

# BASE PROSPECTUS

## UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S.

(incorporated with limited liability in the Czech Republic)

€5,000,000,000

### Covered Bond (*hypoteční zástavní list*) Programme

Under this €5,000,000,000 Covered Bond (*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, subject to increase as described herein.

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](http://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** or the **Rating Agency**) is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Moody's is included in the list of credit rating agencies 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 "Aa3" 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

Landesbank Baden-Württemberg

BNP PARIBAS

The date of this Base Prospectus is 10 January 2017.

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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 EEA)) (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 in it by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that those 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.

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 EEA and/or offered to the public in the EEA 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 in it concerning the Issuer is correct at any time subsequent to its date 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, the EEA (including the United Kingdom and the Czech Republic) and Japan: 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), i.e. 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 EEA 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. \$ 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 181-183 of this Base Prospectus.

## STABILISATION

**In connection with the issue of any Tranche of Covered Bonds, one or more relevant Dealers (if any) (the Stabilisation Manager(s)) (or persons acting on behalf of any Stabilisation 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 Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation 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 Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation 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.*

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (the **Prospectus Regulation**).

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.

<b>Issuer:</b>	UniCredit Bank Czech Republic and Slovakia, a.s.
<b>Risk Factors:</b>	<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 13 –41 below and include:</p> <ul style="list-style-type: none"><li>(a) insolvency considerations and risks – including, in particular, single cover pool risk, commingling risk, acceleration risk, set-off risk and risks related to ineligibility of assets and refinancing;</li><li>(b) currency risk – the Mortgage Loans in the Cover Pool will primarily be denominated in Czech Koruna;</li><li>(c) risks relating to the Issuer's ability to fulfil its obligations under Covered Bonds issued under the Programme;</li><li>(d) risks relating to the Czech and Slovak mortgage market and certain other market risks; and</li><li>(e) certain risks relating to the structure of particular Series of Covered Bonds.</li></ul>
<b>Description:</b>	Covered Bond ( <i>hypoteční zástavní list</i> ) Programme
<b>Arranger:</b>	UniCredit Bank AG
<b>Dealers:</b>	BNP Paribas  Landesbank Baden-Württemberg  UniCredit Bank AG  UniCredit Bank Czech Republic and Slovakia, a.s.  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	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 "*Subscription and Sale*") 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*").

<b>Trustee:</b>	Citicorp Trustee Company Limited
<b>Issuing and Principal Paying Agent:</b>	Citibank N.A., London Branch
<b>Registrar:</b>	Citigroup Global Markets Deutschland AG
<b>Asset Monitor:</b>	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. (Czech Republic) will act as asset monitor pursuant to the terms of an asset monitor agreement (the <b>Asset Monitor</b> ). The Asset Monitor will be required to carry out agreed upon procedures in relation to the checks and calculations performed by the Issuer in accordance with the Czech Bonds Act and the CNB Decree (see " <i>General Description of Czech and Slovak Legislation relating to Covered Bonds – 1. Czech Legislation</i> " below) and the Conditions (see " <i>Issuer Covenants</i> " and " <i>Cover Pool</i> " below).
<b>Programme Size:</b>	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.
<b>Distribution:</b>	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, Covered Bonds may be denominated in any currency agreed between the Issuer and the relevant Dealer.
<b>Maturities:</b>	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.
<b>Issue Price:</b>	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 set out in the applicable Final Terms and as described in "*Form of the Covered Bonds*". 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 the reference rate set out in the applicable Final Terms.

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 upon giving notice to the Covered Bondholders 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.

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 EEA or offered to the public in a Member State of the EEA 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:**

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 as provided in Condition 7 (*Taxation*), unless such deduction is required by law. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.

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 (*Payments subject to fiscal and other laws*) and no additional amounts will be paid to cover the amounts so deducted.

**Negative Pledge:**

The terms of the Covered Bonds will not contain a negative pledge provision.

**Contractual Asset Cover Test:**

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.

**Status of the Covered Bonds:**

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

The Czech Covered Bonds are all instruments and/or securities issued by the Issuer as mortgage covered bonds (*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 Local 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).

The Covered Bonds constitute 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.

The obligations of the Issuer arising from the Covered Bonds can be repaid and satisfied 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 "*General Description of Czech and Slovak Legislation relating to Covered Bonds*").

Each Covered Bond will bear the designation "*hypoteční zástavní list*" to be recognised as such under the Czech Bonds Act, the CNB Decree and the Czech Insolvency Act.

**Issuer's other programmes:**

In addition to the Programme, the Issuer has an active (third) CZK100,000,000,000 domestic bond programme for the issuance of both: (i) mortgage covered bonds (*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 Decree (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 (*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 Decree (and thus falling within the definition of the Czech Covered Bonds); the Issuer, acting through its branch in Slovakia, has an active EUR 5,000,000,000 domestic bond programme for the issuance of (i) mortgage covered bonds (*hypotekárne záložné listy*) under Slovak law which satisfy the requirements of Section 14 *et seq.* of the Slovak Act No. 530/1990 Coll., on Bonds, as amended (**Slovak Bonds Act**) as well as the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Decree (and thus falling within the definition of the Czech Covered Bonds) and (ii) other bonds issued under Slovak law in accordance with the Slovak Bonds Act (the **Local Bond Programmes**).

All Covered Bonds issued by the Issuer under the Programme, Czech Covered Bonds issued under the Local 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, the CNB Decree 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, the CNB Decree and the Slovak Banking Act (see "*General Description of Czech and Slovak 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 the CNB Decree (as to which see further "*General Description of Czech and Slovak 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 Local Bond Programmes or on a standalone basis or otherwise) will all have the benefit of the same Cover Pool.

The Issuer currently operates its Local Bond Programmes 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 Local Bond Programmes) 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 the CNB Decree (as to which see further "*General Description of Czech and Slovak 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 "Aa3" 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 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 Decree, 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 EEA (including the United Kingdom and the Czech Republic), Japan 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/ TEFRA 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 is 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. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. 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.*

*In addition, 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 reach their own views prior to making any investment decision.*

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

#### **Risks related to the external conditions under which the Issuer conducts its business**

##### ***Risks related to the overall economic conditions in Europe***

The financial strength and profitability of the Issuer's business could be adversely affected by worsening conditions in the global financial markets and global economy, particularly in the European Union ("EU"), including the Czech Republic and Slovakia. Such a potential economic and financial downturn may be caused by various factors including, among others, investors' sentiment, low interest rates levels, inflation development, the availability and cost of credit, the liquidity on the global financial markets and the volatility of equity prices. All of these factors are able to significantly affect investors' appetite for bank financing and customers' ability to service and/or refinance their outstanding debt. There are many possible scenarios that investors should be aware of, for example (i) an economic downturn could adversely affect the asset quality of the Issuer's on-balance sheet and off-balance sheet assets and consequently lead to higher loan loss provisions, goodwill impairments and consequently to a lower profitability of the Issuer, (ii) the unfavourable market sentiment could cause the Issuer to incur mark to market losses in its trading portfolios and/or (iii) a prolonged market downturn could have a negative impact on the fees the Issuer earns for managing clients' assets and similarly, on the in-flows of assets under management. Additionally, significantly higher interest rates could adversely affect the long-term funding facilities.

Even though tensions on the markets have eased since the financial crisis which commenced in mid-2007 and certain signs of recovery can be recognised, the economies of some member states of the EU including Italy, Spain, Greece, Portugal or Cyprus have experienced further stagnation and continue to be negatively impacted by concerns over their ability to service their sovereign debt obligations. Furthermore, amidst the increasing attractiveness of anti-EU political movements, one or more countries could come under increasing pressure to leave the EU or the Eurozone, which could lead to partial unwinding of European integration or result in the euro ceasing to exist as the single currency of the Eurozone. In particular, on 23 June 2016, the United Kingdom decided in a referendum to leave the EU (so called "Brexit"). There are a number of uncertainties in connection with the process and the economic effects of Brexit, the consequences of which have been and are expected to continue to be far-reaching. They will depend, inter alia, on any anticipated agreements the United Kingdom negotiates in order to retain access to markets in the EU. Any of these developments and the increased political and economic uncertainty surrounding them have had and could continue to have a material adverse effect on the European and global economy and financial sector. Instability in global financial and foreign exchange markets may reduce the overall market liquidity which may in extreme circumstances lead to a credit crunch and severe financial distress of key market participants. Overall, the economic outlook continues to be uncertain and subject to a number of risks and, hence, may prove to cause increased market volatility together with detrimental fluctuations in asset values or currency exchange rates or result in the European market sliding back into a recession.

If the economic or political conditions further deteriorate due to, among other things, concerns over the European economy, one or more countries leaving the EU or the Eurozone, a slow-down of economic growth or a return of the European sovereign debt crisis, the resulting market disruptions could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

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

The Issuer's operations in the Czech Republic and Slovakia are exposed to a wide range of risks arising from currency fluctuations, regulatory changes, level of inflation, deflation, economic recession, local market disruption, social unrest, changes in disposable income or gross national product, variations in interest rates, changes in tax policy, 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 deterioration of the Issuer's earnings.

Political developments or changes in the fiscal policy in the Czech Republic or Slovakia could have an adverse effect on the overall economic and political stability of these countries. As substantially all of the Issuer's business is conducted in the Czech Republic or Slovakia and the majority of the Issuer's operating income is generated in the Czech Republic, the Issuer is particularly exposed to the macroeconomic or other factors that may affect growth in the Czech or Slovak banking markets and the credit worthiness of Czech and Slovak retail and corporate customers. There can be no assurance that any political or economic instability will not occur in the Czech Republic and/or Slovakia or that any such instability will not adversely affect the Issuer's business. Any of these developments or a sovereign downgrade, a decrease in the amount of customers and/or a decline in the credit worthiness of these customers could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***Current banking industry trends could adversely affect the Issuer***

European banks are highly sensitive to changes in financial markets and economic conditions globally and especially in Europe. Since approximately mid-2007, the European banking sector has found itself operating under difficult and unstable conditions that have required action by governments and central banks to support financial institutions, including injections of liquidity and direct interventions in the recapitalisation of some of these entities. These conditions have caused, among others, significant write-downs of asset values by financial institutions, negatively affected the financial markets and have particularly penalised banking systems of countries such as Italy, Spain or Portugal, where the exposure to sovereign debt is higher than in the other EU member states.

Recent difficulties including, among others, the capital shortage of major German banks such as Deutsche Bank and the whole Italian banking sector suggest that certain deficiencies and problems of the European banking sector still persist. European banks continue to face, among others, a slowdown in their traditional business activity, low interest rates, fluctuation of commodity prices, cautious investor sentiment and deterioration of their loan portfolio with an increase of non-performing loans. All these factors are contributing to the decreasing returns and more importantly to the contagion risk that is immanent in the tightly globalized banking sector. If the conditions in which European banks operate further deteriorate, this could have a materially adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

***Access to capital markets***

The Issuer's funding depends in part upon issues of retail bonds and covered bonds placed on local markets. 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 or the investors' perception of risks related to investing in the Czech Republic and Slovakia. There can be no assurance that the Issuer will continue to be able to access such funding sources on favourable terms in the future, the lack of which could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.



### ***The Issuer depends on credit conditions in the client sector***

A major share of the Issuer's operating income consists of its net interest income, which, in turn, consists, for the most part, of net income from customer loans and of interest income from debt securities. Credit conditions in the client sector largely depend on factors beyond the Issuer's control, such as the overall economic output and macroeconomic situation in the Czech Republic and in Slovakia or regulation conducted by the Czech National Bank (the **CNB**), the European Central Bank (the **ECB**) and the National Bank of Slovakia (the **NBS**). Although the Issuer applies a conservative business model and credit policy, any deterioration of credit conditions in the client sector or part thereof could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

### ***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 in the Czech Republic and Slovakia in particular, are becoming increasingly saturated, 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 and Slovak banking markets are 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. The Czech and Slovak banking markets continue to see the emergence of 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 these new market and industry trends, including product offerings, customer behaviour and legal developments. The Issuer continuously monitors its business in order to adapt to such trends, but various factors could adversely impact the implementation of such business initiatives, including failure to timely identify new products or customer demands, misinterpretation of anticipated trends, flawed assumptions underlying such initiatives or unsuccessful execution of implementation measures. 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.

## **Risks related to the Issuer's business**

### ***The Issuer is exposed to volatility in interest rates and interest spread risk***

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 the 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 ECB and 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. For example, most European banks have recently been adversely influenced by low interest rates set by the ECB and volatile interest spread. The CNB lowered its main interest rate several times in recent years until finally reducing its repo rate to a "technical zero" of 0.05 per cent., which is its lowest level ever.

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 or prospects.

#### ***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, the NBS and other Czech or Slovak authorities. A large majority of the Issuer's business depends on its banking licence granted by the CNB. If the Issuer loses its general banking licence, it will be unable to perform any banking operations, especially in the Czech Republic and Slovakia. 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.

#### ***Risks related to the group interdependence***

The Issuer's business is interwoven on many levels with that of the group comprised of UniCredit S.p.A. and its direct and indirect subsidiaries including the Issuer (the **UniCredit Group**). The mutual ties are established, among others, through numerous refinancing arrangements, competence centres for individual business segments to which the Issuer has access, cross-holdings, implementation of group-wide IT systems, mutually shared products and standards, as well as through funding measures regarding the capital of the Issuer. Economic problems of the UniCredit Group, particularly of the Issuer's parent company UniCredit S.p.A. or any of its direct or indirect subsidiaries, could result in a risk of reduction of capital and liquidity support for the Issuer. Moreover, there is a risk that a downgrade of UniCredit S.p.A.'s credit ratings could also have a negative effect on the investors' perception of the Issuer. Furthermore, deterioration of the financial performance of the Issuer's parent company, UniCredit S.p.A., or any of its direct or indirect subsidiaries could, in turn, adversely affect the Issuer's own business. The materialization of any of such risks relating to the UniCredit Group could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

#### ***Risks related to the Issuer's status as a subsidiary of UniCredit S.p.A.***

The Italian economic performance has been significantly influenced by the financial crisis which started in mid-2007 and since then, its economy was characterised mostly by stagnation. In particular, from the second half of 2011, the Italian economy went through a prolonged phase of recession that culminated at the end of 2014. Starting from 2015, the Italian economy has entered a phase of recovery, albeit weak. As a result of these developments, portfolios of non-performing loans of many banks in Italy, including UniCredit S.p.A., have increased substantially, the majority of which are yet to be written off. If the conditions of the Italian banking sector continue to deteriorate, the solvency of some banks and the stability of the entire Italian banking sector could come under threat.

UniCredit S.p.A. is the largest bank in Italy by total assets. Consequently, the above risks may have a material adverse effect on UniCredit S.p.A. As the Issuer's parent company, UniCredit S.p.A. could take actions, subject to any necessary approvals, that may have a strong impact on the Issuer's long-term business, while promoting the strategy of improving the overall profitability of itself or of any of its direct or indirect subsidiaries, which may finally conflict with the interests, and have an adverse effect on the long-term business, of the Issuer. The Issuer is therefore exposed to the risk that the efforts by UniCredit S.p.A. to optimize its operations and improve its economic condition and performance could have a

material adverse effect on the Issuer's business and scope of its business activities, results of operations, financial condition, liquidity, capital base or prospects.

***The Issuer is exposed to the risk of defaults by counterparties***

The Issuer is exposed to the risk that borrowers or other counterparties may not be able to meet their obligations owed to the Issuer. Counterparties include, among others, brokers and dealers, commercial banks, investment banks and other institutional as well as retail customers. Exposures can arise through trading, lending, deposit taking, clearance and settlement and other financing activities and relationships.

The Issuer considers the following to be the most substantial sources of its credit risk:

- portfolio concentration, both at the level of individual borrowers or economically connected groups, as well as at sector level, particularly in the area of commercial real estate financing;
- risk of external shocks on the residential real estate market; and
- risk of other than expected macroeconomic developments affecting the creditworthiness of corporate clients and available household income.

With regards to the structure of the receivables from clients, the Issuer's loan portfolio as of 31 October 2016 may be characterized as follows:

- approx. 74 per cent. of the portfolio is comprised of receivables from corporate clients and approx. 26 per cent. of receivables from retail clients;
- the level of exposure to default is below 4 per cent. for the entire portfolio, and is lower for retail receivables as opposed to corporate receivables;
- the most frequently represented client sectors in the Issuer's loan portfolio are real estate financing, energy, financial, wholesale, telecommunication, services and the automotive industry;
- approx. 90 per cent. of the Issuer's credit exposure vis-à-vis retail clients is comprised of receivables from mortgage loans provided to non-business individuals;
- the rate of exposure to default differs across the individual sectors (higher in real estate financing and the lowest in financial services and energy), but it does not exceed 7 per cent. in any of the ten largest sectors; and
- almost one half of the Issuer's loan portfolio comprises receivables from clients with the risk of default below 1 per cent.

As of the same date, the average exposure-weighted probability of default on receivables from clients was approximately 1.7 per cent.

The Issuer may incur losses if its counterparties default on their obligations. If losses arising from counterparty's default significantly exceed the amounts of the Issuer's provisions, this 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.

***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 Slovakia 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.

Since 2014, the Czech real estate market in both residential and commercial segments has been in a growing phase of the market cycle. The demand in the residential segment is driven by low mortgage rates, good availability of mortgages as well as by low yields of other investments, while the supply is limited especially by constraints of developers to deliver new residential units on the market. Further, the relatively low cost of funding, together with the positive economic development, have supported growth of commercial properties. These factors have resulted, among other things, in growth of prices being stronger than growth of rents. However, growth may not continue going forward or may be replaced with a decline once the cycle changes.

The growth of real estate prices has recently prevailed also in Slovakia. However, trends in Slovakia are more differentiated than in the Czech Republic depending on the location of the property. While prices have recently increased in economically stronger regions and cities, such as Bratislava or Košice, regions with poorer economic performance have had a more stable development and partly even slightly decreasing prices. However, an increasing demand from both institutional investors and private individuals has been recently dominant in the Slovak market.

If there is a return towards a downturn in economic conditions in the Czech Republic and/or Slovakia, 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 or prospects

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 31 December 2015, approximately 64 per cent. of the Issuer's loans were materially uncollateralised. In the case of a default of such a loan, the Issuer has only limited recourse to collateral with limited liquidation value. 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 or prospects.

### ***The Issuer is exposed to liquidity risk***

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. The liquidity risk encompasses both the risk with respect to the ability to finance the Issuer's assets by instruments with an appropriate repayment date, as well as its ability to sell its assets for an acceptable price within an acceptable time horizon.

In order to ensure that the Issuer continues to meet its funding obligations and to maintain or grow its business generally, it relies on diversified sources of funding including customer savings, term deposits, outstanding securities, accepted loans, as well as shareholder equity.

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, especially continued volatility in the international financial markets, and confidence in the Czech and Slovak banking system.

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. Generally, concerns about a potential default by one financial institution can lead to significant liquidity problems, losses for, or defaults by, other financial institutions. Defaults by large financial institutions, such as credit institutions or insurance undertakings, could adversely affect the financial markets. The financial soundness of many financial institutions may be closely interrelated as a result of credit-granting, trading, clearing or other relationships between the particular institutions. As a result, concerns about, or a default by, one or more large financial institutions could lead to significant market-wide liquidity problems resulting in losses or defaults by other financial institutions and also to a need for the Issuer to raise additional capital while at the same time making it more difficult to do so.

If concerns over sovereign and financial institutions' 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.

***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 June 2016, the Issuer's deposits from customers (mainly time deposits and demand deposits) comprised 65.5 per cent. of its total liabilities and, within this portion of the Issuer's deposits from customers, 82.9 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.

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

The ECB and the CNB currently accept certain debt instruments, such as sovereign bonds or debt instruments issued by central banks, 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.

***The Issuer is exposed to foreign exchange and currency risks***

As of 30 September 2016, approximately 48.5 per cent. of the Issuer's assets and 48.4 per cent. of the Issuer's liabilities were denominated in foreign currencies, particularly in EUR and USD. The Slovak organizational branch of the Issuer carries out its activities primarily in EUR. 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 when 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).

Since November 2013, the CNB has been conducting foreign exchange interventions in order to weaken the Czech Koruna with respect to the euro. Pursuant to statements issued by the CNB in September and October 2016, these interventions may be discontinued as soon as in the second quarter of 2017. This may result in increased volatility of the EUR/CZK and USD/CZK exchange rates. The Issuer has established a system of currency risk limits based on its net currency exposure in individual currencies. These limits are adjusted on a continuous basis. With effect from 30 September 2016, the Issuer has set a currency risk limit of EUR 45 million with respect to the total net currency exposure and to individual main currencies (CZK, EUR) and of EUR 25 million to the USD. For remaining currencies valid limits range from EUR 5 million to EUR 9 million according to the risk profile of a particular currency.

Although the Issuer sets such limits, manages its foreign exchange positions accordingly and performs certain other measures aimed at reducing exchange rate risk, including, among others, entering into foreign exchange derivative contracts, fluctuations in exchange rates caused by the discontinuation of the CNB foreign exchange interventions or otherwise, could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

***The Issuer is subject to risks in its trading activities***

The Issuer holds open positions in certain financial instruments, including financial derivatives and other securities. The non-consolidated trading results including results of currency trading of the Issuer for the

nine months ended 30 September 2016 were CZK 1.43 billion. 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 net income from trading. The Issuer may be exposed to a number of risks related to changes in the value of such financial instruments, including the risk of unfavourable market price movements relative to its investment positions, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Issuer chooses to hedge certain positions do not track the market value of those positions. If the Issuer incurs any losses from these exposures, this 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 or prospects.

***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, among others, 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, among others, 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.

There can be no assurances that risk controls and other actions implemented by the Issuer to mitigate exposures and/or losses 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 business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Issuer faces significant ICT risks inherent in the banking business***

The Issuer is 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 and its service providers may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. For example, in 2016, the Issuer continued to develop and set up ICT integration between the Issuer, including its Slovak branch, and the UniCredit Group ICT platform. The unification and implementation of new ICT systems, with which the

Issuer intends to continue in 2017, may have a material adverse effect on the Issuer's operational risk profile. Further, the Issuer's ICT systems architecture continues to be complex due to past mergers, which may hinder its future development. 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. There can be no assurances that the procedures and controls put in place by the Issuer will be effective in preventing or managing all risks relating to the ICT systems of the Issuer. 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'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.

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 may also 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.

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 and material unanticipated losses, 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.

***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 Issuer's 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 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. The pool of individuals with the required set of skills is in the Czech Republic and also Slovakia, where the Issuer operates, smaller than in most Western European countries. Increasing competition for labour in the Czech Republic and Slovakia 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, employees' error including administrative 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. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

### **Risks related to the regulatory environment**

#### ***Changes and developments in laws or regulations in the Czech Republic, Slovakia and the EU, 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 in a number of jurisdictions where it conducts its operations, particularly the Czech Republic and Slovakia. Such laws and regulations include, 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, anti-money laundering, consumer credit, capital requirements or corporate requirements.

For example, in August 2016, the CNB increased the capital requirements for five Czech banks including the Issuer, due to the fact that they are considered to be of systemic importance in the Czech banking system. As a result, the systemic risk buffer of the Issuer is to increase by 1 per cent. to 2 per cent, beginning on 1 January 2017.

Also, the Czech Consumer Credit Act, which became effective as of 1 December 2016, substantially modified conditions under which consumer loans, including mortgage loans, are provided. For example, this new law caps fees which a customer may be charged in connection with a prepayment of a loan. In principle, consumer loan providers, such as the Issuer, are entitled to claim only costs reasonably incurred by them in connection with the prepayment. In certain circumstances, the loan provider may not claim any compensation in connection with the prepayment, for example when the mortgage loan is prepaid in connection with a death, long-term illness or disability of the customer or his spouse or partner, which materially impaired the customer's ability to repay the loan or in case of partial prepayments not exceeding 25 per cent. of the loan amount. If the mortgage loan is repaid in connection with a sale of the asset securing the loan, the mortgage bank can claim only costs not exceeding 1 per cent. of the prepaid amount and no more than CZK 50,000, provided that the loan agreement was entered into at least 24 months prior to the prepayment date.

The above and any further regulatory changes may result in additional material costs for the Issuer and/or significantly impact the capital resources and requirements of the Issuer and, therefore, adversely affect the Issuer by, inter alia, restricting the type or volume of transactions the Issuer may enter into, set limits on or require the modification of rates or fees that the Issuer charges on loans or other financial products. The Issuer may also face increased compliance costs and material limitations on its ability to pursue business opportunities. All these factors 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 or the NBS, and thus could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects, reputation 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' recovery is relatively low. Therefore, the Issuer cannot ensure that its rights as a creditor 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 of its borrowers or counterparties may increase substantially as a result of any newly adopted and untested procedures and potential changes in the regulation.

The process of collateral enforcement in the Czech Republic and Slovakia is rather 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.

***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 mainly in the Czech Republic and Slovakia and is subject to regulation in these countries. Laws and regulations applicable to the Issuer are continuously amended and new requirements are imposed on the Issuer, including, among others, regulations relating to financial services, securities products and other businesses, and tax, accounting and financial reporting regulations, anti-money laundering, consumer credit, capital requirements or corporate requirements.

Non-compliance with, or any breaches of, such regulation expose the Issuer to the risk of various claims, disputes, legal proceedings or governmental investigation. Moreover, 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, 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 the CNB Decree, 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 the CNB Decree do 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 other active bond programmes, the Local Bond Programmes, under which it has issued and/or may issue Czech Covered Bonds including covered bonds issued pursuant to Slovak Bonds Act (**Slovak Covered Bonds**), which at the same time qualify as Czech Covered Bonds. The Issuer may also issue further Czech Covered Bonds

(including Slovak Covered Bonds) in the future on a standalone basis or otherwise. In order to ensure that any default under either of the Issuer's Local Bond Programmes 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 (*hypoteční zástavní listy*) under the general terms of issuance (the **General Terms of Issuance**) under any of the Issuer's Local Bond Programmes, 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 formed from the Cover Pool on insolvency would be distributed among all Czech Covered Bondholders (including Slovak Covered Bondholders). However, in a post-insolvency scenario, pursuant to Clause 9 (*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 and Slovak Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*") which are eligible assets for the purposes of the Czech Bonds Act and the CNB Decree and which comprise the Cover Pool will have sufficient value to meet all payments due in respect of the Czech Covered Bonds (including Slovak Covered Bonds).

