNB is authorised to apply certain remedial measures linked to failure to meet capital adequacy criteria. For example, if a bank's capital ratio falls below two thirds of the minimum limit currently set at 8 per cent., the CNB may require the bank, among other things, to increase its capital to a sufficient level, to limit the acquisition of certain higher-risk assets, to refrain from paying interest on deposits where relevant interest rates would be in excess of the then current market level or to cease providing any loans to persons that have close personal or proprietary links with the bank. If the ratio falls below one third of the prescribed minimum, the CNB is obliged to revoke the bank's licence.

On 16 December 2010, the Basel Committee on Banking Supervision (Basel Committee) published the Basel III rules setting out the details of the new global capital and liquidity standards for banks developed by the Basel Committee and endorsed by the Group of Twenty Finance Ministers and Central Bank Governors (G20) at their November 2010 summit in Seoul.

Basel III, among other things, increases minimum common equity and minimum Tier 1 capital as a percentage of risk-weighted assets and introduces additional capital conservation and countercyclical buffers. Systemically important financial institutions could be subject to newly introduced additional requirements. These risk-based capital requirements would be complemented by a leverage ratio of Tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items). In addition, Basel III would enhance risk coverage, with higher capital requirements for trading and securitisation activities and for counterparty credit risk on derivatives and repos. Quantitative capital requirements would be reinforced by more stringent qualitative capital standards. Further, Basel III introduces, among other

things, (i) a minimum liquidity coverage ratio to enhance short-term cash flow resilience and (ii) a minimum net stable funding ratio to encourage banks to fund their activities with more stable sources of funding over a longer time horizon.

The Basel III quantitative requirements include an increase as of 2015 in the minimum common equity Tier 1 capital ratio from 2 per cent. to 4.5 per cent. and in the new core Tier 1 capital ratio from 4 per cent. to 6 per cent. of risk-weighted assets, the introduction of a capital conservation buffer of 2.5 per cent. to be made up of common equity as of 2019, thereby raising (i) the minimum common equity capital ratio from 4.5 per cent. to an effective 7 per cent., (ii) the Tier 1 capital ratio from 6 per cent. to 8.5 per cent., and (iii) the minimum total capital ratio from 8 per cent. to 10.5 per cent. of risk weighted assets. Further, the Basel III quantitative requirements implement a maximum leverage ratio of 3 per cent. during an initial testing phase. National regulators will, as of 2019, be able to impose an additional counter-cyclical capital buffer of up to 2.5 per cent. in periods of rapid aggregate credit growth which aggravate system-wide risk. Systemically important banks are required to have loss absorbing capacity in excess of these standards.

Basel III also enhances the risk coverage of the capital framework, particularly in relation to trading and securitisation activities and counterparty credit risk exposures.

Under Basel III, banks will be required to meet two new liquidity standards: (i) a liquidity coverage ratio (LCR) and (ii) a net stable funding ratio (NSFR). The LCR will require banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario specified by supervisors. The NSFR will measure the amount of longer-term, stable sources of funding available to a bank relative to the stable funding it requires over a one year period of extended stress, given the liquidity profiles of its assets and its off-balance sheet exposures. After an observation period beginning in 2011, the LCR will become binding on 1 October 2015. The NSFR will move to a minimum standard by 1 January 2018.

Basel III has been implemented in the EU through CRD IV and CRR. CRD IV and CRR were published in the Official Journal of the European Union on 27 June 2013. Most of the provisions in CRD IV and CRR took effect on 1 January 2014. CRD IV governs access to deposit-taking activities while CRR establishes the prudential requirements institutions need to respect. The implementation of CRD IV has begun to take effect in Czech national legislation as of 1 January 2013, although certain measures such as those relating to individual capital requirements will be implemented later. The full application of all CRD IV measures should be completed by 1 January 2019.

Financial Conglomerates

Starting in September 2005, the Czech Financial Conglomerates Act came to force implementing Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. According to the Czech Financial Conglomerates Act, a bank is considered to be a "regulated person" which under certain circumstances is subject to a regulation of the Czech Financial Conglomerates Act.

According to the Czech Financial Conglomerates Act a financial conglomerate is a group or subgroup if:

1. the group is headed by: (i) a regulated person, such as a bank, credit institution, insurance company or securities broker, which either: (a) controls a person in the financial sector; or (b) is a person who exercises a significant influence on a person in the financial sector; or (c) is a person connected to other person in financial sector through a unified management (d) is a person, the majority of whose members of statutory, managing and supervisory bodies comprise during most of the relevant accounting period individuals or persons, who are at the same time members of the statutory, managing and supervisory bodies of another person in the financial sector, or (ii) a person who is not a regulated person, provided the activity of the group is performed predominantly in the financial sector;
2. at least one person in the group or subgroup belongs to the insurance sector and at least one person in the group or subgroup belongs to the banking sector or investment services sector; and

3. the activities in the insurance sector of the group or subgroup in their aggregate and the activities in the banking sector and investment services sector of the group or subgroup in their aggregate are significant (where the extent of the sector's significance is specified in detail in the Czech Financial Conglomerates Act).

The supplementary regulation under the Czech Financial Conglomerates Act concerns mainly the following three areas at the level of the financial conglomerate:

- (A) capital adequacy;
- (B) risk management; and
- (C) intra-group transactions.

The supplementary supervision is exercised at the level of the financial conglomerate, i.e. at the level of the regulated entity which is at the top of the financial conglomerate, or at the level of the regulated entity, the parent of which is a mixed financial holding company (i.e., a non-regulated entity controls a regulated entity) which has its head office in the EU.

As of the date of this Base Prospectus, the Issuer is not considered a regulated person subject to supplementary supervision at the level of financial conglomerate. This status is not expected to change as a result of this Programme being established by the Issuer or the issue of the Covered Bonds under the Programme.

Minimum Reserves

Under the Act on CNB, the CNB may require banks, foreign bank branches and credit unions to hold a pre-specified amount of liquid funds, known as minimum required reserves, in accounts with the CNB. The required minimum reserves may not exceed 30 per cent. of the total liabilities of the institution required to hold such reserves, net of its liabilities owed to other regulated persons. Currently, the CNB requires minimum reserves to amount to at least 2 per cent. of the aggregate of the following liabilities to entities other than banks or foreign banks with a maturity of up to two years: (i) customer deposits; (ii) loans accepted from customers; (iii) holdings by non-banking entities of outstanding non-marketable securities; and (iv) holdings by non-banking entities of other outstanding debt securities. Minimum reserves are calculated from liabilities denominated in CZK as well as other currencies. Failure by a bank or a branch of a foreign bank established outside the EEA to meet minimum reserve requirements exposes the bank to interest penalties.

Liquidity Rules

Under the Czech Banking Act and the Prudential Rules Decree, banks operating in the Czech Republic are required to monitor and manage liquidity risk. A bank must establish a strategy for the management of liquidity risks and monitor liquidity on a daily basis for each individual major currency in which it deals, and on the aggregate level for all currencies. Banks must also maintain a stable and diversified funding portfolio and manage relationships with their principal creditors. For further details on how the Issuer manages liquidity risk, see "*Description of the Issuer – Risk Management – Types of Risk Managed – Liquidity Risk*".

