



BASE PROSPECTUS

KOMERČNÍ BANKA, A.S.

(incorporated with limited liability in the Czech Republic)

EUR5,000,000,000

Mortgage Covered Bond (*hypoteční zástavní list*) Programme

Under this EUR5,000,000,000 Mortgage Covered Bond Programme (the **Programme**), Komerční banka, a.s., with its registered office at Prague 1, Na Příkopě 33 Descr. No. 969, Postal Code 114 07, Czech Republic, Identification No. 45317054, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. B 1360, LEI: IYKCAVNFR8QGF00HV840 (the **Issuer**) may from time to time issue mortgage covered bonds (in Czech, *hypoteční zástavní listy*) 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 **Mortgage Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). This prospectus comprises a base prospectus in respect of Mortgage Covered Bonds (the **Base Prospectus**) issued under the Programme for the purposes of Article 8(1) of Regulation (EU) 2017/1129 (the **Prospectus Regulation**).

Mortgage Covered Bonds will be issued in bearer or registered form (**Bearer Mortgage Covered Bonds** and **Registered Mortgage Covered Bonds**). The maximum aggregate nominal amount of all Mortgage Covered Bonds from time to time outstanding under the Programme (or, in relation to the nominal amount of any Mortgage Covered Bonds which are not denominated in euro, its equivalent in other currencies calculated as described in the Programme Agreement) will not exceed EUR5,000,000,000, subject to increase as described herein.

The Mortgage 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 Mortgage Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Mortgage Covered Bonds.

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

This Base Prospectus has been approved as a base prospectus by the *Commission de Surveillance du Secteur Financier* of the Grand Duchy of Luxembourg (the **CSSF**) as competent authority under the Prospectus Regulation. The CSSF only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the CSSF should not be considered as an endorsement of the Issuer or of the quality of the Mortgage Covered Bonds and 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 6(4) of the Luxembourg Law on Prospectuses for securities. Investors should make their own assessment as to the suitability of investing in the Mortgage Covered Bonds.

Application has also been made to the Luxembourg Stock Exchange for Mortgage 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 Mortgage Covered Bonds being **listed** (and all related references) shall mean that such Mortgage 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 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (**MiFID II**).

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Mortgage Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area (the EEA) or a specific segment of an EEA regulated market, to which only qualified investors (as defined in the Prospectus Regulation) can have access (in which case they shall not be offered or sold to non-qualified investors) or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) and/or Article 3(2) of the Prospectus Regulation. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid. The validity of this Base Prospectus ends upon expiration of 4 January 2022.

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

The Programme provides that Mortgage 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 Mortgage Covered Bonds and/or Mortgage Covered Bonds not admitted to trading on any market.

Fitch Ratings Ireland Ltd (**Fitch** or the **Rating Agency**) is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 of 16 September 2009 of the European Parliament and of the Council on Credit Rating Agencies (as amended) (the **CRA Regulation**). Fitch 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 Mortgage Covered Bonds issued under the Programme are expected to be assigned an "AAA" rating by Fitch. However, the Issuer may also issue Mortgage Covered Bonds which are unrated or rated by another rating agency. Where a Tranche of Mortgage 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 Mortgage 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.

Amounts payable on the Floating Rate Mortgage Covered Bonds (as defined below) will be calculated by reference, *inter alia*, to the London Interbank Offered Rate (**LIBOR**), which is currently provided by ICE Benchmark Administration Limited (**IBA**), to the Euro Interbank Offered Rate (**EURIBOR**), which is currently provided by European Money Markets Institute (**EMMI**), to the Prague Interbank Offered Rate (**PRIBOR**), which is currently provided by Czech Financial Benchmark Facility (**CFBF**), to Sterling Overnight Index Average (**SONIA**), which is currently provided by the Bank of England, to the Secured Overnight Financing Rate (**SOFR**), which is currently provided by the Federal Reserve Bank of New York, to the euro short-term rate (**€STR**), which is provided by the European Central Bank or other indices which are deemed benchmarks for the purposes of the Regulation (EU) 2016/1011 (the **Benchmark Regulation**) as specified in the applicable Final Terms. As at the date of this Base Prospectus, IBA, EMMI and CFBF are included in ESMA's register of administrators under Article 36 of the Benchmark Regulation.

The Mortgage 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, Mortgage 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 Mortgage Covered Bonds for a description of the manner in which Mortgage Covered Bonds will be issued. The Mortgage Covered Bonds are subject to certain restrictions on transfer, see Subscription and Sale.

Arranger

Société Générale
Corporate & Investment Banking

Dealers

Barclays
Komerční banka, a.s.

J.P. Morgan AG
Société Générale
Corporate & Investment Banking

The date of this Base Prospectus is 4 January 2021.

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IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Mortgage Covered Bonds issued under the Programme for the purposes of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of the Mortgage 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.

By approving this 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. No other person mentioned in this Base Prospectus, other than the Issuer, is responsible for the information given in this Base Prospectus and any supplement thereto. This Base Prospectus is to be read and construed in conjunction with all documents which are deemed to be incorporated in it by reference (see Documents Incorporated by Reference). This Base Prospectus shall be read and construed on the basis that those documents are incorporated and form part of this Base Prospectus.

Other than the relevant parts of the documents which are deemed to be incorporated by reference (see Documents Incorporated by Reference), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus and has not been scrutinised or approved by the CSSF.

Neither the Arranger nor the Dealers nor the Trustee (as defined below) nor their affiliates have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Trustee or their affiliates 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 or any of their affiliates 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 Mortgage Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Arranger, the Dealers or the Trustee or any of their affiliates.

Neither the Arranger, nor the Dealers, nor the Trustee nor their affiliates shall be responsible for any matter which is the subject of any statement, representation, warranty or covenant of the Issuer contained in the Mortgage Covered Bonds or any document entered into in connection therewith, or any other agreement or document relating to the Mortgage Covered Bonds or any document entered into in connection therewith, or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved.

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

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Mortgage Covered Bonds shall in any circumstances imply that the information contained in it concerning the Issuer is correct at any time subsequent to its date or that any other information supplied in connection with the Programme is correct as of

any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Trustee and their affiliates 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 Mortgage Covered Bonds of any information coming to their attention.

Where information has been sourced from a third party, the Issuer confirms that to the best of its knowledge this information has been accurately reproduced and that, so far as the Issuer is aware and able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Mortgage 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 Mortgage Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealers and the Trustee and their affiliates do not represent that this Base Prospectus may be lawfully distributed, or that any Mortgage Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers or the Trustee or any of their affiliates which is intended to permit a public offering of any Mortgage Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Mortgage 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 Mortgage 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 Mortgage Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Mortgage Covered Bonds in the United States, the EEA (including the Czech Republic), the United Kingdom (the **UK**) and Japan: see Subscription and Sale.

This Base Prospectus has been prepared on a basis that would permit an offer of Mortgage Covered Bonds with a denomination of at least EUR100,000 (or its equivalent in any other currency) or such Mortgage Covered Bonds that are to be admitted to trading only on a regulated market, or a specific segment of a regulated market, to which only qualified investors (as defined in the Prospectus Regulation) have access, i.e. only in circumstances where there is an exemption from the obligation under the Prospectus Regulation to publish a prospectus. As a result, any offer of Mortgage Covered Bonds in any Member State of the EEA (each, a **Relevant Member State**) or the UK must be made, pursuant to an exemption under the Prospectus Regulation, from the requirement to publish a prospectus for offers of Mortgage Covered Bonds. Accordingly, any person making or intending to make an offer of Mortgage Covered Bonds in that Relevant Member State or the UK may only do so in circumstances in which no obligation arises for the Issuer or any Dealer or any of its affiliates to publish a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Dealer nor any of its affiliates have authorised, nor do they authorise, the making of any offer of Mortgage Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer or any of their affiliates to publish or supplement a prospectus for such offer.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Mortgage Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Mortgage Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared, and therefore offering or selling the Mortgage Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance / target market – The Final Terms in respect of any Mortgage Covered Bonds will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Mortgage Covered Bonds and which channels for distribution of the Mortgage Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Mortgage Covered Bonds (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Mortgage Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purposes of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Mortgage Covered Bonds is a manufacturer in respect of such Mortgage Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Mortgage Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Mortgage Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Mortgage Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MiFIR product governance / target market – The Final Terms in respect of any Mortgage Covered Bonds will include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Mortgage Covered Bonds and which channels for distribution of the Mortgage Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Mortgage Covered Bonds (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Mortgage Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Mortgage Covered Bonds is a manufacturer in respect of such Mortgage Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as amended or modified, the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), unless otherwise stated in the Final Terms in respect of any Mortgage Covered Bonds, all Mortgage Covered Bonds shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

The Mortgage Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Mortgage 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 Mortgage Covered Bonds, the merits and risks of investing in the Mortgage 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 Mortgage Covered Bonds and the impact the Mortgage 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 Mortgage Covered Bonds, including Mortgage 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 Mortgage 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) Mortgage Covered Bonds are legal investments for it; (2) Mortgage Covered Bonds can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Mortgage Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Mortgage Covered Bonds under any applicable risk-based capital or similar rules.

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

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 215-218 of this Base Prospectus.

STABILISATION

In connection with the issue of any Tranche of Mortgage 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 Mortgage Covered Bonds or effect transactions with a view to supporting the market price of the Mortgage Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. 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 Mortgage Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the date on which the Issuer received the proceeds of the relevant Tranche of Mortgage Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Mortgage 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 conditions of any particular Tranche of Mortgage Covered Bonds, the applicable Final Terms.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004.

Words and expressions defined in Form of the Mortgage Covered Bonds and Terms and Conditions of the Mortgage Covered Bonds and, if not defined therein, in other parts of this Base Prospectus, shall have the same meanings in this overview.

Issuer: Komerční banka, a.s.

Issuer Legal Entity Identifier (LEI): IYKCAVNFR8QGF00HV840

Risk Factors: There are certain factors that may affect the Issuer's ability to fulfil its obligations under Mortgage 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 Mortgage Covered Bonds issued under the Programme. These risk factors are set out under Risk Factors on pages 20-53 below and include:

- (a) risks relating to treatment of the International Cover Pool (as defined below) in insolvency of the Issuer – including, in particular, a risk of a *Pari Passu Haircut* (as defined below);
- (b) currency risk – the Mortgage Loans in the International Cover Pool will be denominated in Czech Koruna;
- (c) risks relating to the Issuer's ability to fulfil its obligations under Mortgage 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 Mortgage Covered Bonds.

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

Arranger: Société Générale

Dealers: Barclays Bank Ireland PLC
J.P. Morgan AG
Komerční banka, a.s.
Société Générale

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

Certain Restrictions:

Each issue of Mortgage 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.

Mortgage Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the UK, 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:

BNY Mellon Corporate Trustee Services Limited

Principal Paying Agent:

The Bank of New York Mellon, London Branch

Registrar:

The Bank of New York Mellon SA/NV, Luxembourg Branch

Asset Monitor:

Deloitte Audit s.r.o. will act as asset monitor pursuant to the terms of an asset monitor agreement and the Czech Bonds Act (the **Asset Monitor**). The Asset Monitor will be required to carry out agreed-upon procedures in relation to the checks and calculations performed by the Issuer in accordance with the Czech Bonds Act and the CNB Decree (see General Description of Czech Legislation relating to Mortgage Covered Bonds below) and the Conditions (see Statutory Cover Tests and The International Cover Pool below).

Programme Size:

The maximum aggregate nominal amount of all Mortgage Covered Bonds from time to time outstanding under the Programme (or, in relation to the nominal amount of any Mortgage Covered Bonds which are not denominated in euro, its equivalent in other currencies calculated as described in the Programme Agreement) is EUR5,000,000,000 at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:

Mortgage Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:

Subject to any applicable legal or regulatory restrictions, Mortgage Covered Bonds may be denominated in any currency agreed between the Issuer and the relevant Dealer.

Maturities:

The Mortgage 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: Mortgage 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 Mortgage Covered Bonds: The Mortgage 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 Mortgage Covered Bonds. Registered Mortgage Covered Bonds will not be exchangeable for Bearer Mortgage Covered Bonds and vice versa.

Clearing Systems: Euroclear Bank SA/NV (Euroclear), Clearstream Banking, S.A. (Clearstream, Luxembourg) and/or, in relation to any Tranche of Mortgage Covered Bonds, any other clearing system as may be specified in the relevant Final Terms.

Fixed Rate Mortgage 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 Mortgage Covered Bonds: Floating Rate Mortgage 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 Mortgage 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 Mortgage Covered Bonds.

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

Interest on Floating Rate Mortgage 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.

If Floating Rate Mortgage Covered Bonds provide for a rate of interest (or any component thereof) to be determined by reference to a reference rate and "Reference Rate Replacement" is specified in the applicable Final Terms as being applicable, upon such reference rate ceasing to exist or be published or the occurrence of another Benchmark Event in respect of such reference rate, then the Issuer shall use reasonable endeavours to appoint and consult an Independent Adviser (as defined in the Terms and Conditions of the Mortgage Covered Bonds) with a view to the Issuer determining a successor or alternative reference rate for use in place of the original reference rate and in either case to determine an adjustment margin and changes to the Conditions, the Trust Deed and/or the Agency

Agreement (in each case acting in good faith and in a commercially reasonable manner). If the Issuer is unable to appoint and consult an Independent Adviser or, following consultation with an Independent Adviser so appointed, it fails to determine a successor or alternative reference rate (as applicable), then the Issuer (acting in good faith and in a commercially reasonable manner) is permitted to make such determinations itself. See Condition 4.2 (Interest on Floating Rate Mortgage Covered Bonds) for further information.

Zero Coupon Mortgage Covered Bonds:

Zero Coupon Mortgage Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms and will bear no interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Mortgage 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 Mortgage Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Mortgage Covered Bondholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

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

Extended Maturity Date:

An Extended Maturity Date applies to all Series of Mortgage Covered Bonds.

If the Issuer or the Covered Block Administrator has failed to redeem the Mortgage Covered Bonds of the Relevant Series in full on the Maturity Date or within 14 Business Days thereafter, the maturity of the principal amount outstanding of the Mortgage Covered Bonds of the Relevant Series will be automatically extended up to (and including) the date designated as Extended Maturity Date in the applicable Final Terms. In that event, the Issuer may, and if the CNB has appointed the Covered Block Administrator and to the extent there are sufficient monies available in the International Covered Block and it is permitted by the applicable law, the Covered Block Administrator shall, redeem all or any part of the principal amount outstanding of the Mortgage Covered Bonds on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date.

If the Issuer fails to redeem the relevant Mortgage Covered Bonds in full on the Maturity Date or within 14 Business Days thereafter, interest rates, interest periods and interest payments on the Mortgage 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 the Conditions.

The Mortgage Covered Bonds may for the purposes of the Programme be:

- (a) Fixed Rate Mortgage Covered Bonds, Floating Rate Mortgage Covered Bonds or Zero Coupon Mortgage Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date; and

- (b) Fixed Rate Mortgage Covered Bonds or Floating Rate Mortgage 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 Mortgage Covered Bonds which are Zero Coupon Mortgage Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date applies, 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 the Final Terms and the Conditions.

Denomination of Mortgage Covered Bonds:

The Mortgage 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 Mortgage 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 above, and save that the minimum denomination of each Mortgage Covered Bond will be €100,000 or, where it is to be admitted to trading only on a regulated market, or a specific segment of a regulated market, to which only qualified investors (as defined in the Prospectus Regulation) have access, €1,000 (or, if the Mortgage Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Mortgage Covered Bonds will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 7 (Taxation), unless such deduction is required by law. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 (Taxation), be required to pay additional amounts to cover the amounts so deducted.

All payments in respect of the Mortgage Covered Bonds will be made subject to any deduction or withholding required by FATCA, as provided in Condition 5.2 (Payments Subject to Fiscal and Other Laws) and no additional amounts will be paid to cover the amounts so deducted.

Negative Pledge:

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

Contractual Asset Cover Test:

The Issuer covenants to ensure that the Contractual Adjusted Aggregate Cover Pool Balance is an amount at least equal to 105% of all Debts.

For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, the breach constitutes an Issuer Event of Default, which means that while such breach is continuing, the Issuer must not issue any Czech Mortgage Covered Bonds (as defined below) which have the benefit of the International Cover Pool.

Status of the Mortgage Covered Bonds and the Issuer's Cover Pools:

The Mortgage 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 Czech Mortgage Covered Bonds are all instruments and/or securities issued by the Issuer as mortgage covered bonds pursuant to Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act, in each case covered by a cover pool, whether issued under and governed by Czech or foreign law and whether issued under the Programme (as the Mortgage Covered Bonds), the Local Covered Bond Programme (as defined below), a programme yet to be established by the Issuer or on a standalone basis, which are then outstanding (the **Czech Mortgage Covered Bonds**, which definition includes the Mortgage Covered Bonds).

As of the date of this Base Prospectus, the Issuer operates two cover pools. The first is the cover pool with an identifier: Komerční banka_HZL_EUR_0001 (the **International Cover Pool**). The International Cover Pool will cover the Mortgage Covered Bonds issued under this Programme. The second is the cover pool with an identifier: Komerční banka_HZL_0000 (the **Local Cover Pool**). The Local Cover Pool covers the covered bonds issued under the Local Covered Bond Programme (and certain other debts) (see Issuer's other programmes below). In the future, the Issuer may also create other cover pools than the International Cover Pool and the Local Cover Pool.

The International Cover Pool will be created by the Issuer primarily in order to enable the Issuer to issue Mortgage Covered Bonds denominated in EUR on the international markets. The Issuer has operated and developed the International Cover Pool in a trial mode for the purposes of testing since 1 June 2020 and will fully legally create the International Cover Pool no later than on the date of settlement of the first issuance (the **First Issuance**) of Mortgage Covered Bonds under this Programme. Please also refer to The International Cover Pool – Description of the International Cover Pool below for further details.

The Mortgage Covered Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all other obligations of the Issuer that have been provided the same priority as such Mortgage Covered Bonds.

The obligations of the Issuer arising from the Mortgage Covered Bonds can under certain circumstances be repaid, and satisfied from any assets forming the International Cover Pool of the Issuer. Although the Mortgage 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 Mortgage Covered Bonds (including Mortgage Covered Bonds issued under the Programme) issued by the Issuer (see further General Description of Czech Legislation relating to Mortgage Covered Bonds).

All Mortgage Covered Bonds issued by the Issuer under the Programme which are then outstanding and benefiting from the International Cover Pool: (i) have, and will have, the benefit of a

statutory priority under the Czech Bonds Act, the CNB Decree and the Czech Insolvency Act over the International Cover Pool; 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 such Mortgage Covered Bonds.

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

Issuer's other programmes:

In addition to the Programme, as of the date of this Base Prospectus, the Issuer has outstanding covered bonds under the CZK150 billion local bonds programme of the Issuer for the issuance of both (i) Czech Mortgage Covered Bonds; and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act, approved by the Board of Directors of the Issuer on 7 March 2007 (the **Local Covered Bond Programme**). The outstanding covered bonds issued under the Local Covered Bond Programme are covered by the Local Cover Pool. The Local Cover Pool is a separate cover pool from the International Cover Pool and does not cover the Mortgage Covered Bonds issued under this Programme.

Statutory Cover Tests:

The Issuer covenants in favour of the Mortgage Covered Bondholders that it will adhere to certain requirements in connection with the value and maintenance of the International Cover Pool and its compliance with certain key obligations imposed on it under the Czech Bonds Act and the CNB Decree (see General Description of Czech Legislation relating to Mortgage Covered Bonds and The International Cover Pool).

Specifically, the Issuer covenants to ensure that it does not breach the following Statutory Cover Tests:

- (a) the aggregate value of all the Cover Assets included in the International Cover Pool must represent at least 102% of the aggregate value of all debts covered by the International Cover Pool, i.e. resulting in a minimum 2% statutory over-collateralisation requirement;
- (b) the aggregate value of all Mortgage Loans included in the International Cover Pool is an amount equal to at least 85% of all debts covered by the International Cover Pool; and
- (c) the nominal value of each Czech Bonds Act Mortgage Loan included in the International Cover Pool may not exceed 100% of the value of the Mortgaged Property. To the extent the nominal value of an individual Czech Bonds Act Mortgage Loan exceeds such limit (and only to that extent), it is disregarded for the purpose of calculating the Statutory Cover Tests.

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

Rating: The Mortgage Covered Bonds issued under the Programme are expected to be assigned an "AAA" rating by Fitch. However, the Issuer may also issue Mortgage Covered Bonds which are unrated or rated by another rating agency. Where a Series of Mortgage 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 Mortgage 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.

Fitch's long-term credit ratings are set up along a scale from AAA, AA, A, BBB, BB, B, CCC, CC, C, RD down to D. Fitch uses the intermediate modifiers "+" and "-" to denote relative status within the categories from AA to CCC. Fitch has also the possibility for guidance (termed "on watch") as to whether a rating is likely to be upgraded (positive), downgraded (negative) or uncertain (evolving). Outlooks are used to indicate the direction of a rating as the indication could be positive, negative, stable or evolving. Fitch's short-term ratings reflect a bank's vulnerability to default in the short term at the levels F1+, F1, F2, F3, B, C, RD and D.

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 Mortgage 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.

Mortgage 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. Mortgage 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 Mortgage Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

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

Czech Law applicable to the Mortgage Covered Bonds: The Mortgage Covered Bonds, although otherwise governed by, and construed in accordance with, English law, will be subject to and will benefit from those provisions of the Czech Bonds Act, the CNB Decree, the Czech Insolvency Act and any other provisions of Czech law applicable to or relevant for the Czech Mortgage Covered Bonds. Therefore, the Mortgage Covered Bonds will need to satisfy requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the International 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 Mortgage Covered Bonds and the Covered Block in the case of insolvency proceedings against the Issuer.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Mortgage Covered Bonds in the United States, the EEA (including the Czech Republic), the UK, Japan, Singapore and such other restrictions as

may be required in connection with the offering and sale of a particular Tranche of Mortgage Covered Bonds, see Subscription and Sale.

United States Selling Restrictions:

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

RISK FACTORS

In purchasing Mortgage 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 Mortgage 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 Mortgage 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 or ability to make payments due under the Mortgage Covered Bonds.

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The risk factors are presented in the individual categories depending on their nature with the most material risk factor presented first in each category.

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

The risk factors regarding the Issuer are presented in the following categories depending on their nature with the most material risk factor presented first in each category:

- Risks Related to the External Conditions under which the Issuer Conducts its Business;
- Risks Related to the Issuer's business;
- Risks Related to the Regulatory Environment; and
- Risks relating to the International Covered Block.

Risks Related to the External Conditions under which the Issuer Conducts its Business

Risks related to the overall economic and political conditions in Europe

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

Following the UK's withdrawal from the EU, further anti-EU political movements may become attractive and it cannot be excluded that one or more countries could in the future form an intention to leave the EU or the Euro-zone, which could lead to partial unwinding of European integration or result in the euro ceasing to exist as the single currency of the Euro-zone. Also, separatist tendencies in certain regions of the EU have attracted renewed popularity since 2017. Should such regions declare independence, it may have far-reaching geopolitical consequences as well as a significant adverse effect on the stability and economy of the relevant EU Member States and the EU. This could also adversely affect the banking system.

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

Also, the recent outbreak of the coronavirus SARS-CoV-2 (**Covid-19**) and its development into a global pandemic will certainly have major economic consequences for the EU economy. Even though the full impact of the Covid-19 outbreak is, at the moment, very difficult to assess, it has already dampened economic activity and eroded financial conditions across European countries. Measures implemented by government authorities of the EU Member States to discourage or prohibit the movement of people are severely affecting many sectors and also largely contribute to the negative impact that the Covid-19 outbreak has on financial markets and level of economic activity in the EU. If the impact is severe or prolonged, it may result in greater volatility, reduced liquidity, widening of credit spreads and a lack of price transparency in credit markets.

Moreover, there can be no guarantee that similar pandemics or outbreaks will not occur in the future or that the effects of the current global pandemic will not deteriorate further. If such pandemics or outbreaks occur in the future, these may result in similar or more adverse effects relative to the Covid-19 pandemic, and could result in similar or further adverse effects on the EU and global economy.

Any of these developments and the increased political and economic uncertainty accompanying them have had and could continue to have a material adverse effect on the European and global economy and financial sector. Instability in global financial and foreign exchange markets may reduce the overall market liquidity which may in extreme circumstances lead to a credit crunch and severe financial distress of key market participants. Overall, the economic outlook continues to be subject to a number of risks and, hence, may prove to cause increased market volatility together with detrimental fluctuations in asset values or currency exchange rates or result in the European market sliding back into a recession.

The recent outbreak of Covid-19 could adversely affect the Issuer's business

The recent Covid-19 outbreak and its development into a global pandemic, coupled with the measures implemented by relevant government authorities to contain it, such as closing of public services, travel restrictions, border controls and other measures to discourage or prohibit the movement of people, is, as of the date of this Base Prospectus, expected to have a material and adverse impact on the Czech and global financial markets and on the level of economic activity in the Czech Republic and the world economy.

As of 13 March 2020, the Issuer and its direct and indirect subsidiaries (the **KB Group**) started to offer suspension of credit repayment for periods of three to six months, applicable to private individuals, entrepreneurs as well as businesses. Under the Czech Act No. 177/2020 Coll., on Credit Repayment Measures in Connection with the Covid-19 Pandemic (the **Covid-19 Loan Moratorium Act**), a borrower (either a consumer or an entrepreneur) of (i) a loan in relation which a loan agreement has been signed and which has been utilised before 26 March 2020 or (ii) a loan in relation to which a loan agreement has been signed before 26 March 2020, but the loan has not been utilised, if the loan is, among others, secured by mortgage of real estate or used for real estate development, had the option to apply for a general moratorium (in Czech, *ochranná doba*) (the **Moratorium**). Please refer to The Czech legislative measures taken in response to the Covid-19 pandemic will have an effect on the Issuer's business below for further detail.

The Covid-19 outbreak has led the KB Group to accelerate its strategic priorities in connection with the optimisation of its branch network through digitisation, branch reduction and switching to cashless banking, automation of middle- and back-office and support functions, and robotics deployment by 2025. There is, however, no guarantee that these strategies will be effective in addressing any potential adverse effects of the Covid-19 outbreak.

With effect from 1 January 2019, the Issuer has applied the new accounting standard IFRS 16 Leases, which replaces the previous standard IAS 17. Particularly as a lessee under operating lease of office buildings and branches, the Issuer has had to recognise those leases on its balance sheet. As a result, the risk-weighted assets of the KB Group increased by CZK2,638 million and the capital adequacy ratio decreased by 12 basis points and was 21.6% as of 30 September 2020 (19.4% as of 30 September 2019).

According to IFRS 9, the suspension of credit repayment together with the Moratorium results in modification of the contractual cash flows of a financial asset. The KB Group evaluated this modification as an immaterial modification of the financial assets that does not result in derecognition of the original financial asset. The modification gain or loss equals to the difference between the gross book value of the loan before modification and the net present value of the cash flows of the modified financial asset discounted at the original effective interest rate. In the first nine months of 2020, the KB Group recorded a modification loss of CZK181 million in net interest income from postponement of instalment payments under the loan moratorium.

In accordance with the guidance of the European Banking Authority (**EBA**), granting a private or public moratorium to a client is not automatically considered an indicator of a significant increase of credit risk. On the other hand, it may result in worse staging of the client based on individual assessment as part of extraordinary or regular monitoring or annual assessment renewal. The KB Group's exposures under a public or private moratorium are reported as forborne exposures, however without automatically worsening the risk category. When evaluating significant increases of credit risk, the KB Group continues to apply a set of qualitative, quantitative and additional criteria.

In connection with the Covid-19 outbreak, in the first nine months of 2020, the KB Group's cost of risk reached CZK3,407 million (net creation of provisions) in comparison with a net release of provisions of CZK328 million in the first nine months of 2019. The KB Group recorded a strong impact from the statutory recalibration of IFRS 9 provisioning models to reflect the ongoing macroeconomic downturn. It has also closely monitored and adequately provisioned the most sensitive part of the portfolio in retail and corporate segments affected by the

Moratorium. Furthermore, the KB Group created provisions on newly defaulted corporate clients and increased provisions on existing default situations.

The KB Group regularly monitors the development of clients under loan repayment moratoria in order to (i) support the clients with targeted selected measures; (ii) set up the recovery personnel capacities for the anticipated wave of defaults in the course of the fourth quarter of 2020; and (iii) estimate the future impacts on the profit and loss statement on a regular basis. The work and activities performed particularly consist of (i) dynamic monitoring of risk indicators; (ii) client surveys; and (iii) reasonable sizing of and seniority in expert teams focused on loan restructuring in retail and corporate segments.

The KB Group also closely monitors the sectors that are most struck by effects of the Covid-19 outbreak (hotels and tourism, hospitality and entertainment, transport, automotive industry, etc.). For retail clients in these sectors, the credit-granting rules were adjusted. In the corporate segment, individual assessments are being used. The KB Group considers that the expected credit risk in these sectors is included in the forward-looking components and the risk staging algorithm used in IFRS 9 models. The KB Group therefore does not apply any additional portfolio overlay for the selected industries.

The extent of the risk posed by the Covid-19 outbreak in the future is unclear; if the impact of the virus is severe or prolonged and the restrictions imposed due to Covid-19 continue for extended periods of time, this may result in greater volatility but also in reduced liquidity, widening of credit spreads and lack of price transparency in credit markets. This may have a materially adverse impact on the Issuer's financial performance and position in future.

The Czech legislative measures taken in response to the Covid-19 pandemic will have an effect on the Issuer's business

If the borrower notified the lender of its intention to take advantage of the Moratorium under the Covid-19 Loan Moratorium Act, the Moratorium was to apply from the first day of the following calendar month after the notice date until (i) 31 October 2020 or (ii) 31 July 2020, provided that the borrower notified its intention to use such a shortened Moratorium period.

In particular, this means that:

- (a) the moment of fulfilment of monetary debts owed by the borrower to the lender under the loan agreement was postponed by the duration of the Moratorium; and
- (b) the duration of the security securing the loan was extended by the duration of the Moratorium.

During the Moratorium, both principal and interest payments were deferred for loans provided to natural persons, whereas only principal payments were deferred for loans provided to legal persons. During the Moratorium, the interest rates on consumer loans were capped at a rate corresponding to the repo rate published by the Czech National Bank (the **CNB**) increased by eight percentage points.

As one of the Issuer's principal activities as a bank is providing loans, the Covid-19 Loan Moratorium Act and the institute of Moratorium in particular has had, and will continue to have, an impact on its business, including by having a significant influence on the development of the overall risk profile. The cost of risk of the KB Group in relative terms and as measured against the average volume of the lending portfolio during the first nine months of 2020 came to 68 basis points. That compares to negative 7 basis points for the first nine months of 2019.

The intention of the Covid-19 Loan Moratorium Act from the perspective of credit institutions, including the Issuer, was to avoid costs caused by a necessity to create provisions, because, given the public law nature of the regulation introduced by the Covid-19 Loan Moratorium Act and the fact that neither party was initiating the deferral of payments, it is not necessary to automatically classify the exposures which would be subject to a deferral of payments in connection with the Covid-19 Loan Moratorium Act as non-performing or forborne exposures until the end of the Moratorium, which implies that the deferral of payments in connection with the Covid-19 Loan Moratorium Act should not have a significant impact on the fulfilment of the credit institutions' capital requirements. Simultaneously, the Issuer remains obliged to assess and monitor the credit quality of the exposures benefiting from the measures introduced by the Covid-19 Loan Moratorium Act. At the same time, however, some uncertainty remains as the debtor's ability to repay cannot be adequately monitored during the Moratorium.

As of 30 September 2020, as a result of the suspension of credit repayment offered by the Issuer on individual basis, together with the Moratorium introduced by the Covid-19 Loan Moratorium Act, the KB Group was postponing instalments on loans totalling CZK58.5 billion, including CZK26.6 billion in relation to mortgages, CZK3.0 billion in relation to consumer loans, CZK4.1 billion in relation to financing of small businesses, and CZK24.7 billion in relation to lending to corporations. The loans affected by the postponement of instalments under the Moratorium have not been treated as being in arrears.

Even though the Moratorium period is now over, there is a risk that a number of debtors will default on the repayments of their loans in the coming months and the Issuer will have to incur additional costs connected with creating provisions. This risk is compounded by the reinstatement of the restrictions in the second wave of the Covid-19 outbreak in the autumn of 2020.

Another risk that the Issuer faces as a result of the Covid-19 Loan Moratorium Act is reduced liquidity. Due to the temporary loss of the Issuer's income from principal and interest payments in the case of consumer loans and the temporary loss of principal payments in the case of entrepreneur loans, the Issuer's liquidity has been reduced. Although the KB Group's loan to deposit ratio as of 30 September 2020 was at 73.2% (excluding repo operations with the KB Group's clients), the future impacts cannot be fully predicted. Should the Issuer incur unexpected and significant expenses in connection with the Covid-19 pandemic, the lack of liquidity may affect the Issuer's ability to bear these costs.

In addition, there is no guarantee that the Moratorium will not be reinstated. While government members are, as of 31 October 2020, on the record saying that the Moratorium will not be reinstated, their positions often change. A reinstatement of the Moratorium would further reduce the Issuer's liquidity.

Furthermore, under the Czech Act No. 191/2020 Coll., on Certain Measures Aiming to Mitigate the Negative Impact of the Covid-19 Pandemic on Persons Taking Part in Court Proceedings, Injured Persons, Crime Victims and Natural Persons and on Changes to the Insolvency Act and the Czech Act No. 120/2001 Coll., on Court-Appointed Distrainers and Distraining Activities (the **Covid-19 Insolvency Act**), a debtor's obligation to file for insolvency was suspended for the duration of the relevant extraordinary measures taken by the Czech government to combat the spread of Covid-19. This suspension shall last for the duration of such extraordinary measures and a further period of six months thereafter, although not beyond 30 June 2021, the date having been pushed from the original date of 31 December 2020 by the Czech Act No. 460/2020 Coll. (the **Covid-19 Insolvency Amendment Act**), amending the Covid-19 Insolvency Act and the Czech Act No. 182/2006 Coll., on Insolvency and Method of its Resolution (the Insolvency Act), as amended (the **Czech Insolvency Act**).

Under the Covid-19 Insolvency Act, as amended by the Covid-19 Insolvency Amendment Act, any debtor with its centre of main interests in the Czech Republic that was solvent as of 12 March 2020 had the opportunity, until the end of August 2020, to file for an extraordinary insolvency moratorium (the **Insolvency Moratorium**). The Insolvency Moratorium could have lasted for up to three months, but could be extended by an additional three months with the consent of a majority of the debtor's creditors.

The Czech Insolvency Act as amended by the Covid-19 Insolvency Act and Covid-19 Insolvency Amendment Act states that debtors are now entitled to file for an Insolvency Moratorium until 30 June 2021 assuming that the debtor was not insolvent as of 5 October 2020 and has not previously filed for the Insolvency Moratorium under the Czech Insolvency Act. The Czech Insolvency Act as amended by the Covid-19 Insolvency Amendment Act also stipulates that if an Insolvency Moratorium in relation to a particular debtor was declared before the end of August 2020, the condition requiring the approval of creditors for an extension of the Insolvency Moratorium will not apply and the court may extend the duration of the Insolvency Moratorium by no more than an additional three months solely upon the debtor's request. Please refer to Mortgage Loans and their Regulatory Framework – Recent Czech Regulatory Developments Relating to the Recent Covid-19 Outbreak for further details regarding the Insolvency Moratorium.

In addition, debtors were temporarily protected from insolvency petitions filed by their creditors as any such petitions filed until 31 August 2020 were disregarded and no entries of commencement of insolvency proceedings were made in the online Insolvency Register. Creditors had to file a new insolvency petition starting in September 2020 to effectively commence insolvency proceedings. It remains to be seen how many insolvency petitions with respect to the Issuer's clients will be relaunched.

Lastly, the Covid-19 Insolvency Act introduced certain exceptions and specific provisions (limitations in respect of enforcement of judicial decisions and occurrence of the debtor's default) that may potentially lead to the

prolongation of the debt enforcement proceedings as well as the process of enforcement of security interests. The Covid-19 Insolvency Amendment Act prolonged the period during which a court may not enforce its decision by selling immovables.

The changes implemented by the Covid-19 Insolvency Act, as amended by the Covid-19 Insolvency Amendment Act, could have an adverse effect on the Issuer's business, as the Issuer may find itself unable to file insolvency petitions against non-performing debtors, thereby increasing time it would take to satisfy the Issuer's claims in the event of the debtor's bankruptcy.

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

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

As substantially all of the Issuer's business is conducted in the Czech Republic, the Issuer is particularly exposed to macroeconomic or other factors that may adversely affect growth in the Czech banking market and the creditworthiness of Czech retail and corporate customers. There can be no assurance that any political or economic instability will not occur in the Czech Republic or that any such instability will not adversely affect the Issuer's business. Any of these developments or a sovereign downgrade of the Czech Republic's rating, a decrease in the amount of customers or a decline in the creditworthiness of these customers could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Also, as of the date of this Base Prospectus, the Czech economy is profoundly influenced by the Covid-19 outbreak and the measures adopted to prevent and limit the spread of the disease, causing the outlook to be very uncertain. Based on the Macroeconomic Forecast of the Ministry of Finance of the Czech Republic published on 22 September 2020, it is expected that the economic activity will gradually recover, however the economic performance is expected to drop by 6.6% in 2020 with a steep decline in all areas of use other than general government consumption¹. Based on the forecast of the CNB announced on 5 November 2020, the level of inflation in the fourth quarter of 2021 is expected at 2.2%, whereas it is expected to decrease to 2.1% in the first quarter of 2022². The Czech government is introducing support measures that would alleviate the impact on both businesses and households with the aim of preventing long-term damage to the productive capacity. Nevertheless, the Czech economy is unlikely to avoid a deep recession which could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

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

As banking and financial services markets in Central and Eastern Europe (CEE), and the Czech Republic in particular, are becoming increasingly saturated, the Issuer may experience increased competition from both global financial institutions and local competitors, which may lead to reductions in interest rate margins, pricing of loans and other products, fee and commission income and business volumes, as well as increased costs of deposits and other funding. Currently, the Czech banking market is highly concentrated. Although there are only a few competitors comparable in size and scope of business to the Issuer, the Issuer may also face increased competition from less established banks and financial institutions or new entrants seeking to offer more attractive interest or deposit rates or other aggressively priced products to penetrate the market. The Czech banking market continues to see an emergence of low-cost banks primarily focused on providing internet-based banking services.

In addition, the competition landscape in the payments market has been affected by Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (the PSD2), which entered into force on 13 January 2018 and which aims to further develop the integrated internal market for electronic payments within the EU. Under the PSD2, banks are required to, among others,

¹ See the macroeconomic forecast of the Ministry of Finance of the Czech Republic available at: <https://www.mfcr.cz/en/statistics/macro-economic-forecast/2020/macro-economic-forecast-september-2020-39480>.

² See the forecast of the CNB available at: <https://www.cnb.cz/en/monetary-policy/forecast/>.

grant access to a customer's online account and payment services to third party providers. This enables customers to choose these providers instead of the bank maintaining their account for so-called (i) account information services, including, for example, the display of information regarding one or more bank accounts maintained with one or more banks, providing to customers a better overview of their financial position; and (ii) payment initiation services, that is initiation of electronic payments between bank accounts, for example to a merchant. Although the initial response of the market to the PSD2's implementation has been slow, the spread of PSD2-compliant services may result in increased competition in the payments markets. This could negatively affect the market share and the related transaction fees of banks, including the Issuer, in this market.