***Receivables from mortgage loans governed by Slovak law included in the Issuer's Cover Pool are primarily designated under Slovak law to cover the receivables under Slovak Covered Bonds and may not be fully used for covering the Covered Bonds under the Programme***

Pursuant to Slovak Act No. 483/2001 Coll., on Banks, as amended (the **Slovak Banking Act**), each Slovak mortgage bank must finance at least 90 per cent. of its mortgage loans regulated by Section 68 *et seq* of the Slovak Banking Act (in Slovak, *hypotekárny úver*) (**Slovak Mortgage Loans**) through Slovak Covered Bonds. The NBS may grant a temporary exemption from this rule and decrease the financing ratio requirement to a minimum of 70 per cent. The receivables from the Slovak Mortgage Loans will primarily cover the liabilities of the Issuer arising under the Slovak Covered Bonds issued by the Issuer (which are different from the Covered Bonds issued under this Programme). Consequently, only 10 per cent. or 30 per cent. (if the NBS's has granted the exemption) of the amount of receivables from the Issuer's Slovak Mortgage Loans that are included in the Cover Pool may be effectively used for covering the Covered Bonds issued under this Programme. In other words, a portion of at least 70 per cent. to 90 per cent. of the Slovak law governed receivables from the Slovak Mortgage Loans must be included in the cover pool maintained under Slovak law for the existing Slovak Covered Bonds of the Issuer and the receivables from the Slovak Mortgage Loans although technically being part of the Cover Pool, could not therefore be used for covering the Covered Bonds under the Programme. The interaction of Czech law governing the Cover Pool and Slovak law governing the Slovak cover pool for the Slovak Covered Bonds is not clear. However the likely outcome is that the Covered Bondholders would only be able to benefit from those receivables included in the Cover Pool 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 and Slovak Legislation relating to Covered Bonds – 7. Consequences of certain Issuer's shortcomings*"), which include, for instance, violation of the general prudential requirements, 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 and Slovak 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 a Measure (as defined and described in "*General Description of Czech and Slovak Legislation relating to Covered Bonds– 7. Consequences of Certain Issuer's shortcomings*") upon the Issuer. As a result of the imposition of a Measure, the Issuer may be restricted in, or prohibited from, certain trades which would represent a risk for the Issuer, 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 and Slovak 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 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 and Slovak 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 Measure has been imposed by the CNB and for so long as that Measure is in effect.

***The Covered Bondholders' position might deteriorate 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 the Issuer is failing or is likely to fail and it is beyond the reach of less drastic remedial action to prevent such failing than the application of crisis resolution measures (as described in "*General Description of Czech and Slovak Legislation relating to Covered Bonds – 8. Czech Resolution and Recovery Act*" below), the CNB may pursuant to the Czech Resolution and Recovery Act (which implements the BRRD) (as defined below) adopt a set of crisis prevention measures (*opatření k předcházení krizi*) and crisis management measures (including crisis resolution measures and actions and the appointment of a special manager) (*opatření k řešení krize*). The crisis resolution measures and tools include, among other things, a transfer of business measure, a transfer to a bridge institution measure and a transfer to an asset management entity measure which can be achieved through various share and property transfers (as also described in "*General Description of Czech and Slovak Legislation relating to Covered Bonds – 8. Czech Resolution and Recovery Act*" below). The approval of the respective Issuer's creditors for such transfers is not required. There is a risk that these transfers may affect the Issuer's assets that are included in the Cover Pool or the Issuer's obligations under the Covered Bonds (or any other Czech Covered Bonds).

However, the Czech Resolution and Recovery Act provides for various protections from the effect of partial property transfers. Under the Czech Resolution and Recovery Act, a transfer or passage of property, rights and liabilities under legal arrangements or relationships that qualify as "protected rights and liabilities", may not provide for the transfer or passage of some, but not all, of such "protected rights and liabilities" from legal arrangements or relationships. The "protected rights and liabilities" under legal arrangements or relationships under the Czech Resolution and Recovery Act in turn comprise, irrespective of number of parties or their governing law and no matter if the reason for their creation and continuation is contractual or statutory, among other things, covered bonds as well as structured finance arrangements, including securitisations and instruments used for hedging which form an integral part of the cover pool and which are secured in a way similar to 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 the CNB Decree require 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 upon the Issuer as a result of which the Issuer will be restricted or prohibited from doing certain trades which would represent a risk for the Issuer, 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 and Slovak Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings*" below) to the Issuer.

***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***

The Cover Pool consists of: (i) Ordinary Cover Assets which are the Mortgage Loans secured by way of a legally perfected first ranking mortgage in favour of the Issuer over the Mortgaged Property; and (ii) Substitute Assets. All assets included in the Cover Pool must be Eligible Assets (i.e., Ordinary Cover Assets and Substitute Assets) and comply with the applicable requirements or criteria set out in the Czech Bonds Act and the CNB Decree. In particular, 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 and Slovak 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 and Slovak 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, as at the date of this Base Prospectus, all the Mortgaged Property is located in the Czech Republic or Slovakia. The Mortgaged Property Value as well as the value of the Mortgage Loans included in the Cover Pool may reduce over time (including, in particular, in the event of a general downturn in the value of properties located in the Czech Republic or Slovakia) 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. Although the Issuer covenants, pursuant to the Trust Deed, to ensure compliance with the Contractual Asset Cover Test, a general downturn in the value of properties located in the Czech Republic or Slovakia could adversely affect the Issuer's results of operations, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds and the value of the Cover Pool.

***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 Decree, required to maintain the Cover Register and, pursuant to the Decree of the CNB No. 346/2013 Coll. of October 2013 (*Vyhláška České národní banky č. 346/2013 Sb. ze dne 16. října 2013*), 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 Register 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 on annual basis certain checks and calculations on the statutory tests performed by the Issuer in accordance with the Czech Bonds Act and the CNB Decree 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.

***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 the CNB Decree 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 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***

In the event of insolvency of the Issuer or if the Issuer is otherwise unable or unwilling to repay the Covered Bonds when repayment falls due, an investor may lose all or part of its investment in 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 and Slovak 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; (iv) performance of procedural sanctions; and (v) performance of receivables against the General Insolvency Estate and receivables set on the same level as receivables against the General Insolvency Estate. 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 possible 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 the CNB Decree 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 the CNB Decree 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 should, 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 and Slovak 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" (*rozvrhové usnesení*) issued following the final report (*konečná zpráva*) or, in certain circumstances, in the "partial distribution list" (*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 claim (*popření pravosti, výše a pořadí pohledávek*) filed by a creditor. Such dispute is an "adversary dispute" (*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 by another creditor.

In addition, if the results of adversary disputes could have a significant impact on a conclusion made in the final report (*konečná zpráva*) (which is prepared by an insolvency administrator after a liquidation of the General Insolvency Estate (*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" (*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 (*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 (*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).

***Following the Issuer having become unable to pay its monetary obligations as they fall due, 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 takes a unilateral action towards the other party invoking a set-off without any action being taken whatsoever by the other party. The general rule is that a unilateral set-off of mutual claims is only possible when such claims are due and payable. In contrast, a contractual set-off, which is always based on an agreement between the parties, can always take place regardless of whether mutual claims to be set-off are due and payable. Current instalments on the Mortgage Loans would typically become due and payable but not the whole amount of the Mortgage Loan except when the Mortgage Loan is a defaulted loan and it has, as a consequence, become due and payable. Therefore, the possibility of a unilateral set-off against the whole amount of the Mortgage Loan or its significant part is very limited in practice.

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 (*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, having no regard to whether the relevant claims and obligations have become due and payable, the right of unilateral set-off of (i) the claims of the debtors under the Mortgage Loans *vis-à-vis* (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 and, subject to some other conditions, always only provided that the Issuer is unable to pay its monetary obligations as they fall due. 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 the CNB Decree, 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.

### **Risks related to all Covered Bonds**

Set out below is a description of material 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.

***The Issuer and the Cover Pool may be exposed to substantial foreign exchange and currency mismatches and risks related to any issuance of Covered Bonds under the Programme denominated in foreign currencies (including in EUR or USD), which cannot be effectively hedged against for the sole benefit of the Cover Pool and the Covered Bondholders under the currently effective Czech law applicable to the Czech Covered Bonds***

On top of the Issuer and its subsidiaries setting limits and performing certain other measures aimed at reducing foreign exchange rate risk, including but not limited to entering into foreign exchange derivative contracts, the Issuer may in respect of individual issuances of Covered Bonds under the Programme, enter into hedging arrangements in the form of cross-currency swap transactions or similar swap or derivative

transactions (a **Hedging Arrangement** or the Hedging Arrangements) in order to hedge its foreign exchange or other exposures and liabilities (or their part) under the Covered Bonds issued under the Programme and eliminate any inherent currency or other mismatches. However, the Czech Bonds Act, the CNB Decree, the Czech Insolvency Act or other provisions of Czech law applicable to, relevant for or otherwise pertaining to the Czech Covered Bonds (the **Rules**) do not allow for a claim or receivable arising under a Hedging Arrangement to be included in the Cover Pool or the Mortgage Estate or a creditor of a claim or receivable arising under a Hedging Arrangement (the **Hedging Counterparty**) to have any direct or indirect claim or receivable or priority right to the Cover Pool or the Mortgage Estate. Therefore, the Issuer may enter into the Hedging Arrangements only by virtue of on-the-market swap or derivative transactions that would constitute ordinary and unsegregated on-balance-sheet claims or obligations of the Issuer vis-à-vis the Hedging Counterparty without any specific direct or indirect link to the Cover Pool or the Mortgage Estate whatsoever.

As a result, any foreign exchange or currency risks that the Issuer and the Cover Pool are exposed to in connection with any issuance of Covered Bonds under the Programme denominated in foreign currencies (including in EUR or USD) cannot be effectively hedged against for the sole benefit of the Cover Pool and the Covered Bondholders.

***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. 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 Local 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 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 the CNB Decree and/or the Czech Insolvency Act, arising as a consequence of a change in, or a change in interpretation of, law and the Trustee will be able to, 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) if 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 in addition if 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 which can be repaid or satisfied 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 and Slovak 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 the Covered Bonds 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**). Estonia subsequently withdrew from the negotiations regarding a common FTT.

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 the Covered Bonds 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. 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 or to withdraw from the negotiations.

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***

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). In certain situations as described in Section 7, 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.

### ***Investors who hold less than the minimum Specified Denomination may be unable to sell their Covered Bonds and 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 in excess of the minimum Specified Denomination 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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, 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 at or in excess of the minimum Specified Denomination 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 value of the Covered Bonds and the enforceability of rights under the Covered Bonds against the Issuer could be adversely affected by Brexit***

On 23 June 2016 the United Kingdom (UK) held a referendum to decide on the UK's membership of the European Union. The UK vote was to leave the European Union. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are clearer, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on the business of the Issuer or one or more of the other parties to the relevant Programme agreements and documents. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Covered Bonds and/or the market value and/or the liquidity of the Covered Bonds in the secondary market or the enforceability of decisions handed down by English courts in respect of the Covered Bonds in other jurisdictions across the European Union.

#### ***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 Decree 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 (*hypoteční zástavní listy*) are either: (i) bonds (*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 (*hypoteční zástavní listy*) to be issued not only as Czech law governed bonds (*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, the CNB Decree 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, Section 90 of Czech Act No. 91/2012 Coll., on private international law (the **Czech Private International Law Act**) provides (with effect only from 1 January 2014) for free choice of law in respect of such unilateral acts. However, the Czech Act No. 97/1963 Coll., on international private and procedural law, as amended, that applied until 31 December 2013 did not explicitly provide for free choice of law in respect of such unilateral acts. Consequently, if a Czech court would apply the old conflict of law rules and considered the Trust Deed, the Conditions or the Covered Bonds to be unilateral acts and failed to recognise the choice of English law as the governing law of those instruments, such failure could have an adverse impact on the enforceability of any obligation of the Issuer under the Trust Deed, the Conditions or the Covered Bonds.

*Some rather recent major changes in the Czech civil and private law may affect various aspects of the validity or enforceability of the Issuer's or the Covered Bondholders' rights and obligations including those under the Covered Bonds*

The Czech Act No. 89/2012 Coll., the Civil Code (the **Czech Civil Code**), the Czech Act No. 90/2012 Coll., (the **Czech Corporations Act**), the Czech Private International Law Act and other laws and regulations adopted in connection with the recodification of civil and private law in the Czech Republic are, amongst other things, essential for assessment of the validity and enforceability of the Issuer's and Covered Bondholders' rights and obligations under the Covered Bonds as a matter of Czech law. Considering that these laws and regulations took effect from 1 January 2014, there is very limited case law or market practice at this moment. It is not clear how the new and untested laws and regulations will be interpreted in the future and what effect such interpretation will have on the validity and enforceability of certain rights and obligations under the Covered Bonds.

*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*

Current Czech legislation governing civil law (including contract law and law of corporations) has become effective only on 1 January 2014. Such legislation is based on the principle of discontinuation from previous legal regime, introduces new legal concepts and phraseology, is entirely untested and to date there is neither jurisprudence nor real cases of practical application of such legislation; it also remains unclear which provisions of the new legislation can be derogated by contract.

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 the new Czech civil law. The approach which the Czech courts will take in interpreting the new Czech civil law is uncertain and there is a risk that their interpretation may differ from the interpretation of the Issuer or its legal counsels adopted when preparing the relevant legal documentation. Consequently, no assurance can be given as to whether the Issuer's standardized documentation and other legal documents giving rise to New Mortgage Loans and 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. Such partial or complete invalidity or

unenforceability could have a material adverse effect on the Issuer's business, financial condition, results of operations, liquidity, capital base or prospects.

#### ***Enforceability of the concept of trust in Czech law***

The Civil Code introduced as of 1 January 2014 the concept of trust fund (*svěřenský fond*) into Czech law. However, the concept of trust fund introduced under the Czech Civil Code is markedly different from the common law concept of trust. Therefore, the English law concept of trust as contemplated under the Trust Deed does not exist under Czech law and remains 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 which provides for the recognition of trusts and claims by trustees. Although Section 73(4) of the Czech Private International Law Act contains a rule pursuant to which a trust established abroad could be recognised under Czech law, it requires that such a trust must have the same basic features of a trust fund established under Czech law. In light of several fundamental differences between the concept of trust fund in Czech law and the common law concept of trust, the English law concept of trust as contemplated under the Trust Deed would very likely not fall within the scope of Section 73(4) of the said section of the Czech Private International Law Act and could therefore not be recognised solely on the basis of the said section of the Czech Private International Law Act. Hence, there is still some 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.

To address this issue, a direct liability has been created in favour of the Trustee under the Trust Deed by way of a parallel debt structure, a concept which is commonly used for cross-border transactions of this kind with a Czech element. However, the enforceability of such a provision has not yet been ultimately resolved by the Czech courts or in Czech law, so 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 III 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 Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. 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 2 July 2014, Directive 2014/59/EU 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**) entered into force. The BRRD provides that it will be applied by Member States from 1 January 2015, except for the general bail-in tool (see below) which applies from 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 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), which may limit the capacity of the firm to meet its repayment obligations; (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 (which write-down may result in the reduction of such claims to zero) and to convert certain unsecured debt claims, including (to a limited extent as described below) Covered Bonds, to equity or other instruments of ownership (the **general bail-in tool**), which equity or other instruments could also be subject to any future cancellation, transfer or dilution. In general, relevant claims for the purpose of the bail-in tool would include claims of the holders in respect of any bonds issued under a programme or on a standalone basis, although in the case of Covered Bonds or Czech Covered Bonds, this would only be the case if and to the extent any amounts payable in respect of Covered Bonds or Czech Covered Bonds exceeded the value of assets in the relevant cover pool which serve as collateral against which payment of amounts owed under Covered Bonds or Czech Covered Bonds is secured.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.



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).

Any application of the general bail-in tool under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings. Accordingly, the impact of such application on Covered Bondholders will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors.

To the extent any resulting treatment of Covered Bondholders pursuant to the exercise of the general bail-in tool is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder has a right to compensation under the BRRD based on an independent valuation of the firm (which is referred to as the “no creditor worse off safeguard” under the BRRD). Any such compensation is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the Covered Bonds.

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. The BRRD was implemented in Czech law by the Act No. 374/2015 Coll., on resolution and recovery of banks and other financial institutions (the **Czech Resolution and Recovery Act**), which came into effect from 1 January 2016 and provides for a framework for the recovery and resolution of Czech banks and investment firms.

The Czech Resolution and Recovery Act provides for a special resolution regime applicable to Czech banks (such as the Issuer) and distinguishes between two basic sets of measures. These measures are crisis prevention measures (*opatření k předcházení krizi*) and crisis management measures (including crisis resolution measures and actions and the appointment of a special manager) (*opatření k řešení krize*). Responsibility for operation of the Czech Resolution and Recovery Act rests almost exclusively with the CNB as the competent resolution authority whilst the Ministry of Finance of the Czech Republic has some joint powers together with the CNB in adopting and applying the government stabilisation tools (including the temporary public ownership (nationalisation) of all or part of a Czech bank). The Czech Resolution and Recovery Act enables the CNB to intervene in failing Czech banks or Czech banks which are likely to fail and also deals with certain other discrete matters. The measures and procedures were implemented in Czech law by the Czech Resolution and Recovery Act without substantial deviations from the BRRD.

Under the Czech Resolution and Recovery Act, Covered Bondholders may be subject to the application of the general bail-in tool, which may result in such holders losing some or all of their investment. Such application could also involve modifications to or the disapplication of provisions in the Terms and Conditions of the Covered Bonds, including alteration of the principal amount or any interest payable on the Covered Bonds, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. As a result, the exercise of any power under the Czech Resolution and Recovery Act 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.

However, the impact of the use of the general bail-in tool by the CNB on Covered Bonds (and Czech Covered Bonds in general) will be limited because the Czech Resolution and Recovery Act fully implemented the rule under the BRRD and clearly provides that liabilities of the Issuer arising from the Covered Bonds (and Czech Covered Bonds) are excluded from the application of the general bail-in tool up to the amount they are covered by the Cover Pool. This is based on the argument that the requirements of both Section 17(2)(c) of the Governmental Decree and Article 52(4) of the UCITS Directive will be met in the case of Covered Bonds (and Czech Covered Bonds) as discussed in *"The Covered Bondholders' position might deteriorate 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"* above and as also described in *"General Description of Czech and Slovak Legislation relating to Covered Bonds - 8. Czech Resolution and Recovery Act"*.

***Reform of PRIBOR and regulation and reform of other "benchmarks" could adversely affect the Covered Bonds linked to such "benchmarks"***

The Prague Inter-Bank Offered Rate (**PRIBOR**) and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to such a "benchmark".

Most of provisions of the EU *Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds* (the **Benchmark Regulation**), which was published in the official journal on 29 June 2016, will apply from 1 January 2018 with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016.

The Benchmark Regulation could have a material impact on the Covered Bonds linked to PRIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level of the benchmark and could lead to adjustments to the terms of the Covered Bonds. In addition, the Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. It cannot be ruled out that administrators of certain "benchmarks" will fail to obtain a necessary license, preventing them from further provision of certain "benchmarks". Other administrators may cease provision of certain "benchmark" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations and the risks associated therewith.

More broadly, any of the international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". By way of example, the disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" may result in an adjustment to the terms and conditions of the Covered Bonds, early redemption, delisting or other consequences, depending on the specific provisions of the relevant terms and conditions applicable to the Covered Bonds. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to a "benchmark".

**Risks related to the market generally**

Set out below is a description of material 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, it might 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 at all.

***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.

## 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 auditor's report and consolidated audited annual financial statements of the Issuer as of and for the financial year ended 31 December 2014 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 .....	124-126
Statement of Comprehensive Income.....	25
Statement of Financial Position .....	26
Cash Flow Statement .....	27
Statement of Changes in Equity .....	28
Accounting Principles and Notes .....	29-74

- (b) the auditor's report and consolidated audited annual financial statements of the Issuer as of and for the financial year ended 31 December 2015 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 .....	132-133
Statement of Comprehensive Income.....	27
Statement of Financial Position .....	28
Cash Flow Statement .....	29
Statement of Changes in Equity .....	30
Accounting Principles and Notes .....	31-79

- (c) consolidated unaudited financial data of the Issuer as of and for the six months ended 30 June 2015 including the information set out at the following pages in particular:

Statement of Financial Position .....	6
Statement of Comprehensive Income.....	7
Cash Flow Statement .....	8
Statement of Changes in Equity .....	9-10
Accounting Principles and Notes .....	11-24

- (d) consolidated unaudited financial data of the Issuer as of and for the six months ended 30 June 2016 including the information set out at the following pages in particular:

Statement of Financial Position.....	6
Statement of Comprehensive Income.....	8
Cash Flow Statement.....	9
Statement of Changes in Equity .....	10-11
Accounting Principles and Notes .....	12-27

- (e) the terms and conditions of the Covered Bonds contained in the previous base prospectuses relating to the Programme dated 29 November 2013 (on pages 59 to 87) and 28 November 2014 (on pages 62 to 90). Any non-incorporated part of the previous base prospectuses relating to the Programme dated 29 November 2013 and 28 November 2014 are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors for information purposes only rather than information required by the relevant Annexes of the Prospectus Regulation;

All documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://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 Global Covered Bond**) or, if so specified in the applicable Final Terms, a permanent global covered bond (each a **Permanent Global Covered Bond**, together with any Temporary 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 depository (the **Common Depository**) 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 Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Temporary Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary 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 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 Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (a) interests in a Permanent 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 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 Global Covered Bond for an interest in a Permanent 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 Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Covered Bond if the Permanent 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 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 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 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 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 (ii) 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 permanent and definitive Covered Bonds where TEFRA D is specified in the applicable Final Terms 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 depository for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of, the common depository 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 depository 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 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 (*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 10 January 2017 [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 has been published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)). [The following language should only be included if the relevant Series of the Covered Bonds will be admitted to trading on the Luxembourg Stock Exchange: The Final Terms will also be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://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].

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [29 November 2013]/[28 November 2014] which are incorporated by reference in the Base Prospectus dated 10 January 2017. 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 dated 10 January 2017 [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**), including the Conditions incorporated by reference in 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 has been published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).] [The following language should only be included if the relevant Series of the Covered Bonds will be admitted to trading on the Luxembourg Stock Exchange: The Final Terms will also be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://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: [●]
- (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 [Provide issue amount/ISIN/maturity date/issue date of earlier Tranches] on [the Issue Date/exchange of the

Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph 21 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 [Maturity Date/Not Applicable]

Extended Maturity Date:

*(N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)*

7. Maturity Date: [Specify date or for Floating Rate Covered Bonds – Interest Payment Date falling in or nearest to [specify month and year]]

8. Extended Maturity Date: [Applicable/Not Applicable]  
[The Extended Maturity Date is [●].]

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. Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at [●] per cent. of their nominal amount  
(As referred to under Condition 6 (*Redemption and Purchase*))

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

11. Change of Interest Basis: [Specify the date when any fixed to floating rate change occurs (or visa versa) or cross refer to paragraphs 14 and 15 below and identify there][Not Applicable]  
(As referred to under Condition 4 (*Interest*))

12. Issuer Call: [Applicable/Not Applicable]  
(As referred to under Condition 6.4 - [(further particulars specified below)])

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

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]

(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]

*(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 each Interest Payment Date 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 /Not Applicable]

(e) Day Count Fraction:

(i) To Maturity Date: /360/ Actual/ Actual (ICMA) /Not Applicable]

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

(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: [, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]/Not Applicable]

(ii) From Maturity Date up to Extended Maturity Date: [, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to any adjustment, as the

- Maturity Date: Business Day Convention in (b) below is specified to be Not Applicable/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]
- (ii) 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: Reference Rate: [] month [LIBOR/ EURIBOR/ PRIBOR].
  - 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 and 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: Reference Rate: [] month [LIBOR/ EURIBOR/ PRIBOR].

- 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 and 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 or amend the fallback provisions appropriately)*

(g) ISDA Determination:

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

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

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

- (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
- (i) 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]
- (j) 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]
- (k) 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]
- (l) 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: [Applicable/Not Applicable]

Date up to  
Extended  
Maturity Date:

[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 (which require a minimum of 5 clearing system business days' notice for a call) 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))

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

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))

*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but this should be considered). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)*

#### **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

21. Form of Covered Bonds:

Form:

[Bearer Covered Bonds:

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

[Permanent 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.]<sup>1</sup>

*(N.B. The exchange upon notice/at any time*

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<sup>1</sup> Include for Covered Bonds that are to be offered in Belgium.

*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 Day)) ((Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraph 14(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: ..... By: .....

*Duly authorised*

*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 [●]/[Not Applicable]]
- (ii) [Estimated net proceeds: [●]/[Not Applicable]]

- (iii) [Estimated total expenses: /[Not Applicable]]
- [(N.B.: Disapply unless the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)]
5. **YIELD** (*Fixed Rate Covered Bonds Only*) /[Applicable/Not Applicable]
- Indication of yield:
6. **HISTORIC INTEREST RATES** (*Floating Rate Covered Bonds Only*) [Not Applicable/Details of historic [LIBOR/EURIBOR/PRIBOR/replicate other as specified in the Conditions] rates can be obtained from [Reuters].]
7. **OPERATIONAL INFORMATION**
- (i) ISIN:
- (ii) Common Code:
- (iii) Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s): [Not Applicable/give name(s), [address] and number(s)]
- (iv) Delivery Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): /[Not Applicable]
- (vi) [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 either Euroclear or Clearstream, Luxembourg (together **the ICSDs**) as 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 [Not Applicable/give names]  
Managers:

*(If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*

- (ii) Date of [Subscription] [●]  
Agreement:

- (iii) If non-syndicated, name of [Not Applicable/give name]  
relevant Dealer:

- (iv) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; 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 dated 10 January 2017 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**), 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 Agency Agreement dated 10 January 2017, (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**), 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) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and (except in the case of Zero Coupon Covered Bond) date of the first payment of interest thereon and the date from which interest starts to accrue.

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 10 January 2017 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](http://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 (*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, the CNB Decree and the Czech Insolvency Act.

In these Conditions:

**CNB Decree** means the Decree of the CNB No. 164/2014 Coll. of 30 July 2014 (*Vyhláška České národní banky č. 164/2014 Sb. ze dne 30. července 2014*) implementing certain provisions of the Czech Bonds Act;

**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 (*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 Local 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;

**Local 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 (*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 Decree (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 (second, inactive) CZK 20,000,000,000 domestic bond programme with outstanding mortgage covered bonds (*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 Decree (and thus falling within the definition of the Czech Covered Bonds) and an active EUR 5,000,000,000 domestic bond programme of the Issuer, acting through its branch in Slovakia, for the issuance of (i) mortgage covered bonds (*hypotekárne záložné listy*) under Slovak law which satisfy the requirements of Section 14 *et seq.* of the Slovak Act No. 530/1990 Coll., on Bonds, as amended (**Slovak Bonds Act**) and (ii) other bonds issued under Slovak law in accordance with the Slovak Bonds Act.

#### 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.

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

#### 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, 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 these Conditions, **Business Day** means a day which is:

- (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 each Additional Business Centre (other than the TARGET2 System) specified in the applicable Final Terms;
- (II) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (III) either (1) 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 or (2) in relation to any sum payable in euro, a day on which 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 (being either LIBOR, EURIBOR, or PRIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at Specified 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, in the case of (A) above, no offered quotation appears or if, in the case of (B) above, 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 fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

In these Conditions:

**Reference Banks** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Principal Paying Agent in consultation with the Issuer and approved in writing by the Trustee and in the case of a determination of a Reference Rate that is not LIBOR or EURIBOR, the principal office of four major banks in the inter-bank market of the relevant financial centre; and

**Specified Time** means 11.00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR, or Prague time, in the case of PRIBOR, or relevant financial centre time in the case of a determination of any other Reference Rate).

(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:

$$\text{DayCountFraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" 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 D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> 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:

$$\text{DayCountFraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" 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 D<sub>2</sub> 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:

$$\text{DayCountFraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" 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 D<sub>1</sub> will be 30; and

"D<sub>2</sub>" 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 D<sub>2</sub> will be 30.

(e) ***Linear Interpolation***

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Principal Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Principal Paying Agent shall determine such rate at such time and by reference to such sources as the Issuer determines appropriate.

**Designated Maturity** means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) ***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.

(g) ***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 shall 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.

(h) ***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, bad faith 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 bad faith) 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 the date on which all amounts due in respect of such Covered Bond have been paid.

