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This base prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Raiffeisenbank a.s., Barclays Bank PLC, BNP Paribas, London Branch, Raiffeisen Bank International AG nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the base prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, BNP Paribas, London Branch, Raiffeisen Bank International AG and Raiffeisenbank a.s.

# BASE PROSPECTUS

## Raiffeisenbank a.s.

(incorporated with limited liability in the Czech Republic)

€5,000,000,000

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

Under this €5,000,000,000 Covered Bond (in Czech, *hypoteční zástavní list*) Programme (the **Programme**), Raiffeisenbank 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 Deutschland GmbH (**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 "A2" 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*".

### **Arrangers**

Barclays

BNP PARIBAS

Raiffeisen Bank International AG

### **Dealers**

Barclays

BNP PARIBAS

Raiffeisen Bank International AG

Raiffeisenbank a.s.

The date of this Base Prospectus is 9 October 2014.

## IMPORTANT INFORMATION

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

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

The Issuer confirms that the information on page 119, which is stated as having been extracted from information published by the Czech Ministry of Regional Development (*Ministerstvo pro místní rozvoj*), has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the Czech Ministry of Regional Development (*Ministerstvo pro místní rozvoj*), no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is to be read and construed in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

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

Neither the Arrangers, 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 Arrangers, 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 Arrangers, 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 Arrangers, 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 Arrangers, the Dealers or the Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, 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 Arrangers, 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 Arrangers, 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 European Economic Area (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 less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer of Covered Bonds in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. The Covered Bonds will only be offered to non-retail investors.

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 164 – 166 of this Base Prospectus.

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## 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.

Issuer: Raiffeisenbank a.s.

Risk Factors: 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 "*Risk Factors*" on pages 16 – 41 below and include:

- (a) insolvency considerations and risks – including, in particular, single cover pool risk, commingling risk, acceleration risk, set-off risk, ineligibility of assets and risks related to ineligibility of assets and refinancing;
- (b) currency risk – the Mortgage Loans in the Cover Pool will primarily be denominated in Czech Koruna;
- (c) risks relating to the Issuer's ability to fulfil its obligations under Covered Bonds issued under the Programme;
- (d) risks relating to the Czech mortgage market and certain other market risks; and
- (e) certain risks relating to the structure of particular Series of Covered Bonds.

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

Arrangers: Barclays Bank PLC

BNP Paribas, London Branch

Raiffeisen Bank International AG

Dealers: Barclays Bank PLC

BNP Paribas, London Branch

Raiffeisen Bank International AG



Raiffeisenbank a.s.

and any other Dealers appointed in accordance with the Programme Agreement.

Certain Restrictions:

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*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*").

Trustee:

Citicorp Trustee Company Limited

Issuing and Principal Paying Agent:

Citibank, N.A., London Branch

Registrar:

Citigroup Global Markets Deutschland AG

Asset Monitor:

From the date of the first issuance of Covered Bonds to a person or an entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates), Deloitte Audit s.r.o. will act as asset monitor pursuant to the terms of an asset monitor agreement (the **Asset Monitor**). The Asset Monitor will be required to carry out various reviewing, testing and notification duties in relation to the checks and calculations performed by the Issuer in accordance with the Czech Bonds Act and CNB Measure (see "*General Description of Czech Legislation relating to Covered Bonds – 1. Czech Legislation*" below) and the Conditions (see "*Issuer Covenants*" and "*Cover Pool*" below).

Programme Size:

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme (or, in relation to the nominal amount of any Covered Bonds which are not denominated in euro, its equivalent in other currencies calculated as described in the Programme Agreement) is €5,000,000,000 outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:

Covered Bonds may be distributed by way of private or public

placement and in each case on a syndicated or non-syndicated basis.

Currencies: Covered Bonds may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealers.

Maturities: The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price: Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Covered Bonds: The Covered Bonds will be issued in bearer or registered form as 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 and/or the Covered Bondholders upon giving notice to the Covered Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

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

Extended Maturity Date:

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

As regards redemption of Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the maturity of the principal amount outstanding of the Covered Bonds not redeemed will automatically extend on a monthly basis up to, but not later than, the Extended Maturity Date. In that event the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date.

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

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

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

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

Denomination of Covered Bonds:

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

Taxation:

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*). 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 – 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.

Cross Default and other Events:	<p>The terms of the Covered Bonds will contain a cross default provision as further described in Condition 9 (<i>Events of Default</i>).</p> <p>For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, whilst such breach is continuing the Issuer must not issue any Czech Covered Bonds which have the benefit of the Cover Pool.</p>
Status of the Covered Bonds:	<p>The Covered Bonds are mortgage covered bonds (in Czech, <i>hypoteční zástavní listy</i>) issued in accordance with Section 28 <i>et seq.</i>, Part 2, Clause III of the Czech Bonds Act.</p> <p>The Czech Covered Bonds are all instruments and/or securities issued by the Issuer as mortgage covered bonds (in Czech, <i>hypoteční zástavní listy</i>) pursuant to Section 28 <i>et seq.</i>, Part 2, Clause III of the Czech Bonds Act, whether issued under and governed by Czech or foreign law and whether issued under the Programme (as the Covered Bonds), under the Domestic Bond Programme, under a programme yet to be established by the Issuer or on a standalone basis, which are then outstanding (the <b>Czech Covered Bonds</b>, which definition includes the Covered Bonds).</p> <p>The Covered Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank <i>pari passu</i> among themselves and with all other outstanding Czech Covered Bonds and with all other obligations of the Issuer that have been provided the same priority as the Covered Bonds.</p> <p>Any obligations of the Issuer arising from the Covered Bonds are obligations of the Issuer the repayment of which can be realised from any assets of the Issuer. Although the Covered Bonds constitute unsecured obligations of the Issuer in any insolvency proceedings against the Issuer, the Czech Insolvency Act provides for a special regime in respect of the obligations arising from the outstanding Czech Covered Bonds (including Covered Bonds issued under the Programme) issued by the Issuer (see further "<i>General Description of Czech Legislation relating to Covered Bonds</i>").</p> <p>Each Covered Bond will bear the designation "<i>hypoteční zástavní list</i>" to be recognised as such under the Czech Bonds Act, CNB Measure and the Czech Insolvency Act.</p>
Issuer's other programmes:	<p>In addition to the Programme, the Issuer has an active CZK50,000,000,000 domestic bond programme (the <b>Domestic Bond Programme</b>) for the issuance of both: (i) mortgage covered bonds (in Czech, "<i>hypoteční zástavní listy</i>") under Czech law which satisfy the requirements of Section 28 <i>et seq.</i>, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds); and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act.</p>

All Covered Bonds issued by the Issuer under the Programme, Czech Covered Bonds issued under the Domestic Bond Programme and any other Czech Covered Bonds issued by the Issuer and, in each case, which are then outstanding: (i) have, and will have, the benefit of a statutory priority under the Czech Bonds Act, CNB Measure 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 and CNB Measure (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*").

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

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

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

Assets included in the Cover Pool may not, according to the Czech Bonds Act and CNB Measure (as to which see further "*General Description of Czech Legislation relating to Covered Bonds*"), be pledged or be subject to any security right in favour of a third party.

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

*Criteria for Eligible Assets (the Statutory Eligibility Criteria)" and the Contractual Eligibility Criteria see ("The Cover Pool – Composition of Assets – Contractual Eligibility Criteria for Eligible Assets").*

Rating:

The Covered Bonds issued under the Programme are expected to be assigned an "A2" indicative 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 Measure, the Czech Insolvency Act and any other provisions of Czech law applicable to or relevant for the Czech Covered Bonds. Therefore, the Covered Bonds will need to satisfy requirements of Sections 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the Cover Pool and its maintenance will be governed by Czech law. Also, Section 375 of the Czech Insolvency Act and other relevant provisions of the Czech Insolvency Act will apply to the Covered Bonds and the Cover Pool in the case of insolvency proceedings against the Issuer.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the European Economic Area (including the United Kingdom and the Czech Republic), 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 or D/TEFRA not applicable, as specified in the applicable Final Terms.



## **RISK FACTORS**

*In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There 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 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 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 concerning liquidity***

The business of the Issuer and its subsidiaries (the **Raiffeisen Group**) is subject to liquidity risks which could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend. In order to ensure that the Raiffeisen Group continues to meet its funding obligations and to maintain or grow its business generally, it relies on customer savings as well as ongoing access to the wholesale lending markets. The ability of the Raiffeisen Group to access retail and wholesale funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and confidence in the Czech banking system. The large sovereign debts and/or fiscal deficits in certain European countries have raised concerns regarding the financial condition of European financial institutions and their exposure to such countries. If concerns over sovereign and bank solvency continue or if the conditions further deteriorate, there is a danger that interbank funding may become generally unavailable or available only at elevated interest rates, which might impact the Raiffeisen Group's access to, and cost of, funding. Should the Raiffeisen Group be unable to continue to source a sustainable funding profile, the Raiffeisen Group'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 Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

The Raiffeisen Group is exposed to the risk that third parties who owe it cash, securities or other assets will not duly perform their obligations. The Raiffeisen Group is exposed to such risk from its counterparties in the financial services industry. Counterparties include brokers and dealers, commercial banks, investment banks, and other institutional customers. Exposures can arise through trading, lending, deposit-taking, clearance and settlement and many other activities and relationships. The Raiffeisen Group may incur losses if its counterparties default on their obligations. If losses due to counterparty defaults significantly exceed the amounts of the Raiffeisen Group's provisions or require an increase in provisions, it could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base or prospects. This risk may be exacerbated if the collateral held by the Raiffeisen Group 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.

Concerns about potential defaults by one financial institution can lead to significant liquidity problems, losses for, or defaults by, other financial institutions. The commercial and financial stability of many financial institutions is interrelated due to credit, trading and other relationships, and consequently even a perceived lack of creditworthiness may lead to market-wide liquidity problems. This could lead to a need for the Raiffeisen Group to raise additional capital while at the same time making it more difficult to do so. If the levels of the counterparty risk return it could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group is exposed to volatility in interest rates and interest spread risks***

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

Furthermore, an increase in rates charged to customers can also negatively impact interest income if it reduces the amount of customer borrowings. A decrease in the general level of interest rates may affect the Raiffeisen Group 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 Raiffeisen Group's control, including monetary policies implemented by the Czech National Bank (the **CNB**), as well as domestic and international economic and political conditions. Central banks' interest rate cuts could also lead to a further compression of interest spreads. Overall, large decreases in interest rates can be expected to have an adverse effect on the Raiffeisen Group's net interest income and continued low interest rates will make it more difficult to achieve growth. Spreads on interest rates are also affected by economic conditions.

Deposits usually have shorter maturities than loans and, therefore, can adjust to changing interest rates faster than loans. Accordingly, interest rates paid by banks, including the Issuer, on shorter term deposits tend to increase faster than the rates banks can earn from their loans. As a result of this mismatch between loans and deposits, a decrease in or instability of the interest rates charged on loans may have an adverse effect on the Raiffeisen Group's net interest income. In addition, for competitive reasons, the Raiffeisen Group 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 Raiffeisen Group 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 Raiffeisen Group's interest income margins would be adversely affected, which could have a materially adverse effect on its business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

The Raiffeisen Group relies on customer deposits to meet a substantial portion of its funding requirements. The majority of the Raiffeisen Group's deposits are retail deposits, a significant proportion of which are demand deposits. As of 30 June 2014, the Raiffeisen Group's deposits comprised 78.8 per cent. of its total liabilities and, from the total amount of the Raiffeisen Group's deposits, 91.2 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 Raiffeisen Group's control, and the Raiffeisen Group 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 Raiffeisen Group may not be able to cover. Any material decrease in deposits could have a material adverse effect on the Raiffeisen Group's business, results of

operations, financial condition, liquidity, capital base, prospects or reputation. Additionally, if depositors in other financial institutions in the Czech Republic or other countries were to withdraw significant amounts of savings generally, resulting in a failure of that institution, this could create a systematic effect among depositors and investors in the Czech Republic. This could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group's risk management strategies and procedures may prove insufficient or fail***

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

In addition, if any of the instruments and strategies that the Raiffeisen Group uses to hedge its exposure to various types of risk is not effective, the Raiffeisen Group may incur losses. Unexpected market developments also may adversely affect the effectiveness of the Raiffeisen Group's hedging strategies, and the Raiffeisen Group 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 Raiffeisen Group's reported results of operations. If the measures used to assess and mitigate risk prove insufficient or fail, the Raiffeisen Group may experience material unanticipated losses, which could have a material adverse effect on its business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

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

In particular, the Raiffeisen Group has significant exposure to real property loans, including mortgage loans, in the Czech Republic. Real property prices in the Czech Republic stagnated in 2012 and 2013 and have slightly increased in the first quarter of 2014. In past, property developers have been forced to cease or delay construction of planned projects due to a lack of customers or an inability to finance construction. These factors have led to declines and subsequent stagnation in real property prices and contraction of the market for mortgages and other real property loans. As such, the Raiffeisen Group may have difficulty realising collateral securing its real property loans, including mortgage loans, when debtors default. If there is a return towards a downturn in economic conditions in the Czech Republic, there could be further declines in value of collateral securing real property loans (including mortgage loans) resulting in the Raiffeisen Group'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 Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Furthermore, the Raiffeisen Group 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 2013, approximately 12.6 per cent. of the Raiffeisen Group's loans were uncollateralised. In the case of a default of such a loan, the Raiffeisen Group has no recourse to collateral,

and as a result of this if a large proportion of these borrowers were to default due to deteriorating economic conditions or otherwise this could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group is exposed to foreign exchange and currency risks***

As of June 2014, approximately 17 per cent. of the Raiffeisen Group's assets and liabilities were denominated in foreign currencies, particularly in EUR and in USD. The Raiffeisen Group translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and/or losses realised upon the sale of such assets, to Czech Koruna in preparing its financial statements. The overall effect of exchange rate movements on the Raiffeisen Group's results of operations depends on the rate of depreciation or appreciation of the Czech Koruna against its principal trading and financing currencies (EUR and USD). In addition, the Raiffeisen Group has a portfolio of derivative securities which expose it to fluctuations in the value of the Czech Koruna against foreign currencies.

Although the Raiffeisen Group sets limits and performs certain other measures aimed at reducing exchange rate risk, including but not limited to entering into foreign exchange derivative contracts, fluctuations in exchange rates may adversely affect the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group is subject to risks in its trading activities***

The Raiffeisen Group trades various securities and derivatives, including debt, equity and commodities, both as agent and principal, and it derives a portion of its non-interest income from profits earned in such trades. The Raiffeisen Group may be exposed to a number of risks related to changes in the value of such securities and derivatives, 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 Raiffeisen Group chooses to hedge certain positions do not track the market value of those positions. If the Raiffeisen Group incurs any losses from these exposures, then it could reduce the Raiffeisen Group's income or cause the Raiffeisen Group to suffer losses, either of which could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base and prospects. As of 31 December 2014 trading results are expected to be at EUR 7 million.

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

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

In addition, the Czech government has proposed to amend the Czech tax system in the years 2015 and 2016. If such reforms are, whether fully or partially, enacted, this could negatively impact the gross domestic product of the Czech Republic, thus negatively affecting the Czech banking market, including the Raiffeisen Group.

***Social, economic or political developments in the Czech Republic could adversely affect the Raiffeisen Group***

The Raiffeisen Group's operations in the Czech Republic are exposed to risks such as currency fluctuations, regulatory changes, inflation, deflation, economic recession, local market disruption, social unrest, changes in disposable income or gross national product, variations in interest rates and taxation policies, levels of

economic growth and other similar factors. The adverse effects of these factors could lead to an increase in defaults by the Raiffeisen Group's customers resulting in a decrease in the Raiffeisen Group's earnings.

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

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

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

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

The European Central Bank (the **ECB**) and the CNB currently accept certain debt instruments 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 Raiffeisen Group's funding costs and limit the Raiffeisen Group'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 Raiffeisen Group'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 Raiffeisen Group's ability to execute its strategy***

The Raiffeisen Group's key personnel, including the members of the board of directors of the Issuer (the **Board of Directors**) and other members of the Issuer's senior management, have been instrumental in establishing and implementing the Raiffeisen Group's key strategies. Their continued service at the Raiffeisen Group is critical to the overall management of the Raiffeisen Group 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 Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group may have difficulty recruiting or retaining qualified employees***

The continued growth of the Raiffeisen Group's existing operations and its ability to successfully expand its business depends on its ability to retain existing employees and to identify, recruit and retain additional

individuals who are not only familiar with the local language, customs and market conditions, but also have the necessary qualifications and level of experience in banking and related businesses. In the Czech Republic, where the Raiffeisen Group operates, the pool of individuals with the required set of skills is smaller than in most Western European countries. Increasing competition for labour in the Czech Republic from other financial institutions may also make it more difficult for the Raiffeisen Group to attract and retain qualified employees and could lead to increases in labour costs. If the Raiffeisen Group 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 Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

***The Raiffeisen Group may have difficulty detecting or deterring employee misconduct***

The Raiffeisen Group further faces the risk of loss due to its employees' lack of knowledge, employee error, including clerical or record keeping errors, wilful or negligent violation of laws, rules, regulations and internal policies and procedures or other misconduct. Misconduct by employees occurs in the financial services industry and could involve, among other things, improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse, including insider trading, money laundering, embezzlement and fraud, any of which could result in regulatory sanctions and fines as well as serious reputational and financial harm. Misconduct by employees, including violation of the internal risk management or other policies and procedures of the Raiffeisen Group, could also include binding the Raiffeisen Group 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 Raiffeisen Group takes to detect such activity may not be effective. Given the Raiffeisen Group'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 and cost could be substantial.

***The Raiffeisen Group faces significant operational risks inherent in the banking business***

The banking and financial services industry is, by its nature, subject to numerous and substantial operational risks, particularly in volatile or illiquid markets, and in developing markets. Among other things, banks and financial institutions, including the Raiffeisen Group, are dependent on information and communication technology (ICT) systems. The ICT systems are vulnerable to a number of problems, such as software and hardware malfunctions, malicious hacking, physical damage to vital ICT centres and computer virus infection. If the ICT systems fail, even for a short period of time, the Raiffeisen Group 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 Raiffeisen Group or its service providers may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned. In addition to costs incurred as a result of any failure or interruption of its ICT systems, the Raiffeisen Group could face fines from the CNB if its ICT systems fail to enable it to comply with the applicable banking or other regulations.

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

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

As banking and financial services markets in Central and Eastern Europe (CEE), and the Czech Republic in particular, mature, the Raiffeisen Group may experience increased competition from both global financial institutions and local competitors, which may lead to reductions in interest rate spreads, pricing of loans and other products, fee and commission income and business volumes, as well as increased costs of deposits and other funding. Currently, the Czech banking market is highly concentrated. Although there are only a few competitors comparable in size and scope of business to the Raiffeisen Group, the Raiffeisen Group 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 banking market continues to see an emergence of low-cost banks primarily focused on providing internet-based banking services. The Raiffeisen Group's ability to compete effectively will depend on the ability of its businesses to adapt quickly to such new market and industry trends. If the Raiffeisen Group fails to compete effectively with either local competitors or large international financial institutions, it may have a material adverse effect on the Raiffeisen Group'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 Raiffeisen Group must comply with national and international rules and regulations regarding money laundering, anti-corruption and the financing of terrorism. In recent years, these rules and regulations have been tightened and may be further tightened and more strictly enforced in the future. Compliance with these rules and regulations puts a significant financial burden on banks and other financial institutions and poses significant technical problems. Any violation of these or similar rules, or even the suspicion of such violations, may have severe legal, monetary and reputational consequences, including sanctions imposed by the CNB, and thus could have a material adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

Insolvency proceedings in the Czech Republic often take several years and the level of the creditors' satisfaction is relatively low. Therefore, the Raiffeisen Group cannot ensure that its creditors' rights in insolvency proceedings will be adequate to enable the Raiffeisen Group to successfully collect amounts owed by debtors. Moreover, the Raiffeisen Group's litigation costs stemming from insolvency proceedings may increase substantially as a result of any newly adopted and untested procedures and potential changes in the regulation. This could have an adverse effect on the Raiffeisen Group's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

***The Raiffeisen Group is dependent on its banking and other licences***

The banking and other operations performed by the Raiffeisen Group require it to obtain licences from the CNB and other Czech authorities. A large majority of the Raiffeisen Group's business depends on its banking licence from the CNB. If the Raiffeisen Group loses its general banking licence, it will be unable to

perform any banking operations in the Czech Republic. Although the Raiffeisen Group 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 Raiffeisen Group's business, financial condition, results of operations, liquidity, capital base, prospects or reputation.

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

### **Risks related to the Issuer's Cover Pool**

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

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

Pursuant to the Czech Bonds Act and CNB Measure, there is only one Cover Pool providing cover for all Czech Covered Bonds. Therefore, all holders of Czech Covered Bonds (the **Czech Covered Bondholders**) will have the benefit of the same Cover Pool. The Czech Bonds Act and CNB Measure 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 another active bond programme, the Domestic Bond Programme, under which it has issued and may continue to issue Czech Covered Bonds. The Issuer may also issue further Czech Covered Bonds in the future on a standalone basis or otherwise. In order to ensure that any default under the Issuer's Domestic Bond Programme results in an Event of Default under the Covered Bonds, any event which constitutes a "Default" in respect of any Series of mortgage covered bonds (in Czech, "*hypoteční zástavní listy*") under the General Terms of Issuance under the Issuer's Domestic Bond Programme, would cause each Covered Bond to become due and payable, without presentment, demand, protest or other notice of any kind.