The Issuer's ability to compete effectively will depend on the ability of its businesses to adapt quickly to these new market and industry trends, including product offerings, customer behaviour and legal developments, such as the adoption of the PSD2. The Issuer continuously monitors its business in order to adapt to such trends, but various factors could adversely impact the implementation of such business initiatives, including failure to identify new products or customer demands in time or at all, misinterpretation of anticipated trends, flawed assumptions underlying such initiatives or unsuccessful execution of implementation measures. If the Issuer fails to compete effectively with either local competitors, large international financial institutions or new financial services providers entering the market as a result of, among other things, the PSD2, it may have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer depends on credit conditions in the client sector

A major share of the KB Group's operating income consists of its net interest income, which, in turn, consists, for the most part, of net income from customer loan credit conditions and of interest income from debt securities. For the nine months ended 30 September 2020, the net interest income of the KB Group was CZK16.1 billion (for the nine months ended 30 September 2019: CZK17.7 billion). Credit conditions in the client sector largely depend on factors beyond the Issuer's control, such as the overall economic output and macroeconomic situation in the Czech Republic or regulation conducted by Czech, and/or European policy makers, the CNB and the European Central Bank (the **ECB**). Although the Issuer applies a conservative business model and credit policy, any deterioration of credit conditions in the client sector or part thereof could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

Current banking industry trends could adversely affect the Issuer

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

Recent difficulties including, among other things, capital shortages and the size of portfolios of non-performing loans, particularly in the Italian banking sector, suggest that certain deficiencies and problems of the European banking sector still persist. Further, the European banking industry was adversely affected by a recession witnessed in Turkey in the second half of 2018 and early 2019. The ongoing Covid-19 outbreak and the measures adopted to prevent and limit its impact on both the businesses and the individuals largely influence the banking sector. There are a number of factors associated with the Covid-19 outbreak and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions, such as the Issuer. European banks now face, among others, lower volumes in their traditional business activity, capital shortages, low interest rates, fluctuation of commodity prices, cautious investor sentiment, continuing write-offs of their portfolio of non-performing loans and also uncertainty and unpredictability of the applicable regulatory framework. All these factors are contributing to lower returns and more importantly may contribute to the threat of contagion risk that is immanent in the tightly globalised banking sector. If the conditions in which European banks operate further deteriorate, this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects.

The Issuer is subject to the Czech Resolution and Recovery Act, implementing the BRRD and setting out a bank recovery and resolution framework which is intended to enable a range of actions to be taken in relation

to credit institutions considered to be failing or at risk of failing. The implementation of any action under it could materially affect the Issuer and/or the value of any Mortgage Covered Bonds

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**) is designed to provide authorities in the EU (which for these purposes includes the UK) with a credible set of tools to intervene sufficiently early and quickly in an unsound or relevant entity. This is so as to ensure the continuity of the relevant entity's critical financial and economic functions, while minimising the impact of a relevant entity'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) a relevant entity is failing or is likely to fail; (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such relevant entity 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 relevant entity 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 relevant entity to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the relevant entity to meet its repayment obligations; (iii) asset separation – which enables resolution authorities to transfer impaired or problematic 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 relevant entity (which write-down may result in the reduction of such claims to zero) and to convert certain unsecured debt claims, including (to a limited extent as described below) Mortgage Covered Bonds, to equity or other instruments of ownership (the **general bail-in tool**), which equity or other instruments could also be subject to any future cancellation, transfer or dilution. In general, relevant claims for the purpose of the bail-in tool would include claims of the holders in respect of any bonds issued under a programme or on a standalone basis (although in the case of Mortgage Covered Bonds or other Czech Mortgage Covered Bonds, this would only be the case if and to the extent any amounts payable in respect of Mortgage Covered Bonds or Czech Mortgage Covered Bonds exceeded the value of assets in the relevant cover pool which serve as collateral against which payment of amounts owed under Mortgage Covered Bonds or Czech Mortgage Covered Bonds is secured).

The BRRD also provides for the ability of a Member State, as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible while maintaining financial stability, 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.

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

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. The BRRD was implemented in Czech law by the Czech Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market, as amended (the **Czech Resolution and Recovery Act**), which came into effect from 1 January 2016 and provides for a framework for the recovery and resolution of Czech banks and investment firms.

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

The exercise of any power under the Czech Resolution and Recovery Act or any suggestion of such exercise could, therefore, materially adversely affect the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation and/or the rights of the Mortgage Covered Bondholders, the price or value of their investment in any Mortgage Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Mortgage Covered Bonds. For a detailed description of the powers available under the BRRD, as implemented in the Czech Resolution and Recovery Act, see General Description of Czech Legislation relating to Mortgage Covered Bonds – 8. Czech Resolution and Recovery Act.

The Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Mortgage 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, among 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 Mortgage Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework was implemented in the EU by Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). The Basel Committee has approved a sequence of major reforms to the Basel II framework (the set of reform measures being commonly referred to as **Basel III**) which envisages a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and minimum leverage ratios for financial institutions. In particular, the changes include among others, 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 (the **LCR**) and the Net Stable Funding Ratio (the **NSFR**)). Basel III set an implementation deadline on member countries to implement the new capital standards from January 2013, the new LCR from January 2015 and the NSFR from January 2018. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Mortgage Covered Bonds and on incentives to hold the Mortgage 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 Mortgage Covered Bonds.

Basel III has been implemented in the EU by 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 (**CRD IV**) and Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (**CRR**). CRD IV and CRR were published in the Official Journal of the EU on 27 June 2013. Most of the provisions in CRD IV and CRR took effect on 1 January 2014.

In December 2017, the Basel Committee published its final revised standards for calculating the risk exposure amount, also known as Basel IV. The Basel Committee recommends, among others, that constraints on internal models and the revised standardised approaches should be implemented beginning in 2022. However, the political process that should eventually lead to the implementation of the recommendations in the EU has started only recently, and the outcome thus remains uncertain.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Mortgage Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III as well as the possible Basel IV 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.

In relation to the Covid-19 outbreak, the ECB stated in a press release dated 12 March 2020³ that the Pillar 2 requirements could also be met by partial use of capital instruments that do not qualify as CET1, for example AT 1 or Tier 2 instruments (see Czech Banking Regulation – Capital Adequacy Requirements below for further information).

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 UK's departure from the EU could adversely affect the Issuer

The UK left the EU as of 31 January 2020 (**Brexit**) and the transition period ended on 31 December 2020. Therefore, the Treaty on the European Union and the Treaty on the Functioning of the European Union have ceased to apply to the UK.

The Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community dated 24 January 2020 provided the UK with a transitional period until 31 December 2020, during which the UK was bound by EU rules despite not being its member state and remained in the single market area, while the future terms of the UK's relationship with the EU were being negotiated. On 24 December 2020, the EU and the UK agreed on the Trade and Cooperation Agreement (the **Trade and Cooperation Agreement**), which sets out the principles of the relationship between the EU and the UK following the end of the transitional period. The European Commission has proposed to apply the Trade and Cooperation Agreement on a provisional basis for a limited time until 28 February 2021, by which time the Trade and Cooperation Agreement must be approved by the European Parliament. Given the recent agreement on the wording of the Trade and Cooperation Agreement and its provisional application, as of the date of this Base Prospectus, the exact terms of the Trade and Cooperation Agreement, its practical application and the overall relationship of the UK and the EU is not fully clear. Any delays with the approval of the Trade and Cooperation Agreement by the European Parliament, its potential problematic provisions or its potential uncertain interpretation could adversely and significantly affect European or worldwide economic or market conditions and may contribute to instability in global financial and foreign exchange markets. In addition, it would likely lead to legal uncertainty and divergent national laws and regulations. Any of these effects of Brexit, and others which cannot be anticipated, could adversely affect the Issuer's business, results of operations, financial condition and cash flows, and could negatively impact the value of the Mortgage Covered Bonds.

Risks Related to the Issuer's Business

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

The Issuer relies on customer deposits to meet a substantial portion of its funding requirements. The majority of the Issuer's deposits are retail deposits, a significant proportion of which are demand deposits. As of 30 September 2020, the KB Group's customer deposits comprised 81%⁴ of its total liabilities with the majority of these deposits being demand deposits that may be withdrawn at any time without penalty. Such deposits are subject to fluctuation due to factors outside of the Issuer's control, and the Issuer can provide no assurance that it will not experience a significant outflow of deposits within a short period of time as a reaction to factors outside its control, which may result in liquidity gaps that the Issuer may not be able to cover. A substantial decrease in deposits could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Additionally, if depositors in other financial institutions in the Czech Republic or other countries were to withdraw significant amounts of savings generally, resulting in a failure of that institution, this could have a spillover effect and lead to a systemic bank run by depositors and investors in the Czech Republic on other financial institutions in the Czech Republic, including the Issuer. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

³ <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200312~43351ac3ac.en.html>

⁴ Excluding volatile repo operations with clients. As of 30 September 2020, the total volume of 'Amounts due to customers' increased by 7.4% to CZK966.1 billion.

The Issuer is exposed to liquidity risks

The Issuer's business is subject to liquidity risks that could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend. The liquidity risk encompasses both the risk with respect to the ability to finance the Issuer's assets by instruments with an appropriate repayment date, as well as its ability to sell its assets for an acceptable price within an acceptable time horizon.

The KB Group's LCR reached 230% as of 30 September 2020, and thus stands significantly above the regulatory minimum of 100%.

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

The ability of the Issuer to access retail and wholesale funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, especially continued volatility in the international financial markets, and confidence in the Czech banking system.

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

If concerns over sovereign and financial institutions' solvency continue, or if the conditions further deteriorate, there is a danger that interbank funding may become generally unavailable or available only at elevated interest rates, which might impact the Issuer's access to, and cost of, funding. Should the Issuer be unable to continue to source a sustainable funding profile, the Issuer's ability to fund its financial obligations at a competitive cost, or at all, could be adversely affected. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

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

Furthermore, an increase in rates charged to customers can also negatively impact interest income if it reduces the amount of customer borrowings. A decrease in the general level of interest rates may affect the Issuer through, among other things, increased prepayments on its loan portfolio and increased competition for deposits. Interest rates are sensitive to many factors beyond the Issuer's control, including monetary policies implemented by the ECB and the CNB, as well as domestic and international economic and political conditions. Central banks' interest rate cuts could also lead to a further compression of interest spreads. Overall, large decreases in interest rates can be expected to have an adverse effect on the Issuer's net interest income and continued low interest rates will make it more difficult to achieve growth. For example, most European banks have recently been adversely influenced by low interest rates set by the ECB and volatile interest spread. Since 2017, the CNB had been increasing its repo rate to as high as 2.25% in February 2020 (from the initial 0.25% as of August 2017). In March 2020, the CNB adopted a set of measures to stabilise the domestic economy following the Covid-19

outbreak, including steep interest rate cuts, which brought the repo rate to 1.00%. In May 2020, the CNB adopted additional measures, including a further interest rate cut, with the repo rate decreased to 0.25%.

The KB Group has divided its business activities according to their nature into the banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations on the interbank market belong in the market book. Interest rate risk is measured and managed separately for the banking and market books. Market activities are concentrated in the Issuer and are continuously monitored and managed under the supervision of the its risk departments. With regard to interest rate risk in the banking book, the Issuer and Modrá pyramida stavební spořitelna, a.s. (**Modrá pyramida**) are the most significant members of the KB Group. The KB Group manages its banking book interest rate risk using such standard methods as gap analysis and interest rate sensitivity analysis. While there is no guarantee that it will always be achieved, the aim of the KB Group is to minimise banking book risk and not to speculate on interest rate changes. To this end, the KB Group has established prudent limits. While these limits were not exceeded in 2019, there is no guarantee they will not be exceeded in the future. In the case such prudent limits are breached, the source of the excess position has to be identified and a mitigation plan has to be proposed and implemented in order to rectify the breach.

The other entities in the KB Group typically transfer their risks onto the Issuer's books where these are hedged centrally. For these purposes, the Issuer uses such standard market instruments for hedging against interest rate risk as interest rate swaps and forward rate agreements, as well as investing into securities. The above hedging instruments are focused on the stabilisation of the net present value of the KB Group so that the value for the shareholders is protected. In order to identify and measure the risk, the KB Group applies models of the on- and off-balance sheet items of ambiguous parameters. Additionally, there is no certainty that the future derivative market liquidity will be sufficient to provide for all the maturities and volumes of trades necessary to hedge the risks.

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

The Issuer is exposed to cyber risk and other unauthorised access of its internal and customer data

The scale of the Issuer's business and nature of its operations requires the Issuer to receive, process and store significant volumes of confidential information about its customers, employees and counterparties, all of which needs to be safeguarded against loss, damage, mismanagement or unauthorised disclosure. Despite the Issuer's security measures and data protection mechanisms, its information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise the Issuer's networks and the information stored there could be accessed, modified, publicly disclosed, lost or stolen. Any such access, modification, disclosure or other loss of information could damage the Issuer's reputation and result in regulatory sanctions and other liability for breach of data protection laws. Such breach may, among other things, result in significant fines under applicable data protection laws. Cyber-attacks could also result in the loss of internal communication or communication with the Issuer's customers, which may result in reduced productivity and a loss of revenues. In addition, it could cause the Issuer's service to be perceived as not being safe, thereby harming the Issuer's reputation and deterring current and potential customers from using the Issuer's services. Cyber-attacks may also prevent the Issuer from discharging its contractual or regulatory obligations. The materialisation of any of these risks could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

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

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

Deterioration in economic conditions in the Czech Republic or a decline in certain markets (either related to the recent Covid-19 outbreak or not) may reduce the value of collateral securing the Issuer's loans and advances, increasing the risk that the Issuer would not be able to recover the full amount of any such loans and advances in the event of a default.

Since 2014, the Czech real estate market in both residential and commercial segments has been in a growing phase of the market cycle. Despite the regulatory actions by the CNB setting out, among other things, limitations on the provision of mortgage loans above a certain LTV (loan-to-value) ratio and introducing income requirements on mortgage applicants, the demand in the residential segment continues to be high and driven by low mortgage rates, good availability of mortgages, as well as by low yields of other investments, while the supply is limited especially by constraints of developers to deliver new residential units on the market. Further, the relatively low cost of funding, together with the positive economic development, have supported growth of commercial properties. These factors have resulted, among other things, in growth of prices being stronger than growth of rents. However, growth may not continue going forward or may be replaced with a decline once the cycle changes which is very likely, considering the possible outcomes of the influence of the Covid-19 outbreak.

Since there is a return towards a downturn in economic conditions in the Czech Republic due to the negative impact of the Covid-19 outbreak, further declines in the value of collateral securing real property loans, including mortgage loans, are more likely to occur than in recent past and may result in the Issuer's loan portfolio impairment losses increasing materially.

Declines in the value and liquidity of collateral securing loans, including mortgage loans, could have a material adverse effect on the Issuer's business, requirements relating to cover pools, results of operations, financial condition, liquidity, capital base or prospects.

Furthermore, the Issuer undertakes certain types of lending without tangible collateral, relying only on personal guarantees, which may not be sufficient to cover the outstanding amount following a default. As of 30 September 2020, the applied value of collateral represented 69% of the net volume of the Issuer's loans to clients. In the case of a default of a loan without tangible collateral, the Issuer has no recourse to collateral. As a result, if a large proportion of these borrowers were to default due to deteriorating economic conditions or otherwise, this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

The Issuer is exposed to the risk that borrowers or other counterparties will not be able to meet their obligations owed to the Issuer. Counterparties include, among others, brokers and dealers, commercial banks, investment banks, and other institutional as well as retail customers. Exposures can arise through trading, lending, deposit-taking, clearance and settlement and other financing activities and relationships. The Issuer may incur losses if its counterparties default on their obligations. If losses arising from counterparty defaults significantly exceed the amounts of the Issuer's provisions or require an increase of such provisions, this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base or prospects. This risk may be exacerbated if the collateral held by the Issuer cannot be realised or can only be liquidated at prices below the level necessary to recover the full amount of the loan, derivative or other contractual exposures.

The KB Group continues to maintain a sound loan portfolio. As of 30 September 2020, the (net) volume of loans and advances to customers rose by 5.7% year on year to CZK683.7 billion. A 97.7% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.3% of the loans were classified in Stage 3. Loans are initially considered to be in Stage 1, unless they are purchased or unless the debtor's credit is impaired. This stage remains unchanged for loans for which the credit risk has not increased significantly since initial recognition or that have low credit risk at the reporting date. Loans with a significant increase in credit risk since initial recognition but in respect of which no objective evidence of impairment exists are considered to be in Stage 2. Non-performing loans, i.e. loans for which there is objective evidence of impairment at the reporting date, are considered to be in Stage 3.

As of 30 September 2020, the provisions created for amounts due from customers came to CZK12.4 billion (as of 30 September 2019, the volume came to CZK10.7 billion). However, changes in economic conditions caused by the ongoing Covid-19 outbreak may increase the number of the KB Group's defaulting clients which may then adversely affect the structure of the KB Group's loan portfolio. Moreover, the future development of these figures cannot be predicted with certainty.

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 of one financial institution may lead to marketwide liquidity problems. This could lead to a situation in which the Issuer may have to raise additional capital, while at the same time access to capital may be more difficult. If the levels of the counterparty risk increase it could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer faces the possibility of losses from operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk includes, among others, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements.

The Issuer's business operations are dependent on the ability to process a large number of complex transactions across different markets in many currencies. Operational losses, including monetary damages, costs, and direct and indirect financial losses or write-downs, may result from inadequacies or failures in internal processes, systems, e.g., ICT systems, licences from external suppliers, fraud or other criminal actions, employee errors, outsourcing, failure to properly document transactions or agreements with customers, vendors, sub-contractors, co-operation partners and other third parties, or to obtain or maintain proper authorisation, or from customer complaints, failure to comply with regulatory requirements, including, among others, to anti-money laundering, data recording, data protection and antitrust regulations, conduct of business rules, equipment failures, failure to protect its assets, including intellectual property rights and collateral, failure of physical and security protection, natural disasters or the failure of external systems, including those of the Issuer's suppliers or counterparties and failure to fulfil its obligations, contractual or otherwise.

The Issuer's business operations are subject to the same operational risks during the Covid-19 pandemic period. During this time, the extent of the operational risks is not greater, however the impact can worsen the effect of certain risks (e.g. lack of personnel, IT service availability, dependency), which are handled with additional mitigation measures.

There can be no assurances that risk controls and other actions implemented by the Issuer to mitigate exposures or losses will be effective in controlling each of the operational risks faced by the Issuer, or that the Issuer's reputation will not be damaged by the materialisation of any operational risks.

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

The Issuer faces significant ICT risks inherent in the banking business

The Issuer is dependent on information and communication technology (ICT) systems. The ICT systems are vulnerable to a number of problems, such as software and hardware malfunctions, malicious hacking, physical damage to vital ICT centres and computer virus infection. If the ICT systems fail, even for a short period of time, the Issuer may be unable to service some or all of its customers' needs on a timely basis and could thus lose business and potential income. Likewise, a temporary shut-down of the ICT systems could result in higher internal costs associated with the recovery of the systems. ICT systems require regular upgrading to meet the needs of changing business and regulatory requirements, to remove vulnerabilities and software errors and to keep pace with the growth of banks' and financial institutions' existing operations and possible expansion into new business lines and markets. The Issuer and its service providers may not be able to implement necessary upgrades on a timely basis, and upgrades may fail to function as planned.

The unification and implementation of new ICT systems may have a material adverse effect on the Issuer's operational risk profile. In addition to costs incurred as a result of any failure or interruption of its ICT systems, the Issuer could face fines from the CNB if its ICT systems fail to enable it to comply with the applicable banking or other regulations. There can be no assurances that the procedures and controls put in place by the Issuer will be effective in preventing or managing all risks relating to the ICT systems of the Issuer. This could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

The Issuer's strategies and procedures for managing credit risk, country risk, market risk, liquidity risk and operational risk may prove insufficient or fail. Some of the Issuer's methods for managing risk are based upon observations of historical market behaviour. The Issuer also applies statistical techniques to observations to arrive at quantifications of its risk exposures. However, these methods may not accurately quantify the Issuer's risk exposures. As additional information becomes available, the Issuer may need to make additional provisions if default rates are higher than expected. If circumstances arise whereby the Issuer did not identify, anticipate or correctly evaluate certain risks in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system.

In addition, if any of the instruments and strategies that the Issuer uses to hedge its exposure to various types of risk is not effective, the Issuer may incur losses. Unexpected market developments may also adversely affect the effectiveness of the Issuer's hedging strategies, and the Issuer may choose not to hedge all of its risk exposures in all market environments or against all types of risk. In addition, the methodology by which gains and losses resulting from certain ineffective hedges are recorded may result in additional volatility in the Issuer's reported results of operations.

Any material deficiency in the Issuer's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk and material unanticipated losses, which may in turn have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

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

The Issuer may have difficulty recruiting or retaining qualified employees

The continued growth of the Issuer's existing operations and its ability to successfully expand its business depends on its ability to retain existing employees and to identify, recruit and retain additional individuals who are not only familiar with the local language, customs and market conditions, but also have the necessary qualifications and level of experience in banking and related businesses. In the Czech Republic, where the Issuer operates, the pool of individuals with the required set of skills is smaller than in most Western European

countries. Increasing competition for labour in the Czech Republic from other financial institutions may also make it more difficult for the Issuer to attract and retain qualified employees and could lead to increases in labour costs. If the Issuer is unable to attract and retain new talent or if competition for qualified employees increases its labour costs, this could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The Issuer may have difficulty detecting or deterring employee misconduct

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

The Issuer is exposed to foreign exchange and currency risks

The maximum open foreign exchange position of the KB Group (mostly concentrated in the Issuer) was less than 0.15% of the KB Group's capital during the first nine months of 2020, and was, as a result, essentially negligible. The main foreign currencies, in which assets and liabilities of the Issuer were denominated, were EUR and USD. The Issuer translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and/or losses realised upon the sale of such assets, to Czech Koruna in preparing its financial statements. The overall effect of exchange rate movements on the Issuer's results of operations depends on the rate of depreciation or appreciation of the Czech Koruna against its principal trading and financing currencies (EUR and USD).

While the maximum open foreign exchange position of the KB Group has been small in the first nine months of 2020, this is merely the result of the KB Group putting in place sufficient hedging arrangements. The Issuer cannot guarantee that it will succeed in maintaining sufficient hedging arrangements going forward. As such, it remains exposed to the inherent foreign exchange risks stemming from future client transactional activities in foreign currencies, mainly EUR and USD.

The Issuer is subject to risks in its trading activities

The Issuer 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 consolidated trading results including results of currency trading of the KB Group as of 30 September 2020 were CZK2.218 billion.

The Issuer may be exposed to a number of risks related to changes in the value of such financial instruments, including the risk of unfavourable market price movements relative to its investment positions, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Issuer chooses to hedge certain positions do not track the market value of those positions. If the Issuer incurs any losses from these exposures, this could reduce the Issuer's income or cause the Issuer to suffer losses, either of which could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base and prospects.

Risks related to the group interdependence

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

The Issuer is dependent on its banking and other licences

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

Risks Related to the Regulatory Environment

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

The Issuer is subject to a number of laws and regulations including, among other things, banking regulations designed to maintain the safety and financial soundness of banks and limit their exposure to risk, regulations relating to financial services, securities products and other businesses, and tax, accounting and financial reporting regulations, anti-money laundering, consumer credit, capital requirements or corporate requirements regulation.

For example, from January 2017, the CNB increased the systemic risk buffer capital requirement for the Issuer from 2.5% to 3% of risk weighted exposure pursuant to Article 92(3) of the CRR. Several other Czech banks, considered to be of systemic importance to the Czech banking system, were subject to a similar increase.

In addition, the Issuer faces additional costs in connection with compliance with new legislation. Recently, this was the case with regard to, among other things, the PSD2, the Insurance Distribution Directive and the GDPR (as defined below). Furthermore, the Czech Act No. 257/2016 Coll., on Consumer Credit, which became effective on 1 December 2016, substantially modified conditions under which consumer loans, including mortgage loans, are provided by, for instance, capping the fees that may be charged to a customer in connection with a prepayment of a loan. Finally, the Czech Bonds Act was amended significantly on the grounds of Czech Act No. 307/2018 Coll. This amendment to the Czech Bonds Act which entered into force on 4 January 2019 introduced a new legal framework of covered bonds and new regulation of the concept of security agent.

In 2020, multiple bills have been introduced by the Czech government in response to the Covid-19 pandemic, some of which might have a significant impact on the financial and banking sector (see Risks Related to the External Conditions under which the Issuer Conducts its Business – The Czech legislative measures taken in response to the Covid-19 pandemic will have an effect on the Issuer's business above).

Furthermore, discussions that the Czech government is considering introducing a sector-specific tax or similar measures that would, if imposed, result in additional tax liabilities of banks in the Czech Republic, have appeared in the media in the recent past. There can be no assurance that such measures that would result in additional tax liabilities of the Issuer will not be introduced in the Czech Republic, nor can there be any assurance that any such measures, if introduced, will not have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

The above and any further regulatory changes may result in additional material costs for the Issuer and significantly impact its capital resources and requirements. As such, they may adversely affect the Issuer by, among other things, restricting the type or volume of transactions the Issuer may enter into, or set limits on, or require the modification of, rates or fees that the Issuer charges on loans or other financial products. The Issuer may also face increased compliance costs and material limitations on its ability to pursue business opportunities. All these factors may have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

In the ordinary course of its business, the Issuer and some other members of the KB Group are subject to regulatory oversight and liability risk. The Issuer carries out operations through a number of legal entities mainly in the Czech Republic, where it is subject to regulation. Laws and regulations applicable to the Issuer are continuously amended and new requirements are imposed on the Issuer and some other members of the KB Group, including, among others, regulations relating to financial services, securities products and other businesses, and tax, accounting and financial reporting regulations, anti-money laundering, consumer credit, capital requirements or corporate requirements.

Non-compliance with, or any breaches of, such regulation expose the Issuer to the risk of various claims, disputes, legal proceedings or governmental investigation. Moreover, the KB Group is involved in a variety of claims, disputes or other legal proceedings and governmental investigations in jurisdictions where it is active. These types of claims and proceedings expose the KB Group to monetary damages, direct or indirect costs (including legal costs), direct or indirect financial loss, civil and criminal penalties, loss of licences or authorisations, or loss of reputation, as well as the potential for regulatory restrictions on its businesses, all of which could have a material adverse effect on the Issuer's business, financial condition, results of operations, liquidity, capital base, prospects or reputation.

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

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

The process of collateral enforcement in the Czech Republic may be, in certain cases, rather costly. As a result, the Issuer may be unable to enforce, for reasonable costs, collateral securing loans and other credit extended by the Issuer, including mortgage loans. This could have, if required and materialised on a large scale, a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

Non-compliance with the General Data Protection Regulation (GDPR), or stricter interpretation of the existing requirements or future modifications of the data protection laws, could have a negative impact on the Issuer's business

With effect as of 25 May 2018 the Issuer's operations and services need to comply with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the **GDPR**), which generally imposes uniform rules on all market participants operating within the EU, and with strict sector-specific rules under Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (the e-Privacy Directive). GDPR implements a stricter data protection compliance regime and substantially increases fines for a breach of data protection regulations. Under GDPR, data protection agencies have the right to audit the Issuer and impose orders and fines, up to EUR20 million, or up to 4% of the worldwide annual revenue for the previous financial year, if they find that the Issuer has not complied with applicable laws and adequately protected customer data. As of the date of this Base Prospectus, there is only a limited number of official guidelines available that would indicate how data protection agencies will evaluate and investigate non-compliance issues and a degree of uncertainty therefore remains high in this regard. As such, there can be no assurance that the Issuer is fully compliant with GDPR in all aspects of its operations. Any difference in interpretation of the GDPR

by the data protection agencies resulting in the Issuer's non-compliance with GDPR or any other applicable data protection laws, or any limitations imposed by stricter interpretation of the existing requirements or by future modifications of the data protection laws, could have a significant impact on the Issuer's business operations and its ability to market products and services to existing or potential customers. As such, the materialisation of any of the above could have a material adverse effect on the Issuer's business, results of operations, financial condition, liquidity, capital base, prospects or reputation.

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

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

The Issuer may not be able to deal effectively with the risks associated with a change of benchmarks

Benchmarks of interest rates, equities, foreign exchange rates and other benchmarks are subject to increased regulatory supervision and regulatory reforms. Please refer to Risks related to the Mortgage Covered Bonds – Risks associated with the reform of LIBOR, EURIBOR, PRIBOR and other interest rate benchmarks below for details regarding the benchmark reform.

The changes brought about by the Benchmark Regulation and other changes that have been or may be enacted may cause benchmarks, in particular the PRIBOR or EURIBOR rates, to develop differently compared to past development, or their complete disappearance, or other consequences that cannot be fully anticipated and that pose a number of risks to the Issuer. These risks include: (i) legal risks arising from the potential changes required to the documentation for new and existing transactions; (ii) financial risks arising from any changes in the assessment of contracts or financial instruments linked to the benchmarks; (iii) price risks arising from how the changes in the benchmarks may impact the valuation mechanism of the Issuer's contracts or some other instruments; (iv) operational risks arising from any potential requirement to modify IT systems, reporting on trading infrastructure and other operational processes; and (v) risks of dealing with customers during a transition period when taking these changes into account. The replacement of benchmarks and the timing, including implementation mechanisms, have not yet been confirmed by central banks. Therefore, it is not currently possible to assess whether and to what extent these changes will affect the Issuer. However, the introduction of alternative benchmarks may have a material adverse effect on the Issuer's business, results of its operations, management and further direction.

Risk of the UK no longer being party to the Recast Brussels Regulation

As from 1 January 2021, Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the **Recast Brussels Regulation**), which is the formal reciprocal regime on jurisdiction and judgments which is currently applied in the EU context no longer applies in the UK. As a result, persons enforcing a judgment obtained before English courts can no longer benefit from the recognition of such judgment in EU courts (including the Czech Republic) under the Recast Brussels Regulation. However, on 28 September 2020, the UK deposited its instrument of accession to the Hague Convention on Choice of Court Agreements 2005 (the **Hague Convention**). The Hague Convention is an international convention which requires contracting states to recognise and respect exclusive jurisdiction clauses in favour of other contracting states and to enforce related judgments. As the Czech Republic already is a party to the Hague Convention by virtue of being a member state of the EU, judgments handed down by a UK court should be recognised and enforced under the Hague Convention in the Czech Republic. However, the scope of the Hague Convention is limited to contracts with exclusive jurisdiction clauses and there is no assurance that such judgments will be recognised on exactly the same terms and in the same conditions as under the Recast Brussels Regulation.

Risks relating to the International Covered Block

Risks associated with over-indebted International Covered Block and the principle of dual recourse

In the case of the Issuer's insolvency, Czech law allows Mortgage Covered Bondholders to benefit from dual recourse against the (i) International Cover Pool, which covers the obligations of the Issuer arising from the Mortgage Covered Bonds issued under this Programme, and (ii) insolvency estate of the Issuer. Where, after the commencement of insolvency proceedings, the covered block which is formed by the International Cover Pool and the debts the International Cover Pool covers (the **International Covered Block**) is over-indebted, the Covered Block Administrator shall quantify the claims of the Mortgage Covered Bondholders to the extent in which they are not covered by the International Cover Pool and, without undue delay, shall send such quantification to the insolvency court within the period stipulated by the applicable law (typically two months). Upon delivery of the quantification, the respective claims contained therein are deemed to be registered within the insolvency proceedings (in order to seek satisfaction from the insolvency estate of the Issuer). The Mortgage Covered Bondholders may also register these claims themselves.

However, if the Covered Block Administrator fails to sufficiently ascertain the over-indebtedness of the International Covered Block and/or to quantify the relevant claims of the Mortgage Covered Bondholders within the above-mentioned period for registration of claims with the insolvency court and the Covered Bondholders do not make the respective registration themselves (since they might not even learn about the insufficient assets in the International Cover Pool), or if the Covered Block Administrator ascertains the over-indebtedness sufficiently, but the over-indebtedness increases subsequently (e.g. due to a decrease of value of the assets included in the International Cover Pool), the Mortgage Covered Bondholders will no longer be able to register such claims with the insolvency court. Although the Mortgage Covered Bondholders may register their claims with the insolvency court as conditional upon the over-indebtedness of the International Cover Pool being sufficiently determined by the Covered Block Administrator, such approach has not yet been tested and there is no assurance that it will be upheld by the Czech insolvency courts.

The over-indebted International Covered Block can also be subject to the Pari Passu Haircut (as defined below), i.e. proportional decrease of debts from the Mortgage Covered Bonds (see General Description of Czech Legislation relating to Mortgage Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool below). Since the Pari Passu Haircut results in a permanent reduction of the nominal values of all such debts, the Mortgage Covered Bondholders will not be able to register their claims in the amount exceeding the Pari Passu Haircut within the respective insolvency proceedings.

Both of the above-mentioned issues are being addressed in the currently discussed amendment to the Czech Bonds Act. Should this amendment be adopted, the Mortgage Covered Bondholders would be able to register the relevant claims with the insolvency court within one year after the standard period for registration expires. In the case of the Pari Passu Haircut, the Mortgage Covered Bondholders would be able to register with the insolvency court any amount of reduction under the Pari Passu Haircut at any time of the respective insolvency proceedings. However, the legislative discussions regarding this amendment are still at an early stage and the actual adoption is, therefore, not certain.

If any of these risks materialise, the Mortgage Covered Bondholders might lose a part of their investment.

The Mortgaged Property Value might reduce over time causing the value of the Mortgage Loans to become insufficient to meet the relevant Contractual Asset Cover Test and Statutory Tests and to provide cover for the Mortgage Covered Bonds

The International Cover Pool consists of: (i) Cover Assets which include the Mortgage Loans secured by way of a legally perfected first ranking mortgage in favour of the Issuer over the Mortgaged Property (each as defined below in General Description of Czech Legislation relating to Mortgage Covered Bonds); and (ii) Accessory Assets (as defined below).

Cover Assets must comply with the applicable requirements or criteria set out in the Czech Bonds Act. In particular, the nominal value of each Czech Bonds Act Mortgage Loan in the International Cover Pool may not exceed 100% of the value of the Mortgaged Property (as defined in General Description of Czech Legislation relating to Mortgage Covered Bonds – 3. Cover Assets and Statutory Cover Tests). In addition, the Issuer covenants, pursuant to the Terms and Conditions, to ensure compliance with the Contractual Eligibility Criteria and the Contractual Asset Cover Test. If the Issuer fails to comply with the applicable requirements or criteria

set out in the Czech Bonds Act, such non-compliance constitutes an administrative delict subject to a fine of up to CZK20 million.

As of the date of this Base Prospectus, all the Mortgaged Property is located in the Czech Republic. The Mortgaged Property Value as well as the value of the Mortgage Loans included in the International Cover Pool may reduce over time (including, in particular, in the event of a general downturn in the value of properties located in the Czech Republic) causing the value of the Mortgage Loans to become insufficient to meet the Contractual Asset Cover Test, the Statutory Tests and insufficient to provide cover for the issued and outstanding Mortgage Covered Bonds. If the Issuer subsequently fails to increase the value of assets included in the International Cover Pool, this may ultimately result in Mortgage Covered Bondholders receiving less than the total interest and principal they were expecting in respect of the Mortgage Covered Bonds.

Holders of all Mortgage Covered Bonds issued under this Programme share the Issuer's International Cover Pool which may, in some cases, be subject to involuntary administration

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

Pursuant to the Czech Bonds Act, the Issuer may create one cover pool, providing cover for all covered bonds issued by the Issuer in accordance with the Czech Bonds Act, or several cover pools, in which case the Issuer has to specify covered bonds issued by the Issuer in accordance with the Czech Bonds Act should be covered by each cover pool.

As of the date of this Base Prospectus, the Issuer operates two cover pools (see The International Cover Pool below). The first is the International Cover Pool, which will cover the Mortgage Covered Bonds issued under this Programme. The second is the Local Cover Pool, which covers the outstanding covered bonds issued by the Issuer under the Local Covered Bond Programme.

Thus, all holders of the Mortgage Covered Bonds issued under this Programme have the benefit of the International Cover Pool (i.e. of the same cover pool). The Issuer is therefore only limited by the volume of Mortgage Covered Bonds it may issue under this Programme, all of which will be covered by the International Cover Pool.

Under the Czech Bonds Act, without undue delay after (i) the CNB has filed an insolvency petition seeking the Declaration of the Insolvency of the Issuer, (ii) the Commencement of the Insolvency Proceedings, (iii) the Issuer has entered into liquidation, (iv) the CNB has revoked the Issuer's banking licence, or (v) the Issuer is, for reasons directly related to its financial situation, unable to discharge its debts and there is no prospect that it will be able to do so, the CNB appoints an involuntary covered block administrator (in Czech, *nucený správce krytých bloků*) (the **Covered Block Administrator**). Upon its appointment, the Covered Block Administrator manages all the covered blocks of the Issuer, including the International Covered Block (which is constituted by the International Cover Pool and the debts that the International Cover Pool covers).

If the CNB would appoint the Covered Block Administrator, and if the Covered Block Administrator realised any proceeds from the International Cover Pool (in accordance with its powers described in General Description of Czech Legislation relating to Mortgage Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool below), the proceeds would be distributed among all Mortgage Covered Bondholders, the holders of any other covered bonds issued by the Issuer then outstanding that will be covered by the International Cover Pool and the holders of the relevant Accessory Debt covered by the International Cover Pool (see The International Cover Pool – Debts Covered by the International Cover Pool below). This may result in Mortgage Covered Bondholders receiving less than the total interest and principal they were expecting in respect of the Mortgage Covered Bonds. Although the Issuer will comply with the Statutory Tests and the Contractual Asset Cover Test (each as defined and described in The International Cover Pool below), there can be no assurance that the assets comprising the International Cover Pool will have sufficient value to meet all payments due in respect of the Mortgage Covered Bonds.

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

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

However, the Czech Resolution and Recovery Act provides for various protections from the effect of partial property transfers. Under the Czech Resolution and Recovery Act, a transfer or passage of property, rights and liabilities under legal arrangements or relationships that qualify as "protected rights and liabilities" may not provide for the transfer or passage of some, but not all, of such "protected rights and liabilities" from legal arrangements or relationships. The "protected rights and liabilities" under legal arrangements or relationships under the Czech Resolution and Recovery Act in turn comprise, irrespective of number of parties or their governing law and no matter if the reason for their creation and continuation is contractual or statutory, among other things, covered bonds as well as structured finance arrangements, including securitisations and instruments used for hedging which form an integral part of the International Cover Pool and which are secured in a way similar to the covered bonds. As at the date of this Base Prospectus, there is very little experience with such transfers in the Czech Republic.

Moreover, if the CNB would appoint the Covered Block Administrator, the administrator may transfer the Covered Block to a third person under certain circumstances (as described in General Description of Czech Legislation relating to Mortgage Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool below).