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 shall be 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 a bank in the principal financial centre of the country of such Specified Currency; 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.

### 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 (without prejudice to the provisions of Condition 7 (*Taxation*)) any 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 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 Financial Centre (other than the TARGET2 System) specified in the applicable Final Terms;
  - (iii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; 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 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.

### 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 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 (i) in the case of Redeemed Covered Bonds represented by definitive Covered Bonds, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, be selected 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 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.

## 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) each Covered Bond (other than a Zero Coupon Covered Bond) will be redeemed at its Early Redemption Amount; and
- (b) each Zero Coupon Covered Bond will be redeemed 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(b) 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 (and including) 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.

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. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any extension of the maturity of the Covered Bonds to the Extended Maturity 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 Czech Covered Bonds, unless the proceeds of issue of such further Czech 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 or on behalf of 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*)).

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.

No Coupon sheet issued on exchange of a Talon should include 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 paragraphs (b), (d) and (f) (other than the winding up or dissolution of the Issuer) 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 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 45 calendar days following the service by the Trustee on the Issuer of notice requiring the same to be remedied;
- (c) 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. For the avoidance of doubt, any breach of the Contractual Asset Cover Test would not be a breach of a Significant Obligation for the purposes of (b) above.
- (d) The Issuer fails to comply with the Statutory Tests for a period longer than three months;
- (e) The Issuer has:
  - (i) ceased to be licensed to operate as a bank; or
  - (ii) ceased to be authorised to issue Czech Covered Bonds (*hypoteční zástavní listy*); or
  - (iii) in its general meeting, decided that the Issuer will no longer operate as a bank;
- (f) 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
- (g) 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 ("*hypoteční zástavní listy*") under the general terms of issuance (the **General Terms of Issuance**) of the Issuer under the Issuer's Local 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](http://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 initial Agents are set out above. If any additional Agents are appointed in connection with any Series, the names of such 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 Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any 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; and
- (c) 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 Agents act solely as agents of the Issuer 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 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 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, the CNB Decree and the Slovak Act No. 483/2001 Coll., on Banks, as amended (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, in a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://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](http://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 two or more persons or, if the relevant Series is held by one Covered Bondholder only, one or more persons, holding or representing not less than 50 per cent. in nominal amount of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned meeting two or more persons or, if the relevant Series is held by one Covered Bondholder only, 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 two or more persons or, if the relevant Series is held by one Covered Bondholder only, one or more persons, holding or representing not less than two-thirds in nominal amount of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned such meeting two or more persons or, if the relevant Series is held by one Covered Bondholder only, one or more persons, holding or representing not less than one-third in nominal amount 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 Trust Deed provides that:

- (a) subject to (d) below, a resolution which, in the 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 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 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](http://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 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; and
- (b) 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.

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 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, the Master Definitions Schedule or the Trust Deed to reflect and/or implement any new provisions of applicable law, including the Czech Bonds Act and the CNB Decree 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 the CNB Decree 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 the date from which interest starts to accrue 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 Decree, 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 Loans 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 loans secured by way of mortgage.

20.2 **Submission to jurisdiction**

- (a) Subject to Condition 20.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Covered Bonds and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Covered Bonds and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Covered Bondholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 20.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Trustee, the Covered Bondholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) 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, in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of UniCredit Bank AG, London Branch being unable or unwilling for any reason so to act, it will immediately appoint another person approved by the Trustee as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process 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 AND SLOVAK 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 (*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 (*hypoteční zástavní listy*).

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) Decree of the Czech National Bank (the **CNB**) No. 164/2014 Coll. of 30 July 2014 (*Vyhláška České národní banky č. 164/2014 Sb. ze dne 30. července 2014*) 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 Decree**) 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 (*hypoteční zástavní listy*) are either (i) bonds (*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 a 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 Decree 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 (*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). The obligations of the Issuer arising from the Czech Covered Bonds can be repaid or satisfied 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 and Slovak Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below). 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 at all times be 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 Decree 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 Decree 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 and Slovak Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" immediately below and "*The Cover Pool*" below).

Under the Czech Bonds Act and the CNB Decree, 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 and Slovak 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)(b) 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 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 from the proceeds of the liquidation of the Mortgaged Property following only deduction of the costs of the state of the Czech Republic arising in connection with the foreclosure auctions. This is widely interpreted so that the Issuer's Cover Pool will have priority rights with respect to any cash flows from any enforcement or foreclosure proceedings in respect of the Mortgaged Property securing the Mortgage Loans included in the Cover Pool (up to the amount in which the Mortgage Loans are included in the Cover Pool) *vis-à-vis* any other creditors including the Issuer's creditors.

### 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 its covered bond programmes, including the Local Bond 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 the CNB Decree. In addition, the Cover Register (as defined and described below) must be established and maintained in accordance with the Czech Bonds Act and the CNB Decree.

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 the CNB Decree (**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 the CNB Decree, 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** (*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, (*rozestavěný*)) located in the Czech Republic, any other member state of the European Union or a 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 (*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 (*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 otherwise permissible 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 ratio 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** (*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 (*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 real 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.

## 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 REGISTER

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 (*samostatná evidence*) (the **Cover Register**). 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 Decree. 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 (*registr krytí*) and a book of cover (*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) the Mortgaged Property Value; (iv) the valuation of the receivables under the Mortgage Loans and the valuation of parts of those receivables which are used as Ordinary Cover Assets; and (v) the valuation of the receivables under the Cooperative Loans which have been secured by a *pari passu* or priority ranking mortgage and the identification of the pledgee under such mortgage.

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 purchase price if the Substitute Assets comprise of bonds. Under the CNB Decree, the value of the Ordinary Cover Assets and Substitute Assets 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: as at each day when the Czech Covered Bonds are issued by the Issuer and outstanding, 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 as the sum of amounts under (i) and (ii); 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. If no such direct exchange rate of the relevant currency or currencies to the Czech Koruna is available, the Issuer will use for conversions into Czech Koruna the exchange rate of the relevant currency or currencies (as available from the relevant central bank) to the U.S. dollar or the EUR and subsequently converting such amount into U.S. dollars or EUR pursuant to the valid U. S. dollar or EUR exchange rate to the Czech Koruna (as available from the CNB) on the Business Day before the relevant determination. 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. Employees of such department who decide on including items into or removing items from the Cover Register or conducting other activities pursuant to the CNB Decree must be provided with up-to-date, reliable and complete information.

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 finds "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 commenced against the Issuer.

The Czech Banking Act contains a list of the Shortcomings, which includes, in particular, the violation or breach of obligations or terms set out in (i) the Czech Banking Act; (ii) a legal act implementing the Czech Banking Act; (iii) a general decree issued pursuant to the Czech Banking Act (*opatření obecné povahy*); (iv) a decision issued pursuant to the Czech Banking Act (*rozhodnutí*); (v) the directly applicable legal act of the European Union (*přímo použitelný právní předpis Evropské unie*) regulating prudential requirements or (vi) the Issuer's banking licence or such other breach discovered during an inspection or official review of the Issuer. Therefore, for instance, failure by the Issuer to comply with the applicable statutory tests (as set out in "*General Description of Czech and Slovak Legislation relating to Covered Bonds – 3.*")

*Cover Pool – Composition of Assets*" above and *"The Cover Pool"* below), 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 and gravity of that Shortcoming, the CNB may require the Issuer to adopt certain remedial measures (each a **Measure**), including but not limited to: (a) suspending or terminating certain trades which would represent a risk for the Issuer; (b) limiting its distribution network; (c) replacing a member of its board of directors or its supervisory board; (d) decreasing its interest in another entity or transferring its interest in that entity or otherwise limiting the risks associated with its interest in that entity; (e) amending the Issuer's banking licence by excluding or restricting some banking activities stated therein; (f) ordering an extraordinary audit of the Issuer; or (g) restricting or prohibiting certain activities of the Issuer with persons who are closely associated with the Issuer (*osoby, které jsou spjatý úzkým propojením s bankou*) or persons who are a part of the same consolidated unit or persons with special relations to the Issuer (*osoby se zvláštním vztahem k bance*). Section 19 of the Czech Banking Act defines persons with special relations to the Issuer as, amongst others: (i) members of the supervisory board of the Issuer; (ii) members of the board of directors of the Issuer; (iii) persons controlling the Issuer, shareholders who have a qualified holding in such controlling persons and management of these two; (iv) persons closely associated with a member of the board of directors, supervisory board and board of non-executive directors or a person controlling the Issuer; (v) an entity in which a person mentioned in (i) – (iv) above has a qualified holding; (vi) a person with a qualified holding in the Issuer and any person controlled by them; (vii) a member of the banking council of the CNB; and (viii) a person who is controlled by the Issuer (the **Connected Persons**).

In case of continuing serious Shortcomings of the Issuer, the CNB may revoke its banking licence. The Issuer's banking licence may be also revoked by the CNB in other cases specified in the Czech Banking Act, including insolvency of the Issuer or a decision finding that the Issuer seriously breached its obligations under laws preventing anti-money laundering and financing of terrorism.

## 8. CZECH RESOLUTION AND RECOVERY ACT

Although the Czech Insolvency Act does not apply to the Issuer, being a Czech Bank, for so long as it holds its banking licence, the Issuer as a Czech Bank is subject to the Czech Resolution and Recovery Act, which came into effect on 1 January 2016. The Czech Resolution and Recovery Act implements the BRRD into Czech law, which seeks to establish a common framework for the orderly recovery and resolution of failing credit institutions and investment firms within the European Union (as well as of entities within their group if deemed relevant).

Responsibility for the operation of the Czech Resolution and Recovery Act rests almost exclusively with the CNB as the competent resolution authority whilst the Ministry of Finance of the Czech Republic yields some joint powers together with the CNB in adopting and applying the governmental stabilisation tools (including the temporary public ownership (nationalisation) of all or part of a Czech Bank such as the Issuer.

The Czech Resolution and Recovery Act provides for a special resolution regime applicable to a Czech Bank (such as the Issuer) and distinguishes between two basic sets of measures and tools. These measures and tools are crisis prevention measures (*opatření k předcházení krizi*) and crisis management measures (including crisis resolution measures and actions and the appointment of a special manager) (*opatření k řešení krize*). The Czech Resolution and Recovery Act also deals with certain other matters.

The crisis prevention measures represent, for the most part, early intervention measures and as such can be described as pre-resolution measures or tools. Their main goal is to remedy potential Shortcomings of, among others, Czech Banks such as the Issuer, including by virtue of breaches or series of breaches of the Czech Resolution and Recovery Act or the Czech Banking Act (including various deficiencies or impediments to recoverability of the Issuer) and prevent such Shortcomings, which may result from a rapid deterioration of their financial condition, and in turn, prevent the spread of financial problems among Czech Banks (including the Issuer) and other entities subject to the Czech Resolution and Recovery Act. Accordingly, the CNB may, among other things, gradually (i) impose specific administration measures on the Issuer in order to remedy the Shortcomings or breaches and/or address or remove deficiencies or impediments

to recoverability (these measures broadly correspond to those set out in Article 27 of the BRRD as implemented in the Czech Resolution and Recovery Act), (ii) remove the members of the Issuer's board of directors and make the appointment of new board members conditional upon the CNB's prior consent, or (iii) impose temporary administration of the Issuer by virtue of the appointment of one or more temporary administrators (who would be appointed by the CNB in order to facilitate the functions of the Issuer's board of directors and senior management whilst the temporary administration may last for up to 12 months, unless extended by the CNB).

The primary effect of a temporary administration is that a temporary administrator with adequate qualification and capabilities is appointed by the CNB to help manage and run the Issuer. The precise function and powers of the temporary administrator under the Czech Resolution and Recovery Act are specified by the CNB at the time of appointment and can include various investigatory and management consultation powers, granting prior approvals to decisions of the Issuer's board of directors and senior management or powers to actually manage the Issuer whereby the exercise of the powers by the Issuer's board of directors and senior management (but not those by the general or shareholders' meeting) is suspended (fully or in part) and the temporary administrator, appointed by the CNB, takes over their functions.

The crisis management measures under the Czech Resolution and Recovery Act comprise crisis resolution measures or tools and the appointment of a special manager for crisis resolution.

The general conditions to the exercise of crisis management measures (including crisis resolution measures or tools) set out in the Czech Resolution and Recovery Act require that (i) the Issuer is failing, (ii) having regard to all circumstances, there is no reasonable prospect that any other measure would prevent the failure of the Issuer and (iii) the resolution action is necessary in the public interest. Under the Czech Resolution and Recovery Act, the Issuer is deemed to be failing if, for example (i) it meets the conditions for the withdrawal of its banking licence, particularly due to a loss that causes or may cause significant decrease in the amount of its capital, (ii) its liabilities exceed the value of its assets or (iii) it is unable to pay its debts as they fall due. Should the Issuer be failing, its board of directors must notify the CNB. Crisis management measure is in the public interest if it is necessary and one or more of the resolution objectives would not be met to the same extent by the winding up or insolvency proceedings in respect of the Issuer.

The relevant provisions of the Czech Resolution and Recovery Act contain further specific conditions for various individual crisis resolution measures such as a transfer to a private sector purchaser, a bridge institution or an asset management entity or applying government stabilisation tools (including a transfer to temporary public ownership (nationalisation)).

In the case of a special management for crisis resolution, either the CNB through one or more of its employees directly or a special manager (or administrator) appointed by the CNB takes over and the authority of the Issuer's board of directors and supreme body (i.e. shareholders' meeting) is automatically fully suspended. As a result, the relevant bodies of the Issuer (and their powers) are replaced with the CNB or the special manager for crisis resolution. The special management for crisis resolution may last for up to 12 months, unless extended by the CNB.

The Czech Resolution and Recovery Act further provides for the following crisis resolution measures and tools: (i) a transfer of the shares of the Issuer or assets or liabilities of the Issuer or part thereof to a private sector purchaser (the "sale of business tool"); (ii) a transfer of the shares of the Issuer or assets or liabilities of the Issuer or part thereof to a bridge institution that is wholly or partially owned (directly or indirectly) and controlled by the Czech Republic (the "bridge institution tool"); (iii) a transfer of all or part of the assets or liabilities of the Issuer to an asset management entity owned (directly or indirectly) and controlled by the Czech Republic (the "asset separation tool"); (iv) a write down of certain claims of unsecured creditors of the relevant entity and/or conversion of certain unsecured debt claims (eligible liabilities) to equity, (the "bail-in tool"), which equity could also be subject to any future write-down; and (v) a government stabilisation tool including public equity support and a temporary stabilisation comprising a transfer to temporary public ownership (nationalisation) of all or part of the Issuer. These crisis resolution measures and tools are achieved through the exercise of one or more "crisis resolution powers" detailed in the Czech Resolution and Recovery Act, which enable share transfers, property transfers, bail-in of capital instruments and eligible liabilities and

recognition of the effect of a third country special resolution action taken under the laws of a country outside the EEA.

The CNB further has certain wide powers pursuant to the Czech Resolution and Recovery Act including, in certain circumstances, powers to unilaterally cancel a contract or modify contractual arrangements or transfer all rights and obligations under a contract as well as some other ancillary resolution powers in order to enable the crisis resolution measures under the Czech Resolution and Recovery Act to be used effectively. As regards these resolution powers to unilaterally cancel a contract or modify contractual arrangements or transfer all rights and obligations under a contract (which would include the Terms and Conditions of the Covered Bonds, any agreements or contracts entered into in respect of the Covered Bonds and rights and obligations under the same), the Czech Resolution and Recovery Act contains specific safeguards in respect of certain "protected rights and liabilities".

Similarly, with respect to share and property transfers, and most notably partial property transfers, which could be used by the CNB in applying any of the sale of business tool, the bridge institution tool or the asset separation tool, the concern is that the CNB could use such power to "cherry-pick" certain rights and obligations in respect of the Covered Bonds or the Cover Pool or otherwise interfere with the Terms and Conditions of the Covered Bonds or rights and obligations under the Covered Bonds. Accordingly, the Czech Resolution and Recovery Act provides for various protections from the effect of partial property transfers. Under the Czech Resolution and Recovery Act, a transfer or passage of property, rights and liabilities under legal arrangements or relationships that qualify as "protected rights and liabilities", may not provide for the transfer or passage of only some, but not all such "protected rights and liabilities". The "protected rights and liabilities" under legal arrangements or relationships under the Czech Resolution and Recovery Act in turn comprise, irrespective of their number of parties, governing law and contractual or statutory basis, among other things, covered bonds as well as structured finance arrangements, including securitisations and instruments used for hedging which form an integral part of the cover pool and which are secured in a way similar to the covered bonds.

The Czech Resolution and Recovery Act defines covered bonds (*kryté dluhopisy*) in Section 2(2)(e) as bonds that comply with requirements set out in Section 17(2)(c) of the Decree No. 243/2013 Coll., as amended (the **Governmental Decree**). The relevant requirements as set out in the Governmental Decree mirror and implement the requirements laid down in Article 52(4) of the Directive 2009/65/EC, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast), as amended (the **UCITS Directive**). In order to comply with these requirements, covered bonds must be issued by a bank or credit institution which has its registered office in a Member State (such as the Issuer) and must be subject to special public supervision designed to protect bond-holders. In particular, proceeds and sums deriving from the issue of those covered bonds shall be invested in assets which, until the maturity of the covered bonds, are capable of covering claims attaching to those covered bonds and which, upon default of their issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest. Although the net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purpose (including making a profit), the requirements of both Section 17(2)(c) of the Governmental Decree and Article 52(4) of the UCITS Directive will be met in the case of Covered Bonds on the basis that any proceeds or sums deriving from an issue of Covered Bonds are fungible in nature and that the Czech Bonds Act 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) and, on top of that, pursuant to the Trust Deed, the Issuer covenants to ensure compliance with the Contractual Asset Cover Test in order to ensure that the Issuer will have sufficient assets and cash-flow in the Cover Pool to meet all of its obligations under the Covered Bonds (see also "*The Cover Pool*"). Like this, the Issuer is effectively, both as a matter of law (in order to comply with the Par Value Test and the other Statutory Tests) and as a matter of contract (in order to comply with the Contractual Asset Cover Test), required to invest and reinvest on on-going basis any proceeds or sums deriving from an issue of Covered Bonds (or its other monies that are fungible with such proceeds or sums) in Eligible Assets that are included in the Cover Pool and serve the very purpose of their use, upon default of the Issuer, on a priority basis for the reimbursement of the principal and payment of the accrued interest in respect of the Covered Bonds as envisaged by both Section 17(2)(c) of the Governmental Decree and Article 52(4) of the UCITS Directive.

This is further supported by the fact that Czech Covered Bonds (including Covered Bonds) are officially recognised as financial instruments issued in accordance with Article 52(4) of the UCITS Directive on the website of the European Commission.

Therefore, the relevant safeguards contained in the Czech Resolution and Recovery Act provide that a partial property transfer may not provide for the transfer of only some, but not all, of the "protected rights and liabilities" under the Covered Bonds, which technically means that the CNB must not (a) decide on the transfer or passage of any Eligible Assets in the Cover Pool without the simultaneous passage of the Covered Bonds, or (b) decide on the transfer or passage of any Covered Bonds without the simultaneous passage of the benefit of the Eligible Assets in the Cover Pool.

The bail-in tool represents one of the crisis resolution measures under the Czech Resolution and Recovery Act. In line with the BRRD, the "bail-in tool" is a process of internal recapitalisation which is triggered when the Issuer reaches the point of non-viability. In this process, losses are imposed on some of the Issuer's direct stakeholders by either a write down of their claims or by their conversion to equity. The purpose of the bail-in tool is to recapitalise all or a part of the Issuer or its successor entity so that it is put on to a stable footing and can be further restructured if necessary. This should ensure that there is no immediate need for a split of the Issuer's business or use of public funds to resolve that Issuer. This tool is exercised by the CNB through a write down of certain claims of unsecured creditors of the Issuer and/or conversion of certain unsecured debt claims (eligible liabilities) to equity, which equity (i.e., capital instruments which may take form of Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments) could also be subject to any future write-down. The Czech Resolution and Recovery Act stipulates certain specific conditions to exercise of the bail-in tool, which the CNB will be obliged to observe. The effect of exercise of the bail-in tool by the CNB is broadly that (i) the nominal value or the amount of principal of an eligible liability owed by the Issuer is permanently decreased as a result of the partial write down or partial conversion to equity; or (ii) an eligible liability owed by the Issuer is cancelled altogether as a result of the full write down or cancelled and modified as a result of full conversion to equity.

The scope of eligible liabilities (which can be subject to the bail-in tool) includes all liabilities of the Issuer, unless such liabilities are explicitly excluded. In line with the BRRD, the rules explicitly exclude from the scope of eligible liabilities, among other things, any liabilities owed by the Issuer under covered bonds (i.e., Czech Covered Bonds) up to the value of all assets that are included in the Cover Pool. On the basis of the Czech Resolution and Recovery Act, therefore, the exercise by the CNB of the bail-in tool in relation to the Issuer could only affect any liabilities owed by the Issuer under the Covered Bonds to the extent that they are not covered and exceed the values of assets included in the Cover Pool. This is based on the argument that the requirements of both Section 17(2)(c) of the Governmental Decree and Article 52(4) of the UCITS Directive will be met in the case of Covered Bonds (and Czech Covered Bonds) as discussed immediately above.

Finally, the application of any of crisis prevention measures and crisis management measures (including crisis resolution measures and actions and the appointment of a special manager) under the Czech Resolution and Recovery Act 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, and the Mortgage Estate (as defined and described in "*General Description of Czech and Slovak Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below) would not be created upon the application of any of crisis prevention measures and crisis management measures 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, 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 and Slovak Legislation relating to Covered Bonds - 7. Consequences of Certain Issuer's Shortcomings*" above) and in certain other cases specified by the Czech Banking Act. The application of crisis management measures and tools (as described above in "*General Description of Czech and Slovak Legislation relating to Covered Bonds - 8. Czech Resolution and Recovery Act*" ) may but does not have to precede the revocation of the Issuer's banking licence. The Czech Insolvency Act distinguishes between:

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

The **Commencement of Insolvency Proceedings** means only the commencement of the court proceedings ascertaining whether insolvency (*úpadek*) or threatened insolvency (*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 is commenced by an insolvency petition (*insolvenční návrh*) which may be 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 the court finds so, it would declare the Issuer insolvent.

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 (*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 dispositions with the assets that form part of the General Insolvency Estate and those assets which may potentially belong there, provided that such dispositions would cause significant changes in the composition, usage or determination of these assets or a reduction, other than negligible reduction, of 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 taken with the prior consent of the insolvency court. 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 the ordinary course of business; (iii) diversion of imminent damage; (iv) the performance of procedural sanctions; and (v) the performance of receivables against the General Insolvency Estate (*pohledávky za majetkovou podstatou*) and receivables set on the same level as receivables against the General Insolvency Estate (*pohledávky postavené na roveň pohledávkám za majetkovou podstatou*). It is very likely that any payments which the Issuer makes under the Covered Bonds fall within the exemption under (ii), i.e., the Issuer's actions necessary for the operation of its business.

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 until the Declaration of Bankruptcy, issue a preliminary injunction prohibiting the Issuer from making dispositions with the assets in the General Insolvency Estate or by making such dispositions subject to the approval of the preliminary insolvency administrator's (*předběžný správce*), who is appointed by the insolvency court (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.

For a Czech Bank like the Issuer there is only one available method of resolving insolvency, which is bankruptcy (*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 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. As of the moment of Declaration of Bankruptcy, among other things, the Issuer's right to dispositions with the General Insolvency Estate is transferred to the court appointed insolvency administrator (*insolvenční správce*) 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 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.

After the Declaration of Bankruptcy, the insolvency administrator cannot make any regular payments on the Covered Bonds and the claims of the Covered Bondholders may 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. 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 insolvency administrator would within 60 days of the Declaration of Bankruptcy notify the Czech Covered Bondholders about, among other things, the registration of their claims under the Covered Bonds.

### **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 so-called 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 (*hypoteční podstata*) (**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, whereby 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 it is probable 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, the 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, the 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, the 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 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 the 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 the CNB Decree and a single Issuer's Mortgage Estate contemplated by the Czech Insolvency Act. However, the costs connected with the administration and liquidation of the Mortgage Estate in the Issuer's insolvency proceedings 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" (*rozvrhové usnesení*) issued following the final report (*konečná zpráva*) or, alternatively, in the "partial distribution list" (*rozvrhové usnesení o částečném rozvrhu*). The partial distribution may be allowed during the bankruptcy proceedings by the insolvency court upon the creditor's committee (*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 Issuer, the insolvency administrator and any creditor of the Issuer who has its claim registered with the insolvency court, which could include each individual Covered Bondholder as well as the Trustee, have the right to dispute the authenticity, amount or ranking of a claim (*popření pravosti, výše a pořadí pohledávek*) filed by a creditor of the Issuer. Such dispute is an "adversary dispute" (*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 the 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 by another creditor.

### 10. RELEVANT PROVISIONS OF SLOVAK LAW AFFECTING THE COVER POOL

The Issuer holds a mortgage licence in Slovakia and as such is subject to Slovak Banking Act and other Slovak laws governing issuance of Slovak Covered Bonds and provision of Slovak Mortgage Loans, but the Covered Bonds under the Programme and the Cover Pool are not governed by Slovak law. Therefore, Slovak law is not directly relevant for the purposes of composition of the Cover Pool and entitlements in respect of the Cover Pool except as set out below.

The Slovak loans secured by way of mortgage include both Slovak Mortgage Loans regulated by Section 68 *et seq* of the Slovak Banking Act and other Slovak consumer residential loans regulated by Act No. 90/2016 Coll., on residential loans (**Slovak Residential Loans** and together with Slovak Mortgage Loans **Slovak Loans** or individually a **Slovak Loan**). For a Slovak Loan to become eligible to be included in the Cover Pool it must comply with the applicable statutory tests (as set out in "*General Description of Czech and Slovak Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above and "*The Cover Pool*" below).

Pursuant to Section 68 of the Slovak Banking Act, each Slovak mortgage bank must finance at least 90% of its Slovak Mortgage Loans through issuing the Slovak Covered Bonds. The NBS may grant a temporary exemption from this rule (for a period of maximum 2 years, which may be subsequently renewed) and decrease the financing ratio requirement to a minimum of 70%. In other words, there is a statutory requirement to maintain a certain ratio between the value of the Slovak Covered Bonds and value of Slovak Mortgage Loans. Since, in turn, the issued Slovak Covered Bonds need to be covered by eligible receivables from Slovak Mortgage Loans, it can be expected that a portion of at least 70% to 90% of the Slovak law governed receivables from the Slovak Mortgage Loans is included in the cover pool maintained under Slovak law for existing Slovak Covered Bonds. Such Slovak cover pool forms a part of the Cover Pool. In accordance with the NBS Regulation, the financing ratio is calculated as the ratio of outstanding Slovak Covered Bonds to the outstanding principal of Slovak Mortgage Loans. Consequently, a maximum of 10 % to 30 % (if the NBS has granted the exemption) of the overall outstanding receivables from the Issuer's Slovak Mortgage Loans may be effectively used for covering the Covered Bonds issued under this Programme. The interaction of Czech law governing the Cover Pool and Slovak law governing the Slovak cover pool for the Slovak Covered Bonds is not clear. However the likely outcome in practice is that the Covered Bondholders would only be able to benefit from those receivables included in the Cover Pool which are not used for covering the Slovak Covered Bonds of the Issuer, i.e., a maximum of 10 % to 30 % of the overall outstanding receivables from the Issuer's Slovak Mortgage Loans (for details see "*Risk Factors – Receivables from mortgage loans governed by Slovak law included in the Issuer's Cover Pool are primarily designated under Slovak law to cover the receivables under Slovak Covered Bonds and may not be fully used for covering the Covered Bonds under the Programme*").