If the Issuer became insolvent, and the Covered Bonds were accelerated in accordance with their terms, the proceeds of the Issuer's Mortgage Estate formed from the Cover Pool on insolvency would be distributed among all Czech Covered Bondholders. However, in a post-insolvency scenario, pursuant to Clause 9 of the Trust Deed, the fees, costs and expenses of the Trustee will be deducted from the proceeds paid to the Trustee for distribution prior to such proceeds being distributed to Covered Bondholders. In a post-enforcement scenario, this may result in Covered Bondholders receiving less than the total interest and principal they were expecting in respect of the Covered Bonds. Although the Issuer will comply with the Statutory Tests and the Contractual Asset Cover Test (each as defined and set out below in "*The Cover Pool*"), there can be no assurance that the Ordinary Cover Assets and Substitute Assets (each as defined below in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*") which are eligible assets for the purposes of the Czech Bonds Act and CNB Measure and which comprise the Cover Pool will have sufficient value to meet all payments due in respect of the Czech Covered Bonds.

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

If the CNB discovers Shortcomings (i.e., "shortcomings in the activities" of the Issuer as defined and described in "*General Description of Czech Legislation relating to Covered Bonds – 7. Consequences of certain Issuer's shortcomings*"), which include, for instance, violation 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% LTV Limit and the Aggregate 70% LTV Limit) (as



defined and described in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" below), the CNB may, for so long as the Issuer holds its banking licence and until insolvency proceedings have been opened against the Issuer, impose a Measure (as defined and described in "*General Description of Czech Legislation relating to Covered Bonds– 7. Consequences of Certain Issuer's shortcomings*") upon the Issuer (including Involuntary Administration). As a result of the 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 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 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.

### **Risks associated with the Issuer being put into Involuntary Administration**

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

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

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

If Involuntary Administration has been declared against the Issuer, the Issuer may, subject to the prior consent of the CNB, enter into an agreement with a bank or a branch of a foreign bank for the transfer of its assets and/or liabilities (or obligations) to that other bank or branch of the foreign bank without the need for

approval of the respective Issuer's creditors. This may include the transfer of the Issuer's assets included in the Cover Pool and transfer of the Issuer's obligations under the Covered Bonds (or any other Czech Covered Bonds). The agreement for the transfer of the Issuer's assets in the Cover Pool or the Issuer's obligations under the Covered Bonds would require the CNB's prior consent which can only be given under the condition that the other bank (or branch of the foreign bank) ensures "proper and continuous clients' relationships" (in Czech, *řádné a plynulé pokračování klientských vztahů*) in respect of the assumed assets or obligations. However, there can be no assurance that the Covered Bondholders' position would not deteriorate as a result of the transfer of the Issuer's assets included in the Cover Pool and transfer of the Issuer's obligations under the Covered Bonds during the Involuntary Administration.

### **Risks relating to the Issuer's insolvency**

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

In the event of the insolvency of the Issuer or if it is otherwise unable or unwilling to repay the Covered Bonds when repayment falls due, an investor may lose all or part of his 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 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, unless the Issuer or its creditors would have requested prior approval of the insolvency court. 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 CNB Measure are silent and contain no express provision as to whether, following the Commencement of Insolvency Proceedings, a Declaration of Insolvency, a Declaration of Bankruptcy or the issuance of a Preliminary Injunction, cash flows from the Eligible Assets in the Cover Pool will become part of the Cover Pool (before the Mortgage Estate is created) or Mortgage Estate (after the Mortgage Estate is created) and, thus, it is not clear whether such cash flows will be ring-fenced from the Issuer's General Insolvency Estate or not. Although there are arguments that, for instance, by way of analogy with Section 205 of the Czech Insolvency Act, cash flows received from the Eligible Assets after the Mortgage Estate is created should be ring-fenced from the Issuer's General Insolvency Estate, this is not expressly set out in the applicable laws. It cannot therefore be excluded that an insolvency administrator would seek to exclude such cash flows from the Mortgage Estate.

Also, cash flows received from the Eligible Assets before the Mortgage Estate is created might not become part of the Cover Pool.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, there is also a view that the legal conditions of set-off do not comprise the act by which set-off is invoked against the Issuer.

In summary, the above means that, having no regard to whether the relevant claims and obligations have become due and payable, the right of unilateral set-off of those claims and obligations *vis-à-vis* the Issuer 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 Measure, the Issuer must immediately exclude any assets from the Cover Pool if they cease to satisfy the relevant statutory eligibility criteria for inclusion in the Cover Pool. Normally, the Issuer would replace such assets with other eligible assets in order to remain in compliance with the Statutory Tests and the Contractual Asset Cover Test, however, if an asset becomes ineligible in the period between the Commencement of Insolvency Proceedings against the Issuer and the Declaration of Bankruptcy in respect of the Issuer, such asset must be excluded from the Cover Pool even if the Issuer has not substituted a new asset in respect thereof and such asset will not become part of the Mortgage Estate once the Declaration of Bankruptcy is issued. The same will apply to a Mortgage Loan if refinanced during this period. Although the Issuer complies with the Contractual Asset Cover Test and this may provide overcollateralisation for the Cover Pool, there can be no assurance that, in the event that assets are removed from the Cover Pool during this period, the value of the Mortgaged Property would be sufficient to pay all amounts due under the Covered Bonds.

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

The Czech Bonds Act and CNB Measure 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 Legislation relating to Covered Bonds – 7. Consequences of Certain Issuer's Shortcomings*" below) to the Issuer.

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

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 CNB Measure. In particular, the Czech Bonds Act sets out with respect to the Ordinary Cover Assets an Individual 200% LTV Limit and an Aggregate 70% LTV Limit (defined in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*"). As at the date of this Base Prospectus, all the Mortgaged Property is located in the Czech Republic. However, the value of the Eligible Assets included in the Cover Pool may decline in the event of a general downturn in the value of properties located in the Czech Republic. 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 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 Measure, required to maintain the Cover Register and, pursuant to the Decree of the CNB No. 346/2013 Coll. of 16 October 2013 (in Czech, *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 certain checks and calculations on the statutory tests performed by the Issuer in accordance with the Czech Bonds Act and CNB Measure and the Trust Deed. The Asset Monitor will only be required to perform its role from the date on which a Series of Covered Bonds is issued by the Issuer for the first time to a person or entity which is not the Issuer, any of the Issuer's affiliates or the Dealers, unless such Dealer is acquiring the Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates). The outcome of these checks and calculations will not be publicly available or otherwise available to Covered Bondholders.

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

Pursuant to the Czech Bonds Act, for an individual Mortgage Loan to become an Ordinary Cover Asset and to be included as such in the Issuer's Cover Pool, it must comply with the applicable requirements or criteria including, amongst other things, the Individual 200% LTV Limit (as defined in "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*"). Also, pursuant to

the Czech Bonds Act, the Mortgage Loans or their parts to be included as Ordinary Cover Assets in the Issuer's Cover Pool must not, on a portfolio basis, exceed the Aggregate 70% LTV Limit (as defined in "General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets"). In addition, the Issuer covenants, pursuant to the Trust Deed, to ensure compliance with the Contractual Eligibility Criteria and the Contractual Asset Cover Test. However, the Mortgaged Property Value may reduce over time causing the value of the Mortgage Loans becoming insufficient to meet the relevant Contractual Asset Cover Test and Statutory Tests and insufficient to provide cover for the issued and outstanding Czech Covered Bonds.

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

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

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

Set out below is a 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 to Third Party Investors denominated in foreign currencies (including in EUR or in 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 the Raiffeisen Group 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 covenants, pursuant to the Trust Deed, that it will, following the first issuance of Covered Bonds under the Programme to Third Party Investors, in respect of that and any further issuance of Covered Bonds under the Programme to Third Party Investors, enter into the necessary number of 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 effectively hedge its foreign exchange or other exposures and liabilities under the Covered Bonds issued under the Programme to Third Party Investors and eliminate any inherent currency or other mismatches. However, the Czech Bonds Act, the CNB Measure, 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 will, pursuant to the Trust Deed, 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 to Third Party Investors denominated in foreign currencies (including in EUR or in USD) cannot be effectively hedged against for the sole benefit of the Cover Pool and the Covered Bondholders.

Yet, the Issuer covenants, pursuant to the Trust Deed, that it will enter into the Hedging Arrangements which would enable it to effectively link those Hedging Arrangements to the Cover Pool or one of multiple cover pools (if created) and the Mortgage Estate, if and when the Rules are amended in such a way as to allow for a claim or receivable arising under a Hedging Arrangement to be included in the Cover Pool or one of multiple cover pools (if created) and the Mortgage Estate and the Hedging Counterparty to have any direct or indirect claim or receivable or priority right to the Cover Pool or the Mortgage Estate, and such an amendment becomes effective.

***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 Domestic Bond Programme and certain other obligations so it is likely that an Event of Default would be triggered before the Extended Maturity Date occurred if the delay in payment arose as a result of the financial difficulty of the Issuer. Although there can be no assurance that this would be the case.

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

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

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

principal debtor under any Covered Bonds in place of the Issuer, in the circumstances described in Condition 16 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*).

The Issuer is also entitled to make any modification to any of the provisions of the Covered Bonds or the other agreements in respect of the Programme to reflect and/or implement any new provisions of applicable law, including the Czech Bonds Act and CNB Measure and/or the Czech Insolvency Act, arising as a consequence of a change in, or a change in interpretation of, law and the Trustee 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 the repayment of which can be realised from any assets of the Issuer, subject to the special regime that applies in respect of the obligations arising from the outstanding Czech Covered Bonds (including Covered Bonds issued under the Programme) in the Issuer's insolvency (see "*General Description of Czech Legislation relating to Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool*").

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

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

#### ***Covered Bonds acquired by the Issuer***

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

#### ***Withholding under the EU Savings Directive***

Under Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for

the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

#### *U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Covered Bond*

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Covered Bonds are in global form and held within Euroclear or Clearstream Luxembourg (together the **ICSDs**), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see *Taxation – Foreign Account Tax Compliance Act*). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once the Paying Agent has paid the ICSDs and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries.

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

In relation to any issue of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts 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 at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

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

### **Legal and regulatory risks related to the Covered Bonds**

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

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

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

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

The Czech Bonds Act has been amended only recently to enable the Czech Covered Bonds (in Czech, *hypoteční zástavní listy*) to be issued not only as Czech law governed bonds (in Czech, *dluhopisy*) but also as foreign law (e.g., English law) governed debt securities such as the Covered Bonds. The Czech Bonds Act is relatively new legislation in the Czech Republic and, for this reason, there is no relevant case law available. It is uncertain how the Czech Bonds Act will be interpreted or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme. Therefore, no assurance can be given as to the impact of any possible judicial decision or change to Czech law (including the Czech Bonds Act, CNB Measure or the Czech Insolvency Act) or administrative or other relevant practice after the date of issue of the relevant Covered Bonds.

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

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

In any proceedings taken in the Czech Republic for the enforcement of the obligations of the Issuer under any contract governed by English law, the Czech courts should recognise the choice of English law as the governing law of such contract subject to the provisions of Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (the **Rome I Regulation**). To the extent the rules of the Rome I Regulation do not apply to unilateral acts, 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 very 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 no 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.

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

The Civil Code introduced as of 1 January 2014 the concept of trust fund (in Czech, *svěřenský fond*) into Czech law drawing upon patterns from the Civil Code of Quebec of 1991. 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 (the **Convention**) 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 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.

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

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

Basel II has not been fully implemented in all participating jurisdictions. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework is implemented in the European Union by the Capital Requirements Directive.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as **Basel III**) and on 1 June 2011 issued its final guidance, 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). Member countries will be required to gradually 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 Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general and the European Commission's amendments to the Capital Requirements Directive (known as "**CRD IV**") were published in the Official Journal of the European Union on 27 June 2013. EU member states are required to implement most rules by 1 January 2014 with the principal exception being that the liquidity coverage ratio must be implemented in 2015.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

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

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

On 6 May 2014, the Council of the European Union adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**). The BRRD was adopted on 6 May 2014 and published in the Official Journal on 12 June 2013. The BRRD came into force on 2 July 2014 and is required to be implemented in member states by January 1, 2015, except for certain bail-in provisions which are to be implemented by January 1, 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); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including Covered Bonds to equity (the **general bail-in tool**), which equity could also be subject to any future application of the general bail-in tool.

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).

The BRRD provides that it will be applied by Member States from 1 January 2015, except for the general bail-in tool which is to be applied from 1 January 2016.

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. Once the BRRD is implemented, holders of Covered Bonds may be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.



## **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, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Covered Bonds could result in an investor not receiving payments on those Covered Bonds***

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

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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

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

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

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

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2012 of the Issuer including the information set out at the following pages of the annual report for 2012 in particular:

Audit Report .....	Pages 20 to 21
Statement of Comprehensive Income .....	Page 84
Statement of Financial Position .....	Page 85
Statement of Changes in Equity .....	Page 86
Cash Flow Statement .....	Page 87
Accounting Principles and Notes .....	Pages 88 to 150

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 rather than information required by the relevant Annexes of the Prospectus Regulation;

- (b) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2013 of the Issuer including the information set out at the following pages of the annual report for 2013 in particular:

Audit Report .....	Pages 20 to 21
Statement of Comprehensive Income .....	Page 90
Statement of Financial Position .....	Page 91
Statement of Changes in Equity .....	Page 92
Cash Flow Statement .....	Page 93
Accounting Principles and Notes .....	Pages 94 to 162

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;

- (c) the English version of the unaudited interim consolidated financial statements for the six months ended 30 June 2014 of the Issuer including the information set out at the following pages in particular:

Statement of Comprehensive Income .....	Page 5
Statement of Financial Position .....	Page 6
Statement of Changes in Equity .....	Page 7

Cash Flow Statement ..... Page 8

Accounting Principles and Notes..... Pages 9 to 21

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;

- (d) the terms and conditions of the Covered Bonds contained on pages 63 to 93 of the previous base prospectus relating to the Programme dated 27 November 2012. Any non-incorporated part of the previous base prospectus relating to the Programme dated 27 November 2012 are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

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 depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

Where the Global Bearer Covered Bonds issued in respect of any Tranche are in NGCB form, the applicable Final Terms will also indicate whether 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 (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Covered Bonds (other than Temporary Global Covered Bonds), receipts and interest coupons relating to such Covered Bonds where TEFRA D is specified in the applicable Final Terms or Pricing Supplement, as the case may be:

"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 – 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]

**Raiffeisenbank a.s.**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
under the €5,000,000,000  
Covered Bond (in Czech, *hypoteční zástavní list*) Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [date] [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).

*[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 27 November 2012 which are incorporated by reference in the Base Prospectus dated [current date]. 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 [current date] [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).]

*[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]

[insert date]<sup>1</sup>

[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]

[[[ ] month [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]

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

[Zero Coupon]

(further particulars specified below)

10. Redemption[/Payment] Basis:

(As referred to under Condition 6  
(Redemption and Purchase))

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

*(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

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<sup>1</sup> If applicable, the date should be that falling one year after the Maturity Date. If not applicable, choose "Not Applicable".

*occurs or cross refer to paragraphs 13 and 14 below and identify there*][Not Applicable]

12. Issuer Call: [Applicable/Not Applicable]  
  
(As referred to under Condition 6.4 - *Redemption at the option of the Issuer (Issuer Call)*) [(further particulars specified below)]

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

13. Fixed Rate Covered Bond Provisions  
  
(As referred to under Condition 4.1 *(Interest on Fixed Rate Covered Bonds)*)

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

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

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

(a) Rate(s) of Interest:

(i) To Maturity Date: [Not Applicable/[ ] per cent. per annum payable in arrear on each Interest Payment Date]

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

(b) Interest Payment Date(s):

(i) To Maturity Date: [Not Applicable/[ ] in each year up to and including the Maturity Date/Not Applicable]

*(Amend to indicate each Interest Payment Date in the case of irregular coupons)*

(ii) From Maturity Date up to Extended Maturity Date: [Not Applicable/[ ] in each month up to and including the Extended Maturity Date/specify other]

*(Amend to indicate 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 [in/on] [ ]/Not Applicable]
- (e) Day Count Fraction:
  - (i) To Maturity Date: [30/360/Actual/Actual (ICMA) /Not Applicable]
  - (ii) From Maturity Date up to Extended Maturity Date: [30/360/Actual/Actual (ICMA)/Not Applicable]
- (f) Determination Date(s):
  - (i) To Maturity Date: [[ ] in each year/Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
  - (ii) From Maturity Date up to Extended Maturity Date: [[ ] in each year/Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*

#### 14. Floating Rate Covered Bond Provisions

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

- (I) To Maturity Date: [Applicable/Not Applicable]
- (II) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]  
*(If (I) and (II) above are not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates:
  - (i) To Maturity Date: [[ ]], 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 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 or amend the fallback provisions appropriately)*

- (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 up to Extended Maturity Date: [Applicable/Not Applicable]  
  
[Actual/Actual (ISDA)][Actual/Actual]  
Actual/365 (Fixed)  
Actual/365 (Sterling)

Actual/360  
 [30/360][360/360][Bond Basis]  
 [30E/360][Eurobond Basis]  
 30E/360 (ISDA)  
 (See Condition 4 (Interest) for alternatives)

15. Zero Coupon Covered Bond Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
 [Actual/360]  
 [Actual/365]

**PROVISIONS RELATING TO REDEMPTION**

16. Notice periods for Condition 6.2 Minimum period: [ ] days  
 (*Redemption and Purchase – Maximum period: [ ] days*  
*Redemption for tax reasons*):
17. Notice periods for Condition 6.3 Minimum period: [ ] days  
 (*Redemption and Purchase – Maximum period: [ ] days*  
*Redemption due to illegality or*  
*invalidity*):
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 consider). 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:

(a) 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>2</sup>]

*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified*

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<sup>2</sup> Include for Covered Bonds that are to be offered in Belgium.

*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]]

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

22. Additional Financial Centre(s): [Not Applicable/give details]  
 (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 Raiffeisenbank a.s.:

Signed on behalf of Raiffeisenbank a.s.:

By: .....  
 Duly authorised

By: .....  
 Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

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

### 2. RATINGS

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

*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

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

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

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

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

- (i) [Reasons for the offer [ ]]
- (ii) [Estimated net proceeds: [ ]]
- (iii) [Estimated total expenses: [ ]]

*[(N.B.: Delete 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)

Indication of yield: [ ]

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

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 one of the ICSDs as common safekeeper 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. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

## 8. DISTRIBUTION

- (i) If syndicated, names of Managers: [Not Applicable/give names]
- (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 relevant Dealer: [Not Applicable/give name]
- (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 Raiffeisenbank a.s. (the **Issuer**) constituted by a Trust Deed dated 27 November 2012, as supplemented on 9 October 2014 (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 27 November 2012, as amended and restated on 9 October 2014 (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 9 October 2014 at Hvězdova 1716/2b, 140 78 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.

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

Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, each of the Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

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

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

## **2. TRANSFERS OF REGISTERED COVERED BONDS**

### **2.1 Transfers of interests in Registered Global Covered Bonds**

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

### **2.2 Transfers of definitive Registered Covered Bonds**

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 2 to the Trust Deed). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

### **2.3 Registration of transfer upon partial redemption**

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

### **2.4 Costs of registration**

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

## 2.5 Exchanges and transfers of Registered Covered Bonds generally

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

## 3. STATUS OF THE COVERED BONDS

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

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

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

In these Conditions:

**CNB Decree** means the Decree of the CNB No. 164/2014 Coll. of 30 July 2014 (in Czech, *Vyhláška České národní banky č. 164/2014 Sb. ze dne 30. července 2014*) implementing certain provisions of the Czech Bonds Act which shall replace the CNB Measure as of 1 January 2015.

**CNB Measure** means the Measure of the Czech National Bank No. 5 of 11 June 2004 (in Czech, *Opatření České národní banky č. 5 ze dne 11. června 2004*) implementing certain provisions of the Czech Bonds Act and setting out the content, manner of keeping as well as other requirements for the records of an issuer's cover assets in respect of all the outstanding Czech Covered Bonds or any measure, decree or similar regulation amending, supplementing or replacing the CNB Measure as may be adopted in the future, including the CNB Decree which shall replace the CNB Measure as of 1 January 2015;

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

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

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

**Domestic Bond Programme** means the CZK50,000,000,000 domestic bond programme of the Issuer for the issuance of both (i) mortgage covered bonds (in Czech, *hypoteční zástavní listy*) under Czech law which satisfy the requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the CNB Measure (and thus falling within the definition of the Czech Covered Bonds) and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act.

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

- (I) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Final Terms; and
- (II) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the

Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) **Rate of Interest**

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

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

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

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

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

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate (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 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Prague time, in the case of PRIBOR) 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.

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

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

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

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

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

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

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

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

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

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the

Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

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

where:

"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:

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

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:

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

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 whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Covered Bond have been paid; and
- (b) as provided in the Trust Deed.