Even though the applicable laws provide for measures that serve to achieve that any such transfers would not be detrimental to the interests of the Mortgage Covered Bondholders, it cannot be guaranteed that the position of the Mortgage Covered Bondholders will in fact not deteriorate as a result of such transfers (if any).

Liquidity buffer implemented to the International Cover Pool may not be sufficient to cover liquidity shortfalls

The Issuer will implement a liquidity buffer to the International Cover Pool, with the intention to maintain or generate sufficient liquidity to cover for certain payments due on either all or part of the debts covered by the International Cover Pool in a certain period of time.

Accordingly, the Issuer will implement such a liquidity buffer by the date of the settlement of the First Issuance in order to cover for certain payments of liabilities covered by the International Cover Pool due in, at all times, at least the following three-month period (for details, please see The International Cover Pool – Description of the International Cover Pool – Liquidity Buffer below). In time, the Issuer may re-evaluate the specific characteristics of the liquidity buffer.

However, there is no assurance that there will not be a liquidity shortfall despite the relevant measures taken by the Issuer to provide for such liquidity. If such liquidity shortfall exists, Mortgage Covered Bondholders may not receive payments at the moment they anticipated to receive such payments and these payments may not cover all amounts Mortgage Covered Bondholders may expect to receive, especially in case the administration of the International Covered Block is transferred from the Issuer to the Covered Block Administrator.

Moreover, for the avoidance of doubt, failure by the Issuer to maintain the liquidity buffer does not constitute an event of default under the Conditions or a breach of the Conditions and does not give the Mortgage Covered Bondholders or other persons any rights. Therefore, the Mortgage Covered Bondholders will not have a recourse against the Issuer in case the Issuer fails to maintain the liquidity buffer as envisaged.

The Issuer and the International Cover Pool may be exposed to substantial foreign exchange, interest and other risks related to any issuance of Mortgage Covered Bonds; such risks may only be effectively hedged against for the sole benefit of the International Cover Pool and Mortgage Covered Bondholders under the currently effective Czech law applicable to Czech Mortgage Covered Bonds upon the fulfilment certain requirements in respect of the hedging

The Issuer may enter into hedging arrangements in the form of Derivatives (as defined below) included in the International Covered Block (the **Hedging Arrangements**) in order to hedge foreign exchange, interest rate or other risks related to the Cover Assets and debts covered by the International Cover Pool (or their part), namely the debts under the Mortgage Covered Bonds. For example, foreign exchange risk arises if the Mortgage Covered Bonds are denominated in EUR due to the fact that the Mortgage Loans included in the International Cover Pool are denominated in CZK.

The Czech Bonds Act allows for a claim or receivable arising under a Hedging Arrangement to be included in the International Cover Pool or a creditor of a claim or receivable arising under a Hedging Arrangement (the **Hedge Counterparty**) to have any direct or indirect claim or receivable or priority right to the International Cover Pool provided that (i) the purpose of the Hedging Arrangement is to hedge against the risks related to Cover Assets included in the International Cover Pool or the Mortgage Covered Bonds; (ii) from the terms under which the Hedging Arrangement was concluded, it is clear that it is concluded in relation to the Mortgage Covered Bonds; (iii) the terms of the Hedging Arrangement provide that insolvency of the Issuer or a crisis resolution or similar measure in respect of the Issuer cannot constitute an event of default or a termination or similar event which could lead to early termination of the Hedging Arrangement; and (iv) the Hedge Counterparty has granted its prior consent to registration of the Hedging Arrangement in the Cover Assets Register (as defined below), while the same also applies to removal of the Hedging Arrangement from the Cover Assets Records (as defined below).

If the requirements set out in the previous paragraph are not met, the Issuer may enter into the Hedging Arrangements only by virtue of on-the-market swap or other derivative transactions that would constitute ordinary and unsegregated on-balance sheet claims or obligations of the Issuer vis-à-vis the Hedge Counterparty without any specific direct or indirect link to the International Cover Pool whatsoever. As a result, any foreign exchange, interest rate or other risks that the International Cover Pool is exposed to in connection with any issuance of Mortgage Covered Bonds under the Programme, most importantly the foreign exchange risk related to Mortgage Covered Bonds denominated in foreign currencies (namely in EUR), may not be effectively hedged against for the sole benefit of the International Cover Pool and the Mortgage Covered Bondholders (and creditors of other debts covered by the International Cover Pool).

The Issuer and the International Cover Pool may be reliant on payments from Hedge Counterparties in certain circumstances

The Issuer may enter into Hedging Arrangements with Hedge Counterparties to hedge against foreign exchange risk, interest rate risk or other risks. If a Hedge Counterparty defaults in its obligation to make payments under a Hedging Arrangement, the Issuer and the International Cover Pool will be exposed to changes in currency exchange rates, interest rates, or other risks (as applicable).

As a result, unless a replacement Hedging Arrangement is entered into, the Issuer may have insufficient funds to make payments due on the Covered Bonds and the assets included in the International Cover Pool may not be sufficient to satisfy all the claims of the Mortgage Covered Bondholders, especially in case the administration of the International Covered Block is transferred from the Issuer to the Covered Block Administrator.

II. RISKS RELATED TO THE MORTGAGE COVERED BONDS

The risk factors regarding the Mortgage Covered Bonds are presented in the following categories depending on their nature with the most material risk factor presented first in each category:

- Risks arising from the Conditions of the Mortgage Covered Bonds;
- Risks related to the nature of the Mortgage Covered Bonds;
- Risks related to the admission of the Mortgage Covered Bonds to trading on a regulated market; and
- Other risks related to the Mortgage Covered Bonds.

Risks arising from the Conditions of the Mortgage Covered Bonds

Fixed Rate Mortgage Covered Bonds

A Mortgage Covered Bondholder with a fixed rate of interest (the **Fixed Rate Mortgage Covered Bonds**) is exposed to the risk that the price of such Mortgage Covered Bond falls as a result of changes in the market interest rate. While the nominal interest rate of a Fixed Rate Mortgage Covered Bond as specified in the applicable Final Terms is fixed during the life of such Mortgage Covered Bond, the current interest rate on capital markets (**market interest rate**) typically changes on a daily basis. As the market interest rate changes, the price of a Fixed Rate Mortgage Covered Bond also changes, but in the opposite direction. If the market interest rate increases, the price of a Fixed Rate Mortgage Covered Bond typically falls, until the yield of such Mortgage Covered Bond is approximately equal to the market interest rate. If the market interest rate falls, the price of a Fixed Rate Mortgage Covered Bond typically increases, until the yield of such Mortgage Covered Bond is approximately equal to the market interest rate. If the Mortgage Covered Bondholder of a Fixed Rate Mortgage Covered Bond holds such Mortgage Covered Bond until maturity, changes in the market interest rate are without relevance to such Mortgage Covered Bondholder as the Mortgage Covered Bond will be redeemed at a specified redemption amount, usually the principal amount of such Mortgage Covered Bond.

Fixed to Floating Rate Mortgage Covered Bonds

Mortgage Covered Bonds issued with a fixed interest rate and a floating interest rate (the **Fixed to Floating Rate Mortgage Covered Bonds**) comprise both, risks relating to Fixed Rate Mortgage Covered Bonds (see above Fixed Rate Mortgage Covered Bonds) and risks relating to Floating Rate Mortgage Covered Bonds (see below Floating Rate Mortgage Covered Bonds). In addition, the Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Mortgage 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, the spread on the Fixed to Floating Rate Mortgage Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Mortgage 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 Mortgage Covered Bonds.

Floating Rate Mortgage Covered Bonds

Risks associated with the reform of LIBOR, EURIBOR, PRIBOR and other interest rate benchmarks

A holder of a Mortgage Covered Bond with a floating rate of interest (the **Floating Rate Mortgage Covered Bonds**) is exposed to the risk of fluctuating CMS rates (in case of Floating Rate Mortgage Covered Bonds linked to a constant maturity swap rate (the **CMS**)) or fluctuating reference rate levels (in case of Floating Rate Mortgage Covered Bonds linked to reference rates such as EURIBOR, LIBOR, PRIBOR, Euro Overnight Index Average (**EONIA**) or other reference rates) and uncertain interest income. Fluctuating CMS rate levels or reference rate levels make it impossible to determine the yield of Floating Rate Mortgage Covered Bonds in advance.

The EURIBOR, the LIBOR, the PRIBOR and other interest rate indices which are deemed to be "benchmarks" (each a **Benchmark** and together the **Benchmarks**) have become the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such Benchmarks to perform differently than in the past,

or to disappear entirely, or have other consequences which may have a material adverse effect on any Mortgage Covered Bonds linked to such a Benchmark.

International proposals for reform of Benchmarks include the Benchmark Regulation. In addition, there are numerous other proposals, initiatives and investigations which may impact Benchmarks. The Benchmark Regulation applies to "contributors", "administrators" and "users" of Benchmarks in the EU, and (i) requires, among other things, Benchmark administrators to be authorised (or, if non-EU-based, to have satisfied certain "equivalence" conditions in its local jurisdiction, to be "recognised" by the authorities of a Member State pending an equivalence decision or to be "endorsed" for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of Benchmarks and (ii) bans the use of Benchmarks of unauthorised administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called "critical Benchmark" indices such as EURIBOR and LIBOR, will apply to many other interest rate indices. Given that the Benchmark Regulation does not apply to central banks and that SONIA and SOFR and €STR are administered by the Bank of England, the Federal Reserve Bank of New York and the ECB, respectively, SONIA, SOFR and €STR do not fall within the scope of the Benchmark Regulation as at the date of this Base Prospectus. In case the administrator of any of these reference rates changes in the future, such reference rate might fall within the scope of the Benchmark Regulation.

The Benchmark Regulation could have a material impact on Mortgage Covered Bonds linked to a Benchmark rate or index, including in any of the following circumstances:

- a rate or index which is a Benchmark could not be used as such if its administrator does not obtain authorisation, its authorisation is withdrawn or suspended, or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the "equivalence" conditions, is not "recognised" pending such a decision and is not "endorsed" for such purpose. In such event, depending on the particular Benchmark and the applicable terms of the Mortgage Covered Bonds, the Mortgage Covered Bonds could be de-listed, adjusted, redeemed prior to maturity or otherwise impacted; and
- the methodology or other terms of the Benchmark could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level, and could lead to adjustments to the terms of the Mortgage Covered Bonds, including Issuer determination of the rate or level in its discretion.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives, could have a material adverse effect on the costs of refinancing a Benchmark or the costs and risks of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain Benchmarks, trigger changes in the rules or methodologies used in certain Benchmarks or lead to the disappearance of certain Benchmarks. Although it is uncertain whether or to what extent any of the above-mentioned changes and/or any further changes in the administration or method of determining a Benchmark could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be, and/or could have an effect on the value of any Mortgage Covered Bonds whose interest or principal return is linked to the relevant Benchmark, investors should be aware that they face the risk that any changes to the relevant Benchmark may have a material adverse effect on the value of and the amount payable under the Mortgage Covered Bonds. Benchmarks could also be discontinued entirely. For example, through a series of announcements, the UK Financial Conduct Authority has indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. If a Benchmark were to be discontinued or otherwise unavailable, the rate of interest for floating rate Mortgage Covered Bonds which are linked to such Benchmark will be determined for the relevant period by the fallback provisions applicable to such Mortgage Covered Bonds, which in the end could result in the same rate being applied until maturity of the floating rate Mortgage Covered Bonds, effectively turning the floating rate of interest into a fixed rate of interest (or resulting in a redemption right of the Issuer). Any of the foregoing could have a material adverse effect on the value or liquidity of, and the amounts payable on floating rate Mortgage Covered Bonds whose rate of interest is linked to a discontinued Benchmark.

Where Reference Rate Replacement is specified as being applicable in the applicable Final Terms, the Conditions provide for certain fallback arrangements in the event that an Original Reference Rate (as defined in the Conditions) and/or any page on which an Original Reference Rate may be published (or any other successor service) becomes unavailable or a Benchmark Event (as defined in the Conditions) otherwise occurs. Such

fallback arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Reference Rate or an Alternative Reference Rate (both as defined in the Conditions), with the application of an Adjustment Spread and may include amendments to the Conditions to ensure the proper operation of the successor or replacement benchmark, all as determined by the Issuer, following consultation with an Independent Adviser appointed by the Issuer (acting in good faith and in a commercially reasonable manner). An adjustment spread could be positive or negative or zero and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of an Original Reference Rate. However, it may not be possible to determine or apply an Adjustment Spread and, even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to investors. The use of a Successor Rate or Alternative Rate and an Adjustment Spread will still result in any Bonds linked to or referencing an Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate or, in either case, an Adjustment Spread is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Bonds based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Risks associated with new reference rates such as SONIA, SOFR and €STR

In the case of Floating Rate Mortgage Covered Bonds, where the Rate of Interest is specified in the applicable Final Terms as being determined by reference to SONIA, SOFR or €STR, the Rate of Interest will be determined on the basis of either a compounded daily rate or a weighted average rate. In either case, such rate will differ from the relevant LIBOR rate in a number of material respects, including (without limitation) that a compounded daily rate or weighted average rate will be determined by reference to backwards-looking, risk-free overnight rates, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on interbank lending. As such, investors should be aware that LIBOR, SONIA, SOFR and €STR may behave materially differently as interest reference rates for Mortgage Covered Bonds issued under the Programme. The use of SONIA, SOFR or €STR as a reference rate for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such reference rates.

Accordingly, prospective investors in any Mortgage Covered Bonds referencing SONIA, SOFR or €STR should be aware that the market continues to develop in relation to SONIA, SOFR and €STR as reference rates in the capital markets and their adoption as an alternative to GBP-LIBOR, USD-LIBOR and EONIA, respectively. For example, whether backwards-looking rates are ultimately determined on a compounding daily basis or a weighted average basis, and whether forward-looking "term" rates derived from SONIA, SOFR or €STR will be developed and adopted by the markets, remains to be seen. The adoption of SONIA, SOFR or €STR may also see component inputs into swap rates or other composite rates transferred from LIBOR or another reference rate to SONIA, SOFR or €STR, as applicable.

The market or a significant part thereof may adopt an application of SONIA, SOFR or €STR that differs significantly from that set out in the Terms and Conditions of the Mortgage Covered Bonds. The development of SONIA, SOFR and €STR and of the market infrastructure for adopting such rates could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA- or SOFR- or €STR-referencing Mortgage Covered Bonds issued under the Programme from time to time.

Furthermore, the Rate of Interest on Mortgage Covered Bonds which reference SONIA, SOFR or €STR is only capable of being determined at the end of the relevant Interest Period and shortly prior to the relevant Interest Payment Date. It may be difficult for investors in such Mortgage Covered Bonds to estimate reliably the amount of interest which will be payable on such Mortgage Covered Bonds, and some investors may be unable or unwilling to trade such Mortgage Covered Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Mortgage Covered Bonds. Further, in contrast to LIBOR-based Mortgage Covered Bonds, if Mortgage Covered Bonds referencing SONIA, SOFR or €STR are redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Mortgage Covered

Bonds shall only be determinable immediately prior to the date on which the Mortgage Covered Bonds become due and payable.

In addition, the manner of adoption or application of SONIA, SOFR and €STR reference rates in the Eurobond markets may differ materially compared to the application and adoption of SONIA, SOFR and €STR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA, SOFR or €STR reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Mortgage Covered Bonds referencing either such rate.

Investors should carefully consider these matters when making their investment decision with respect to any such Mortgage Covered Bonds.

Risk of early redemption

Mortgage Covered Bonds that contain a call option of the Issuer may be redeemed by the Issuer on certain call dates as specified in the Final Terms, by giving notice to the Mortgage Covered Bondholders (subject to restrictions in applicable laws and regulations).

If the Issuer redeems any Mortgage Covered Bonds prior to their maturity or if the Mortgage Covered Bonds are subject to an early redemption due to a tax or regulatory event, a Mortgage Covered Bondholder is exposed to the risk that, due to early redemption, his investment may have a lower than expected yield. The Issuer might exercise his optional call right if the yield on comparable Mortgage Covered Bonds in the capital market falls which means that the investor may only be able to reinvest the redemption proceeds in Mortgage Covered Bonds with a lower yield.

Mortgage Covered Bonds with a Cap

Floating Rate Mortgage Covered Bonds may be equipped with a cap with respect to the interest payment. In that case, the amount of interest will never rise above and beyond the predetermined cap, so that the Mortgage Covered Bondholders will not be able to benefit from any actual favourable development beyond the cap. The yield of these Mortgage Covered Bonds could therefore be lower than that of similarly structured Mortgage Covered Bonds without a cap. The market value of such Mortgage Covered Bonds may decrease or fluctuate over their term to a higher extent than comparable interest structured Mortgage Covered Bonds without a cap.

Zero Coupon Mortgage Covered Bonds

The **Zero Coupon Mortgage Covered Bonds** do not pay current interest but are issued at a discount from their nominal value (discounted Zero Coupon Mortgage Covered Bonds) or at their nominal value (compounded Zero Coupon Mortgage Covered Bonds). Instead of periodical interest payments, the difference between the redemption price and the issue price constitutes interest income until maturity and reflects the market interest rate. A Mortgage Covered Bondholder of Zero Coupon Mortgage Covered Bonds is exposed to the risk that the price of such Mortgage Covered Bonds falls as a result of changes in the market interest rate. Prices of Zero Coupon Mortgage Covered Bonds are more volatile than prices of Fixed Rate Mortgage Covered Bonds and are likely to respond to a greater degree to market interest rate changes than interest bearing Mortgage Covered Bonds with a similar maturity.

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

If the Issuer or the Covered Block Administrator has failed to redeem the relevant Mortgage Covered Bonds in full on the Maturity Date or within 14 Business Days thereafter the maturity of the principal amount outstanding of the Mortgage Covered Bonds not redeemed will be automatically extended up to (and including) the date designated as an Extended Maturity Date in the applicable Final Terms (the **Extended Maturity Date**). In that event, the Issuer may, and if the CNB has appointed the Covered Block Administrator and to the extent there are sufficient monies available in the International Covered Block, and it is permitted by the applicable law, the Covered Block Administrator shall, redeem all or any part of the principal amount outstanding of the Mortgage Covered Bonds on any Interest Payment Date falling after the Maturity Date, up to and including the Extended Maturity Date. In that event, the Mortgage Covered Bonds will also bear interest on the principal amount outstanding of the Mortgage Covered Bonds in accordance with the applicable Final Terms.

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

If the maturity of the Mortgage Covered Bonds is extended until the Extended Maturity Date, the Mortgage Covered Bondholders will also not be able to reinvest or otherwise use the proceeds from repayment of principal on the Mortgage Covered Bonds between the original Maturity Date and the date on which the Mortgage Covered Bonds will be repaid (up to the Extended Maturity Date).

The concept of the Czech Mortgage Covered Bonds issued under and governed by foreign law was adopted by the Czech Bonds Act in 2012 and it is not certain how the Czech Bonds Act as well as the CNB Decree and the relevant provisions of the Czech Insolvency Act will be interpreted in judicial, administrative or other relevant practice following the date of issue of the Mortgage Covered Bonds

The current wording of Section 28(1) of the Czech Bonds Act provides that Czech covered bonds (in Czech, *kryté dluhopisy*) are either: (i) bonds (in Czech, *dluhopisy*) which are issued by a bank under and governed by Czech law; or (ii) similar debt securities representing a right for repayment of an owed amount issued by a bank under foreign law, which as of the respective issue date meet the Statutory Tests.

The Czech Bonds Act has been amended already in 2012 to enable the mortgage covered bonds (in Czech, *hypoteční zástavní listy*) (i.e. the only category of then recognised Czech covered bonds) 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 Mortgage Covered Bonds. The Czech Bonds Act and the issuance of English law governed covered bonds have not been tested in Czech courts 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 the Mortgage 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, Decree of the CNB No. 2/2019 Coll., on Keeping Records of the Covered Blocks, as amended (the **CNB Decree**) or the Czech Insolvency Act) or administrative or other relevant practice after the date of issue of the relevant Mortgage 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 Mortgage Covered Bonds.

In addition, any change in legislation or in practice in the Czech Republic, Luxembourg, the UK or in any other relevant jurisdiction could adversely impact: (i) the ability of the Issuer to service the Mortgage Covered Bonds; and (ii) the market value of the Mortgage 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, 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 from 1 January 2014) for free choice of law in respect of such unilateral acts.

Recent changes in the Czech Bonds Act may affect various aspects of the validity or enforceability of the Issuer's or the Mortgage Covered Bondholders' rights and obligations including those under the Mortgage Covered Bonds

A significant amendment No. 307/2018 Coll. to the Czech Bonds Act which introduced a new legal framework of Czech covered bonds including ring-fencing of the International Cover Pool from the Issuer's general insolvency estate (in Czech, *majetková podstata*) (the **General Insolvency Estate**) has entered into force on 4 January 2019. Considering that this new regulatory framework took effect from 4 January 2019 only, there is no case law and very limited market practice at this moment. It is not clear how the new and untested regulatory

framework 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 Mortgage Covered Bonds.

Risks related to the nature of the Mortgage Covered Bonds

Risks relating to market value of the Mortgage Covered Bonds

The market value (or the market price) of the Mortgage Covered Bonds will be affected by a number of factors such as prevailing interest and yield rates, the market for similar securities (i.e. credit spreads), general economic conditions or, as the case may be, the remaining term of the Mortgage Covered Bonds. If the Mortgage Covered Bonds are traded after their initial issuance, these factors may lead to a market value of the Mortgage Covered Bonds being substantially below their Issue Price. The market value at which a Mortgage Covered Bondholder will be able to sell the Mortgage Covered Bonds may be substantially below the Issue Price. The Issuer does not guarantee that the spread between purchase and selling prices lies within a certain range or remains constant. If the Mortgage Covered Bondholder sells the Mortgage Covered Bonds at a time where the market value of the Mortgage Covered Bonds is below the Issue Price they will suffer a loss.

Interest rate risk

Interest rate risk is one of the central risks of interest-bearing Mortgage Covered Bonds. The interest rate level on the money and capital markets may fluctuate on a daily basis and cause the value of the Mortgage Covered Bonds to change on a daily basis. The interest rate risk is a result of the uncertainty with respect to future changes of the market interest rate and credit spread level. Mortgage Covered Bondholders of floating rate Mortgage Covered Bonds may receive a lower interest amount than they have initially expected. Mortgage Covered Bondholders of fixed rate Mortgage Covered Bonds are exposed to an interest rate risk that could result in a diminution in value of the Mortgage Covered Bonds if the market interest rate level increases. In general, the effects of this risk increase as the market interest rates increase. See Fixed Rate Mortgage Covered Bonds above.

Currency risk with respect to the Mortgage Covered Bonds

The Mortgage Covered Bonds may be denominated in a currency other than the currency of the jurisdiction where the investor is domiciled or where the investor seeks to receive funds. Exchange rates between currencies (the **Currency Exchange Rates**) are determined by factors of supply and demand in the international currency markets, which are affected by macro-economic factors, speculations and intervention by the central banks and governments (including the imposition of currency controls and restrictions). Fluctuations in Currency Exchange Rates may have a negative impact on the value of the Mortgage Covered Bonds and may result in a loss.

Inflation risk

The inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on Mortgage Covered Bond. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

Denominations

In relation to any issue of Mortgage Covered Bonds which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Mortgage Covered Bonds may be traded in amounts in excess of EUR100,000 (or its equivalent) that are not integral multiples of EUR100,000 (or its equivalent). In such a case a Mortgage Covered Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination would need to purchase a principal amount of Mortgage Covered Bonds such that its holding amounts to a Specified Denomination.

Risks related to the admission of the Mortgage Covered Bonds to trading on a regulated market

Risk that no active trading market for the Mortgage Covered Bonds exists

The Mortgage Covered Bonds will be newly issued securities, which will not necessarily be widely distributed and for which an active trading market will not necessarily exist and develop.

Although applications could be made for the Mortgage Covered Bonds to be admitted to the regulated market of any stock exchange or to any market within the EEA, there is no assurance that such applications will be accepted, that a particular tranche of Mortgage Covered Bonds will be admitted or that an active trading market will develop. Accordingly, there is no assurance regarding the development or liquidity of a trading market for a particular tranche of Mortgage Covered Bonds. Neither the Issuer nor a Dealer can assure that a Mortgage Covered Bondholder will be able to sell their Mortgage Covered Bonds prior to their maturity. If the Mortgage Covered Bonds are not traded on any securities exchange, pricing information for the Mortgage Covered Bonds may be more difficult to obtain which may have a negative effect on the liquidity and the market prices of the Mortgage Covered Bonds.

The Issuer may, but is not obliged to, purchase Mortgage Covered Bonds at any time and at any price in the open market, by tender or private agreement. Any Mortgage Covered Bonds purchased in this way by the Issuer may be held, resold or cancelled. If the Issuer acts as the only market maker or if there is no market maker, the secondary market may become even more limited. The more limited the secondary market is, the more difficult it may be for Mortgage Covered Bondholders to realise the value of the Mortgage Covered Bonds prior to the maturity date of the Mortgage Covered Bonds. Therefore, a certain risk does exist that Mortgage Covered Bondholders have to hold the Mortgage Covered Bonds until the maturity date of the Mortgage Covered Bonds or the Mortgage Covered Bonds are redeemed early (if a right to redeem the Mortgage Covered Bonds early is applicable).

Risks relating to the offering volume

The offering volume described in the Final Terms is equal to the maximum volume of the Mortgage Covered Bonds offered, which might be increased at any time. This amount does not allow any conclusions on the volume of the Mortgage Covered Bonds actually issued, and thus on the liquidity of a potential secondary market associated with the same risks as stated above.

Legality of purchase

Neither the Issuer nor any Dealer or any of their affiliates has assumed or assumes responsibility towards any potential investor for the legality of the acquisition of the Mortgage Covered Bonds, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that potential investor with any law, regulation or regulatory policy applicable to it.

Other risks related to the Mortgage Covered Bonds

If the Mortgage Covered Bonds do not become or cease to be compliant with Article 129 of the CRR or with the LCR Regulation, the Mortgage Covered Bondholders may be adversely affected

The value of the Mortgage Covered Bonds generally or specifically to certain investors may derive from whether they are compliant with Article 129 of the CRR and eligible for preferential treatment under the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, as amended (the **LCR Regulation** and the **Preferential Status**).

As of the date of this Base Prospectus, the Issuer intends for the Mortgage Covered Bonds to comply with Article 129 of the CRR and qualify for the Preferential Status on a voluntary basis only. The Contractual Eligibility Criteria in relation to the Cover Assets included in the International Cover Pool stipulate that the Mortgage Loan receivables amount included in the International Cover Pool is capped at a maximum LTV Ratio of 80%. Any other failure of the Issuer to comply with Article 129 of the CRR and have the Mortgage Covered Bonds qualify for the Preferential Status, however, does not constitute an event of default under the Conditions or a breach of the Conditions. There will be no monitoring by the Asset Monitor of the compliance with requirements of Article 129 of the CRR, other than with respect to the maximum LTV Ratio. Therefore, no assurance is provided by the Issuer in relation to (ongoing) compliance with Article 129 of the CRR.

If the Mortgage Covered Bonds do not acquire the Preferential Status, if they lose the Preferential Status or acquire a lower grade of the Preferential Status than previously held, for example upon a change of the applicable legal requirements following the issuance of a series of the Mortgage Covered Bonds or upon a decrease in rating of the Mortgage Covered Bonds, a Mortgage Covered Bondholder may experience adverse consequences (i.e. an adverse effect on the market value or on the regulatory treatment of the Mortgage Covered Bonds).

Ratings

Mortgage Covered Bonds issued under the Programme may be rated or unrated. Where a Tranche of Mortgage Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms relating to such Tranche and may not necessarily be the same as the expected rating indicated in this Base Prospectus. 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. In addition, the Issuer may decide to no longer use the services of a particular rating agency or use the services of another rating agency. Any ratings assigned to Mortgage Covered Bonds as at the date of issue are not indicative of future performance of the relevant Issuer's business or its future creditworthiness.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the EEA unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website 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.

Investors regulated in the UK are subject to similar restrictions under Regulation (EC) No.1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK CRA Regulation**). As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances.

If the status of the rating agency rating the Mortgage Covered Bonds changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Mortgage Covered Bonds may have a different regulatory treatment, which may impact the value of the Mortgage Covered Bonds and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

The Mortgage Covered Bonds are not covered by the statutory deposit protection

Claims of the Mortgage Covered Bondholders under the Mortgage Covered Bonds are not covered by the statutory deposit protection (in Czech, *pojištění pohledávek z vkladů*). In the case of an over-indebted International Cover Pool, the excessive part of the Mortgage Covered Bondholders' receivables (i.e. to the extent the value of such receivables exceeds the available cover provided by the International Cover Pool) remain uncovered. Such Mortgage Covered Bondholders' claims may only be satisfied together with all other claims of all other general creditors of the Issuer registered with the insolvency court. Therefore, in such case and upon the insolvency of the Issuer, Mortgage Covered Bondholders could be subject to the risk of a significant loss of their investment in the Mortgage Covered Bonds.

Transaction costs

When Mortgage Covered Bonds are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred beside the purchase or sale price of the Mortgage Covered Bonds. These incidental costs may significantly reduce or even eliminate any profit from holding the Mortgage Covered Bonds. Generally, credit institutions charge commissions, which are either fixed minimum commissions or pro rata commissions, depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, e.g. domestic dealers or brokers in foreign markets, Mortgage Covered

Bondholders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

Risks relating to hedging transactions

Mortgage Covered Bondholders may not be able to make transactions to preclude or limit risks at all times during the term of the Mortgage Covered Bonds. Their ability to do so will depend on, inter alia, market conditions. In some cases investors may make such transactions only at a market price that is disadvantageous to them, so that a significant loss will occur.

Transactions to reduce risks

Any person intending to use the Mortgage Covered Bonds as a hedging instrument should recognise the correlation risk. The correlation risk in this case is the risk that the estimated and the actual correlation of the Mortgage Covered Bonds may differ. This means that the hedging position estimated to move in the opposite direction as a security may prove to be correlated with the security, and that this may lead to failure of the envisaged hedging transaction. The Mortgage Covered Bonds may not be a perfect hedge to an underlying or portfolio of which the underlying forms a part.

Reinvestment risk

Mortgage Covered Bondholders may be exposed to risks connected to the reinvestment of cash resources freed from any Mortgage Covered Bonds. The return the Mortgage Covered Bondholder will receive from a Mortgage Covered Bond depends not only on the price and the nominal interest rate of the Mortgage Covered Bonds but also on whether or not the interest received during the term of the Mortgage Covered Bonds, if any, can be reinvested at the same or a higher interest rate than the rate provided for in the Mortgage Covered Bonds. The risk that the general market interest rate falls below the interest rate of the Mortgage Covered Bonds during its term is generally called reinvestment risk. The extent of the reinvestment risk depends on the individual features of the relevant Mortgage Covered Bonds.

Risks arising from financing the purchase of the Mortgage Covered Bonds

If a potential investor decides to finance the purchase of the Mortgage Covered Bonds with funds borrowed from a third party, the investor should make sure in advance that he can still pay the interest and principal payments on the loan also in the event of a loss. The investor should not rely on gains or profits from the investment in the Mortgage Covered Bonds in order to repay interest and principal of the loans when due and payable. In that case, the expected return must be set higher since the costs relating to the purchase of the Mortgage Covered Bonds and those relating to the loan (interest, redemption, handling fee) have to be taken into account.

Mortgage Covered Bondholders rely on the procedures of Euroclear and Clearstream, Luxembourg as regards the transfer, payment and communication

Mortgage Covered Bonds issued under the Programme may be represented by one or more global Mortgage Covered Bonds. Such global Mortgage Covered Bonds may be deposited with a common depositary or, if the global Mortgage Covered Bonds are NGMCBs (as defined in Form of the Mortgage Covered Bonds below) or Registered Global Mortgage Covered Bonds to be held under the New Safekeeping Structure, a common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Mortgage Covered Bonds. While the Mortgage Covered Bonds are represented by one or more global Mortgage Covered Bonds, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Mortgage Covered Bonds are represented by one or more global Mortgage Covered Bonds, the Issuer will discharge the payment obligations under the Mortgage Covered Bonds by making payments to the common depositary, or for Mortgage Covered Bonds that are NGMCBs or Registered Global Mortgage Covered Bonds to be held under the New Safekeeping Structure, the common safekeeper for Euroclear and Clearstream, Luxembourg, for distribution to their account holders. A holder of a beneficial interest in a global Mortgage Covered Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg. The Issuer has no responsibility or liability for the records relating to the beneficial interests in the global Mortgage Covered Bonds.

Holders of beneficial interests in the global Mortgage Covered Bonds will not have a direct right to vote in respect of the relevant Mortgage Covered Bond. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the global Mortgage Covered Bonds will not have a direct right under the global Mortgage Covered Bonds to take enforcement action against the Issuer in the event of a default under the relevant Instruments.

Harmonisation of the EU covered bond framework

Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision (the **New Covered Bond Directive**) and Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds (the **New Covered Bond Regulation**), entered into force on 7 January 2020. The New Covered Bond Directive has to be transposed by the EU Member States by 8 July 2022. The New Covered Bond Regulation will be directly applicable in Member States from 8 July 2022.

The New Covered Bond Directive replaces current Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and establishes a revised common base-line for issue of covered bonds for EU regulatory purposes (subject to various options that Member States may choose to exercise when implementing the New Covered Bond Directive in their respective national laws). The New Covered Bond Regulation amends Article 129 of the CRR (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the CRR regime. Given that some aspects of the new regime will require transposition through national laws and given that the government of the Czech Republic has not submitted draft legislation for the implementation of the New Covered Bond Directive into Czech law, there can be no assurances or predictions made as to the precise effect of the new regime on the Mortgage Covered Bonds.

Pursuant to the Conditions and the Trust Deed, the Issuer is entitled to make any modification to any of the provisions of the Mortgage Covered Bonds or certain documents entered into in connection with the Programme to reflect and/or implement any new provisions of applicable 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 Mortgage Covered Bondholders, concur with the Issuer in making such modification (notwithstanding that such modification may be prejudicial to the interests of the Mortgage 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. It is uncertain whether the Issuer will exercise its right to make any modifications to any of the provisions of the Mortgage Covered Bonds or certain documents entered into in connection with the Programme, either resulting from an implementation of the New Covered Bond Directive or any other law, and whether such changes will be prejudicial to the interests of the Mortgage Covered Bondholders.

Conflict of interest risks

Nothing in the documents entered into in connection with the Programme shall prevent any of the parties to such documents from rendering services similar to those provided for in such documents to other persons, firms or companies or from carrying on any business similar to or in competition with the business of any of the parties to such documents.

Accordingly, conflicts of interest may exist or may arise as a result of parties to this transaction:

- having previously engaged or in the future engaging in transactions with other parties to the transaction;
- having multiple roles in this transaction;
- purchasing some of the Mortgage Covered Bonds and subsequently dealing in such Mortgage Covered Bonds; and/or
- carrying out other roles or transactions for third parties.

Change of law

The Conditions of the Mortgage Covered Bonds (except for the status provisions of the Mortgage Covered Bonds which are governed by Czech law) are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial or administrative decision or changes to English and/or Czech law after the date of this Base Prospectus.

Mortgage Covered Bonds are obligations of the Issuer only

The Mortgage Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with other obligations of the Issuer that have been provided the same priority as such Mortgage 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 Mortgage Covered Bonds are obligations of the Issuer which can be repaid or satisfied from any assets of the Issuer, subject to the special regime that applies in respect of the obligations arising from the outstanding Czech Mortgage Covered Bonds (including Mortgage Covered Bonds issued under the Programme) in the Issuer's insolvency (see General Description of Czech Legislation relating to Mortgage Covered Bonds).

An investment in the Mortgage 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 Mortgage Covered Bonds.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditor's report and consolidated audited annual financial statements of the Issuer as of and for the financial year ended 31 December 2019 including the information set out at the following pages:

Auditor's Report	299-305
Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	84-85
Consolidated Statement of Financial Position	86
Consolidated Statement of Cash Flows	88-89
Consolidated Statement of Changes in Equity	87
Accounting Principles and Notes	90-173

(available at: <https://www.kb.cz/getmedia/2af375ae-2f37-416f-9886-2f4fabee252f/kb-2019-annual-report.pdf.aspx>)

- (b) the auditor's report and consolidated audited annual financial statements of the Issuer as of and for the financial year ended 31 December 2018 including the information set out at the following pages:

Auditor's Report	346-351
Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	84-85
Consolidated Statement of Financial Position	86-87
Consolidated Statement of Cash Flows	89-90
Consolidated Statement of Changes in Equity	88
Accounting Principles and Notes	91-197

(available at: <https://www.kb.cz/getmedia/374d8af5-9c81-492d-98f4-1b7ea2e28c21/kb-2018-annual-report.pdf.aspx>)

- (c) the consolidated unaudited interim financial statements of the Issuer for the nine months ended 30 September 2020 including the information set out at the following pages:

Consolidated Statement of Income	1
Consolidated Statement of Comprehensive Income	2
Consolidated Statement of Financial Position	3

(available at: <https://www.kb.cz/getmedia/cc3b6a14-97d9-405c-b7a8-3f8a453d27a5/KB-Group-financial-statements-3Q-2020.pdf.aspx>)

Any non-incorporated parts of a document referred to herein are either deemed irrelevant for an investor or are otherwise covered elsewhere in this Base Prospectus. All documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

SUPPLEMENTS TO THE BASE PROSPECTUS

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

FORM OF THE MORTGAGE COVERED BONDS

The Mortgage 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 Mortgage Covered Bonds

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

- (a) if the Bearer Global Mortgage Covered Bonds are intended to be issued in new global mortgage covered bond (**NGMCB**) 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 and Clearstream, Luxembourg; and
- (b) if the Global Mortgage Covered Bonds are not intended to be issued in NGMCB form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Bearer Mortgage Covered Bonds issued in respect of any Tranche are in NGMCB form, the applicable Final Terms will also indicate whether or not such Global Bearer Mortgage Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Bearer Mortgage Covered Bonds are to be so held does not necessarily mean that the Mortgage 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 NGMCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

While any Bearer Mortgage Covered Bond is represented by a Temporary Global Mortgage Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Temporary Mortgage Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Mortgage Covered Bond if the Temporary Global Mortgage Covered Bond is not intended to be issued in NGMCB 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 Mortgage 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 Mortgage Covered Bond is issued, interests in such Temporary Global Mortgage Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (a) interests in a Permanent Global Mortgage Covered Bond of the same Series; or (b) if an Exchange Event (as defined below) has occurred, definitive Bearer Mortgage Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated 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 Mortgage 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 Mortgage Covered Bond for an interest in a Permanent Global Mortgage Covered Bond or for definitive Bearer Mortgage Covered Bonds is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Global Mortgage Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Mortgage Covered Bonds with, where applicable, interest coupons and talons attached 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 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 Mortgage Covered Bonds represented by the Permanent Global Mortgage 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 the holders of Mortgage Covered Bonds (the **Mortgage 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 Mortgage 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 (i) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all permanent and definitive Mortgage Covered Bonds where TEFRA D is specified in the applicable Final Terms and on all interest coupons relating to such Mortgage Covered Bonds:

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

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Mortgage 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 Mortgage Covered Bonds or interest coupons.