No such rule applies to the Slovak Residential Loans. Accordingly, there is no Slovak cover pool in respect of receivables from the Slovak Residential Loans, which are included in the Cover Pool in full if the otherwise applicable Statutory Eligibility Criteria and the Contractual Eligibility Criteria for the Eligible Assets are also met.

## **ENFORCEMENT OF JUDGMENTS IN THE CZECH REPUBLIC AND SLOVAKIA 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. As the principal assets of the Issuer are located in the Czech Republic and in Slovakia, any judgements rendered in disputes connected with the Trust Deed and/or the Covered Bonds will likely be enforced in these two jurisdictions.

The recognition and enforcement of foreign judgments of civil courts in the Czech Republic and Slovakia is governed by EU law, public international treaties and domestic legislation. In relations among the EU Member States, Regulation (EU) 1215/2012, which recast Regulation (EC) 44/2001, is the governing law on the recognition and enforcement of foreign judgments in the Czech Republic and Slovakia. Based on this regulation, court rulings issued by any court authority in the EU member states, including United Kingdom, with regard to civil and commercial matters are enforceable in the Czech Republic and Slovakia, subject to the rules of the EU Regulation 1215/2012 and, *vice versa*, court rulings issued by court authorities in the Czech Republic and Slovakia with regard to civil and commercial matters are reciprocally enforceable in the EU member states, including the United Kingdom.

According to the EC Regulation No. 593/2008 of 17 June 2008 on the law applicable to contractual obligations, parties to a contract may, subject to the terms set out therein, select the law which will govern their contractual relations in civil and commercial matters and Czech and Slovak 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. Unless parties to the dispute agreed otherwise, or unless courts of a different member state have an exclusive jurisdiction, foreign entities are able to bring civil proceedings before Czech or Slovak courts against individuals and legal entities domiciled therein. In court proceedings, Czech and Slovak courts apply their respective national procedural rules and their judgments are enforceable in their respective jurisdictions, subject to certain statutory limitations on the ability of creditors to enforce judgments against certain assets.

Any person bringing an action in the Czech Republic or Slovakia may be required to: (i) submit to the court a translation in the Czech or Slovak 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 the event that court judgments against the Issuer are issued by court bodies of non-EU member states, the following rules shall apply:

In cases where the Czech Republic or Slovak concluded a treaty with a specific country on the recognition and enforcement of court rulings, the enforcement of court rulings issued in such country is ensured in accordance with the provisions of the applicable international treaty. If no such treaty exists, then the rulings of foreign courts shall be recognized and enforced in the Czech Republic in accordance with the Czech Private International Law Act and other relevant legislation. In the event of a foreign ruling against a Czech individual or legal entity, such a foreign ruling shall be recognized and enforced if, among other things, actual reciprocity has been established regarding the recognition and enforcement of judgments rendered by Czech courts in the relevant country. The Czech Ministry of Justice may, upon agreement with the Czech Ministry of Foreign Affairs and other ministries, declare that reciprocity has been established with respect to a particular foreign country. Such declaration is binding on the Czech courts and other state authorities. If such declaration of reciprocity has not been issued with regard to a particular country, however, this does not automatically mean that reciprocity cannot be established in a given case. In such cases, the recognition of reciprocity would be assessed as part of the proceedings by the Czech court based on the actual situation in a given country with regard to the recognition of judgments of Czech authorities.

On the other hand, even if reciprocity has been established and declared by the Ministry of Justice with respect to judgments issued by judicial bodies of a particular foreign country, such judgments may not be recognized and enforced under applicable provisions of Czech law if, for example: (i) the matter falls

within the exclusive jurisdiction of the courts of the Czech Republic, or in the event that the proceedings on recognition and enforcement could not have been conducted by any authority of a foreign state, should the provisions on the jurisdiction of Czech courts be applied for considering the jurisdiction of the foreign authority (unless the party against whom the decision was issued voluntarily submitted to the authority of the foreign body); (ii) a Czech court has issued or recognized a final judgment in the same matter, or proceedings regarding the same matter are pending before a Czech court; (iii) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity of properly participate in the proceedings (i.e., in particular, if such party had not been duly served for the purposes of the initiation of the proceedings); or (iv) the recognition of a foreign judgment would be contrary to the public order in the Czech Republic.

If there is no relevant international treaty, a judgment of a court of law of a non-EU member state, which is not impeachable as void or voidable under the internal laws of the foreign jurisdiction would be recognised in the Slovak Republic provided that relevant conditions in respect of recognition and enforcement of foreign judgments set out in the Slovak Act No. 97/1963 Coll. on Private and Procedural International Law (the **Slovak Private International Law Act**) are met, including without limitation the following: (i) the non-EU judgment is final and enforceable according to the law of the state where it was issued; (ii) the matter is not within the exclusive jurisdiction of Slovakia; (iii) the non-EU judgment is a decision on the merits of the case; (iv) a party to the dispute against whom an enforcement is sought was not denied access to the foreign court, mainly it must have been served with a statement of claim or summons for the hearing; (v) the non-EU judgment is not irreconcilable with a prior Slovak judgment or an earlier foreign judgment which may be recognised in Slovakia; (vi) the non-EU Judgement is not against the public policy (*ordre public*) of Slovakia; and (vii) the application for recognition before Slovak courts is duly made according to the Slovak Private International Law Act procedural rules and encloses all the documentation thereby required. Under Slovak private international law there is no reciprocity principle applied in relation to civil and commercial foreign judgments.

The Government of the Czech Republic may, under the Constitutional Act. No. 110/1998 Coll., on Security of the Czech Republic, declare an emergency. If such an emergency is declared, 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. Such an emergency may be declared for a maximum period of 30 days unless prolonged by the approval of the Chamber of Deputies of the Parliament of the Czech Republic.

## THE COVER POOL

### Composition of assets

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

The Czech Bonds Act and the CNB Decree prescribe that the Issuer's Cover Pool may only consist of Ordinary Cover Assets and Substitute Assets which are Eligible Assets for the purposes of the Czech Bonds Act and the CNB Decree (for details see "*General Description of Czech and Slovak 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 and Slovak Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above).

Although the Cover Pool includes the Slovak Mortgage Loans and Slovak Residential Loans, the interaction of Czech law governing the Cover Pool and Slovak law governing the Slovak cover pool for the Slovak Covered Bonds is not clear. The likely outcome is that the Covered Bondholders would only be able to benefit from those Mortgage Loans included in the Cover Pool which are not used for covering the Slovak Covered Bonds of the Issuer, i.e., a maximum of 10 % to 30 % of the overall outstanding receivables from the Issuer's Slovak Mortgage Loans. However, no such limitation applies to Slovak Residential Loans that are included in the Cover Pool (for details see "*Risk Factors – Receivables from mortgage loans governed by Slovak law included in the Issuer's Cover Pool are primarily designated under Slovak law to cover the receivables under Slovak Covered Bonds and may not be fully used for covering the Covered Bonds under the Programme*").

#### *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.;
- (f) The Issuer's Cover Pool does not contain any asset-backed securities; and
- (g) The Mortgage Loans are not collateralised by agricultural land (where such agricultural land is subject to a separate mortgage and does not form a functional part of other mortgaged property) or other land not designated for construction purposes.

As of 30 September 2016, 24.98 per cent. of the Mortgage Loans (including among others both Slovak Mortgage Loans and Slovak Residential Loans) were governed by Slovak Law, with the remainder being governed by Czech Law.

## Valuation of assets

### Statutory Tests

The Czech Bonds Act and the CNB Decree 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 Local 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 and Slovak 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 other things, 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 the CNB Decree.

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 the CNB Decree (see "*General Description of Czech and Slovak 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 (*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 (*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 "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 determined by the Issuer (i) 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 or, (ii) if no such direct exchange rate of the relevant currency or currencies to the Czech Koruna is available, the Issuer will use for conversions into Czech Koruna the exchange rate of the relevant currency or currencies (as available from the relevant central bank) to the U.S. dollar or the EUR and subsequently converting such amount in U.S. dollars or EUR pursuant to the valid U.S. dollar or EUR exchange rate to the Czech Koruna (as available from the Czech National Bank) on the Business Day before the relevant determination.

*The Par Value Test:*

The Issuer covenants to ensure that the 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 **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 110 per cent. of the outstanding Nominal Value 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 Adjusted Nominal Values of all Ordinary Cover Assets, where the Adjusted 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,
- 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.
- (b) **Adjusted Nominal Value** means, for each Mortgage Loan, the lower of (i) the outstanding Nominal Value of such Mortgage Loan and (ii) the Mortgaged Property Value related to such Mortgage Loan.

The Issuer covenants, pursuant to the Trust Deed, that it will provide from time to time to the Trustee, Moody's (or another rating agency which has rated the Covered Bonds) and the Asset Monitor information on the current value of the Contractual Adjusted Aggregate Cover Pool Balance and will confirm compliance by the Issuer with the Contractual Asset Cover Test. 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 cannot 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 10 January 2017 between the Issuer, the Asset Monitor and the Trustee (such Asset Monitor Agreement" as amended and/or supplemented and/or restated from time to time, the **Asset Monitor Agreement**), the Asset Monitor has agreed, subject to due receipt of information to be provided by the Issuer to the Asset Monitor, to carry 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 (as defined in the Master Definitions Schedule). 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 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 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 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 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 or other 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 and the Trustee and subject to the terms and conditions of the Asset Monitor Agreement also to 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 220,000 (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, such approval to be given if 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, such approval to be given if 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 the recipients of the Asset Monitor Report (**Recipients**) 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.

## **Description of the Cover Pool**

### ***Composition of the Cover Pool***

In case of the Issuer's insolvency, the assets in the Cover Pool will primarily serve for the satisfaction of all Czech Covered Bondholders' claims (see "*General Description of Czech and Slovak Legislation relating to Covered Bonds - 9. Insolvency of the Issuer and the Cover Pool*" below). In order to be included in the Cover Pool, Mortgage Loans have to meet certain statutory and contractual eligibility criteria. Mortgage Loans, under which any payment is due and unpaid for more than 90 days, are excluded from the Cover Pool. Mortgage Loans are subject to the Individual 200 per cent. LTV Limit and the Aggregate 70 per cent. LTV Limit set forth by the applicable law. In addition, pursuant to the Trust Deed, the Issuer covenants to include each Mortgage Loan in the Cover Pool only in the amount corresponding to a maximum LTV ratio of 100 per cent. (see "*The Cover Pool – Composition of Assets*" above for further details). The composition of assets in the Cover Pool changes in time, as Mortgage Loans which are repaid or cease to meet the eligibility criteria are removed from the Cover Pool and new Mortgage Loans that meet the eligibility criteria are added.

The Cover Pool consists of three types of Mortgage Loans:

- (i) Mortgage Loans which are retail residential loans or commercial loans secured by property located in the Czech Republic and which fall within the definition of Eligible Assets in accordance with the Czech Bonds Act;
- (ii) Slovak Mortgage Loans which meet the requirements of Section 68 et seq. of the Slovak Banking Act (*hypotekárny úver*) and also fall within the definition of Eligible Assets in accordance with the Czech Bonds Act. In order to assess compliance with the Slovak Banking Act, the Issuer maintains a separate register of the Slovak Mortgage Loans. At least 70 per cent. of the value of the Slovak Mortgage Loans must be financed from proceeds of sale of the Slovak Covered Bonds (the Issuer was granted a temporary exemption from the statutory requirement to finance at least 90 per cent. of the value of the Slovak Mortgage Loans from proceeds of sale of the Slovak Covered Bonds. The exemption expires on 30 June 2018, however the Issuer is authorized to apply for its extension.); and
- (iii) Slovak Residential Loans which are secured by Slovak residential property and which do not meet the requirements of Section 68 et seq. of the Slovak Banking Act, but fall within the definition of Eligible Assets in accordance with the Czech Bonds Act.

As of 30 June 2016, the total value of the Cover Pool was CZK 87.9 billion, of which (i) 39.3 per cent. or CZK 34.57 billion consisted of retail residential loans secured by property in the Czech Republic, (ii) 35.9 per cent. or CZK 31.5 billion consisted of commercial loans secured by property in the Czech Republic, (iii) 5.7 per cent. or CZK 4.99 billion (approximately EUR 184.6 million; based on a EUR/CZK exchange rate of 27.03) consisted of the Slovak Mortgage Loans and (iv) 19.1 per cent. or CZK 16.8 billion (approximately EUR 621.4 million; based on a EUR/CZK exchange rate of 27.03) consisted of the Slovak Residential Loans.

The following table provides information on the composition of the Cover Pool as of 30 June 2016:

	<b>As of 30 June 2016</b>			
	<b>Czech Retail Residential Loans</b>	<b>Czech Commercial Loans</b>	<b>Slovak Mortgage Loans</b>	<b>Slovak Residential Loans</b>
Total loan balance (in CZK millions).....	34,572	31,528	4,994	16,804
Average loan balance (in CZK) .....	1,319,962	28,951,630	834,824	967,052
Total number of loans .....	26,192	1,089	5,983	17,377
Total number of debtors .....	24,075	931	5,964	16,222
Total number of properties.....	25,490	1,155	6,214	18,141
Weighted average seasoning (in years) .....	3.5	2.9	3.80	3.20
Contracted weighted average remaining term (in years).....	20.8	4.9	24.30	20.45
Weighted average LTV (in per cent.).....	70	70	79	66
Stake of fixed interest rate loans (in per cent.).....	75	30	84	82
Stake of 10 biggest loans (in per cent.) .....	1	37	1	1
Stake of bullet loans (in per cent.).....	0	2	0	0

As of 30 June 2016, the outstanding Czech Covered Bonds were over-collateralised by 63.63 per cent. in relative terms, the total value of the Cover Pool increased year on year by 7.6 per cent. to CZK 87.9 billion. As of the same date, 55.6 per cent. of the assets included in the Cover Pool was denominated in Czech crowns and 44.4 per cent. was denominated in euro.

#### ***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). For the purposes of managing the Cover Pool and to comply with the applicable statutory

requirements set out in the Czech Bonds Act and the CNB Decree, the Issuer adopted an internal regulation which governs the work-streams, procedures and the competences of individual departments in this area.

The Issuer through its Real Estate Appraisal department continuously monitors and analyses the real estate market in the Czech Republic and development of 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 in charge 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 (other than the “Covered Bonds”)*

The following table lists information concerning the outstanding Czech Covered Bonds (other than the “Covered Bonds”) issued by the Issuer. The data is valid as of 30 November 2016.

<u>Name of the Czech Covered Bond issue</u>	<u>ISIN</u>	<u>Currency</u>	<u>Sum of issue</u>	<u>Interest yield</u>	<u>Issuance date</u>	<u>Date of the maturity of the bonds</u>	<u>Rating (assigned by Moody’s)</u>
			<i>(million)</i>	<i>(% p.a.)</i>			
HZL HVB 5,00/25	CZ0002000680	CZK	10 000	5	23.11.2005	15.11.2025	-
UCB HZL 6,00/17	CZ0002001902	CZK	1 000	6	14.12.2007	14.12.2017	-
UCB HZL 10Y FLOAT/37	CZ0002001910	CZK	12 000	floaters	21.12.2007	21.12.2037	Aa3
UCB HZL 1M FLOAT/17	CZ0002001993	CZK	3 000	floaters	28.12.2007	28.12.2017	-
UCBSDHZL TIMBI100/17	CZ0002002496	CZK	5 000	structured	15.5.2012	15.5.2017	-
UCBSDHZL TIMBI102/17	CZ0002002504	CZK	5 000	structured	15.5.2012	15.5.2017	-
UCBSDHZL TIMBI 85/17	CZ0002002512	CZK	5 000	structured	15.5.2012	15.5.2017	-
UCB HZL 6,00/18	CZ0002002520	CZK	5 000	6	27.4.2012	27.4.2018	Aa3
UCBSDHZL PREM CZK/20	CZ0002002546	CZK	1 000	structured	27.11.2012	27.11.2020	-
UCBSDHZL PREM EUR/20	CZ0002002561	EUR	10	structured	27.11.2012	27.11.2020	-
UCB SD HZL BRIG 2017	CZ0002002595	CZK	1 000	structured	15.8.2012	20.10.2017	-
UCBSDHZL MULTI 2018	CZ0002002629	CZK	1 000	structured	28.2.2013	31.8.2018	-
UCB HZL 7,00/2018	CZ0002002959	CZK	5 000	7	21.12.2012	15.6.2018	-
UCB HZL 7,00/2024	CZ0002002983	CZK	5 000	7	21.12.2012	15.6.2024	-
UCB SDHZL PS 100/18	CZ0002003031	CZK	1 000	structured	30.4.2013	30.10.2018	-
UCB SDHZL PS 102/18	CZ0002003049	CZK	1 000	structured	30.4.2013	30.10.2018	-
UCBSDHZLPS EUR100/18	CZ0002003056	EUR	20	structured	30.4.2013	30.10.2018	-
UCB HZL 2,00/2020	CZ0002003080	EUR	50	2	3.6.2013	3.6.2020	Aa3
UCB SD HZL BS III/19	CZ0002003098	CZK	1 000	structured	30.8.2013	28.2.2019	-
UCB SD HZL BS EUR/19	CZ0002003106	EUR	20	structured	30.8.2013	28.2.2019	-
UCB HZL 3,04/2028	CZ0002003114	EUR	30	3,04	7.6.2013	7.6.2028	Aa3
UCB HZL 6M VAR/2020	CZ0002003148	EUR	30	floaters	18.7.2013	18.7.2020	-
UCB SDHZL GIG 100/19	CZ0002003189	CZK	1 000	structured	13.12.2013	17.6.2019	-
UCB SDHZL GIG 90/19	CZ0002003197	CZK	1 000	structured	13.12.2013	17.6.2019	-
UCB SD HZL PS IV/2019	CZ0002003213	CZK	1 000	structured	14.3.2014	13.9.2019	-
UCBSDHZLPS EUR IV/19	CZ0002003221	EUR	50	structured	14.3.2014	13.9.2019	-
UCB SDHZL EUR TOP 19	CZ0002003239	EUR	50	structured	10.1.2014	10.7.2019	-

UCB HZL EUR 2,00/18	CZ0002003262	EUR	80	2	21.10.2013	22.10.2018	-
UCB SDHZL TII 90/19	CZ0002003403	CZK	1 000	structured	30.6.2014	20.12.2019	-
UCB SDHZL TII 100/19	CZ0002003411	CZK	1 000	structured	30.6.2014	20.12.2019	-
UCB SDHZL GII 100/19	CZ0002003429	CZK	1 000	structured	2.5.2014	4.11.2019	-
USB SDHZL TIII 95/21	CZ0002003809	CZK	1 000	structured	27.3.2015	29.3.2021	-
UCB HZL 1M FLOAT/16	CZ0002003825	CZK	2 000	floater	19.12.2014	19.12.2016	-
UCB HZL 0,75/2020	CZ0002004047	CZK	5 100	0,75	12.6.2015	12.6.2020	-
UCB HZL ZERO II./2018	CZ0002002819	CZK	5 000	zero	21.12.2012	15.6.2018	-
UCB HZL ZERO II./2019	CZ0002002827	CZK	5 000	zero	21.12.2012	15.6.2019	-
UCB HZL ZERO II./2020	CZ0002002835	CZK	5 000	zero	21.12.2012	15.6.2020	-
UCB HZL ZERO II./2021	CZ0002002843	CZK	5 000	zero	21.12.2012	15.6.2021	-
UCB HZL ZERO II./2022	CZ0002002850	CZK	5 000	zero	21.12.2012	15.6.2022	-
UCB HZL ZERO II./2023	CZ0002002868	CZK	5 000	zero	21.12.2012	15.6.2023	-
UCB HZL ZERO II./2024	CZ0002002876	CZK	5 000	zero	21.12.2012	15.6.2024	-
UCB HZL ZERO II./2025	CZ0002002884	CZK	5 000	zero	21.12.2012	15.6.2025	-
UCB HZL ZERO II./2026	CZ0002002892	CZK	5 000	zero	21.12.2012	15.6.2026	-
UCB HZL ZERO II./2027	CZ0002002900	CZK	5 000	zero	21.12.2012	15.6.2027	-
UCB HZL ZERO II./2028	CZ0002002918	CZK	5 000	zero	21.12.2012	15.6.2028	-
UCB HZL ZERO II./2029	CZ0002002926	CZK	5 000	zero	21.12.2012	15.6.2029	-
UCB HZL ZERO II./2030	CZ0002002934	CZK	5 000	zero	21.12.2012	15.6.2030	-
UCB HZL ZERO II./2031	CZ0002002942	CZK	5 000	zero	21.12.2012	15.6.2031	-
UCB HZL 7,00/2022	CZ0002002975	CZK	5 000	7	21.12.2012	15.6.2022	-
UCB HZL 7,00/2026	CZ0002002991	CZK	5 000	7	21.12.2012	15.6.2026	-
UCB HZL 7,00/2028	CZ0002003007	CZK	5 000	7	21.12.2012	15.6.2028	-
UCB HZL 7,00/2030	CZ0002003015	CZK	5 000	7	21.12.2012	15.6.2030	-
UCB HZL 7,00/2032	CZ0002003023	CZK	5 000	7	21.12.2012	15.6.2032	-

*List of Issued and Outstanding Covered Bonds issued under the English law*

The following table lists information concerning the outstanding Covered Bonds issued by the Issuer under the English law. The data is valid as of 30 November 2016.

Name of the Covered Bond issue	ISIN	Currency	Sum of issue	Interest yield	Issuance date	Date of the maturity of the bonds	Rating (assigned by Moody's)
			(million)	(% p.a.)			
UCB HZL 1,875/18	XS1002162136	EUR	800	1,875	13.12.2013	13.12.2018	Aa3
UCB HZL 3M FLOAT/23	XS1206759406	EUR	131,8	floater	20.3.2015	15.9.2023	Aa3
UCB HZL 3M FLOAT/21	XS1206761139	EUR	234	floater	20.3.2015	16.3.2021	Aa3
UCB HZL 0,625/20	XS1225180949	EUR	250	0,625	30.4.2015	30.4.2020	Aa3

*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 November 2016.

<b>Name of the Slovak Covered Bond issue</b>	<b>ISIN</b>	<b>Currency</b>	<b>Sum of issue</b>	<b>Interest yield</b>	<b>Issuance date</b>	<b>Date of the maturity of the bonds</b>	<b>Rating (assigned by Moody's)</b>
			<i>(million)</i>	<i>(% p.a.)</i>			
UCBSK10H	SK4120009051	EUR	30	2,1	27.3.2013	27.3.2018	-
UCBSK11H	SK4120009598	EUR	10	1,85	20.11.2013	20.11.2018	-
UCB HZL 3M floater 2018	SK4120009903	EUR	10	floater	31.3.2014	28.3.2018	-
UCB HZL 1.55/2021	SK4120010208	EUR	15	1,55	28.8.2014	30.8.2021	-
UCB HZL 0.40/2017 (UCBHZL15H)	SK4120010760	EUR	15	0,4	25.5.2015	25.5.2017	-
UCB HZL 1.20/2022 (UCBHZL14H)	SK4120010752	EUR	30	1,2	25.5.2015	25.5.2022	Aa3
UCB HZL EUR 1,40/2024	SK4120011131	EUR	15	1,4	15.10.2015	15.10.2024	-
UCB HZL EUR 1,80/2025	SK4120011123	EUR	30	1,8	15.10.2015	15.10.2025	-
UCB HZL EUR 3M floater 2018	SK4120011248	EUR	30	floater	26.11.2015	26.11.2018	-
UCB HZL EUR 6M floater 2020	SK4120011313	EUR	20	floater	17.12.2015	17.12.2020	Aa3
UCB HZL EUR 0,65/2021	SK4120011305	EUR	20	0,65	10.12.2015	10.12.2021	Aa3

## **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. If, in respect of an issue of Covered Bonds which fall within the definition of derivative securities for the purposes of Article 15 of the Prospectus Regulation, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## SELECTED FINANCIAL INFORMATION

The following tables set out selected consolidated financial information relating to the Issuer. All information has been extracted from the unaudited consolidated financial statements of the Issuer as of and for the six months ended 30 June 2016 and 2015 and the audited consolidated financial statements of the Issuer as of and for the years ended 31 December 2015 and 2014. The financial statements have been prepared in accordance with IFRS as adopted by the EU.