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

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

## **5. PAYMENTS**

### **5.1 Method of payment**

Subject as provided below:

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

## 5.2 Payments subject to fiscal and other laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto (**FATCA**).

## 5.3 Presentation of definitive Bearer Covered Bonds and Coupons

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

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

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

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

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

## 5.4 Payments in respect of Bearer Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond in bearer form will (subject as provided below) be made in the manner specified

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

## 5.5 Payments in respect of Registered Global Bonds

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

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

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the

post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

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

## 5.6 General provisions applicable to payments

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

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

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

## 5.7 Payment Day

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits):
  - (i) in the case of Covered Bonds in definitive form only, the relevant place of presentation;
  - (ii) in each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in



the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **5.8 Interpretation of principal and interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5 (*Early Redemption Amounts*)); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

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

## **6. REDEMPTION AND PURCHASE**

### **6.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms, subject as provided below if an Extended Maturity Date is specified in the applicable Final Terms.

### **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*)); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond or Coupon to another Paying Agent in a Member State of the European Union.

Notwithstanding anything to the contrary in this Condition 7 (*Taxation*), no additional amounts will be paid where such withholding or deduction is required pursuant to FATCA (as provided in Condition 5.2 (*Payments – Payments subject to fiscal and other laws*)).

As used herein:

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

## 8. PRESCRIPTION

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

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

## 9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in nominal amount of the Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to below means the Covered Bonds of all Series then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not

denominated in euro converted into euro at the Relevant Exchange Rate)) or if so directed by an Extraordinary Resolution of the Covered Bondholders of all Series shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), (but in the case of the happening of any of the events described in 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;

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.

- (c) The Issuer fails to comply with the Statutory Tests for a period longer than three months;
- (d) Any other Obligation or Obligations of the Issuer (as defined below), which in its/their aggregate sum exceed the amount of CZK 500,000,000 or their equivalent in any other currency, shall not be duly paid by the Issuer within 20 calendar days from the date of their maturity or any period of deferral. This does not apply to cases in which the Issuer makes a bona fide claim, in the prescribed manner to void its Obligation in terms of its amount or its justification and executes the payment within the time limit imposed by a final decision of the court or other authority, by which it has been required to make payment;

**Obligations** for these purposes means any present or future financial obligations of the Issuer arising from any bonds that it has issued, including the Czech Covered Bonds or any bonds issued under the Domestic Bond Programme, which have a maturity period of at least 12 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 (in Czech, *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 (in Czech, "*hypoteční zástavní listy*") under the General Terms of Issuance of the Issuer under the Issuer's Domestic Bond Programme for the issuance of bonds up to CZK50,000,000,000, 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 names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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

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

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

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

## 13. ISSUER COVENANTS

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

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

## 14. EXCHANGE OF TALONS

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

## 15. NOTICES

All notices regarding the Bearer Covered Bonds will be deemed to be validly given if published, if and for so long as the Bearer Covered Bonds are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, [www.bourse.lu](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 five per cent. in nominal amount of the Covered Bonds of the relevant Series for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders of the relevant Series whatever the nominal amount of the Covered Bonds of the relevant Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds of the relevant Series or the Coupons or the Trust Deed (including modifying the date of maturity of the Covered Bonds of the relevant Series or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds of the relevant Series or altering the currency of payment of the Covered Bonds of the relevant Series or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third 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 Trust Deed) 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

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

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

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

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

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

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

#### **18. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and 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 construed in accordance with, English law.

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

### **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 irrevocably appoints Raiffeisen Bank International AG – London Branch at 10 King William Street, London EC4N 7TW, United Kingdom 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 Raiffeisen Bank International 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 LEGISLATION RELATING TO COVERED BONDS

### 1. CZECH LEGISLATION

The following description is of a general nature and sets out certain features of Czech law governing the issuance of the Covered Bonds as Czech Covered Bonds (in Czech, *hypoteční zástavní listy*), as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Czech legislative and regulatory framework pertaining to the Czech Covered Bonds (in Czech, *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) Measure of the Czech National Bank (the **CNB**) No. 5 of 11 June 2004 (in Czech, *Opatření České národní banky č. 5 ze dne 11. června 2004*) implementing certain provisions of the Czech Bonds Act and setting out the content, manner of keeping as well as other requirements for the records of an issuer's cover assets in respect of all the outstanding Czech Covered Bonds (the **CNB Measure**) and (iii) Section 375 as well as some other provisions of the Czech Act No. 182/2006 Coll., as amended (the **Czech Insolvency Act**). As of 1 January 2015, the CNB Measure should be replaced in full by Decree of the CNB No. 164/2014 Coll. of 30 July 2014 (in Czech, *Vyhláška České národní banky č. 164/2014 Sb. ze dne 30. července 2014*) (the **CNB Decree**).

### 2. FINANCING LEGISLATION

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

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

The Czech Covered Bonds (in Czech, *hypoteční zástavní listy*), and thus the Covered Bonds issued by the Issuer under the Programme, constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all Czech Covered Bonds issued by the Issuer and then outstanding and all other obligations of the Issuer which have been provided the same priority as the Czech Covered Bonds (issued pursuant to Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act). Any obligations of the Issuer arising from the Czech Covered Bonds are obligations of the Issuer the repayment of which can be realised from any assets of the Issuer, subject to a special regime that applies in respect of the obligations arising from the Czech Covered Bonds in the case of Issuer's insolvency (see "*General Description of Czech Legislation relating to Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool*" below). 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 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) are defined as the **Cover Pool** but neither the Czech Bonds Act and the CNB Measure nor the Czech Insolvency Act explicitly use the term "cover pool" or provide for an express definition of the term "cover pool" as such. The Czech Bonds Act and the CNB Measure merely specify certain assets and the criteria (i.e., eligibility criteria) which must be met in order for those assets to be eligible to constitute cover in respect of the Czech Covered Bonds (or, in other words, to be included in the Cover Pool). Those assets which satisfy the relevant eligibility criteria are sometimes also referred to as Eligible Assets (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" immediately below and "*The Cover Pool*" below).

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

In addition, pursuant to Section 337c(1) of the Civil Procedure Code the Issuer's receivables or any parts of those receivables under the Mortgage Loans, which are included in the Cover Pool, will be satisfied 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 programmes and (ii) on a standalone basis) will have the benefit of the same Cover Pool which must be maintained in a way so that it satisfies and complies with the terms and conditions and legal requirements applicable to all Czech Covered Bonds. The Cover Pool must be in compliance with, *inter alia*, statutory tests and eligibility criteria set out in or implied by the Czech Bonds Act and CNB Measure. In addition, the Cover Register (as defined and described below) must be established and maintained in accordance with the Czech Bonds Act and CNB Measure.

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



the Czech Covered Bonds issued and outstanding at that time. Under the Czech Bonds Act and CNB Measure, any interest accrued and unpaid in respect of the Ordinary Cover Assets and Substitute Assets included in the Cover Pool and any interest accrued and unpaid on the Czech Covered Bonds are included for the purposes of calculation of the Par Value Test.

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

Ordinary Cover Assets in the Cover Pool (the **Ordinary Cover Assets**) comprise solely the Issuer's receivables or parts of those receivables (for repayment of the principal and other related payments (including interest)) *vis-à-vis* borrowers under eligible mortgage loans (the **Mortgage Loans**). For a Mortgage Loan to be eligible to be included in the Cover Pool it must be secured by way of a legally perfected first ranking mortgage in favour of the Issuer over real property (subject to the exceptions below) (including real property under construction (in Czech, *rozestavěný*)) located in the Czech Republic, 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% LTV Limit**). A Mortgage Loan becomes eligible to be an Ordinary Cover Asset when the Issuer learns about the legal perfection of the mortgage relating to the Mortgage Loan.

In addition, the following criteria apply to the Mortgage Loans in the Cover Pool. The Mortgage Loans are granted by or legally-owned by the Issuer. The Mortgaged Property cannot be encumbered by a mortgage or a similar right of security of a third party, which would rank *pari passu* or in priority to the mortgage securing the repayment of the Mortgage Loans in favour of the Issuer with the exemptions of the mortgages over the Mortgaged Property securing mortgage loans (i) granted by a building society (in Czech, *stavební spořitelna*) in accordance with the Czech Act No. 96/1993 Coll., as amended; (ii) granted by the National Fund for a Development of the Co-operative Flat Construction (in Czech, *Státní fond rozvoje bydlení na výstavbu družstevních bytů*) in accordance with the Czech Act No. 378/2005 Coll., as amended, and (iii) for the purposes of a construction of flats built with financial, credit and other assistance in accordance with special legal regulations governing a financial, credit and other assistance for a co-operative flat construction (loans referred under (ii) and (iii) jointly, the **Co-operative Loans**), provided that a building society or a creditor under the Co-operative Loan in whose favour a mortgage of a priority ranking has been created gives its prior written consent with the Issuer's next-ranking mortgage over the Mortgaged Property. Without this prior written consent, the Mortgage Loan secured by this Mortgaged Property encumbered with such 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% 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% LTV Limit**).

**Substitute Assets** (in Czech, *náhradní krytí*)

Substitute Assets may be included in the Cover Pool provided they do not exceed cover for a maximum of 10 per cent. of the nominal value of the Issuer's obligations arising under the issued and

outstanding Czech Covered Bonds. These assets may only consist of: (i) cash; (ii) deposits with the central bank of any EEA Member State or the ECB; (iii) bonds issued by the Czech Republic or the CNB; (iv) securities issued either by any EEA Member State or its central bank, or the ECB; or (v) bonds issued either by the financial institutions established by an international treaty to which the Czech Republic is a party or by the financial institutions with which the Czech Republic entered into the international treaty (the **Substitute Assets**).

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

#### 4. VALUATIONS OF THE MORTGAGED PROPERTY

The Issuer must determine the value of the Mortgaged Property (the **Mortgaged Property Value**) and issue guidelines for these valuations in the form of its internal rules (the **Valuation Guidelines**) while respecting the following principles. Pursuant to Section 29(2) of the Czech Bonds Act, the value of the Mortgaged Property is to be determined using its current market price (in Czech, *cena obvyklá*) in accordance with the Czech Act No. 151/1997 Coll., as amended (the **Property Valuation Act**), and with special regard to: (a) characteristics of the Mortgaged Property which are sustainable on a permanent and a long-term basis; (b) income achievable by a third party operating the Mortgaged Property with due care; (c) rights and encumbrances attached to the Mortgaged Property; and (d) conditions prevailing on the local 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 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 (in Czech, *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 Measure. In principle, the Issuer must maintain the records in such a manner as to be able to submit to the CNB without undue delay and upon its request, documentation that justifies the inclusion of a particular Ordinary Cover Asset or Substitute Asset in the Cover Pool. Such documentation would mainly include a loan agreement relating to the Mortgage Loan (including its amendments), documentation relating to the Mortgaged Property including the relevant security agreement, an up-to-date extract from the cadastral register of real property, the Mortgaged

Property Value, the Valuation Guidelines and other documentation relating to each Substitute Asset included in the Cover Pool and each issue of the Czech Covered Bonds.

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

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

In respect of each Substitute Asset, the register must contain at least: (i) straightforward identification of the Substitute Asset; and (ii) the amount of the Substitute Asset which represents its acquisition price if the Substitute Assets comprise of bonds. Under the CNB Measure, the value of the Substitute Assets (other than bonds) is determined using the same valuation methods as are used for the purposes of the Issuer's accounting and financial statements.

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

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

- (a) in relation to the Issuer's obligations under the Czech Covered Bonds outstanding on that particular day: (i) the aggregate nominal value of all the outstanding Czech Covered Bonds; (ii) the aggregate amount of the proportionate yield from all the outstanding Czech Covered Bonds; and (iii) the aggregate amount of all of the Issuer's obligations under the outstanding Czech Covered Bonds; and
- (b) in relation to the Ordinary Cover Assets and Substitute Assets included in the Cover Pool: (i) a valuation of each Issuer's receivable under the Mortgage Loan (or any of its relevant part included in the Cover Pool) and each Issuer's receivable under 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 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, by using 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. Also, members of the board of directors of the Issuer who direct and supervise departments responsible for the provision of the Mortgage Loans or the issuance of the Czech Covered Bonds may not at the same time direct and supervise those departments or employees responsible for making records in the Cover Register.

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

The CNB Measure which sets out all of the above rules in respect of the Cover Register should be replaced in full by the CNB Decree with effect from 1 January 2015. Although the rules contained in the CNB Decree are slightly different from those contained in the CNB Measure, the differences are not material in light of the above description.

## 7. CONSEQUENCES OF CERTAIN ISSUER'S SHORTCOMINGS

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

The Czech Banking Act contains a list of the Shortcomings, which include, 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 (in Czech, *opatření obecné povahy*); (iv) a decision issued pursuant to the Czech Banking Act (in Czech, *rozhodnutí*); (v) directly applicable legal act of the European Union (in Czech, *přímo použitelný právní předpis Evropské unie*) or (vi) a breach of terms stated in the banking licence or other such breach discovered during an inspection or 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 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 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) changing the people in its board of directors or its board of non-executive directors or its supervisory board; or (d) decreasing its interest in another entity or transfer its interest in that entity or otherwise limit the risks associated with its interest in that entity; (e) changing the Issuer's banking licence by excluding or restricting some banking activities; (f) ordering an extraordinary audit of the Issuer; (g) declaring involuntary administration (in Czech, *nucená správa*) of the Issuer (the **Involuntary Administration**); or (h) restricting or prohibiting certain activities of the Issuer with the persons who are closely associated with the Issuer (in Czech, *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 (in Czech, *osoby se zvláštním vztahem k bance*). Section 19 of the Czech Banking Act defines persons with special relations as,

amongst others: (i) a member of the supervisory board or the board of non-executive directors of the bank; (ii) a member of the board of directors of the bank; (iii) a person controlling the bank, a shareholder who has qualified holding in such controlling person and management of these two; (iv) a person close to a member of the board of directors, a supervisory board, a board of non-executive directors and a person controlling the bank; (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 bank and any person controlled by them; (vii) a member of the banking council of the CNB; and (viii) a person which is controlled by the bank (the **Connected Persons**).

## 8. INVOLUNTARY ADMINISTRATION OF THE ISSUER

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

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

The administrator is a CNB employee and the CNB may recall the administrator and/or its deputy and appoint a new administrator and/or its deputy. Under Section 29(1) of the Czech Banking Act, the decision of the CNB to introduce Involuntary Administration becomes effective *vis-à-vis* all persons upon its delivery. It is almost certain that this moment will precede the registration of the Involuntary Administration in the publicly available Czech Commercial Register. It is further likely that the Involuntary Administration would precede the Commencement of Insolvency Proceedings (see "*General Description of Czech Legislation relating to Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool*" below) against the Issuer which may only take place once the Issuer has ceased to be licensed to operate as a bank (i.e., its banking licence has been revoked). Yet, the relevant Involuntary Administration may or may not end in insolvency proceedings since it may also lead to the stabilisation of the business of the Issuer and be lifted or, as described below, the Issuer's business or part of it may be sold. The CNB may provide the relevant Czech Bank with financial aid to eliminate any temporary lack of liquidity. The claim of the CNB for the repayment of the financial aid ranks ahead of all other obligations of the Czech Bank (including any obligations under the Czech Covered Bonds).

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

obligations towards the Issuer's Connected Persons where the agreement with such person was entered into before the imposition of the Involuntary Administration.

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

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

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

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

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

The Czech Insolvency Act distinguishes between:

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

The **Commencement of Insolvency Proceedings** implies solely the commencement of the court proceedings ascertaining whether insolvency (in Czech, *úpadek*) or threatened insolvency (in Czech,

*hrozící úpadek*) of the Issuer exists. The occurrence of these proceedings does not automatically lead to the Declaration of Insolvency or the Declaration of Bankruptcy.

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

As of the Commencement of Insolvency Proceedings, the Czech Insolvency Act imposes specific restrictions on the Issuer as well as on the Issuer's creditors to protect the general insolvency estate (in Czech, *majetková podstata*) (the **General Insolvency Estate**). Specifically, as of the moment of publication of an insolvency petition and unless the insolvency court rules otherwise, the Issuer is obliged to refrain from any disposals of the assets that form part of the General Insolvency Estate and those assets which may potentially belong there, provided that such disposal would cause significant changes in a composition, usage or determination of these assets (other than negligible reduction in these assets). Also, the Issuer's monetary obligations which occurred 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. These restrictions do not apply, in particular, to the Issuer's actions necessary for: (i) the performance of the obligations stipulated by special regulation; (ii) operating its business within an ordinary course of business; (iii) in order to avoid diversion of imminent damage; (iv) the performance of procedural sanctions; and (v) the performance of receivables against the General Insolvency Estate and receivables set on the same level as receivables against the General Insolvency Estate. 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 to the Declaration of Bankruptcy, issue a preliminary injunction prohibiting the Issuer from making disposals of the assets in the General Insolvency Estate or by making such disposals subject to the preliminary insolvency administrator's (in Czech, *předběžný správce*) approval (the **Preliminary Injunction**). The insolvency court may further order the Issuer's debtors to perform their obligations to the preliminary insolvency administrator rather than to the Issuer.

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

After the Declaration of Bankruptcy, the insolvency administrator 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) 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 insolvency administrator

will within 60 days of the Declaration of Bankruptcy notify the Czech Covered Bondholders about 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 mortgage estate. This should be interpreted so that, at a certain point in time (see below), the Cover Pool becomes the Mortgage Estate (as defined and described below). In other words, as at that point in time, the Cover Pool will comprise the very same assets as the Mortgage Estate but the name and legal regime will change.

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

- (a) if the insolvency petition is filed by the Issuer (as the debtor), upon the Commencement of Insolvency Proceedings, 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 that the same regime as that of the Issuer's creditors' insolvency petition (see under (b) above) will apply.

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

The Cover Pool (before the Mortgage Estate is created) and Mortgage Estate (after the Mortgage Estate is created) is administered by the insolvency administrator (in Czech, *insolvenční správce*) who has the sole responsibility of running the Cover Pool (before the Mortgage Estate is created)



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

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

Any part of the Mortgage Estate that remains after the satisfaction of Czech Covered Bondholders' claims will be applied towards the satisfaction of all other general creditors' claims in accordance with the court-approved distribution schedule. If, however, the proceeds from the liquidation of the Mortgage Estate are not sufficient to satisfy the claims of the Czech Covered Bondholders in full, the unsatisfied portion of those claims will rank *pari passu* with all the unsecured and unsubordinated obligations of the Issuer and will be satisfied on a *pro rata* basis with all other general creditors' claims. Such unsatisfied portion of the claims will be included with other general creditors' claims in the court-approved "distribution list" (in Czech, *rozvrhové usnesení*) issued following the final report (in Czech, *konečná zpráva*) or, alternatively, in the "partial distribution list" (in Czech, *rozvrhové usnesení o částečném rozvrhu*). The partial distribution may be allowed during the bankruptcy proceedings by the insolvency court upon the creditor's committee (in Czech, *věřitelský výbor*) approval and satisfaction of the following conditions: (i) the status of the proceeds from the liquidation of the General Insolvency Estate allows for the partial distribution; (ii) neither the rights of the secured creditors nor the final distribution following the final report can be endangered; and (iii) the proposed satisfaction of claims included in the partial distribution are undisputable.

### ***Adversary Disputes***

Pursuant to Section 192 of the Czech Insolvency Act, the debtor, the insolvency administrator and 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 (in Czech, *popření pravosti, výše a pořadí pohledávek*) filed by another creditor. Such dispute is an "adversary dispute" (in Czech, *incidenční spory*) within the meaning of Section 159 of the Czech Insolvency Act and may also concern a claim of the Czech Covered Bondholder being challenged by another creditor. Adversary disputes may result in delays in the insolvency proceedings as they could overwhelm the insolvency court which has to deal with them in the course of insolvency proceedings. On the other hand, the Czech Insolvency Act contains certain tools aimed at eliminating abusive adversary disputes filed by creditors and to speed up the decisions of

the insolvency court. For example, one such tool is the obligatory use of a form issued by the Czech Ministry of Justice to make a filing of an adversary dispute and the obligation to submit financial security for each such filing.

## **ENFORCEMENT OF JUDGMENTS AND FOREIGN EXCHANGE REGULATION IN THE CZECH REPUBLIC**

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

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

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 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 agreed otherwise, foreign entities are able to bring civil proceedings in the Czech courts against a Czech citizen or a Czech legal entity. Czech judicial procedures will apply and a judgment of the Czech court will be enforceable in the Czech Republic, subject to certain statutory limitations on the ability of judgment creditors to execute on a judgment by protecting certain assets from forced sale.

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

In 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 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 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; or (iii) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity to 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 policy in the Czech Republic.

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

## THE COVER POOL

### Composition of assets

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

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

#### *Contractual Eligibility Criteria for Eligible Assets*

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

The Contractual Eligibility Criteria are that:

- (a) The Mortgage Loans are governed by Czech law;
- (b) The Mortgage Loans are fully disbursed and the relevant borrower does not have a right or entitlement to any additional advance from the Issuer;
- (c) The Mortgage Loans did not provide at the time of disbursement for any subsidy or other benefit in relation to principal or interest;
- (d) The Mortgaged Property is residential real property which has been fully constructed as evidenced by an extract from the Czech Land Registry;
- (e) The Mortgaged Property is located in the Czech Republic;
- (f) The Mortgage Loans have been granted to one or more individuals;
- (g) The Mortgage Loans have not been granted for the purpose of buy-to-let;
- (h) 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;
- (i) The borrower under the Mortgage Loan has made at least one instalment payment;
- (j) The Mortgage Loans are all denominated and payable by the relevant borrower in Czech Koruna;
- (k) The Outstanding Principal Balance of the Mortgage Loans granted to the Issuer's employees does not exceed 5 per cent. of the Outstanding Principal Balance of the Issuer's Cover Pool; and
- (l) The Issuer's Cover Pool does not contain any asset-backed securities.