Mortgage Covered Bonds which are represented by a Bearer Global Mortgage 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 Mortgage Covered Bonds

The Registered Mortgage Covered Bonds of each Tranche will initially be represented by a global mortgage covered bond in registered form (a **Registered Global Mortgage Covered Bond**). Prior to expiry of the distribution compliance period (as defined in Regulation S (**Regulation S**) under the Securities Act) applicable to each Tranche of Mortgage Covered Bonds, beneficial interests in a Registered Global Mortgage 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 Mortgage Covered Bonds) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Registered Global Mortgage Covered Bond will bear a legend regarding such restrictions on transfer.

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

The Registered Global Mortgage 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 Mortgage Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.5 (Payments in Respect of Registered Mortgage Covered Bonds) as the registered holder of the Registered Global Mortgage 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 Mortgage 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 Mortgage 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 in Respect of Registered Mortgage Covered Bonds)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Mortgage Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Registered Mortgage 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 (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Mortgage Covered Bonds represented by the Registered Global Mortgage 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 Mortgage 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 Mortgage 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 (ii) 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 Mortgage 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 Mortgage Covered Bond. No beneficial owner of an interest in a Registered Global Mortgage 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 Mortgage 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 Mortgage Covered Bonds), the Principal Paying Agent shall arrange that, where a further Tranche of Mortgage Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Mortgage Covered Bonds at a point after the Issue Date of the further Tranche, the Mortgage 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 Mortgage 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 Mortgage 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 Mortgage 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.

TERMS AND CONDITIONS OF THE MORTGAGE COVERED BONDS

The following are the Terms and Conditions of the Mortgage Covered Bonds which will be incorporated by reference into each Global Mortgage Covered Bond (as defined below) and each definitive Mortgage 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 Mortgage 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 Mortgage Covered Bond and definitive Mortgage 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 Mortgage Covered Bonds.

This Mortgage Covered Bond is one of a Series (as defined below) of Mortgage Covered Bonds issued by Komerční banka, a.s. (the **Issuer**) constituted by a Trust Deed dated 4 January 2021 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**), made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the **Trustee**, which expression shall include any successor or co-trustee appointed pursuant to the terms of the Trust Deed).

Unless expressly stated otherwise, references herein to the **Mortgage Covered Bonds** shall be references to the Mortgage Covered Bonds of this Series and shall mean:

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

The Mortgage Covered Bonds shall be covered by the cover pool of the Issuer with an identifier: "Komerční banka_HZL_EUR_0001" (the **International Cover Pool**) which covers the Mortgage Covered Bonds. The Issuer has also established a cover pool with an identifier: Komerční banka_HZL_0000 (the **Local Cover Pool**), which covers the outstanding covered bonds issued by the Issuer under the CZK150 billion local bonds 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 Act No. 190/2004 Coll., as amended (the **Czech Bonds Act**); and (ii) other bonds issued under Czech law in accordance with the Czech Bonds Act, approved by the Board of Directors of the Issuer on 7 March 2007 (the **Local Covered Bond Programme**). The Local Cover Pool shall not cover the Mortgage Covered Bonds. For the avoidance of any doubts, the Issuer is authorised to establish any additional cover pools in respect of Czech Mortgage Covered Bonds (as defined below) in the future. In such case, the then outstanding Mortgage Covered Bonds will remain covered by the International Cover Pool. The Issuer shall not issue any covered bonds covered by the International Cover Pool other than the Mortgage Covered Bonds of any Series.

The Mortgage Covered Bonds (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 4 January 2021 (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, The Bank of New York Mellon, London Branch as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent appointed under the Agency Agreement) 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 appointed under the Agency Agreement) and The Bank of New York Mellon, SA/NV, Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar appointed under the Agency Agreement) 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 Mortgage Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Mortgage 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 Mortgage Covered Bond.

Interest bearing definitive Bearer Mortgage Covered Bonds have interest coupons (**Coupons**) and, in the case of Mortgage 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 Mortgage Covered Bonds and Global Mortgage 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 Mortgage Covered Bonds (the **Mortgage Covered Bondholders** (which expression shall mean (in the case of Bearer Mortgage Covered Bonds) the holders of the Mortgage Covered Bonds and (in the case of Registered Mortgage Covered Bonds) the persons in whose name the Mortgage Covered Bonds are registered and shall, in relation to any Mortgage Covered Bonds represented by a Global Mortgage 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 Mortgage Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Mortgage Covered Bonds together with any further Tranche or Tranches of Mortgage 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 Mortgage 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 at Prague 1, Na Příkopě 33 Descr. No. 969, Postal Code 114 07, Czech Republic, and (subject to providing reasonable advanced notice) at the specified office of each of the Principal Paying Agent and the other Paying Agents, during normal business hours of each of the Principal Paying Agent and/or the Paying Agents. Each of the Principal Paying Agent or the Paying Agent may, in their sole discretion, elect instead to provide electronic copies (by e-mail or otherwise) of the Trust Deed and the Agency Agreement in lieu of physical inspection (subject to evidence of entitlement to such inspection being provided). If the Mortgage 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 Luxembourg Stock Exchange's website (www.bourse.lu). The Mortgage 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.

Unless a contrary indication appears, a reference in these Conditions to a legal act or provision of law is a reference to that legal act or provision of law as amended, replaced or re-enacted.

1. **Form, Denomination and Title**

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

The Mortgage Covered Bonds may be Fixed Rate Mortgage Covered Bonds, Floating Rate Mortgage Covered Bonds, Zero Coupon Mortgage 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 Mortgage Covered Bonds or Floating Rate Mortgage Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms in respect of the period from the Maturity Date up to and including the Extended Maturity Date.

Definitive Bearer Mortgage Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Mortgage 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 Mortgage Covered Bonds and Coupons will pass by delivery and title to the Registered Mortgage 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 Mortgage Covered Bond or Coupon and the registered holder of any Registered Mortgage 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 Mortgage Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Mortgage Covered Bonds is represented by a Global Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bond where the applicable Final Terms specify that it is a new global mortgage covered bond or a Registered Global Mortgage Covered Bond where the applicable Final Terms specify that it is held under the safekeeping structure for registered mortgage covered bonds 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, S.A. (**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 Mortgage Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Mortgage 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 Mortgage Covered Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Mortgage Covered Bonds, for which purpose the bearer of the relevant Bearer Global Mortgage Covered Bond or the registered holder of the relevant Registered Global Mortgage Covered Bond shall be treated by the Issuer, each of the Agents and the Trustee as the holder of such nominal amount of such Mortgage Covered Bonds in accordance with and subject to the terms of the relevant Global Mortgage Covered Bond and the expressions **Mortgage Covered Bondholder** and **holder of Mortgage Covered Bonds** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Mortgage 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.

Mortgage Covered Bonds which are represented by a Global Mortgage 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 Mortgage Covered Bonds

2.1 Transfers of Interests in Registered Global Mortgage Covered Bonds

Transfers of beneficial interests in Registered Global Mortgage 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 Mortgage Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Mortgage Covered Bonds in definitive form or for a beneficial interest in another Registered Global Mortgage 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 Mortgage Covered Bonds

Subject as provided in Condition 2.5 (Exchanges and Transfers of Registered Mortgage Covered Bonds Generally) below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Mortgage 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 Mortgage Covered Bond for registration of the transfer of the Registered Mortgage Covered Bond (or the relevant part of the Registered Mortgage 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 Mortgage Covered Bond in definitive form of a like aggregate nominal amount to the Registered Mortgage Covered Bond (or the relevant part of the Registered Mortgage Covered Bond) transferred. In the case of the transfer of part only of a Registered Mortgage Covered Bond in definitive form, a new Registered Mortgage Covered Bond in definitive form in respect of the balance of the Registered Mortgage 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 Mortgage Covered Bonds under Condition 6 (Redemption and Purchase), the Issuer shall not be required to register the transfer of any Registered Mortgage Covered Bond, or part of a Registered Mortgage Covered Bond, called for partial redemption.

2.4 Costs of Registration

Mortgage 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 Mortgage Covered Bonds Generally

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

3. Status of the Mortgage Covered Bonds

The Mortgage 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 Mortgage Covered Bonds and any related Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and at least *pari passu* with other obligations of the Issuer that have been provided the same priority as such Mortgage Covered Bonds. Although the Mortgage 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 Mortgage Covered Bonds issued by the Issuer.

Each Mortgage Covered Bond will bear the designation "*hypoteční zástavní list*" or its equivalent in English language to be recognised as a mortgage covered bond under the Czech Bonds Act, the CNB Decree and the Czech Insolvency Act.

In these Conditions:

CNB Decree means the Decree of the Czech National Bank No. 2/2019 Coll. of 21 December 2018 (in Czech, *Vyhláška České národní banky č. 2/2019 Sb. ze dne 21. prosince 2018*) implementing certain provisions of the Czech Bonds Act.

Czech Mortgage 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 Mortgage Covered Bonds), under the Local Covered 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.

4. Interest

4.1 Interest on Fixed Rate Mortgage Covered Bonds

This Condition 4.1 applies to Fixed Rate Mortgage 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 Mortgage 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 Mortgage 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 Mortgage 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 these 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 or the relevant payment date if the Mortgage Covered Bonds become payable on a date other than an Interest Payment Date.

Except in the case of Mortgage 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 Mortgage Covered Bonds which are (i) represented by a Global Mortgage Covered Bond or (ii) Registered Mortgage Covered Bonds in definitive form, the aggregate outstanding nominal amount of (A) the Fixed Rate Mortgage Covered Bonds represented by such Global Mortgage Covered Bond or (B) such Registered Mortgage Covered Bonds; or
- (b) in the case of Fixed Rate Mortgage Covered Bonds which are Bearer Mortgage Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction.

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount, as applicable, to the aggregate outstanding nominal amount of Fixed Rate Mortgage Covered Bonds which are Registered Mortgage Covered Bonds in definitive form or the Calculation Amount in the case of Fixed Rate Mortgage Covered Bonds which are Bearer Mortgage Covered Bonds in definitive form) shall be rounded 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 Mortgage Covered Bond which is a Bearer Mortgage Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Mortgage 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 Mortgage 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 Mortgage 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.

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 Mortgage Covered Bonds

(a) *Interest Payment Dates*

This Condition 4.2 applies to Floating Rate Mortgage 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 Mortgage 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, 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 Mortgage 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 these Conditions, **Interest Period** means:

- (A) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and
- (B) where interest is required to be determined in respect of a period other than a full period under (A) above, such other period in respect of which interest is to be calculated, being the period from (and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due.

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:

- (1) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (Interest on Floating Rate Mortgage 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
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) 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
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (I) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre (other than the TARGET2 System) specified in the applicable Final Terms;
- (II) if the TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (III) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

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

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

(i) ***ISDA Determination for Floating Rate Mortgage 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 Calculation Agent under an interest rate swap transaction if the Calculation Agent was acting as "Calculation Agent" (as defined in the ISDA Definitions (as defined below)) 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 Mortgage 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.

If the Floating Rate Option is not available (for any reason whatsoever), where the 2006 ISDA Definitions state that the determination of the Floating Rate Option will be pursuant to any requirement for the Calculation Agent to request quotes from Reference Banks, Reference Dealers or major banks pursuant to the 2006 ISDA Definitions, such requirement to make requests for quotations for rates from, and the provision of quotations for rates by, the requisite number of Reference Banks, Reference Dealers or major banks may be effected by reference to and using the quotations or tradable market prices which were most recently published by such Reference Banks, Reference Dealers or major banks. If the fallback as set out in the definition of the Floating Rate Option pursuant to the 2006 ISDA Definitions does not produce a result, the Calculation Agent shall determine the rate at such time and by reference to such sources or methods as the Issuer determines appropriate.

For the purposes of this subparagraph (i), **Floating Rate, Floating Rate Option, Designated Maturity, Reference Banks, Reference Dealers** 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 Mortgage Covered Bonds – Term Rate*

Where Screen Rate Determination and Term Rate are both specified in the applicable Final Terms as being applicable, the Rate of Interest for each Interest Period will, subject as provided below, be either:

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

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or PRIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at Specified Time at the Relevant Financial Centre 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 Calculation 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 Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement provides that, if the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or in the case of (B) above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Issuer shall request each of the Reference Banks to provide the Calculation 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 Calculation Agent with such offered quotations, the Rate of Interest for such 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 Calculation Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Issuer or the Calculation Agent, as applicable, with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Issuer or the Calculation Agent, as applicable, determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (at the request of) the Issuer or the Calculation Agent, as applicable, by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR) or the Prague interbank market (if the Reference Rate is PRIBOR), plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Issuer or the Calculation Agent, as applicable, with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Issuer or the Calculation Agent, as applicable, it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR) or the Prague interbank market (if the Reference Rate is PRIBOR) plus or minus (as appropriate) the Margin (if any), *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph (b), the Rate of Interest shall be the Rate of Interest as determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

For the purposes of these Conditions:

Interest Determination Date means the date specified as such in the applicable Final Terms or if none is so specified:

- (a) if the Reference Rate is the London interbank offered rate (**LIBOR**) (other than Sterling LIBOR or Euro LIBOR), the second London business day prior to the start of each Interest Period;
- (b) if the Reference Rate is Sterling LIBOR, the first day of each Interest Period;
- (c) if the Reference Rate is Euro LIBOR the Euro-zone interbank offered rate (**EURIBOR**), the second day on which the TARGET2 System is open prior to the start of each Interest Period; or

- (d) if the Reference Rate is the Prague interbank offered rate (**PRIBOR**), the second Prague business day prior to the start of each Interest Period.

Reference Banks shall mean, in the case of Condition 4.2(b)(ii)(A) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 4.2(b)(ii)(B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared;

Reference Rate shall, for the purposes of this Condition 4.2(b)(ii), mean (a) LIBOR, (b) EURIBOR, (c) PRIBOR, (d) SONIA (e) €STR or (f) SOFR in each case for the relevant period, as specified in the applicable Final Terms;

Relevant Financial Centre shall mean (a) London, in the case of a determination of LIBOR or SONIA, (b) Brussels in the case of a determination of EURIBOR, (c) Prague in the case of a determination of PRIBOR, (d) Frankfurt am Main in the case of a determination of €STR or (e) New York City in the case of a determination of SOFR, as specified in the applicable Final Terms; and

Specified Time means the time specified as such in the applicable Final Terms or, if none is so specified, 11.00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR, or Prague time, in the case of PRIBOR, or relevant financial centre time in the case of a determination of any other Reference Rate).

- (iii) *Screen Rate Determination for Floating Rate Mortgage Covered Bonds – Overnight Rate*

Where Screen Rate Determination and Overnight Rate are both specified in the applicable Final Terms as being applicable, the applicable Final Terms will also specify the Calculation Method either as Compounded Daily Rate (in which case the provisions of paragraph (A) below shall apply) or Weighted Average Rate (in which case the provisions of paragraph (B) below shall apply).

- (A) *Calculation Method – Compounded Daily Rate*

Where the applicable Final Terms specify the Calculation Method as Compounded Daily Rate, the Rate of Interest for an Interest Period will, subject to Condition 4.2(g) (Reference Rate Replacement) or Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR), as applicable, and as provided below, be the Compounded Daily Reference Rate plus or minus (as indicated in the applicable Final Terms) the applicable Margin, where:

Compounded Daily Reference Rate means, with respect to an Interest Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate – being either SONIA, SOFR, or €STR as specified in the applicable Final Terms and further described below – as the reference rate for the calculation of interest) as calculated by the Calculation Agent as at the relevant Interest Determination Date (a) (if Index Determination is specified as being applicable in the applicable Final Terms) by reference to the screen rate or index administered by the administrator of the applicable Reference Rate that is published or displayed by such administrator or other information service from time to time at the relevant time on the relevant Interest Determination Date, as further specified in the applicable Final Terms; or (b) (if Index Determination is specified as being not applicable in the applicable Final Terms or Index Determination is specified as being applicable in the applicable Final Terms but such screen rate or index is not available at the relevant time on the relevant Interest Determination Date),

in accordance with the relevant following formula (and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards):

Observation Shift

where Observation Shift is specified as the Observation Method in the applicable Final Terms:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{r_i \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

- D** is the number specified in the applicable Final Terms;
- d** is, for a relevant Observation Period, the number of calendar days in such Observation Period;
- d_o** is, for a relevant Observation Period, the number of Relevant Business Days in such Observation Period;
- i** is, for a relevant Observation Period, a series of whole numbers from one to d_o, each representing a Relevant Business Day in chronological order from (and including) the first Relevant Business Day in such Observation Period;
- n_i** for any Relevant Business Day "i" in a relevant Observation Period, means the number of calendar days from (and including) such Relevant Business Day "i" to (but excluding) the following Relevant Business Day;

Observation Period means, in respect of a relevant Interest Period, the period from (and including) the date falling "p" Relevant Business Days prior to the first day of such Interest Period to (but excluding) the date which is "p" Relevant Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" Relevant Business Days prior to such earlier date, if any, on which the Mortgage Covered Bonds become due and payable);

- p** means, for a relevant Interest Period, the number of Relevant Business Days specified as the Observation Shift Period in the applicable Final Terms (or, if no such number is specified, five Relevant Business Days), provided that "p" shall not be less than three Relevant Business Days at any time and shall not be less than five Relevant Business Days without prior written approval of the Calculation Agent;
- r** means, in respect of any Relevant Business Day (if SONIA is specified in the applicable Final Terms as the applicable Reference Rate), the applicable SONIA rate in respect of such Relevant Business Day or (if SOFR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable SOFR rate in respect of such Relevant Business Day or (if €STR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable €STR rate in respect of such Relevant Business Day; and

RBD means a Relevant Business Day, being:

- (a) if SONIA is specified in the applicable Final Terms as the applicable Reference Rate, any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; or
 - (b) if SOFR is specified in the applicable Final Terms as the applicable Reference Rate, a U.S. Government Securities Business Day; or
 - (c) if €STR is specified in the relevant Final Terms as the applicable Reference Rate, a TARGET Settlement Day;
- r_i** means, for any Relevant Business Day, the applicable SONIA rate or SOFR rate or €STR rate (as applicable) as set out in the definition of "r" above in respect of such Relevant Business Day.

Lag

where Lag is specified as the Observation Method in the applicable Final Terms:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{r_i - pBD \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

- D** is the number specified in the applicable Final Terms;
- d** is, for a relevant Interest Period, the number of calendar days in such Interest Period;
- d₀** is, for a relevant Interest Period, the number of Relevant Business Days in the relevant Interest Period;
- i** is, for a relevant Interest Period, a series of whole numbers from one to d₀, each representing a Relevant Business Day in chronological order from (and including) the first Relevant Business Day in such Interest Period;
- n_i** for any Relevant Business Day "i" in a relevant Interest Period, means the number of calendar days from (and including) such Relevant Business Day "i" to (but excluding) the following Relevant Business Day;
- p** means the number of Relevant Business Days included in the Lag Look-Back Period specified in the applicable Final Terms (or, if no such number is specified, five Relevant Business Days), provided that "p" shall not be less than three Relevant Business Days at any time and shall not be less than five Relevant Business Days without prior written approval of the Calculation Agent;
- r** means, in respect of any Relevant Business Day (if SONIA is specified in the applicable Final Terms as the applicable Reference Rate), the applicable SONIA rate in respect of such Relevant Business Day or (if SOFR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable SOFR rate in respect of such Relevant Business Day or (if €STR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable €STR rate in respect of such Relevant Business Day; and

RBD means a Relevant Business Day, being:

- (a) if SONIA is specified in the applicable Final Terms as the applicable Reference Rate, any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; or
- (b) if SOFR is specified in the applicable Final Terms as the applicable Reference Rate, a U.S. Government Securities Business Day; or
- (c) if €STR is specified in the relevant Final Terms as the applicable Reference Rate, a TARGET Settlement Day;

r_{i-pBD} means, for any Relevant Business Day "i" in the relevant Interest Period, the applicable SONIA rate or SOFR rate or €STR rate (as applicable) as set out in the definition of "r" above in respect of the Relevant Business Day falling "p" Relevant Business Days prior to the applicable Relevant Business Day "i".

Lock-out

where Lock-out is specified as the Observation Method in the applicable Final Terms:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{r_i \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

- D** is the number specified in the applicable Final Terms;
- d** is, for a relevant Interest Period, the number of calendar days in such Interest Period;
- d₀** is, for a relevant Interest Period, the number of Relevant Business Days in such Interest Period;
- i** is, for a relevant Interest Period, a series of whole numbers from one to d₀, each representing a Relevant Business Day in chronological order from (and including) the first Relevant Business Day in such Interest Period;

Lock-out Period means, with respect to an Interest Period, the period from, and including, the day following the Interest Determination Date (which shall be not less than three Relevant Business Days prior to the relevant Interest Payment Date and shall be not less than five Relevant Business Days without prior written approval of the Calculation Agent) for such Interest Period to (but excluding) (A) the Interest Payment Date for such Interest Period or (B) the date on which the relevant payment of interest falls due, if different;

n_i for any Relevant Business Day "i" in a Relevant Interest Period, means the number of calendar days from (and including) such Relevant Business Day "i" (but excluding) the following Relevant Business Day;

r means:

- (a) in respect of any Relevant Business Day "i" that is a Reference Day (if SONIA is specified in the applicable Final Terms as the applicable Reference Rate), the applicable SONIA rate in respect of the Relevant Business Day immediately preceding such

Reference Day or (if SOFR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable SOFR rate in respect of the Relevant Business Day immediately preceding such Reference Day or (if €STR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable €STR rate in respect of the Relevant Business Day immediately preceding such Reference Day, and

- (b) in respect of any Relevant Business Day "i" that is not a Reference Day (being a Relevant Business Day in the Lock-out Period) (if SONIA is specified in the applicable Final Terms as the applicable Reference Rate) the applicable SONIA rate in respect of the Relevant Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date) or (if SOFR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable SOFR rate in respect of the Relevant Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date) or (if €STR is specified in the applicable Final Terms as the applicable Reference Rate) the applicable €STR rate in respect of the Relevant Business Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date); and

RBD means a Relevant Business Day, being:

- (a) if SONIA is specified in the applicable Final Terms as the applicable Reference Rate, any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; or
- (b) if SOFR is specified in the applicable Final Terms as the applicable Reference Rate, a U.S. Government Securities Business Day; or
- (c) if €STR is specified in the relevant Final Terms as the applicable Reference Rate, a TARGET Settlement Day;

r_i means the applicable SONIA rate or SOFR rate or €STR rate (as applicable) as set out in the definition of "r" above for the applicable Relevant Business Day "i".

As used herein:

€STR means, in respect of any Relevant Business Day (**RBD_z**), a reference rate equal to the Euro Short-Term Rate for such RBD_z as provided by the administrator of €STR to authorised distributors and as then published on the Relevant Screen Page (or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) in each case at or about 12.00 p.m. (CET time) on the Relevant Business Day immediately following RBD_z;

New York Fed's Website means the website of the Federal Reserve Bank of New York or a successor administrator of SOFR or any successor source;

Reference Day means each Relevant Business Day in the relevant Interest Period, other than any Relevant Business Day in the Lock-out Period;

SOFR means, in respect of any Relevant Business Day (**RBD_x**), a reference rate equal to the daily Secured Overnight Financing Rate for such RBD_x as

provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Fed's Website or such other Relevant Screen Page as specified in the applicable Final Terms, in each case at or about 3.00 p.m. (New York City time) on the Relevant Business Day immediately following RBD_x;

SONIA means, in respect of any Relevant Business Day (RBD_y), a reference rate equal to the daily Sterling Overnight Index Average rate for such RBD_y as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page (or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) in each case at or about 12.00 p.m. (London time) on the Relevant Business Day immediately following RBD_y; and

U.S. Government Securities Business Day means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

In these Conditions:

TARGET Settlement Day means any day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System is open.

(B) *Calculation Method – Weighted Average Rate*

Where the applicable Final Terms specifies the Calculation Method as Weighted Average Rate, the Rate of Interest for an Interest Period will, subject to Condition 4.2(g) (Reference Rate Replacement) or Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR), as applicable, and as provided below, be the Weighted Average Reference Rate plus or minus (as indicated in the applicable Final Terms) the applicable Margin, where:

Weighted Average Reference Rate means, as calculated by the Calculation Agent as at the relevant Interest Determination Date, in accordance with the following subparagraphs (and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards):

- (a) where Lag is specified as the Observation Method in the applicable Final Terms, the sum of the Reference Rates in respect of each calendar day during the relevant Observation Period divided by the number of calendar days in the relevant Observation Period (and, for these purposes, the Reference Rate in respect of any such calendar day which is not a Relevant Business Day shall be deemed to be the Reference Rate in respect of the Relevant Business Day immediately preceding such calendar day); or
- (b) where Lock-out is specified as the Observation Method in the applicable Final Terms, the sum of the Reference Rates in respect of each calendar day during the relevant Interest Period divided by the number of calendar days in the relevant Interest Period (and, for these purposes, the Reference Rate in respect of any such calendar day which is not a Relevant Business Day shall, subject to the following proviso, be deemed to be the Reference Rate in respect of the Relevant Business Day immediately preceding such calendar day), provided however that for any calendar day of such Interest Period falling in the Lock-out Period, the relevant Reference Rate

will be deemed to be the Reference Rate in respect of the Relevant Business Day immediately preceding the Interest Determination Date for the relevant Interest Period.

(C) *Fallback provisions – SONIA*

Where SONIA is specified in the applicable Final Terms as the applicable Reference Rate, then if, in respect of any Relevant Business Day on which an applicable SONIA rate is required to be determined, such SONIA rate is not available on the Relevant Screen Page (and has not otherwise been published by the relevant authorised distributors), then (unless the Calculation Agent has been notified by the Issuer or the Independent Adviser on behalf of the Issuer of any Successor Reference Rate or Alternative Reference Rate (and the applicable Adjustment Spread and any Benchmark Amendments) pursuant to Condition 4.2(g) (Reference Rate Replacement), if applicable) the SONIA rate in respect of such Relevant Business Day shall be:

- (1) the sum of (1) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at 5.00 p.m. (or, if earlier, close of business) on such Relevant Business Day and (2) the mean of the spread of the SONIA rate to the Bank Rate over the previous five Relevant Business Days on which a SONIA rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads); or
- (2) if the Bank Rate under (1) above is not available at the relevant time, either (x) the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Relevant Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) or (y) if this is more recent, the latest rate determined under (1) above,

and, in each case, "r" shall be construed accordingly under Condition 4.2(b)(iii)(A) (Calculation Method – Compounded Daily Rate).

(D) *Fallback provisions – SOFR*

Subject to Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR), where SOFR is specified in the applicable Final Terms as the applicable Reference Rate, then if, in respect of any Relevant Business Day, such Reference Rate is not available, then (unless the Calculation Agent has been notified of any Successor Reference Rate or Alternative Reference Rate (and the applicable Adjustment Spread and any Benchmark Amendments) pursuant to Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR), if applicable) the SOFR in respect of such Relevant Business Day shall be deemed to be the SOFR for the first preceding Relevant Business Day on which the SOFR was published on the New York Fed's Website, and "r" shall be construed accordingly under Condition 4.2(b)(iii)(A) (Calculation Method – Compounded Daily Rate).

(E) *Fallback provisions – €STR*

Where €STR is specified in the applicable Final Terms as the applicable Reference Rate, then if, in respect of any Relevant Business Day, such Reference Rate is not available, then (unless the Calculation Agent has been

notified of any Successor Reference Rate or Alternative Reference Rate (and the applicable Adjustment Spread and any Benchmark Amendments) pursuant to Condition 4.2(g) (Reference Rate Replacement), if applicable) the €STR in respect of such Relevant Business Day shall be deemed to be the €STR for the first preceding Relevant Business Day on which the €STR was published on the Relevant Screen Page, and "r" shall be construed accordingly under Condition 4.2(b)(iii)(A) (Calculation Method – Compounded Daily Rate).

(F) *Further fallbacks – SONIA, SOFR and €STR*

In the event that the Rate of Interest cannot be determined in accordance with any of the foregoing provisions, but without prejudice to Condition 4.2(g) (Reference Rate Replacement) or Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR) (as applicable), the Rate of Interest shall be:

- (1) that determined as at the last preceding Interest Determination Date (though substituting where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Period); or
- (2) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Mortgage Covered Bonds for the first scheduled Interest Period had the Mortgage Covered Bonds been in issue for a period equal in duration to the first scheduled Interest Period but ending on (and excluding) the Interest Commencement Date (applying the Margin and, if applicable, any Maximum Rate of Interest and/or Minimum Rate of Interest, applicable to the first scheduled Interest Period).

(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) or (c) 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) or (c) 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 Calculation 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 and (if the Calculation Agent is a party other than the Principal Paying Agent) shall immediately notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period.

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

- (i) in the case of Floating Rate Mortgage Covered Bonds which are represented by a Global Mortgage Covered Bond, the aggregate outstanding nominal amount of the Mortgage Covered Bonds represented by such Global Mortgage Covered Bond; or
- (ii) in the case of Floating Rate Mortgage 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 Mortgage Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Mortgage 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:

- (a) 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);
- (b) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) 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;
- (d) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(e) ***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 Calculation 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 Calculation 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***

(i) Unless Screen Rate Determination and Overnight Rate are both specified as being applicable in the applicable Final Terms, the Calculation 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, the Principal Paying Agent (if different to the Calculation Agent) and any stock exchange on which the relevant Floating Rate Mortgage 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 by the Issuer to each stock exchange on which the relevant Floating Rate Mortgage Covered Bonds are for the time being listed and to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices). For the purposes of this paragraph (f), 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.

(ii) If both Screen Rate Determination and Overnight Rate are specified as being applicable in the applicable Final Terms, the Calculation 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, the Principal Paying Agent (if different to the Calculation Agent) and any stock exchange on which the relevant Floating Rate Mortgage Covered Bonds are for the time being listed 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 second 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 be promptly notified by the Issuer to each stock exchange on which the relevant Floating Rate Mortgage Covered Bonds are for the time being listed and to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices).

(g) **Reference Rate Replacement**

If:

- (i) Reference Rate Replacement is specified in the applicable Final Terms as being applicable; and
- (ii) a Benchmark Event occurs in relation to an Original Reference Rate at any time when any Rate of Interest (or component thereof) remains to be determined by reference to such Original Reference Rate, then (notwithstanding the provisions of Condition 4.2(b)(ii) (Screen Rate Determination for Floating Rate Mortgage Covered Bonds – Term Rate)) the following provisions shall apply to the relevant Series of Mortgage Covered Bonds:

- (A) the Issuer shall use reasonable endeavours to appoint and consult with an Independent Adviser with a view to the Issuer determining (in each case acting in good faith and in a commercially reasonable manner): a Successor Reference Rate; or, failing which, an Alternative Reference Rate, and, in each case, an Adjustment Spread and any Benchmark Amendments, by no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or any component thereof) is to be determined by reference to the relevant Original Reference Rate (the **Initial Issuer Determination Cut-off Date**), for the purposes of determining the Rate of Interest (or any component part thereof) applicable to the Mortgage Covered Bonds for such next Interest Period and for all other relevant future Interest Periods;

- (B) if the Issuer is unable to appoint an Independent Adviser or, following consultation with an Independent Adviser so appointed, it fails to determine a Successor Reference Rate or an Alternative Reference Rate (as applicable) and, in either case, the applicable Adjustment Spread, prior to the relevant Initial Issuer Determination Cut-off Date, the Issuer may determine (acting in good faith and in a commercially reasonable manner): a Successor Reference Rate; or, failing which, an Alternative Reference Rate, and, in each case, an Adjustment Spread and any Benchmark Amendments, by no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or any component thereof) is to be determined by reference to the relevant Original Reference Rate (the **Final Issuer Determination Cut-off Date**), for the purposes of determining the Rate of Interest applicable to the Mortgage Covered Bonds for such next Interest Period and for all other relevant future Interest Periods. Without prejudice to the definitions thereof, for the purposes of determining any Alternative Reference Rate and Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

An Independent Adviser appointed pursuant to this Condition 4.2(g) shall act in good faith as an expert and (in the absence of wilful default, gross negligence or fraud) shall have no liability whatsoever to the Issuer, the Agents, the Trustee, any Calculation Agent, the Mortgage Covered Bondholders or the Couponholders for any determination made by it pursuant to this Condition 4.2(g); and

- (C) if a Successor Reference Rate or, failing which, an Alternative Reference Rate (as applicable) is determined by the Issuer, following consultation with the relevant Independent Adviser (if applicable), in accordance with this Condition 4.2(g):

- (1) such Successor Reference Rate or Alternative Reference Rate (as applicable) (in either case subject to adjustment as provided in Condition 4.2(g)(ii)(C)(2) shall subsequently be used in the place of the Original Reference Rate for all future Interest Periods for which the Rate of Interest (or any component thereof) was otherwise to be determined by reference to the relevant Original Reference Rate;
- (2) the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), shall determine an Adjustment Spread (which may be expressed as a specified quantum or a formula or methodology for determining the applicable Adjustment Spread (and, for the avoidance of doubt, an Adjustment Spread may be positive, negative or zero)), which shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Interest Periods for which the Rate of Interest (or relevant component thereof) is to be determined by reference to such Successor Reference Rate or Alternative Reference Rate (as applicable);
- (3) the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), may in its discretion specify:
 - (I) changes to these Conditions, the Trust Deed and/or the Agency Agreement in order to follow market practice in relation to such Successor Reference Rate or Alternative Reference Rate (as applicable) and, in either case, Adjustment Spread, including, but not limited to changes to: (x) the Additional Business Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page and/or Specified Time applicable to the Mortgage Covered Bonds; and/or (y) the method for determining the fallback to the Rate of Interest in relation to the Mortgage Covered Bonds if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and
 - (II) any other changes to the Conditions which the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines are reasonably necessary to ensure the proper operation and comparability to the Original Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable) and, in either case, the Adjustment Spread,

which changes shall apply to the Mortgage Covered Bonds for all relevant future Interest Periods (such amendments, the **Benchmark Amendments**); and

- (4) promptly following the determination of any Successor Reference Rate or Alternative Reference Rate (as applicable) and, in either case, an Adjustment Spread and any Benchmark Amendments (and by no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period), the Issuer shall give notice thereof and of any changes (and the effective date thereof) pursuant to this Condition 4.2(g) to the Agent, any Calculation Agent, the Trustee, any stock exchange or listing

authority on which the relevant Mortgage Covered Bonds are for the time being listed (if required) and, in accordance with Condition 15 (Notices), the Mortgage Covered Bondholders.

- (5) The Issuer shall, when it delivers the notice to the Trustee pursuant to Condition 4.2(g)(ii)(C)(4), also deliver to the Trustee and the Agent a certificate signed by two Authorised Signatories of the Issuer confirming, in the Issuer's reasonable opinion (following consultation with the Independent Adviser, if appointed), (x) that a Benchmark Event has occurred, (y) the Successor Reference Rate or the Alternative Rate (as applicable) and, in either case, an Adjustment Spread and (z) the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 4.2(g).

The Trustee and the Agents shall be entitled to rely on such certificate (without further enquiry and liability to any person) as sufficient evidence thereof. The Successor Reference Rate or Alternative Reference Rate (as applicable) or, where applicable, any Adjustment Spread and any Benchmark Amendments, and without prejudice to the ability of the Trustee and the Agents (as applicable) to rely on such certificate, will be binding on the Issuer, the Trustee, the Agents and the Mortgage Covered Bondholders.

Each of the Trustee and the Agents shall, at the direction and expense of the Issuer but subject to receipt by the Trustee and the Agents of a certificate (as aforesaid), concur with the Issuer in effecting the Benchmark Amendments to the Trust Deed, the Agency Agreement and the Conditions as the Issuer shall direct in writing that may be required to give effect to this Condition 4.2(g). Neither the Trustee nor the Agents shall be liable to any party for any consequence of complying with such written direction of the Issuer, save as provided in the Trust Deed or the Agency Agreement; provided that neither the Trustee nor the Agents shall be obliged to effect the Benchmark Amendments if, in the sole opinion of the Trustee or, as the case may be, the Agents, doing so would impose more onerous obligations on it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to the Trustee or, as the case may be, the Agents in these Conditions, the Agency Agreement or the Trust Deed (including, for the avoidance of doubt, any supplemental Trust Deed) in any way.

No consent of the Mortgage Covered Bondholders or the Couponholders shall be required in connection with effecting the Benchmark Amendments or the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) as described in this Condition 4.2(g) or such other relevant changes pursuant to this Condition 4.2(g), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required).

For the avoidance of doubt, (i) if a Successor Reference Rate or an Alternative Reference Rate is not determined pursuant to the operation of this Condition 4.2(g) prior to the relevant Final Issuer Determination Cut-off Date, or (ii) if a Benchmark Event has not occurred, then the Rate of Interest for the next Interest Period shall be determined by reference to the Original Reference Rate and the fallback provisions of Condition 4.2(b)(ii) (Screen Rate Determination for Floating Rate Mortgage Covered Bonds – Term Rate). For the avoidance of doubt, this Condition 4.2(g) shall apply to the determination of the Rate of Interest (or any component part thereof) on the relevant Interest Determination Date only, and the Rate of Interest (or any component part thereof) applicable to any subsequent Interest Period(s) shall be subject to the subsequent operation of, and to adjustment as provided in, this Condition 4.2(g).

If in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 4.2(g), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination as a result of its operational requirements for implementation and operation of the determined Successor Reference Rate, Alternative Reference Rate, any Adjustment Spread and any Benchmark Amendments, it shall notify the Issuer thereof and the Calculation Agent shall not incur any liability for any failure to make such calculation or determination which arises as a result thereof, save as set out in the Agency Agreement and in the case of its negligence, fraud or wilful default.

For the avoidance of doubt, neither the Trustee nor any Agent shall be obliged to monitor or enquire whether a Benchmark Event has occurred or have any liability in respect thereof.