Classification of Receivables and Impairment

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks and branches of foreign banks established outside the EEA are required to classify their receivables (especially those originating from grants of credit) according to the likelihood of default on such receivables into the following classes: (i) standard receivables; (ii) watched receivables; (iii) substandard receivables; (iv) doubtful receivables; and (v) loss-making receivables. Following such classification, Czech banks and branches of foreign banks must impair the value of the receivables using (i) discounted cash flow methods, (ii) coefficients specified in the Prudential Rules Decree or (iii) statistical models.

Large Exposures

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks and branches of foreign banks established outside the EEA are required to comply with large exposure rules established by the

CNB that limit the amount of their assets and off-balance-sheet items in respect of a person or economically connected group of persons.

As a general rule, investment portfolio exposure to a person or economically connected group of persons may not exceed 25 per cent. of the aggregate of original and additional capital reduced by deductible items (see "*Czech Banking Regulation – Capital Adequacy Requirements*"). Nevertheless, investment portfolio exposure to a person or economically connected group of persons may not exceed 20 per cent. of the sum of original and additional capital reduced by deductible items, if the person or member of the economically connected group of persons is (i) the parent or a subsidiary of the bank, or a subsidiary of the parent undertaking, or (ii) another person with certain specified close links to the bank. In addition, the aggregate of large exposures to persons or economically connected groups of persons may not exceed 800 per cent. of the sum of original and additional capital reduced by deductible items. For the purposes of these rules, a large exposure to a person or economically connected group of persons is deemed to exist if the exposure value is equal to or higher than 10 per cent. of the sum of original and additional capital reduced by deductible items.

As a general rule, trading portfolio exposure to a person or economically connected group of persons may not exceed 500 per cent. of the sum of original and additional capital reduced by deductible items.

Qualified Participations

The Czech Banking Act defines a qualified participation as a direct or indirect participation in an entity's capital or voting rights, or the sum thereof, which represents 10 per cent. or more of the registered capital or voting rights of such entity, or which makes it possible to exercise significant influence over the management of such entity. Under the Czech Banking Act, a qualified participation held by a bank or its consolidated group in a non-financial institution (i.e., an entity that is neither a Czech bank, a foreign bank, a financial institution nor an ancillary services undertaking) may not exceed (i) in respect of a single legal entity 15 per cent. of the bank's or the consolidated group's capital and (ii) in respect of all legal entities a total of 60 per cent. of the bank's or the consolidated group's capital. These limits do not apply in specific limited circumstances.

Under the Czech Banking Act, a bank may acquire a participation or share in another legal entity, incorporate another legal entity or participate in its incorporation only if: (a) the bank does not become a participant with unlimited liability; (b) the legal entity is not a person having a qualified participation in such bank (with some exemptions stated by the Czech Banking Act); (c) there are no legal or other obstacles to the provision of information by such person to the bank, and for provision of such information by the bank for the purpose of its supervision and the transparency of the consolidated group of which the bank is a part is preserved and the close link within the scope of the consolidated group does not prevent the supervision of the bank's activity; or (d) the investment is in compliance with the total strategy of the bank and the bank controls the risks connected with such investment, in particular, in light of the eventual obligations of the bank arising therefrom.

Disclosure of Information

Banks are required to disclose and file with the CNB a number of reports, including quarterly and annual reports. The form of the reports is established by various CNB decrees. The annual report must contain, among other things, the bank's financial statements and the external auditor's report. Since 2002, banks' internal risk management systems must also be audited by statutory auditors. The CNB reviews these reports and monitors whether regulations on liquidity, large exposures, capital adequacy, capital, qualified participations and other matters have been observed. Banks are also required to introduce effective mechanisms for dealing with customer complaints and to inform customers about these mechanisms in their premises. Banks must also disclose on their website basic information about themselves, their shareholder structure, the structure of the consolidated group to which they belong, and their activities and financial situation. Certain banks are also obliged to disclose information on compliance with the prudential rules.

Deposit Insurance

Primary deposits with Czech banks are insured with the Deposit Insurance Fund established pursuant to the Czech Banking Act. Subject to certain exceptions, all Czech banks and branches of foreign banks outside the EEA must participate in this deposit insurance scheme and contribute to the Deposit Insurance

Fund. The Deposit Insurance Fund is financed from contributions from banks, investment yields on its funds, loans, repayable financial assistance, and proceeds from finalised insolvency and liquidation proceedings.

The condition for insuring each deposit is that the person making the deposit is duly identified, as follows:

- in the case of individuals, the deposit must be identified by the individual's name, surname, personal identification number or date of birth and address; and
- in the case of legal entities, the deposit must be identified by the legal entity's name, registered seat and, in the case of Czech legal entities, their identification number.

Neither individuals nor legal entities need to apply for deposit insurance in order for their deposits to be covered. A deposit kept at a bank, building society or co-operative savings bank is insured automatically by operation of law.

Subject to applicable limitations, deposit insurance covers all claims arising from deposits held in Czech Koruna or in other currencies registered as credit balances on accounts or deposit books, or evidenced by a certificate of deposit, deposit slip or another comparable document, and any interest accrued on such deposits. The deposit insurance does not cover deposit claims of banks, foreign banks, financial institutions, health insurance companies, state funds and certain other entities, such as members of the management or certain significant shareholders of the bank. Claims from subordinated debt and bills of exchange and other securities are also not covered by deposit insurance.

The level of insurance coverage is calculated by aggregating the insured deposits of each depositor with the particular bank. Since 1 January 2011, the amount that can be paid to a depositor under the scheme is equal to 100 per cent. of the aggregate of its deposits and is capped at an amount of EUR 100,000 per depositor per bank. For this purpose, the amounts paid in respect of deposits on joint accounts are proportionately allocated to each joint account holder. The quarterly contribution of a Czech Bank to the Deposit Insurance Fund is currently set at 0.04 per cent. of the average amount of insured deposit claims during the immediately preceding calendar quarter, including interest accrued on such deposits. The quarterly contribution of a building society to the Deposit Insurance Fund is currently 0.02 per cent. of the average amount of insured deposit claims during the previous calendar quarter, including interest accrued to each building savings participant in the previous year. The Issuer, being a Czech Bank, currently pays the quarterly contribution to the Deposit Insurance Fund in the amount equal to 0.04 per cent. of the average amount of insured deposit claims (including any accrued interest) during the immediately preceding calendar quarter.

Remedial Measures and Penalties

Under Czech law, banks are obliged to carry out their business in a prudential manner, in particular in a manner that does not impair the interests of depositors in respect of recoverability of their interests or endanger the bank's safety and soundness. Banks are also required to observe all applicable legal rules and regulations, including the terms and conditions stipulated in their licence. If the CNB detects any shortcomings in the activities of the bank, it is authorised, among other things to: (i) require the bank to remedy the situation within a specified period by, for example, restricting some of the bank's activities, replacing persons in the bank's management or the bank's supervisory board, or creating adequate provisions and reserves; (ii) change the bank's licence by excluding or restricting some of the activities listed in the bank's licence; (iii) order an extraordinary audit at the expense of the bank; (iv) impose a fine of up to CZK 50 million; (v) require a reduction of the bank's capital to cover any loss (to the extent that such loss is not covered by reserve funds and other funds), **provided that** the loss exceeds 20 per cent. of the bank's equity; (vi) impose forced administration if the stability of the entire banking sector is endangered; and (vii) revoke the bank's licence where serious shortcomings persist or when the bank is insolvent. The CNB is also authorised to apply certain other measures, which are linked mainly to capital adequacy (see "*Czech Banking Regulation — Capital Adequacy Requirements*").