## Valuation of assets

### *Statutory Tests*

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

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

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

#### *The Aggregate 70% 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% LTV Limit Test**). This test is meant to reflect and operate as the Aggregate 70% LTV Limit as contained in the Czech Bonds Act and CNB Measure (see "*General Description of Czech Legislation relating to Covered Bonds – 3. Cover Pool – Composition of Assets*" above). For the purposes of this test, the **Average Loan-to-Value Ratio of the Cover Pool** is calculated as follows:

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

Where:

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

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

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

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

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

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

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

**Relevant Exchange Rate**, for the purposes of the definitions of "Adjusted Aggregate Cover Pool Balance", "Contractual Adjusted Aggregate Cover Pool Balance", "Mortgaged Property Value", "Outstanding Principal Balance" and "Nominal Value", means the equivalent in Czech Koruna determined by the Issuer at (i) 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, by using 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 Adjusted Aggregate Cover Pool Balance is an amount at least equal to the outstanding Nominal Value of the Czech Covered Bonds (the **Par Value Test**).

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

$$A + B$$

Where:

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

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

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

**Contractual Asset Cover Test**

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

For the purposes of the Contractual Asset Cover Test:

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

$$A + B$$

Where:

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

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

*multiplied* by the Asset Percentage;

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

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

**Outstanding Principal Balance** means the sum of the outstanding principal balances relating to any Czech Covered Bonds, Mortgage Loans or any other debt or security as the case may be, calculated in relation to any amount which is denominated in (i) a currency other than Czech Koruna, the Czech Koruna equivalent of such amount ascertained using the Relevant Exchange Rate relating to such amounts and (ii) Czech Koruna, the applicable amount in Czech Koruna.

For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, whilst such breach is continuing the Issuer 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 27 November 2012, as amended and restated on 9 October 2014, 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 out various reviewing, testing and notification duties in relation to the checks and calculations performed by the Issuer on the Cover Pool with a view to confirming compliance by the Issuer 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 agreements in respect of the Cover Pool on each relevant Asset Monitor Calculation Date (as defined in 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) (**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 (as defined in the Trust Deed) or the reported Adjusted Aggregate Cover Pool Balance or the reported Contractual Adjusted Aggregate Cover Pool Balance, as applicable, was misstated by the Issuer by an amount exceeding one per cent. of the Adjusted Aggregate Cover Pool Balance or the Contractual Adjusted Aggregate Cover Pool Balance, as applicable (as at the date of the relevant Statutory Tests or the Contractual Asset Cover Test), the Asset Monitor shall conduct the reviews 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 Trust Deed) 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 is missing or the information provided by the Issuer is not consistent with other information provided by the Issuer or from other sources, the Asset Monitor shall request such information as is required to analyse the inconsistencies in the information provided and shall report any inconsistencies or other findings which would affect the eligibility of Ordinary Cover Assets or Substitute Assets or the outcome of the Statutory Tests or the Contractual Asset Cover Test.

The Asset Monitor Report will be delivered to the Issuer, the Trustee, the Joint Arrangers 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 169,000 (exclusive of VAT) annually. 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 Agreement (**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.

## **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 are 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.

## DESCRIPTION OF THE ISSUER

### Introduction

The Issuer is a major bank and financial services provider in the Czech Republic, offering a wide range of banking and financial services to private and corporate clients. The Issuer was incorporated on 25 June 1993 as a joint stock company and is registered under ID number 492 40 901, registered with the Commercial Register maintained by the Municipal Court in Prague, Section B Insert 2051. The Issuer is the parent company of a group of companies (**Group**) which offers products and services in the Czech Republic in the area of banking and financial services, building savings and loans, insurance and leasing. The Issuer's registered office is at Hvězdova 1716/2b, 140 78 Prague 4, Czech Republic and its telephone number is + 420 412 446 400.

As of 30 June 2014, the Group served clients at more than 123 branch offices and client centres throughout the Czech Republic and employed approximately 2,700 full-time employees. As of 30 June 2014, the total assets of the Group exceed CZK 200 billion and the share capital of the Group stood at CZK 11.06 billion.

As of 30 June 2014, the Group had CZK 144.57 billion of customer deposits and CZK 167.07 billion of customer loans.

The Group is a part of the Austrian financial group comprising Raiffeisen Bank International AG (**RBI**) and its subsidiaries (**RBI Group**), which has provided financial services for over 140 years and is one of the strongest financial companies operating in the field of commercial and investment banking in Central and Eastern Europe (**CEE**). In this region the RBI Group operates in 15 markets where it serves over 14,000,000 clients at more than 2,900 business premises.

The Issuer has received a variety of both domestic and foreign awards recognising the quality of its banking services. In 2013 as well as 2014, the Issuer was named the bank with the best mortgage sales in Mystery shopping researches made regularly by Market Vision s.r.o. on the Czech mortgage market. The mobile application "eKonto Mobile" was named the best financial mobile application of the year 2013 and in the Safe Loan Navigator competition, the Issuer successfully defended the first place which it holds since the year 2012. In addition, the eKonto product has a solid and stable position that was assessed in several surveys as being one of the best "retail banking" accounts in the Czech Republic.

### History

The RBI Group can trace its origins to the founding of the Raiffeisen Financial Group by Friedrich Wilhelm Raiffeisen in Anhausen in 1862, which originally began as a cooperative banking association. By the mid 1890's, more than 600 banking associations were already operating in Austria based on the Raiffeisen system, which soon became popular not only in Europe but also spread overseas. Friedrich Wilhelm Raiffeisen's Raiffeisen Financial Group was to gradually become the largest private financial group in Austria.

Today, the various successors of Friedrich Wilhelm Raiffeisen's original Raiffeisen Financial Group have been providing financial services for over 140 years.

### Group

The Group offers products and services in the Czech Republic in the area of banking and financial services, building savings and loans, and leasing. The Group consists of the Issuer, Raiffeisen-Leasing, s.r.o. (**Raiffeisen-Leasing**), Czech Real Estate Fund (CREF) B.V., Transaction System Servis s.r.o., Raiffeisen penzijní společnost a.s., Raiffeisen investiční společnost a.s. and Raiffeisen-Leasing Real Estate, s.r.o. Raiffeisen-Leasing is a universal leasing company offering a comprehensive range of financial products,

including supplementary services for corporate entities and private individuals. See “*Description of the Issuer – Corporate Structure*” below for further details.

The Issuer also directly holds a 10 per cent. share in Raiffeisen stavební spořitelna, a.s. (**RSS**) which is a major financial institution in the Czech Republic providing financial consultancy services to its clients primarily in the area of cost-effective savings and housing finance. Its main products include building savings, building savings loans, bridge loans and mortgage-type loans.

### **RBI Group and its Other Czech Operations**

The Group is a part of the RBI Group which regards both Austria, where it is a leading corporate and investment bank, and the CEE as its home market. In the CEE, the RBI Group operates an extensive network of subsidiary banks, leasing companies and a range of other specialised financial service providers.

The Issuer’s majority shareholder, holding 75 per cent. of the registered share capital of the Issuer, is Raiffeisen CEE Region Holding GmbH. Raiffeisen CEE Region Holding GmbH is indirectly wholly owned by RBI. On 11 October 2010, RBI was formed by a merger, registered with Austrian Firmenbuch on 10 October 2010, between Raiffeisen International Bank-Holding AG and Cembra Beteiligungs AG. In anticipation, Cembra Beteiligungs AG had taken over by way of a demerger the corporate banking business of Raiffeisen Zentralbank Österreich AG which was registered with Austrian Firmenbuch on 9 October 2010. RBI is a fully consolidated subsidiary of Raiffeisen Zentralbank Österreich AG, which indirectly owns approximately 60.7 per cent. of the common stock issued by RBI. The remainder of RBI’s shares is in free float, with the shares being listed on the Vienna Stock Exchange. The Issuer’s second shareholder, holding the remaining 25 per cent. of the Issuer’s registered share capital, is RB Prag-Beteiligungs GmbH which is an indirect 100 per cent. subsidiary of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft.

The Issuer is indirectly controlled by RBI and the control is based on RBI’s indirect ownership of 75 per cent. of the registered share capital of the Issuer. The Issuer is not aware of any measures in place to ensure that such control is not abused other than general limitations set forth by Czech corporate law and banking regulations; the Issuer is regulated as a bank and is subject to CNB supervision.

The annual General Meeting of the Issuer decided on the distribution of the profit generated in 2013 and on a capital injection to strengthen the bank’s capital stock. Consequently, in April 2014, the shareholders raised the Issuer’s registered capital by CZK 868.4 million to CZK 11.06 billion. All shareholders participated in this capital increase proportionally to their existing shares, and the shareholder structure thus remains the same as before.

In addition to the activities carried out by the Group in the Czech Republic (see “*Description of the Issuer – Corporate Structure*” below for further details), the RBI Group carries out certain other business activities in the Czech Republic through UNIQA pojišťovna, a.s. (**UNIQA**) and ZUNO BANK AG (**Zuno**).

### ***UNIQA pojišťovna, a.s.***

UNIQA commenced its operations in the Czech insurance market in 1993, originally under the name Česko-rakouská pojišťovna, a.s. The company changed its name to UNIQA pojišťovna, a.s. in 2001 as a part of the international strategy of the RBI Group to integrate its insurance business under the brand name UNIQA. UNIQA holds a universal insurance licence allowing it to carry out business in the area of both life and non-life insurance. As of the date of this Base Prospectus, UNIQA offers most types of insurance products covering all of its clients’ insurance needs. During the eighteen years of its existence, UNIQA has consistently been one of the ten largest insurance companies in the Czech market. As of the date of this Base Prospectus, UNIQA provides its services at more than 180 business locations throughout the Czech Republic and its portfolio includes more than 750,000 insurance policies. Annual prescribed premiums of UNIQA amounted to CZK 5.7 billion in 2013.

## **ZUNO BANK AG**

Zuno, a member of the RBI Group, operates in the Czech Republic through its Czech branch office. Zuno does not have a network of branch offices as the entire Zuno banking model is based on digital banking, which allows customers to manage their money at distance by doing all the transactions and by opening all banking products directly through the internet without the need to visit the bank.

Zuno has been operating in the Czech Republic since July 2011 and in Slovakia since December 2010. As of 30 June 2014, Zuno had managed to attract more than 230,000 clients and approximately CZK 20.3 billion in deposits in both countries.

### **Business Overview**

The Issuer's business activities are reported in the following operating segments:

1. Corporate Banking;
2. Retail Banking;
3. Treasury; and
4. Other.

The majority of the Issuer's revenue is generated in the Czech Republic from transactions with clients who have their permanent residence or place of business in the Czech Republic or from trading with financial instruments issued by Czech entities. The revenue generated outside the Czech Republic is insignificant.

The Issuer's client base is well diversified. It has no client or group of related parties which account for more than 10 per cent. of the Issuer's total income for the six month period ended 30 June 2014.

The Issuer's management accounts are maintained on a margin basis. For this reason, the interest income and expenses and fee and commission expense of individual operating segments are not reported separately, but on a net basis.

### ***Corporate Banking***

The Corporate banking segment involves transactions with corporate clients, public sector institutions and financial institutions.

The Issuer's corporate segment covers corporate clients with a particular focus on large financial and non-financial corporations, real estate developers and small and medium-sized entities (trading companies, manufacturing companies, service companies). The Issuer does not primarily target public sector entities.

As of 30 June 2014, the Issuer had 8,650 clients in the corporate banking segment and the volume of loans provided represented about a half of its total loan portfolio. The number of customers decreased by 8.8 per cent. in the period from 30 June 2013 to 30 June 2014. 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, investment banking and brokerage services, factoring, leasing and insurance services. In addition, in non-cash loans, the Issuer provides both domestic and foreign currency facilities to its customers, principally comprising guarantees in relation to imports and letters of credit in respect of trade financing activities.

### ***Project Finance***

The Issuer also offers its clients 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 (investment) that brings 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. Loans are provided especially for the purpose of (i) investment acquisition, (ii) development, (iii) upgrade, reconstruction and revitalisation or (iv) refinancing of liabilities related to the investment. 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.

### *Trade Finance*

The Issuer's Trade and Export Finance Department is active in the following areas: (i) Bank Guarantees, (ii) Documentary Business, (iii) 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 finance activities the Issuer issues and processes bank guarantees, counter-guarantees, letters of credit (including forfeiting of receivables under letters of credit issued by other banks) and also extends export credits under the EGAP (a Czech export credit agency) insurance cover to foreign importers mainly in the Central and Eastern European region and Latin America. The Issuer also purchases receivables and extends pre-export credit facilities under the insurance of EGAP, KUPEG (Czech export credit agencies) and/or Lloyds of London.

The Issuer's export-focused clients benefit from the RBI Group's branch network in the Central and Eastern European region.

The Issuer co-operates with the European Investment Bank (**EIB**). This co-operation allows the Issuer to provide its clients with subsidised investment loans primarily aimed at financing of improvement of energy efficiency projects.

In years 2011 and 2013, the Issuer has also obtained in total EUR 200 million from the EIB for financing small and medium-size enterprises with 12-years maturity and amortization thereafter. These funds were earmarked primarily for medium-size firms with a maximum of 250 employees.

### *Retail Banking*

The retail segment generally includes all private individuals, including high net worth (VIP) clients, entrepreneurs as well as the Issuer's own employees.

As of 30 June 2014, the loans provided to this segment represented 49.5 per cent. of the Issuer's total loan portfolio and deposits received from this segment represented 59.6 per cent. of all Issuer's deposits from customers.

The Issuer believes that affluent clients will constitute the fastest growing group of banking clients in the market in the future. The relatively underdeveloped private banking market in the Czech Republic therefore has significant potential according to the Issuer, which believes that local private banking services in the Czech Republic currently administer only about 25 per cent. of all assets that fall within this segment. The remainder of such assets is deposited either in Czech banks outside the private banking sector (i.e. ordinary deposit products offered by mass-market banking competitors) or abroad. Therefore, the Issuer believes that the Czech retail market could grow considerably in future years.

### *Raiffeisen Premium Banking Concept*

Newly opened branches since 2009 are built around the Raiffeisen "Premium Banking Concept", which is a service intended for clients with monthly incomes exceeding CZK 25,000. The Issuer expects to continue

focusing on this segment in the future. Among other services, the Issuer provides an individual tailor-made financial advisory service, a range of premium credit cards with additional benefits and a priority service in both call centres and branches as part of the Raiffeisen Premium Banking Concept.

### *Friedrich Wilhelm Raiffeisen*

The Issuer also offers a private banking service entitled “Friedrich Wilhelm Raiffeisen” (**FWR**). The Issuer currently operates specialised branches in Prague, Brno, Olomouc and Ostrava for private banking clients under the FWR label. As part of the FWR service, the Issuer offers professional investment advice, regional product specialisation with the possibility of purchasing any global investment product, and an exclusive club under the Friedrich Wilhelm Raiffeisen brand.

In addition to the products described above, the Issuer offers its retail customers a broad range of products and services, including general purpose loans, car loans, credit and debit cards, foreign exchange services, wireless payments via mobile phones, payment and collection services, deposit and overdraft accounts, securities trading, asset management products, ATMs, telephone banking, internet banking and mobile banking and life and non-life insurance products.

### *Credit Cards*

The Issuer offers its clients an attractive portfolio of new credit cards that match the needs of customers from different segments. In 2013, the Issuer introduced three new types of debit cards: BASIC electronic card, an embossed STANDARD card, and a prestigious GOLD card.

The current portfolio of credit cards offered by the Issuer consists of four different cards, each designed for a different customer segment: (i) the EASY card for customers who are looking primarily for an additional source of money, (ii) the STYLE card that offers shopping benefits and premiums which correspond to the amount of spending, (iii) the DE LUXE card with a high level care and customer service and support included along with the card and (iv) the FWR card which serves as the prestige, luxury card for Private Banking customers only.

The Issuer’s credit cards programmes include, among others, a range of benefits including loyalty bonuses, attractive insurance packages and travel assistance.

### *Mortgages*

From 1999 onwards, the Issuer provided mortgage loans for private individuals. The overall volume of total mortgages provided amounts to CZK 63,129,473,258 as of 30 June 2014. The Issuer’s mortgage portfolio contains residential mortgages interest only residential mortgages, home equity mortgages, single account mortgages and asset based mortgages. 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.

As of 30 June 2014, the Issuer is the fourth largest provider in the mortgage loan market in terms of market share (source: information from the Czech Ministry of Regional Development (*Ministerstvo pro místní rozvoj*)). For more information on mortgage loans provided by the Issuer see “*Mortgage Loans and Their Regulatory Framework*”.

### *eKonto*

One of the Issuer’s flagship products crucial to this segment, but also a cross-over product into other segments (particularly the retail segment), is the award-winning eKonto account product. The Issuer also provides authorised overdrafts free of charge to new entrepreneurs in an effort to further strengthen its market presence in this segment.



In January 2013, the Issuer introduced new tariffs. The eKonto KOMPLET account offers an all-inclusive account for one transparent fee: account management, including sub-accounts for up to nine foreign currencies, two payment cards, a credit card, Internet banking, authorised overdraft, a savings account, casualty insurance, and smart phone banking that was named the best mobile financial application of 2013. The eKonto KOMPLET was positively received and quickly became a popular product among the Issuer's clients. Approximately 120,000 clients opened the account during the year 2013.

### ***Treasury***

The treasury segment includes interbank transactions, asset – liability management and securities trading. The treasury segment provides all types of foreign exchange and interest rate hedging instruments to its clients as well as internally within the Issuer, in both Czech Koruna and other major currencies.

### ***Other***

Other ancillary activities carried on by the Issuer include equity investments and other non-interest bearing assets and liabilities of the Issuer that cannot be allocated to segments referred to above such as capital, subordinated deposits and capital investments. The Issuer also records operating income and expense that cannot be assigned to any specific segment. These include the creation of provision for other receivables and fraud losses.

### **Distribution Channels**

The Issuer's aim is to have an extensive branch network geared primarily to quality advisory services and financial planning for its clients. In 2010 - 2012, the Issuer focused on the expansion of its distribution network and as of 30 June 2014, the Issuer's distribution network consisted of 123 organisational units, which include branches and other business sites.

### ***Branches***

As of 30 June 2014, the Issuer has the fifth largest branch network in the Czech Republic consisting of over 123 business sites in 14 regions of the Czech Republic (source: Issuer's internal analysis of data collected from the publicly available information of other banks). The Issuer has 123 retail branches, including recently opened branches focused on the Raiffeisen Premium Banking Concept and 4 branches which cater for the Issuer's FWR concept. These branches provide customers with a wide range of services. All the Issuer's branches are retail-related with 17 corporate centres and 25 mortgage centres operated on branch premises.

### ***ATM, Internet Banking, Phone Banking***

In addition to its branch network the Issuer uses direct distribution channels such as ATMs, internet banking and GSM services. As of 30 June 2014, the Issuer operated direct Internet Banking and GSM Banking services available to customers in all of its business segments and operated a total of 143 ATMs, of which 59 are located in Prague.

### **Competition**

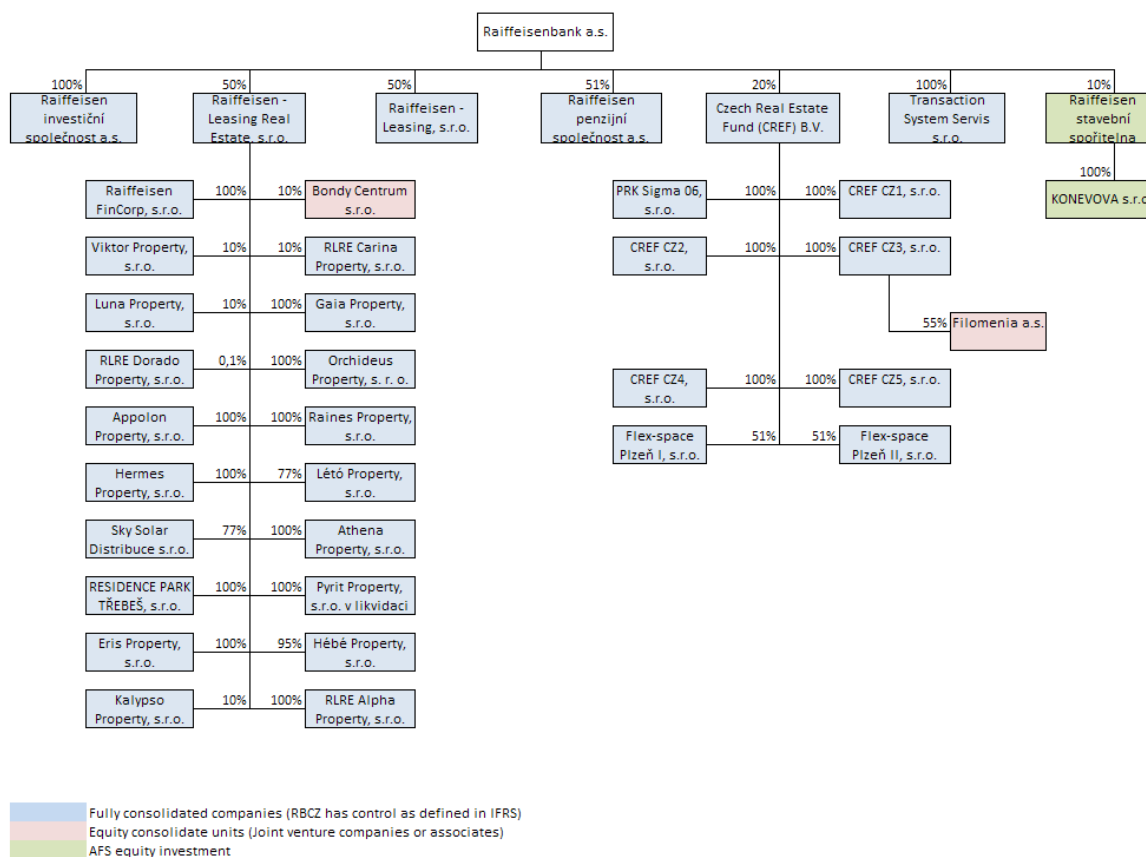
The Issuer faces increasing competition in the banking and financial services market in the Czech Republic. Such competition has become more intense as a result of the opening of the financial services market following the Czech Republic's accession to the European Union on 1 May 2004. The Issuer competes with other banks, financial services firms and a wide range of insurance companies in providing mutual fund, capital markets and advisory services and financial and insurance products. Many foreign-owned banks operating in the Czech market are expanding the range of services they offer.