For the purposes of these Conditions:

Adjustment Spread means either (x) a spread (which may be positive, negative or zero) or (y) a formula or methodology for calculating a spread, which in either case is to be applied to the Successor Reference Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Original Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or
- (b) in the case of a Successor Reference Rate (where (a) does not apply) or in the case of an Alternative Reference Rate, the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable); or
- (c) if no such recommendation or option has been made (or made available) and the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines that neither (a) nor (b) applies, the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), in its discretion determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Mortgage Covered Bondholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Reference Rate or the Alternative Reference Rate (as the case may be);

Alternative Reference Rate means the rate that the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component thereof) in respect of mortgage covered bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period(s), or, if the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines that there is no such rate, such other rate as the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines in its discretion is most comparable to the Original Reference Rate;

Benchmark Event means, with respect to an Original Reference Rate:

- (a) the Original Reference Rate ceasing to exist or be published; or

- (b) the later of (i) the making of a public statement by the administrator of such Original Reference Rate that it will, on or before a specified date, cease publishing such Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Original Reference Rate) and (ii) the date falling six months prior to the specified date referred to in subparagraph (b)(i); or
- (c) the making of a public statement by the supervisor of the administrator of such Original Reference Rate that such Original Reference Rate has been permanently or indefinitely discontinued; or
- (d) the later of (i) the making of a public statement by the supervisor of the administrator of such Original Reference Rate that such Original Reference Rate will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the specified date referred to in subparagraph (d)(i); or
- (e) the later of (i) the making of a public statement by the supervisor of the administrator of such Original Reference Rate that such Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date and (ii) the date falling six months prior to the specified date referred to in subparagraph (e)(i); or
- (f) it has or will prior to the next Interest Determination Date become unlawful for the Issuer, any Calculation Agent or any other party specified in the applicable Final Terms as being responsible for calculating the Rate of Interest to calculate any payments due to be made to any Mortgage Covered Bondholder or Couponholder using such Original Reference Rate; or
- (g) the making of a public statement by the supervisor of the administrator of such Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used;

Independent Adviser means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed under Condition 4.2(g)(ii)(A) by the Issuer at its own expense;

Original Reference Rate means the originally specified benchmark or screen rate (as applicable) used to determine the relevant Rate of Interest (or any component part thereof) in respect of any Interest Period(s) (provided that if, following one or more Benchmark Event(s), such originally specified benchmark or screen rate (or any Successor Reference Rate Alternative Reference Rate or Benchmark Replacement (as defined below) which has replaced it) has been replaced by a (or a further) Successor Reference Rate, Alternative Reference Rate or Benchmark Replacement and a Benchmark Event subsequently occurs in respect of such Successor Reference Rate, Alternative Reference Rate or Benchmark Replacement, the term **Original Reference Rate** shall include any such Successor Reference Rate, Alternative Reference Rate or Benchmark Replacement);

Relevant Nominating Body means, in respect of an Original Reference Rate:

- (a) the central bank for the currency to which such Original Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate; or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which such Original Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of such Original Reference Rate, (C) a group of the aforementioned central banks or other supervisory authorities, or (D) the Financial Stability Board or any part thereof; and

Successor Reference Rate means the rate that the Issuer, following consultation with the relevant Independent Adviser (if applicable) (acting in good faith and in a commercially reasonable manner), determines is a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(h) ***Reference Rate Replacement where the Original Reference Rate is SOFR***

If SOFR is specified in the applicable Final Terms as the applicable Reference Rate and ARRC Fallbacks is specified as being applicable in the applicable Final Terms, when a Rate of Interest (or any component part thereof) remains to be determined by reference to the Original Reference Rate, then the following provisions of this Condition 4.2(h) shall apply.

If the Issuer determines on or prior to the Specified Time on the relevant Interest Determination Date that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Original Reference Rate, the Benchmark Replacement will replace the Original Reference Rate for all purposes relating to the Mortgage Covered Bonds in respect of all determinations on such date and for all determinations on all subsequent dates (subject to any subsequent application of this Condition 4.2(h) with respect to such Benchmark Replacement).

Where this Condition 4.2(h) applies, if the Issuer considers it necessary to make Benchmark Replacement Conforming Changes, the Issuer may determine (acting in good faith and in a commercially reasonable manner) the terms of the relevant Benchmark Replacement Conforming Changes and the Issuer shall, subject to giving notice thereof in accordance with Condition 15 (Notices), without any requirement for the consent or approval of Mortgage Covered Bondholders, including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required), vary the Conditions, the Agency Agreement and/or the Trust Deed to give effect to such Benchmark Replacement Conforming Changes, with effect from the date specified in such notice. Without prejudice to the definitions thereof, for the purposes of determining any Benchmark Replacement Conforming Changes, the Issuer will take into account any relevant and applicable market precedents, any operational requirements of the Calculation Agent, any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

Prior to any Benchmark Replacement Conforming Changes taking effect, the Issuer shall provide a certificate signed by two Authorised Signatories of the Issuer to the Trustee and the Agents confirming, in the Issuer's reasonable opinion:

- (i) (A) that a Benchmark Transition Event has occurred;
- (B) the Benchmark Replacement determined in accordance with this Condition 4.2(h); specifying (1) the applicable Reference Rate for such purposes (whether the alternate rate selected or recommended by the Relevant Governmental Body, the ISDA Fallback Rate or an alternate rate selected by the Issuer) and (2) the applicable Benchmark Replacement Adjustment (if any); and
- (C) the specific terms of the Benchmark Replacement Conforming Changes (if any); and
- (D) that the Benchmark Replacement Conforming Changes (if any) are necessary to ensure the proper operation of such Benchmark Replacement.

The Trustee and the Agents shall be entitled to rely on such certificate without enquiry or liability to any person. The Benchmark Replacement (including any Benchmark Replacement Adjustment, if applicable) and the Benchmark Replacement Conforming Changes (if any), and without prejudice to the ability of the Trustee and the Agents (as applicable) to rely on such certificate, will be binding on the Issuer, the Trustee, the Agents and the Mortgage Covered Bondholders.

Each of the Trustee and the Agents shall, at the direction and expense of the Issuer, but subject to receipt by the Trustee and the Agents of a certificate (as aforesaid), concur with the Issuer in effecting the Benchmark Replacement Conforming Changes to the Trust Deed, the Agency Agreement and the Conditions as the Issuer shall direct in writing that may be required to give effect to this Condition 4.2(h). Neither the Trustee nor the Agents shall be liable to any party for any consequences of complying with such written direction of the Issuer, save as provided in the Trust Deed or the Agency Agreement; provided that neither the Trustee nor the Agents shall be obliged to effect the Benchmark Replacement Conforming Changes if, in the sole opinion of the Trustee or, as the case may be, the Agents, doing so would impose more onerous obligations on it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to the Trustee or, as the case may be, the Agents in the Conditions, the Agency Agreement or the Trust Deed (including, for the avoidance of doubt, any supplemental Trust Deed) in any way.

In connection with any such variation in accordance with this Condition 4.2(h), the Issuer shall comply with the rules of any stock exchange on which the Mortgage Covered Bonds are for the time being listed or admitted to trading.

If in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 4.2(h), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination as a result of its operational requirements for implementation and operation of the determined Benchmark Replacement (including any Benchmark Replacement Adjustment, if applicable) and the Benchmark Replacement Conforming Changes (if any), it shall notify the Issuer thereof and the Calculation Agent shall not incur any liability for any failure to make such calculation or determination which arises as a result thereof, save as set out in the Agency Agreement and in the case of its negligence, fraud or wilful default. For the avoidance of doubt, neither the Trustee nor any Agent shall be obliged to monitor or enquire whether a Benchmark Transition Event has occurred or have any liability in respect thereof. For the purposes of these Conditions:

Benchmark Replacement means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

- (a) the sum of: (i) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the Original Reference Rate; and (ii) the Benchmark Replacement Adjustment;
- (b) the sum of: (i) the ISDA Fallback Rate; and (ii) the Benchmark Replacement Adjustment; or
- (c) the sum of: (i) the alternate rate of interest that has been selected by the Issuer as the replacement for the Original Reference Rate giving due consideration to any industry accepted rate of interest as a replacement for the then-current benchmark for U.S. dollar-denominated floating rate mortgage covered bonds at such time; and (ii) the Benchmark Replacement Adjustment.

Benchmark Replacement Adjustment means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

- (a) the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero), that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (b) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

- (c) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate mortgage covered bonds at such time.

Benchmark Replacement Conforming Changes means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of Interest Period, the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary).

Benchmark Replacement Date means the earliest to occur of the following events with respect to the Original Reference Rate (including the daily published component used in the calculation thereof):

- (a) in the case of clause (a) or (b) of the definition of Benchmark Transition Event, the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of the Original Reference Rate permanently or indefinitely ceases to provide the Original Reference Rate (or such component); or
- (b) in the case of clause (c) of the definition of Benchmark Transition Event, the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Specified Time on the relevant Interest Determination Date, the Benchmark Replacement Date will be deemed to have occurred prior to the Specified Time for such determination.

Benchmark Transition Event means the occurrence of one or more of the following events with respect to the Original Reference Rate (including the daily published component used in the calculation thereof):

- (a) a public statement or publication of information by or on behalf of the administrator of the Original Reference Rate (or such component) announcing that such administrator has ceased or will cease to provide the Original Reference Rate (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Original Reference Rate (or such component); or
- (b) a public statement or publication of information by the regulatory supervisor for the administrator of the Original Reference Rate (or such component), the central bank for the currency of the Original Reference Rate (or such component), an insolvency official with jurisdiction over the administrator for the Original Reference Rate (or such component), a resolution authority with jurisdiction over the administrator for the Original Reference Rate (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Original Reference Rate, which states that the administrator of the Original Reference Rate (or such component) has ceased or will cease to provide the Original Reference Rate (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Original Reference Rate (or such component); or

- (c) a public statement or publication of information by the regulatory supervisor for the administrator of the Original Reference Rate announcing that the Original Reference Rate is no longer representative.

ISDA Fallback Adjustment means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Original Reference Rate.

ISDA Fallback Rate means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Original Reference Rate for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

Relevant Governmental Body means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

Unadjusted Benchmark Replacement means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(i) ***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 by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the other Paying Agents and all Mortgage Covered Bondholders and Couponholders and (in the absence of wilful default or gross negligence or fraud) no liability to the Issuer, the Trustee, the Mortgage Covered Bondholders or the Couponholders shall attach to the Calculation 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 Mortgage Covered Bonds up to the Extended Maturity Date), each Mortgage Covered Bond (or, in the case of the redemption of part only of a Mortgage Covered Bond, that part only of such Mortgage Covered Bond) will cease to bear interest (if any) from the date of 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 Mortgage 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 Mortgage Covered Bond has been received by the Principal Paying Agent, the Registrar or the Trustee, as the case may be, and notice to that effect has been given to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices).

4.4 Interest Rate and Payments from the Maturity Date in the Event of Extension of Maturity of the Mortgage Covered Bonds up to the Extended Maturity Date

- (a) If the maturity of a Series of Mortgage Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.9 (Extension of Maturity up to Extended Maturity Date), the Mortgage 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 Mortgage 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 Mortgage Covered Bonds at the rate determined in accordance with Condition 4.4(b) on the principal amount outstanding of the Mortgage Covered Bonds in arrear on the Interest Payment Date(s)

in each month after the Maturity Date to the Extended Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, or the Extended Maturity Date, as applicable. The final Interest Payment Date shall fall no later than on the Extended Maturity Date.

- (b) If the maturity of a Series of Mortgage 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 Mortgage 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, or the Extended Maturity Date, as applicable, will be as specified in the applicable Final Terms and, in the case of Floating Rate Mortgage Covered Bonds determined by the Calculation Agent (i) unless both Screen Rate Determination and Overnight Rate are specified as being applicable Final Terms two Business Days after the Maturity Date in respect of the first such Interest Period (which day shall, for the purposes of Condition 4.2(g)(ii) or Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR) (as applicable), be the Interest Determination Date relating to such Interest Period) and, thereafter, in respect of the relevant Interest Determination Date, as specified in the applicable Final Terms, or (ii) if both Screen Rate Determination and Overnight Rate are specified as being applicable in the applicable Final Terms in respect of the relevant Interest Determination Date, as specified in the applicable Final Terms (and, for the purposes of any such determination, the provisions of Condition 4.2(h) (Reference Rate Replacement where the Original Reference Rate is SOFR) will apply *mutatis mutandis*).
- (c) In the case of Mortgage Covered Bonds which are Zero Coupon Mortgage Covered Bonds up to (and including) the Maturity Date, 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 Mortgage Covered Bonds if the maturity of the Mortgage 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 a bank in the principal financial centre of the country of such Specified Currency; and
- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

5.2 Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases to (a) 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 (b) 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 to 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law or regulation implementing an intergovernmental approach thereto.

5.3 Presentation of Definitive Bearer Mortgage Covered Bonds and Coupons

Payments of principal in respect of definitive Bearer Mortgage Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5.1 (Method of Payment) above only against

presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Mortgage Covered Bonds, and payments of interest in respect of definitive Bearer Mortgage 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 Mortgage Covered Bonds in definitive bearer form (other than Long Maturity Mortgage 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 Mortgage 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 Mortgage Covered Bond or Long Maturity Mortgage 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 Mortgage Covered Bond** is a Fixed Rate Mortgage Covered Bond (other than a Fixed Rate Mortgage 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 Mortgage Covered Bond shall cease to be a Long Maturity Mortgage 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 Mortgage Covered Bond.

If the due date for redemption of any definitive Bearer Mortgage Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Mortgage 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 Mortgage Covered Bond.

As used herein, **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 Principal Paying Agent or the Trustee 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 Mortgage Covered Bondholders in accordance with Condition 15 (Notices).

5.4 Payments in Respect of Bearer Global Mortgage Covered Bonds

Payments of principal and interest (if any) in respect of Mortgage Covered Bonds represented by any Global Mortgage Covered Bond in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Mortgage Covered Bonds or otherwise in the manner specified in the relevant Global Mortgage Covered Bond, where applicable against presentation or surrender, as the case may be, of such Global Mortgage 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 Mortgage 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 Mortgage Covered Bonds

Payments of principal in respect of each Registered Mortgage 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 Mortgage 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 Mortgage Covered Bond appearing in the register of holders of the Registered Mortgage Covered Bonds maintained by the Registrar (the **Register**) (a) 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 (b) 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 (i) a holder does not have a Designated Account or (ii) the principal amount of the Mortgage Covered Bonds held by a holder is less than USD250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Mortgage 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 Mortgage Covered Bond appearing in the Register (a) 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 (b) where in definitive form, at the close of business on the 15th day (whether or not such 15th 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 Mortgage 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 Mortgage 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 Mortgage Covered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Mortgage Covered Bond.

Holders of Registered Mortgage 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 Mortgage Covered Bond as a result of a cheque posted in accordance with this Condition 5.5 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 Mortgage 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 Mortgage 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 Mortgage Covered Bond shall be the only person entitled to receive payments in respect of Mortgage Covered Bonds represented by such Global Mortgage Covered Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Mortgage 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 Mortgage Covered

Bonds represented by such Global Mortgage 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 Mortgage Covered Bond.

Notwithstanding the foregoing provisions of this Condition 5, if any amount of principal and/or interest in respect of Bearer Mortgage Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bonds in definitive form only, in the relevant place of presentation;
 - (ii) in each Additional Financial Centre (other than the TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- (c) 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 or (ii) 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 Mortgage 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 Mortgage Covered Bonds;
- (c) the Early Redemption Amount of the Mortgage Covered Bonds;

- (d) the Optional Redemption Amount(s) (if any) of the Mortgage Covered Bonds; and
- (e) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Mortgage Covered Bonds.

Any reference in the Conditions to interest in respect of the Mortgage 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 Mortgage 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 (or, if applicable, the Extended Maturity Date), each as specified in the applicable Final Terms.

6.2 Redemption for Tax Reasons

Subject to Condition 6.5 (Early Redemption Amounts), the Mortgage Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Mortgage Covered Bond is not a Floating Rate Mortgage Covered Bond) or on any Interest Payment Date (if this Mortgage Covered Bond is a Floating Rate Mortgage 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 Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer shall deliver to the Trustee/Principal Paying Agent to make available at its specified office to the Mortgage 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 and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Mortgage Covered Bondholders and the Couponholders.

Mortgage Covered Bonds redeemed pursuant to this Condition 6.2 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 Mortgage 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 Mortgage 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 Mortgage Covered Bond of any Series, become unlawful for the Issuer to allow to remain outstanding any Mortgage 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) Mortgage 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:

- (a) not less than 15 or more than 30 days' notice to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices); and
- (b) not less than 15 days before the giving of the notice referred to in paragraph (a) above, notice to the Trustee and to the Agents,

(which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Mortgage 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 Mortgage Covered Bonds, the Mortgage Covered Bonds to be redeemed (**Redeemed Mortgage Covered Bonds**) will (i) in the case of Redeemed Mortgage Covered Bonds represented by definitive Mortgage 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 Mortgage Covered Bonds represented by a Global Mortgage 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) not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Mortgage Covered Bonds represented by definitive Mortgage Covered Bonds, a list of the serial numbers of such Redeemed Mortgage Covered Bonds will be published in accordance with Condition 15 (Notices) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Mortgage Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.4 and notice to that effect shall be given by the Issuer to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices) at least five days prior to the Selection Date.

6.5 Early Redemption Amounts

For the purpose of Conditions 6.2 (Redemption for Tax Reasons) and 6.3 (Redemption Due to Illegality or Invalidity) above and Condition 9 (Events of Default), each Mortgage Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

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

- (b) each Zero Coupon Mortgage Covered Bond will be redeemed at its Early Redemption Amount calculated in accordance with the following formula:

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

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 Mortgage Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage 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 Mortgage Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage 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 Mortgage Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage 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 Mortgage Covered Bonds (provided that, in the case of definitive Bearer Mortgage Covered Bonds, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. The Issuer may hold, resell or, at its option, surrender (if applicable) any Mortgage 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 (Cancellation).

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% 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 Mortgage Covered Bonds that are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Mortgage Covered Bonds so cancelled and any Mortgage 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 Mortgage Covered Bonds

If the amount payable in respect of any Zero Coupon Mortgage Covered Bond upon redemption of such Zero Coupon Mortgage Covered Bond pursuant to Condition 6.1 (Redemption at Maturity), 6.2 (Redemption for Tax Reasons), 6.4 (Redemption at the Option of the Issuer (Issuer Call)) or 6.5 (Early Redemption Amounts) 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 Mortgage 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 Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bondholders in accordance with Condition 15 (Notices).

6.9 Extension of Maturity up to Extended Maturity Date

- (a) If the Issuer or the Covered Block Administrator (as defined below) has failed to redeem all Mortgage Covered Bonds of a Series (the **Relevant Series**) in full on the Maturity Date or within 14 Business Days thereafter, the maturity of the principal amount outstanding of the Mortgage Covered Bonds of the Relevant Series and the date on which such principal amount outstanding of the Mortgage Covered Bonds of the Relevant Series 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, and if the CNB has appointed the Covered Block Administrator and to the extent there are sufficient monies available in the International Covered Block, and it is permitted by the applicable law, the Covered Block Administrator shall, redeem all or any part of the principal amount outstanding of the Mortgage Covered Bonds on any Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

The Issuer or the Covered Block Administrator, as applicable, shall give to the Mortgage Covered Bondholders in accordance with Condition 15 (Notices), the Transfer Agents and the Paying Agents (copying the Trustee) notice as to whether or not it shall redeem the principal amount outstanding of the Mortgage Covered Bonds in full or in part at least five Business Days prior to the Maturity Date or the relevant Interest Payment Date, as applicable. Any failure by the Issuer or the Covered Block Administrator, as applicable, to notify such persons shall not affect the validity or effectiveness of any extension of the maturity of the Mortgage Covered Bonds to the Extended Maturity Date or redemption by the Issuer or the Covered Block Administrator, as applicable, on the relevant Interest Payment Date, as applicable, or give rise to rights to any such person. Accordingly, such Paying Agent will notify Clearstream, Luxembourg and Euroclear of the Issuer's or the Covered Block Administrator's, as applicable, intention to redeem the Mortgage Covered Bonds in whole, redeem the Mortgage Covered Bonds in part or extend the Maturity Date, promptly upon receipt of such instruction from the Issuer or the Covered Block Administrator, as applicable (and in any event by no later than three Business Days prior to the Maturity Date of the Mortgage Covered Bonds or the relevant Interest Payment Date, as applicable). For the avoidance of doubt, if the Paying Agents have not received a notice from the Issuer or the Covered Block Administrator, as applicable, 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 Mortgage 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 Mortgage Covered Bonds which are Zero Coupon Mortgage Covered Bonds up to (and including) the Maturity Date, 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 Mortgage Covered Bonds under this Condition 6.9 shall be irrevocable. Any failure to redeem the Mortgage 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 Mortgage Covered Bonds) or any extension of the maturity of Mortgage Covered Bonds to the Extended Maturity Date under this Condition 6.9 shall constitute an Issuer Event of Default (as defined in Condition 9.1 (Issuer Events of Default)), but it shall not give any Mortgage Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Mortgage Covered Bonds other than as expressly set out in these Conditions and, for the avoidance of doubt, shall not itself constitute a breach of the Conditions by the Issuer or give any Mortgage Covered Bondholder any right to seek damages from the Issuer or any other person.

- (d) In the event of the extension of the maturity of Mortgage Covered Bonds under this Condition 6.9, interest rates, interest periods and interest payment dates on the Mortgage 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 Mortgage Covered Bonds up to the Extended Maturity Date).
- (e) If the Issuer or the Covered Block Administrator, as applicable, redeems part and not all of the principal amount outstanding of Mortgage Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied, to the extent permitted by the applicable law, rateably across the Mortgage Covered Bonds and the principal amount outstanding on the Mortgage Covered Bonds shall be reduced by the level of that redemption.

In these Conditions:

Covered Block Administrator means the involuntary covered block administrator (in Czech, *nucený správce krytých bloků*) within the meaning of the Czech Act on Bonds appointed in respect of the Issuer.

International Covered Block means the covered block within the meaning of the Czech Act on Bonds which is formed by the International Cover Pool and the debts that the International Cover Pool covers.

7. Taxation

All payments of principal and interest in respect of the Mortgage Covered Bonds and Coupons by or on behalf of the Issuer shall be made free and clear of, and without any deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed under any applicable law by or within 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 Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bond or Coupon by reason of his having some connection with the Tax Jurisdiction other than the mere holding of such Mortgage 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 30th day assuming that day to have been a Payment Day (as defined in Condition 5.7 (Payment Day)).

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

approach thereto or an agreement between the United States of America and the Czech Republic to implement FATCA or any law implementing or complying with, or introduced in order to conform to, such agreement (as provided in Condition 5.2 (Payments Subject to Fiscal and Other Laws)).

If the Issuer becomes subject generally to any taxing jurisdiction other than the Tax Jurisdiction, references in this Condition 7 (Taxation) to Tax Jurisdiction shall, subject to clause 13.11 of the Trust Deed, be construed as references to the Czech Republic and/or such other jurisdiction or, in each case, any political subdivision or any authority thereof or therein having power to tax.

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 Mortgage Covered Bondholders in accordance with Condition 15 (Notices).

8. Prescription

The Mortgage 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)) therefor. Any moneys paid by the Issuer to the Principal Paying Agent for the payment of principal or interest in respect of the Mortgage Covered Bonds and remaining unclaimed for two years after the date on which such principal or interest shall have become due shall (at the Issuer's request) be repaid by the Principal Paying Agent to the Issuer, and the holders of the relevant Mortgage Covered Bonds or Coupons shall thereafter only look to the Issuer for any payment which such holders may be entitled to collect.

No Coupon sheet issued on exchange of a Talon should include any Coupon the claim for payment in respect of which would be void pursuant to this Condition 8 or Condition 5.3 (Presentation of Definitive Bearer Mortgage Covered Bonds and Coupons) or any Talon which would be void pursuant to Condition 5.3 (Presentation of Definitive Bearer Mortgage Covered Bonds and Coupons).

9. Events of Default

9.1 Issuer Events of Default

If any one or more of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) non-payment by the Issuer of any amount of the interest in respect of any Mortgage Covered Bonds of any Series within seven Business Days from the date when such obligations became due;
- (b) non-payment by the Issuer of any amount of the principal in respect of any Mortgage Covered Bonds of any Series within 14 Business Days from their Maturity Date (including, without limitation, in the event of any extension of the maturity of Mortgage Covered Bonds to the Extended Maturity Date under Condition 6.9 (Extension of Maturity up to Extended Maturity Date));
- (c) the Issuer has (i) ceased to be licensed to operate as a bank, (ii) ceased to be authorised to issue mortgage covered bonds (in Czech, *hypoteční zástavní listy*), or (iii) ceased or threatened to cease to carry on all or substantially all of its business or operate as a bank;

- (d) (i) the Issuer becomes (1) over-indebted (in Czech, *předlužen*), (2) unable to pay its debts as they fall due (in Czech, *platebně neschopný*) or (3) in a situation of a threatening insolvency (in Czech, *hrozící úpadek*);(ii) any corporate action, legal proceedings or other procedure or step is taken in relation to: (1) the suspension of payments or a moratorium of any indebtedness of the Issuer; (2) bankruptcy (in Czech, *úpadek*) or discharge (in Czech, *oddlužení*) of the Issuer; or (3) a reorganisation (in Czech, *reorganizace*) or a similar arrangement with any creditor of the Issuer, unless the petition to commence such proceedings or procedure is contested in good faith and is discharged, stayed or dismissed within 30 calendar days of such commencement; (iii) an administrator, receiver, administrative receiver, compulsory manager, liquidator or other similar officer of the Issuer or the whole or any substantial part of the undertaking, assets and revenues of the Issuer, or the Covered Block Administrator, is appointed; or (iv) by reason of actual or anticipated financial difficulties, the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;
- (e) 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 a 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 this paragraph (e), **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; or
- (f) a breach of the Contractual Asset Cover Test with respect to the International Cover Pool for a period longer than one month,

the Issuer must not issue any Czech Mortgage Covered Bonds which have the benefit of the International Cover Pool, unless an Issuer Event of Default under paragraph (b) above has occurred and is continuing and no other Issuer Event of Default has occurred and is continuing, in which case the Issuer shall be authorised to issue further Czech Mortgage Covered Bonds if the proceeds of their issue are applied by the Issuer on issue in full in redeeming in whole or in part the relevant Mortgage Covered Bonds in accordance with the terms hereof.

9.2 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25% in nominal amount of the Mortgage Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to below means the Mortgage Covered Bonds of all Series then outstanding as if they were a single Series (with the nominal amount of Mortgage Covered Bonds not denominated in euro converted into euro at the Relevant Exchange Rate)) or if so directed by an Extraordinary Resolution of the Mortgage Covered Bondholders of all Series, shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) give notice in writing to the Issuer that each Mortgage Covered Bond is, and each Mortgage 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 and be continuing:

- (a) the Issuer or the Covered Block Administrator (if relevant) fails to pay:
 - (i) any amount of the interest in respect of any Mortgage Covered Bonds of any Series within 14 Business Days from the date when such obligations became due; or
 - (ii) any amount of the principal in respect of any Mortgage Covered Bonds of any Series within 14 Business Days from their Extended Maturity Date; or
- (b) the Issuer fails to comply with the Statutory Tests for a period longer than three months.

In this Condition 9, **Relevant Exchange Rate** means the equivalent in euro determined by the Principal Paying Agent: (i) in the case of Czech Koruna, at the rate available from the website of the Czech

National Bank (currently located at www.cnb.cz) or any successor source for the conversion of Czech Koruna into euro; and (ii) in the case of any other currency, at the rate specified as the FX Fix rate available from Reuters or any successor rate displayed by Reuters or, if Reuters is not showing such rate, an alternative rate from a recognised market source for the conversion of the relevant currency or currencies into euro, in each case on the Business Day on which the direction or request from the Mortgage 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 Mortgage 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% in nominal amount of the Mortgage Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to below means the Mortgage Covered Bonds of all Series then outstanding as if they were a single Series (with the nominal amount of Mortgage Covered Bonds not denominated in euro converted into euro at the Relevant Exchange Rate)) or if so directed by an Extraordinary Resolution of the Mortgage Covered Bondholders of all Series (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction).

No Mortgage Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Trust Deed, the Mortgage 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 or inability shall be continuing.

11. Replacement of Mortgage Covered Bonds, Coupons and Talons

Should any Mortgage 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 Mortgage Covered Bonds or Coupons) or the Registrar (in the case of Registered Mortgage 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 Mortgage Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

12. Paying Agents

The names of the initial Paying 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 Mortgage 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 Mortgage Covered Bonds) and a Transfer Agent (in the case of Registered Mortgage Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe approved by the Trustee, 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 (General Provisions Applicable to Payments). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Mortgage Covered Bondholders promptly by the Issuer in accordance with Condition 15 (Notices).

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

13. Issuer Covenants

Pursuant to the Trust Deed, the Issuer covenants in favour of the Trustee on behalf of the Mortgage Covered Bondholders that it will adhere to certain requirements in connection with the value and maintenance of the International Cover Pool and its compliance with certain key obligations imposed on it under the Czech Bonds Act, the CNB Decree and the CRR.

Specifically, the Issuer covenants, among other things, to ensure that it does not breach the Statutory Tests and the Contractual Asset Cover Test.

In addition, the Issuer also covenants to provide any Mortgage Covered Bondholder, upon its written request, with any report prepared by the Asset Monitor pursuant to the Asset Monitor Agreement.

In these Conditions:

Asset Monitor means Deloitte Audit s.r.o. or any other entity appointed as asset monitor in accordance with the Asset Monitor Agreement;

Asset Monitor Agreement means the asset monitor agreement entered into on or about 4 January 2021, between the Asset Monitor, the Issuer and the Trustee, as amended and/or supplemented and/or restated from time to time; and

CRR means Regulation No. 575/2013 of the European Parliament and the Council of 26 June 2013, on Prudential Requirements for Credit Institutions and Investment Firms.

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 Mortgage Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (Prescription).

15. Notices

All notices regarding the Bearer Mortgage Covered Bonds will be deemed to be validly given if published, if and for so long as the Bearer Mortgage Covered Bonds are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website (www.bourse.lu). 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 Mortgage 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.

If and for so long as any Registered Mortgage Covered Bonds are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange, all notices shall be published on the Luxembourg Stock Exchange's website (www.bourse.lu). If any Registered Mortgage Covered Bonds are listed on another stock exchange or

admitted to trading by another relevant authority, the notices regarding such Registered Mortgage Covered Bonds will be published in such manner as the rules of that stock exchange or relevant authority so require and such notices will be published in a daily newspaper of general circulation in the place or places required by those rules. If Registered Mortgage Covered Bonds are not so listed or admitted to trading, all notices regarding the Registered Mortgage 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.

Until such time as any definitive Mortgage Covered Bonds are issued, there may, so long as any Global Mortgage Covered Bonds representing the Mortgage Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) by the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Mortgage Covered Bonds and, in addition, for so long as any Mortgage 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 Mortgage 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 Mortgage Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Mortgage Covered Bond in definitive form) with the relative Mortgage Covered Bond or Mortgage Covered Bonds, with the Principal Paying Agent (in the case of Bearer Mortgage Covered Bonds) or the Registrar (in the case of Registered Mortgage Covered Bonds). While any of the Mortgage Covered Bonds are represented by a Global Mortgage Covered Bond, such notice may be given by any holder of a Mortgage 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 Mortgage Covered Bondholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of the Mortgage Covered Bondholders of one or more Series (including by way of audio or video conference calls) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Mortgage 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 Mortgage Covered Bondholders holding not less than 10% in nominal amount of the Mortgage Covered Bonds of the relevant Series for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons or, if the relevant Series is held by one Mortgage Covered Bondholder only, one or more persons, holding or representing not less than 50% in nominal amount of the Mortgage Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned meeting two or more persons or, if the relevant Series is held by one Mortgage Covered Bondholder only, one or more persons, being or representing Mortgage Covered Bondholders of the relevant Series whatever the nominal amount of the Mortgage 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 Mortgage Covered Bonds of the relevant Series or the Coupons or the Trust Deed (including modifying the date of maturity of the Mortgage 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 Mortgage Covered Bonds of the relevant Series or altering the currency of payment of the Mortgage Covered Bonds of the relevant Series or the Coupons) the quorum shall be two or more persons or, if the relevant Series is held by one Mortgage Covered Bondholder only, one or more persons, holding or representing not less than two-thirds in nominal amount of the Mortgage Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned such meeting two or more persons or, if the relevant Series is held by one Mortgage Covered Bondholder only, one or more persons, holding or representing not less than one-third in nominal amount of the Mortgage Covered Bonds of the relevant Series for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-quarters of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of all of the holders of not less

than three-quarters in nominal amount of the Mortgage Covered Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-quarters in nominal amount of the Mortgage Covered Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Mortgage Covered Bondholders. An Extraordinary Resolution passed at any meeting of the Mortgage Covered Bondholders of the relevant Series shall be binding on all the Mortgage Covered Bondholders of such Series, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

The Trust Deed provides that:

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

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

The Trustee may agree, without the consent of the Mortgage 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 Mortgage 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 Issuer Event of Default, Event of Default, potential Issuer 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 Mortgage Covered Bondholders of the relevant 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, or an error which, in the opinion of the Trustee, is proven. Any such modification, waiver, authorisation or determination shall be binding on the Mortgage Covered Bondholders and the Couponholders and any such modification, waiver, authorisation or determination shall be notified by the Issuer to the Mortgage 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 Mortgage 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 Mortgage Covered Bondholders or the Couponholders) to the Conditions, the Trust Deed, 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 Conditions or the Trust Deed, 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 (if any) of the Mortgage 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 Mortgage 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 Mortgage Covered Bonds or the Coupons. Any such modification shall be binding on the Mortgage Covered Bondholders and the Couponholders and shall be notified to the Mortgage 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 Mortgage 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, the CNB Decree, Czech insolvency law and/or the CRR, arising as a consequence of a change in, or a change in interpretation of, law and the Trustee shall, without the consent of the Mortgage Covered Bondholders, concur with the Issuer in making such modification (notwithstanding that such modification may be prejudicial to the interests of the Mortgage 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, in case of modifications arising as a consequence of changes in other than mandatory provisions of applicable law, the then current rating (if any) of the Mortgage 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 Mortgage Covered Bonds or the Coupons. Such modification includes, but is not limited to, changes as a result of changes in the Czech Bonds Act, the CNB Decree, the Czech Insolvency Act and/or the CRR. Such certification shall be conclusive and binding on the Trustee, the Mortgage Covered Bondholders and the Couponholders. Any such modification shall be binding on the Mortgage Covered Bondholders and Couponholders and shall be notified to Mortgage 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 Mortgage Covered Bondholders of each Series equally and shall have regard to the interests of the Mortgage Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Mortgage 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 Mortgage 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 Mortgage 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 Mortgage 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 Mortgage Covered Bondholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition 16) as the principal debtor under the Mortgage Covered Bonds, the Coupons and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (i) the Mortgage Covered Bonds being unconditionally and irrevocably guaranteed by the Issuer, (ii) the Trustee being satisfied that the interests of the Mortgage 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 Mortgage 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 Mortgage Covered Bondholders or the Couponholders to create and issue further Mortgage Covered Bonds having terms and conditions the same as the Mortgage 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 Mortgage Covered Bonds.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Mortgage 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 Mortgage Covered Bonds, the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Mortgage Covered Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

The Mortgage Covered Bonds, although otherwise governed by, and construed in accordance with, English law, will be subject to and will benefit from those provisions of the Czech Bonds Act, the CNB Decree, the Czech Insolvency Act and any other provisions of Czech law applicable to or relevant to the Czech Mortgage Covered Bonds and the International Cover Pool. Therefore, the Mortgage Covered Bonds will need to satisfy requirements of Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act and the International 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 Mortgage Covered Bonds and the International 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 Issuer irrevocably agrees for the benefit of the Trustee, the Mortgage Covered Bondholders and the Couponholders that the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Mortgage 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 Mortgage Covered Bonds and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Mortgage 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 Mortgage Covered Bondholders and the Couponholders may, in respect of any Dispute or Disputes, take: (i) proceedings against the Issuer in any other court with competent jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

20.3 Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited, at its registered office for the time being at 8th Floor, 100 Bishopsgate, London, EC2N 4AG, 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 Law Debenture Corporate Services Limited 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.

FORM OF FINAL TERMS

Applicable Final Terms

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Mortgage Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Mortgage Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Mortgage Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]⁵

[IMPORTANT – UK RETAIL INVESTORS – The Mortgage Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Mortgage Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Mortgage Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]⁶

[MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Mortgage Covered Bonds has led to the conclusion that: (i) the target market for the Mortgage Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, **MiFID II**)/MiFID II]; and (ii) all channels for distribution of the Mortgage Covered Bonds to eligible counterparties and professional clients are appropriate. [The target market assessment indicates that Mortgage Covered Bonds are incompatible with the needs, characteristics and objectives of clients which are [fully risk averse/have no risk tolerance or are seeking on-demand full repayment of the amounts invested]]. Any person subsequently offering, selling or recommending the Mortgage Covered Bonds (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Mortgage Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Mortgage Covered Bonds has led to the conclusion that: (i) the target market for the Mortgage Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Mortgage Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the

⁵ Legend to be included on front of the Final Terms if the Mortgage Covered Bonds potentially constitute "packaged" products and no key information document will be prepared in the EEA or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

⁶ Legend to be included on front of the Final Terms if the Mortgage Covered Bonds potentially constitute "packaged" products and no key information document will be prepared in the UK or the issuer wishes to prohibit offers to UK retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

Mortgage Covered Bonds (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Mortgage Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as amended) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined the classification of the Mortgage Covered Bonds to be [capital markets products other than prescribed capital markets products (as defined in the CMP Regulations 2018)] [and] [Specified Investment Products (as defined in the Monetary Authority of Singapore (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products)].⁷

Set out below is the form of the Applicable Final Terms which will be completed for each Tranche of Mortgage Covered Bonds issued under the Programme which (1) have a denomination of EUR100,000 (or its equivalent in any other currency) or more, and/or (2) are to be admitted to trading only on a regulated market, or a specific segment of a regulated market, to which only qualified investors (as defined in the Prospectus Regulation) have access.

[Date]

Komerční banka, a.s.

Legal Entity Identifier (LEI): [●]

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Mortgage Covered Bonds]
under the €[●]**

Mortgage Covered Bond 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 4 January 2021 [and the supplement[s] to it dated [date]] [and [date]] (the **Base Prospectus**) which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the **Prospectus Regulation**). This document constitutes the Final Terms of the Mortgage Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus in order to obtain all the relevant information. The Base Prospectus has been published on the Luxembourg Stock Exchange's website (www.bourse.lu). [*The following language should only be included if the relevant Series of the Mortgage Covered Bonds will be admitted to trading on the Luxembourg Stock Exchange: The Final Terms will also be published on the Luxembourg Stock Exchange's website (www.bourse.lu).*]

[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.]

[When adding any other information consideration should be given as to whether such information constitutes "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.]

⁷ Legend to be included on front of the Final Terms if the Mortgage Covered Bonds sold into Singapore do not constitute prescribed capital markets products (as defined under the CMP Regulations 2018) and/or Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products). Relevant Manager(s)/Dealer(s) to consider whether it/they has/have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

[If the Mortgage 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 Mortgage Covered Bonds will be consolidated and form a single Series: The Mortgage 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 Mortgage Covered Bond for interests in the Permanent Global Mortgage 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: [●]% 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 Mortgage Covered Bonds, this means the minimum integral amount in which transfers can be made)

(N.B. Mortgage 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 Mortgage 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 Mortgage Covered Bonds) and Condition 4.2(d) (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) Trade Date: [●]
- (c) Interest Commencement Date: [[●]/Issue Date/Not Applicable]

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

(As referred to under Condition 4.1 (Interest on Fixed Rate Mortgage Covered Bonds) and Condition 4.2(a) (Interest Payment Dates))

- (i) Period to Maturity Date: [*specify*/Issue Date/Not Applicable]
- (ii) Period from Maturity Date to Extended Maturity Date: Maturity Date

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

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

- 8. Extended Maturity Date: [The Extended Maturity Date is [●].]