Additionally, the CNB is authorised to take measures consisting of suspending the rights of shareholders who acquire or increase a qualifying holding in a bank without the CNB's consent or who operate to the detriment of the sound and prudent management of the bank.

Consolidated Supervision

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks, branches of foreign banks established outside the EEA and other entities forming consolidated groups are also subject to supervision on a consolidated basis, which includes monitoring and regulating the risks to which Czech banks and branches of foreign banks established outside the EEA are exposed due to their membership in a consolidated group.

As a general rule, consolidated groups controlled by a bank or financial holding entity seated in other EEA Member States are not subject to supervision by the CNB on a consolidated basis.

The consolidated groups subject to supervision by the CNB on a consolidated basis are mainly obliged to comply with: (i) the requirements for the internal management and control system; (ii) the rules for capital requirements; (iii) the large exposure rules; (iv) the restrictions on qualified participation; and (v) the rules for disclosure of information. When exercising supervision on a consolidated basis, the CNB co-operates with authorities responsible for supervising banks and financial institutions in other countries, and is entitled to exchange information with them.

MORTGAGE LOANS AND THEIR REGULATORY FRAMEWORK

This section contains selected information on certain aspects of the regulation of mortgage loans in the Czech Republic. The information in this section is intended to provide a brief overview of the regulation of mortgage loans in the Czech Republic which affects the Issuer and it is not intended to provide a comprehensive or complete description of regulation of mortgage loans in the Czech Republic.

Mortgage Bank as Pledgee

The Issuer qualifies as a mortgage bank which, as the mortgagee, enjoys enhanced protection with regard to the receivables or parts of those receivables under Mortgage Loans which constitute Ordinary Cover Assets included in the Cover Pool used to cover the obligations of the Issuer from the Czech Covered Bonds (i.e., their aggregate nominal value and the value of the proportionate yield). Where real property is sold by way of judicial auction, the receivables of the Issuer as a mortgage bank (or as the mortgagee) will be satisfied in priority to any other receivables of all other creditors and shall be satisfied immediately following only the deduction of the costs associated with the foreclosure auctions.

Since 1 May 2000, a creditor whose claim is secured by a mortgage over real property does not need to resort to the sale of that property by way of judicial auction even in cases where the owner of the real property disagrees with the sale of the real property. According to Czech Act No. 26/2000 Coll., on Public Auctions, as amended (the "**Czech Public Auctions Act**"), the mortgagee may propose the implementation of an involuntary public auction, **provided that** the receivable has been confirmed by an enforceable court decision, enforceable arbitral decision or was documented by way of an enforceable notarial or executor's deed, which contains the particulars prescribed by applicable law. If the mortgagee provides an affidavit in the form of a notarial deed that he has an unsettled claim against the debtor, which is not in the process of being settled, an involuntary auction can be implemented even if the mortgage over the real property was inscribed or registered in the Czech Real Estate Register (in Czech, *katastr nemovitostí*) prior to 1 May 2000.

An estimate of the value of the auctioned real property must be prepared in the form of an expert opinion and must not be older than six months as of the date of the auction. Information, the publication of which is required by law, or information published voluntarily by the auction participants is publicly accessible at a designated website.

From the moment when the mortgagor of the real property receives written notice from the mortgagee of its intention to enforce the rights arising from the mortgage any legal steps undertaken by the mortgagor lead to the disposal, encumbrance or leasing of the mortgaged property or to the creation of new obligations that decrease the value of the mortgaged property or limit the ability to dispose of the mortgaged property are void. This limitation does not apply in cases where the object of the auction has not been auctioned off or if the auction was nullified and a replacement auction is not scheduled or if the auctioneer cancelled the auction or if the auction was declared null and void.

After deducting the costs associated with the auction from its proceeds, claims of the creditors are satisfied in the following order: (i) claims secured by a lien by which the law affords preferential satisfaction regardless of their priority among the claims, and claims secured by a possessory lien; (ii) claims based on a Mortgage Loan covering the obligations arising from Czech Covered Bonds (i.e., their aggregate nominal value and the value of the proportionate yield); (iii) claims secured by a mortgage or by a restriction on the transfer of real property (where more of these mortgages are attached to the object of the auction the claims so secured shall be satisfied according to the order of their origination); and (iv) claims that constitute taxes, fees, public health insurance, social security insurance and contributions to the state employment policy, if these became due in the last three years prior to the auction and have been filed by the authorised auction creditors (where more such claims are filed by the auction creditors, such claims shall be satisfied proportionally).

The New Civil Code effective as of 1 January 2014 has introduced two new methods of mortgage enforcement. These new methods, if agreed on in writing, may serve as alternatives to the sale of the real property in judicial or public auction.

The first new method of enforcement of a claim secured by a mortgage is direct private sale of the real property. As mentioned above, this method is only available where the parties expressly agreed on it in writing. The mortgagee may, at any time during the process of enforcement by way of direct private sale,

change the method of enforcement and sell the real property in public or judicial auction. The mortgagor must be notified about such a change in due course. The mortgagee is not entitled to sell the real property prior to the day falling thirty days from (i) delivery of the mortgagee's notification of the commencement of enforcement to the mortgagor or (ii) inscription of the commencement of enforcement of the mortgage into the Czech Real Property Register, depending on which of the events set out under (i) or (ii) occurs later. Should the mortgagee enforce the mortgage by a sale that does not qualify as a sale in the public auction under the Czech Public Auctions Act, the mortgagee has a duty to proceed with expert care, in a manner which ensures that the real property is sold at standard market price and other standard market conditions and at the same time to defend not only its own interests, but also the interests of the mortgagor.

Without undue delay after the sale of the real property, the mortgagee is obliged to provide the mortgagor with a report containing information about the sale, expenses incurred in the course of the sale, as well as information about the proceeds of the sale and its subsequent use.

The other new method of mortgage enforcement is the mortgagee's option to accept the real property as satisfaction for the secured debts. This alternative, likewise the enforcement by way of direct private sale, must be agreed on in writing.

Relevant provisions of the New Civil Code are not clear on the question whether the parties may opt for enforcement by way of (i) direct private sale and/or (ii) acceptance of the mortgage for satisfaction of secured debts, prior to the debt becoming due and payable, or whether these methods of enforcement can only be agreed upon once the secured debts have become due and payable. Consequently no assurance can be given as to whether the agreement on enforcement of the mortgage by accepting the real property by the mortgagee made before the secured debts become due and payable would be recognised as valid and legally binding by the Czech courts. Mortgage agreements relating to the Mortgage Property provide the Issuer with an option to enforce the mortgage by way of direct private sale.

Regardless of the choice of enforcement method, the mortgagee is always entitled to reimbursement for necessary expenses associated with the enforcement.