Currently, the Czech banking market is highly concentrated. Although there are only a few competitors comparable in size and scope of business to the Issuer, the Issuer may also face increased competition from less established banks and financial institutions or new entrants seeking to offer more attractive interest or deposit rates or other aggressively-priced products to penetrate the market. Recently, the Czech banking market has seen the emergence of several low-cost banks primarily focused on providing internet-based banking services. Issuer's principal competitors in the retail banking and SME segments are Československá obchodní banka, Komerční banka and Česká spořitelna, which are the top three market participants according to CNB data, and UniCredit Bank. In the corporate banking segment, the Issuer's main competitors include Československá obchodní banka, Česka spořitelna, Komerční banka and UniCredit Bank. For risks related to competition, see "Risk Factors—The Raiffeisen Group competes against several large international financial institutions and may face increased competition from less established banks or new entrants".

## Corporate Structure

The Group conducts its operations in the Czech Republic through various principal subsidiaries. The Issuer's relationship to and shareholdings in its subsidiaries as of 30 June 2014 are shown in the following diagram:

Definition of the Group - Group Chart as of 30 June 2014



### ***Raiffeisen-Leasing, s.r.o.***

Raiffeisen-Leasing was founded in 1994, and as a part of the Group specialises in providing leasing services to both corporate entities and private individuals. Its partner institutions in most business activities are the Issuer and Raiffeisen-Leasing International GmbH Wien.

Raiffeisen-Leasing is a universal leasing company offering comprehensive financial products, including supplementary services for corporate entities and private individuals and is a member of the Czech Leasing and Financial Association.

The commodities financed by Raiffeisen-Leasing include transport, machinery, equipment and modern hi-tech projects. The stable product portfolio of Raiffeisen-Leasing includes financial leasing with the option to repurchase the leased assets, instalment plans for financing the majority of commodities, and loans as well as consumer loans for financing private and commercial vehicles.

#### ***Raiffeisen-Leasing Real Estate, s.r.o.***

Raiffeisen-Leasing Real Estate, s.r.o. (**RLRE**) focuses on the provision of leasing services related to real estate investments within the Czech Republic. The Issuer holds 50 per cent. of the share capital of RLRE.

#### ***Czech Real Estate Fund (CREF) B.V.***

Czech Real Estate Fund (CREF) B.V. (**CREF**) is a closed real estate investment fund registered and operating under the laws of the Netherlands since its foundation in 2007. The investment potential of the fund amounts to EUR 100,000,000. The fund invests into the development of real estate across the major urban areas within the Czech Republic. Even though the Group's share of the voting rights in CREF is 20 per cent., the Group's effective holding in CREF is 100 per cent. because the remaining owners act in accordance with the instructions of the Group and the Group receives a major part of the profit of the entity. In addition, the Group has an option to purchase the equity investments that are not held by it in circumstances where the remaining owners decide to sell the equity investment in the entity.

#### ***Raiffeisen stavební spořitelna a.s.***

RSS has operated in the Czech market since September 1993, originally under the name AR. Stavební spořitelna a.s. RSS was integrated into the Raiffeisen Group in 1998 when Raiffeisen Bausparkasse GmbH increased its stake in RSS to 75 per cent., and the remaining 25 per cent. stake in RSS was acquired by the Issuer. In 2005, Raiffeisen Bausparkasse GmbH transferred its share to its company, Raiffeisen Bausparkassen Holding GmbH, which became the integrating link between the savings banks of the RBI Group in various countries. As of 27 August 2008, following the merger of RSS with the former HYPO stavební spořitelna, the share of the Issuer in RSS decreased to 10 per cent. The remaining 90 per cent. is owned by Raiffeisen Bausparkassen Holding GmbH.

RSS is a major financial institution providing services in the Czech Republic through a business network with more than 200 consultancy locations. It provides financial consultancy services to its clients primarily in the area of cost-effective savings and housing finance. Its main products include building savings, loans relating to construction savings, bridge loans and mortgage-type loans.

#### **Information and Communication Technology**

The information and communication technology (**ICT**) systems used by the Issuer are crucial to its businesses operations (and the expansion thereof), operating efficiency, risk management and control systems. The Issuer's ICT Services provides both IT development and IT operation functions based on the continuous improvement and process management. The provision of centrally managed ICT services is driven by the objective of creating reliable and secure systems, while ensuring cost efficiency and sharing synergies.

The Issuer owns a number of production data centres. For IT applications crucial to its business, the Issuer maintains disaster recovery systems. In accordance with international standards, the Issuer has adopted various instruments and measures to secure the business continuity of its operations. These measures are implemented in accordance with the internal business continuity management (**BCM**) rules of the Issuer, which establish principles to prevent and manage the risk of disruption to company operations.

Based on the BCM standards, the Issuer evaluates such risk and formulates business continuity plans (**BCPs**) and disaster recovery plans (**DRPs**). BCPs and DRPs are regularly tested at back-up workplaces. The data centres were established to ensure the system and disk settings are efficiently updated and the elements of the network used for the same are in accordance with international standards. These data centres are equipped with backup generators and other security elements.

## Employees

In the period from 1 January 2013 to 31 December 2013, the Issuer had 2,821 full-time employees on average. In recent years the Issuer decreased its number of employees mainly as a result of having increased process efficiency.

The following table shows the average number of employees of the Issuer in the periods specified:

	Average in period from 1 January through 31 December	
	2013	2012
Employees .....	2,821	2,895
Members of the Board of Directors .....	6	6
Members of the Supervisory Board .....	9	9
Other members of management .....	26	23

Source: Annual Report 2013

The following table shows the payroll costs of the Issuer in thousands of Czech Koruna as of the dates specified:

	As of 31 December	
	2013	2012
Wages and salaries.....	2,092,273	2,201,935
Social security and health insurance .....	630,702	636,323
Other staff costs .....	105,348	71,676
<b>TOTAL</b> .....	<b>2,828,323</b>	<b>2,909,934</b>

Source: Annual Report 2013

The average staff cost per an employee of the Issuer for the year ended 31 December 2013 was CZK 988,233 compared to CZK 992,136 for the year ended 31 December 2012. The Issuer's employees are entitled to retirement and life insurance as well as to a small amount of additional paid leave and certain other specific benefits (flu vaccinations, kindergarten, discount programmes and others). The Issuer's management closely monitors human resources and employee relations, and adheres to the principle of fair and equitable treatment for all employees. The Issuer provides a wide range of educational and training courses that are available to all employees, who may choose according to their chosen specialisation and needs, if any.

## Properties

As of 30 June 2014, the Issuer holds properties with a net book value of CZK 412,226,643. Of these, the properties owned for investment purposes had a book value of nil as of 30 June 2014.

## Risk Management

The Issuer takes on exposure to market risks arising from open positions of transactions with interest rate, equity and currency instruments which are sensitive to the changes of conditions on financial markets.

## Types of Risks Managed

The Issuer has identified five main types of risk to which it is exposed and which it has chosen to actively manage. The Issuer manages risks associated with its trading activities on the level of individual risks and types of financial instruments. The key risk management tools are the limits for individual transaction volumes and individual position volumes, stop loss limits and Value at Risk (**VaR**) limits.

The Issuer performs regular stress testing of the interest rate risk inherent in the banking and trading portfolios, the currency risk and the equity risk.

The Issuer facilitates market risk management by using a set of limits for individual positions and portfolios. The set of limits consist of limits determined by the CNB, the regulator, which are complemented by the limits set by the parent bank, RBI, in a standardised way for the whole CEE region. If limits are not determined by either CNB or the parent bank, the Issuer determines such limits internally.

The Issuer monitors both aggregate and individual market risks using the VaR method. VaR represents the potential loss arising from an adverse movement on the market within a certain time period with a certain confidence level. VaR is measured based on a one-day holding period with a 99 per cent. confidence level. The calculation reflects mutual correlations of individual risk factors (currency rates, interest rates and equity market prices).

The below table shows the total market risk ascertained through the VaR method in thousands of Czech Koruna:

	As of 31 December 2013	Average in 2013	As of 31 December 2012	Average 2012
Total market risk VaR .....	61,489	27,397	57,380	15,169

Source: Company information; Annual Report 2013

## Liquidity Risk

Liquidity risk includes both the risk of the Issuer's inability to raise funds to cover the Issuer's assets using instruments with appropriate maturity and the risk of the Issuer's inability to sell assets at a reasonable price within a reasonable time frame.

The following table shows the remaining maturity of contractual cash flows arising from financial liabilities in thousands of Czech Koruna for the year 2013:

2013	Total Contractual Liability	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years
			<i>(CZK thousand)</i>		
Amounts owed to financial institutions....	10,455,816	4,508,283	124,568	-	5,822,965
Amounts owed to customers .....	147,561,502	131,473,988	9,752,448	2,824,626	3,510,440
Debt securities issued .....	13,022,701	566,435	3,463,664	8,992,602	-
Subordinated liabilities .....	5,325,287	63,177	96,302	2,026,978	3,138,830
Other liabilities .....	2,368,600	2,368,600	-	-	-
Off-balance sheet items <sup>1</sup> .....	20,762,029	20,685,067	70,111	6,851	-

(1) Off-balance sheet items include all irrevocable credit commitments provided to the Issuer's clients and guarantees provided to clients classified as substandard, doubtful or loss. In 2013, the Issuer did not record any letters of credit provided to clients that are classified as default.

Source: Company information; Annual Report 2013

The following table shows the remaining maturity of contractual cash flows arising from financial liabilities in thousands of Czech Koruna for the year 2012:

2012	Total Contractual Liability	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years
	(CZK thousand)				
Amounts owed to financial institutions....	7,021,859	3,838,303	314,875	159,082	2,709,599
Amounts owed to customers.....	145,544,224	125,175,838	5,471,634	10,866,522	4,030,230
Debt securities issued .....	19,901,248	947,655	4,926,778	14,026,815	-
Subordinated liabilities .....	5,903,334	110,700	106,392	1,000,234	4,686,008
Other liabilities .....	3,478,918	3,478,918	-	-	-
Off-balance sheet items .....	17,316,622	17,316,622	-	-	-

Source: Company information, Annual Report 2013

The Issuer has access to diversified sources of funding, which comprise deposits and other savings, issued securities, loans accepted including subordinated loans and the Issuer's equity. This diversification makes the Issuer flexible and reduces its dependency on one source of funding. The Issuer regularly evaluates its liquidity exposure, in particular by monitoring the changes in the structure of financing and comparing these changes with the Issuer's liquidity risk management strategy, which is approved by the Issuer's Board of Directors. As part of its liquidity risk management strategy, the Issuer also holds a portion of its assets in highly liquid funds, such as government treasury bills and similar bonds and repurchase transactions with the CNB.

The Issuer uses internal statistical models for diversification of the maturity of client deposits. These models are reassessed on a regular basis.

#### *Foreign Exchange Risk*

Foreign exchange risk arises from the Issuer's foreign currency position and is a result of the unequal distribution of the Issuer's foreign currency denominated assets and liabilities (including currency-sensitive off-balance sheet items).

Foreign exchange risk is managed by setting trading limits. The Issuer uses a set of limits established by reference to the standards of the RBI Group. The limits are set for individual currencies and for the overall currency position. Internal currency position limits fully respect the limits set by the local regulatory body. These techniques are complemented by monitoring currency risks using VaR.

The below table shows the foreign exchange risk ascertained through the VaR method in thousands of Czech Koruna:

	As of 31 December 2013	Average in 2013	As of 31 December 2012	Average 2012
	Foreign exchange risk VaR.....	1,877	2,372	1,691

Source: Company information

#### *Interest Rate Risk*

Interest rate risk arises due to the fact that the Issuer's interest-bearing assets and liabilities have different maturity dates, periods of interest rate changes/adjustments and volumes during such periods. In the case of variable interest rates, the Issuer is exposed to a basis risk arising from the difference in the mechanism of adjusting individual types of interest rates, such as PRIBOR or announced interest on deposits.

A part of the Issuer's income is generated through a targeted mismatch between rate-sensitive assets and rate-sensitive liabilities. The carrying amounts of these assets and liabilities and the nominal (notional) values of interest rate derivatives are recorded either in the period in which they are due or in which the interest rate changes, whichever occurs first.

The Issuer's interest rate risk management activities are aimed at optimising the Issuer's net interest income. In managing the interest rate risk, the Issuer uses statistical models for distribution of those items where it is unable to determine the exact moment of re-pricing of interest rates or liquidity maturity (for example on current accounts). The Issuer uses interest rate derivatives to manage the mismatch between the rate-sensitivity of assets and liabilities.

The Issuer monitors the interest rate risk of the banking book and the trading book separately, at the level of individual currencies. The interest rate position is monitored based on a gap analysis method, in combination with the sensitivity of the overall position to the shift in the interest rate curve applying the BPV technique. The BPV technique (basis point value) involves determining the change of the present value of the portfolio when interest rates shift by one basis point (0.01 per cent.). The gap analysis is based on the net position of notional values presented in a yearly equivalent (i.e. the position converted to the risk of the yearly interest rate instrument using a duration coefficient). These techniques are complemented by monitoring interest rate risks using the VaR method.

The below table shows the interest rate risk ascertained through the VaR method in thousands of Czech Koruna:

	<u>As of 31 December</u> <u>2013</u>	<u>Average in 2013</u>	<u>As of 31 December</u> <u>2012</u>	<u>Average 2012</u>
Total interest rate risk VaR.....	61,186	26,969	57,787	14,742

Source: Company information, Annual Report 2013

### *Equity Risk*

Equity risk is the risk of fluctuations of prices of (i) equity instruments held in the Issuer's portfolio and (ii) financial derivatives related to these instruments. This risk predominantly arises from trading with equity instruments. A portion of equity exposure is also attributable to non-trading activities of the Issuer.

Equity risk is managed by trading limits. The market risks arising from the Issuer's equity trading activities are managed using the VaR method.

The below table shows the equity risk ascertained through the VaR method in thousands of Czech Koruna:

	<u>As of 31 December</u> <u>2013</u>	<u>Average in 2013</u>	<u>As of 31 December</u> <u>2012</u>	<u>Average 2012</u>
Equity risk VaR .....	0	838	395	497

Source: Company information

### *Operational Risk*

Operational risk is defined as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events.

The Issuer monitors, tracks and assesses operational risks on a regular basis. The Issuer currently applies the standardised approach to calculating capital adequacy and it intends to implement the advanced (AMA) approach in the future.

The identification of the operational risk and timely and accurate reporting of incidents is the responsibility of each employee.

A member of the Issuer's Board of Directors (currently Mr. František Ježek) is responsible for the central operational risk management of the Issuer. This responsibility includes the setting of the methodology, measurements or analyses and provision of methodical support to managers. In order to ensure that no conflict of interest occurs, the execution of the central operational risk management responsibilities is independent of the remainder of the Board of Directors.

Operational risk management primarily draws upon collection of data on losses caused by operational risks, risk self-assessment and key risk indicators. Specific responsibilities are determined for the implementation of proposed changes and their fulfilment is reviewed by the Operational Risk Management Committee.

Risk self-assessment is designed to identify areas with high operational risk and defines the Issuer's priorities in eliminating operational risks. The assessment is performed no less than once in 15 months. Subsequently, risk and control self-assessments are performed for areas with high operational risk and result in the production of a list of measures and key risk indicators. These indicators monitor the development of the risk in specific areas and the effectiveness of the set controls of the performance of the introduced measures. The Issuer gradually extends and adjusts the list of these indicators. In setting key risk indicators, the Issuer cooperates with the RBI Group.

#### *Credit Risk*

The Issuer is exposed to credit risks resulting from its trading activities, provision of loans, hedging transactions, investment activities and agency services.

The credit risk in the Non-retail division is measured through rating scales and each rating category is allocated a certain risk rate (default probability and a coefficient for determining risk weighted assets). Each segment in the Non-retail division has its own rating model (SME, Corporate etc.). In the retail the credit risk is measured primarily by using rating based on the application and behavioural scoring. In 2012, CNB approved advanced IRB approach for Mortgage portfolio that represents approximately 80 per cent. of outstanding in the Retail. The Advanced IRB for the rest of the Retail portfolio was approved by CNB in 2013.

Credit risks associated with trading and investment activities are managed using the following methods and instruments applied by the Issuer in managing its credit risk exposures.

Primarily, the Issuer assesses its receivables in accordance with the principles determined by the CNB's Regulation dated 7 August 2014 on the rules of prudent business of banks, savings and lending associations and securities traders (Collection of Laws No. 163/2014), as amended, and also in accordance with IFRS and IAS 39 standards and internal regulations. Subsequently, the receivables are classified into five categories according to Regulation of the CNB No. 163/2014. For each client, each criterion (days past maturity, financial position of the debtor, implementation of enforced restructuring, resolution on insolvency, anticipated compliance with debtor's contractual obligations) is evaluated individually and the receivable is subsequently classified on the basis of the worst rating of the criteria to one of the following categories: standard, watch, substandard, doubtful, and loss. Substandard, doubtful and loss receivables are aggregately designated as receivables with debtor's default. If the Issuer records more receivables from one client, they are all classified in the same category, based on the receivable with the least favourable rating.

Secondly, the Issuer determines provisions for receivables on a monthly basis. The Issuer determines the impairment of individual receivables or the portfolio of receivables with similar characteristics in terms of



credit risk. Provisions for these portfolios are then calculated pursuant to the anticipated development in the loan portfolio and are determined based on the anticipated cash flows.

Thirdly, the Issuer requires collateral for loans granted to certain debtors prior to the issuance of the loan. In arriving at the realisable value of collateral, the Issuer refers to estimates of usual prices supervised by a specialised department of the Issuer or internal assessments prepared by this department of the Issuer. The realisable value of collateral is subsequently determined by discounting the appraised value using a correction coefficient which reflects the Issuer's ability to realise the collateral as and when required. The Issuer regularly reviews and updates collateral values depending on the type and quality of the collateral, usually no later than on an annual basis.

The Issuer maintains a system of internal limits for individual countries, sectors and clients (or groups of economically connected clients) in order to prevent significant concentration of credit risk. As of the date of this Prospectus, the Issuer recorded no significant credit risk concentration exposure to a private individual or an economically connected entity that would exceed the limits set by the CNB.

The Issuer has specific departments which are responsible for the recovery and administration of distressed receivables. These departments undertake legal steps, perform the restructuring of receivables and communicate with problematic clients in order to achieve maximum recovery, including collateral recovery. These departments are also responsible for representing the Issuer in creditors' committees under insolvency proceedings.

In 2006, the Issuer undertook a synthetic securitisation of its loan portfolio in the corporate segment. The substance of the transaction involved transferring part of the credit risk to the investor which is Kreditanstalt für Wiederaufbau (**KfW**). The Issuer entered into the securitisation transaction jointly with Raiffeisen Bank Polska S.A. and the process was coordinated by Raiffeisen International Bank-Holding AG, KfW, with the involvement of European Investment Fund. Dresdner Bank AG acted as the arranger. The entire transaction will mature in 2016. Its original volume was EUR 450,000,000, of which EUR 183,000,000 and EUR 267,000,000 related to the Issuer and Raiffeisen Bank Polska S.A., respectively, in March 2006. The transaction included a five-year period (Replenishment Period) so that Issuer could add new loans to the securitisation portfolio and thus replace those that have matured. The replenishment period ended in March 2011. Since then the portfolio gradually decreased and the transaction appeared not to be effective. Therefore Raiffeisenbank a.s. and Raiffeisen Bank Polska S.A. jointly used their right to terminate the transaction. The only process to be running till 2016 is maturity of restructured loans.

## MANAGEMENT

The Issuer is a Czech joint-stock company operating under Czech law. The Issuer, its management and the Issuer's corporate setup are governed in accordance with the Articles of Association of the Issuer which can only be amended by a two thirds majority vote of all shareholders present at a General Meeting of the Issuer. As of the date of this Base Prospectus, the conclusive version of the Articles of Association of the Issuer is the wording as of 22 May 2014 which can be viewed in the Issuer's collection of deeds in the Czech Commercial Register which is publicly accessible at [www.justice.cz](http://www.justice.cz). The business address of each of the directors (as well as the members of the Supervisory Board, the Executive and Audit Committees) is the Issuer's registered office which is Hvězdova 1716/2b, 140 78 Prague 4, Czech Republic.