[In accordance with the Conditions, if the Issuer or the Covered Block Administrator fails to redeem all Mortgage Covered Bonds of the Relevant Series in full on the Maturity Date or within 14 Business Days thereafter, the maturity of the principal amount outstanding of the Mortgage Covered Bonds of the Relevant Series will automatically be extended up to the Extended Maturity Date and such extension shall constitute an Issuer Event of Default (as defined in Condition 9.1 (Issuer Events of Default)), but it shall not give any Mortgage Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Mortgage Covered Bonds other than as expressly set out in the Conditions and, for the avoidance of doubt, shall not itself constitute a breach of the Conditions by the Issuer or give any Mortgage Covered Bondholder any right to seek damages from the Issuer or any other person. In that event, the interest rate payable on, and the interest periods and

Interest Payment Dates, in respect of the Mortgage Covered Bonds, will change from those that applied up to the Maturity Date and the Issuer may and, if the CNB has appointed the Covered Block Administrator and to the extent there are sufficient monies available in the International Covered Block and it is permitted by the applicable law, the Covered Block Administrator shall, redeem all or part of the principal amount outstanding of those Mortgage Covered Bonds on an Interest Payment Date falling after the Maturity Date up to and including the Extended Maturity Date, all in accordance with the Conditions. See Conditions 4.4 (Interest Rate and Payments from the Maturity Date in the Event of Extension of Maturity of the Mortgage Covered Bonds up to the Extended Maturity Date) and 6.9 (Extension of Maturity up to Extended Maturity Date).]

9. Interest Basis:
 (As referred to under Condition 4 (Interest))
- (a) Period to (and including) Maturity Date: [[●]% Fixed Rate]
 [[LIBOR/EURIBOR/PRIBOR/[●]/SONIA/SOFR/€STR] +/- [●]% Floating Rate]
 [Zero Coupon]
 (further particulars specified below)
- (b) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date: [[●]% Fixed Rate]
 [[LIBOR/EURIBOR/PRIBOR/[●]/SONIA/SOFR/€STR] +/- [●]% 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 Mortgage Covered Bonds will be redeemed on the Maturity Date (or, if applicable, the Extended Maturity Date) at [●]% of their nominal amount
11. Change of Interest Basis:
 (As referred to under Condition 4 (Interest)) [Specify the date when any fixed to floating rate change occurs (or *vice versa*) or cross refer to paragraphs 14 and 15 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 Mortgage Covered Bond Provisions [Applicable/Not Applicable]

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

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

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

(If (a) and (b) above are not applicable, delete the remaining subparagraphs of this paragraph)

(i) Rate(s) of Interest:

(A) To Maturity Date: [Not Applicable/[●]% per annum payable in arrear on each Interest Payment Date]

(B) From Maturity Date up to Extended Maturity Date: [Not Applicable/[●]% per annum payable in arrear on each Interest Payment Date]

(ii) Interest Payment Date(s):

(A) To Maturity Date: [Not Applicable/[●] in each year up to and including the Maturity Date/specify other]

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

(B) 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)

(iii) Fixed Coupon Amount(s):

(A) To Maturity Date: [Not Applicable/[●] per Calculation Amount]

(B) From Maturity Date up to Extended Maturity Date: [Not Applicable/[●] per Calculation Amount]

(iv) Broken Amount(s):

(Applicable to Mortgage Covered Bonds in definitive form)

(A) To Maturity Date: [[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]

- (B) From Maturity Date up to Extended Maturity Date: per Calculation Amount, payable on the Interest Payment Date falling in/on] /Not Applicable]
- (v) Day Count Fraction:
- (A) To Maturity Date: 30/360/Actual/Actual (ICMA)/Not Applicable]
- (B) From Maturity Date up to Extended Maturity Date: 30/360/Actual/Actual (ICMA)/Not Applicable]
- (vi) Determination Date(s):
- (A) 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)*
- (B) 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 Mortgage Covered Bond Provisions Applicable/Not Applicable]
- (As referred to under Condition 4.2 (Interest on Floating Rate Mortgage Covered Bonds))
- (a) To Maturity Date: Applicable/Not Applicable]
- (b) From Maturity Date up to Extended Maturity Date: Applicable/Not Applicable]
- (If (a) and (b) above are not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates:
- (A) To Maturity Date: [, subject to adjustment in accordance with the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]/Not Applicable]
- (B) From Maturity Date up to Extended Maturity Date: [, subject to adjustment in accordance with the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]/Not Applicable]

- (ii) Business Day Convention:
- (A) To Maturity Date: [Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (B) 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]
- (iii) Additional Business Centre(s):
- (A) To Maturity Date: [[●]/Not Applicable]
- (B) From Maturity Date up to Extended Maturity Date: [[●]/Not Applicable]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:
- (A) To Maturity Date: [Not Applicable/Screen Rate Determination/ISDA Determination]
- (B) From Maturity Date up to Extended Maturity Date: [Not Applicable/Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) [and address]: [Not Applicable/[●] (the **Calculation Agent**)]
- (vi) Screen Rate Determination: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (A) To Maturity Date: [Applicable/Not Applicable]
- Term Rate: [Applicable/Not Applicable]
 - Overnight Rate: [Applicable/Not Applicable]
- (If not applicable, delete the remaining limbs of subparagraph)*
- Calculation Method: [Compounded Daily Rate/Weighted Average Rate/Not Applicable]
 - Observation Method: [Lag/Lock-out/Observation Shift/Not Applicable]
 - Lag Look-Back Period: [Five/[] Relevant Business Days][Not Applicable]

- Observation Shift Period: [Five/[] Relevant Business Days][Not Applicable]
- D: [365/360/[]] days
- Index Determination: [Applicable/Not Applicable]
- ARRC Fallbacks: [Applicable/Not Applicable]
(N.B. only applicable where the Reference Rate is SOFR)
- Reference Rate and Relevant Financial Centre: Reference Rate: [SONIA/SOFR/€STR]/[●] month [LIBOR/EURIBOR/PRIBOR/[●]].
Relevant Financial Centre: [London/Prague/[]/Not Applicable]
- Specified Time: [[]] in the Relevant Financial Centre][Not Applicable]
- 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)*
- Reference Rate Replacement: [Applicable/Not Applicable]
(N.B. Reference Rate Replacement will be not applicable where ARRC Fallbacks are applicable)
- (B) From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable]
- Term Rate: [Applicable/Not Applicable]
- Overnight Rate: [Applicable/Not Applicable]
(If not applicable, delete the remaining limbs of subparagraph)
- Calculation Method: [Compounded Daily Rate/Weighted Average Rate/Not Applicable]

- Observation Method: [Lag/Lock-out/Observation Shift/Not Applicable]
 - Lag Look-Back Period: [Five/[●] Relevant Business Days][Not Applicable]
 - Observation Shift Period: [Five/[●] Relevant Business Days][Not Applicable]
 - D: [365/360/[●]] days
 - Index Determination: [Applicable/Not Applicable]
 - ARRC Fallbacks: [Applicable/Not Applicable]
(N.B. only applicable where the Reference Rate is SOFR)
 - Reference Rate and Relevant Financial Centre: Reference Rate: [SONIA/SOFR/€STR]/[●] month
[LIBOR/ EURIBOR/ PRIBOR/[●]].
Relevant Financial Centre: [London/Prague/[]/Not Applicable]
 - Specified Time: [[] in the Relevant Financial Centre][Not Applicable]
 - 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)
 - Reference Rate Replacement: [Applicable/Not Applicable]
(N.B. Reference Rate Replacement will be not applicable where ARRC Fallbacks are applicable)
- (vii) ISDA Determination: [Applicable/Not Applicable]
- (A) 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)

(N.B. The fallback provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)

(B) 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)

(viii) 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)]

(ix) Margin(s):

(A) To Maturity Date: [[+/-] [●]% per annum/Not Applicable]

(B) From Maturity Date up to Extended Maturity Date: [[+/-] [●]% per annum/Not Applicable]

(x) Minimum Rate of Interest:

(A) To Maturity Date: [[●]% per annum/Not Applicable]

(B) From Maturity Date up to Extended Maturity Date: [[●]% per annum/Not Applicable]

(xi) Maximum Rate of Interest:

(A) To Maturity Date: [[●]% per annum/Not Applicable]

- (B) From Maturity Date up to Extended Maturity Date: % per annum/Not Applicable]
- (xii) Day Count Fraction:
- (A) 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)
- (B) 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 Mortgage Covered Bond Provisions Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: % 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
(Redemption for Tax Reasons): Minimum period: [●] days
Maximum period: [●] days
17. Notice periods for Condition 6.3
(Redemption Due to Illegality or Invalidity): Minimum period: [●] days
Maximum period: [●] days
18. Issuer Call: [Applicable/Not Applicable]
(As referred to under Condition 6.4 (Redemption at the Option of the Issuer (Issuer Call))) *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount: [●] per Calculation Amount
- (c) If redeemable in part: [Not Applicable]
- (i) Minimum Redemption Amount: [●]
- (ii) Maximum Redemption Amount: [●]
19. Final Redemption Amount: [●] per Calculation Amount
(As referred to under Condition 6.1 (Redemption at Maturity))
20. Early Redemption Amount payable on redemption for taxation reasons, due to illegality or invalidity 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% of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but this should be considered). If, however, the Final Redemption Amount is other than 100% of the nominal value, consideration should be given as to what the Early Redemption Amount should be)*

General Provisions Applicable to the Mortgage Covered Bonds

21. Form of Mortgage Covered Bonds:
Form: [Bearer Mortgage Covered Bonds:]
[Temporary Global Mortgage Covered Bond exchangeable for a Permanent Global Mortgage Covered Bond which is exchangeable for definitive Bearer Mortgage Covered Bonds upon an Exchange Event]
[Temporary Global Mortgage Covered Bond exchangeable for definitive Bearer

Mortgage Covered Bonds on and after the Exchange Date]

[Permanent Global Mortgage Covered Bond exchangeable for definitive Bearer Mortgage Covered Bonds upon an Exchange Event]

[Mortgage 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]

(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Mortgage 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 Mortgage Covered Bonds which is to be represented on issue by a Temporary Global Mortgage Covered Bond exchangeable for definitive Mortgage Covered Bonds)

[Registered Mortgage Covered Bonds:]

[Registered Global Mortgage Covered Bond (EUR[●] nominal amount) registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a Common Safekeeper for Euroclear and Clearstream, Luxembourg]]

[New Global Mortgage Covered Bond/New Safekeeping Structure:

[Yes][No]]

22. Additional Financial Centre(s):

[Not Applicable/London/Prague/Other]

(As referred to under Condition 5.7 (Payment Day))

((Note that this paragraph 22 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 subparagraph 14(b) relates))

23. Talons for future Coupons to be attached to definitive Mortgage Covered Bonds:

[Yes, as the Mortgage 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]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [admission to trading on Luxembourg Stock Exchange's regulated market and for listing on the Official List of the Luxembourg Stock Exchange] of the Mortgage Covered Bonds described herein pursuant to [●].

[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 Komerční banka, a.s.:

By:

Duly authorised

By:

Duly authorised

Part B – Other Information

1. Listing and Admission to Trading

- (a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Mortgage 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 Mortgage 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.]
- (b) Estimate of total expenses related to admission to trading: [●]

2. Ratings

Ratings: [The Mortgage 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]. [Specify meaning of the rating]. Each of [defined terms] is established in the [European Union /United Kingdom] and is registered under [Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**)/ Regulation (EC) No.1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK 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 Mortgage 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 Mortgage 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 23 of the Prospectus Regulation.)]

4. Reasons for the Offer, Estimated Net Proceeds and Total Expenses

- (a) [Reasons for the offer: [●]/[Not Applicable]]
- (b) [Estimated net proceeds: [●]/[Not Applicable]]
- (c) [Estimated total expenses: [●]/[Not Applicable]]
5. **Yield** (*Fixed Rate Mortgage Covered Bonds Only*) [Applicable/Not Applicable]
- Indication of yield: [●]
6. **Historic Interest Rates** (*Floating Rate Mortgage Covered Bonds Only*) [Not Applicable/Details of historic [LIBOR/EURIBOR/PRIBOR/[●]/*replicate other as specified in the Conditions*] rates can be obtained from [Reuters].]
7. **Operational Information**
- (a) ISIN: [●]
- (b) Common Code: [●]
- (c) 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)*]
- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): [●]/[Not Applicable]
- (f) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Mortgage Covered Bonds are intended upon issue to be deposited with either Euroclear or Clearstream, Luxembourg (together the ICSDs) as one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper),][*include this text for Registered Mortgage Covered Bonds*] and does not necessarily mean that the Mortgage 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. While 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 Mortgage Covered Bonds are capable of meeting them the Mortgage Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper).][*Include this text for registered Mortgage Covered Bonds*]. Note that this does not necessarily mean that the Mortgage 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**

- (a) If syndicated, names of Managers: [Not Applicable/*give names*]
- (b) Date of [Subscription] Agreement: [●]
- (c) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (d) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]

GENERAL DESCRIPTION OF CZECH LEGISLATION RELATING TO MORTGAGE 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 Mortgage Covered Bonds as Czech Mortgage 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 Mortgage Covered Bonds.

As of the date of this Base Prospectus, the main legislation which governs the Czech Mortgage Covered Bonds as Czech covered bonds comprises: (i) Section 28 *et seq.*, Part 2, Clause III of the Czech Bonds Act; (ii) the CNB Decree; and (iii) Section 375 as well as some other provisions of the Czech Insolvency Act.

2. CZECH COVERED BOND LEGISLATION

In accordance with Section 28(1) of the Czech Bonds Act, the Czech covered bonds (in Czech, *kryté dluhopisy*) are either: (i) bonds; or (ii) similar debt securities representing a right for repayment of an owed amount which are issued under and governed by a foreign law.

Czech Mortgage Covered Bonds represent a sub-category of the Czech covered bonds the terms and conditions of which stipulate that the aggregate value of: (i) issuer's mortgage loan receivables pursuant to Section 31(2)(a) of the Czech Bonds Act (the **Czech Bonds Act Mortgage Loan**); or (ii) issuer's mortgage loan receivables pursuant to Articles 129(1)(d)-(f) of the CRR (the **CRR Mortgage Loans** and together with the Czech Bonds Act Mortgage Loans as the **Mortgage Loans**) included in the Cover Pool (as defined below) must be equal to at least 85% of the aggregate value of all the debts covered by the relevant Cover Pool. Only the Czech Mortgage Covered Bond may bear the designation "*hypoteční zástavní list*" or any other designation expressing the same meaning in another language (e.g. "mortgage covered bond") to be recognised as such under the Czech Bonds Act, the CNB Decree and the Czech Insolvency Act. Other securities are prohibited from using this designation.

Under the Czech Bonds Act, the Czech Mortgage Covered Bonds (as well as other covered bonds) may only be issued by a bank with its seat in the Czech Republic which holds a Czech banking licence granted by the CNB in accordance with the Czech Act No. 21/1992 Coll., 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. The banking licence may also enumerate other activities which are permitted for the particular bank. Under Czech law, no specific licence or authorisation is required for the issuance of any Czech covered bonds.

The Mortgage 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 other obligations of the Issuer that have been provided the same priority as such Mortgage Covered Bonds.

If the Issuer becomes insolvent, claims of the holders of the Czech Mortgage Covered Bonds may be satisfied either from: (i) a Cover Pool; or (ii) any other (general) assets of the Issuer, subject to specific provisions of the Czech insolvency law (see 9. Insolvency of the Issuer and the Cover Pool below).

A cover pool is a ring-fenced pool of: (A) assets registered in the cover assets register, identified and designated by the Issuer to constitute cover in respect of: (i) the covered bonds that the Issuer has either issued or, in the case of multiple existing issues, determined (and which are outstanding, i.e. in circulation, owned by a person other than the Issuer or owned by the Issuer and provided to another person as a security or collateral); and (ii) certain other debts of the Issuer; and (B) other assets (accessory assets) which belong to that cover pool by operation of law, i.e. without the need of their registration to the cover assets register (the **Cover Pool**). The respective Cover Pool is created upon registration of at least one asset satisfying the relevant eligibility criteria set out in the Czech Bonds Act in a cover assets register, which is maintained separately in respect of each Cover Pool (if multiple

Cover Pools are created) (the **Cover Assets Register**). From the moment of registration of an eligible asset in the Cover Assets Register, such an asset becomes a cover asset (the **Cover Asset**) (particular Cover Assets are described in detail in section 3. Cover Assets and Statutory Cover Tests) and cannot be transferred, pledged or otherwise used as a security.

Pursuant to the Czech Bonds Act, the Issuer is required to maintain at least one Cover Pool for the benefit of all debts that it covers. However, the Issuer may create multiple Cover Pools for the benefit of individual or specified multiple issuances or series of the Czech Mortgage Covered Bonds, at its sole discretion. If this is the case, the Issuer must also determine which debts are to be covered by each Cover Pool, whereas if the Issuer has created only one Cover Pool, such determination is not required.

Under the Czech Bonds Act, the legal title to any Cover Assets included in the Cover Pool continues to be held by the Issuer and such assets remain on the balance sheet of the Issuer. However, the Cover Assets must not be transferred, mortgaged or otherwise used as security.

The Issuer must continuously monitor the eligibility of the Cover Assets. The Issuer must remove from the Cover Assets Register such Cover Assets which no longer satisfy the legal requirements (eligibility criteria) from the Cover Pool and substitute them with other eligible assets to the extent required. However, the Covered Block Administrator (as defined below), if and once appointed, has no such duty.

Pursuant to Section 375 of the Insolvency Act, the Cover Pool does not form a part of the insolvency estate of the Issuer. This means that the Cover Pool is to be managed separately from the insolvency proceedings applicable to an insolvency estate of the Issuer (i.e. on a bankruptcy remote basis) (for further details, please see 9. Insolvency of the Issuer and the Cover Pool).

Moreover, in case a creditor enforces claims against the Issuer through judicial enforcement pursuant to the Czech Civil Procedure Code or through an executor pursuant to the Czech Act No. 120/2001 Coll., on Executors and Execution (Execution Code), as amended (the **Execution Code**), pursuant to Section 267b of the Czech Civil Procedure Code and Section 52 of the Execution Code, the Cover Assets cannot be used in enforcement to fulfil other debts than those debts which are covered by the same Cover Pool.

In addition, pursuant to Section 337c(1)(c) of the Czech Civil Procedure Code, the receivables under the Mortgage Loans, which are included in the Cover Pool covering the Czech Mortgage Covered Bonds in circulation, 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 (as defined below) 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 and, if applicable, the deduction of the costs relating to the administration of the building and the land that are due from the owner of the Mortgaged Property, which is a unit situated within that building, up to the amount of one-tenth of the proceeds of the sale of such Mortgaged Property. This means that the Issuer's receivables from the Mortgage Loans 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 ASSETS AND STATUTORY COVER TESTS**

Cover Assets

Pursuant to the Czech Bonds Act, only the following types of assets (the **Eligible Assets**) may be registered in the Cover Assets Register:

- (a) CRR Mortgage Loans and other assets set out in Articles 129(1) and (2) of the CRR (while any Derivative (as defined below) must comply with requirements under point (e) below);
- (b) Czech Bonds Act Mortgage Loans;

- (c) (i) receivables against a member state of the Organisation for Economic Co-operation and Development (the **OECD**) or the central bank of such a state or a multilateral development bank or international organisation whose member is a member state of the OECD; (ii) receivables guaranteed by a member state of the OECD or the central bank of such a state or a multilateral development bank or international organisation whose member is a member state of the OECD; or (iii) exposures pursuant to Article 129(1)(a) or (b) of the CRR (the **CRR PSB's Receivables** and, together with the assets under subparagraphs (i) and (ii), also referred to as the **PSB's Receivables and Exposures**);
- (d) cash of the Issuer held on an account kept by a person set out in Section 72(2) of the Czech Act No. 240/2013 Coll., on Investment Companies and Investment Funds, as amended (the **Cash**); and
- (e) rights arising out of a derivative in accordance with Section 2 point 5 of the Regulation (EU) No 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories (i.e. a financial instrument as set out in points (4) to (10) of Section C of Annex I to MiFID II (the **Derivative**)), provided that the following cumulative conditions are met: (i) the purpose of the Derivative is to hedge against the risks related to Cover Assets included in the Cover Pool or the Czech Mortgage Covered Bonds; (ii) from the terms under which the derivative contract was concluded, it is clear that it relates to the Czech Mortgage Covered Bonds; (iii) the terms of the Derivative provide that insolvency (in Czech, *platební neschopnost*) of an Issuer or a crisis resolution (in Czech, *řešení krize*) or similar measure in respect of an issuer does not constitute an event of default or a termination or similar event which could lead to early termination of the Derivative; and (iv) the Issuer's counterparty to the Derivative has granted its prior consent with registration of the Derivative in the Cover Assets Register (while the same applies also to removal of the Derivative from the Cover Assets register).

The Cover Pool also includes the following assets that are part of the Cover Pool by operation of law without a need of their registration in the Cover Assets Register (each being the **Accessory Asset**):

- (a) rights from a security provided in relation to any Cover Asset included in the Cover Pool, rights from mortgages over real property in relation to the Mortgage Loans in particular;
- (b) rights from agreements entered into in relation to any Cover Assets included in the Cover Pool (particularly the rights from any insurance arrangements);
- (c) an asset provided (posted) as collateral or other security in respect of the Derivative;
- (d) rights from agreements concluded in relation to the administration of the Covered Block (as defined below) whose part is the Cover Pool; and
- (e) from the moment of appointment of a Covered Block Administrator (as defined below), cash accepted as payment for the repayment of a debt arising from a Cover Asset that is included in the Cover Pool or in direct connection with such Cover Asset.

Statutory Cover Tests

First, the aggregate nominal value of all the Cover Assets included in the Cover Pool must represent at least 102% of the aggregate value of all debts covered by the relevant Cover Pool, i.e. resulting in a minimum 2% statutory over-collateralisation (the **Statutory Minimum OC Level Test**). The terms and conditions of the respective Czech Mortgage Covered Bonds may set a higher over-collateralisation level.

Secondly, the aggregate value of the Cover Assets in the Cover Pool has to represent at least 85% of the aggregate value of the debts covered by the relevant Cover Pool, whereas only the Mortgage Loans may be used to fulfil this limit in respect of the Czech Mortgage Covered Bonds (the **Statutory 85% Test** and, together with the Statutory Minimum OC Level Test, as the **Statutory Cover Tests**).

The Issuer must (i) ensure that the Statutory Cover Tests are constantly complied with and (ii) within 25 days after the end of each calendar quarter inform the CNB on whether and how the Issuer meets its duties under Section 28c of the Czech Bonds Act (including, but not limited to, compliance with the Statutory Cover Tests and the Statutory 100% Individual LTV Test (as defined below)).

Mortgage Loans

The nominal value of each Czech Bonds Act Mortgage Loan may not exceed 100% of the value of the Mortgaged Property (as described below in 4. Valuations of the Mortgaged Property) (the **Statutory 100% Individual LTV Test**). However, this requirement does not operate as a strict eligibility criterion. Therefore, to the extent the nominal value of an individual Czech Bonds Act Mortgage Loan exceeds such limit (and only to that extent), it is disregarded for the purpose of calculating the Statutory Cover Tests. For the CRR Mortgage Loans, specific collateral value tests, as set out in the CRR, will apply.

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 ranked mortgage in favour of the Issuer over real property (subject to the exceptions below) (including real property under construction) located in the Czech Republic, any other member state of the European Union or a member state of the EEA (the **Mortgaged Property**). A Mortgage Loan becomes eligible to be included in the Cover Pool as of the moment when the Issuer learns about the legal effects of the creation of the mortgage relating to the Mortgaged Property.

In addition, the following criteria apply to the Mortgage Loans in the Cover Pool: (i) the Mortgage Loans must be granted or legally owned by the Issuer; (ii) 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 included in the Cover Assets Register in favour of the Issuer; and (iii) a transfer of any Mortgaged Property securing the Mortgage Loan cannot be restricted by previously created disposals prohibition, provided that the Mortgaged Property is not considered to be subject to a prior ranking security interest or disposal prohibition if they cease to exist as a result of repayment of the obligations secured by them from the proceeds of the relevant Mortgage Loan. If the criteria under paragraphs (ii) and (iii) are not fulfilled, the nominal value of such Mortgage Loan shall be for the purpose of calculating the Statutory Minimum OC Level Test equal to zero.

In the case of a borrower's default under a Mortgage Loan pursuant to Article 178 of the CRR (or based on a fulfilment of stricter conditions set out in the relevant terms and conditions), the nominal value of the Mortgage Loan included in the Cover Pool is for the purpose of both Statutory Cover Tests decreased by 100%.

Additionally, Section 28c of the Czech Bonds Act stipulates that an issuer of covered bonds that bear the designation "CRR" in their title must ensure that the covered bonds fulfil criteria pursuant to Article 129 of the CRR. Only those covered bonds that fulfil the criteria of Article 129 of the CRR may bear the designation "CRR" in their title.

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 principles set out below. Pursuant to Section 29(3) of the Czech Bonds Act, the value of the Mortgaged Property determined by the Issuer may not exceed open market value (in Czech, *cena obvyklá*) which is to be determined in accordance with the Czech Act No. 151/1997 Coll., as amended (the **Czech Property Valuation Act**), and with special regard to: (i) characteristics of the Mortgaged Property which are sustainable on a permanent and a long-term basis; (ii) income achievable by a third party while administering the Mortgaged Property with due care; (iii) rights and encumbrances attached to the Mortgaged Property; and (iv) conditions prevailing on the local real property market and anticipated development of that market. These conditions are similar, yet not identical to those set out in Article 4, point 74 of the CRR.

5. VALUATIONS OF THE COVER ASSETS

The value of the Cover Assets included in the Cover Pool is, for the purpose of calculating the Statutory Cover Tests, expressed in their nominal value, while the value of the Derivatives is by default expressed in their real value in accordance with the international accounting standards governed by the Regulation No. 1126/2008 of the European Commission, adopting certain accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as amended. Certain specifics of the Issuer's approach to valuation of Derivatives for purposes of the Statutory Minimum OC Level Test are described in The International Cover Pool – Tests relating to the International Cover Pool below.

Any Cover Asset the value of which, for the purpose of determining compliance with the Statutory Cover Tests, is zero nevertheless remains part of the Cover Pool until such asset is removed (deregistered) from the Cover Assets Register.

6. COVERED BLOCK AND ITS MANAGEMENT

Covered Block

With the creation of one or more Cover Pools, the Issuer also creates one or more covered blocks, which are fully segregated and ring-fenced blocks of assets and liabilities (debts) of the Issuer (the **Covered Block**). The Covered Block constitutes the Cover Pool and the debts that it covers.

A Cover Pool covers both the debts from the Czech Mortgage Covered Bonds (the **Covered Bonds Debts**) that it covers and the debts related to those Czech Mortgage Covered Bonds, which may be determined in the relevant terms and conditions or the prospectus of the Czech Mortgage Covered Bonds or in an agreement relating to the Czech Mortgage Covered Bonds, particularly of the following type: (i) a receivable of a Covered Block Administrator (as defined below); (ii) a receivable arising out of legal acts of a Covered Block Administrator undertaken for the benefit of the Cover Pool; (iii) a receivable of a covered block monitor; (iv) a receivable of a common representative of the Czech Mortgage Covered Bondholders; (v) a receivable of counterparty of the Derivative arising under the Derivative or in direct connection with it (provided the relevant Derivative is registered in the Cover Assets Register); and (vi) a receivable of another person specified in the relevant terms and conditions or the relevant prospectus that participated on the issuance of the Czech Mortgage Covered Bonds or on the administration of the Covered Block which serves to cover such debts (the **Accessory Debts**). Please see The International Cover Pool – Debts Covered by the International Cover Pool – Issued and Outstanding Mortgage Covered Bonds Covered by the International Cover Pool for determination of the Accessory Debts covered by the International Cover Pool.

Under the Czech Bonds Act, the Issuer may appoint a covered block monitor (in Czech, *monitor krytého bloku*) to monitor the Covered Block (or multiple Covered Blocks) and the related parts of the Covered Block Records (as defined below). The covered block monitor should disclose, without undue delay, to the Czech Mortgage Covered Bondholders any material information as to whether and how the Issuer meets the Statutory 100% Individual LTV Test and the Statutory Cover Tests. As the relationship between the Issuer and the covered block monitor is contractual, further details of the covered block monitor's duties and powers will be specified in the relevant agreement, which must be made in writing. The covered block monitor must carry out its activities with due professional care, and particularly in a qualified, honest and fair manner and in the best interest of the Czech Mortgage Covered Bondholders. The Asset Monitor appointed pursuant to the Asset Monitor Agreement under this Programme is considered and is to be treated as covered block monitor under the Czech Bonds Act (see The International Cover Pool – Tests relating to the International Cover Pool – Asset Monitor Agreement).

Pursuant to Section 32 of the Czech Bonds Act, the Issuer must maintain records of Covered Blocks with respect to: (i) each of its Cover Pools; and (ii) each issue of the Czech Mortgage Covered Bonds outstanding (the **Covered Block Records**). The Covered Block Records must provide complete information for assessing whether and how the Issuer fulfils its obligations under the Czech Bonds Act and the CNB Decree (i.e. the Statutory 100% Individual LTV Test and the Statutory Cover Tests). Upon the appointment of the Covered Block Administrator (as defined below), the obligation to maintain the Covered Block Records shifts (to the full extent) from the Issuer to the Covered Block Administrator.

Further details and requirements relating to maintaining of the Covered Block Records are set out in the CNB Decree.

The Covered Block Records consist of: (i) the Cover Assets Register; (ii) the records of the Accessory Assets (the **Accessory Assets Records**); (iii) the records of debts from Mortgage Covered Bonds outstanding (the **Debts Records**); and (iv) the records of Accessory Debts and debts related to assets under subparagraphs (i) and (ii) (the **Accessory Debts Records**), each of them kept separately for each Covered Block that the Issuer has created.

The Covered Block Records are not publicly available (i.e. Covered Block Records are not public registers) and the details contained therein are subject to banking secrecy rules set out in the Czech Banking Act.

Pursuant to the CNB Decree, the Covered Block Records must contain: (i) the list of the Covered Blocks; and (ii) comprehensive information about each of the Covered Blocks, including: (A) identification of the Covered Block itself; (B) the type of the Czech covered bonds; (C) information on whether the Covered Block includes Czech covered bonds which bear the "CRR" compliance designation in their names; (D) higher limits going above the Statutory 100% Individual LTV Test and the Statutory Cover Tests (if applicable under the terms and conditions of the relevant issue of the Czech Mortgage Covered Bonds); (E) identification of the currency in which the Covered Block Records are maintained; (F) the aggregate value of Covered Bonds Debts; (G) the aggregate value of the Accessory Debts; (H) the aggregate value of the Cover Assets for the purposes of the Statutory Minimum OC Level Test; and (I) the aggregate value of the Cover Assets for the purposes of the Statutory 85% Test.

The Issuer must maintain the Covered Block Records in an electronic format enabling it to track and reproduce all the past entries and changes and keep the Covered Block Records up to date. The Covered Block Records are maintained based on documentation that justifies the inclusion of each particular asset or debt in the Covered Block. 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 agreements, 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 asset included in the Cover Pool and each issue of the Czech Mortgage Covered Bonds.

For conversion of any financial information contained in the Covered Block Records, the foreign exchange rate published by the CNB on the date of the conversion will be used. If no such exchange rate is available for the currency or currencies in question, the conversion in accordance with the Czech Act No. 563/1991 Coll., on Accounting, as amended, will be used. Employees of the department keeping the Covered Block Records must be provided with up-to-date, reliable and complete information in order to decide on including items into or removing items from the Covered Block Records or undertaking other activities related to the duties under the CNB Decree.

Cover Assets Register

Pursuant to the CNB Decree, the Cover Assets Register must contain at least the following details in relation to each Mortgage Loan included in the Cover Assets Register: (i) the identification of the relevant Mortgage Loan; (ii) the type of the relevant Cover Asset based on categorisation as provided for in Article 129(1) of the CRR or in the Czech Bonds Act; (iii) information whether the relevant debtor is in default pursuant to Article 178 of the CRR; (iv) the identification of currency in which the relevant Mortgage Loan was concluded; (v) the mortgage lending value of the Mortgaged Property; (vi) the nominal value of the Mortgage Loan receivable; and (vii) the nominal value of the Mortgage Loan receivable for the purposes of calculating the Statutory Cover Tests and the Statutory 100% Individual LTV Test.

In relation to the Cover Assets other than the Mortgage Loans, the Cover Assets Register must contain at least: (i) identification of the relevant Cover Asset; (ii) determination of the type of such Cover Asset based on categorisation as provided for in Article 129(1) of the CRR or the Czech Bonds Act; (iii) information whether the debtor is in default pursuant to Article 178 of the CRR; (iv) type, trade date, effective date of a Derivative and name of the derivative counterparty, (v) currency or currencies in which the Cover Asset was entered into; (vi) value of the Cover Asset (or positive real value of the

Derivative); and (vii) the value of the Cover Asset for the purpose of calculating of the Statutory Cover Tests and the Statutory 100% Individual LTV Test.

Accessory Assets Records

Pursuant to the CNB Decree, the Accessory Assets Records must contain at least the following details in relation to each Accessory Asset: (i) the identification of the relevant Accessory Asset; (ii) the identification of the relevant contract(s) relating to the Accessory Asset; (iii) the identification of the Derivative's security; (iv) indication as to whether it is possible to use the security for the purposes of the Statutory Minimum OC Level Test; (v) currency/currencies in which the Accessory Asset was arranged; and (vi) real value of the security pursuant to paragraph (iii) in the currency in which the Accessory Assets Records are being kept.

Debts Records

Pursuant to the CNB Decree, the Debts Records must contain at least the following details in relation to each issue: (i) the identification of the relevant issue; (ii) the issue date; (iii) the maturity date of the issue; (iv) the currency or currencies in which the debt was concluded; (v) the nominal value of the outstanding issue; (vi) the value of the accrued proceeds from the issue in the currency in which the Debts Record is kept; and (vii) the nominal value of the unissued part of the issue if it serves for the identification of the debts for which the relevant Cover Pool serves as a cover in the currency in which the Debts Record is kept.

Accessory Debts Records

Pursuant to the CNB Decree, the Accessory Debts Records must contain at least the following details in relation to each Accessory Debt included in the Accessory Debts Records: (i) the identification of the respective Accessory Debt; (ii) the identification of the type of the Accessory Debt; (iii) the currency or currencies in which the respective Accessory Debt was concluded; and (iv) the nominal value of the Accessory Debt in the currency in which the Accessory Debts Records are kept; save for the case of an Accessory Debt arising from a Derivative in which case the value of debt is recorded as a negative real value of such a Derivative.

7. CONSEQUENCES OF CERTAIN ISSUER'S SHORTCOMINGS

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

The Czech Banking Act contains a list of the Shortcomings, which includes, in particular, the violation or breach of obligations or terms set out in: (i) the Czech Banking Act; (ii) a legal act implementing the Czech Banking Act; (iii) a measure of a general nature 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) the directly applicable legal act of the European Union (in Czech, *přímo použitelný právní předpis Evropské unie*) regulating prudential requirements; or (vi) the Issuer's banking licence or such other breach discovered during an inspection or official review of the Issuer. Therefore, for instance, failure by the Issuer to comply with the applicable Statutory Cover Tests (as set out in 3. Cover Assets and Statutory Cover Tests above) may lead to the CNB taking steps or actions against, or imposing measures, upon the Issuer.

Upon the discovery of the Shortcoming, and depending on the nature and gravity of that Shortcoming, the CNB may impose certain remedial measures on the Issuer (each a **Measure**), including, but not limited to: (a) requiring the Issuer to suspend or terminate certain trades which would represent a risk for the Issuer; (b) requiring the Issuer to limit its distribution network; (c) requiring the Issuer to replace a member of its Board of Directors or its Supervisory Board; (d) requiring the Issuer to decrease its shareholding in another entity or to transfer its shareholding in that entity or to otherwise limit the risks associated with its shareholding in that entity; (e) amending the Issuer's banking licence by excluding

or restricting some banking activities stated therein; (f) ordering an extraordinary audit of the Issuer; or (g) restricting or prohibiting certain activities of the Issuer with persons who are closely associated with the Issuer (in Czech, *osoby, které jsou spjaty 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 to the Issuer as, among others: (i) members of the Supervisory Board of the Issuer; (ii) members of the Board of Directors of the Issuer; (iii) persons controlling the Issuer, shareholders who have a qualified holding in such controlling persons and management of these two; (iv) persons closely associated with a member of the Board of Directors, Supervisory Board and board of non-executive directors, members of the audit, risk, appointment and remuneration committee or a person controlling the Issuer; (v) an entity in which a person mentioned in subparagraphs (i) to (iii) above has a qualified holding; (vi) a person with a qualified holding in the Issuer and any person controlled by them; (vii) a member of the banking council of the CNB; and (viii) entities controlled by the Issuer.

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

Furthermore, the CNB supervises the Issuer's compliance with certain laws, including the Czech Bonds Act, also pursuant to the Czech Act No. 15/1998 Coll., on Supervision in the Capital Market Area and Amendment of Certain Other Acts, as amended (the **Czech Capital Markets Supervision Act**). The Czech Capital Markets Supervision Act empowers the CNB, in case the Issuer is not compliant with those laws, including the Czech Bonds Act, to adopt certain further remedial measures (in Czech, *opatření k nápravě*) serving to remedy such non-compliance.

8. CZECH RESOLUTION AND RECOVERY ACT

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

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

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

The crisis prevention measures represent, for the most part, early intervention measures and as such can be described as pre-resolution measures or tools. Their main goal is to remedy potential Shortcomings of, among others, Czech Banks such as the Issuer, including by virtue of breaches or series of breaches of the Czech Resolution and Recovery Act or the Czech Banking Act (including various deficiencies or impediments to recoverability of the Issuer) and prevent such Shortcomings, which may result from a rapid deterioration of their financial condition, and in turn, prevent the spread of financial problems among Czech Banks (including the Issuer) and other entities subject to the Czech Resolution and Recovery Act. Accordingly, the CNB may, among other things, gradually: (i) impose specific administration measures on the Issuer in order to remedy the Shortcomings or breaches and/or address or remove deficiencies or impediments to recoverability (these measures broadly correspond to those set out in Article 27 of the BRRD as implemented in the Czech Resolution and Recovery Act); (ii) remove the members of the Issuer's Board of Directors and make the appointment of new board

members conditional upon the CNB's prior consent; or (iii) impose temporary administration of the Issuer by virtue of the appointment of one or more temporary administrators (who would be appointed by the CNB in order to facilitate the functions of the Issuer's Board of Directors and senior management while the temporary administration may last for up to 12 months, unless extended by the CNB).

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

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

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

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

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

The CNB further has certain wide powers pursuant to the Czech Resolution and Recovery Act, including, in certain circumstances, powers to unilaterally cancel a contract or modify contractual arrangements or transfer all rights and obligations under a contract as well as some other ancillary resolution powers in order to enable the crisis resolution measures under the Czech Resolution and Recovery Act to be used effectively. As regards these resolution powers to unilaterally cancel a contract

or modify contractual arrangements or transfer all rights and obligations under a contract (which would include the Terms and Conditions of the Mortgage Covered Bonds, any agreements or contracts entered into in respect of the Mortgage Covered Bonds and rights and obligations under the same), the Czech Resolution and Recovery Act contains specific safeguards in respect of certain "protected rights and liabilities".

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

The relevant safeguards contained in the Czech Resolution and Recovery Act provide that a partial property transfer may not provide for the transfer of only some, but not all, of the "protected rights and liabilities" under the Czech covered bonds, which technically means that the CNB must not: (i) decide on the transfer or passage of any Cover Asset in any Cover Pool without the simultaneous passage of the Czech covered bonds; or (ii) decide on the transfer or passage of any Czech covered bonds without the simultaneous passage of the benefit of the Cover Assets in any Cover Pool.