### Selected consolidated income statement data

	Six months ended 30		Year ended 31	
	June		December	
	2016	2015	2015	2014
	<i>(in CZK millions)</i>			
Interest income and similar income.....	6,015	6,538	12,748	13,232
Interest expense and similar charges .....	(937)	(1,338)	(2,513)	(3,183)
<b>Net interest income and similar income .....</b>	<b>5,078</b>	<b>5,200</b>	<b>10,235</b>	<b>10,049</b>
Fee and commission income .....	2,440	2,518	5,060	4,703
Fee and commission expenses.....	(521)	(562)	(1,217)	(1,146)
<b>Net fee and commission income .....</b>	<b>1,919</b>	<b>1,956</b>	<b>3,843</b>	<b>3,557</b>
Dividend income .....	-	-	2	1
Net income/loss from financial assets and liabilities held for trading .....	951	1,133	1,905	1,621
Net income/loss from hedging against risk of changes in fair value .....	5	(5)	(9)	(15)
Net income/loss from the sale of financial assets and liabilities.....	886	(6)	9	(18)
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading .....	3	(5)	(1)	(8)
<b>Operating income .....</b>	<b>8,842</b>	<b>8,273</b>	<b>15,984</b>	<b>15,187</b>
Impairment losses on financial assets and off-balance sheet items.....	(542)	(762)	(1,441)	(2,236)
Administrative expenses .....	(4,151)	(3,646)	(7,507)	(7,170)
Creation and release of provisions .....	(2)	26	16	(81)
Depreciation and impairment of property and equipment .....	(370)	(345)	(680)	(355)
Amortisation and impairment of intangible assets .....	(22)	(13)	(35)	(22)
Other operating income and expenses .....	396	319	665	635
<b>Operating expenses .....</b>	<b>(4,149)</b>	<b>(3,659)</b>	<b>(7,541)</b>	<b>(6,993)</b>
Profit/loss from investments in associates.....	27	31	59	71
Profit/loss from the sale of non-financial assets .....	182	1	3	1
<b>Profit before income tax .....</b>	<b>4,360</b>	<b>3,884</b>	<b>7,064</b>	<b>6,030</b>
Income tax.....	(897)	(789)	(1,424)	(1,119)
<b>Net profit.....</b>	<b>3,463</b>	<b>3,095</b>	<b>5,640</b>	<b>4,911</b>
Net profit attributable to the Group's shareholders .....	3,462	3,094	5,638	4,908
Net profit attributable to minority shareholders .....	1	1	2	3
<b>Other comprehensive income</b>				
<b>Items that may be subsequently reclassified to profit or loss</b>				
Reserve from revaluation of hedging instruments.....	537	(698)	(367)	1,310
Changes in net fair values of derivatives in cash flow hedges .....	565	(719)	(357)	1,068
Net fair value of derivatives in cash flow hedges transferred to profit or loss.....	(28)	21	(10)	242
Reserve from revaluation of available-for-sale securities .....	(704)	(656)	510	1,271
Change in revaluation of available-for-sale securities .....	(205)	(655)	621	1,211
Revaluation of available-for-sale securities transferred to profit or loss.....	(499)	(1)	(111)	60
Foreign exchange rate gains from the consolidation of a foreign branch .....	48	(219)	(334)	141
<b>Other comprehensive income after tax.....</b>	<b>(119)</b>	<b>(1,573)</b>	<b>(191)</b>	<b>2,722</b>
Other comprehensive income attributable to the Group's shareholders .....	(119)	(1,572)	(191)	2,720



Other comprehensive income attributable to minority shareholders .....	-	(1)	-	2
<b>Total comprehensive income .....</b>	<b>3,344</b>	<b>1,522</b>	<b>5,449</b>	<b>7,633</b>
Total comprehensive income attributable to the Group's shareholders .....	3,343	1,521	5,447	7,628
Total comprehensive income attributable to the minority shareholders .....	1	1	2	5

#### Selected consolidated balance sheet data

	As of 30	As of 31 December	
	June 2016	2015	2014
	<i>(in CZK millions)</i>		
<b>ASSETS</b>			
Cash in hand and cash balances .....	4,416	4,445	4,135
Financial assets at fair value through profit or loss including: .....	13,360	9,567	12,979
- held for trading .....	13,311	8,028	11,707
- not held for trading .....	49	1,539	1,272
Available-for-sale securities .....	84,047	82,649	88,345
Securities held to maturity .....	182	186	191
Receivables from banks .....	141,225	106,611	48,782
Receivables from clients .....	373,221	351,541	339,510
Positive fair value of hedging derivatives .....	6,304	4,907	5,423
Equity investments in associates .....	368	401	542
Property and equipment .....	4,895	5,116	4,682
Intangible assets .....	1,015	792	97
Tax receivables, including: .....	949	1,048	1,102
- current income tax .....	173	182	115
- deferred tax .....	776	866	987
Non-current assets held for sale: .....	39	23	0
Other assets .....	2,758	2,998	2,828
<b>Total assets .....</b>	<b>632,779</b>	<b>570,284</b>	<b>508,616</b>
<b>LIABILITIES</b>			
Deposits from banks .....	100,853	59,702	54,742
Deposits from clients .....	372,156	363,989	328,585
Debt securities issued .....	63,299	65,019	47,285
Financial liabilities held for trading .....	9,258	7,036	7,552
Negative fair value of hedging derivatives .....	4,320	3,144	3,445
Tax liabilities, including: .....	2,153	1,995	1,735
- current income tax .....	968	721	393
- deferred tax .....	1,185	1,274	1,342
Other liabilities .....	14,488	6,657	5,549
Provisions .....	1,403	1,236	1,313
<b>Total liabilities .....</b>	<b>567,930</b>	<b>508,778</b>	<b>450,206</b>
<b>EQUITY</b>			
Issued capital .....	8,755	8,755	8,755
Share premium .....	3,495	3,495	3,495
Reserve funds from revaluation of financial instruments .....	5,325	5,444	5,635
Retained earnings, reserve funds and other capital funds .....	43,811	38,172	35,614
Profit for the period .....	3,463	5,640	4,911
<b>Total shareholder's equity .....</b>	<b>64,849</b>	<b>61,506</b>	<b>58,410</b>
<b>Total liabilities and shareholder's equity .....</b>	<b>632,779</b>	<b>570,284</b>	<b>508,616</b>

## DESCRIPTION OF THE ISSUER

The Issuer is a universal bank providing retail, commercial and investment banking services mainly in the Czech Republic and Slovakia for domestic and foreign customers.

The Issuer was incorporated as a joint stock company under the laws of the Czech Republic on 1 January 1996 for an indefinite period and is registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 3608. The Issuer's identification number is 649 48 242 and its registered office is at Želetavská 1525/1, 140 92 Prague 4, Czech Republic, its telephone number is +420 955 911 111, its fax number +420 221 112 132, its email address info@unicreditgroup.cz and its internet address www.unicreditbank.cz.

### Overview

The Issuer is the fourth largest bank and financial services provider in the Czech Republic, based on its balance sheet sum (according to the Issuer's data and the CNB's ARAD database as of 30 June 2016). The Issuer, together with its direct and indirect subsidiaries (the **Group**), offers a wide range of banking and financial services to both private and corporate clients. Headquartered in Prague, as of 1 December 2016, the Issuer operated a wide network of 162 branches and 391 ATMs throughout the Czech Republic and Slovakia. As of 31 December 2015, the Issuer had 3,301 full-time equivalent employees.

The Issuer holds a universal banking licence and offers services to retail clients, small and medium enterprises, large corporate customers, as well as institutional and public sector clients and high net worth individuals. Key products and services offered by the Issuer include bank accounts, credit and debit cards, corporate and consumer loans, real estate, export and project finance, private banking and investment banking products. Through its subsidiaries, the Issuer further provides additional services such as factoring products, leasing and instalment sales, mediation of services and sales, real estate activities including purchase, sale, lease and administration, or consumer and commercial loans.

The Issuer operates primarily in the Czech Republic and Slovakia. In the year ended 31 December 2015, 73.7 per cent. of the Issuer's operating income (calculated on the basis of separate non-consolidated financial statements) was generated in the Czech Republic and 26.3 per cent. in Slovakia. As a member of the UniCredit Group, one of the largest European banking groups, the Issuer can take advantage of UniCredit Group's wide network when offering products and services outside of the Czech Republic and Slovakia. As of 30 September 2016, the UniCredit Group operated in 17 countries, its international network spanned over 40 countries and it had over 7,500 branches and over 142,000 full-time equivalent employees. It is also a global player in asset management, with EUR 225.8 billion in managed assets as of 30 September 2016 (according to data of UniCredit S.p.A. presented in UniCredit Group: Company Profile as of September 30, 2016).

The Issuer's business activities are divided into three primary operating segments, differentiated by the scope and nature of products and services they offer. These segments are: (i) the corporate and investment banking segment (the **Corporate and Investment Banking Segment**), (ii) the private and retail banking segment (the **Private and Retail Banking Segment**) and (iii) the other business segment (the **Other Business Segment**).

The table below provides key financial data for the Issuer's segments:

	Six months ended 30 June					
	2016	2015	2016	2015	2016	2015
	Net interest and dividend income		Profit (loss) before tax		Net profit (loss)	
	<i>(in CZK millions)</i>					
Corporate and Investment Banking Segment .....	3,667	3,468	3,250	3,255	3,250	3,255
Private and Retail Banking Segment .....	1,432	1,475	375	667	375	667
Other Business Segment .....	(31)	257	735	(38)	(162)	(827)
<b>Total .....</b>	<b>5,078</b>	<b>5,200</b>	<b>4,360</b>	<b>3,884</b>	<b>3,463</b>	<b>3,095</b>

In 2016, the Issuer amended its segmental reporting by including its private banking operations, previously part of the Corporate and Investment Banking Segment (previously called Private, Corporate

and Investment Banking Segment) into the Private and Retail Segment (previously called Retail Banking Segment). The first financial statements of the Issuer to reflect this change in segmental reporting are the unaudited consolidated financial statements as of and for the six months ended 30 June 2016 and 2015. As a result, data for the Issuer's segments included in the financial statements for the years ended 31 December 2015 and older may not be fully comparable with the data contained in this Base Prospectus.

As of 30 June 2016, the total assets of the Issuer were CZK 632.8 billion, the Issuer had CZK 372.2 billion of customer deposits and outstanding customer loans of CZK 373.2 billion. The Issuer aims to maintain its financial stability through a strong capital base, with its common equity tier 1 (CET1) ratio amounting to 14.4 per cent. and its total capital ratio amounting to 14.8 per cent. (both according to Basel III phase-in rules) as of 30 June 2016.

As of the date of this Base Prospectus, the Issuer's share capital amounts to CZK 8,754,617,898 and has been fully paid up. The Issuer's shares have not been admitted to trading on a regulated market and are all registered in the central securities depository. The Issuer has not issued any shares providing their holders a right to exchange such shares for other shares or a right to priority subscription of other shares. The Issuer's shares are freely transferrable. No consent of any of the company's body is required for their transfer or pledge to become effective. Voting rights pertaining to these shares are in no way limited.

The Issuer has won a number of prestigious awards for a variety of its products and services. In 2016, the Issuer's *U Konto* product won the award for the best bank account in the Bank of the Year 2016 contest, organized by Fincentrum, Media, and the Issuer was also awarded for the best mortgage and consumer loan on the market in the Golden Crown (*Zlatá koruna*) competition. In 2015, the Issuer achieved a leading position in the contest Bank of the Year 2015 contest, organized by Fincentrum Media, and two of the Issuer's transactions were awarded the prize Export Transaction of the Year 2015 organised by the Export Guarantee and Insurance Corporation (*Exportní garanční a pojišťovací společnost, "EGAP"*) and the Czech Export Bank (*Česká exportní banka*). Further awards granted to the Issuer in 2015 included Best Trade Finance Bank in the Czech Republic and Slovakia by EMEA Finance or Innovative Bank of the Year by MasterCard.

In the conduct of its activities, the Issuer is primarily governed by Czech and Slovak law, in particular the Czech Banking Act, the Czech Business Corporations Act, the Czech Capital Markets Act, the Slovak Banking Act, the Slovak Securities Act, Slovak Act No. 513/1991 Coll., the Commercial Code, as amended, and other Czech and Slovak laws and regulations governing operations in the banking and capital markets.

### **History and Development of the Issuer**

Although the UniCredit Group launched its activities in the Czech market on 5 November 2007, the entity today called UniCredit Bank Czech Republic and Slovakia a.s. (i.e., the Issuer) was incorporated on 1 January 1996 (then with the business name Vereinsbank (CZ) a.s.). The Issuer was created 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. 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.

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 in the commercial register on 1 October 2001. HVB Bank Czech Republic, a.s. became a member of the UniCredit Bank Austria AG's (**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. On the day of its entry in the Commercial Register, on 1 March 1992, Živnostenská banka assumed authorization to operate as a bank on the basis of, among others, the Czech Banking Act and Government Resolution No. 1 dated 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 was thereby wound up, became effective. The decisive date was set up as 1 July 2013. The merger integrated the business activities of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s., previously performed by two independent entities, meaning that following the completion of the merger, the Issuer performs activities previously undertaken by UniCredit Bank Slovakia a.s. on the territory of Slovakia through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank).

On 14 February 2014, the Issuer purchased all shares in UniCredit Leasing CZ, a.s. (**UniCredit Leasing CZ**) and further 71.3 per cent. of shares in UniCredit Leasing Slovakia, a.s. (**UniCredit Leasing SLK**) (resulting in a total ownership interest of 91.2 per cent.) from UniCredit Leasing S.p.A. for a total acquisition price of CZK 3.21 billion. The sale occurred as part of the reorganization within the Issuer's Group. The 91.2 per cent. of shares in UniCredit Leasing Slovakia were subsequently transferred as a non-monetary contribution to the registered capital of UniCredit Leasing CZ. The purpose of the acquisition of UniCredit Leasing CZ was primarily to extend an offer of financial services to clients of the Issuer and UniCredit Leasing CZ through the creation of a new service model based on client approach from one place.

On 20 January 2015, the Issuer completed the acquisition of 100 per cent. of shares in Transfinance, a.s. The entity was acquired from a person outside the UniCredit Group. In May 2015, the name Transfinance, a.s. was changed to UniCredit Factoring Czech Republic and Slovakia, a.s.

## **Corporate Changes**

### ***Minority shareholders' squeeze out***

On 1 June 2016, the general meeting of the Issuer decided on the squeeze-out of the Issuer's minority shareholders, based on a request by its former majority shareholder Bank Austria. Pursuant to the resolution, all shares in the Issuer owned by persons other than Bank Austria, corresponding to approx. 0.04 per cent. of the Issuer's share capital, were transferred onto Bank Austria, in exchange for compensation to be paid by Bank Austria to the minority shareholders. In September 2016, Bank Austria was entered into the Commercial Register as the sole shareholder of the Issuer.

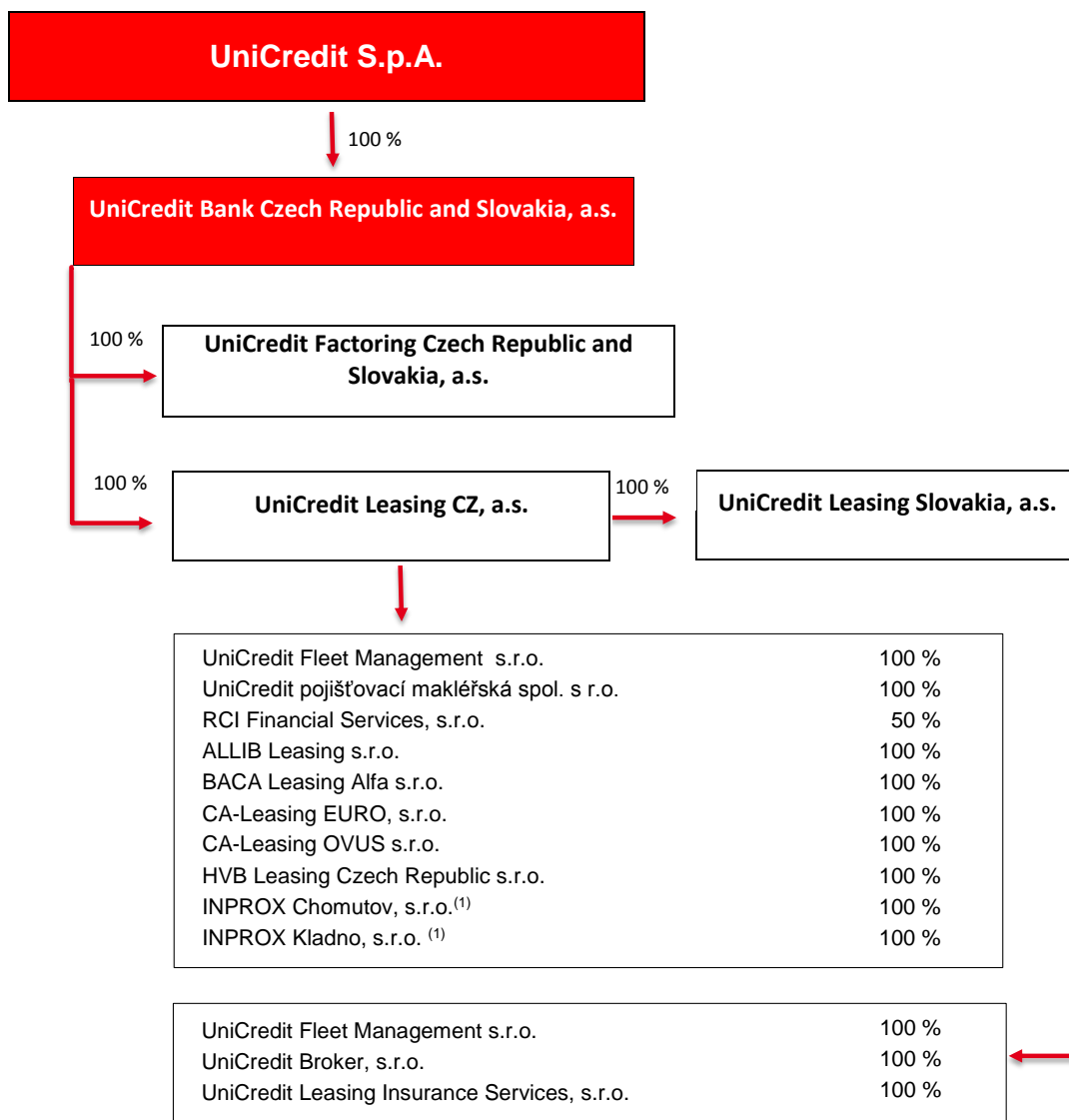
### ***Reorganization of the UniCredit Group***

On 11 November 2015, UniCredit S.p.A. announced its so-called "2018 strategic plan" in which it communicated its financial targets and contemplated measures to achieve such financial targets. These include, among others, the elimination of Bank Austria's function as sub-holding of the CEE subsidiaries, including the Issuer, with UniCredit S.p.A. assuming direct control of such subsidiaries by the end of 2016.

The restructuring was achieved through a demerger of the business operations and subsidiaries of Bank Austria in CEE, including, among others, the Issuer, UniCredit Bank a. d. Banja Luka, UniCredit Bank Hungary Zrt., UNICREDIT BANK S. A., UniCredit Bank Serbia JSC, UniCredit Banka Slovenija d. d. and UniCredit Bulbank AD, into a special purpose vehicle and the subsequent cross-border merger of this special purpose vehicle into UniCredit S.p.A. The reorganization following the completion of the demerger and merger became effective as of 1 October 2016. Consequently the Issuer ceased to be a subsidiary of Bank Austria and became a direct subsidiary of UniCredit S.p.A.

## **Group Structure**

The table below provides an overview of the Group structure as of the date of this Base Prospectus:



Note:

- (1) Merged with UniCredit Leasing CZ, a.s., as the successor company. The decisive day of the merger was 1 January 2016 and the company was deleted from the commercial register on 3 August 2016.

As of 30 June 2016, the Group comprised the Issuer and 15 subsidiaries and one associate. The following table provides an overview of companies that are consolidated in the financial statements as of and for the six months ended 30 June 2016:

<b>Group Entity</b>	<b>Country</b>	<b>Business Activity</b>	<b>Parent Company</b>	<b>Ownership Interest</b> (per cent.)
UniCredit Factoring Czech Republic and Slovakia, a.s. ....	CZ	Factoring	Issuer	100.0
UniCredit Leasing CZ.....	CZ	Leases	Issuer	100.0
UniCredit Fleet Management s.r.o. ....	CZ	Lease of motor vehicles	UniCredit Leasing CZ	100.0
UniCredit pojišťovací makléřská spol. s r.o. ....	CZ	Mediation of services	UniCredit Leasing CZ	100.0
RCI Financial Services, s.r.o. (1)	CZ	Financing of motor vehicles	UniCredit Leasing CZ	50.0
ALLIB Leasing s.r.o. ....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
BACA Leasing Alfa s.r.o. ....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
CA-Leasing EURO, s.r.o. ....	CZ	Real estate project company	UniCredit Leasing CZ	100.0

CA-Leasing OVUS s.r.o. ....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
HVB Leasing Czech Republic s.r.o.....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
INPROX Chomutov, s.r.o. <sup>(2)</sup> .....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
INPROX Kladno, s.r.o. <sup>(2)</sup> .....	CZ	Real estate project company	UniCredit Leasing CZ	100.0
UniCredit Leasing SLK.....	SLK	Leases	UniCredit Leasing CZ	100.0
UniCredit Fleet Management s.r.o. ....	SLK	Lease of motor vehicles	UniCredit Leasing SL	100.0
UniCredit Broker, s.r.o.....	SLK	Mediation of services	UniCredit Leasing SL	100.0
UniCredit Leasing Insurance Services, s.r.o. ....	SLK	Mediation of services	UniCredit Leasing SL	100.0

Notes:

- (1) RCI Financial Services, s.r.o. is an associate that is consolidated using the equity method. The Group holds 49.9 per cent. of voting rights and does not exercise control over this entity.
- (2) Merged with UniCredit Leasing CZ as the successor company. The decisive day of the merger was 1 January 2016 and the company was deleted from the commercial register on 3 August 2016.

Former Group companies INPROX Poprad, spol. s r.o. and INPROX SR I., spol. s r.o. were merged with UniCredit Leasing SLK in February 2016 and BACA Leasing Gama s.r.o. was sold outside the UniCredit Group in March 2016.

The following table provides an overview of the key direct and indirect subsidiaries of the Issuer as of 30 June 2016:

<b>Subsidiary</b>	<b>Description</b>
UniCredit Factoring Czech Republic and Slovakia, a.s.	Principal activity is the provision of factoring services, the purpose of which is to finance, collect and secure short-term receivables of clients from various industry segments whereby the services are intended primarily for small and medium sized companies.
UniCredit Leasing CZ	Principal activities include leases and instalment sale, primarily brand vehicle financing, credit financing in the area of corporate loans, and operating leasing for businesses and private individuals.

### ***Slovak Branch of the Issuer***

As a result of the cross-border merger of the Issuer and the former UniCredit Bank Slovakia a.s. on 1 December 2013 (see “*History and Development of the Issuer*” above), the Issuer assumed business activities previously conducted by UniCredit Bank Slovakia a.s. and has been operating and offering banking services in Slovakia through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank). Pursuant to the Slovak Banking Act, the Issuer offers banking services in Slovakia on the basis of its Czech banking license granted by the CNB.

The purpose of the cross-border merger of the Czech and Slovak banks was to create a stronger entity which would do business on both markets, benefiting from cost synergies, more balanced capital structure and optimised liquidity management.

### **Sole Shareholder**

As a result of the restructuring of the UniCredit Group, as of 1 October 2016, the Issuer became a direct subsidiary of UniCredit S.p.A. (see “*Corporate changes - Reorganization of the UniCredit Group*” above for more information).

UniCredit S.p.A. is incorporated under Italian law, with its registered office at Via A. Specchi 16, 00186, Rome, Italy. It is a universal bank, a financial services provider and the parent company of the UniCredit Group. It offers banking and financial services for families, individuals and corporate clients, such as accounts, loans, mortgages, investments, financial advices and insurances products. It operates through numerous subsidiaries, such as Pioneer Global Asset Management, Bank Pekao and Bank Austria AG in

domestic market, Germany, Austria, Poland and CEE. Its shares are listed and traded on the Milan Stock Exchange.

UniCredit S.p.A.'s business is divided into eight segments: (i) commercial banking Italy, (ii) CEE, (iii) corporate and investment banking, (iv) commercial banking Germany, (v) Poland, (vi) commercial banking Austria, (vii) asset management and (viii) asset gathering. The Issuer is part of the CEE business segment.

As the Issuer's sole shareholder, UniCredit S.p.A. exercises control over the Issuer that must therefore comply, subject to applicable law, with relevant directives issued by UniCredit S.p.A. The Issuer uses standard statutory mechanisms to prevent UniCredit S.p.A.'s potential misuse of its position and control over the Issuer, including the statutory instrument of the report on relations between the related entities. The Issuer is not a party to a controlling contract or a contract for the transfer of profits. The Issuer is not aware of any agreements that could lead to a change of control over the Issuer.

### **UniCredit Group**

The Issuer is part of the UniCredit Group, one of the largest European banking groups with a focus on Austria, Germany and Italy as well as CEE including the Czech Republic and Slovakia. The UniCredit Group and its parent company UniCredit S.p.A. act as a universal banking and financial services provider, offering its products to retail, corporate and institutional clients in both Western Europe and CEE. It operates in 17 countries and its international network spans over 40 countries including representative offices in major financial centres throughout the world. As of 30 September 2016, the UniCredit Group had over 7,500 branches, over 142,000 full-time equivalent employees and it was also a global player in asset management, with EUR 225.8 billion in managed assets (according to data of UniCredit S.p.A. presented in UniCredit Group: Company Profile as of September 30, 2016).

UniCredit Group's portfolio of activities is highly diversified by segments and geographical areas, with a strong focus on commercial banking. Its wide range of banking and financial activities include deposit-taking, lending, asset management, securities trading and brokerage, investment banking, international trade finance, corporate finance, leasing or factoring.

The contemporary history of the UniCredit Group started with the merger of nine leading Italian banks, the subsequent integration with the German HVB Group and, most recently, with the Italian Capitalia. In 1999, the acquisition of Bank Pekao of Poland started the UniCredit Group's expansion (at that time under the name UniCredito Italiano) into CEE, which continued over the next years through, among others, the purchase of the Pioneer Investments Group, the subsequent formation of Pioneer Global Asset Management, and further strategic acquisitions gradually carried out in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic, and Turkey.

### **Business Overview of the Issuer**

The Issuer is a universal provider of banking and financial products and services, including retail, commercial as well as investment banking, in Czech Koruna and foreign currencies for both domestic and foreign clients. The Issuer operates mainly in the Czech Republic and Slovakia, but it is active also in other EU countries, taking advantage of the wide network of the UniCredit Group.

The Issuer's business activities include banking transactions and provision of financial services including primarily:

- receiving deposits from the public;
- providing loans;
- investing in securities on its own behalf;
- administering cash collection;
- issuing and administration of payment products;
- operating a system of payments and clearing;
- opening letters of credit;
- conducting financial brokerage;
- issuing mortgage bonds;
- participating in share subscriptions and providing related services;
- providing depository services for investment funds;
- conducting foreign currency exchange activities;
- providing banking information;
- renting safe-deposit boxes;
- providing custody and depository services and administration of securities;

- providing guarantees;
- managing securities, including portfolio management, on behalf of clients;
- and
- trading on its own behalf or on behalf of clients with foreign-exchange currency products, derivatives and transferable securities.

Through its Group companies, the Issuer also provides the following types of services:

- lease and instalment sale of cars, machinery and equipment;
- consumer and commercial loans granted for the purchase of cars, machinery and equipment;
- lease to own (lease purchase)
- mediation of services and sales;
- purchase, sale and lease of real estate;
- purchase, sale and lease of real estate;
- real estate administration and maintenance;
- operational financing by way of factoring local and foreign receivables; and
- real estate activities.

The Issuer operates through three principal business segments: the Corporate and Investment Banking Segment, the Private and Retail Banking Segment and the Other Business Segment.

### ***Corporate and Investment Banking Segment***

The Issuer's Corporate and Investment Banking Segment covers various customers including SMEs (companies with an annual turnover between CZK 10 and 150 million), large enterprises (companies with an annual turnover between CZK 150 million and 2.5 billion), corporate clients (companies with an annual turnover above 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) and agriculture (farmers, biogas plants and subsidy programmes).

Key services and products offered in the Issuer's Corporate and Investment Banking Segment are: lending operations, commercial real estate finance, project and structured finance, trade and export finance, documentary transactions, investment advisory, treasury and custody services, capital market activities inclusive of securities underwriting for clients, EU funds, maintaining accounts and deposits, payments, electronic banking and cash pooling. The Issuer's subsidiaries further offer comprehensive leasing and factoring services including domestic factoring and export.

The table below outlines key financial data for the Issuer's Corporate and Investment Banking Segment for the six months ended 30 June 2016 and 2015:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in CZK millions)</i>	
Net interest and dividend income .....	3,677	3,468
Other net income .....	2,377	2,254
Depreciation/impairment losses of property and equipment and intangible assets .....	(323)	(284)
Impairment of assets and provisions .....	(545)	(778)
Segment expenses .....	(1936)	(1,405)
Profit before tax .....	3,250	3,255
Income tax <sup>(1)</sup> .....	-	-
<b>Result of segment .....</b>	<b>3,250</b>	<b>3,255</b>
Segment assets (end of period).....	523,836	460,042
Segment liabilities (end of period).....	375,424	311,104

Note:

- (1) Income tax is not disclosed separately for this segment. The aggregate amount of all segments is presented in the Other Business Segment table (see "*Business Overview of the Issuer - Other Business Segment*" below).



## *Corporate Banking*

The Issuer's corporate banking sub-segment offers tailored financial services to large national and international corporate clients, financial institutions, public institutions and institutional real estate customers. It provides a complete range of commercial banking services and finance products together with access to one of the largest networks of banks in CEE, as well as to branches of the UniCredit Group in major financial centres worldwide.