There is no existing or potential conflict of interest between any duties to the Issuer by any members of either the Board of Directors, the Executive Committee or the Supervisory Board and/or their private interests or other duties.

### **Czech Corporate Governance**

In July 2004, the Czech Securities Commission (the former Czech regulator) issued a code of corporate governance and administration based on the OECD principles (the **Corporate Governance Code**). The Corporate Governance Code focuses on ensuring the basis for an effective corporate governance framework, rights of shareholders and key ownership functions, equitable treatment of shareholders, disclosure and transparency and responsibilities of the board. The key principles of the Corporate Governance Code include directors' personal liability, require transparency of board activities and allow monitoring of management by shareholders, government officials and members of the public.

The Issuer's corporate governance and administration are based on and comply with the Corporate Governance Code.

### **Management Structure and Committees**

The Issuer has a two-tier board system consisting of a Board of Directors and a Supervisory Board. The Board of Directors represents the Issuer in all matters and is charged with its management, while the Supervisory Board is an independent body that oversees the Board of Directors. Under the Czech Corporations Act, the Supervisory Board may not make management decisions. However, its approval is required by law for certain management decisions.

The Issuer has also established the Executive Committee, which is an supervisory body representing the Issuer's shareholders elected by and reporting to the General Meeting of shareholders. The Issuer also established the Audit Committee, which is an independent governing body of the Issuer elected by and reporting to the General Meeting of shareholders.

### **Board of Directors**

The Board of Directors of the Issuer manages the activities of the Issuer, acts on behalf of the Issuer and makes decisions in all matters of the Issuer unless such decisions are reserved for the General Meeting or the Supervisory Board. The Board of Directors of the Issuer is responsible for the business management of the Issuer including, but not limited to, proper bookkeeping and accounting. The operation of the Board of Directors and the conduct of its meetings are further regulated in the Bylaws of the Board of Directors.

The Board of Directors of the Issuer shall consist of seven members, who are appointed and recalled by the Supervisory Board. The members of the Board of Directors of the Issuer are appointed for a term of three years. There are no limits on reappointment and members are reappointed for a term of five years. As of the date of this Base Prospectus, the Board of Directors has seven members.

The composition of the Board of Directors of the Issuer, and the respective positions of the individual Directors, as of the date of this Base Prospectus, is set out below:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>	<b>Commencement of Membership in Board of Directors</b>	<b>Commencement of Current Term of Office</b>	<b>Date of Expiration of Current Term of Office</b>
Mario Drosc	1968	Chairman	6 September 2006	7 September 2011	7 September 2016
Rudolf Rabiňák	1958	Member	1 April 2001	12 July 2011	12 July 2016
František Ježek	1972	Member	1 October 2012	1 October 2012	30 September 2015
Milan Hain	1962	Member	1 January 2013	1 January 2013	1 January 2016
Jan Pudil	1969	Member	1 October 2013	1 October 2013	1 October 2016
Vladimír Kreidl	1974	Member	1 October 2013	1 October 2013	1 October 2016
Miloš Matula	1976	Member	1 January 2014	1 January 2014	1 January 2017

### ***Mario Drosc***

Mr. Drosc is the Chairman of the Board of Directors and CEO of the Issuer since January 2013. Mr. Drosc graduated from Comenius University in Bratislava, Slovakia and from the University of Cambridge, England. From 1994 to 2001, Mr. Drosc worked as a consultant at McKinsey & Company and subsequently joined Komerční banka, a.s. in 2001. Mr. Drosc came to the Issuer in September 2006 from the Slovakian bank VUB, a.s. where he was a board member responsible for Retail Banking between 2002 and 2006. Mr. Drosc is the Chairman of the Steering Committee and the Chairman of the Real Estate Investment Committee.

### ***Rudolf Rabiňák***

Since April 2001, Mr. Rabiňák has acted as the Member of the Board of Directors of the Issuer responsible for corporate banking. Mr. Rabiňák graduated from the Institute of Chemical Technology in Prague. Prior to being appointed to the Board of Directors of the Issuer, Mr. Rabiňák worked at Citibank a.s. for nine years. Mr. Rabiňák is a member of the Supervisory Board of Nadace dřevo pro život (Wood for Life Foundation), a member of the Administrative Board of Junior Achievement, o.p.s. and a member of the Advisory Board of Raiffeisen-Leasing s.r.o.

### ***František Ježek***

Mr. Ježek has been a member of the Board of Directors of the Issuer since October 2012 and is responsible for Risk Management. Prior to working at the Issuer, he worked for 7 years at RBI (Vienna, current 75 per cent. shareholder of RBCZ) as Head of Retail Risk. Mr. Ježek graduated from University of Economics, Prague in 1996. Mr. Ježek is a member of the Advisory Board of Raiffeisen-Leasing s.r.o., the Chairman of the Credit Committee, Chairman of the Committee for Operations Risk Management, Chairman of the Non-performing Loans Committee and the Chairman of the Retail Risk Management Committee.

### ***Milan Hain***

Mr. Hain has been a member of the Board of Directors of the Issuer responsible for IT since January 2013. Prior to joining the Issuer, he held various IT management positions at Slovak telecommunications companies, such as Slovak Telecom. Prior to this, he worked in various management positions at Všeobecná úverová banka.

### ***Jan Pudil***

Mr. Pudil has been a member of the Board of Directors of the Issuer responsible for the Treasury and Investment Banking since October 2013. He has been Executive Director for the Treasury and Investment Banking since October 2010. Prior to joining the Issuer, he worked eight years in London at BNP Paribas S.A., the last four years of which he was in the position of Head of EMEA, FX and Linear Rates Trading.

### ***Vladimír Kreidl***

Mr. Kreidl has been a member of the Board of Directors and Executive Director of the Issuer responsible for Retail Banking since October 2013. Prior to joining the Issuer, he worked at McKinsey&Company starting from 2001, since 2008 as a partner. From 1995 to 2000, he worked at Patria Finance, a.s., eventually as a partner. Mr. Kreidl is the Chairman of the Pricing and Interest Committee.

### ***Miloš Matula***

Mr. Matula has been a member of the Board of Directors and Executive Director of the Issuer responsible for the area of Operations since January 2014. Prior to joining the Issuer, he worked as consultant at Accenture starting from 2000 to 2007. Since 2007 to November 2009 he worked in Raiffeisen Bank International AG as Vice President, Head of service excellence. November 2009 to December 2013 he worked at ZUNO BANK AG as Chief IT Officer (CIO), Chief Operations Officer (COO) and Member of the Board of Directors.

## **Supervisory Board**

The Supervisory Board of the Issuer oversees the competence of the Board of Directors and the performance of the Issuer's business activities. In particular, the Supervisory Board reviews the ordinary, extraordinary, consolidated, and interim financial statements, and the proposal for distribution of profit or settling costs, and submits a report with its opinion to the General Meeting. The operation of the Supervisory Board and the conduct of its meetings are further regulated in the Bylaws of the Supervisory Board. The list of matters, which require the prior consent of the Supervisory Board is included in the Bylaws of the Supervisory Board. The Articles of Association of the Issuer require the Supervisory Board to meet at least twice per year.

According to the Articles of Association of the Issuer, the Supervisory Board of the Issuer shall consist of nine members. The members of the Supervisory Board of the Issuer are appointed for a term of five years and there are no limits on reappointment. As of the date of this Base Prospectus, the Supervisory Board had all nine members.

The following table sets forth the members of the Issuer's Supervisory Board as of the date of this Base Prospectus:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>	<b>Commencement of Membership</b>	<b>Commencement of Current Term of Office</b>	<b>Date of Expiration of the Current Term of Office</b>
Karl Sevelda	1950	Chairman	28 April 2014	28 April 2014	28 April 2019
Johann Strobl	1959	Member	28 April 2014	28 April 2014	28 April 2019
Petr Rögner	1951	Member	12 May 2011	12 May 2011	12 May 2016
Michal Prádka	1977	Member	12 May 2011	12 May 2011	12 May 2016
Klemens Breuer	1967	Member	28 April 2014	28 April 2014	28 April 2019
Martin Grüll	1959	Member	31 July 2014	31 July 2014	31 July 2019
Peter Lennkh	1963	Vice-Chairman	16 October 2013	12 December 2013	12 December 2018
Aris Bogadanneris	1963	Member	16 October 2013	16 October 2013	16 October 2018
Reinhard Schwendtbauer	1972	Member	25 April 2013	25 April 2013	25 April 2018

### ***Karl Sevelda***

Mr. Sevelda has been member of the Supervisory Board since April 2014, since June 2014 he was elected as chairman of the Supervisory Board of the Issuer. He graduated in 1973 from Vienna University of Economics and Business and obtained a doctorate in 1980. From 1983 to 1985 he worked as Secretary to the Federal Minister for Trade and Industry. From 1977 Mr. Sevelda worked for Creditanstalt-Bankverein. He has been in numerous management positions. He was also the Head of Corporate Banking Division. He became a member of the Board, Corporate Customers and Corporate, Trade and Export Finance worldwide from 1998 to 2010. Since 2010 he has acted as the Deputy Chief Executive Officer in Raiffeisen Bank International AG.

### ***Johann Strobl***

Dr. Strobl has been the member of the Supervisory Board of the Issuer since April 2014 and he is also member of the Executive Committee and member of the Audit Committee of the Issuer. Prior to his engagement with the Issuer, he worked at the Vienna University of Economics and Business and in numerous positions (including as the CRO/CFO and as board member) of Bank Austria Creditanstalt. Dr. Strobl graduated from Vienna University of Economics and Business.

### ***Klemens Breuer***

Mr. Breuer has been the member of the Supervisory Board of the Issuer since April 2014. He started his career at Bierbaum & Co. and worked at Deutsche Bank AG, where he worked for ten years and held numerous positions. Prior to his engagement with the Issuer, Mr. Breuer worked for WestLB AG as, inter alia, member of the Managing Board and as Global Treasurer. Mr. Breuer graduated from Aachen University.

### ***Petr Rögner***

Mr. Rögner has been a member of the Supervisory Board of the Issuer since May 2011. He graduated from University of Economics, Prague. Mr. Rögner has worked for the Issuer since 2002, and is currently in the position of quality management specialist dealing with complaints in the area of Operations. Currently, he is not a member of any corporate body of another company.

### ***Michal Přádka***

Mr. Přádka has been a member of the Supervisory Board of the Issuer since May 2011. He graduated from VŠB – Technical University of Ostrava, Faculty of Economics, Department of Finance in 2000 and also gained a Masters in Business Administration from Liverpool John Moores University in 2009. Between 1999 and 2007 he worked for eBank, a.s. in numerous positions throughout the branch network. Mr. Přádka has worked for the Issuer since 2007 in the position of Regional Director – North Moravia. In the past he worked at eBank, a.s. in the position of Division Director Ostrava. Currently, he is not a member of any corporate body of another company.

### ***Martin Grüll***

Mr. Grüll has been a member of the Supervisory Board since 31 July 2014. He graduated from Vienna University of Economics and Business. Mr. Grüll started his career at Raiffeisen Zentralbank Österreich AG, where he worked for seven years and held various positions including Head of the International Corporate Banking. Prior to his engagement with the Issuer, Mr. Grüll worked for Bank Austria Handelsbank and Bank Austria Creditanstalt as, inter alia, Group Executive Manager for Central and Eastern Europe. In 2010, he became a member of the Board of Raiffeisen Bank International AG.

### ***Peter Lenkh***

Mr. Lenkh has been a member of the Supervisory Board since October 2013. He was elected as Deputy Chairman of the Supervisory Board of the Issuer in December 2013. Prior to this, he was a member of the Supervisory Board of Raiffeisenbank a.s. from 2005 to 2007. In 1988, he joined Raiffeisen Zentralbank AG, and since that time, he has worked in various positions in the Group. Since January 2005, he is a member of the Board of Directors of Raiffeisen Bank International AG, now responsible for Corporate Banking.

### ***Aris Bogdaneris***

Mr. Bogdaneris has been a member of the Supervisory Board of the Issuer since October 2013. He started his career in 1988 at Citibank in Toronto, Canada. From 1992, he worked for ABN AMRO Corporate Finance on Budapest and Warsaw as an investment banker focusing on Central and Eastern Europe. At the

beginning of 1995, he was employed in various projects in the USA, Asia and Europe. In 1998, he became an Executive Director for operations at Budapest Bank (100 per cent. subsidiary of GE Capital), where he was then appointed the deputy CEO and member of the Board of Directors responsible for retail banking. In 2004, he became a member of the Board of Directors of Raiffeisen Bank International AG.

### ***Reinhard Schwendtbauer***

Mr. Schwendtbauer has been a member of the Supervisory Board of the Issuer since April 2013. Since 1997, he worked at Raiffeisenlandesbank Oberösterreich as the Head of the Secretariat of the Board of Directors. From 1999 to 2000, he worked at the Federal Ministry of Agriculture and Forestry. From 2001 to 2012, he was managing partner and shareholder in Finadvice Österreich, Linz. Since April 2012, he is a member of the Board of Directors of Raiffeisenlandesbank Oberösterreich Linz.

### **Executive Committee**

The Executive Committee of the Issuer usually consists of four members all of whom are appointed by the General Meeting of the Issuer. The members of the Executive Committee of the Issuer are appointed for a term of four years and there are no limits on reappointment. A member of the executive Committee can, at the same time, be a member of the Supervisory Board.

The Executive Committee is a representative body of shareholders, which ensures that the performance of business activities of the Issuer is in line with shareholders' interests. Certain measures in particular business matters and specific legal acts on behalf of the Issuer require the prior approval of the Executive Committee. The list of such matters is included in the Bylaws of the Executive Committee.

The following table sets forth the members of the Issuer's Executive Committee as of the date of this Base Prospectus:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>	<b>Commencement of Membership</b>	<b>Commencement of Current Term of Office</b>	<b>Date of Expiration of the Current Term of Office</b>
Johann Strobl	1959	Member	28 April 2011	28 April 2011	28 April 2015
Reihhard Schwendtbauer	1972	Member	25 April 2013	25 April 2013	25 April 2017
Peter Bazil	1960	Member	28 April 2014	28 April 2014	28 April 2018

### **Audit Committee**

The Audit Committee of the Issuer must consist of three members who are all appointed by the General Meeting of the Issuer. The members of the Audit Committee of the Issuer are appointed for a term of five years and there is no limit on reappointment. A member of the Audit Committee can, at the same time, be a member of the Supervisory Board.

The Audit Committee (i) supervises the production of the financial statements and consolidated financial statements, (ii) evaluates the effectiveness of internal control, internal audit and risk management of the Issuer, (iii) supervises the process of external audit of the financial statements and consolidated financial statements, (iv) considers the independence of the external auditor and (v) recommends the selection of external auditors. The operation of the Audit Committee and the conduct of its meetings are further regulated in the Bylaws of the Audit Committee.

The following table sets forth the members of the Issuer's Audit Committee as of the date of this Base Prospectus.

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>	<b>Commencement of Membership</b>	<b>Commencement of Current Term of Office</b>	<b>Date of Expiration of the Current Term of Office</b>
Johann Strobl	1959	Member	28 April 2014	28 April 2014	28 April 2019
Andrea Vlasek	1973	Member	10 December 2009	10 December 2009	10 December 2014
Peter Lennkh	1963	Member	16 October 2013	16 October 2013	16 October 2018

## Management Remuneration

The following table shows the management payroll costs of the Issuer in CZK thousands as of the dates specified.

	For the year ended 31 December	
	2013	2012
Members of the Board of Directors .....	52,336	55,451
Members of the Supervisory Board .....	6,781	7,268
Other members of management .....	106,010	85,285
TOTAL.....	165,127	148,004

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Source: Company information

## RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Issuer provides banking services to: (i) its directors and senior management; (ii) entities under common control with it; (iii) its associates; (iv) its joint ventures and (v) its parent companies. These transactions include, but are not limited to, the provision of loans, overdrafts, interest bearing deposits and current accounts, as well as other services. All related party transactions described above are made in the ordinary course of business and are subject to substantially the same terms as comparable transactions with third parties (including in relation to interest rates and security). Furthermore, related party transactions concluded since 31 December 2013, have been of equivalent type as the material related party transactions described herein and have been entered into in the ordinary course of business.

### Transactions between Related Parties

The Issuer's receivables towards related parties are primarily composed of: (i) term deposits within the RBI Group, (ii) credit balances within the RBI Group, (iii) loans within the Group and provided to associates and (iv) nominal values of financial derivatives – off-balance sheet receivables towards the parent company, RBI, and associates.

The Issuer's payables towards related parties are primarily composed of: (i) credit balances on the current account from RBI, Issuer's associates and Raiffeisenlandesbank Niederösterreich, (ii) term deposits of members of the RBI Group, (iii) received collateralised deposit from RBI, (iv) subordinated loan from RBI, (v) nominal values of financial derivatives – off-balance sheet payables towards the RBI, and associate, (vi) revocable loan commitments to RBI.

The following table sets forth the outstanding balances of the Issuer's related party transactions as of 31 December 2013 and 31 December 2012 in thousands of Czech Koruna:

31 December 2013 (CZK thousand)	Parent companies	Entities with substantial influence over the Issuer	Subsidiaries	Associates <i>(CZK thousand)</i>	Board of Directors, Supervisory Board and other managers	Other related parties	Total
Receivables.....	774,562	-	270,939	1,690,219	130,204	53,310	<b>2,919,234</b>
Positive fair value of financial derivatives .....	678,955	-	-	59,372	-	1,478	<b>739,805</b>
Payables.....	2,024,467	45,545	98,511	868,044	6,822	3,828,848	<b>6,872,237</b>
Negative fair value of financial derivatives .....	417,558	-	-	594	-	1,084	<b>419,236</b>
Subordinated loan .....	3,948,645	-	-	-	-	-	<b>3,948,645</b>
Guarantees issued .....	203,139	-	-	-	-	36,617	<b>239,756</b>
Guarantees received.....	52,293	337,000	-	-	-	453,456	<b>842,749</b>
Nominal values of financial derivatives - off-balance sheet receivables.....	65,745,048	-	-	3,180,657	-	1,387,282	<b>70,312,987</b>
Nominal values of financial derivatives - off-balance sheet payables.....	65,805,005	-	-	3,178,268	-	1,375,442	<b>70,358,715</b>
Provided irrevocable loan commitments .....	987,300	-	-	-	10,575	4,417	<b>1,002,292</b>
Interest income .....	54,072	447	10,661	60,811	3,215	3,607	<b>132,813</b>
Interest expense .....	(32,060)	(4,945)	(311)	(3,423)	(46)	(188,465)	<b>(229,250)</b>
Fee and commission income .....	10,501	28	67	2,830	-	7,000	<b>20,426</b>
Fee and commission expense.....	(567)	-	-	-	-	(32,829)	<b>(33,396)</b>
Net profit or loss on financial operations.....	(83,989)	-	-	(36,416)	-	29,762	<b>(90,643)</b>
General administrative expenses.....	(130,029)	-	(150)	(5)	(165,127)	(13,597)	<b>(308,908)</b>
Other operating income, net.....	(18,002)	-	12,785	9,736	-	2,714	<b>7,233</b>

Source: Annual Report 2013



31 December 2012 (CZK thousand)	Parent companies	Entities with substantial influence over the Bank	Subsidi- aries	Associates	Joint - ventures	Board of Directors, Supervisory Board and other managers	Other related parties	CZK thousand
				(CZK thousand)				
Receivables.....	688,739	300,219	276,094	122,004	-	102,356	311,099	<b>1,800,511</b>
Positive fair value of financial derivatives....	801,832	-	-	96,652	-	-	353	<b>898,837</b>
Payables.....	1,915,383	40,466	389,612	582,253	639	53,169	2,783,255	<b>5,764,777</b>
Negative fair value of financial derivatives....	325,893	-	-	786	-	-	4,192	<b>330,871</b>
Subordinated loan .....	1,230,741	-	-	-	-	-	2,556,566	<b>3,787,307</b>
Guarantees issued .....	63,457	-	-	10,000	-	-	41,649	<b>115,106</b>
Guarantees received ...	52,293	330,000	-	-	-	-	43,253	<b>425,546</b>
Nominal values of financial derivatives - off- balance sheet receivables.....	45,125,219	-	-	3,301,525	-	-	1,520,515	<b>49,947,259</b>
Nominal values of financial derivatives - off- balance sheet payables.....	45,117,036	-	-	3,302,315	-	-	1,478,583	<b>49,897,934</b>
Provided irrevocable loan commitments.....	512,500	-	-	836	-	9,354	-	<b>522,690</b>
Interest income .....	3,340	1,233	17,644	30,483	-	2,528	5,135	<b>60,363</b>
Interest expense .....	(978)	(23,505)	(135)	54,051	-	(357)	(230,578)	<b>(201,502)</b>
Fee and commission income .....	17,582	27	51	5,152	32	-	7,246	<b>30,090</b>
Fee and commission expense .....	(351)	-	-	-	-	-	(33,710)	<b>(34,061)</b>
Net profit or loss on financial operations.....	206,563	-	-	20,909	-	-	35,337	<b>262,809</b>
General administrative expenses .....	(144,191)	-	(9,953)	(14)	-	(148,004)	(13,437)	<b>(315,599)</b>
Other operating income, net .....	894	-	-	14,891	-	-	2,209	<b>17,994</b>

Source: Annual Report 2012

The Issuer is currently in very advanced stages of the process of preparing and implementing another intra-group financing transaction between the Issuer and RBI. This transaction would entail issuance by the Issuer of up to EUR 50,000,000 perpetual and deeply subordinated notes to RBI. It is envisaged that these notes, once issued, would have all necessary features (including non-viability or write-down and write-up mechanisms) in order to qualify as capital instruments that are eligible as Additional Tier 1 instruments within the meaning of and for the purposes of Article 52 *et seq.* of the Regulation (EU) No 575/2013 or the CRR (as defined further in this Base Prospectus) as well as various other rules and regulations related to or stemming from the CRD IV (as also defined further in this Base Prospectus). The CNB, which is the Czech banking and financial sector regulator, will have the ultimate say on whether these notes will achieve the envisaged treatment as Additional Tier 1 instruments and will be recognized as such for the Issuer's capital adequacy and other purposes.