The bail-in tool represents one of the crisis resolution measures under the Czech Resolution and Recovery Act. In this process, losses are imposed on some of the Issuer's direct stakeholders by either a write-down of their claims or by their conversion to equity. The purpose of the bail-in tool is to offset losses and/or recapitalise all or a part of the Issuer or its successor entity. This tool is exercised by the CNB through a write down of certain claims of unsecured creditors of the Issuer and/or conversion of certain unsecured debt claims (eligible liabilities) to equity, which equity (i.e. capital instruments which may take the form of Common Equity Tier 1 instruments) could also be subject to any future write-down. The Czech Resolution and Recovery Act stipulates certain specific conditions to exercise of the bail-in tool, which the CNB will be obliged to observe. The effect of exercise of the bail-in tool by the CNB is broadly that: (i) the nominal value or the amount of principal of an eligible liability owed by the Issuer is permanently decreased as a result of the partial write-down or partial conversion to equity; or (ii) an eligible liability owed by the Issuer is cancelled altogether as a result of the full write-down or cancelled and modified as a result of full conversion to equity.

The scope of eligible liabilities (which can be subject to the bail-in tool) includes all liabilities of the Issuer, unless such liabilities are explicitly excluded. In line with the BRRD, the rules explicitly exclude from the scope of eligible liabilities, among other things, any liabilities owed by the Issuer under covered bonds up to the value of all assets that are included in the relevant Cover Pool. On the basis of the Czech Resolution and Recovery Act, therefore, the exercise by the CNB of the bail-in tool in relation to the Issuer could only affect any liabilities owed by the Issuer under the Mortgage Covered Bonds to the extent that they are not covered and exceed the values of assets included in the International Cover Pool.

Finally, the application of any of crisis prevention measures and crisis resolution measures under the Czech Resolution and Recovery Act does not *per se* trigger any segregation or ring-fencing of the assets in any Cover Pool from the rest of the Issuer's assets.

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

The Czech Insolvency Act does not apply to the Issuer, being a Czech Bank, for so long as it holds its banking licence. The Issuer's banking licence may only be revoked by the CNB if there are significant

Shortcomings (see 7. Consequences of Certain Issuer's shortcomings above) and in certain other cases specified by the Czech Banking Act. The application of crisis resolution measures and tools (as described above in 8. Czech Resolution and Recovery Act) may but does not have to precede the revocation of the Issuer's banking licence. The Czech Insolvency Act distinguishes between:

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

The **Commencement of Insolvency Proceedings** means only 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 commenced by an insolvency petition (in Czech, *insolvenční návrh*) which may be filed by the Issuer itself, a creditor of the Issuer or the CNB. After the Commencement of Insolvency Proceedings, the insolvency court would examine whether the Issuer is insolvent, and if the court finds so, it would declare the Issuer insolvent.

As of the Commencement of Insolvency Proceedings, the Czech Insolvency Act imposes specific restrictions on the Issuer as well as on the Issuer's creditors to protect General Insolvency Estate. Specifically, as of the moment of publication of an insolvency petition and unless the insolvency court rules otherwise, the Issuer is obliged to refrain from any dispositions with the assets that form part of the General Insolvency Estate and those assets which may potentially belong there, provided that such dispositions would cause significant changes in the composition, usage or determination of these assets or a reduction, other than negligible reduction, of these assets. Also, the Issuer's monetary obligations which arose before the Commencement of Insolvency Proceedings can only be performed by the Issuer to the extent permitted under the terms of the Czech Insolvency Act. All the Issuer's actions contradicting these limitations are ineffective *vis-à-vis* its creditors, unless taken with the prior consent of the insolvency court. These restrictions do not apply, in particular, to the Issuer's actions necessary for: (i) the performance of the obligations stipulated by special regulation; (ii) operating its business within the ordinary course of business; (iii) diversion of imminent damage; (iv) the performance of procedural sanctions; and (v) the performance of receivables against the General Insolvency Estate (in Czech, *pohledávky za majetkovou podstatou*) and receivables set at the same level as receivables against the General Insolvency Estate (in Czech, *pohledávky postavené na roveň pohledávkám za majetkovou podstatou*).

If the insolvency court finds it necessary for the protection of the General Insolvency Estate, it may, at its discretion, for the period from the Commencement of Insolvency Proceedings until the Declaration of Bankruptcy, issue a preliminary injunction prohibiting the Issuer from making dispositions with the assets in the General Insolvency Estate or by making such dispositions subject to the approval of the preliminary insolvency administrator's (in Czech, *předběžný správce*), who is appointed by the insolvency court (the **Preliminary Injunction**). The insolvency court may further order the Issuer's debtors to perform their obligations to the preliminary insolvency administrator rather than to the Issuer.

For a Czech Bank as the Issuer, there is only one available method of resolving insolvency, which 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 method to resolve the insolvency. The outcome of bankruptcy would be that all the Issuer's assets would be liquidated and the Issuer wound up. As of the moment of the Declaration of Bankruptcy, among other things, the Issuer's right to dispositions with the General Insolvency Estate is transferred to the court appointed insolvency administrator (in Czech, *insolvenční správce*) (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 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.

If the insolvency proceedings are initiated in respect of the Issuer, the proceedings are limited to the General Insolvency Estate. The Commencement of Insolvency Proceedings does not cause the obligations and debts in respect of the Covered Block to become due and payable.

The Covered Blocks in the Issuer's insolvency and in certain other cases

Section 375(3) of the Czech Insolvency Act provides that neither the Commencement of Insolvency Proceedings nor the Declaration of Insolvency and the Declaration of Bankruptcy shall affect the Issuer's Covered Blocks in any way. Further, the Czech Insolvency Act explicitly provides that the Cover Pool created in accordance with the provisions of the Czech Bonds Act is not a part of the Issuer's General Insolvency Estate. Therefore, all of the assets in the Cover Pool remain ring-fenced and thus segregated from any other assets of the Issuer which fall within the Issuer's General Insolvency Estate. If an asset is removed from the Cover Assets Register, it is no longer protected and becomes a part of the Issuer's insolvency estate.

Section 32a of the Czech Bonds Act provides that, without undue delay after (i) the CNB has filed an insolvency petition seeking the Declaration of Insolvency of the Issuer, (ii) the Commencement of the Insolvency Proceedings, (iii) the Issuer has entered into liquidation, (iv) the CNB has revoked the Issuer's banking licence or (v) the Issuer is, for reasons directly related to its financial situation, unable to discharge its debts and there is no prospect that it will be able to do so, the CNB appoints an involuntary covered block administrator (in Czech, *nucený správce krytých bloků*) (the **Covered Block Administrator**).

Upon its appointment, the Covered Block Administrator manages all the Covered Blocks of the Issuer. The administration of the Covered Blocks by the Covered Block Administrator ends after (i) Transfer of the Covered Block (as defined below) or (ii) the Cover Pool Liquidation (as defined below) has been completed. In order to ensure the proper management of the Covered Block, only (i) another Czech bank or (ii) a bank having its seat in another EU or EEA member state that issues securities comparable to Czech covered bonds or manages assets that are comparable to the Cover Assets (the **Eligible Entity**) may be appointed as the Covered Block Administrator by the CNB. The Czech Bonds Act also ensures that no conflict of interests will occur in respect of managing these separate parts of the estate of the Issuer. The Insolvency Administrator, an interim administrator, a liquidator or any other person who could potentially act in the conflict of interests with the interests of the Czech Mortgage Covered Bondholders may not be the same person as the Covered Block Administrator.

The Covered Block Administrator is charged with management of the Covered Blocks and is obliged to act with professional care while always respecting and promoting the best interests of the Czech Mortgage Covered Bondholders. Any legal act that relates to an asset registered in Cover Asset Register which is not a discharge of a debt and which has been made by a person other than the Covered Block Administrator without his consent has no legal effect. The Covered Block Administrator may enter into an arrangement either for the benefit or to the detriment of the Covered Block only in order to improve liquidity or hedge against risk.

Where, after the Commencement of Insolvency Proceedings, the aggregate value of the Cover Assets in the Cover Pool is lower than the total nominal value of the debts for whose cover the Cover Pool serves (the **Over-indebted Covered Block**), the Covered Block Administrator shall quantify the claims of the Czech Mortgage Covered Bondholders to the extent in which they are not covered by the Cover Pool and, without undue delay, shall send the quantification to the insolvency court within the period stipulated by the law. Upon delivery of the quantification to the insolvency court, the respective claims contained therein are deemed to be registered. This means that, generally, the Czech Mortgage Covered Bondholders would not, in case of Over-indebted Covered Block, register their claims arising from the Czech Mortgage Covered Bonds with the insolvency court as these would be registered by the Covered Block Administrator himself. Therefore, the Czech Mortgage Covered Bondholders would generally register their claims by themselves only when the Covered Block Administrator fails to perform its duty to send the quantification to the insolvency court or in order to follow precautionary principle. The portion of the claims registered with the insolvency court mentioned above would rank *pari passu* with all the unsecured and unsubordinated obligations of the Issuer and be satisfied on a *pro rata* basis with

all other general creditors' claims (i.e. the portions of the claims concerned will be satisfied from the General Insolvency Estate).

Also, the Czech Bonds Act contains express provisions regarding the segregation of the cash flows from the assets in the Cover Pool, following the Commencement of Insolvency Proceedings, Declaration of Insolvency, Declaration of Bankruptcy or other situations when the Covered Block Administrator must be appointed by the CNB, as provided for in the Czech Bonds Act. The Covered Block Administrator is upon its appointment obliged to open a separate account for the purpose of collecting payments representing repayments of the debts from the Cover Assets included in the Cover Pool and, alternatively, the debts relating to the Cover Assets included in the Cover Pool. But, on the other hand, the cash flows received from the Cover Assets included in the Cover Pool before the Covered Block Administrator has been appointed will not become part of the Cover Pool.

The insolvency estate is administered by the Insolvency Administrator. The Insolvency Administrator must co-operate with the Covered Block Administrator to ensure the proper management of the Covered Block. The Czech Mortgage Covered Bondholders may not give any instructions to the Insolvency Administrator and the Insolvency Administrator must uphold the common interest of all of the Issuer's creditors.

After the satisfaction of all of the creditors' claims, any part of the Cover Pool remaining will be used to satisfy all the other general creditors' claims in accordance with the court-approved distribution schedule.

If the case of the Over-indebted Covered Block, the Covered Block Administrator may decide on a proportional (*pari passu*) decrease of all debts from the Czech Mortgage Covered Bonds for whose cover the Cover Pool serves, resulting in a permanent reduction of the nominal values of all such debts (the **Pari Passu Haircut**), including the nominal value of the Czech Mortgage Covered Bonds. After the debts have been reduced, the Covered Block Administrator may further decide on realisation of assets in the Cover Pool and consequently proceed with early repayment of the Czech Mortgage Covered Bonds (the **Cover Pool Liquidation**) or may decide that it will continue to manage the Covered Block. Both the Pari Passu Haircut and the Cover Pool Liquidation require the prior consent of the CNB, which the CNB shall grant if it determines that it is in the interest of the Czech Mortgage Covered Bondholders, for its validity. No further approval, notification or consent is required for the Pari Passu Haircut or the Cover Pool Liquidation to be effective. If the meeting of the Czech Mortgage Covered Bondholders adopts a decision on either the Pari Passu Haircut or the Cover Pool Liquidation, the Covered Block Administrator is bound by such a decision and is obliged to make a request for the consent of the CNB to proceed with the Pari Passu Haircut or the Cover Pool Liquidation.

If the proceeds from the Cover Pool Liquidation are not sufficient to satisfy the claims of the Czech Mortgage 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 as already stated above.

Upon its appointment, the Covered Block Administrator may further transfer the whole Covered Block and its management to another Eligible Entity (the **Transfer of the Covered Block**). The Covered Block Administrator may not transfer the Covered Block to itself. Apart from the consent of the CNB, which the CNB shall grant (if it determines that the Transfer of the Covered Block is in the interests of the Czech Mortgage Covered Bondholders), no further approval, notification or consent with the Transfer of the Covered Block is required for its validity. A transfer of the Covered Block made without such consent shall have no legal effects. The Czech Bonds Act further stipulates that if the Czech Mortgage Covered Bondholders meeting adopts a decision on Transfer of the Covered Block, the Covered Block Administrator is bound by such decision and is obliged to make a request for the consent of the CNB to proceed with such Transfer of the Covered Block. Also, the Czech Mortgage Covered Bondholders' meeting may decide on refusing the Transfer of the Covered Block and, again, the Covered Block Administrator would be bound by such decision.

The Transfer of the Covered Block has to be always done in relation to the Covered Block as a whole (i.e. assets and liabilities) and as a result it is not possible to transfer just the Cover Pool itself (i.e. only the assets). In case of the Over-indebted Covered Block, the Transfer of the Covered Block may be made only after the Pari Passu Haircut is made.

ENFORCEMENT OF JUDGMENTS IN THE CZECH REPUBLIC AND REGULATION OF EMERGENCY MEASURES 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 or the Mortgage Covered Bonds (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Mortgage Covered Bonds). The Issuer appointed Law Debenture Corporate Services Limited, at its registered office for the time being at 8th Floor, 100 Bishopsgate, London, EC2N 4AG, United Kingdom as agent for the service of process in England. As the principal assets of the Issuer are located in the Czech Republic, any judgments rendered in disputes connected with the Trust Deed or the Mortgage Covered Bonds will likely be enforced in this jurisdiction.

The recognition and enforcement of foreign judgments of civil courts in the Czech Republic is governed by EU law, public international treaties and domestic legislation. In relations among the EU Member States, the Recast Brussels Regulation is the governing law on the recognition and enforcement of foreign judgments in the Czech Republic. With respect to the judgments issued in the UK, the Recast Brussels Regulation does not apply as from 1 January 2021. As a result, persons enforcing a judgment obtained before English courts will no longer be able to benefit from the recognition of such judgment in EU courts (including the Czech Republic) under the Recast Brussels Regulation. However, on 28 September 2020, the UK deposited its instrument of accession to the Hague Convention. The Hague Convention is an international convention which requires contracting states to recognise and respect exclusive jurisdiction clauses in favour of other contracting states and to enforce related judgments. As the Czech Republic already is a party to the Hague Convention by virtue of being a member state of the EU, judgments handed down by a UK court should be recognised and enforced under the Hague Convention in the Czech Republic. However, the scope of the Hague Convention is limited to contracts with exclusive jurisdiction clauses and there is no assurance that such judgments will be recognised on exactly the same terms and in the same conditions as under the Recast Brussels Regulation.

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 parties to the dispute agreed otherwise, or unless courts of a different member state have an exclusive jurisdiction, foreign entities are able to bring civil proceedings before Czech courts against individuals and legal entities domiciled therein. In court proceedings, Czech courts apply their respective national procedural rules and their judgments are enforceable in their respective jurisdictions, subject to certain statutory limitations on the ability of creditors to enforce judgments against certain assets.

Any person bringing an action in the Czech Republic may be required to: (i) submit to the court 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 recognised 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 recognised 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 a request of a Czech court, provide the court with a declaration that reciprocity has been established with respect to a particular foreign country. 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 recognised 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 recognised a final judgment in the same matter, or proceedings regarding the same matter are pending before a Czech court; (iii) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity 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 order in the Czech Republic.

The government of the Czech Republic may, under the Constitutional Act No. 110/1998 Coll., on Security of the Czech Republic, as amended, declare a state of emergency. If such a state of emergency is declared, payments in foreign currency or abroad generally, interbank transfers of moneys from abroad to the Czech Republic and/or sale of securities (including the Mortgage Covered Bonds) abroad may be suspended for the duration of such a state of emergency. Such a state of emergency may be declared for a maximum period of 30 days unless prolonged by the approval of the Chamber of Deputies of the Parliament of the Czech Republic.

THE INTERNATIONAL COVER POOL

Cover Pools of the Issuer

The Issuer operates two Cover Pools. The first is the International Cover Pool (as at the date of this Base Prospectus operated in a trial mode – see Description of the International Cover Pool below), which will cover the Mortgage Covered Bonds issued under this Programme (and certain other Accessory Debts). The second is the Local Cover Pool, which covers the covered bonds issued under the Local Covered Bond Programme (and certain other debts). In the future, the Issuer may also create other Cover Pools than the International Cover Pool and the Local Cover Pool.

With the creation of one or more Cover Pools, the Issuer also creates one or more Covered Blocks. The Covered Block is constituted of the relevant Cover Pool and the debts that it covers. Consequently, a separate International Covered Block will be constituted by the International Cover Pool and the debts that the International Cover Pool will cover, i.e. the Covered Bonds Debts from the Mortgage Covered Bonds and the relevant Accessory Debts (see Debts Covered by the International Cover Pool).

Composition of Assets Included in the International Cover Pool

Statutory Eligibility Criteria for Eligible Assets

The Czech Bonds Act and the CNB Decree prescribe that the International Cover Pool may only consist of the Cover Assets and the Accessory Assets (for details see General Description of Czech Legislation relating to Mortgage Covered Bonds – 3. Cover Assets and Statutory Cover Tests above). This requirement constitutes the statutory eligibility criteria (the **Statutory Eligibility Criteria**).

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 in relation to Cover Assets included in the International Cover Pool (the **Contractual Eligibility Criteria**) and to ensure that the Contractual Eligibility Criteria are met by the International Cover Pool.

The Contractual Eligibility Criteria are that:

- (a) the Mortgage Loans are governed by Czech law;
- (b) the Mortgaged Property is real property as evidenced by an extract from the Czech Real Estate Register;
- (c) the Mortgaged Property is located in the Czech Republic;
- (d) the Mortgaged Property is Residential Property;
- (e) the Mortgage Loans are not in Default;
- (f) under each Mortgage Loan, the maximum amount of secured receivables of the Issuer is at least equal to the amount of receivables from that Mortgage Loan included in the International Cover Pool;
- (g) the Mortgage Loan receivables amount included in the International Cover Pool is capped at a maximum LTV Ratio of 80%;
- (h) the Mortgage Loans are all denominated and payable by the relevant borrower in Czech Koruna (or other currency which may replace Czech Koruna as the official legal currency in the Czech Republic from the date of such replacement);
- (i) the International Cover Pool does not contain any asset-backed securities;
- (j) the relevant borrower has paid at least one instalment (also considering an interest instalment only) in respect of the Mortgage Loan;

- (k) the Mortgage Loans are fully disbursed and the relevant borrower does not have a right or entitlement to any additional advance from the Issuer;
- (l) to the Issuer's knowledge, the Mortgage Loans are not subject to any State Subsidy to be used to directly or indirectly finance any payment of principal or interest or their part under that Mortgage Loan;
- (m) the Mortgage Loans have been granted to one or more individuals; and
- (n) the Mortgage Loans do not include any Employee Mortgage Loans.

Notwithstanding any other definitions used in this Base Prospectus, for the purposes of interpretation of the terms used in the definition of the Contractual Eligibility Criteria, the terms shall be interpreted as set out in the Trust Deed. Specifically:

Cover Assets means the assets registered in the Cover Assets Register and satisfying the Statutory Eligibility Criteria and the Contractual Eligibility Criteria.

Cover Assets Register means a cover assets register maintained by the Issuer separately for the International Cover Pool and the Local Cover Pool (and any cover other pools as may be created by the Issuer from time to time) in accordance with the Czech Bonds Act and the CNB Decree.

CRR Mortgage Loans means the Issuer's mortgage loans pursuant to Article 129(1)(d)-(f) in relation to which all the relevant requirements set out in Articles 208 and 229(1) of the CRR are fulfilled.

Czech Bonds Act Mortgage Loans means the Issuer's mortgage loans pursuant to Section 28(3) of the Czech Bonds Act.

Czech Real Estate Register means the Czech real estate register (in Czech, *katastr nemovitosti*) kept pursuant to the Czech Act No. 256/2013 Coll., on the Real Estate Register, as amended.

Default means a default in respect of the borrower under the Mortgage Loan pursuant to Article 178 of the CRR or a failure by the borrower to make any payment in respect of the Mortgage Loan within 90 days from the date on which it became due and payable.

Employee Mortgage Loan means any Mortgage Loan (i) falling within the product category of Mortgage Loans that the Issuer only offers to the Issuer's current employees and that may contain the best terms or conditions selected from the features of other product categories of Mortgage Loans offered by the Issuer to the public or (ii) provided by the Issuer to its current employee on terms which at the time the terms were agreed differed from those offered to non-employees.

International Cover Pool means a part of the assets of the Issuer, which is recorded separately and which is composed of assets satisfying the relevant contractual and statutory eligibility criteria set out in the Trust Deed to cover the obligations of the Issuer arising from the Mortgage Covered Bonds (including, among other things, their aggregate nominal value and proportionate yield) with a cover pool identifier: Komerční_banka_HZL_EUR_0001.

LTV Ratio means the percentage ratio of the amount of receivables of the Issuer from a Mortgage Loan divided by the Mortgaged Property Value of the relevant Mortgaged Property securing such Mortgage Loan.

Mortgage Loans means the Czech Bonds Act Mortgage Loans and the CRR Mortgage Loans included in the International Cover Pool.

Mortgaged Property means, in relation to any Mortgage Loan, the real property pledged to secure such Mortgage Loans, in relation to which all the relevant applicable laws are fulfilled.

Mortgaged Property Value means the total value of all the Mortgaged Property as determined by the Issuer in accordance with applicable laws and the Issuer's internal rules for valuation of the Mortgaged Property.

Relevant Exchange Rate means the equivalent in Czech Koruna determined by the Issuer: (i) at the rate available from the Czech National Bank or any successor source for the conversion of the relevant currency or

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

Residential Property means residential property pursuant to Article 4(75) of the CRR.

State Subsidy means any subsidy or similar benefit within the meaning of Czech Government Regulation No. 249/2002 Coll., on Conditions of the Provision of Subsidies in relation to Mortgage Loans Provided to Persons Under 36 Years of Age, as amended, and Czech Government Regulation No. 244/1995 Coll., on Conditions of the Provision of Financial Subsidies in relation to Mortgage Loans for Housing Development, as amended, or any further subsidy or similar benefits that may be introduced into Czech law after the date of the Base Prospectus; for the avoidance of any doubt, the definition of State Subsidy shall not include any tax benefits.

In relation to the Contractual Eligibility Criteria, unless otherwise required by the applicable law, each amount shall be calculated: (i) if denominated in a currency other than Czech Koruna, in the Czech Koruna equivalent of such amount ascertained using the Relevant Exchange Rate relating to such amounts as at the relevant date; and (ii) if denominated in Czech Koruna, in the applicable amount in Czech Koruna.

Tests relating to the International Cover Pool

Statutory Tests

Pursuant to the Trust Deed, the Issuer is required to maintain the International Cover Pool in accordance with the following requirements for the Cover Assets.

The Issuer covenants to ensure that it maintains the International Cover Pool in compliance with the Statutory Minimum OC Level Test, the Statutory 85% Test and the Statutory 100% Individual LTV Test (the **Statutory Tests**). The Statutory Tests need to be complied with on an ongoing basis.

The Statutory Minimum OC Level Test

The Czech Bonds Act stipulates that the aggregate value of all the Cover Assets included in the International Cover Pool must represent at least 102% of the aggregate value of all debts covered by the International Cover Pool, i.e. resulting in a minimum 2% statutory over-collateralisation requirement (i.e. Statutory Minimum OC Level Test) (see General Description of Czech Legislation relating to Mortgage Covered Bonds above). For the purposes of the Statutory Minimum OC Level Test, the Nominal Value of any Mortgage Loan is deemed to be zero: (i) if such Mortgage Loan does not fulfil requirements set out in Section 30(1) of the Czech Bonds Act; and (ii) in case the borrower under the Mortgage Loan is in default pursuant to Article 178 of the CRR (any such Mortgage Loan being a **Non-Compliant Mortgage Loan**). A part of the Nominal Value of the Mortgage Loan which exceeds 100% of the Mortgaged Property Value is disregarded to such extent.

Moreover, for the purposes of the Statutory Minimum OC Level Test, the Issuer intends to (but, for avoidance of doubt, is not obliged to) disregard the positive real value of Derivatives included in the International Cover Pool (if any). In place of the positive real value of the Derivative (if any), the Issuer intends to supply additional Eligible Assets (or other Accessory Assets) into the International Cover Pool for the purposes of the test in appropriate volumes. In effect, this may cause the International Cover Pool to be over-collateralised to a greater extent than required by the Statutory Minimum OC Level Test, and will also unify the methodology used by the Issuer in relation to the calculation of the positive real value of the Derivatives for the purposes of the Statutory Minimum OC Level Test and the Contractual Asset Cover Test (as described below).

The Statutory 85% Test

The Czech Bonds Act stipulates that the aggregate Nominal Value of all Mortgage Loans included in the International Cover Pool is an amount equal to at least 85% of all debts covered by the International Cover Pool (i.e. the **Statutory 85% Test**). For the purposes of the Statutory 85% Test, the value of any Non-Compliant Mortgage Loan is deemed to be zero. A part of the Nominal Value of the Mortgage Loan which exceeds 100% of the Mortgaged Property Value is disregarded to such extent.

The Statutory 100% Individual LTV Test

The Czech Bonds Act stipulates that the nominal value of each Czech Bonds Act Mortgage Loan included in the International Cover Pool may not exceed 100% of the Mortgaged Property Value. To the extent the nominal value of an individual Czech Bonds Act Mortgage Loan exceeds such limit (and only to that extent), it is disregarded for the purpose of calculating the Statutory Cover Tests.

Contractual Asset Cover Test

In addition to the Statutory Tests, the Issuer covenants to ensure that the Contractual Adjusted Aggregate Cover Pool Balance is an amount at least equal to 105% of all Debts (the **Contractual Asset Cover Test**).

Notwithstanding any other definitions used in this Base Prospectus, for the purposes of interpretation of the terms used in the definition of the Contractual Asset Cover Test, the terms will be interpreted in the same manner as in relation to the Contractual Eligibility Criteria (see above) and, in addition:

Adjusted Value means, unless required by the applicable laws otherwise, for:

- (a) each Mortgage Loan, the lower of:
 - (i) the outstanding Nominal Value of such Mortgage Loan; and
 - (ii) 80% of the Mortgaged Property Value related to such Mortgage Loan;
- (b) each PSB's Receivables and Exposure, its outstanding Nominal Value;
- (c) the Cash, its outstanding Nominal Value; and
- (d) each Derivative, zero, provided however that the negative real value of each Derivative determined pursuant to Section 28a of the Czech Bonds Act shall increase the Debts to the full extent (without any deduction).

Cash means cash receivables of the Issuer pursuant to Section 31(2)(d) of the Czech Bonds Act.

Contractual Adjusted Aggregate Cover Pool Balance means the sum of the outstanding Adjusted Values of all Cover Assets.

Czech Bonds Act PSB's Receivables means receivables set out in Sections 31(2)(b) and (c) of the Czech Bonds Act.

CRR PSB's Receivables means exposures pursuant to Article 129(1)(a) or (b) of the CRR.

Debts means all debts covered by the International Cover Pool for the purposes of the Statutory Tests set out in Sections 28a(1) and (2) of the Czech Bonds Act.

Derivatives means rights arising out of a derivative in accordance with Section 2 point 5 of the Regulation (EU) No. 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories (i.e. a financial instrument as set out in points (4) to (10) of Section C of Annex I to MiFID II), provided that all the relevant conditions set out in Section 31 of the Czech Bonds Act are met.

Nominal Value means the sum of the outstanding principal balances relating to the Mortgage Covered Bonds, Mortgage Loans or any other debt or security as the case may be.

PSB's Receivables and Exposures means CRR PSB's Receivables and Czech Bonds Act PSB's Receivables.

Statutory Tests means all the mandatory statutory tests required by the applicable law or regulations to be fulfilled by the Issuer in respect of the Mortgage Covered Bonds or the International Cover Pool, in particular the Czech Bonds Act, including those set out in Sections 28a(1), (2) and (3) of the Czech Bonds Act.

Statutory Eligibility Criteria means the statutory eligibility criteria for cover assets included in the International Cover Pool as set out in the applicable law or regulations, including the Czech Bonds Act and the CNB Decree, in particular Sections 30 and 31 of the Czech Bonds Act.

The Issuer covenants that it will provide from time to time to the Rating Agency (or another rating agency which has rated the Mortgage Covered Bonds) and the Asset Monitor information on the current value of the Contractual Adjusted Aggregate Cover Pool Balance and will confirm compliance by the Issuer with the Contractual Asset Cover Test. For the avoidance of doubt, a breach of the Contractual Asset Cover Test will not result in an Event of Default. However, while such breach is continuing, the Issuer cannot issue any Czech Covered Bonds which have the benefit of the Issuer's International Cover Pool.

In relation to the Contractual Asset Cover Test, unless otherwise required by the applicable law, each amount shall be calculated: (i) if denominated in a currency other than Czech Koruna, in the Czech Koruna equivalent of such amount ascertained using the Relevant Exchange Rate relating to such amounts as at the relevant date; and (ii) if denominated in Czech Koruna, in the applicable amount in Czech Koruna.

Asset Monitor Agreement

Under the terms of the asset monitor agreement entered into on 4 January 2021 by 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 certain procedures in relation to the Statutory Eligibility Criteria pursuant to Section 30 of the Czech Bonds Act, the Contractual Eligibility Criteria, the Statutory Tests, the Contractual Asset Cover Test and certain other requirements imposed by Czech law or the agreements in respect of the International Cover Pool on each relevant Asset Monitor Calculation Date (as defined in the Asset Monitor Agreement). The Asset Monitor will only be required to perform its role from the date on which a Series of Mortgage 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 Mortgage Covered Bonds on its own account or for distribution to third parties (other than the Issuer or its affiliates) (the **Third Party Investors**).

If the Statutory Eligibility Criteria pursuant to Section 30 of the Czech Bonds Act or the Contractual Eligibility Criteria have been breached or the Statutory Tests had been failed on the relevant Asset Monitor Calculation Date or the Contractual Asset Cover Test had been failed on the relevant Asset Monitor Calculation Date or the reported Contractual Adjusted Aggregate Cover Pool Balance was misstated by the Issuer by an amount exceeding 1% of the Contractual Adjusted Aggregate Cover Pool Balance (as at the date of the relevant Statutory Tests or the Contractual Asset Cover Test), the Asset Monitor shall conduct the agreed procedures on a monthly basis for a six-month period subject to the receipt of the relevant information from the Issuer.

Within forty five Prague Business Days (as defined in the Asset Monitor Agreement) 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, 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 Cover Assets or the outcome of the Statutory Tests or the Contractual Asset Cover Tests.

The Asset Monitor Report will be delivered to the Issuer, the Trustee and, subject to the terms and conditions of the Asset Monitor Agreement, also to the Arranger, the Dealers, the Rating Agency and the Mortgage Covered Bondholders.

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 60 days' prior written notice (the Issuer shall provide a copy of such notice to the Rating Agency), provided that such termination may not be effected unless and until a replacement has been found for the Asset Monitor by the Issuer (such replacement to be approved by the Trustee, such approval to be given if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor.

In addition, the Asset Monitor may resign from its appointment upon giving 30 days' prior written notice if any action taken by the recipients of the Asset Monitor Report (the **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.

Following a resignation by the Asset Monitor from its appointment under the Asset Monitor Agreement, the Issuer shall immediately use best endeavours to appoint a substitute asset monitor to provide the services set out in the Asset Monitor Agreement (such replacement to be approved by the Trustee, such approval to be given if the replacement is an accountancy firm of national standing). If a substitute asset monitor is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the Issuer shall use best endeavours to appoint an accountancy firm of national standing approved by the Trustee to carry out the relevant tests on a one-off basis.

The Asset Monitor Agreement is governed by English law.

Description of the International Cover Pool

The International Cover Pool will be created by the Issuer primarily in order to enable the Issuer to issue Mortgage Covered Bonds denominated in EUR on the international markets. The Issuer has operated and developed the International Cover Pool in a trial mode for the purposes of testing since 1 June 2020. In accordance with the Issuer's intention, the International Cover Pool will be fully legally created no later than on the date of settlement of the First Issuance.

Composition of the International Cover Pool

The Issuer does not have a policy determining the composition of the International Cover Pool and the allocation of mortgage loans as between the Local Cover Pool and the International Cover Pool. Instead, the Issuer uses a software which uses an algorithm that automatically allocates mortgage loans that comply with the Statutory Eligibility Criteria and Contractual Eligibility Criteria as set out in this Base Prospectus into the International Cover Pool.

In case of the Issuer's insolvency, the assets in the International Cover Pool will serve for the satisfaction of all Mortgage Covered Bondholders' claims and certain other Accessory Debts (see General Description of Czech Legislation relating to Mortgage Covered Bonds – 9. Insolvency of the Issuer and the Cover Pool above and Debts Covered by the International Cover Pool below). In order to be included in the International Cover Pool, Mortgage Loans and other Cover Assets (including Derivatives and debt securities issued by states or other public entities) have to meet certain statutory and contractual eligibility criteria (see Composition of Assets Included in the International Cover Pool and Tests relating to the International Cover Pool above for further details).

The composition of assets in the International Cover Pool changes in time, as, for example, Mortgage Loans which are repaid or cease to meet the eligibility criteria are removed from the International Cover Pool and new Mortgage Loans that meet the eligibility criteria are added.

As of 30 September 2020, the Nominal Value of Mortgage Loans in the International Cover Pool (in trial mode) was CZK14,664,629,290 out of which 100% consisted of Mortgage Loans which are retail residential loans secured by Residential Property located in the Czech Republic and denominated in CZK. However, by the date of the settlement of the First Issuance of Mortgage Covered Bonds under the Programme, the Issuer will additionally implement into the International Cover Pool a liquidity buffer and intends to enter into certain

Hedging Arrangements that might further affect the composition of the International Cover Pool, as described below. The below table sets out the composition of the International Cover Pool in terms of the purpose of the loan included in the International Cover Pool, the number of such loans, the Adjusted Value of Mortgage Loans (LTV 80% cap) in CZK and the percentage of the International Cover Pool they make up.

Mortgage Loan purpose	Number of Mortgage Loans	Adjusted Value of Mortgage Loans (LTV 80% cap) in CZK	% of the International Cover Pool
Purchase	7,070	9,610,313,227	67.27%
Construction	590	949,318,357	6.65%
Reconstruction	834	630,975,348	4.42%
Consolidation	1,916	2,117,389,083	14.82%
Others	1,085	977,408,204	6.84%
Total	11,495	14,285,404,220	100.00%

Furthermore, as of 30 September 2020, 9.77% of the Adjusted Value of Mortgage Loans included in the International Cover Pool had the benefit of the Moratorium under the Covid-19 Loan Moratorium Act (such Mortgage Loans may also be referred to as in "payment holidays"). However, the last date on which the Moratorium had legal effect was 31 October 2020. Therefore, as at the date of this Base Prospectus, none of the Mortgage Loans included in the International Cover Pool shall benefit or shall be able to benefit from the Moratorium. (For details on the Moratorium, the Covid-19 Loan Moratorium Act and other legislation relevant to the recent Covid-19 outbreak, see Recent Czech Regulatory Developments Relating to the Recent Covid-19 Outbreak below and the risk factor The Czech legislative measures taken in response to the Covid-19 pandemic will have effect on the Issuer's business above).

The following table provides more detailed information on the composition of the International Cover Pool (in trial mode) as of 30 September 2020:

Number of Mortgage Loans	11,495
Number of borrowers	11,280
Number of properties	11,726
Nominal Value of Mortgage Loans in CZK	14,664,629,290
Adjusted Value of Mortgage Loans (LTV 80% cap) in CZK	14,285,404,220
Weighted average of remaining term	247 months
Weighted average of term to interest rate reset*	62 months
Weighted average of LTV**	63.10%
Mortgaged Property Value in CZK	26,558,854,654
Nominal Value of Mortgage Loans in Arrears > 90 days	0
Borrower concentration: 10 largest borrowers per Adjusted Value of Mortgage Loans in CZK	113,703,402
Borrower concentration: 10 largest borrowers in % of total Adjusted Value of Mortgage Loans	0.80%

* For loans where future interest rate has been formally agreed (with bank customer forfeiting the option of early repayment) the interest reset date reflects the term of this forward rate agreement.

** Averages of remaining term, interest rate reset and LTV are weighted by the Adjusted Value of Mortgage Loans (LTV 80% cap) adjusted for the 80% LTV test.

Liquidity Buffer

The Issuer will implement a liquidity buffer to the International Cover Pool, with the intention to maintain or generate sufficient liquidity to cover for certain payments due on either all or part of the debts covered by the International Cover Pool in a certain period of time.

Accordingly, the Issuer will implement such a liquidity buffer by the date of the settlement of the First Issuance in order to cover for: (a) payments of interest under the outstanding Mortgage Covered Bonds; (b) all payments under any Derivatives included in the International Covered Block; and (c) payments of any other relevant parties' receivables (if any). Such receivables are to be covered by the International Cover Pool from time to time, if they are or will become due, at any date, at least in the following three-month period. Their coverage will be ensured by supplying bonds issued by the government of the Czech Republic or the CNB with a maturity of less than 12 months in corresponding aggregate value into the International Cover Pool.

In time, the Issuer may re-evaluate the specific characteristics of the liquidity buffer, especially with regard to applicable criteria of the Rating Agency (or another rating agency which will rate the relevant Mortgage Covered Bonds) in connection with further issuances of Mortgage Covered Bonds under the Programme. For example, the Issuer may decide to fulfil the liquidity buffer also by supplying Cash or other highly liquid assets into the International Cover Pool.

For the avoidance of doubt, failure by the Issuer to maintain the liquidity buffer does not constitute an event of default under the Conditions or a breach of the Conditions and does not give the Mortgage Covered Bondholders or other persons any rights.

Management of the International Cover Pool

In accordance with the Czech Bonds Act, the Issuer maintains the Cover Assets Register (as defined in the Terms and Conditions) which contains a separate record of the Eligible Assets included in the Issuer's International Cover Pool. The Eligible Assets (as well as the Accessory Assets, including the value of any assets provided as collateral or other security in respect of Derivatives, if any) included in the International Cover Pool serve to provide cover in respect of the Mortgage Covered Bonds and the obligations of the Issuer arising from the Mortgage Covered Bonds (i.e. their aggregate nominal value and proportionate yield), as well as of relevant Accessory Debts, including any receivables of the counterparty arising under or in connection with any Derivatives, if any, and certain senior expenses. The Issuer monitors the Cover Assets included in the International Cover Pool on a daily basis. For the purposes of managing the International Cover Pool and to comply with the applicable statutory requirements set out in the Czech Bonds Act and the CNB Decree, the Issuer adopted an internal regulation which governs the work streams, procedures and the competences of individual departments in this area.

The Issuer through its independent unit forming part of the risk management arm continuously monitors the real estate market in the Czech Republic and development of real estate prices. The Issuer applies security coefficients when approving Mortgage Loans, which, according to the type of the Mortgaged Property, also take into account a possible drop in the Mortgaged Property Value over the long term. If, on the basis of a revaluation, the Mortgaged Property Value would decrease, the Issuer would, if relevant, reflect this in the amount of receivables from the relevant Mortgage Loan included in the International Cover Pool, or in calculations made in respect of the Statutory Tests and the Contractual Asset Cover Test.