Furthermore, irrespective of the method of enforcement, the mortgagee must always notify the mortgagor in writing of the commencement of mortgage enforcement. In this notice the mortgagee shall specify the method which will be used to enforce the claim. The mortgagee cannot proceed with the enforcement of the mortgage prior to the day falling 30 days from the delivery of such notice. Due delivery of the written notice has significant effects on the mortgagor's dispositional rights as the mortgagor may not, from the moment when the mortgagor receives the written notice, dispose of the real property without the mortgagee's consent. Disposition made without such consent might be void; however, a breach of this prohibition does not affect the validity of a purchase agreement entered into in the ordinary course of business, unless the purchaser must have known about the commencement of enforcement.

The information relating to the changes introduced by the New Civil Code are without prejudice to, and should be read in conjunction with the section headed "*The value of the Eligible Assets in the Cover Pool might be adversely affected by the unenforceability of legal documentation relating to the Mortgage Loans and mortgage agreements relating to the Mortgage Property entered into or substantially amended after 31 December 2013*" on page 19 of this Base Prospectus.

If the borrower under a Mortgage Loan is declared insolvent, the Issuer as a mortgage bank (or as the mortgagee) will qualify as a secured creditor. The position of the Issuer as a secured creditor can be challenged in insolvency proceedings. Following such a challenge filed by an insolvency administrator, the Issuer would have to file an action with the insolvency court demanding that the receivable arising from the Mortgage Loan be recognised as a secured receivable. Should the Issuer be recognised as a secured creditor, it would be entitled to have its claim satisfied from the borrower's assets that are subject to a first ranking security created in favour of the Issuer at any time after the decision on resolution of the borrower's insolvency by liquidation of the borrower's assets (*konkurs*). Secured creditors are, after deduction of costs of administration (up to 4 per cent. of liquidation proceeds) and liquidation (up to 5 per cent. of liquidation proceeds) of the relevant asset and remuneration of the insolvency administrator, satisfied from the proceeds of the liquidation of that asset in the order in which the legal grounds of their entitlement to such satisfaction from that asset arose. The priority of a statutory lien is determined on the basis of the date when it was inscribed into the Czech Real Property Register.

The Mortgage Code of Conduct

The Issuer has acceded to the Mortgage Code of Conduct created under the auspices of the European Commission (the "**Code**"). Under the Code, the Issuer pledged itself to a transparent approach and to the adequate disclosure of information concerning mortgage loans.

The Code is one of a number of pan-European attempts to establish voluntary rules for the granting of mortgage loans. The Code is contemplated by the European Agreement on a Voluntary Code of Conduct on Pre-contractual Information for Home Loans (the "**European Mortgage Code Agreement**"), which aims to ensure that clients are provided with access to information about housing loans, and that this information is presented in the same form and in the same manner throughout the entire European Union. The European Mortgage Code Agreement was signed by European representatives of associations of credit institutions and consumer organisations in March 2001. The Czech Banking Association acceded to the Code in September 2005. The Issuer also acceded to the Code in September 2005.

General Conditions of the Market

Housing market

As of March 2011, there are about 7 million dwellings in the Czech Republic and there is no overall housing deficit. Imbalances result mainly from the unequal distribution of the housing stock. On the other hand, the housing stock is largely neglected and the total required cost for its maintenance and repair are estimated in the order of tens of billions of Czech crowns.

The following table illustrates the current structure of the housing stock in terms of housing types according to the latest March 2011 census:

Rental housing:	31 per cent.
Co-operative sector:	20 per cent.
Owner-occupied housing:	49 per cent.

Real property under the New Civil Code

The New Civil Code effective as of 1 January 2014 introduced a different legal concept of real property, which has certain implications for existing mortgages.

The New Civil Code has reintroduced the *superficies solo cedit* principle into Czech private law. In accordance with this principle, a building is considered a mere part of a plot of land upon which it is erected. Consequently, the building on its own is not capable of being sold or mortgaged. This might raise the question of whether a mortgage over a plot of land entered into prior to 1 January 2014 automatically extends to the building erected on such plot of land (and *vice versa*) on the day on which the New Civil Code became effective. The New Civil Code provides certain exceptions to the *superficies solo cedit* principle, including (without being limited to) the situation in which either a plot of land or a building erected on it is mortgaged in favour of a third party and the nature of this mortgage is irreconcilable with the plot of land and the building being legally treated as one legal object. As a result, in most situations where a plot of land or a building is subject to a mortgage, the plot of land and building will continue to exist as separate legal objects and an encumbrance weighting on one of these assets will not extend to the other.

Secondly, the New Civil Code established a pre-emption right over buildings in favour of owners of the underlying land and vice versa, provided that the relevant plot of land and the relevant building are not treated as a single legal object. The statutory pre-emption right must be respected in case of any disposal with the respective building or land. Therefore, if a mortgagee wishes to sell Mortgaged Property encumbered by such a pre-emption right, the building or plot of land should, in the first instance, be offered to the beneficiary of the pre-emption right. Even if not exercised, the pre-emption right survives the sale of the real property and continues to exist.

Rent

In accordance with the Czech Act No. 107/2006 Coll., on Rent Deregulation, as amended, which was adopted in 2006, a progressive significant increase in the maximum controlled rent has been occurring since 2007 (varying according to the size of the municipality where the leased real property is located). The above-mentioned act was a first significant step towards the process of rent deregulation. Under the rules on rent regulation, rents were set at an artificial level, which usually did not reflect the situation in the market and the quality of the rented property. In most cases the regulated rents were also insufficient to cover acquisition and operational costs of the leased real property. In the course of 2013, rent throughout the Czech Republic has become fully deregulated and any increase in rent is now subject to the general provisions of the New Civil Code. Rent deregulation which brought about the creeping abolition of rent control is one of the factors in the increasing demand for mortgage loans.

State housing assistance programmes

The state of the Czech Republic is no longer exercising the function of an investor in housing and does not own housing stock. However, at the same time, it respects the particularities of the housing market, which necessitate a certain degree of state intervention. Financial intervention by the state is concentrated into several basic areas such as promoting the construction of rental housing and technical infrastructure, support for the repair of housing stock and the provision of state loans for repairs, modernisation and expansion of the housing stock. Implementation of support for housing is carried out primarily through the State Housing Development Fund and the National Fund for Development of the Co-operative Flat Construction.

The following programmes for the support of housing and for the repair of housing stock are in effect as of the date of the date of this Base Prospectus:

Support in the area of housing financed by the Ministry for Regional Development:

- Support for the regeneration of housing estates of prefabricated buildings, aimed at revitalising public spaces in prefabricated housing with more than 150 flats.
- Support for the construction of technical infrastructure for the subsequent construction of apartment buildings and family houses, aimed at investment in vacant building plots for subsequent housing construction.
- Support for the construction of supported housing, aimed at the construction of social rental municipal housing for persons who are disadvantaged in their access to housing because of age, health or for other reasons that result from special needs.
- Support for the replacement of lead piping, aimed at the exchange of pipes in houses in order to improve the quality of drinking water.

Support in the area of housing financed by the State Housing Development Fund:

- Provision of loans or guarantees (the "**New Panel**" programme), focusing on the comprehensive renovation of residential buildings constructed with panel technology.
- Aid related to floods - low-interest loans for victims of the floods of 2010 and impacted municipalities and grants for amelioration of the consequences of the floods of 2010.
- Loan guarantees for the construction of rental housing.
- Loans to refurbish the housing fund.