The Issuer's activities in this segment include among other things structured and project finance, syndications, real-estate finance, trade finance and investment advisory. The Issuer provides additional services to its corporate customers including working capital financing, a variety of domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and insurance services.

The Issuer also provides project financing and real estate financing, where the main source of repayment is the future cash-flow from the relevant investment. This type of financing involves the preparation of a business plan of the investment that is to bring to the investor a real and predictable future income ensuring the requested return on investment.

Particular focus is given to investments into real estate, energy and infrastructure projects. Loans are provided especially for the purpose of (i) investment acquisition, (ii) development, (iii) upgrade, reconstruction and revitalisation or (iv) refinancing of outstanding liabilities. Real estate financing is focused in particular on (i) commercial real estate, (ii) residential real estate, (iii) accommodation facilities such as hotels, and (iv) land with planning permission for new development. Aside from real estate, financing is also provided to (i) industrial and manufacturing units (such as production lines), (ii) energy plants (such as small hydroelectric or wind plants) and (iii) public infrastructure.

The Issuer's trade and export activities include (i) bank guarantees and other documentary services and (ii) structured trade and export finance. The Issuer's clients within these product lines include importers and exporters in the large corporate and SME segments. As part of its trade and export finance activities, the Issuer issues and processes bank guarantees, counter-guarantees and letters of credit (including forfeiting of receivables under letters of credit issued by other banks) and also extends export credits under the EGAP insurance cover to foreign importers mainly in the CEE region.

The Issuer provides factoring products mainly through its wholly-owned subsidiary UniCredit Factoring Czech Republic and Slovakia, a.s. The products offered include both domestic and export factoring, invoice discounting, credit cover and sales ledger management.

The Issuer provides leasing products mainly through its wholly-owned subsidiaries UniCredit Leasing CZ, one of two biggest non-banking financing companies in the Czech Republic with the market share 7,32 per cent. as to 31 December 2015 according to the data of UniCredit Leasing CZ. The leasing products offered include basic credit financing, financial leasing, operational leasing and insurance on financed items.

## *Investment Banking*

The Issuer's investment banking sub-segment provides capital market services and investment banking solutions. Particularly its role is focused on derivative and foreign currency operations, capital market activities inclusive of securities underwriting for clients, securities trading on various regulated and over-the-counter markets, investment advisory and consulting on mergers and acquisitions.

## ***Private and Retail Banking Segment***

The Issuer's Private and Retail Banking Segment is responsible for the local customer business in the Czech Republic and Slovakia, including so called small businesses (i.e., freelancers and companies with annual turnover below CZK 10 million).

The table below outlines key financial data for the Issuer's Private and Retail Banking Segment for the six months ended 30 June 2016 and 2015:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in CZK millions)</i>	
Net interest and dividend income .....	1,432	1,475
Other net income .....	788	1,084
Depreciation/impairment losses of property and equipment and intangible assets.....	(45)	(62)
Impairment of assets and provisions .....	3	23
Segment expenses.....	(1,803)	1,853
Profit before tax .....	375	667
Income tax <sup>(1)</sup> .....	-	-
<b>Result of segment.....</b>	<b>375</b>	<b>667</b>
Segment assets (end of period).....	97,766	91,271
Segment liabilities (end of period) .....	143,545	140,935

Note:

- (1) Income tax is not disclosed separately for this segment. The aggregate amount of all segments is presented in the Other Business Segment table (see "*-Business Overview of the Issuer - Other Business Segment*" below).

### *Retail Banking*

The Issuer's retail banking sub-segment primarily provides the following services: providing accounts for individual clients, including the *U Konto* account and the *U konto Premium* account, accounts for small enterprises, mortgage loans and consumer loans, including the PRESTO loan, overdrafts for private clients, insurance products (property insurance, life insurance and CPI), internet, telephone and mobile banking, cash and money changing operations and supplementary services, payment cards including insurance (debit, credit and partner cards), operating, investment and mortgage loans for business clients, deposit, savings and investment products (the Issuer's own or in co-operation with Pioneer Investments), comprehensive offer of banking products for private clients, comprehensive management of clients' assets, including portfolio management and providing investment products on an open architecture basis.

The Issuer provides mortgage loans to private individuals. As of 30 June 2016, the overall volume of total residential mortgages provided amounted to CZK 87.8 billion. Several of the Issuer's products are unique in the Czech mortgage market (such as its variable mortgage, offset mortgages and mortgage with the service of real estate advisor) and mortgages with both fixed and floating interest rates are offered.

### *Private Banking*

The Issuer's private banking sub-segment provides a comprehensive offer of banking and investment products for high net worth individuals (with total available assets above CZK 10 million, or EUR 100,000 in the case of the Issuer's Slovak branch) and private foundations. Further, it acts as the Issuer's competence centre for all asset management services. The sub-segment is also involved in creating structured products and offering brokerage services for active investors.

The Issuer's private banking sub-segment in the Czech Republic and Slovakia is based on controlled open fund architecture, which is a unique concept, through which the Issuer provides its clients with access to investment solutions from the whole UniCredit Group, but also to a selection of funds in given categories offered by the Issuer's partner companies which are analysed and selected for the Issuer's private clients by a team of international experts. In 2015, the number of partner companies for the Czech Republic and Slovakia increased as the Issuer started cooperation with BlackRock, one of the largest international asset management companies.

### *Other Business Segment*

This segment includes the profit and loss impacts of activities not directly linked to either the Corporate and Investment Banking Segment or the Private and Retail Banking Segment, so mostly the effects of management of assets and liabilities (i.e., liquidity and interest rate mismatch). Operating costs of the Other Business Segment also include the so-called integration costs, resulting from the integration of the Issuer and the formerly independent UniCredit Bank Slovakia a.s. (today UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank)). In 2016, the revenues of the

Other Business Segment included the effects of the sale of shares in Visa Europe Ltd. (for approximately CZK 920 million) and the sale of a building (for approximately CZK 182 million).

The table below outlines key financial data for the Issuer's Other Business Segment for the six months ended 30 June 2016 and 2015:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(in CZK millions)</i>	
Net interest and dividend income .....	(31)	257
Other net income .....	1,022	85
Depreciation/impairment losses of property and equipment and intangible assets .....	(24)	(12)
Impairment of assets and provisions .....	-	(7)
Segment expenses.....	(232)	(361)
Profit before tax.....	735	(38)
Income tax <sup>(1)</sup> .....	(897)	(789)
<b>Result of segment.....</b>	<b>(162)</b>	<b>(827)</b>
Segment assets (end of period).....	11,177	10,453
Segment liabilities (end of period) .....	48,961	51,950

Note:

(1) The presented income tax is the aggregate amount of income tax for all the segments.

## **Recent Product Development**

Provided below is an overview of recent development of products and services offered by the Issuer.

### ***New Retail Products***

In April 2014, the Issuer introduced its unique free-of-charge U Konto account in the Czech Republic and Slovakia. Up to the date of this Base Prospectus, more than 260 thousand clients have opened this account.

In 2016, the Issuer started offering the U Konto Tandem account which enables two individual clients to take advantage of the same benefits as with the U Konto account, such as account keeping or withdrawals from all ATMs worldwide free of charge, domestic online payments free of charge and many other services. Each of the two linked accounts is completely independent and has its own payment card and the online and smart banking service.

### ***Loans***

In 2016, the Issuer started offering its PRESTO Loan for Housing, which was the first product on the market to offer up to CZK one million without collateral, with clients only having to prove the purpose of the loan within six months of taking out the loan. The duration of the loan is up to 120 months with interest rates starting at 4.9 per cent. per annum. The administration and maintenance of the loan is free of charge.

### ***Preferential agricultural technology funding***

In March 2016, the Issuer introduced preferential agricultural technology funding. It presented a broad range of preferential financial products and services tailor made to agricultural needs as well as provision of counsel regarding subsidy programs at the TechAgro Trade Fair, the largest agricultural fair in Central Europe. According to the Issuer's estimates, Czech agriculturists usually buy technology up to the value of 7 billion CZK per year, most of which is financed through credit or leasing.

The Issuer together with its subsidiaries providing leasing services, i.e., UniCredit Leasing CZ and UniCredit Leasing SLK, intend to help financing any purchase of agricultural technology or agricultural land, either through loans, or through operating or financial leasing. The most popular financial product in this line of products is the flexible CreditAgro loan, the repayment of which can be adjusted to seasonal incomes, VAT deductions and drawdown of subsidies.

## ***Mortgages***

In February 2016, the Issuer won an award in the Finparáda.cz – Financial Product of the Year 2015 competition in the mortgages category, due to the innovations introduced the preceding year, such as seven-year fixed rate mortgages or online mortgage refinancing. A historically lowest interest rate, starting from 1.29 per cent., for seven- and ten-year fixation periods was introduced by the Issuer in the Czech market. The Issuer thus continues in its all at the price of one mortgage concept, introducing a historically lowest single interest rate starting at 1.29 per cent. per annum for three, five, seven, and ten-year fixation periods. The Issuer's historical reduction in interest rates is effective as of 1 September 2016.

The Issuer introduced the all at the price of one mortgage concept to its clients over three years ago and was awarded the Zlatá koruna 2016 award for this product. The Issuer has recently decided to extend its concept to longer fixation periods, which are becoming increasingly popular. For example, in the first six months of 2016, the ten-year fixation periods were taken out by 60 per cent. more clients compared to the first six months of 2015.

## ***Payment cards***

At the beginning of 2015, the Issuer launched a new loyalty programme for its clients in the Czech Republic, called “U-šetřete”, which provides tailored offers (discounts with many partner merchants) based on the history of card transactions. The programme was created in line with the Issuer's strategy of customer care. To use these benefits, clients only have to register online or at a branch once and pay using a card issued by the Issuer at the merchants' POS terminals.

## ***Payment terminals***

The Issuer implemented the mPOS product, thanks to which it received the Innovative Bank of the Year award by MasterCard. Owing to the solution linking payment terminals with smartphones or mobile phones, the number of installed UCB terminals has increased by hundreds.

## ***Insurance***

In 2016, the Issuer prepared in cooperation with Ergo Pojišťovna Insurance Company an offer of travel insurance with high insurance limits of up to CZK 10 million. The offer is valid for new as well as existing clients. Beginning on 1 January 2016, clients can arrange the travel insurance also on the web pages of the Issuer. Clients can take out not only regular insurance of medical expenses, but also insurance for their pets at reduced prices and for extreme sports.

## **Recent Development of Distribution Channels**

### ***Branches***

In 2015, the Issuer continued to improve its retail branches in the Czech Republic and in Slovakia to make the retail network more accommodating and to provide clients with more comfortable and better accessible services. Further, 14 branches of the Issuer underwent complete renovation during 2015 and the external visibility of another 15 branches was increased. In total, the Issuer operated a wide network of 162 branches, further 94 points of sale including franchises and so-called partners' corners and 391 ATMs throughout the Czech Republic and Slovakia as of 1 December 2016.

The Issuer currently does not intend to further extend its network of traditional branches, but intends to focus on digital distribution channels and new ways of serving its clients, including kiosks in shopping malls throughout the Czech Republic and Slovakia (see below).

### ***Bank kiosks***

In March 2016, the Issuer started pilot testing bank kiosks, whose goal is to make the Issuer more accessible and easily reachable by clients. The first two bank kiosks, opened by the Issuer in Letňany Shopping Mall, Prague (Czech Republic) and Mlyny Shopping Mall, Nitra (Slovakia), offer a modern design, simple products, personal approach, skilled bankers and opening hours including evenings and weekends.

The purpose of the pilot test is to test this manner of extending the Issuer's distribution network to locations which are frequently visited by clients and can be used to address their banking needs. During the pilot run, the offer of both kiosks will be focused on consumer finance loans in the amount of CZK 30 thousand to CZK 1 million, a term of 12 to 84 months and an interest rate from 4.9 per cent. per annum.

### ***Online channels***

Further improvements and simplification have been made for clients who are carrying out transactions online. The Smart Banking has been innovated, where the Issuer was the first bank in the market to launch login using fingerprint. Instead of entering PIN, clients may use their fingerprint for identification and access to the application.

Besides the innovations regarding login, the Issuer's mobile application has been introduced to clients in a brand new form (e.g. a flat design), which is now used for advanced mobile applications, such as QR codes or payments among individuals.

In the online sale "UniCreditShop" in the Czech Republic, the Issuer introduced the possibility to take out mortgage loan entirely via the internet. This innovation allowed clients to refinance their existing mortgage whenever and wherever easily and comfortably and with an express approval online up to 48 hours after submission of the documents. Moreover, clients have their own online banker available, accompanying them through the process.

### **Principal Markets**

The Issuer operates primarily in the Czech and Slovak markets and is present in all regions of the Czech Republic and Slovakia. It is a universal bank and offers services to both foreign and domestic retail clients, small and medium enterprises, large corporate customers, institutional clients, public sector clients and high net worth individuals, in both Czech crowns and foreign currencies.

### **Competition**

The Issuer faces increasing competition in the banking and financial services market in the Czech Republic and Slovakia. Such competition has become more intense as a result of the opening of the financial services market following the accession of the Czech Republic and Slovakia to the EU on 1 May 2004. The Issuer competes with a large number of other banks, financial services firms and a wide range of insurance companies. Moreover, many financial institutions in the Czech and Slovak markets are expanding the range of services they offer.

Currently, the Czech and Slovak banking markets are 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 and Slovak banking markets have seen the emergence of several low-cost banks primarily focused on providing internet-based banking services. The Issuer's principal competitors in the Czech Republic are Československá obchodní banka, Komerční banka, Česká spořitelna and Raiffeisenbank and Slovenská sporitelna, VÚB, Tatrabank and ČSOB in Slovakia. For risks related to competition, see "*Risk Factors — The Issuer competes against several large international financial institutions and may face increased competition from less established banks or new entrants*".

The Issuer's market share in the Czech Republic and Slovakia was 8.9 and 8.2 per cent., respectively, measured by the amount of total loans provided (as of 30 September 2016, according to data of the CNB's ARAD database and data of the CNB). The Issuer is the fourth largest bank in the Czech Republic and the Issuer's market shares accounted for 7.1 per cent. in terms of profit after tax and 10.5 per cent. in terms of total assets in the Czech Republic (as of 30 September 2016, according to the Issuer's data and the CNB's ARAD database). The market share of liabilities to clients accounted for 7.6 per cent. in the Czech Republic and 5.9 per cent. in Slovakia (as of 31 December 2015, according to the Issuer's data).

The following table provides information on the Issuer's market share in the Czech Republic and Slovakia:

	<b>As of and for the year ended 31 December 2015</b>		
	<b>Issuer</b>	<b>Banking Sector</b>	
	<i>(in CZK millions)</i>	<i>(%)</i>	<i>(in CZK millions)</i>
<b>Czech Republic and Slovakia</b>			
Profit after tax .....	5,033	7.52	66,887
Total assets .....	547,218	10.00	5,469,698
<b>Czech Republic</b>			
Receivables from clients <sup>(1)</sup> .....	236,555	8.50	2,782,882
Liabilities to clients <sup>(1)</sup> .....	283,331	7.61	3,724,270
<b>Slovakia</b>			
Receivables from clients <sup>(2)</sup> .....	102,839	8.35	1,230,942
Liabilities to clients <sup>(2)</sup> .....	80,912	5.94	1,362,652

Source: Issuer's Annual Report for the year 2015.

Notes:

- (1) Pursuant to the CNB's methodology, receivables from clients and liabilities to clients are only included for the Czech part of the bank.
- (2) Converted using the CZK/EUR exchange rate as of 31 December 2015: 27.025.

### **Property and Equipment**

As of 30 June 2016, the Issuer held properties (mainly assets provided under operating lease, land plots and buildings) with a net book value of CZK 4,895 million, of which properties owned for investment purposes had a book value of CZK 728 million.

### **Material Contracts**

As of the date of this Base Prospectus, the Issuer is not party to any material contracts outside its ordinary course of business, which any such contracts which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Covered Bondholders in respect of the Covered Bonds being issued.

### **Disputes**

As of the date of this Base Prospectus, the Issuer is not aware of any governmental, legal or arbitration proceedings including any such proceedings which are pending or threatened in the 12 months preceding the date of the Base Prospectus which may have, or have had in the recent past, significant effects on the Issuer and/or Group's financial position or profitability.

## MANAGEMENT AND EMPLOYEES

The Issuer is a Czech joint-stock company operating under Czech law. Its bodies are the general meeting, the board of directors and the supervisory board. The general meeting is the supreme body of the Issuer, which takes the most significant decisions regarding the Issuer, such as increases and decreases of share capital, appointments to the Issuer's supervisory board or approval of its financial statements. The rights and functions of the general meeting are currently exercised by the Issuer's sole shareholder (see "Description of the Issuer – Sole Shareholder" above for more information). The board of directors represents the Issuer in all matters and is charged with its day-to-day business management, while the supervisory board is an independent body responsible for the supervision of the Issuer's activities and of the board of directors in its management of the Issuer and which resolves on matters defined in the Issuer's articles of association (the "Articles of Association"). Under the Czech act on business corporations (Act No. 90/2012 Coll., as amended, the "Czech Corporations Act"), the supervisory board may not make management decisions. However, certain matters, specified below, are subject to the approval of the supervisory board. In addition, the Issuer has established a special supervisory body, the audit committee.

### Board of directors

The board of directors is the governing statutory body of the Issuer, which directs its operations, represents it in all matters and is charged with its day-to-day business management and all matters other than those that are within the responsibility of the supervisory board, audit committee or general meeting pursuant to the Articles of Association or the applicable laws. Nobody is authorized to give the board of directors instructions regarding the business management of the Issuer, unless the Czech Corporations Act or other laws or regulations provide otherwise.

Pursuant to the Issuer's Article of Association, the board of directors has seven members: a chairman, a vice-chairman and five ordinary members. All members of the board of directors are elected by the Issuer's supervisory board for a term of three years, with possible re-election. The board of directors makes decisions by resolutions adopted at its meetings, which are held at least on a monthly basis.

The work address of the all members of the board of directors is at Želetavská 1521/1, Prague 4, Czech Republic, except for Mr. Štokendl, whose work address is at Šancová 1/A 813 33 Bratislava, Slovakia.

Set out below are members of the Issuer's board of directors as of the date of this Base Prospectus:

<u>Name</u>	<u>Background</u>
<b>Ing. Jiří Kunert</b> <i>Chairman and Chief Executive Officer</i>	<p>Mr. Kunert has been a member of the board of directors since 1 April 2007. He is also the current chairman of the board of directors and the chief executive officer of the Issuer. He is responsible for the Issuer's overall results and for managing the chief operating officer, the chief risk officer and the finance, human resources and legal areas.</p> <p>Mr. Kunert started his professional career in Československá obchodní banka, a. s. and later held various positions in Živnostenská banka, a.s., including the position of the chief executive officer. He joined the Issuer as a result of the 2007 merger of Živnostenská banka, a.s. with the Issuer.</p> <p>In 2009, he was a member of the National Economic Government Council, which was established for the purpose of finding a solution to the 2008 economic crisis. He is also one of the co-founders of the Czech Banking Association, in which he currently holds the office of vice-president.</p> <p>He was born on 31 January 1953.</p>
<b>Paolo Iannone</b>	<p>Mr. Iannone has been a member of the board of directors since</p>

*Vice-Chairman and Chief Operating Officer* 24 April 2009. He is also the current vice-chairman of the board of directors and the chief operating officer of the Issuer. He is responsible for managing and supervising the Issuer's business activities and co-ordinating the activities of the Issuer's departments.

Mr. Iaonnone has more than 30 years of experience in the banking sector. He joined Credito Italiano (now UniCredit Group) in Italy after completing his studies in 1979 and held various managerial positions, including sales manager, branch manager in five different branches and regional director of a crucial retail banking region. In 2001, he joined the New Europe Division of the UniCredit Group, responsible for retail banking development in Croatia, Slovakia and Romania, and later became a member of the board of directors of Bank Pekao SA, a member of the UniCredit Group in Poland.

He was born on 15 December 1960.

**Ing. Aleš Barabas**

*Member and Chief Risk Officer*

Mr. Barabas has been a member of the board of directors since 1 April 2007. He is the chief risk officer of the Issuer and is responsible for preparing its credit policy, maintaining the quality of its 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.

Prior to becoming chief risk officer, he held the positions of chief financial officer and director of the corporate, investment and private banking segment of the Issuer.

He has more than 34 years of experience in banking and finance. In 1992, he became a member of the board of directors of Živnostenská banka, a.s., one of the largest predecessors of the Issuer. He is currently the vice-president of the Prague CFO Club.

He was born on 28 March 1959.

**Ing. David Grund**

*Member and Director of the Corporate and Investment Banking Segment*

Mr. Grund has been a member of the board of directors since 1 October 2001. He is the director of the Issuer's corporate, investment and private banking segment and is responsible for managing and supervising the Issuer's business activities within this segment.

He was born on 24 February 1955.

**Giovanni Guidi**

*Member and Director of the Retail and Private Banking Segment*

Mr. Guidi has been a member of the board of directors since 9 June 2016. He is the director of the global banking services segment and is responsible for the Issuer's 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.

He has over 40 years of experience in banking and finance. He started his professional career in the UniCredit Group in 1975 as an employee of a Credito Italiano and eventually became part of its high management.

In 2002, he joined the New Europe Division of the UniCredit Group, where he was in charge of development of the retail and small businesses segment.

He was born on 12 February 1954.

**Ljubisa Tesic**

Mr. Tesic has been a member of the board of directors since 1



*Member and Chief Financial Officer*

November 2016. He is the Issuer's chief financial officer.

He started his career in the UniCredit Group in 1996 in HVB Germany, holding various positions within its private banking, risk management (in London), controlling, strategic projects and mergers and acquisitions departments. Thereafter he was appointed senior manager, responsible for strategic development and mergers and acquisitions in Bank Austria Creditanstalt in Vienna, and later managing director of UniCredit markets and investment banking at UniCredit Bank AG (Munich and Vienna).

In 2010, Mr. Tesic was appointed as chief financial officer and member of the management board of UniCredit Bank Banja Luka. Since 2013, he has been the chief financial officer and member of the management board of UniCredit Bank Hungary.

**Miroslav Štokendl**

*Member and Director of the Slovak Branch*

Mr. Štokendl has been a member of the board of directors 1 December 2013. He is the director of the Slovak branch of the Issuer.

He has over 25 years of experience in the banking industry. In 1990, he joined Polnobanka in Bratislava, where he held various positions including head of credit risk and head of work out. In 2007, he became head of mid corporates at UniCredit Bank Slovakia and member of its board of directors in 2008. In 2012, he was appointed chairman of the board of directors and chief executive officer of UniCredit Bank Slovakia, a position which he held until the merger of UniCredit Bank Slovakia with the Issuer.

He was born on 12 November 1958.

## **Supervisory board**

The supervisory board is an independent body of the Issuer, responsible for the supervision of its activities and of the board of directors in its management of the Issuer. It resolves on matters defined in the Czech Corporations Act and the Articles of Association. Under the Czech Corporations Act, the supervisory board may not make management decisions. However, certain matters are subject to the approval of the supervisory board.

The powers of the supervisory board include, among others, the power to (i) elect members of the board of directors, (ii) supervise the board of directors in its management of the Issuer's business activities, (iii) inquire into the Issuer's financial matters and review its financial statements, (iv) grant prior consent to appointment or dismissal of proxy holders, and (v) review and the report on Issuer's business activity and its assets and submit its opinion to the general meeting regarding the same.

The supervisory board has nine members, six of which are elected by the general meeting, while the remaining three are elected by the Issuer's employees, all for a term of three years. The supervisory board meetings are held no less than every three months.

The supervisory board also established three committees, each consisting of three members of the supervisory board: (i) the remuneration committee which includes preparation of draft resolutions on remuneration and annually approves the principles for remuneration of members of the board of directors, (ii) the appointment committee which is charged with nominating candidates for vacancies on the board of directors and (iii) the risk management committee which examines the approach to risk management, the risk management strategy and the level of acceptable risk and examines whether valuation of assets, liabilities and off-balance sheet items reflected in the offer to the clients fully complies with the Bank's business model and its risk management strategy.

Set out below are members of the Issuer's supervisory board as of the date of this Base Prospectus:

<b>Mirko Bianchi</b> Work Address: Member since:	Chairman of the supervisory board Piazza Gae Aulenti 3, Tower A, Milan, 20154, Italy 4 November 2015
<b>Heinz Meidlinger</b> Work Address: Member since:	Member of the supervisory board Vordere Zollamtsstrasse 13, 1030 Vienna, Austria 30 July 2001
<b>Suzanne Malibas</b> Work Address: Member since:	Member of the supervisory board Pfarrwiesengasse 21/6, Vienna, Postal Code A-1190, Austria 29 April 2014
<b>Benedetta Navarra</b> Work Address: Member since:	Member of the supervisory board Graziadei Studio Legale, Via A. Gramsci, 54, 00197 Roma 4 November 2015
<b>Ing. Jana Szászová</b> Work Address: Member since:	Member of the supervisory board Šancová 1/A, 813 33 Bratislava, Slovakia 13 May 2014
<b>Eva Mikulková</b> Work Address: Member since:	Member of the supervisory board Želetavská 1521/1, Prague 4, Czech Republic 18 July 2008
<b>Mgr. Miloš Bádál</b> Work Address: Member since:	Member of the supervisory board Želetavská 1521/1, Prague 4, Czech Republic 24 July 2014
<b>Csilla Ihász</b> Work Address: Member since:	Member of the supervisory board Rajiceva 27-29, Belgrade, 11000, Serbia 4 November 2015
<b>Enrico Minniti</b> Work Address: Member since:	Member of the supervisory board 7 Sveta Nedelya Sq., 1000 Sofia, Bulgaria 4 November 2015

#### **Audit committee**

The audit committee is an independent committee with the task to oversee, monitor and advise on matters regarding accounting and financial reporting, internal control, audit and risk management, external audit, and monitoring compliance mainly with applicable law and the Issuer's regulations.

The audit committee consists of three members appointed by the general meeting for a term of three years from among the supervisory board members or independent persons. The majority of the audit committee members must be independent from the Issuer and must have at least three years of accounting or statutory auditing experience.

Set out below are members of the Issuer's audit committee as of the date of this Base Prospectus:

<b>Stefano Cotini</b> Work Address: Commencement of Current Term of Office:	Chairman of the audit committee Piazza Cordusio, 20123 Milan, Italy 29 April 2014
<b>Benedetta Navarra</b> Work Address: Commencement of Current Term of Office:	Member of the audit committee Piazzale Dino Viola 1, Rome, Rome 00128, Italy 24 September 2015
<b>Heinz Meidlinger</b> Work Address:	Member of the audit committee Vordere Zollamtsstrasse 13, 1030 Vienna, Austria

Commencement of Current Term of Office: 29 April 2014

### **Conflicts of Interest at the Level of Administrative, Management and Supervisory Bodies**

The Issuer is not aware of any possible conflicts of interest between the duties of the members of its board of directors, supervisory board and audit committee owed to the Issuer and their private interests or other duties. The Issuer has prepared an ethics code based on guidelines prepared by the UniCredit Group that stipulates how to proceed in case of a conflict of interest.