For further information on related party transactions of the Group, see Note 42 to the consolidated financial statements as of and for the year ended 31 December 2013, Note 42 to the consolidated financial statements as of and for the year ended 31 December 2012 and Note 18 to the consolidated interim financial statements as of and for the six months ended 30 June 2014.

## CZECH BANKING REGULATION

### Banking Regulation and Supervision

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

The structure of the regulation and supervision of the Czech banking system is set forth in a number of statutes, including Czech Act No. 6/1993 Coll., on the Czech National Bank, as amended (the **Czech CNB Act**), the Czech Banking Act, Czech Act No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended (the **Czech Capital Market Act**), Czech Act No. 15/1998 Coll., on Supervision in the Capital Market Area and Amendment of Certain Other Acts, as amended (the **Czech Capital Market Supervision Act**), Czech Act No. 253/2008 Coll., the Act on Some Measures against Money-Laundering and Financing of Terrorism of the Czech Republic, as amended (the **Czech Anti-Money-Laundering Act**), Czech Act No. 284/2009 Coll., on Payment Services, as amended (the **Czech Payment Services Act**), the Czech Bonds Act, the Czech Act No. 93/2009 Coll., on Auditors, as amended (the **Czech Auditors Act**), Czech Act No. 377/2005 Coll., on Supplementary Supervision over Banks, Credit Unions, Electronic Money Institutions, Insurance Companies and Investment Firms in Financial Conglomerates and amending some other acts (the **Czech Financial Conglomerates Act**), and certain regulations issued by the CNB (known as provisions and decrees), as well as directly applicable EU laws and regulations.

### 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 and foreign exchange sectors, credit unions and electronic money institutions). The CNB also carries out the traditional activities of a central bank including fostering price stability through monetary policy.

As a general rule, the CNB exercises banking supervision over Czech Banks (including subsidiaries of foreign banks incorporated under Czech law) and Czech branches of banks established outside the EEA. Banks established in EEA countries other than the Czech Republic conducting their banking business in the Czech Republic through a Czech branch passported in the Czech Republic, or without establishment of a Czech branch on the basis of freedom of cross-border provision of services, are primarily subject to supervision by their home country regulators, although some limited supervision is carried out by the CNB.

Under the Czech CNB Act and the Czech Banking Act, the CNB is afforded an array of powers to regulate and supervise the Czech banking system. These powers include the power to: (i) grant banking licences; (ii) issue regulations containing the terms and conditions of entry into the banking sector and setting prudential rules for specific areas of banking business; (iii) monitor the activities of banks, foreign bank branches and credit unions; (iv) perform examinations (inspections) in banks, including foreign bank branches and credit unions; (v) grant prior consents to certain activities involving a bank, including the acquisition of a participation in a bank, the disposal of a bank's business, the merger or winding up of a bank, or the termination of a bank's activities; and (vi) impose remedial measures and penalties for shortcomings detected in banks' activities (see "*Czech Banking Regulation – Remedial Measures and Penalties*").

### Licensing

As a general rule, only companies that have been granted a banking licence by the CNB in compliance with the Czech Banking Act are permitted to operate in the Czech Republic as a bank. Certain exceptions apply to foreign banks established within the EEA which intend to provide banking services in the Czech Republic through their Czech branch or on the basis of the freedom of cross-border provision of services. Licences are issued for an indefinite period of time and contain a list of the activities that the bank is permitted to

perform. In some cases, licences also contain conditions the bank must meet prior to commencing a particular permitted activity or while performing that activity. Some of the activities listed in the licence, such as the provision of investment services and certain custodian services, may be conditional upon the receipt of a special authorisation.

### **Activities Requiring Prior Consent of or Notification to CNB**

In a number of cases, the Czech Banking Act requires banks or other legal or natural persons to apply for consent from the CNB or to notify the CNB before executing particular transactions or operations.

Prior consent of the CNB is required, without limitation: (i) where a person proposes to acquire or increase a direct or indirect participation in a Czech bank so that it would reach or exceed 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of the registered capital or of the voting rights, or so that the acquirer would become the bank's controlling entity or have the possibility to exercise a significant influence over the bank's management (this duty also applies to persons acting in concert); (ii) in order to enter into an agreement pursuant to which the business of the bank or a part thereof is disposed of; (iii) in order to merge or divide the bank or to transfer its assets to its shareholder; (iv) for a resolution of the General Meeting of shareholders to wind up the bank or cease to carry out any activity for which a licence is required; and (v) in order to reduce the capital of the bank, unless the capital is being reduced to cover a loss.

A prior notification to the CNB is required, without limitation: (i) where a person proposes to completely dispose of or reduce a direct or indirect participation in a bank so that it would fall below 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of the registered capital or of the voting rights, or so that the acquirer would cease to be the bank's controlling entity or cease to have the possibility of exercising a significant influence over the bank's management (this duty also applies to persons acting in concert); (ii) of most changes proposed to a bank's Articles of Association; (iii) of proposed personnel changes in the Board of Directors and senior management of the bank; (iv) of the bank's intent to establish a legal entity (subsidiary), branch or representation abroad or to provide services abroad without establishing a branch, (v) of the bank having acquired a participation in another legal entity and (vi) of the identity of a bank's auditor.

### **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 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%; (ii) a Tier 1 ratio of 6%; and (iii) a total capital ratio of 8%, 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%, the share that has to be of the highest quality (i.e. CET 1) increases from 2% to 4.5% (with respective transitional provisions).

The new rules established new capital buffers: the capital conservation buffer, the countercyclical buffer, the systemic risk buffer, the global systemic institutions buffer and the other systemic institutions buffer. 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.

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 internal ratings-based approach across all its segments. The IRB is used for Raiffeisen Group on a consolidated level, for Issuer on an unconsolidated basis. In respect of operational risk, the Issuer currently applies the standardised approach to calculating capital adequacy and it intends to implement the advanced (AMA) approach in the future.

Apart from the prudential requirements on own funds/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/regulatory requirements not only on an individual level, but also on a group level (i.e. by the credit institution's group; prudential consolidation).

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.

## **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 which simultaneously fulfils the following criteria:

1. the group is headed by: (i) a regulated person, such as a bank, credit institution, insurance company or securities broker, which either: (a) controls a person in the financial sector; or (b) is a person who exercises a significant influence on a person in the financial sector; or (c) is a person, 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 and who controls at least one regulated person, provided the activity of the group is performed predominantly in the financial sector;

2. at least one person in the group belongs to the insurance sector and at least one person in the group belongs to the banking sector or investment services sector; and
3. the activities in the insurance sector of the group in their aggregate and the activities in the banking sector and investment services sector of the group 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, neither the Issuer nor any member of the Raiffeisen Group is considered a regulated person subject to supplementary supervision at the level of financial conglomerate. This status is not expected to change as a result of this Programme being established by the Issuer or the issue of the Covered Bonds under the Programme.

### **Minimum Reserves**

Under the Act on CNB, the CNB may require banks, foreign bank branches and credit unions to hold a pre-specified amount of liquid funds, known as minimum required reserves, in accounts with the CNB. The required minimum reserves may not exceed 30 per cent. of the total liabilities of the institution required to hold such reserves, net of its liabilities owed to other such institutions. Currently, the CNB requires minimum reserves to amount to at least 2 per cent. of the aggregate of the following liabilities to entities other than banks or foreign banks with a maturity of up to two years: (i) customer deposits; (ii) loans accepted from customers; (iii) holdings by non-banking entities of outstanding non-marketable securities; and (iv) holdings by non-banking entities of other outstanding debt securities. Minimum reserves are calculated from liabilities denominated in CZK as well as other currencies. Failure by a bank or a branch of a foreign bank established outside the EEA to meet minimum reserve requirements exposes the bank to interest penalties.

### **Liquidity Rules**

Under the Czech Banking Act and the Prudential Rules Decree, banks operating in the Czech Republic are required to monitor and manage liquidity risk. A bank must establish a strategy for the management of liquidity risks and monitor liquidity on a daily basis for each individual major currency in which it deals, and on the aggregate level for all currencies. Banks must also maintain a stable and diversified funding portfolio and manage relationships with their principal creditors. For further details on how the Issuer manages liquidity risk, see "*Description of the Issuer – Risk Management – Types of Risk Managed – Liquidity Risk*".

## **Classification of Receivables and Impairment**

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks and branches of foreign banks established outside the EEA are required to classify their receivables (especially those originating from grants of credit) according to the likelihood of default on such receivables into the following classes: (i) standard receivables; (ii) watched receivables; (iii) substandard receivables; (iv) doubtful receivables; and (v) loss-making receivables. Following such classification, Czech banks and branches of foreign banks must impair the value of the receivables using (i) discounted cash flow methods, (ii) coefficients specified in the Prudential Rules Decree or (iii) statistical models.

## **Large Exposures**

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks and branches of foreign banks established outside the EEA are required to comply with large exposure rules established by the CNB that limit the amount of their assets and off-balance-sheet items in respect of a person or economically connected group of persons.

As a general rule, investment portfolio exposure to a person or economically connected group of persons may not exceed 25 per cent. of the aggregate of original and additional capital reduced by deductible items (see "*Czech Banking Regulation – Capital Adequacy Requirements*"). Nevertheless, investment portfolio exposure to a person or economically connected group of persons may not exceed 20 per cent. of the sum of original and additional capital reduced by deductible items, if the person or member of the economically connected group of persons is (i) the parent or a subsidiary of the bank, or a subsidiary of the parent undertaking, or (ii) another person with certain specified close links to the bank. In addition, the aggregate of large exposures to persons or economically connected groups of persons may not exceed 800 per cent. of the sum of original and additional capital reduced by deductible items. For the purposes of these rules, a large exposure to a person or economically connected group of persons is deemed to exist if the exposure value is equal to or higher than 10 per cent. of the sum of original and additional capital reduced by deductible items.

As a general rule, trading portfolio exposure to a person or economically connected group of persons may not exceed 500 per cent. of the sum of original and additional capital reduced by deductible items.

## **Qualified Participations**

The Czech Banking Act defines a qualified participation as a direct or indirect participation in an entity's capital or voting rights, or the sum thereof, which represents 10 per cent. or more of the registered capital or voting rights of such entity, or which makes it possible to exercise significant influence over the management of such entity. Under the Czech Banking Act, a qualified participation held by a bank or its consolidated group in a non-financial institution (i.e., an entity that is neither a Czech bank, a foreign bank, a financial institution nor an ancillary services undertaking) may not exceed (i) in respect of a single legal entity 15 per cent. of the bank's or the consolidated group's capital and (ii) in respect of all legal entities a total of 60 per cent. of the bank's or the consolidated group's capital. These limits do not apply in specific limited circumstances.

Under the Czech Banking Act, a bank may acquire a participation or share in another legal entity, incorporate another legal entity or participate in its incorporation only if: (a) the bank does not become a participant with unlimited liability; (b) the legal entity is not a person having a qualified participation in such bank (with some exemptions stated by the Czech Banking Act); (c) there are no legal or other obstacles to the provision of information by such person to the bank, and for provision of such information by the bank for the purpose of its supervision and the transparency of the consolidated group of which the bank is a part is preserved and the close link within the scope of the consolidated group does not prevent the supervision of the bank's activity; or (d) the investment is in compliance with the total strategy of the bank and the bank controls the risks connected with such investment, in particular, in light of the eventual obligations of the bank arising therefrom.

## **Disclosure of Information**

Banks are required to disclose and file with the CNB a number of reports, including quarterly and annual reports. The form of the reports is established by various CNB decrees. The annual report must contain, among other things, the bank's financial statements and the external auditor's report. Since 2002, the CNB has had the possibility of requiring that the internal management and control system be assessed by statutory auditors. The CNB reviews these reports and monitors whether regulations on liquidity, large exposures, capital adequacy, capital, qualified participations and other matters have been observed. Banks are also required to introduce effective mechanisms for dealing with customer complaints and to inform customers about these mechanisms in their premises. Banks must also disclose on their website basic information about themselves, their shareholder structure, the structure of the consolidated group to which they belong, and their activities and financial situation. Certain banks are also obliged to disclose information on compliance with the prudential rules.

## **Deposit Insurance**

Primary deposits with Czech banks are insured with the Deposit Insurance Fund established pursuant to the Czech Banking Act. Subject to certain exceptions, all Czech banks and branches of foreign banks outside the EEA must participate in this deposit insurance scheme and contribute to the Deposit Insurance Fund. The Deposit Insurance Fund is financed from contributions from banks, investment yields on its funds, loans, repayable financial assistance, and proceeds from finalised insolvency and liquidation proceedings.

The condition for insuring each deposit is that the person making the deposit is duly identified, as follows:

- in the case of individuals, the deposit must be identified by the individual's name, surname, personal identification number or date of birth and address; and
- in the case of legal entities, the deposit must be identified by the legal entity's name, registered seat and, in the case of Czech legal entities, their identification number.

Neither individuals nor legal entities need to apply for deposit insurance in order for their deposits to be covered. A deposit kept at a bank, building society or co-operative savings bank is insured automatically by operation of law.

Subject to applicable limitations, deposit insurance covers all claims arising from deposits held in Czech Koruna or in other currencies registered as credit balances on accounts or deposit books, or evidenced by a certificate of deposit, deposit slip or another comparable document, and any interest accrued on such deposits. The deposit insurance does not cover deposit claims of banks, foreign banks, financial institutions, health insurance companies, state funds and certain other entities, such as members of the management or certain significant shareholders of the bank. Claims from subordinated debt and bills of exchange and other securities are also not covered by deposit insurance.

The level of insurance coverage is calculated by aggregating the insured deposits of each depositor with the particular bank. Since 1 January 2011, the amount that can be paid to a depositor under the scheme is equal to 100 per cent. of the aggregate of its deposits and is capped at an amount of EUR 100,000 per depositor per bank. For this purpose, the amounts paid in respect of deposits on joint accounts are proportionately allocated to each joint account holder. The quarterly contribution of a Czech Bank to the Deposit Insurance Fund is currently set at 0.04 per cent. of the average amount of insured deposit claims during the immediately preceding calendar quarter, including interest accrued on such deposits. The quarterly contribution of a building society to the Deposit Insurance Fund is currently 0.02 per cent. of the average amount of insured deposit claims during the previous calendar quarter, including interest accrued to each building savings participant in the previous year. The Issuer, being a Czech Bank, currently pays the quarterly contribution to the Deposit Insurance Fund in the amount equal to 0.04 per cent. of the average amount of insured deposit claims (including any accrued interest) during the immediately preceding calendar quarter.

## **Remedial Measures and Penalties**

Under Czech law, banks are obliged to carry out their business in a prudential manner, in particular in a manner that does not impair the interests of depositors in respect of recoverability of their interests or endanger the bank's safety and soundness. Banks are also required to observe all applicable legal rules and regulations, including the terms and conditions stipulated in their licence. If the CNB detects any shortcomings in the activities of the bank, it is authorised, among other things to: (i) require the bank to remedy the situation within a specified period by, for example, restricting some of the bank's activities, replacing persons in the bank's management or the bank's supervisory board, or creating adequate provisions and reserves; (ii) change the bank's licence by excluding or restricting some of the activities listed in the bank's licence; (iii) order an extraordinary audit at the expense of the bank; (iv) impose a fine of up to CZK 50 million; (v) require a reduction of the bank's capital to cover any loss (to the extent that such loss is not covered by reserve funds and other funds), provided that the loss exceeds 20 per cent. of the bank's equity; (vi) impose forced administration if the stability of the entire banking sector is endangered; and (vii) revoke the bank's licence where serious shortcomings persist or when the bank is insolvent. The CNB is also authorised to apply certain other measures, which are linked mainly to capital adequacy (see "*Czech Banking Regulation – Capital Adequacy Requirements*").

Additionally, the CNB is authorised to take measures consisting of suspending the rights of shareholders who acquire or increase a qualifying holding in a bank without the CNB's consent or who operate to the detriment of the sound and prudent management of the bank.

## **Consolidated Supervision**

Under the Czech Banking Act and the Prudential Rules Decree, Czech banks, branches of foreign banks established outside the EEA and other entities forming consolidated groups are also subject to supervision on a consolidated basis, which includes monitoring and regulating the risks to which Czech banks and branches of foreign banks established outside the EEA are exposed due to their membership in a consolidated group.

As a general rule, consolidated groups controlled by a bank or financial holding entity seated in other EEA Member States are not subject to supervision by the CNB on a consolidated basis.

The consolidated groups subject to supervision by the CNB on a consolidated basis are mainly obliged to comply with: (i) the requirements for the internal management and control system; (ii) the rules for capital requirements; (iii) the large exposure rules; (iv) the restrictions on qualified participation; and (v) the rules for disclosure of information. When exercising supervision on a consolidated basis, the CNB co-operates with authorities responsible for supervising banks and financial institutions in other countries, and is entitled to exchange information with them.



## MORTGAGE LOANS AND THEIR REGULATORY FRAMEWORK

*This section contains selected information on certain aspects of the regulation of mortgage loans in the Czech Republic. The information in this section is intended to provide a brief overview of the regulation of mortgage loans in the Czech Republic which affects the Issuer, the Raiffeisen Group or certain of its members, and it is not intended to provide a comprehensive or complete description of regulation of mortgage loans in the Czech Republic.*

### **Mortgage Bank as Pledgee**

The Issuer qualifies as a mortgage bank which, as the mortgagee, enjoys enhanced protection with regard to the receivables or parts of those receivables under Mortgage Loans which constitute Ordinary Cover Assets included in the Cover Pool used to cover the obligations of the Issuer from the Czech Covered Bonds (i.e., their aggregate nominal value and the value of the proportionate yield). Where real property is sold by way of judicial auction, the receivables of the Issuer as a mortgage bank (or as the mortgagee) will be satisfied in priority to any other receivables of all other creditors and shall be satisfied immediately following only the deduction of the costs associated with the foreclosure auctions.

Since 1 May 2000, a creditor whose claim is secured by a mortgage over real property does not need to resort to the sale of that property by way of judicial auction even in cases where the owner of the real property disagrees with the sale of the real property. According to Czech Act No. 26/2000 Coll., on Public Auctions, (the **Czech Public Auctions Act**), the mortgagee may propose the implementation of an involuntary public auction, provided that the receivable has been confirmed by an enforceable court decision, enforceable arbitral decision or was documented by way of an enforceable notarial or executor's deed, which contains the particulars prescribed by applicable law. If the mortgagee provides an affidavit in the form of a notarial deed that he has an unsettled claim against the debtor, which is not in the process of being settled, an involuntary auction can be implemented even if the mortgage over the real property was inscribed or registered in the Czech Real Estate Register (in Czech, *katastr nemovitostí*) prior to 1 May 2000.

An estimate of the value of the auctioned real property must be prepared in the form of an expert opinion and must not be older than six months as of the date of the auction. Information, the publication of which is required by law, or information published voluntarily by the auction participants is publicly accessible at a designated website.

From the moment when the mortgagor of the real property receives written notice from the mortgagee of its intention to enforce the rights arising from the mortgage any legal steps undertaken by the mortgagor lead to the disposal, encumbrance or leasing of the mortgaged property or to the creation of new obligations that decrease the value of the mortgaged property or limit the ability to dispose of the mortgaged property are void. This limitation does not apply in cases where the object of the auction has not been auctioned off or if the auction was nullified and a replacement auction is not scheduled or if the auctioneer cancelled the auction or if the auction was declared null and void.

After deducting the costs associated with the auction from its proceeds, claims of the creditors are satisfied in the following order: (i) claims secured by a lien by which the law affords preferential satisfaction regardless of their priority among the claims, and claims secured by a possessory lien; (ii) claims based on a Mortgage Loan covering the obligations arising from Czech Covered Bonds (i.e., their aggregate nominal value and the value of the proportionate yield); (iii) claims secured by a mortgage or by a restriction on the transfer of real property (where more of these mortgages are attached to the object of the auction such shall be satisfied according to the order of their origination); and (iv) claims that constitute taxes, fees, public health insurance, social security insurance and contributions to the state employment policy, if these became due in the last three years prior to the auction and have been filed by the authorised auction creditors (where more such claims are filed by the auction creditors, such claims shall be satisfied proportionally).