Support in the area of housing financed by the Ministry of the Environment through the programme "Zelená úsporám" (Green for Savings), a grant programme funded by the sale of emission allowances for the support of renewable resources and for energy saving, including the following aspects:

- Saving energy on heating.
- Support for buildings of the passive energy standard.
- Use of renewable resources for electricity for domestic heating and for heating water.

Information regarding selected programmes

Programme for the provision of financial assistance for repairing the housing stock (PANEL 2013+)

The objective of the programme is to assist the owners of apartment buildings. The programme is regulated by Czech Government Decree No. 468/2012 Sb Coll., on support for repairs, upgrading and regeneration buildings, as amended by Czech Government Decree No. 269/2013 Coll..

The programme assists in obtaining of aid in the form of provision of low interest-rate loans.

The recipient of the aid may be a natural person, legal entity or municipality. Pursuant to the above decree, the loan must be secured by way of a guarantee or security over property. Any funds drawn under the relevant loan agreement can only be drawn onto a special account established solely for the purpose of financing the reconstruction costs. Repayment of any funds provided under the relevant loan agreement becomes due no later than thirty years after the conclusion of the relevant loan agreement.

Allowances for mortgage loans for persons under 36 years of age

The Czech Government Decree No. 249/2002 Coll., on terms for allowances for mortgage loans to persons of under 36 years of age, as amended, defines the conditions for granting allowances for mortgage loans to persons under 36 years of age from the state budget for the acquisition of older housing.

The main mortgage lenders in the Czech Republic, in addition to the Issuer, are Komerční Banka, a.s., Česká spořitelna, a.s., Československá obchodní Banka, a.s., Raiffeisenbank a.s., Hypoteční Banka a.s., GE Money Bank, a.s., LBBW Bank CZ a.s. and Wüstenrot hypoteční Banka, a.s..

The Business Strategy of the Issuer

In the medium term, if the Czech Republic can succeed in overcoming the consequences of the economic crisis commencing in 2008 and start-up the economic growth, including the growth in funding of housing needs, given the Issuer's strong liquidity position and high capital adequacy ratio, the Issuer expects that there should be strong preconditions for its business activities in the field of mortgage banking. The Issuer's strategy is to provide mortgage loans within a complete portfolio of products.

Lending Business Rules

The Issuer has a set of rules that governs the policy of credit exposure and the activities of individual departments in the Issuer's management. At the same time procedures, which determine the implementation of the individual operations throughout the entire lending process, have been approved. In the organisational structure of the Issuer, the actual trading activities are strictly separated from the activities for the credit approval and lending processes as well as from the activities for risk monitoring processes of the Issuer in order to reduce the credit risk.

Credit Management

The philosophy of the Issuer in the area of loans is to grant a loan on the basis of the demonstrable ability of the borrower to generate a strong cash flow through his activities, sufficient to repay the debt regardless of whether the debt is a mortgage or another type of loan.

If the loan applicant is a natural person, the Issuer evaluates the level and structure of his revenue, and/or the income of any other co-applicants (family members) and their spending, including future spending to

repay loans and life insurance. The Issuer also evaluates the client, who is a natural person, in terms of personal risk factors, based on age and the occupation performed. This can have the effect of a potential restriction of the terms of the credit engagement.

The client due diligence process, in the case of a business entity, includes an in-depth examination of the ownership structure, also including any significant relationships of the relevant client with a focus on the groups that are economically related to the company, evaluation of the client's status in the relevant sector (the principle competitors, latest developments, etc.). Particular attention is paid to off-balance sheet records (not only off-balance sheet liabilities, but also any liabilities that might result in the client's obligation to pay, deliver, or purchase, that could seriously impair the client's financial position) and cash flow.

The goal of the credit assessment process is to prepare a true picture of the client's status; this analysis attempts to uncover any known significantly negative factors within the company that could lead the company into serious financial distress.

Securing of Loans

The Issuer secures its receivables or parts of those receivables under the Mortgage Loans by mortgages over the Mortgaged Property, which must meet the relevant statutory requirements.

In broad terms, the Issuer accepts not only completed buildings (approved for use), but also buildings or properties under construction, flats and commercial spaces as the subject of a mortgage. Buildings can be located on the land of the mortgagor or on the land belonging to a third party. A mortgage over a building on land belonging to a third party might be accepted by the Issuer, but only if there is: (a) an easement right established in favour of the building located on such land belonging to a third party; (b) a loan contract; (c) a lease contract for at least the duration of the loan relationship; or (d) if the client submits an agreement for a future contract for the relevant land containing conditions for sale of land that are satisfactory for the Issuer.

The Mortgaged Property, which the Issuer accepts, is valued in accordance with the Issuer's own methodology. If a mortgage loan is on the borderline of being an acceptable risk, the Issuer usually requires additional security for the debt.

Appraisal of Properties

The Issuer ascertains the Mortgaged Property Value in accordance with the applicable law. The Mortgaged Property Value for the purposes of issuing Czech Covered Bonds and for the purposes of bank lending in the open market is the current market price after supervision of the appraiser.

The Issuer developed its own methodology for the appraisal of this price and has established an organisational unit whose job it is to methodically guide the external appraisers and departments dealing with lending activity within the Issuer. The Issuer understands the current market price as the price that would be obtained when selling the same or similar properties, specifically in accordance with their status and location, as of the valuation date. The appraisal of the current market price is usually submitted to the Issuer by external collaborators which are appraisers who follow the methodology of the Issuer. Prior to making the appraisal, the appraiser is required to collect all the necessary documents relating to the properties, including photographs, and to carry out a physical inspection.

The Issuer's methodology, based on the fundamental principles of a market valuation of real property that is in line with recognised international standards, is generally used for valuations. An estimation of the current market price is generally based on the market values of other properties, i.e. material, yield and correlation, and in particular on local knowledge, market conditions, status and utilisation of the evaluated property. This methodology determines the current market price and the "future value" (after the completion of unfinished work) or the "minimal value" (after demolition or dismantling prior to the reconstruction). Prudence is applied in analysing the available information during the valuation process. The methodology is in accordance with the rules set out in section 29 of the Czech Bonds Act.

Contractual Arrangements of the Loan Relationship

Conditions for granting, utilisation and repayment of the loan between the Issuer and the clients are regulated in bilateral credit agreements, loan contracts or similar contracts constituting a mortgage loan.

The essential preconditions for the utilisation of the loan are the creation or application for registration of a mortgage over the real property, insurance on the real property and the full restriction of transferability of the real property. A loan for construction, reconstruction, modernisation or repair is utilised gradually, depending on the progress of the work and increase in the value of the collateral. Mortgage loans which are extended to purchase real properties, refinance the existing loans or credits or settle the ownership of the real property would typically be drawn by the borrower in a single lump-sum.

The interest rate in the contract for the provision of the mortgage loan is agreed as fixed, with a set duration, which, in accordance with the client's choice, can be established for one, three, five, ten or fifteen years. Before the expiration of this stipulated period the Issuer will notify the client about the new interest rate (based on price developments in the financial markets). If the client does not agree with the change in the interest rate, the loan becomes due on the date of the expiration of the current interest period, unless the parties agree otherwise. The client is obliged to repay the mortgage loan in the form of monthly annuity payments. For selected products (e.g. mortgages combined with life insurance) a different payment model can be utilised, e.g. monthly payment of interest and repayment of principal at the end of the agreed maturity. The Issuer has the right to collect payments from a client's current account, which is established for this purpose.