### **Principal Activities Outside of the Issuer**

The following table provides an overview of principal activities significant to the Issuer, performed by members of Issuer's bodies outside of the Issuer (beyond the positions outlined above), as of the date of this Base Prospectus:

<u><i>Members of the board of directors</i></u>	<u><i>Activity</i></u>
Ing. Jiří Kunert	Member of the supervisory board of Pioneer Asset Management, a.s. and member of the supervisory board of MAGNA, Děti v tísní, o.p.s.
Paolo Iannone	Chairman of the supervisory board of UniCredit Leasing CZ, a.s., member of the supervisory board of Pioneer investiční společnost, a.s. and chairman of the supervisory board of UniCredit Leasing Slovakia, a.s.
Ing. Aleš Barabas	Member of the supervisory board of UniCredit Leasing Slovakia, a.s., member of the committee of Šachový klub Dopravní podnik Praha, z.s. and member of the supervisory board of UniCredit Leasing CZ, a.s.
Ing. David Grund	Member of the supervisory board of UniCredit Leasing Slovakia, a.s., member of the supervisory board of UniCredit Leasing CZ, a.s. and chairman of the supervisory board of UniCredit Factoring Czech Republic and Slovakia, a.s.
Giovanni Guidi	---
Ljubisa Tesic	Company branch manager of UniCredit Business Integrated Solutions S.C.p.A. organizačná zložka Slovensko and company branch manager of UniCredit Business Integrated Solutions S.C.p.A. – organizační složka
Miroslav Štrokendl	Chairman of the board of directors in UniCredit Leasing Slovakia, a.s.
<u><i>Supervisory board members</i></u>	
Mirko Bianchi	Chief financial officer of UniCredit Bank Austria AG, member of the supervisory board of UniCredit Bank Austria AG, member of board of directors in Yapı ve Kredi Bankası AS, member of the supervisory board of Zagrebacka Banka d.d., adviser of Immobilien Holding GmbH, member of the board of directors Koc Finansal Hizmetler AS, adviser of WED Wiener Entwicklungsgesellschaft für den Donauraum Aktiengesellschaft, adviser of Bank Austria Trade Services Gesellschaft m.b.H. and member of the supervisory board of UniCredit Tiriak Bank S.A.
Heinz Meidlinger	Owner and chief executive officer of Meidlinger Investment & Consulting GmbH, member of the supervisory board of UniCredit Bulbank a.d., Sofia, member of the supervisory board of UniCredit Bank Romania SA, Bucharest and member of the supervisory board of Wiener Privatbank, Wien
Suzanne Malibas	Member of the supervisory board and of the audit committee of UniCredit Bank Romania
Benedetta Navarra	Member of the board of directors of A.S. Roma S.p.A., member of the supervisory board of Ukrspotsbank PJSC,

	member of the statutory auditors council of Poste Italiane S.p.A, member of the statutory auditors council of UniCredit S.p.A., member of the statutory auditors council of Buddy servizi molecolari S.p.A., Member of the statutory auditors council of LVenture Group and member of the statutory auditors council of Sviluppo HQ Tiburtina S.r.l.
Ing. Jana Szászová	---
Eva Mikulková	---
Mgr. Miloš Bádál	---
Csilla Ihász	Member of the supervisory board of UniCredit Bank Hungary Zrt., member of the supervisory board of UniCredit Bulbank AD and member of the supervisory board of UniCredit Consumer Financing IFN SA. Romania
Enrico Minniti	Member of the supervisory board of UniCredit Bank Hungary Zrt., member of the supervisory board of UniCredit Bank Russia and member of the audit and risk committee of UniCredit Bank Hungary Zrt
<b><i>Audit committee members</i></b>	
Stefano Cotini	Member of the supervisory board and chairman of the audit committee of UniCredit Bank Romania
Benedetta Navarra	Member of the board of directors in A.S. Roma S.p.A, member of the supervisory board of Ukrsootsbank PJSC, member of the statutory auditors council of Poste Italiane S.p.A, member of the statutory auditors council of UniCredit S.p.A., member of the statutory auditors council of Buddy servizi molecolari S.p.A., member of the statutory auditors council of LVenture Group and member of the statutory auditors council of Sviluppo HQ Tiburtina S.r.l.
Heinz Meidlinger	Owner and chief executive officer of Meidlinger Investment & Consulting GmbH, member of the supervisory board of UniCredit Bulbank a.d., Sofia, member of the supervisory board of UniCredit Bank Romania SA, Bucharest and member of the supervisory board of Wiener Privatbank, Wien

## **Employees**

The Issuer puts great attention to the choice of its employees, to their further education and personal development, for it acknowledges the importance of human resources. The training of the employees is targeted in particular at professional knowledge and communication skills.

In the year ended 31 December 2015 and 2014, the Issuer's average number of employees was 3,301 and 3,294, respectively.

## RISK MANAGEMENT

### Introduction

The Group is exposed to the following types of risk:

- credit risk;
- market risk; and
- 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 Issuer's board of directors has established an assets and liabilities committee (ALCO), the credit committee and the committee for operational risk management in order to monitor and manage particular risks for its specific areas. These committees report to the Issuer's board on a regular basis.

The principal part of the Group is the Issuer; for this reason, the description below relates primarily to the risk management of the Issuer. For description of the risk management in the Issuer's direct and indirect subsidiaries, see "*Risk Management in Subsidiaries*" below.

### 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 and reporting, and credit operations departments are directly responsible for credit risk management. All are organizationally independent of the Issuer's business segments and directly accountable to the member of the Issuer's 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 and 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., where 1+ is the highest rating class). 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. 8 or a lower rating class.

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 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. In determining the realisable value of collateral, the Issuer principally takes into consideration the financial health of the party providing collateral and the nominal value of the collateral, i.e. expert appraisals made by a special department of the Issuer. 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 the 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 expected loss is determined based on internal estimates of risk parameters, i.e., the probability of default (PD), exposure at default (EaD) and loss given default (LGD). 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.

### ***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 debtors in default (i) individually if the amount of the receivable exceeds the equivalent of EUR 1 million or (ii) using the relevant model reflecting the expected return on the relevant receivable for other receivables. 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 impairment loss arising from individual receivables in the following manner: (i) for individually assessed receivables, the impairment loss equals to the difference between the carrying amount of such receivables and the discounted value of estimated future cash flows and (ii) for receivables assessed using models, the impairment loss equals to the multiple of the receivable amount and loss given default.

### ***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 a client's default is recognized). The method currently used is in accordance with the UniCredit Group methodology used for incurred loss determination.

#### *Provisions for Off-Balance Sheet Items*

The Issuer recognises provisions for selected off-balance sheet items as follows:

- (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 loan with debtor's default category and the Issuer creates the provisions for such loans. 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 loan with debtor's default category would be fulfilled.
- (iii) Provisions for selected off-balance sheet items of non-default clients. The Issuer recognizes such provisions in the same way as used in creating impairment of loan portfolios.

The Issuer recognizes such provisions in the same method as used in reporting impairment losses on receivable portfolios.

#### ***Forbearance***

In case the payment conditions of loan receivables are changed after the loan is granted (such changes include mainly payment deferrals, temporary payment reductions or postponements of the ultimate due date), the Issuer classifies such loan receivables as forbearance and generally recognized them in the balance sheet as loan receivables with a client's default. However, following a robust assessment, the Issuer may categorize them as loan receivables without a client's default, mainly in cases when the reasons for the change of the payment conditions are not serious and the Issuer does not anticipate incurring a loss arising from the future collection of such a receivable.

The majority of loan receivables classified as receivables without a client's default are receivables originally classified as receivables with a client's default, which were subsequently re-classified, provided that newly-agreed conditions in line with the Issuer's internal rules are fulfilled. Loan receivables with changed payment conditions are managed by the credit restructuring and workout unit and are subject to standard restructuring and workout procedures and monitoring. However, loan receivables classified as without a client's default upon the occurrence of the change of payment conditions are managed by this unit only after the need to use its know-how is thoroughly assessed. Further, loan receivables are no longer managed and monitored by this unit in case the Issuer no longer considers this necessary having regard to the development of the individual case.

Probation period denotes the period during which the client is designated as forborne. This period lasts no less than two years and commences on the date of the client's default or of the forbearance (in case the forbearance was without the client's default). In addition, this period can be terminated only if the client fulfils the agreed conditions in a due and timely manner, is not in delay more than 30 days and, in case of an instalment product, the debt must be reduced by at least 10 per cent. during this period. Due to the size of the forbearance portfolio and the procedures and practices describe above, the Issuer does not identify serious risks arising from this portfolio. Also, a portion of receivables whose payment conditions were changed in order to overcome the client's deteriorated financial position are later reclassified as without default (recognized in the Issuer's balance sheet as non-default forbearance – referred to above).

#### ***Recovery of Receivables***

The Issuer has established a credit workout and 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.

### ***Value at Risk***

Value at Risk (“**VaR**”) represents the main method for managing the market risks arising from the Issuer’s activities. VaR represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The UniCredit Group determines VaR through the historical simulation (500 days history) of a wide range of potential scenarios on the financial markets. VaR is measured based on a 1-day holding period and a confidence level of 99 per cent. The assumptions upon which the VaR model is based have the following limitations:

- 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.



- The 99 per cent. confidence level does not reflect all possible losses that can occur at this confidence level.
- 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”.
- 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 VaR calculation divides the calculated risk into an interest rate portion and a credit portion. The credit portion of the VaR is calculated based on the volatility of the credit spread between securities and the zero-risk interest rate. For this purpose, the yield curves of particular issuers, industries, or groups of issuers with identical rating are downloaded into the system for market risk management. Specific securities are mapped to these yield curves and the volatility of the credit spread is calculated. 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 and liabilities management unit, and the MARS of the parent bank and sub-holding).

#### *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 accomplished implementing a new IT system for Treasury. This system 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.

#### *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 Issuer’s board of directors.

Given the recent development of the market interest rates and their possible decrease to negative values, the Issuer has already taken measures for certain products to eliminate such decrease of the market interest rate (as the key element of the client rate).

Issuer’s overall interest rate position as of 31 December 2015 is characterised by greater interest rate sensitivity on the assets side. This is seen in the negative overall BPV, whereby in the case of a simultaneous increase in interest rates for selected currencies there could occur a decrease 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 Issuer’s 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**).

#### *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.

On 7 December 2015, the Issuer introduced stress scenarios for negative market interest rates. As a large portion of the market interest rate curve shows negative rates and a further decrease cannot be excluded, the Issuer applies a stress scenario to reflect a possible profit/loss effect of such further decrease of market interest rates. This approach is applied to the entire portfolio of assets and liabilities, including products for which a decrease of the market interest rates (as an element of client rates) into negative values is restricted in the relevant contracts or the terms and conditions. Due to this change, since 7 December 2015 the result of stress testing with the shift of +/-200 bps is approximately symmetric while before that (and as of 31 December 2014), it was asymmetric because of the applied zero floor.

#### *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.

#### 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 changes in fair values 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 monitors whether the absolute value of future variable interest cash flows from hedged deals for specific time periods exceeds 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. These limits are adjusted on a continuous basis. With effect from 30 September 2016, the Issuer has set a currency risk limit of EUR 45 million with respect to the total net currency exposure and to individual main currencies (CZK, EUR) and of EUR 25 million to the USD. For remaining currencies valid limits range from EUR 5 million to EUR 9 million 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. Equity risk arises as a result of the Issuer’s equity derivative positions in structured bonds issued for various types of investors. The risks associated with equity instruments are managed through respective 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 assets and liabilities 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 Issuer's 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 assets and liabilities committee (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 Issuer's board of directors are permanent members of the committee. The operational risk department is an independent body reporting directly to the member of the Issuer's 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 UniCredit S.p.A.. 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.

To ensure effective collection of operational risk events and data, the Issuer uses an online information system developed by the 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 Issuer's 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 2016, the Issuer continued developing and setting up a comprehensive system for identifying, monitoring and managing operational risk. In the context of the ICT integration towards the strategic UniCredit Group ICT platform, the Issuer continuously identifies, monitors and manages any new operational risk arising from change management process in the business and ICT/processing area as well as in the processes outsourced to different entities in and outside of the UniCredit Group. Further, the Issuer set up a specific risk assessment process focused on ICT risk with an annual monitoring and update cycle. The Issuer also performed the regular risk inventory survey, annual scenario analysis and is performing continuous risk indicators and risk limits configuration and updating. The business continuity of operations management (emergency planning, crisis management) constitutes another important part of operational risk management. The Issuer has updated its business impact analysis and tested the respective recovery plans (for crisis situations) for its critical processes 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. Based on the 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 UniCredit 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. The Issuer's operational risk management system (AMA) is validated on an annual basis by UniCredit Group internal validation function and internal audit department with the latest rating resulting in a good score.

### **Risk Management in Subsidiaries**

The risk management of the Issuer's subsidiaries is built on similar principles as the risk management of the Issuer, but it takes into account the specific features of the products provided by such subsidiaries and their portfolios. These specific features primarily include the following:

- determination of the fair value of financed assets when deciding on the provision of funding;
- management of the risk of a change in the market value of the financed assets during financing;
- valuation and sales activities after an extraordinary termination of a contract (or due termination of a contract in respect of operating leases) and management of the risk arising therefrom;
- control activities to prove the connection of the purpose of financing with the existence of the financed asset before the conclusion of a contract and during the contract period (including the prevention against fraudulent activities); and
- management of the risk of concentration in relation to types of financed assets (classes of assets).

The organizational structure of risk management, risk decision-making committees and system for the allocation of authorities are adjusted to reflect the specific features or products and risks of the Issuer's subsidiaries. This ensures both the independence of the risk management from business activities and the independence of the persons participating in the valuation of assets and their realization from the persons with the decision-making authority in the provision of funding.

### **Capital Management**

The management of the Issuer monitors development of the Issuer's capital adequacy on a consolidated basis and its capital position. The CNB establishes rules for calculating capital requirements and monitors their development. Since 1 January 2014, the Issuer has 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 in terms of actual capital consumption. However, the new minimum capital adequacy ratios including buffers narrowed the positive cushion between actual capital adequacy and the regulatory minimum. Former Tier 1 is now part of common equity Tier 1 (CET1) which is capital of the most quality. The 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 higher than minimum requirements arising from Basel III.

The Issuer's regulatory capital consists of the following:

- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting and decided to be retained; minus intangible assets and shortfall resulting from higher expected losses than provisions under the internal rating based approach;
- Tier 1 (T1) capital including CET1 and Additional Tier 1 (AT 1) capital; and
- Tier 2 (T2) capital representing excess of provisions over expected losses under internal rating based approach.

The Issuer complies with the defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

## 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 Issuer 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 company UniCredit S.p.A., HVB Group and Bank Austria Group and their subsidiaries, members of the Issuer's board of directors and other members of the Issuer's management.

The selected data shown in the tables below is extracted from the unaudited consolidated financial statements of the Issuer as of and for the six months ended 30 June 2016 and 2015 and the audited consolidated financial statements of the Issuer as of and for the years ended 31 December 2015 and 2014. The financial statements have been prepared in accordance with IFRS as adopted by the EU.

The table below shows selected balance sheet information regarding transactions with Bank Austria, the Issuer's parent company until 30 September 2016, as of 30 June 2016 and as of 31 December 2015 and 2014:

	As of 30 June 2016	As of 31 December	
		2015	2014
		<i>(in CZK millions)</i>	
Financial assets held for trading .....	2	1	13
Receivables from banks .....	3,100	3,628	3,756
Available for sale securities .....	3,569	4,640	4,793
Positive fair value of hedging derivatives .....	38	-	-
<b>Total assets.....</b>	<b>6,709</b>	<b>8,269</b>	<b>8,562</b>
Deposits from banks.....	40,997	23,810	7,423
Financial liabilities held for trading .....	46	5	1
Negative fair value of hedging derivatives.....	27	-	-
<b>Total liabilities.....</b>	<b>41,070</b>	<b>23,815</b>	<b>7,424</b>
Issued guarantees .....	704	750	609
Irrevocable credit facilities.....	-	-	44
<b>Total off-balance sheet items.....</b>	<b>704</b>	<b>750</b>	<b>653</b>

The table below shows selected income statement information regarding transactions with Bank Austria, the Issuer's parent company until 30 September 2016, for the six months ended 30 June 2016 and 2015 and for the years ended 31 December 2015 and 2014:

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
			<i>(in CZK millions)</i>	
Interest and similar income .....	49	56	110	116
Interest and similar expenses .....	20	(164)	(286)	(36)
Fee and commission income .....	2	5	9	18
Fee and commission expense .....	(1)	(12)	(29)	(17)
Net income/(loss) from financial assets and liabilities held for trading.....	(40)	(4)	(16)	19
Net income/(loss) from hedging against risk of changes in fair value .....	(1)	-	-	-
General administrative expenses.....	49	54	82	56
<b>Total interest and similar income.....</b>	<b>78</b>	<b>(65)</b>	<b>(130)</b>	<b>156</b>

The table below shows selected balance sheet information regarding transactions with the other related parties as of 30 June 2016 and as of 31 December 2015 and 2014:

	As of 30 June 2016	As of 31 December	
		2015	2014
		<i>(in CZK millions)</i>	
Financial assets held for trading .....	1,173	924	927
<i>of which:</i>			
UniCredit Bank AG .....	1,163	924	913
Receivables from banks .....	10,345	5,164	3,231
<i>of which:</i>			
UniCredit Bank AG .....	1,205	1,092	1,354
Yapi ve Kredi Bankasi AS .....	7,022	2,160	-
UniCredit Bank Hungary Zrt. ....	53	161	290
UniCredit S.p.A. ....	344	82	561
ZAO UniCredit Bank .....	1,697	1,652	1,012
Receivables from clients .....	209	221	374
<i>of which:</i>			
UCTAM CZ .....	136	136	282
Board of directors .....	2	6	7
Other executives .....	71	72	77
Positive fair value of hedging derivatives .....	2,449	1,889	2,140
<i>of which:</i>			
UniCredit Bank AG .....	2,449	1,886	2,140
<b>Total assets</b> .....	<b>14,176</b>	<b>8,198</b>	<b>6,672</b>
Deposits from banks.....	2,141	4,386	1,933
<i>of which:</i>			
UniCredit Luxembourg S.A. ....	19	27	20
UniCredit Bank AG .....	1,956	3,786	1,796
UniCredit Bank Hungary Zrt. ....	24	49	2
UniCredit S.p.A. ....	82	131	104
Deposits from clients .....	1,029	1,163	874
<i>of which:</i>			
UniCredit Leasing (Austria) GmbH.....	-	129	-
Pioneer Asset Management a.s. ....	578	462	404
Pioneer Investment Company .....	90	100	114
UniCredit Business Integrated Solutions S.p.A. ....	98	220	158
Board of directors .....	88	104	91
Other executives .....	84	55	61
Financial liabilities held for trading .....	2,907	2,599	3,249
<i>of which:</i>			
UniCredit Bank AG .....	2,907	2,598	3,248
Negative fair value of hedging derivatives.....	2,686	2,026	2,355
<i>of which:</i>			
UniCredit Bank AG .....	2,686	2,026	2,355
<b>Total liabilities</b> .....	<b>8,763</b>	<b>10,174</b>	<b>8,411</b>
Issued guarantees .....	1,517	896	1,417
<i>of which:</i>			
UniCredit Bank AG .....	632	427	407
UniCredit S.p.A. ....	66	385	559
UniCredit Bank Hungary Zrt. ....	143	49	20
ZAO UniCredit Bank.....	453	-	400
Irrevocable credit facilities.....	1,011	277	437
<i>of which:</i>			
UniCredit Bank AG .....	144	108	148
YAO UniCredit Bank (Moscow) .....	-	22	-
Yapi ve Kredi Bankasi AS .....	463	-	-
ZAO UniCredit Bank.....	-	-	-
UniCredit S.p.A. ....	322	101	108
Board of directors .....	1	1	1
Other executives .....	4	4	4
<b>Total off-balance sheet items</b> .....	<b>2,528</b>	<b>1,173</b>	<b>1,854</b>



The table below shows selected income statement information regarding transactions with the with the other related parties for the six months ended 30 June 2016 and 2015 and for the years ended 31 December 2015 and 2014:

	Six months ended 30 June 2016	2015	Year ended 31 December 2015	2014
	<i>(in CZK millions)</i>			
Interest income and similar revenues .....	206	19	(60)	139
<i>of which:</i>				
UniCredit Bank AG .....	153	5	(97)	112
UniCredit S.p.A .....	42	-	2	8
ZAO UniCredit Bank.....	9	8	-	-
Interest expenses and similar charges .....	(2)	(5)	(12)	(1)
<i>of which:</i>				
UniCredit Bank Hungary Zrt. ....	-	-	-	-
UniCredit Leasing (Austria) GmbH.....	-	(5)	(10)	-
Fee and commission income .....	23	44	123	80
<i>of which:</i>				
UniCredit Bank AG .....	23	32	44	59
UniCredit Leasing Group.....	-	-	39	-
Pioneer Asset Management SA, Luxembourg ...	-	-	16	11
Fee and commission expenses.....	(2)	(3)	(5)	(5)
<i>of which:</i>				
UniCredit Bank AG .....	-	-	(1)	(1)
Pekao .....	-	-	(2)	-
Net income/(loss) from financial assets and liabilities held for trading .....	273	484	(549)	(2,117)
<i>of which:</i>				
UniCredit Bank AG .....	272	484	(549)	(2 122)
Net income/(loss) from hedging against risk of changes in fair value .....	(219)	231	130	(230)
<i>of which:</i>				
UniCredit Bank AG .....	(219)	231	130	(230)
General administrative expenses .....	(766)	(696)	(1,438)	(1,337)
<i>of which:</i>				
UniCredit S.p.A. ....	(43)	(33)	(69)	(54)
UniCredit Business Integrated Solutions S.p.A.	(711)	(685)	(1,379)	(1,252)
<b>Total .....</b>	<b>(487)</b>	<b>74</b>	<b>(1,811)</b>	<b>(3,471)</b>

## BANKING REGULATION

*This section contains selected information on certain aspects of Czech and Slovak banking regulation and supervision. The information in this section is intended to provide a brief overview of Czech and Slovak banking regulation and supervision to which the Issuer is subject, and is not intended to provide a comprehensive or complete description of Czech and Slovak banking regulation and supervision.*

### **Czech Banking Regulation**

#### ***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**), Czech Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market (the **Czech Recovery and Resolution Act**), Czech Act No. 257/2016 Coll., on Consumer Credit, (the **Czech Consumer Credit Act**) and certain regulations issued by the CNB (known as measures and decrees) as well as directly applicable EU laws and regulations.

#### ***The CNB***

The CNB exercises regulatory and supervisory powers over the banking sector, as well as the rest of the Czech financial sector (including the 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 the 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; and (v) of the identity of a bank's auditor.

A subsequent notification to the CNB must be filed by a Czech bank without undue delay upon any acquisition of a participation in a legal entity, incorporation of a legal entity or participation in its incorporation if the Czech bank acquired or holds a direct or indirect participation in such legal entity of at least 10 per cent. of the registered capital or of the voting rights, or so that the Czech bank would become the legal entity's controlling entity or has the possibility to exercise a significant influence over the legal entity's management.

#### ***Capital Adequacy Requirements***

In December 2010, the Basel Committee on Banking Supervision (the **BCBS**) published its final standards on the revised capital adequacy framework, known as Basel III, which tightened the definition of capital and requires banks to maintain capital buffers on top of minimum capital requirements. On 27 June 2013, the Capital Requirements Directive IV (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC) (the **CRD IV**) and the Capital Requirements Regulation (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012) (the **CRR**) transposing Basel III into EU-law, have been published.

The CRR (an EU-regulation which directly applies in all EU-Member States without any further national implementation steps) entered into force on 1 January 2014. Certain Czech laws (including amendments to the Czech Banking Act and an implementing Decree of the CNB No. 163/2014 Coll. (the **Prudential Rules Decree**)) implementing the CRD IV into Czech law have been subsequently amended or newly promulgated in 2014,

Thus, since 2014, the prudential requirements, in particular the regulatory capital requirements applicable to the Issuer have been substantially changed.

Under the new rules, the only capital instruments eligible as own funds are: (i) common equity tier 1 instruments (the **CET 1**); (ii) additional tier 1 instruments (the **AT 1**) (CET 1 and AT 1 together constituting the **Tier 1**); and (iii) tier 2 instruments (the **Tier 2**).

Institutions are required at all times to satisfy the following capital ratios for own funds: (i) a CET 1 ratio of 4.5 per cent.; (ii) a Tier 1 ratio of 6 per cent.; and (iii) a total capital ratio constituted of the Tier 1 and Tier 2 of 8 per cent., all expressed as a percentage of the total risk exposure amount. The total risk exposure amount is in principle the sum of risk-weighted exposure amounts for credit risk, as well as the own funds requirements for market risk and operational risk

Therefore, whilst the total capital an institution needs to hold remains at 8 per cent., the share that has to be of the highest quality (i.e. CET 1) increased from 2 per cent. to 4.5 per cent.

The new rules established the following new capital buffers: (i) the capital conservation buffer, (ii) the countercyclical capital buffer, (iii) the systemic risk buffer, (iv) the global systemic institutions buffer and (v) the other systemic institutions buffer. The capital conservation buffer is equal to 2.5 per cent. The countercyclical capital buffer is equal to 0.5 per cent. The systemic risk buffer applicable to the Issuer is equal to 1.0 per cent. and it shall be increased to 2.0 per cent. as from 1 January 2017. The other systemic institutions buffer applicable to the Issuer is equal to 0 per cent.

On top of these own funds requirements, the competent authorities may add extra capital requirements to cover for other risks following a supervisory review and institutions may also decide to hold an additional amount of capital on their own.

Under Basel III, banks (such as the Issuer) are required to meet two new liquidity standards: (i) a liquidity coverage ratio (LCR) and (ii) a net stable funding ratio (NSFR). The LCR requires 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 in relation 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 became binding on 1 October 2015. The NSFR will move to a minimum standard by 1 January 2018.

At the same time, the criteria for each capital instrument became more stringent; due to harmonized definitions of adjustments made to capital in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes, the effective level of required regulatory capital has been increased significantly.

In respect of credit risk, in order to calculate their risk-weighted exposure amounts, institutions shall apply either the standardised approach or (if permitted by the competent authorities) the internal ratings based approach (the **IRB**). At the date of this Base Prospectus, the Issuer is using the internal ratings based approach.

Apart from the prudential requirements on own funds and regulatory capital described above, Czech credit institutions are subject to numerous other regulatory requirements stipulated by EU-law, including limits on large exposures, liquidity requirements, leverage ratio, as well as reporting and notification obligations. Credit institutions have to comply with such prudential and regulatory requirements not only on an individual level, but also on a group level.

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, unless the bank is subject to a crisis resolution measure (*opatření k řešení krize*) pursuant to the Czech Recovery and Resolution Act.

### ***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 or subgroup 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.

### ***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 granting 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, the Prudential Rules Decree and the CRR, Czech banks and branches of foreign banks established outside the EEA are required to comply with large exposure rules established by the CRR that limit the amount of their assets and off-balance-sheet items in respect of a person or economically connected group of persons. 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 bank's eligible capital.

As a general rule, a Czech bank shall not incur an exposure, after taking into account the effect of the credit risk mitigation, to a client or group of connected clients the value of which exceeds 25 per cent. of its eligible capital. If a group of connected clients includes one or more credit institutions or investment firms, the value of the exposure must not exceed 25 per cent. of Czech bank's eligible capital or EUR 150 million, whichever is higher, provided that the sum of exposure values, after taking into account the credit risk mitigation, to all connected clients that are not credit institutions or investment firms must not exceed 25 per cent. of Czech bank's eligible capital.