Since 1 January 2014, wide-reaching reform of Czech civil law came into effect. Among other changes, additional methods of security enforcement have been introduced (without affecting the public auction process and priority of the receivables of the Issuer as a mortgage bank in such process described above. A secured creditor and the debtor can now, in certain situations, agree on a forfeitable pledge giving the creditor an option, in case of a payment default, to become the owner of the pledged assets, provided that the price of the assets at the moment of default is fairly determined. A secured creditor and the debtor can now also agree that the secured creditor will have the option to enforce security by way of a direct sale of the secured assets, without recourse to courts or public auction outlined above.

If the borrower under a Mortgage Loan is declared insolvent, the Issuer as a mortgage bank (or as the mortgagee) will qualify as a secured creditor who is entitled to have its claim satisfied from the borrower's general insolvency estate at any time during the bankruptcy proceedings from the proceeds of the sale of the secured asset (subject to statutory deductions). The priority of competing security interests over the same asset is in principle determined on the basis of the date when it was inscribed into the Czech Real Property Register.

### **The Mortgage Code of Conduct**

The Issuer has acceded to the Mortgage Code of Conduct created under the auspices of the European Commission (the **Code**). Under the Code, the Issuer pledged itself to a transparent approach and to the adequate disclosure of information concerning mortgage loans.

The Code is one of a number of pan-European attempts to establish voluntary rules for the granting of mortgage loans. The Code forms 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. In January 2006, the Issuer became the first domestic bank to approve the accession to the Code and the relevant criteria for granting mortgage loans implemented by the Issuer surpass the minimum standards set by the Code.

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

#### ***Housing market***

As of March 2011, there are 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.

#### ***State housing assistance programmes***

The state of the Czech Republic is no longer exercising the function of an investor in housing and does not own housing stock. However, at the same time, it respects the particularities of the housing market, which

necessitate a certain degree of state intervention. Financial intervention by the state is concentrated into several basic areas such as promoting the construction of rental housing and technical infrastructure, support for the repair of housing stock and the provision of state loans for repairs, modernisation and expansion of the housing stock. Implementation of support for housing is carried out primarily through the 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 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 housing called “Panel 2013”.
- Loans for the purpose of repairs and modernization of housing for persons under 36 years of age.
- Aid related to floods – low-interest loans and grants for amelioration of the consequences of floods.
- Loans for the purpose of construction of rental housing.
- Guarantees for the repayment of loans for the purpose of construction of rental housing.
- Support to municipalities.
- Support for development of disadvantaged municipal zones.

Support in the area of housing financed by the Ministry of the Environment through the programme "Zelená úsporám" (Green for Savings), a grant programme funded by the sale of emission allowances for the support of renewable resources and for energy saving, including the following aspects:

- Saving energy on heating.
- Support for buildings of the passive energy standard.
- Use of renewable resources for electricity for domestic heating and for heating water.

***Allowances for mortgage loans for persons under 36 years of age***

The Czech Government Decree No. 249/2002 Coll., on terms for allowances for mortgage loans to persons of under 36 years of age, defines the conditions for granting allowances for mortgage loans to persons under

36 years of age from the state budget for the acquisition of certain types of housing on the territory of the Czech Republic.

In the Czech Republic over a dozen entities that currently operate in the mortgage market have obtained the authorisation to operate as mortgage banks. The main mortgage lenders, in addition to the Issuer, are Komerční Banka, a.s., Česká spořitelna, a.s., Československá obchodní Banka, a.s., UniCredit Bank Czech Republic, a.s., Hypoteční Banka a.s., GE Money Bank, a.s., LBBW Bank CZ a.s. and Wüstenrot hypoteční Banka, a.s..

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

In the medium term, if the Czech Republic can succeed in overcoming the consequences of the economic crisis commencing in 2008 and start-up the economic growth, including the growth in funding of housing needs, combined with the Issuer-specific factors such as the reorganisation and transformation of the loan portfolio, the Issuer expects that there should be come 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.

### **Types of Loans and other Products Provided**

The mortgage loans are provided by the Issuer for the purpose of (i) construction or purchase of the property, (ii) purchase of the interests in the property, (iii) reconstruction, modernisation and repairs of the property and (iv) the settlement of the loan or credit used for the investment in the property.

Properties, for which the Issuer provides mortgage loans, include family houses, apartment buildings, dwelling units and building plots. Investments in commercial properties are provided to natural persons only in exceptional cases.

Within the range of mortgages which the Issuer offers to its clients, the basic mortgage is the "*Klasik*" mortgage loan. In the case of the "*Klasik*" mortgage loan the disbursement of the loan amount and the annuity payments are optimised. The loan is provided for up to 100 per cent. of the Mortgaged Property Value of the relevant Mortgaged Property securing the loan but only 70 per cent. of this Mortgaged Property Value is included in the Issuer's Cover Pool. As in case of other mortgage products, clients can choose a fixed interest rate for 1 to 7, 10 or 15 years or float rate dependent on PRIBOR 1M with a loan maturity of 5-30 years. Under the "*Klasik Offset Mortgage*", the Issuer further offers its clients an option to offset their savings against the unpaid principal of the mortgage loan.

The "*Profit*" mortgage loan was developed for those clients who are interested in investing in properties as a source of income and thereby securing a stable cash flow in the future, which is not so dependant on the employment record of the owner. The "*Profit*" mortgage loan is provided for up to 70 per cent. of the loan-to-value ratio (LTV) meaning that this loan cannot exceed 70 per cent. of the Mortgaged Property Value of the relevant Mortgaged Property securing the loan.

The "*Univerzál American Mortgage*" is a mortgage loan with no specified purpose. The loan maturity is 20 years; the loan is provided for up to 70 per cent. LTV. The borrower under this loan must at the same time be the owner of the relevant Mortgaged Property securing the loan.

In the case of the "*EQUI*" mortgage loan the applicants do not have to document or prove their income in the standard form, but their income can be declared in the form of an affidavit. This loan is provided for up to 50 per cent. of the LTV; the maximum loan maturity is 20 years.

The Issuer is further dealing with clients who meet the requirements of the Czech Government Decree No. 244/1995 Sb. and receive state financial support for interest payments on a mortgage loan. This type of the state aid may be paid for a maximum of 20 years. Allowances for interest payments on a mortgage loan for

purchasing an older property have been granted on continuous basis to help support young people of up to 36 years of age in accordance with the Government Decree No 249/2002 Coll. since 2002.

A unique feature in the product portfolio of the Issuer is the "*Variable Mortgage*". Under this loan, the client obtains a credit limit for an agreed period. The clients are then free to regulate and adjust any payments and drawdowns under the loan according to their actual needs. The loan was awarded two Bronze Crowns in the "Zlatá koruna" (Gold Crown) competition for financial products in 2008 and, in 2009, its variant which binds the borrower to use the loan for a specific purpose was awarded the Golden Crown as the best product in the mortgage category. In 2010 the product was awarded the Silver Crown. This loan is unique on the Czech market.

### **Lending Business Rules**

The Issuer has a set of rules that governs the policy of credit exposure and the activities of individual departments in the Issuer's management. At the same time procedures, which determine the implementation of the individual operations throughout the entire lending process, have been approved. In the organisational structure of the Issuer, the actual trading activities are strictly separated from the activities for the credit approval and lending processes as well as from the activities for risk monitoring processes of the Issuer in order to reduce the credit risk.

### **Credit Management**

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

If the loan applicant is a natural person, the Issuer evaluates the level and structure of his revenue, and/or the income of any other co-applicants (family members) and their spending, including future spending to repay loans. The Issuer also evaluates the client, who is a natural person, in terms of personal risk factors. This can have the effect of a potential restriction of the terms of the credit engagement.

The client due diligence process, in the case of a business entity, includes an in-depth examination of the ownership structure, also including any significant relationships of the relevant client with a focus on the groups that are economically related to the company, evaluation of the client's status in the relevant sector (the principle competitors, latest developments, etc.). Particular attention is paid to off-balance sheet records (not only off-balance sheet liabilities, but also any liabilities that might result in the client's obligation to pay, deliver, or purchase, that could seriously impair the client's financial position) and cash flow.

The goal of the credit assessment process is to prepare a true picture of the client's status; this analysis attempts to uncover any known significantly negative factors within the company that could lead the company into serious financial distress.

### **Securing of Loans**

The Issuer secures its receivables or parts of those receivables under the Mortgage Loans by mortgages over the Mortgaged Property, which must meet the relevant statutory requirements.

In broad terms, the Issuer accepts not only land and 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 appraisal.

The Issuer developed its own methodology for the appraisal of this price and has established an organisational unit whose job it is to methodically guide the external appraisers and departments dealing with lending activity within the Issuer. The Issuer understands the current market price as the price that would be obtained when selling the same or similar properties, specifically in accordance with their status and location, as of the valuation date. The appraisal of the current market price is usually submitted to the Issuer by external collaborators which are appraisers who follow the methodology of the Issuer. Prior to making the appraisal, the appraiser is required to collect all the necessary documents relating to the properties, including photographs, and to carry out a local inspection in situ.

The Issuer's methodology, based on the fundamental principles of a market valuation of real property that is in line with recognised international standards, is generally used for valuations. An estimation of the current market price is generally based on the market values of other properties, i.e. material, yield and correlation, and in particular on local knowledge, market conditions, status and utilisation of the evaluated property.

This methodology determines the current market price and the "future value" (after the completion of unfinished work) or the "minimal value" (after demolition or dismantling prior to the reconstruction). Prudence is applied in analysing the available information during the valuation process.

### **Contractual Arrangements of the Loan Relationship**

Conditions for granting, utilisation and repayment of the loan between the Issuer and the clients are regulated in bilateral credit agreements, loan contracts or similar contracts constituting a mortgage loan. The essential preconditions for the utilisation of the loan are the creation or application for registration of a mortgage over the real property, insurance on the real property and the full restriction of transferability of the real property.

A loan for construction, reconstruction, modernisation or repair is utilised gradually, depending on the progress of the work and increase in the value of the collateral. Mortgage loans which are extended to purchase real properties, refinance the existing loans or credits or settle the ownership of the real property would typically be drawn by the borrower in a single lump-sum.

The interest rate in the contract for the provision of the mortgage loan is agreed as fixed, with a set duration, which, in accordance with the client's choice, can be established for one, three, five, ten or fifteen years.

Before the expiration of this stipulated period the Issuer will notify the client about the new interest rate (based on price developments in the financial markets). If the client does not agree with the change in the interest rate, the loan becomes due on the date of the expiration of the current interest period, unless the parties agree otherwise. The client is obliged to repay the mortgage loan in the form of monthly annuity payments. For selected products (e.g. mortgages combined with life insurance) a different payment model can be utilised, e.g. monthly payment of interest and repayment of principal at the end of the agreed maturity. The Issuer has the right to collect payments from a client's current account, which is established for this purpose.

The client is entitled to early repayment of the loan. In such case the Issuer can apply a fee for early repayment, in the amount defined in the tariffs of the Issuer. This does not apply in the event of early repayment on the date of the termination of the fixed interest rate period and in the event of early repayment of a consumer loan where the Issuer is only entitled to compensation for the cost of early repayment up to the limit pursuant to Czech Act No. 145/2010 of Coll., on Consumer Loans.

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 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.

## State Aid

On 6 December 2002, the Issuer and the Ministry of Regional Development concluded a Contract for Securing the Provision of State Financial Support for Mortgage Lending for Housing and Allowances for Mortgage Loans to Persons under 36 years, in Addition to Measures for the Control of Compliance with the Terms of this Support and these Allowances. This contract builds on previous contractual arrangements and defines the updated process conditions of the Issuer, its clients and government bodies in making claims and examining the conditions for the disbursement of the state aid.

## Issuer's Cover Pool in respect of the Czech Covered Bonds

### *Management of the Cover Pool in respect of the Czech Covered Bonds*

In accordance with the Czech Bonds Act, the Issuer maintains the Cover Register which contains a separate record of the Eligible Assets included in the Issuer's Cover Pool. The Eligible Assets included in the Cover Pool serve to provide cover in respect of the Czech Covered Bonds and the obligations of the Issuer arising from the Czech Covered Bonds (i.e., their aggregate nominal value and proportionate yield). To this effect, the Issuer adopted an internal regulation which governs the work-streams, procedures and the competences of individual departments in this area.

For the purposes of managing the Cover Pool the Issuer has adopted internal rules and regulations to comply with the applicable statutory requirements set out in the Czech Bonds Act and the CNB Measure.

The Issuer through its expert department continuously monitors and analyses the real estate market in the Czech Republic and development in real estate prices. The Issuer applies security coefficients when approving Mortgage Loans, which, according to the type of the Mortgaged Property, also take into account a possible drop in the Mortgaged Property Value over the long term. If, on the basis of a revaluation, the Mortgaged Property Value would decrease below the threshold needed for covering the respective Czech Covered Bonds, the Issuer excludes such a Mortgage Loan from the Cover Pool.

In the context of management of the Cover Pool the Issuer has defined limits that can be altered only by its Asset-Liability Committee (**ALCO**) based on analysis conducted by the Retail Loan Support Department. The ALCO Committee further decides about individual steps leading to an increase or decrease in the ratio of the Substitute Assets or alternatively to the repurchase of the relevant Czech Covered Bonds.

### *List of Issued and Outstanding Covered Bonds*

The following table lists information concerning the outstanding Czech and Euro Covered Bonds issued by the Issuer. The data are valid as of the date of the compilation of this Base Prospectus.

Name of the Czech Covered Bond issue	ISIN	Sum of issue (billion CZK)	Interest yield (% p.a.)	Issuance date	Date of the maturity of the bonds
Czech Covered bond Raiffeisenbank a.s 5,10/17 .....	CZ0002001670	5.500	5.10	12. 12. 2007	12. 12.2017
Czech Covered bond Raiffeisenbank a.s. 5,50/17 .....	CZ0002001928	2.000	5.50	20. 12. 2007	20. 12. 2017
Czech Covered bond eBanka, a.s. 5,30/14 .....	CZ0002001316	0.500	5.30	14. 11. 2007	14. 11. 2014
Czech Covered bond eBanka, a.s 6,00/17 .....	CZ0002001696	0.500	6.00	12. 12. 2007	12. 12. 2017
Czech Covered bond GARANTINVEST XVII 3,30/16 .....	CZ0002002314	0.50	3.30	4. 5. 2011	4. 5. 2016
Czech Covered bond GARANTINVEST XIX 3,20/16.....	CZ0002002363	0.50	3.20	27. 7. 2011	27. 7. 2016
Czech Covered bond Raiffeisenbank a.s. 3,00/16 .....	CZ0002002405	1	3	26.9.2011	26.9.2016

<b>Name of the Czech Covered Bond issue</b>	<b>ISIN</b>	<b>Sum of issue (billion CZK)</b>	<b>Interest yield (% p.a.)</b>	<b>Issuance date</b>	<b>Date of the maturity of the bonds</b>
Czech Covered bond GARANTINVEST XX 2,70/17 .....	CZ0002002439	0.285	2.7	11.1.2012	11.1.2017

<b>Name of the Euro Covered Bond issue</b>	<b>ISIN</b>	<b>Sum of issue (billion EUR)</b>	<b>Interest yield (% p.a.)</b>	<b>Issuance date</b>	<b>Date of the maturity of the bonds</b>
Euro Covered bond RBCZ VAR 5/12/2017.....	XS0861195369	0.500	6M Euribor plus 1.15 %	5.12.2012	5.12.2017



## TAXATION

The description below is of a general nature and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of any Covered Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective purchasers of any Covered Bonds are advised to consult their own tax advisers as to the tax consequences, under the tax laws of each country of which they are resident and the Czech Republic, of a purchase of the Covered Bonds including, without limitation, the consequences of receipt of interest and sale or redemption of the Covered Bonds or any interest therein.

### Taxation in the Czech Republic

#### *Withholding tax on Interest*

Since the Covered Bonds are issued 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 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) income 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 or from the sale of the Covered Bonds will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realised by a Non-Czech Holder, whether holding the Covered Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Covered Bonds is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), a Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying that income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder selling the Covered Bonds is for tax purposes a resident of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Covered Bonds.

Furthermore, please note that the income realised by a non-Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation - Withholding tax on Interest* above.

A Non-Czech Holder will not become or be deemed to become resident for tax purposes in the Czech Republic solely by reason of holding the Covered Bonds or through the execution, performance, delivery and/or enforcement of the Covered Bonds.

### ***Czech Holders: Holding and Sale***

Interest income on the Covered Bonds held by Czech Holders is subject to Czech corporate or personal income tax, as applicable, at flat rates of 19 per cent. or 15 per cent., respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognise the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general 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, at the above mentioned rates and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realised by Czech Holders who are individuals other than those mentioned in the preceding sentence is generally non-deductible, except where such loss is compensated by taxable gains on sales of other securities and the income from the sale of the Covered Bonds is not exempt from tax.

In the case of Czech Holders who are individuals, any gain derived from the sale of the Covered Bonds is exempt from Czech personal income tax if (i) the individual has held the Covered Bonds for more than 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) income of that individual from the sale of securities (including the Covered Bonds) does not exceed the amount of CZK 100,000.

Furthermore, please note that the income realised by a Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation - Withholding tax on Interest* above.

### ***Value Added Tax***

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Covered Bonds, or in respect of the payment of interest or principal under the Covered Bonds, or in respect of the transfer of the Covered Bonds.

### ***Other Taxes or Duties***

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Covered Bonds, save for disposition in certain cases upon donation or inheritance.

### **EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

## **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**).

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, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Covered Bonds.

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

Prospective holders of 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 and subject to the laws of 21 June 2005 as amended (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

Under the Laws implementing the EU Savings Directive on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of the EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate

benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident in, or established in, an EU Member State (other than Luxembourg) or one of the Territories, will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the competent Luxembourg fiscal authorities in order for such information to be communicated to competent tax authorities of the beneficiary's country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Laws would at present be subject to withholding tax of 35 per cent.

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

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

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (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 or for the benefit of an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the Laws) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Relibi Law would be subject to withholding tax of 10 per cent.

**Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA. The Issuer is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of any Covered Bonds characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date. If Covered Bonds are issued on or before the grandfathering date and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the Czech Republic have entered into an agreement (the **U.S.-Czech Republic IGA**) based largely on the Model 1 IGA. A law implementing the exchange of information under the U.S.-Czech Republic IGA has been prepared by the Czech Ministry of Finance and has yet to be passed by the Czech Parliament.

If the Issuer is treated as a Reporting FI pursuant to the U.S.-Czech Republic IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the implementing law will enter into force, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

Whilst the Covered Bonds are in global form and held within Euroclear and Clearstream, Luxembourg (together, the **ICSDs**), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer or any paying agent, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Covered Bonds will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds.**

## SUBSCRIPTION AND SALE

The Dealers have, in the Programme Agreement dated 27 November 2012, as amended and restated on 9 October 2014 (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 European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the

subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.



## **Czech Republic**

The Base Prospectus has not been and will not be approved by, or passported to, the CNB and it does not constitute an offering of the Covered Bonds to the public in the Czech Republic. No notification (other than notification to the CNB under Section 8a of Czech Act No. 15/1998 Coll., on Capital Markets Supervision, as amended, Section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended) has been made to, and no permit has been sought or obtained from, the CNB for (i) the issue of the Covered Bonds, (ii) accepting the Covered Bonds for trading on a regulated market in the Czech Republic, or (iii) public offering of the Covered Bonds in the Czech Republic.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) the Covered Bonds may only be offered in the Czech Republic under one or more exemptions from the obligation to publish a prospectus available under the Czech Capital Market Act), including but not limited to, offering and/or distribution: (i) addressed exclusively to qualified investors as defined in the Czech Capital Market Act, (ii) addressed to less than 150 natural or legal persons (other than qualified investors), or (iii) in circumstances where the minimum investment per investor is at least equal to €100,000 (or its equivalent in another currency);
- (b) this document may only be distributed in the Czech Republic in the above described circumstances and to the above defined investors, exclusively for their own use; and
- (c) the recipients of this document may not reproduce or distribute it or pass it on to any other person.

## **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 5 November 2012 and 15 September 2014 and by resolution of the Supervisory Board dated 9 November 2012.

### 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 has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Covered Bonds which are unlisted or to be listed 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 European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

### 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 2012 and 31 December 2013 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;
- (c) the unaudited semi-annual consolidated financial statements of the Issuer (with an English translation thereof) in respect of the period ended 30 June 2014;
- (d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (in each case with an English translation thereof), in each case together with any audit or review reports prepared in connection

therewith. The Issuer currently prepares unaudited consolidated interim accounts on a semi-annual basis;

- (e) the Programme Agreement, the Trust Deed, the Agency Agreement and the Asset Monitor Agreement;
- (f) a copy of this Base Prospectus;
- (g) 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 (in Czech, *forma*), yield and maturity of the relevant Covered Bonds.

Pursuant to Section 5 of the Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended, the place of issue and amount of relevant Series and/or Tranche, yield and maturity of the relevant Covered Bonds shall be notified to the CNB within 15 days from the date when the subscription period of the relevant Covered Bonds expires.

### **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 Raiffeisen Group since 30 June 2014 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2013.

### **Litigation**

Neither the Issuer nor any other member of the Raiffeisen Group 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 Raiffeisen Group.

## **Material Contracts**

The Issuer has not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which the Issuer or another member of the Raiffeisen Group 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 for each of the two financial years ended on 31 December 2012 and 31 December 2013.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

## **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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