The client is entitled to early repayment of the loan. In such case the Issuer can apply a fee for early repayment, in the amount defined in the tariffs of the Issuer. This does not apply in the event of early repayment on the date of the termination of the fixed interest rate period and in the event of early repayment of a consumer loan where the Issuer is only entitled to compensation for the cost of early repayment up to the limit pursuant to Czech Act No. 145/2010 of Coll., on Consumer Loans, as amended.

The Issuer, in accordance with the contract for the mortgage loan, may also charge the client, in addition to the interest on the loan, also the interest on arrears, up to the interest rate stipulated in the loan contract plus an amount in accordance with the applicable tariff (in each case, subject to limits of applicable laws). In accordance with the loan contract, the Issuer may take additional measures to protect its interests, especially to restrict or terminate the utilisation of the loan, increase the interest rate on the loan or require its early repayment.

Issuer's Cover Pool in respect of the Czech Covered Bonds

Management of the Cover Pool in respect of the Czech Covered Bonds

In accordance with the Czech Bonds Act, the Issuer maintains the Cover Register which contains a separate record of the Eligible Assets included in the Issuer's Cover Pool. The Eligible Assets included in the Cover Pool serve to provide cover in respect of the Czech Covered Bonds and the obligations of the Issuer arising from the Czech Covered Bonds (i.e., their aggregate nominal value and proportionate yield). To this effect, the Issuer adopted an internal regulation which governs the work-streams, procedures and the competences of individual departments in this area.

For the purposes of managing the Cover Pool the Issuer has adopted internal rules and regulations to comply with the applicable statutory requirements set out in the Czech Bonds Act and the CNB Measure.

The Issuer through its Real Estate Appraisal section continuously monitors and analyses the real estate market in the Czech Republic and development in real estate prices. The Issuer applies security coefficients when approving Mortgage Loans, which, according to the type of the Mortgaged Property, also take into account a possible drop in the Mortgaged Property Value over the long term. If, on the basis of a revaluation, the Mortgaged Property Value would decrease below the threshold needed for covering the respective Czech Covered Bonds, the Issuer excludes such a Mortgage Loan from the Cover Pool.

In the context of management of the Cover Pool the Issuer has defined limits that can be altered only by its Asset-Liability Committee ("**ALCO**") based on analysis conducted by the department of the administration of Czech Covered Bonds. The ALCO Committee further decides about individual steps leading to an increase in the ratio of the Substitute Assets or alternatively to the repurchase of the relevant Czech Covered Bonds.

List of Issued and Outstanding Czech Covered Bonds

The following table lists information concerning the outstanding Czech Covered Bonds issued by the Issuer. The data is valid as of 30 September 2014.

Name of the Czech Covered Bond issue	ISIN	Currency	Sum of issue	Interest yield	Issuance date	Date of the maturity of the bonds
			(million)	(% p.a.)		
UCB HZL 6,00/17	CZ0002001902	CZK	1,000	6	14/12/2007	14/12/2017
UCB HZL 10Y FLOATER/2037	CZ0002001910	CZK	12,000	floaters	21/12/2007	21/12/2037
UCB HZL 1M FLOATER/2017	CZ0002001993	CZK	3,000	floaters	28/12/2007	28/12/2017
UCB SDHZL CLEAN I16	CZ0002002389	CZK	2,000	structured	15/11/2011	15/11/2016
UCB SDHZL CLEAN II16	CZ0002002397	CZK	2,000	structured	15/11/2011	15/11/2016
UCBSDHZL TIMBI100/15	CZ0002002462	CZK	5,000	structured	15/05/2012	15/05/2015
UCBSDHZL TIMBI101/15	CZ0002002470	CZK	5,000	structured	15/05/2012	15/05/2015
UCBSDHZL TIMBI 85/15	CZ0002002488	CZK	5,000	structured	15/05/2012	15/05/2015
UCBSDHZL TIMBI100/17	CZ0002002496	CZK	5,000	structured	15/05/2012	15/05/2017
UCBSDHZL TIMBI102/17	CZ0002002504	CZK	5,000	structured	15/05/2012	15/05/2017
UCBSDHZL TIMBI 85/17	CZ0002002512	CZK	5,000	structured	15/05/2012	15/05/2017
UCB HZL 6,00/18	CZ0002002520	CZK	5,000	6	27/04/2012	27/04/2018
UCBSDHZL PREM CZK/20	CZ0002002546	CZK	1,000	structured	27/11/2012	27/11/2020
UCB HZL PREM CZK/14	CZ0002002553	CZK	500	structured	27/11/2012	27/11/2014
UCBSDHZL PREM EUR/20	CZ0002002561	EUR	10	structured	27/11/2012	27/11/2020
UCB HZL PREM EUR/14	CZ0002002579	EUR	5	structured	27/11/2012	27/11/2014
UCB SD HZL BRIG 2015	CZ0002002587	CZK	1,000	structured	15/08/2012	20/10/2015
UCB SD HZL BRIG 2017	CZ0002002595	CZK	1,000	structured	15/08/2012	20/10/2017
UCBSDHZL MULTI 2018	CZ0002002629	CZK	1,000	structured	28/02/2013	31/08/2018
UCB HZL 7,00/2015	CZ0002002637	CZK	1,000	7	20/11/2012	20/11/2015
UCB HZL 12M FLOAT/14	CZ0002002645	CZK	1,000	floaters	20/11/2012	20/11/2014
UCB HZL 7,00/2018	CZ0002002959	CZK	5,000	7	21/12/2012	15/06/2018
UCB SDHZL PS 100/18	CZ0002003031	CZK	1,000	structured	30/04/2013	30/10/2018
UCB SDHZL PS 102/18	CZ0002003049	CZK	1,000	structured	30/04/2013	30/10/2018
UCBSDHZLPS EUR100/18	CZ0002003056	EUR	20	structured	30/04/2013	30/10/2018
UCB HZL 2,00/2020	CZ0002003080	EUR	50	2	03/06/2013	03/06/2020
UCB SD HZL BS III/19	CZ0002003098	CZK	1,000	structured	30/08/2013	28/02/2019
UCB SD HZL BS EUR/19	CZ0002003106	EUR	20	structured	30/08/2013	28/02/2019
UCB HZL 3,04/2028	CZ0002003114	EUR	30	3.04	07/06/2013	07/06/2028
UCB HZL 6M VAR/2020	CZ0002003148	EUR	30	floaters	18/07/2013	18/07/2020
UCB SDHZL GIG 100/19	CZ0002003189	CZK	1,000	structured	13/12/2013	17/06/2019
UCB SDHZL GIG 90/19	CZ0002003197	CZK	1,000	structured	13/12/2013	17/06/2019
UCB SD HZL PS IV/2019	CZ0002003213	CZK	1,000	structured	14/03/2014	13/09/2019
UCB SDHZL EUR TOP 19	CZ0002003239	EUR	50	structured	10/01/2014	10/07/2019
UCB HZL EUR 2,00/18	CZ0002003262	EUR	80	2	21/10/2013	22/10/2018
HZL ZB 4,00/15	CZ0002000631	CZK	1,000	4	29/09/2005	29/09/2015
HZL HVB 4,50/15	CZ0002000649	CZK	6,000	4,5	05/10/2005	05/10/2015

List of Issued and Outstanding Slovak Covered Bonds

The following table lists information concerning the outstanding Slovak Covered Bonds issued by the Slovak branch of the Issuer. The data is valid as of 30 September 2014.