As a general rule, trading portfolio exposure to a person or economically connected group of persons may not exceed 600 per cent. of the sum of the eligible capital.

### ***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 CRR, 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 eligible capital and (ii) in respect of all legal entities a total of 60 per cent. of the bank's or the consolidated group's eligible 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 effective supervision of the bank's activities; 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 specified in 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, unless the CNB waives this requirement or limits it to only some parts thereof. 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 basic information about themselves, their shareholder structure, the structure of the consolidated group to which they belong, and their activities and financial situation on their website. 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 operated by the Financial Market Guarantee System established pursuant to the Czech Recovery and Resolution Act. 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, funds obtained at the financial market, subsidies, repayable financial assistance and loans provided by the CNB, investment yields on its funds 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.

A yearly contribution of a Czech bank to the Deposit Insurance Fund is calculated pursuant to a formula published by the CNB, which takes into account the amount of the insured deposits and the risk profile of the institution. In 2016, the Issuer paid a yearly contribution to the Deposit Insurance Fund in the amount equal to CZK 36 million.

### ***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 a 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.

## **Slovak Banking Regulation**

### ***Banking Regulation and Supervision***

The Issuer conducts banking services in the Slovak Republic through its Slovak branch on the basis of a single bank licence under the EU single passport regime.

The structure of the regulation and supervision of the Slovak banking system is set forth in a number of statutes, including Slovak Act No. 566/1992 Coll., on National Bank of Slovakia, as amended (the **Act on NBS**), Slovak Act No. 747/2004 Coll. on Financial Market Supervision and on Amendments to Certain Acts, as amended, (the **Slovak Financial Market Supervision Act**), Slovak Act No. 371/2014 Coll., on Management of Crisis on the Financial Market and on Amendments to Certain Acts, as amended (the **Slovak Financial Market Crisis Management Act**), Slovak Act No. 483/2001 Coll., on Banks and on Amendments to Certain Acts, as amended (the **Slovak Banking Act**), Slovak Act No. 90/2016 Coll., on residential loans and on Amendments to Certain Acts, as amended (the **Slovak Residential Loans Act**), Slovak Act No. 566/2001 Coll., on Securities and Investment Services (Securities Act) and on Amendments to Certain Acts, as amended (the **Slovak Securities Act**), Slovak Act No. 530/1990 Coll., on Bonds, as amended (the **Slovak Act on Bonds**), Slovak Act No. 186/2009 Coll., on Financial Intermediation and Financial Counselling and on Amendments to Certain Acts, as amended (the **Slovak Financial Intermediation and Counselling Act**), Slovak Act No. 118/1996 Coll., on Deposit Protection and on Amendments to Certain Acts, as amended (the **Slovak Deposit Protection Act**), Slovak Act No. 202/1995 Coll., Foreign Exchange Act, amending and supplementing Act of the Slovak National Council. 372/1990 Coll. on Misdemeanours, as amended (the **Slovak Foreign Exchange Act**), Slovak Act No. 297/2008 Coll., on Protection Against Legalization of Proceeds from Crime and Terrorist Financing and on Amendments to Certain Acts, as amended (the **Slovak Anti-Money-Laundering Act**) and other acts and certain regulations issued by the National Bank of Slovakia (**NBS**) (known as measures and decrees).

### ***The NBS***

The NBS exercises regulatory and supervisory powers over the banking sector, as well as the rest of the Slovak financial sector (including capital markets, insurance, pension funds, credit unions and electronic money institutions as well as the foreign exchange sector).



As a general rule, the NBS exercises banking supervision over Slovak banks (including subsidiaries of foreign banks incorporated in the Slovak Republic) and Slovak branches of banks established outside the EEA. Banks established in EEA countries other than the Slovak Republic conducting their banking business in the Slovak Republic through a Slovak branch passported in the Slovak Republic (such as the Issuer), or without establishment of a Slovak branch on the basis of freedom of cross-border provision of services, are primarily subject to supervision by their home country regulators. However, since the Slovak Republic is a member of the euro area, the Slovak branch of the Issuer is also subject to measures taken by the ECB.

To the extent that the activities of the Slovak branch of the Issuer fall under the EU single passport regime, the general principle of home country supervision applies pursuant to the CRD IV and the Slovak branch of the Issuer is supervised by the CNB. Consequently, the NBS's supervision over the Slovak branch of the Issuer should, in principle, be limited to the supervision of the liquidity of the Slovak branch of the Issuer and compliance with anti-money laundering and counter-terrorism rules pursuant to the Slovak Anti-Money-Laundering Act. Since Slovakia forms part of the Eurozone, the Slovak branch of the Issuer is also subject to the monetary policy regulations set by the ECB.

Further, the Slovak Financial Market Supervision Act also extends the NBS supervision in the area of protection of financial consumers and other clients of Slovak branches of foreign banks relating to the offering or provision of financial services or transactions with Slovak branches of foreign banks.

Considering that UniCredit SpA (the sole shareholder of the Issuer) is included in the list of significant supervised entities published by the ECB, further implications of such ECB supervision may arise even with respect to the Slovak branch of the Issuer within the framework of the so-called Single Supervisory Mechanism.

### ***Licensing***

As a general rule, only companies that have been granted a banking licence by the NBS in compliance with the Slovak Banking Act are permitted to operate in the Slovak Republic as a bank. Exceptions apply to foreign banks established within the EEA which intend to provide banking services in the Slovak Republic through their Slovak branch, such as the Slovak branch of the Issuer, or on the basis of the freedom of cross-border provision of services. As noted, the Slovak branch of the Issuer provides banking services under the EU single passport regime.

Specific regime applies to mortgage business, where the Slovak branch of the foreign bank may be authorized to conduct such business if the foreign bank is authorised to conduct mortgage business in its home country and upon obtaining a mortgage banking licence from the NBS subject to fulfilment of conditions stipulated in the Slovak Banking Act.

One of the conditions is that the borrowers of mortgage loans and owners of mortgage bonds issued in the Slovak Republic and the borrowers of mortgage loans and owners of mortgage bonds issued in the country of establishment of the foreign bank are provided equal rights (including equal status in bankruptcy proceedings). These rights must be guaranteed at least to the extent of rights of borrowers on mortgage loans and mortgage bonds holders guaranteed under Slovak law.

A licence is issued for an indefinite period of time, it is not transferable and does not pass to the legal successor. It contains 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 the NBS***

In several cases, the Slovak Banking Act requires a Slovak branch of foreign bank to apply for consent from the NBS or to notify the NBS before executing particular transactions or operations.

For instance, a prior consent of the NBS is required for the provision of information to third parties subject to banking secrecy in relation to the sale of Slovak branch or its part.

A notification to the NBS is required, without limitation: (i) where a Slovak branch does not publish information that it is obliged to publish because of their immaterial, internal or confidential nature; and (ii) of the identity of a Slovak branch's auditor.

### ***Significant Branch***

In accordance with the CRD IV, enhanced cooperation mechanism can be established between the regulators in the host and home countries in respect of branches considered significant. This entails mainly provision of information, e.g. in relation to the risk assessment and consulting of operational steps required in relation to implementation of recovery plans.

The NBS may request that competent authority of the home member state of a foreign bank considers its Slovak branch as significant. The branch of the foreign bank can be considered significant with particular regard to the following: (i) whether the market share of the branch in terms of deposits exceeds 2 per cent. in the host state; (ii) the likely impact of a suspension or closure of the operations of the institution on systemic liquidity and the payment, clearing and settlement systems in the host state; (iii) the size and importance of the branch in terms of the number of clients within the context of the banking or financial system of the host state.

As of the date of this Prospectus, the Slovak branch of the Issuer is not considered a significant branch in accordance with the CRD IV.

### ***Minimum Reserves***

Under the Act on NBS, the NBS may require banks, foreign bank branches and credit unions to hold a pre-specified amount of liquid funds, known as minimum required reserves, in accordance with the Eurosystem rules on accounts with the NBS. The required minimum reserves may not exceed 10 per cent. of the total liabilities of the institution required to hold such reserves. The ECB applies a uniform positive reserve ratio to most of the balance sheet items included in the reserve base. Since 18 January 2012, the reserve ratio is 1 per cent.

### ***Liquidity Rules***

Under the Slovak Banking Act and the NBS Regulation No. 18/2008 on Liquidity of Banks and Branches of Foreign Banks and Process of Liquidity Risk Management of Banks and Branches of Foreign Banks, as amended, banks and branches of foreign banks operating in the Slovak Republic are required to monitor and manage liquidity risk. The Slovak branch of the Issuer is required to 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. The Slovak branch of the Issuer must also maintain a stable and diversified funding portfolio and manage relationships with their principal creditors.

### ***Disclosure of Information***

Banks and branches of foreign banks are required to disclose and file with the NBS a number of reports related to liquidity and other matters. The form of the reports is established by several NBS decrees.

## MORTGAGE LOANS AND THEIR REGULATORY FRAMEWORK

*This section contains selected information on certain aspects of the regulation of mortgage loans in the Czech Republic and Slovakia. The information in this section is intended to provide a brief overview of the regulation of mortgage loans in the Czech Republic and Slovakia 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 and Slovakia.*

### Mortgage Loans and their Regulatory Framework 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, which are 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 securing a Mortgage Loan 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 of the mortgagor 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 (*katastr nemovitosti*) prior to 1 May 2000. As from 1 December 2016, the mortgaged property may be sold no earlier than six months after the mortgagee notified the mortgagor of the commencement of the enforcement of the pledge.

A valuation 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 on 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 leading 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 such claims 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 the direct private sale of the real property. 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 the 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 (or deemed delivery under the terms of Czech law) 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 pursue 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 their 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. Nevertheless, mortgage agreements relating to the Mortgage Property include an option for the benefit of the Issuer 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 necessarily and reasonably incurred 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 36 of this Base Prospectus.

If the borrower under a Mortgage Loan is declared insolvent and the Issuer duly registers its claim in the insolvency proceedings, the Issuer as a mortgage bank (or as the mortgagee) will qualify as a secured creditor. However, the position of the Issuer as a secured creditor can be challenged in the insolvency proceedings. Following such a challenge filed by an insolvency administrator or another creditor, 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 from the relevant asset) and liquidation (up to 5 per cent. of liquidation proceeds from 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 particular 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 obliged 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 forms a part of 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.

### ***The Mortgage Credit Directive and the Czech Consumer Credit Act***

The Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive) has been transposed into the Czech law in the Czech Consumer Credit Act, which became effective as of 1 December 2016.

The Czech Consumer Credit Act stipulates that certain information must be provided to each potential customer by a mortgage bank in a form determined by the Act prior to the execution of the loan agreement. Each loan agreement must be made in writing and must contain all information required by the Czech Consumer Credit Act. A failure to provide certain information regarding the pricing of the loan can affect the interest rate applicable to the loan. If any of the interest rate, the annual percentage rate of charge (the **APRC**) or the total amount payable by the customer is not included in the loan agreement, the customer shall pay the interest equal to the repo interest rate of the CNB. The Czech Consumer Credit Act also stipulates that if the interest rate and the total amount payable by the customer included in the loan agreement do not correspond, the provision more favourable to the customer shall apply. If the APRC included in the loan agreement is calculated incorrectly and the correct APRC is higher, the interest rate applicable to the loan shall be lowered to correspond to the APRC included in the loan agreement.

The Czech Consumer Credit Act stipulates that customers are entitled to fully or partially prepay a consumer loan (including a mortgage loan) at any time before its due date. The customer can be charged only the costs reasonably incurred by the mortgage bank in connection with the prepayment. However, the mortgage bank cannot claim the costs it incurred in case of (a) a prepayment made within three months after the mortgage bank informed the customer of a new interest rate applicable to the loan, or (b) a prepayment made in connection with a death, long-term illness or disability of the customer or his spouse or partner, which materially impaired the customer's ability to repay the loan, or (c) a partial prepayment of no more than 25 per cent. of the loan amount, provided that the repayment was made during a month preceding an anniversary of the loan agreement. If the mortgage loan was prepaid in connection with the sale of the asset securing the loan, the mortgage bank can claim the costs not exceeding 1 per cent. of the prepaid amount and no more than CZK 50,000, provided that the loan agreement was entered into at least 24 months prior to the prepayment date.

### ***The CNB Recommendations***

On 14 June 2016, the CNB published a non-binding recommendation regarding the retail mortgage risk management (the **Recommendation**). Pursuant to the Recommendation, each mortgage bank was to provide no more than 10 per cent. of all new mortgage loans with an LTV (loan-to-value) ratio of 90 to

100 per cent. during the calendar quarter ending on 30 September 2016 and each mortgage bank was to provide no new mortgage loans with an LTV ratio of more than 100 per cent.

During each calendar quarter as from 1 October 2016, each mortgage bank may provide no more than 10 per cent. of all new mortgage loans with an LTV ratio of 85 to 95 per cent. and no new mortgage loans with an LTV ratio of more than 95 per cent.

During each calendar quarter as from 1 April 2017, each mortgage bank may provide no more than 10 per cent. of all new mortgage loans with an LTV ratio of 80 to 90 per cent. and no new mortgage loans with an LTV ratio of more than 90 per cent.

The Recommendation also discourages mortgage banks from bypassing the recommendations regarding the LTV ratio by providing their customers with parallel unsecured financing. The Recommendation also encourages mortgage banks to prudentially evaluate each customer's ability to repay the mortgage loan, particularly in case of increase of the applicable interest rate or a decrease of his or her income, for example by setting appropriate internal criteria for loan to income evaluation.

Pursuant to the Recommendation, mortgage loans should not be provided for a period exceeding the expected economic activity of the customer and, in principle, they should not be provided for a period exceeding 30 years. Mortgage banks are also encouraged to proceed prudently when appraising mortgaged assets in connection with refinancing of existing mortgage loans, especially when the value of the asset is to be increased based on a new appraisal. Mortgage banks are also encouraged to proceed prudently when cooperating with mortgage brokers, particularly having regard to a potential conflict between their interests.

The Recommendation also encourages the mortgage banks to monitor performance of the buy-to-let mortgage loans separately from the mortgage loans provided for the purpose of acquisition of customers' own housing and to ensure that the LTV ratio of higher risk mortgage loans does not exceed 60 per cent.

### ***General Conditions of the Market***

#### *Main competitors*

More than a dozen banks currently operate on the mortgage market in the Czech Republic. The main mortgage lenders, 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., MONETA Money Bank, a.s., Expobank CZ a.s. and Wüstenrot hypoteční Banka a.s.

#### *Housing market*

According to March 2011 census, there were about 4.375 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 in the Czech Republic, which has also 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.

#### *State housing assistance programmes*

The state of the Czech Republic is no longer acting as an active investor on the housing market 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. The implementation of the above mentioned support for housing is carried out primarily through the Ministry for Regional Development and the State Housing Development Fund.

*The following programmes for the support of housing and for the repair of housing stock are in effect as 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:

- Loans for the purpose of repairs and modernization of residential buildings comprised of at least four apartments called “Panel 2013+”.
- Loans for the purpose of repairs and modernization of housing for persons under 36 years of age.
- Loans for the purpose of provision of housing for persons under 36 years of age.

- Aid related to natural disasters – low-interest loans and grants for amelioration of the consequences of natural disasters.
- Loans for the purpose of construction of rental housing.
- Guarantees for the repayment of loans for the purpose of construction of rental housing.

Additionally, there are also subsidies in place 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.

*Loans for persons under 36 years of age taking care of child under 6 years of age*

The Czech Government Decree No. 100/2016 Coll., on Use of Funds of the State Housing Development Fund, defines the conditions for use of funds of the State Housing Development Fund by means of loans for the purpose of provision of housing for persons under 36 years of age taking care of a child under 6 years of age.

### ***The Business Strategy of the Issuer***

In connection with the continuing economic growth in the Czech Republic, overall expansion of mortgage market and increasing needs of funding of housing, 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 (see "*Description of the Issuer – Business Overview*").

### ***Credit Management***

The Issuer's strategy in the area of loans is to grant a loan on the basis of the demonstrable ability of the borrower to generate strong cash flow through his or her activities, sufficient to repay the debt regardless of whether the debt is a mortgage or another type of loan.

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 relating to the client that could lead the client into serious financial distress (see "*Risk Management – Credit Risk – Credit Risk Management at Individual Client Level*").

### ***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 has developed its own methodology for the appraisal of the Mortgaged Property and has established an organisational unit whose job is to methodically guide the external appraisers and departments dealing with lending activity within the Issuer. 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. 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). The Issuer understands 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. 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. 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. If the client does not agree with the change in the interest rate, the loan may be accelerated 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 the early repayment of the loan. In such case the Issuer is entitled to compensations for the costs actually incurred in connection with the early repayment up to the limit pursuant to the Czech Consumer Credit Act (see "*Mortgage Loans and their Regulatory Framework – The Mortgage Credit Directive and the Czech Consumer Credit Act*").

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.

### **Mortgage Loans and their Regulatory Framework in Slovakia**

#### ***Mortgage Bank as Pledgee***

The Slovak branch of the Issuer is licensed to provide mortgage loans in Slovakia. Since mortgage loans provided by the Issuer in Slovakia are secured by mortgage over real estate owned by the relevant borrowers, the Issuer acting through its Slovak branch 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).

In case of a default, the Slovak branch of the Issuer as a mortgagee may enforce its rights towards a mortgagor (i) in a manner specified in the mortgage agreement (e.g. in direct private sale or a public tender pursuant to provisions of the Slovak Commercial Code); (ii) through voluntary auction pursuant to

Slovak Act No. 527/2002 Coll., on voluntary auctions and supplementing the Act No. 323/1992 Coll. on Notaries (Notarial Code), as amended; (iii) or by execution.

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 mortgagee may, at any time during the process of enforcement change the method of enforcement. The mortgagor must be notified about such a change in due course.

The execution proceeding requires an enforcement order of the court and an estimate of the value of the auctioned real property.

If agreed in a mortgage agreement, a mortgage may be enforced by means of a direct private sale of the real property or a public tender pursuant to the provisions of the Slovak Commercial Code. 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 Slovak Real Property Register, depending on which of the events set out under (i) or (ii) occurs later, unless the mortgagee and mortgagor agree on the earlier sale after the delivery of the notification.

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 mortgagee has a duty to proceed with due 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.

Regardless of the choice of enforcement method, the mortgagee is always entitled to reimbursement for necessarily and reasonably incurred expenses associated with the enforcement.

If the borrower under a Mortgage Loan is declared insolvent, the Slovak branch of the Issuer as a mortgage bank (or as the mortgagee) will qualify as a secured creditor. The position of the Issuer acting through its Slovak branch as a secured creditor can be challenged in insolvency proceedings. Following such a challenge filed by an insolvency administrator, the Issuer acting through its Slovak branch 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 acting through its Slovak branch 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 (*konkurz*). Secured creditors are, after deduction of costs of administration and liquidation 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 ranking of a statutory lien is determined on the basis of the date when it was inscribed into the Slovak Real Property Register.

#### *Allowances for mortgage loans for persons under 35 years of age*

The Slovak Banking Act defines the conditions for granting more favourable rates for mortgage loans to persons under 35 years of age from the state budget for the acquisition of housing. It is the percentage by which the state reduces the interest rate stipulated in the mortgage loan (the **State Subsidy for Young People**). The precise amount of the State Subsidy for Young People is defined yearly in the Slovak Act on State Budget (currently Slovak Act No. 411/2015 Coll., on State Budget for 2016, as amended). Current subsidy provided by state is 2 per cent. p.a. for single persons and 3 per cent. p.a. for newlyweds. State Subsidy for Young People will be provided for a mortgage up to EUR 50,000.

Young persons are eligible for State Subsidy for Young People upon fulfilment of several conditions, one of these conditions is the undertaking of the mortgage bank for a period of five years following the mortgage loan (i) to reduce the interest rate stipulated in the mortgage loan in the same amount, as determined by the State Subsidy for Young People; however, by a maximum of 1 per cent., (ii) to allow to defer principal repayments, and (iii) to offer extra prepayment of mortgage loan free of charge.

### ***The Mortgage Credit Directive and the Slovak Residential Loans Act***

Under Slovak Residential Loans Act implementing Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive) the Slovak branch of the Issuer must comply with several obligations in relation to the loans provided in relation to the housing, including mortgages (the **Slovak Residential Loans**). These obligations are mostly connected to informing of a borrower, advertising of financial products, APRC and regular evaluation of the ability of the borrower to repay the Slovak Residential Loan.

If the Slovak Residential Loan agreement (i) is not concluded in the written form, (ii) does not contain mandatory requirements under Slovak Residential Loans Act (e.g. APRC, total amount payable by the customer), or (iii) APRC in the Slovak Residential Loan agreement is incorrect and unfavourable to the customer, the Slovak Residential Loan is deemed to be interest-free and free of charge.

The Slovak Residential Loans Act stipulates that customers are entitled to fully or partially prepay the consumer loan at any time before its due date. Generally, the customer can be charged only the costs reasonably incurred by the mortgage bank in connection with the prepayment, which, however, shall not exceed, subject to certain exceptions, 1 per cent. of the prepaid amount of the consumer loan. The mortgage bank cannot claim the costs it incurred in case of (a) a prepayment made within three months after the mortgage bank informed the customer of a new interest rate applicable to the loan, or (b) a partial prepayment of no more than 20 per cent. of the loan amount, provided that the repayment was made during a month preceding an anniversary of the loan agreement.

### ***Main competitors***

Eight banks are currently licensed to provide mortgage loans in Slovakia. The main mortgage lenders, in addition to the Issuer, are Tatra banka, a.s., Všeobecná úverová banka, a.s., Slovenská sporiteľňa, a.s., Československá obchodná banka, a.s. and Sberbank Slovensko, a.s.

## 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.

The description below is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that and could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Covered Bonds.

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, including pending or proposed changes in applicable tax laws.

It is noted that the Issuer has a permanent establishment in the Slovak Republic, however the Covered Bonds, the Issuer's indebtedness, interest and other costs in connection to the Covered Bonds are not be allocated, fully or partially, to the Issuer's permanent establishment in the Slovak Republic.

### Taxation in the Czech Republic

#### *Withholding tax on Interest*

Since the Covered Bonds are issued 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 of, 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 the above, the Czech tax law is not straightforward with respect to 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 tax base calculated as the difference between the purchase 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 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 taxpayer 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 taxpayer other than an individual who is for tax purposes treated as a resident of the Czech Republic (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 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 after three years following the termination of such business activities, at the earliest. Furthermore, income from the sale of the Covered Bonds realized by an individual is exempt, if the annual (worldwide) gross income (i.e. not the capital gains) of that individual from the sale of securities (including the Covered Bonds) does not exceed the amount of CZK 100,000.

Income realised by Non-Czech Holders holding the Covered Bonds through a permanent establishment in the Czech Republic 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 for tax purposes a resident of a member state of the European Union or the EEA 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 as declared in the Czech tax return of the Non-Czech Holder selling the Covered Bonds. If no Czech tax return is filed, the tax authority can deem the tax security withheld to be tax assessed on and paid by 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. (there are special rates of 5 per cent. for selected investment funds and 0 per cent. for pension funds and selected entities of pension insurance) 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 (i.e. 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 tax base 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, under certain conditions, 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, 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 three years 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 three years following the termination of such business activities at the earliest.

Furthermore, income from the sale of the Covered Bonds realized by an individual is exempt, if the annual (worldwide) gross income (i.e. not the capital gains) of that individual from the sale of securities (including the Covered Bonds) does not exceed the amount of CZK 100,000.

If income realised by a Czech Holder from the sale of the Covered Bonds, except in the case of a buy-back by the Issuer when the 15 per cent. withholding tax is applied to the difference between the purchase price and the Issue Price (for further details see *Taxation -Withholding tax on Interest* above), is not tax-exempt (as discussed in the foregoing paragraphs), tax rates apply as follows:

- individual Czech Holders not having held the Covered Bonds in connection with their business activities are subject to tax at 15 per cent.,
- individual Czech Holders having held and selling the Covered Bonds in connection with their business activities are subject to tax at 15 per cent. plus potentially the solidarity surcharge, calculated at 7 per cent. of the excess of the Czech Holder's total employment and self-employment (including employment-related) income over 48-times the average wage (CZK 1,296,288 for 2016 and CZK 1,355,136 for 2017), plus social security and health insurance contributions,
- other than individual Czech Holders are subject to tax at 19 per cent.

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 mere purchase, holding or disposition of the Covered Bonds, save for disposition in certain cases upon donation or inheritance.

#### **The proposed financial transactions tax (FTT)**

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**). However, Estonia has since stated that it will not participate.

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 the

Covered Bonds 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.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

## **Luxembourg Taxation**

The following information is of a general nature only 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.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

### **Withholding Tax**

#### **(i) *Non-resident holders of Covered Bonds***

Under Luxembourg general tax laws currently in force, 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, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

#### **(ii) *Resident holders of Covered Bonds***

Under Luxembourg general tax laws currently in force and subject to the amended law of 23 December 2005 as amended (the **Relibi 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, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident holders of Covered Bonds.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to 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. Accordingly, payments of interest under the Covered Bonds coming within the scope of the Relibi Law would be subject to withholding tax of 10 per cent.

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Czech Republic) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA

jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional Covered Bonds (as described under “*Terms and Conditions of the Covered Bonds—Further Issues*”) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.



## SUBSCRIPTION AND SALE

The Dealers have, in the Programme Agreement dated 10 January 2017 (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**), 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 EEA 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 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 (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **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 Czech Act No. 15/1998 Coll., on Capital Markets Supervision, 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 or the minimum denomination of the Covered Bonds 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.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and 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 or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **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 and/or update of the Programme have been duly authorised by resolutions of the Board of Directors of the Issuer dated 6 May 2013 and 21 June 2016.

### 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 in accordance with the Prospectus Directive. Application may be 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 or admitted to trading, as the case may be, on another stock exchange or market may be issued under this Programme but only, in the case of Covered Bonds listed or admitted to trading on another stock exchange or market, if the Issuer ensures that all laws and regulations are complied with including, amongst others, any applicable requirements for notifications of competent authorities and other requirements as implemented from the Prospectus Directive in the relevant Member State of the EEA.

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.

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 admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

### 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 consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2014 and 31 December 2015 (drawn up in English or with an English translation thereof), in each case together with the audit reports prepared in connection therewith;
- (c) the consolidated unaudited financial statements of the Issuer as of and for the six months ended 30 June 2016 and the unaudited consolidated financial statements of the Issuer as of and for six months ended 30 June 2015 (drawn up in English or with an English translation thereof);
- (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 Act No. 15/1998 Coll., as amended, 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, 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.

## **Significant or Material Change**

There has been no significant change in the financial position of the Issuer or the Group since 30 June 2016 and there has been no material adverse change in the prospects of the Issuer since 30 June 2016.

## **Litigation**

Neither the Issuer nor any of its subsidiaries 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's group.

## **Material Contracts**

Neither the Issuer nor any of its subsidiaries has entered into any contracts (excluding contracts entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which the Issuer or any of its subsidiaries 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 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 as of and for each of the financial years ended on 31 December 2015 and 31 December 2014.

The reports of the auditors of the Issuer are included or incorporated in this Base Prospectus with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

**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. It may not always be possible for the Trustee to take certain actions, notwithstanding the provision of an indemnity and/or security and/or pre-funding to it. Where the Trustee is unable to take any action, the Covered Bondholders are permitted in accordance with the Conditions and the Trust Deed to take the relevant action directly.

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