Name of the Slovak Covered Bond issue	ISIN	Currency	Sum of issue	Interest yield	Issuance date	Date of the maturity of the bonds
			(million)	(% p.a.)		
HYPOTEKARNY ZALOZNY LIST UBII	SK4110001217	EUR	16.6	5	29/09/2004	29/09/2004
HYPOTEKARNY ZALOZNY LISTUBIII	SK4110001316	EUR	16.6	floaters	25/05/2005	25/05/2005
HYPOTEKAR.ZALOZ.LIST UCBSK 8H	SK4120007501	EUR	30	floaters	13/10/2010	13/10/2010
HZL UNICREDIT 9	SK4120007667	EUR	20	floaters	17/12/2010	17/12/2010
HZL UNICREDIT 10	SK4120009051	EUR	30	2,1	27/03/2013	27/03/2018
HZL UNICREDIT 11	SK4120009598	EUR	10	1,85	20/11/2013	20/11/2018
HZL UNICREDIT 12	SK4120009903	EUR	10	floaters	31/03/2014	31/03/2018
UCB HZL 1.55/2021	SK4120010208	EUR	5	1,55	28/08/2014	30/08/2021

TAXATION

The description below is of a general nature and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of any Covered Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective purchasers of any Covered Bonds are advised to consult their own tax advisers as to the tax consequences, under the tax laws of each country of which they are resident and the Czech Republic, of a purchase of the Covered Bonds including, without limitation, the consequences of receipt of interest and sale or redemption of the Covered Bonds or any interest therein.

Taxation in the Czech Republic

Withholding tax on Interest

Since the Covered Bonds are issued to investors outside of the Czech Republic, all interest payments to be made by the Issuer under the Covered Bonds may be made free of withholding or deduction for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

Notwithstanding above, the Czech tax law is not straightforward with respect to the tax treatment in situations when the Covered Bonds are bought back by the Issuer. There is a risk that the purchase price payable by the Issuer for the Covered Bonds, where the seller of the Covered Bonds is an individual, would be subject to Czech withholding tax. In this case the difference between the acquisition price and the Issue Price would be subject to 15 per cent. withholding tax.

Non-Czech Holders: Holding and Sale

Since the Covered Bonds are issued to investors resident outside of the Czech Republic, interest income on the Covered Bonds held by an individual who is not treated as a resident of the Czech Republic for tax purposes or by a person other than an individual who is not treated as a resident of the Czech Republic for tax purposes (either of them further referred as the "**Non-Czech Holder**") will be exempt from taxation in the Czech Republic.

Income realised by Non-Czech Holders not holding the Covered Bonds through a permanent establishment in the Czech Republic, from the sale of the Covered Bonds to other Non-Czech Holders, not purchasing the Covered Bonds through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realised by Non-Czech Holders, whether holding the Covered Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Covered Bonds to an individual who is for tax purposes treated as a resident of the Czech Republic or to a person other than an individual who is for tax purposes treated as a resident of the Czech Republic or to an organisational unit of the Czech state (either of them further referred as the "**Czech Holder**") or to a Non-Czech Holder acquiring the Covered Bonds through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- the Non-Czech Holder realising that income is resident for tax purposes in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country, is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which that income would be attributable; or
- the Non-Czech Holder who is an individual (i) having held the Covered Bonds for more than three years months prior to their sale and the Covered Bonds have not been held in connection with the business activities of the Non-Czech Holder or if so, (ii) the Covered Bonds will be sold at the earliest three years following the termination of such business activities. However, please note that this exemption is not straightforward if the individual held shares in the registered capital of the Issuer or its voting rights exceeded 5 per cent. in the 24-month period prior to the

sale of the Covered Bonds. In such a case, the applicable tax treatment should be reconfirmed by the investor's own tax adviser.

Income realised by Non-Czech Holders holding the Covered Bonds through a permanent establishment in the Czech Republic or from the sale of the Covered Bonds will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realised by a Non-Czech Holder, whether holding the Covered Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Covered Bonds is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), a Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying that income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder selling the Covered Bonds is a resident for tax purposes of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Covered Bonds.

Furthermore, please note that the income realised by a non-Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation - Withholding tax on Interest* above.

A Non-Czech Holder will not become or be deemed to become resident for tax purposes in the Czech Republic solely by reason of holding the Covered Bonds or through the execution, performance, delivery and/or enforcement of the Covered Bonds.

Czech Holders: Holding and Sale

Interest income on the Covered Bonds held by Czech Holders is subject to Czech corporate or personal income tax, as applicable, at flat rates of 19 per cent. or 15 per cent., respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognise the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general taxable income for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and who hold the Covered Bonds for the purposes of trading may be, in certain circumstances, required to revalue the Covered Bonds to fair value for accounting purposes, whereby the unrealised gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon the sale of the Covered Bonds will generally be taxable, unless exempt from tax, at the above mentioned rates and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realised by Czech Holders who are individuals other than those mentioned in the preceding sentence is generally non-deductible, except where such loss is compensated by taxable gains on sales of other securities and the income from the sale of the Covered Bonds is not exempt from tax.

In the case of Czech Holders who are individuals, any gain derived from the sale of the Covered Bonds is exempt from Czech personal income tax if (i) the individual has held the Covered Bonds for more than six months prior to their sale and the Covered Bonds have not been held in connection with the business activities of the Czech Holder or if so, (ii) the Covered Bonds will be sold after six months following the termination of such business activities at the earliest. However, please note that this exemption is not straightforward if the individual held shares in the registered capital of the Issuer or its voting rights exceeding 5 per cent. in the 24-month period prior to the sale of the Covered Bonds. In such a case, the applicable tax treatment should be reconfirmed with the investor's own tax adviser.

Furthermore, please note that the income realised by a Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation -Withholding tax on Interest* above.

Value Added Tax

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Covered Bonds, or in respect of the payment of interest or principal under the Covered Bonds, or in respect of the transfer of the Covered Bonds.

Other Taxes or Duties

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Covered Bonds, save for disposition in certain cases upon donation or inheritance.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 18 March 2014, the Luxembourg government has submitted to the Luxembourg Parliament draft Bill N° 6668 on taxation of savings income putting an end to the current withholding tax regime as from 1 January 2015 and implementing the automatic exchange of information as from that date. This draft Bill is in line with the announcement of the Luxembourg government dated 10 April 2013.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive and are required to apply these new requirements from 1 January 2017. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover additional types on income payable on securities.

Luxembourg Taxation

The description below is of a general nature and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Covered Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) *Non-resident holders of Covered Bonds*

Under the Luxembourg general tax laws currently in force and subject to the amended laws of 21 June 2005 (the "**Laws**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds as long the Covered Bonds are not profit participating, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

Under the Laws implementing the EU Savings Directive on the taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of the EU Member States (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories, will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Laws would at present be subject to withholding tax of 35 per cent.

On 18 March 2014, the Luxembourg government has submitted to the Luxembourg Parliament draft Bill N° 6668 on taxation of savings income putting an end to the current withholding tax regime as from 1 January 2015 and implementing the automatic exchange of information as from that date. This draft Bill is in line with the announcement of the Luxembourg government dated 10 April 2013.

Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

(ii) *Resident holders of Covered Bonds*

Under Luxembourg general tax laws currently in force and subject to the amended law of 23 December 2005 (the "**Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of Covered Bonds as long as the Covered Bonds are not profit participating, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident holders of Covered Bonds.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Furthermore, Luxembourg resident individuals acting in the course of the management of their private wealth, who are the beneficial owners of interest or similar income made or ascribed by a paying agent established outside Luxembourg in a Member State of the European Union or the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the EU Savings Directive may also opt for a final 10 per cent. levy, providing full discharge of Luxembourg income tax. In such case, the 10 per cent. levy is calculated on the same amounts as the 10 per cent. withholding tax for payments made by Luxembourg resident paying agents. The option for the 10 per cent. final levy must cover all interest payments made by the paying agents to the Luxembourg resident beneficial owner during the entire civil year.

Responsibility for the declaration and the payment of the 10 per cent. final levy is assumed by the individual resident beneficial owner of the interest or similar income.

Withholding of U.S. tax on account of FATCA

The United States has enacted rules, commonly referred to as "**FATCA**", that generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA.

The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the Czech Republic (the "**IGA**"). Under the IGA, as currently drafted, the Issuer does not expect non-U.S. source payments made on or with respect to the Covered Bonds to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Covered Bonds in the future.

While the Covered Bonds are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer or any Paying Agent, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA withholding. However, such definitive covered bonds will only be printed in remote circumstances. Potential investors should be aware that no additional amounts will be payable if any payments in relation to the Covered Bonds are subject to withholding or deduction under FATCA.

FATCA is particularly complex and its application is uncertain at this time. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the "**Programme Agreement**") dated on or about 28 November 2014, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such further agreement will, *inter alia*, make provision for the terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be subscribed by the Dealers and the commissions or other agreed deductions (if any) payable by the Issuer in respect of such purchases.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Covered Bonds in bearer form have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (the "**Code**") and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules (including any successor regulations or rules in substantially the same form as the TEFRA C rules or TEFRA D rules, as applicable, for the purposes of Section 4701 of the Code) apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Covered Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **"offer of Covered Bonds to the public"** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression **"Prospectus Directive"** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- the expression **"2010 PD Amending Directive"** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **"FSMA"**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Czech Republic

The Base Prospectus has not been and will not be approved by, or passported to, the CNB and it does not constitute an offering of the Covered Bonds to the public in the Czech Republic. No notification (other than notification to the CNB under Section 8a of the Czech Capital Market Supervision Act, as amended, Section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended, has been made to, and no permit has been sought or obtained from, the CNB for (i) the issue of the Covered Bonds, (ii) accepting the Covered Bonds for trading on a regulated market in the Czech Republic, or (iii) public offering of the Covered Bonds in the Czech Republic.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) the Covered Bonds may only be offered in the Czech Republic under one or more exemptions from the obligation to publish a prospectus available under the Czech Capital Market Act), including but not limited to, offering and/or distribution: (i) addressed exclusively to qualified investors as defined in the Czech Capital Market Act, (ii) addressed to less than 150 natural or legal persons (other than qualified investors), or (iii) in circumstances where the minimum investment per investor is at least equal to €100,000 (or its equivalent in another currency);
- (b) this document may only be distributed in the Czech Republic in the above described circumstances and to the above defined investors, exclusively for their own use; and
- (c) the recipients of this document may not reproduce or distribute it or pass it on to any other person.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme has been duly authorised by a resolution of the Board of Directors of the Issuer dated 7 May 2013.

Approval of the Base Prospectus, listing and admission to trading of Covered Bonds

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Covered Bonds which are unlisted or to be listed on another stock exchange may be issued under this Programme but only, in the case of listed Covered Bonds, if the Issuer ensures that all laws and regulations are complied with.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Founding Deed and Articles of Association (with an English translation thereof) of the Issuer;
- (b) the non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2012 and 31 December 2013 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited non-consolidated accounts on an annual basis. The Issuer does not currently prepare consolidated accounts as it has no subsidiaries, associates nor joint ventures;
- (c) the unaudited non-consolidated financial statements in respect of the nine months ended 30 September 2014 and the unaudited non-consolidated financial statements for the nine months ended 30 September 2014;
- (d) the Master Definitions Schedule, the Programme Agreement, the Trust Deed, the Agency Agreement and the Asset Monitor Agreement;
- (e) a copy of this Base Prospectus;
- (f) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Notification to the Czech National Bank

Pursuant to Section 8a of the Czech Capital Market Supervision Act, the issuance of each Series and/or Tranche of the Covered Bonds must be notified to the Czech National Bank no later than on the date of

issue of the relevant Covered Bonds setting out the place of issue and amount of relevant Series or Tranche and the form (in Czech, *podoba a forma*), yield and maturity of the relevant Covered Bonds.

Conditions for determining price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yield

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Significant Change or Material Adverse Change

There has been no material adverse change in the prospects of the Issuer as of 31 December 2013 and there has been no significant change in the financial or trading position of the Issuer since 30 September 2014.

Litigation

Neither the Issuer nor any other member of the Issuer is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Issuer.

Material Contracts

The Issuer has not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which the Issuer or another member of the Issuer has an obligation or entitlement which is material to the Issuer's ability to meet its obligations to security holders in respect of securities to be issued under the Programme.

Auditors

The auditors of the Issuer were KPMG Česká republika Audit s.r.o, members of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing for the two financial year ended on 31 December 2012.

The auditors of the Issuer are Deloitte Audit s.r.o, members of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing for the financial year ended on 31 December 2013.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

Trustee's action

The Conditions and the Trust Deed provide for the Trustee to take action on behalf of the Covered Bondholders in certain circumstances, but only if the Trustee is indemnified and/or secured and/or pre-funded to its satisfaction.

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ISSUER

UniCredit Bank Czech Republic and Slovakia, a.s.

Želetavská 1525/1
140 92 Prague 4
Czech Republic

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

ISSUING AND PRINCIPAL PAYING AGENT

Citibank N.A., London Branch

Citigroup Centre
Canada Square, Canary Wharf,
London, E14 5LB

REGISTRAR

Citigroup Global Markets Deutschland AG

Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISERS

To the Arranger as to English law

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
United Kingdom

To the Arranger as to Czech law

Clifford Chance

Jungmannova Plaza 24
110 00 Prague 1
Czech Republic

To the Trustee as to English law

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
United Kingdom

AUDITORS TO THE ISSUER

Deloitte Audit s.r.o.

Nile House, Karolinská 654/2
186 00 Praha 8 – Karlín
Czech Republic

DEALERS

UniCredit Bank Czech Republic and Slovakia,

a.s.
Želetavská 1525/1
140 92 Prague 4
Czech Republic

UniCredit Bank AG

Arabellastrasse 12
81925 Munich
Germany

ASSET MONITOR

Deloitte Audit s.r.o.

Nile House, Karolinská 654/2
186 00 Praha 8 – Karlín
Czech Republic