In the context of management of the International Cover Pool, the Issuer has defined International Covered Block management rules consisting of certain selection criteria for the eligible Mortgage Loans included in the International Cover Pool that apply in addition to the Contractual Eligibility Criteria and the Contractual Asset Cover Test, as well as certain rules for foreign exchange and interest rate risk management. These rules can be altered only by its Asset and Liability Committee (**ALCO Committee**) based on analysis conducted by the Treasury department. The ALCO Committee further decides about individual steps leading to an increase or decrease in the minimum ratios of the types of Eligible Assets or about repurchases of the relevant Mortgage Covered Bonds.

Debts Covered by the International Cover Pool

Issued and Outstanding Mortgage Covered Bonds Covered by the International Cover Pool

The International Cover Pool will cover all Covered Bonds Debts from the Mortgage Covered Bonds. As at the date of this Base Prospectus, there are no outstanding Mortgage Covered Bonds or other Czech Covered Bonds issued by the Issuer covered by the International Cover Pool.

In addition to the Mortgage Covered Bonds, the International Cover Pool will also cover certain Accessory Debts related to the Mortgage Covered Bonds corresponding to the receivables (if any):

- (a) of the counterparty arising under or in connection with any Derivative entered into in order to hedge risks related to the Cover Assets included in the International Cover Pool and the debts under the Mortgage Covered Bonds (see Hedging related to the International Covered Block below);
- (b) of the Covered Block Administrator;
- (c) arising from a legal act (in Czech, *právní jednání*) of the Covered Block Administrator on the account of the International Cover Pool;
- (d) upon occurrence of an Issuer Event of Default or an Event of Default only, of the Asset Monitor arising under or in connection with the Asset Monitor Agreement;
- (e) upon occurrence of an Issuer Event of Default or an Event of Default only, of the Trustee arising under or in connection with the Trust Deed;
- (f) upon occurrence of an Issuer Event of Default or an Event of Default only, of the Principal Paying Agent arising under or in connection with the Agency Agreement;
- (g) upon occurrence of an Issuer Event of Default or an Event of Default only, of the Rating Agency;
- (h) upon occurrence of an Issuer Event of Default or an Event of Default only, the listing agent; and
- (i) upon occurrence of an Issuer Event of Default or an Event of Default only, Luxembourg Stock Exchange or another stock exchange or market, as applicable.

Hedging related to the International Covered Block

The Issuer may (but is not required to) enter into Hedging Arrangements in the form of Derivatives in order to hedge foreign exchange, interest rate or other risks related to the Cover Assets and the debts under the Mortgage Covered Bonds issued under the Programme, and include them in the International Covered Block, provided that certain conditions set out in the Czech Bonds Act are fulfilled (for details see General Description of Czech Legislation relating to Mortgage Covered Bonds – 3. Cover Assets and Statutory Cover Tests and 6. Covered block and its management above). The Issuer may also use other methods to manage the above risks, such as applying certain further selection criteria to the Cover Assets included in the International Cover Pool.

Hedging Related to Specific Issuances Under the Programme

Accordingly, in relation to the First Issuance, to provide a hedge against possible currency movements of the currency in which payments will be made to the Issuer in respect of the Mortgage Loans (and certain other Cover Assets) included in the International Cover Pool (i.e. CZK) and the currency in which the Issuer will be required to make payments in respect of the Mortgage Covered Bonds issued in the First Issuance covered by the International Cover Pool (i.e. EUR), the Issuer intends to enter into a fixed-for-fixed EUR/CZK cross-currency swap Derivative by the date of the settlement of the First Issuance (the **First Cross Currency Swap**). The First Cross Currency Swap is intended to be concluded under a separate ISDA Master Agreement (including a schedule and a confirmation) executed with a currency swap provider. The volume of the First Cross Currency Swap is intended to match the aggregate Nominal Amount of Mortgage Covered Bonds issued in the First Issuance, and the EUR-leg payments under the First Cross Currency Swap to the Issuer are intended to mirror the payments of interest and principal due under the Mortgage Covered Bonds issued in the First Issuance. The First Cross Currency Swap is intended to form part of the International Covered Block.

Furthermore, in relation to the First Issuance, to manage the interest rate risks arising in connection with variances in the interest receivable on the Mortgage Loans (and certain other Cover Assets) included in the International Cover Pool and the interest payable under the Mortgage Covered Bonds issued in the First Issuance, the Issuer applies specialised selection criteria to Mortgage Loans included in the International Cover Pool in order to match the duration of the relevant Mortgage Loans with the payments under the Mortgage Covered Bonds.

The Issuer will consider implementing similar Hedging Arrangements for other issuances of Mortgage Covered Bonds as well on the basis and to the extent that the Mortgage Covered Bonds issued in the other issuances are covered by the same Cover Pool as the Mortgage Covered Bonds issued in the First Issuance.

USE OF PROCEEDS

The net proceeds from each issue of Mortgage Covered Bonds will be applied by the Issuer for its general business purposes, which include making a profit. If, in respect of an issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

SELECTED FINANCIAL INFORMATION

The following tables present selected historical audited consolidated financial information of the Issuer as of and for the years ended 31 December 2019 and 2018 and selected unaudited consolidated financial information of the Issuer as of and for the nine months ended 30 September 2020 and 2019 which has been derived from the financial statements of the Issuer incorporated by reference into this Base Prospectus. The information below should be read in conjunction with the information contained in "Presentation of Information" and the financial statements of the Issuer incorporated by reference into this Base Prospectus. The financial statements have been prepared in accordance with IFRS as adopted by the EU.

Consolidated statement of income (in CZK million)

	Restated*			
	Period ended 30 September		Year ended 31 December	
	2020	2019	2019	2018
	(unaudited)	(unaudited)	(audited)	(audited)
Interest income	28,817	32,455	44,006	33,643
Interest expense	(12,718)	(14,786)	(20,415)	(10,939)
Net interest income	16,099	17,669	23,591	22,704
Net fee and commission income	3,860	4,441	5,983	6,025
Net profit/(loss) on financial operations	2,218	2,177	2,804	3,209
Dividend income	5	4	5	5
Other income	164	146	190	260
Net operating income	22,346	24,437	32,573	32,203
Personnel expenses	(5,814)	(5,822)	(7,781)	(7,827)
General and administrative expenses	(3,660)	(3,595)	(4,693)	(4,952)
Depreciation, amortisation and impairment of operating assets	(1,959)	(1,807)	(2,458)	(1,856)
Total operating expenses	(11,433)	(11,224)	(14,932)	(14,635)
Operating profit	10,913	13,213	17,641	17,568
Impairment losses	(3,524)	(45)	53	484
Net gain from loans and advances transferred and written off	117	373	519	159
Cost of risk	(3,407)	328	572	643
Income from share of associated undertakings	192	215	306	238
Profit/(loss) attributable to exclusion of companies from consolidation	(41)	55	55	82
Gain on a bargain purchase	0	0	0	2
Net profits on other assets	(5)	16	17	(14)
Profit before income tax	7,652	13,827	18,591	18,519
Income tax	(1,475)	(2,530)	(3,419)	(3,348)
Net profit for the period	6,177	11,297	15,172	15,171
Profit attributable to the non-controlling owners	95	236	271	325
Profit attributable to the KB Group's equity holders	6,082	11,061	14,901	14,846
Earnings per share/diluted earnings per share (in CZK)	42.94	78.09	78.90	78.61

Note: Net interest income is calculated by applying the effective interest rate method, except that in the case of hedging derivatives the contractual interest rate of the corresponding derivative is used.

* As of 1 January 2019, the KB Group has changed the reporting of commitment fees – newly recognised in the line 'Interest income', previously in the line 'Net fee and commission income'. This reclassification is without any impact on total 'Net profit for the period'.

	Reported 2018	Restated 2018
Interest income	33 448	33 643
Net fee and commission income	6 220	6 025

Consolidated statement of comprehensive income (in CZK million)

	Period ended 30 September		Year ended 31 December	
	2020	2019	2019	2018
Net profit for the period	6,177	11,297	15,172	15,171
Items that will not be reclassified to the Statement of Income				
Remeasurement of retirement benefits plan, net of tax	0	0	(83)	22
Revaluation of equity securities at FVOCI option*, net of tax	46	105	133	83
Items that may be reclassified subsequently to the Statement of Income				
Cash flow hedging				
– Net fair value gain/(loss), net of tax	194	292	533	(55)
– Transfer to net profit/(loss), net of tax	(235)	(368)	(528)	(151)
Hedge of a foreign net investment	(51)	(2)	9	(241)
Foreign exchange difference on translation of a foreign net investment	63	3	(12)	241
Revaluation of debt securities at FVOCI**, net of tax	(226)	129	212	(376)
Impairment of debt securities at FVOCI**, net of tax	3	1	0	0
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax	57	30	16	(69)
Other income from associated undertakings	0	0	0	0
Other comprehensive income for the period, net of tax	(149)	190	280	(546)
Total comprehensive income for the period, net of tax	6,028	11,487	15,452	14,625
Comprehensive income attributable to the Non-controlling owners	103	238	271	328
Comprehensive income attributable to the Group's equity holders	5,925	11,249	15,181	14,297

* Revaluation of equity securities at fair value through other comprehensive income option.

** Revaluation of debt securities at fair value through other comprehensive income.

Consolidated statement of financial position (in CZK million)

	As of September 30	As of December 31	
	2020	2019	2018
Assets	(unaudited)	(audited)	(audited)
Cash and current balances with central banks	47,764	17,744	24,851
Financial assets at fair value through profit or loss – trading*	37,466	22,904	22,369
Other assets at fair value through profit or loss	581	494	245
Financial assets at fair value through profit or loss*	315	0	0
Positive fair value of hedging financial derivatives	20,734	9,996	12,559

Financial assets at fair value through other comprehensive income	41,458	36,204	25,265
Financial assets at amortised cost	1,087,493	963,401	951,103
Revaluation differences on portfolios hedge items	447	(374)	(372)
Current tax assets	896	30	59
Deferred tax assets	68	70	93
Prepayments, accrued income, and other assets	4,556	5,176	5,753
Investments in associates	1,471	1,255	1,134
Intangible assets	6,452	6,018	5,249
Tangible assets	9,970	10,528	7,676
Goodwill	3,752	3,752	3,752
Assets held for sale	109	136	196
Total assets	1,263,532	1,077,334	1,059,932
Liabilities and equity			
Amounts due to central banks	2	1	1
Financial liabilities at fair value through profit or loss	28,204	23,725	21,572
Negative fair value of hedging financial derivatives	10,682	10,283	9,669
Financial liabilities at amortised cost	1,075,836	921,725	907,261
Revaluation differences on portfolios hedge items	13,076	(4,105)	(676)
Current tax assets	41	363	160
Deferred tax assets	755	840	765
Accruals and other liabilities	15,766	11,976	13,420
Provisions	1,764	1,345	1,853
Subordinated debt	2,726	2,546	2,578
Total liabilities	1,148,852	968,699	956,603
Share capital	19,005	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period	92,476	86,535	80,926
Non-controlling interest	3,199	3,095	3,398
Total equity	114,680	108,635	103,329
Total liabilities and equity	1,263,532	1,077,334	1,059,932

* In the interim financial statements of the Issuer as of 30 September 2020, a new line 'Financial assets at fair value through profit or loss – trading' was added on top of the 'Financial assets at fair value through profit or loss' line contained in the Issuer's financial statements for the years 2018 and 2019. The Issuer therefore adjusted the presentation of its 2018 and 2019 financial information in this Base Prospectus and included both lines for the years 2018 and 2019 as well.

Consolidated statement of cash flows for the years ended 31 December 2018 and 31 December 2019 (in CZK million)

	2019	Restated* 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before Income tax	18,591	18,519
Non-cash and other adjustments:		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	37	(439)
Depreciation and amortisation expense on tangible and intangible fixed assets	2,451	1,877
Gains/(losses) from the sale of assets	(16)	14
Revaluation of derivatives	1,345	(664)
Accrued interest, amortisation of discount and premium	1,032	458
Profit/(loss) on subsidiaries and associates	(366)	(327)
Foreign exchange differences	183	202

Other changes	(398)	163
Operating profit before change in operating assets and liabilities	22,859	19,803
Changes in assets and liabilities from operating activities after non-cash adjustments:		
Amounts due from banks (received/paid)	12,593	(30,901)
Loans and advances to customers	(23,338)	(30,745)
Debt securities at amortised cost	(2,481)	231
Financial assets at fair value through other comprehensive income	(10,973)	(1,395)
Financial assets and other assets at fair value through profit and loss - trading	(1,108)	(860)
Financial assets at fair value through profit and loss	0	2,694
Other assets	685	(621)
Amounts due to banks (received/paid)	(1,849)	12,477
Amounts due to customers	9,191	50,566
Financial liabilities at fair value through profit and loss	1,299	571
Other liabilities	(1,293)	(5,727)
Net cash flow from operating assets and liabilities	(17,274)	(3,710)
Net cash flow from operating activities before tax	5,585	16,093
Income tax paid	(3,149)	(3,144)
Net cash flow from operating activities	2,436	12,949
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	241	220
Purchase of tangible and intangible assets	(2,820)	(2,825)
Sale of tangible and intangible assets	87	114
Purchase of investments in subsidiaries and associates	(34)	0
Sale/decrease of investments in subsidiaries and associates	55	221
Net cash flow from investment activities	(2,471)	(2,270)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,599)	(8,851)
Dividends paid to non-controlling interest	(576)	(644)
Purchase of own shares	0	0
Securities issued	1,068	(2,309)
Securities redeemed	0	0
Lease liabilities	(476)	N/A
Subordinated debt	(33)	14
Increase in minority equity	0	0
Net cash flow from financing activities	(9,616)	(11,790)
Net increase/(decrease) in cash and cash equivalents	(9,651)	(1,111)
Cash and cash equivalents at the beginning of the year	23,247	24,308
Net increase/(decrease) in cash and cash equivalents	(9,651)	(1,111)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(78)	50
Adjustment of cash and cash equivalents at the beginning of the year due to acquisition	0	0
Cash and cash equivalents at the end of the year	13,518	23,247
Interest received	45,027	33,960
Interest paid	(20,404)	(10,798)

* As of 1 January 2019, the KB Group has changed the reporting of commitment fees – newly recognised in the line 'Interest income', previously in the line 'Net fee and commission income'. This reclassification is without any impact on total 'Net profit for the period'. The restatement affected figures in the lines 'Accrued interest, amortisation of discount and premium' and 'Other changes' as per the below table.

	Reported 2018	Restated 2018
Accrued interest, amortisation of discount and premium	653	458
Other changes	(32)	163

DESCRIPTION OF THE ISSUER

The following description of the Issuer sets out selected financial information relating to the Issuer and the KB Group. Unless stated otherwise, all such financial information has been extracted from the financial statements of the Issuer incorporated by reference into this Base Prospectus. In the Business Overview section below, selected financial information as of 31 December 2019 relating to the Issuer (individual information) and the KB Group (consolidated information) has been extracted from the 2019 annual report of the Issuer, parts of which were incorporated by reference into this Base Prospectus.

Introduction

The Issuer was established in 1990 as a state institution. In 1992, it was transformed into a joint-stock company. The Issuer was registered with the Commercial Register maintained by the Municipal Court in Prague under file No. B 1360 on 5 March 1992. As stated in Article 2 of the most recent version of the Articles of Association of the Issuer dated 25 April 2018 (filed in the Issuer's collection of deeds in the Czech Commercial Register which is publicly accessible at <https://or.justice.cz/>), the Issuer's scope of business comprises banking and financial transactions and other operations listed in the banking licence granted in accordance with the Czech Banking Act. The Issuer's identification number is 453 17 054, its LEI is IYKCAVNFR8QGF00HV840.

The Issuer is the third largest bank in the Czech Republic across all banking segments and product categories⁸ and a major financial services provider in the Czech Republic, offering a wide range of banking and financial services to private and corporate clients. The Issuer is a member of the SG Group. In terms of the number of clients, the Issuer ranks among the leading banking institutions in the Czech Republic.⁹ It is a universal bank providing a wide range of services in retail, corporate, and investment banking. Member companies of the KB Group provide additional specialised financial services, such as pension savings and building society schemes, leasing, factoring, consumer lending, and insurance. The Issuer also provides services in Slovakia through its branch focused on serving corporate clients as well as through selected subsidiaries. The Issuer's registered office is at Prague 1, *Na Příkopě 33* Descr. No. 969, Postal Code 114 07, Czech Republic, its telephone number is + 420 800 521 521 and its internet address is www.kb.cz.

As of 31 December 2019, the Issuer served clients at 342 retail branch offices throughout the Czech Republic. During 2019, the KB Group employed 8,167 full-time equivalent employees on average. As of 31 December 2019, the total assets of the KB Group amounted to CZK1.077 billion.

As of 31 December 2019, the share capital of the Issuer amounted to CZK19,004,926,000 and has been fully paid. The share capital of the Issuer comprises 190,049,260 ordinary book-entry shares with the nominal value of CZK100 each which do not have any special rights associated with them. Ordinary shares include the entitlement to participate in the Issuer's governance and the entitlement to a share on profit.

As of 31 December 2019, the KB Group had CZK816.3 billion of standard client deposits¹⁰. As of 31 December 2019, total gross volume of lending to clients rose by 3.1% year over year to CZK654.0 billion¹¹.

As of 30 September 2020, the Issuer served clients at 243¹² branch offices throughout the Czech Republic. On average, the KB Group employed 7,997¹³ full-time equivalent employees during the first nine months of 2020 in the Czech Republic and Slovakia.¹⁴

As of 30 September 2020, the total assets of the KB Group amounted to CZK1.264 billion. The share capital of the Issuer continues to be CZK19,004,926,000. As of 30 September 2020, the KB Group had CZK930.4 billion¹⁵ of customer deposits and CZK692.3 billion¹⁶ of customer loans.¹⁷

⁸ Source: Audited and consolidated financial statements of other Czech banks prepared in accordance with IFRS for 2019 and the Issuer's internal data.

⁹ Source: Audited and consolidated financial statements of other Czech banks prepared in accordance with IFRS for 2019 and the Issuer's internal data.

¹⁰ Excluding volatile repo operations with clients.

¹¹ Excluding volatile reverse repo operations with clients but including debt securities issued by the Issuer's corporate clients. If reverse repo operations are included, gross lending increased by 3.1% to CZK 656.6 billion.

¹² <https://www.kb.cz/getmedia/fca14ab4-5978-4624-b8e0-fa222b38c5aa/KB-Results-3Q2020-EN.pdf.aspx> p. 6

¹³ <https://www.kb.cz/getmedia/959b00a3-11b6-4acb-9062-89deec2a8c05/KB-3Q2020-Presentation.pdf.aspx> p. 20

¹⁴ <https://www.kb.cz/getmedia/959b00a3-11b6-4acb-9062-89deec2a8c05/KB-3Q2020-Presentation.pdf.aspx> p. 46

¹⁵ Excluding repo operations with customers.

¹⁶ Excluding repo operations with customers but including client bonds.

¹⁷ <https://www.kb.cz/getmedia/959b00a3-11b6-4acb-9062-89deec2a8c05/KB-3Q2020-Presentation.pdf.aspx> p. 12

As of the date of this Base Prospectus, a total number of 190,049,260 of the Issuer's shares are admitted to trading on exchange markets operated by the Prague Stock Exchange (*Burza cenných papírů Praha, a.s.*) and RM SYSTÉM (*RM-SYSTÉM, česká burza cenných papírů a.s.*)

The KB Group is a part of the SG Group, which has been helping clients for more than 150 years and maintains a strong position in Europe and connections to the rest of the world. According to the SG's 2020 universal registration document filed with the French Financial Markets Authority on 12 March 2020, the SG Group had approximately 138,000 employees in 62 countries and supports on a daily basis 29 million individual clients, businesses and institutional investors around the world.

In the conduct of its activities, the Issuer is primarily governed by Czech law, in particular the Czech Banking Act, Act No. 90/2012 Coll., on Business Corporations and Co-operatives, as amended (the **Czech Corporations Act**), Act No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended (the **Czech Capital Markets Act**), and other Czech laws and regulations governing operations in the banking and capital markets.

History

The Issuer was established in 1990 as a state institution. In 2001, the state's 60% holding in the Issuer was acquired by SG. Following privatisation, the Issuer began to significantly develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market. In 1993, shares in the Issuer became publicly traded as set out above.

The Issuer has been operating in Slovakia since 1995, originally via a subsidiary Komerční banka Bratislava, a.s. (**KB Bratislava**). KB Bratislava has successfully implemented changes connected with adoption of the euro on 1 January 2009. In January 2009, the Issuer's Board of Directors approved a plan for transformation of KB Bratislava from a subsidiary of the Issuer into its branch. The transformation was completed by the end of 2010.

KB Group

The KB Group offers products and services in the Czech Republic in the area of banking and financial services, building savings and loans, pension fund management and leasing. As of 31 December 2019, the KB Group comprised, among others, the Issuer and its 11 subsidiaries in which it held more than a 50% share and one affiliate, Komerční pojišťovna a.s. (**Komerční pojišťovna**). The Issuer's key subsidiaries are Modrá pyramida, KB Penzijní společnost, a.s. (**KB Penzijní společnost**), SG Equipment Finance Czech Republic s.r.o. (**SG Equipment Finance**), ESSOX s.r.o. (**ESSOX**), Factoring KB, a.s. (**Factoring KB**) and Komerční pojišťovna. As of 31 December 2019, based on data reported by the CNB, Modrá pyramida was the second largest building savings bank in the Czech Republic as measured by loan volume and had a 19% market share¹⁸.

As of 30 September 2020, the KB Group had 2,299,000 clients (2,364,000 as of 30 September 2019).

While nearly 99% of KB Group's income is generated in the Czech Republic, the KB Group also operates outside of the Czech Republic. In Slovakia, the KB Group operates through Komerční banka, a.s., pobočka zahraničnej banky (**KB SK**), the Issuer's branch, and ESSOX FINANCE s.r.o. (**ESSOX FINANCE**). The KB Group also has limited operations in Belgium. Bastion European Investment S.A. (**BASTION**) is a subsidiary of the Issuer and a special purpose vehicle created in order to finance an EU project in Belgium.

The following table provides an overview of KB Group companies that are consolidated in the financial statements as of 31 December 2019:

KB Group Entity	Parent Company	Issuer's effective holding	Consolidation method
		(%)	
Modrá pyramida stavební spořitelna, a.s.	Issuer	100.0	Full method
KB Penzijní společnost, a.s.	Issuer	100.0	Full method
KB Real Estate, s.r.o.	Issuer	100.0	Full method
SG Equipment Finance Czech Republic s.r.o.	Issuer	50.1	Full method

¹⁸ See Corporate Structure below for further details.

KB Group Entity	Parent Company	Issuer's effective holding	Consolidation method
ESSEX, s.r.o.	Issuer	50.93	Full method
Factoring KB, a.s.	Issuer	100.0	Full method
Komerční pojišťovna a.s.	Issuer	49.0	Equity
KB SmartSolutions, s.r.o.	Issuer	100.0	Full method
VN 42, s.r.o.	Issuer	100.0	Full method
STD2, s.r.o.	Issuer	100.0	Full method
Protos, uzavřený investiční fond, a.s.	Issuer	100.0	Full method
BASTION European Investment S.A.	Issuer	99.98	Full method
ESSEX FINANCE s.r.o.	ESSEX s.r.o.	50.93	Full method

KB SmartSolutions, s.r.o. (**KB SmartSolutions**) also directly holds a 100% share in My Smart Living, s.r.o. (**My Smart Living**) and KB Advisory, s. r. o. (**KB Advisory**). My Smart Living was established on 8 January 2019 to provide comprehensive solutions for clients' needs in relation to housing. It is a fully-owned subsidiary of KB SmartSolutions, which is a fully-owned subsidiary of the Issuer. Based on the assessment of the current and expected performance of the subsidiary, the Issuer's management decided to terminate development of this subsidiary's business. As of 30 September, the KB Group recorded a loss of CZK41 million on the profit/(loss) line attributable to exclusion of companies from consolidation related to the Issuer's discontinued investment in My Smart Living.

In July 2020, the Issuer's fully-owned subsidiary KB SmartSolutions acquired a minority participation (19%) in the Czech start-up fintech company upvest s.r.o., which operates an online crowdfunding platform for real estate development projects. Through its collaboration with upvest s.r.o., the Issuer intends gradually to develop its presence on the crowdfunding market.

In October 2020, KB SmartSolutions purchased a 24.9% participation in a fintech company named Platební instituce Roger a.s. offering a digital factoring solution for sellers.

The latest expansion was made in October through the acquisition of an 11% stake in the Czech start-up company MonkeyData s.r.o., which has, via its subsidiary Lemonero s.r.o., launched a digital platform employing big data and artificial intelligence to provide funding for small and medium-sized e-shops.

Moreover, in the third quarter of 2020, the European Commission decided not to oppose the notified establishment of the joint venture Bankovní identita, a.s., between the Issuer and several other Czech banks and declared it compatible with the rules of the EU internal market. The joint venture is an open platform for all banks to provide electronic identification and electronic signature services in the Czech Republic based on the digital identities of banks' clients. In October 2020, the Issuer participated in boosting total shareholders' equity of the joint venture by a total of CZK60 million, shared equally by all three existing shareholders.

The SG Group and the Issuer's Shareholders

On 4 May 1864, Napoleon III signed the SG founding decree. Founded by a group of industrialists and financiers driven by the ideals of progress, the SG's mission has always been to promote the development of trade and industry in France. Since its founding, SG has worked to modernise the economy, following the model of a diversified bank at the cutting edge of financial innovation. The branch network grew rapidly throughout the French territory, increasing from 46 to 1,500 branches between 1870 and 1940. During the interwar period, SG became the leading French credit institution in terms of deposits.

At the same time, SG began to build an international reach by financing infrastructure essential to the economic development of a number of countries in Latin America, Europe and North Africa. This expansion was accompanied by the establishment of an international retail network. In 1871, SG opened a London branch. On the eve of World War I, SG had a presence in 14 countries, either directly or through one of our subsidiaries, in particular in Russia. This network was then expanded by opening branches in New York, Buenos Aires, Abidjan and Dakar, and by acquiring stakes in financial institutions in Central Europe.

The SG Group draws on its European roots to develop activities internationally. The SG Group's global footprint enables it to connect Europe, Russia and Africa with major global financial centres in Asia and the Americas.

The Issuer's majority shareholder, holding 60.35% of its registered share capital, is SG. According to the SG's 2020 universal registration document, as of 31 December 2019, 82.04% of shares of SG were free float, 6.54% of shares were owned by BlackRock, Inc., 6.52% of shares were owned by employees, 2.04% of shares were owned by The Capital Group Companies, Inc. and 2.41% by Caisse des Dépôts et Consignations. Only 11% of shares were owned by shareholders with more than 1.5% of the capital or voting rights¹⁹. The Issuer's other shareholders are, among others, Chase Nominees Limited, Nortrust Nominees Limited, Clearstream Banking, S.A., GIC Private Limited, J.P. Morgan Bank Luxembourg S.A., State Street Bank And Trust Company.

The Issuer is controlled by SG. This control is based on SG's ownership of 60.35% of the registered share capital of the Issuer, as per the SG's 2020 universal registration document. The Issuer is not aware of any measures in place to ensure that SG's control is not abused other than the general limitations set forth by the Czech corporate law and banking regulations. The Issuer is regulated as a bank and is subject to the supervision of the CNB.

Business Overview

The Issuer is a universal bank with a multi-channel distribution model. The Issuer's business model is founded upon building long-term relationships with customers and offering relevant solutions for situations occurring during clients' lives. The business strategy focuses on reinforcing or achieving market-leading customer satisfaction status in the target client segments throughout each client's entire lifespan.

KB SK is the Issuer's only foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the CNB. KB SK is a trusted financial partner for top corporations within Slovakia, as well as for those corporate clients of the KB Group and SG Group operating there.

The performance of KB SK reflects the situation on the Slovak market. The euro is the domestic currency of Slovakia, and therefore the Issuer is active on a highly competitive market with excess liquidity. While KB SK experienced a narrowing of spreads for standard client financing, its strategy has been to offset this narrowing of spreads by a deeper penetration into structured transactions and by achieving growth in the total volume of loans. In 2019, disciplined management of operating expenditures remained essential and contributed to a favourable cost-to-income ratio. The cost of risk rose in the last quarter of 2019, mainly as a reflection of cyclicalities in some industrial sectors of KB SK's clients. Despite the higher cost of risk, KB SK's profitability in 2019 remained at its standard levels.

The Issuer is developing a system for detailed segmentation of customer relationships. The segmentation provided in the Issuer's financial statements as "Operating Segments" reflects reporting provided to the Issuer's Board of Directors based not only on client segmentation but also on the nature of products provided in each segment. The segmentation in the below business overview, however, is based on the following client-centred criteria: (i) individuals; (ii) entrepreneurs and small businesses (the indicative criterion being annual turnover up to CZK60 million); (iii) corporates and municipalities (annual turnover up to CZK1.5 billion); and (iv) top corporations (annual turnover greater than CZK1.5 billion). This is followed in the Issuer's service provision model. Both classifications are complementary to each other. The table below sets out the total gross loans to clients and amounts due to customers for the KB Group and a break-down of selected business indicators for the Issuer's client segments for the nine months ended 30 September 2020 and 2019 and for the year 2019:

	<u>30 Sep</u> <u>2020</u>	<u>30 Sep</u> <u>2019</u>	<u>30 Dec</u> <u>2019</u>	<u>30 Sep</u> <u>2020</u>	<u>30 Sep</u> <u>2019</u>	<u>30 Dec</u> <u>2019</u>
	<u>Loans to clients – gross loans*</u>			<u>Amounts due to customers**</u>		
	<i>(in CZK billion)</i>					
KB Group	692.3	654.0	654.0	930.4	860.2	816.3
Issuer total loan portfolio / Amounts due to customers	602.3	574.9	573.1	875.7	801.3	756.3
- Individuals	268.6	252.6	255.5	309.5	282.8	285.8
- Small businesses	39.5	36.6	36.7	224.1	201.0	196.2
- Medium corporates and municipalities	111.7	103.1	100.8	207.9	178.1	163.9
- Top corporations and other***	182.5	182.4	180.1	134.2	139.4	110.4

¹⁹ See <https://investors.societegenerale.com/en/financial-and-extra-financial-information/share/shareholder-structure>.

Modrá pyramida stavební spořitelna, a.s.	61.7	54.9	56.2	60.0	61.2	61.8
ESSOX s.r.o. (including PSA Finance)	16.4	17.5	17.4	0.2	0.2	0.2
Factoring KB, a.s.	7.4	8.6	9.4	0.8	0.8	1.0
SG Equipment Finance Czech Republic s.r.o.	30.6	28.7	29.0	N/A	N/A	N/A
BASTION European Investment S.A.	2.6	2.6	2.6	N/A	N/A	N/A
Consolidation and other adjustments	-28.6	-33.1	-33.7	-6.3	-3.3	-3.1

* Excluding other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.

** Excluding BASTION and repo operations with clients.

*** Including KB SK.

1. Individuals

Based on the Issuer's internal data and information contained in annual reports for the year 2019 published by other Czech banks, the Issuer ranks among the three largest banks in the Czech Republic by number of individual clients. In 2019, the total number of individual clients of the Issuer came to 1,407,000. As of 31 December 2019, the Issuer also maintained a leading position in the segment for children and young people, with more than 393,000 accounts.

As of 30 September 2020, the total number of individual clients stood at 1,397,000.

In 2019, the overall volume of housing loans provided by the Issuer and Modrá pyramida grew by 4.0% year on year. Within this total, the portfolio of mortgages to individuals provided by the Issuer expanded by 2.5% to CZK229.4 billion. Modrá pyramida's loan portfolio grew by 10.9% to CZK56.2 billion. In 2019, the volume of KB Group's consumer lending (provided by the Issuer and ESSOX group) in the Czech Republic and Slovakia grew by 1.3% to CZK39.2 billion compared to 2018.

As of 30 September 2020, the overall volume of housing loans provided by the Issuer and Modrá pyramida increased by 7.8% year on year. Within this total, the portfolio of mortgages to individuals provided by the Issuer expanded by 6.7% to CZK241.9 billion. Modrá pyramida's loan portfolio grew by a strong 12.5% to CZK61.7 billion. The volume of the KB Group's consumer lending (provided by the Issuer and the ESSOX group in the Czech Republic and Slovakia) increased by 1.3% year on year to CZK39.5 billion.

In 2019, deposits at the Issuer from individual clients grew by 3.3% year on year to CZK285.8 billion. The deposit book at Modrá pyramida increased by 0.1% in 2019 to CZK61.8 billion.

As of 30 September 2020, deposits at the Issuer from individual clients increased by 9.5% year on year to CZK309.5 billion. The deposit book at Modrá pyramida decreased by 2.0% to CZK60.0 billion.

In 2019, the Issuer responded to the needs of its clients by improving the offer of services and products. In the financing area, for example, the Issuer has brought to the market a new approach to financing housing for young people – the Relay Mortgage. The Issuer introduced a solution that helps parents and their children who want to acquire their own housing solve their housing needs more easily and prepare for handing over the obligation to repay the property mortgage.

2. Entrepreneurs and Small Businesses

In 2019, the balances on deposit accounts of entrepreneurs and small businesses held with the Issuer grew by 4.9% compared to 2018 and reached a total CZK196.2 billion. In 2019, the total volume of financing provided by the Issuer to small businesses increased by 3.3% compared to 2018 to CZK36.7 billion. Meanwhile, to finance their operating or investment needs, clients used the services of Factoring KB for financing their receivables as well as loans or leasing provided by SG Equipment Finance, ALD Automotive s.r.o., and ESSOX.

As of 30 September 2020, deposits with the Issuer from small businesses clients increased by 11.5% year on year to CZK224.1 billion and the total volume of financing provided by the Issuer to small businesses and entrepreneurs increased by 7.9% to CZK39.5 billion.

More than 14,000 entrepreneurs and small businesses opened business accounts with the Issuer during 2019 with more than a half of those just starting their businesses. As of 31 December 2019, the total number of clients served in this segment reached 244,000 (241,000 as of 30 September 2020).

3. Corporates and Municipalities

Based on the information contained in the Business Register of the Czech Statistical Office (in Czech, *Registr ekonomických subjektů Českého statistického úřadu*) and the Issuer's internal data, in 2019, the Issuer maintained its leading position in the corporate banking market, with approximately 46% of small and medium-sized enterprises (SMEs) in the Czech Republic using its services. The Issuer remains one of the two largest banks in public sector financing. Based on the Issuer's internal data and information contained in reports published by other Czech banks, the Issuer now serves 52% of clients in this sector. The number of clients increased in 2019 by 0.2% to a total of 11,000.

The volume of deposits expanded by 3.8% in 2019 to CZK163.9 billion. In 2019, the volume of financing provided by the Issuer increased by 3.8% compared to the previous year to CZK100.8 billion. Demand for financing was mainly driven by investments in the further development of companies and the construction of residential and commercial real estate. The share of public sector financing, where both national and EU structural funds contribute to infrastructure investment, increased in 2019.

As of 30 September 2020, the volume of deposits expanded by 16.7% year on year to CZK207.9 billion. The volume of financing provided by the Issuer increased by 8.3% year on year to CZK111.7 billion.

In 2019, the volume of financing provided by the Issuer increased by 3.8% to CZK100.8 billion compared to 2018. As of 30 September 2020, the volume of financing to corporates and municipalities increased by 8.3% year on year to CZK111.7 billion.

In 2018, the Issuer successfully implemented a simplified approval process for KB Financování Expres. Thanks to KB Financování Expres, the Issuer shortened the time required to decide on uncomplicated loans for SMEs in amounts of up to CZK25 million to five days. During 2019, it raised the limit for this lending product to CZK60 million. The loan application is processed within seven days.

The Issuer continued in its preferential financing of energy savings projects. The Issuer is the only bank in the Czech Republic to have signed a contract with the European Investment Bank for further provision of a EuroEnergie loan with an 80% guarantee and an interest rate reduction of as much as 0.4% p.a. The loan is intended for financing energy saving projects in the range of CZK1 million to CZK125 million. The total volume of funds allocated for preferential financing was EUR50 million (approximately CZK1.3 billion) until August 2020.

In June 2019, the Issuer launched its M&A Point website onto the market. It provides M&A advisory, including a free online calculator whereby business owners (and other interested parties) can quickly determine an indicative value for a business, such as when considering to sell or buy a company.

4. Top Corporations

The Issuer maintains a strong position in serving and financing top corporations with turnover exceeding CZK1.5 billion. Meanwhile, the portfolio and number of clients in the large corporation segment is relatively stable. Based on the information contained in the annual report of the Issuer, the Business Register of the Czech Statistical Office and the Issuer's internal data, about 55% of top corporations in the Czech Republic with turnover in excess of CZK1.5 billion were clients of the KB Group as of 31 December 2019. The Issuer's deposits (excluding KB SK) grew by 0.1% in 2019, reaching CZK100.7 billion. The Issuer's total volume of bank loans (excluding reverse repo operations and KB SK) in the top corporations segment increased by 4.7% in 2019 to CZK157.0 billion. As of 30 September 2020, deposits with the Issuer (excluding KB SK) of top corporations declined by 2.3% year on year to CZK118 billion and the total volume of bank loans (excluding reverse repo operations and KB SK) was at CZK158.6 billion.

The Issuer provides its clients with a full range of banking products and services, including those highly specialised in the areas of investment banking, as well as export, structured, and syndicated financing. It also provides solutions for unique transactions in the banking market, including in the areas of equity and equity linked issuance on the international markets, bond issuance and transaction services in mergers and acquisitions,

these services also being provided to SMEs and corporates. The offer is complemented by the services of subsidiaries and sister companies providing leasing, factoring services, and supplementary pension insurance. Clients can rely on the professional approach and knowledge of the Issuer's stable team of relationship managers, as well as experienced advisers with contacts in the SG Group's network, particularly in the areas of trade and export finance, cross-border payments, international cash-pooling structures, and investment banking.

The Issuer, in co-operation with SG, has begun to provide its clients with the multi-bank internet banking application Global Cash as a replacement for the previous Sogecash Web application. This allows clients to manage their accounts at different banks in various countries with a single login.

In 2019, the Issuer participated in the launching of the first issue of so-called green bonds in the CEE. The transaction was an example of the Issuer's commitment to dealing with environmental issues as well as synergies within the SG Group.

An innovative product is an identity verification called eID. The eID is the Issuer's new API service product. API (Application Programming Interface) is an environment that allows the Issuer to securely transfer information about accounts, payments, and other KB Group products to third-party applications. It belongs to the group of services provided within the so-called partner API, which enables the use of the Issuer's API interface on the basis of an agreement on use of the eID service. This service involves verifying the identity of the Issuer's client vis-à-vis a third party who is a liable entity under the relevant anti-money laundering regulations.

Distribution Channels

Branches and Retail Centres

As of 30 September 2020, the Issuer served clients at 243²⁰ retail branch offices throughout the Czech Republic and employed 7,997²¹ full-time equivalent employees in the Czech Republic and Slovakia. The number of branches decreased in 2019 as part of the Issuer's branch network optimisation. The table below provides selected business indicators for the Issuer's distribution network for the years 2019, 2018 and as of 30 September 2020²²:

	Nine months ended 30		
	September	The year ended 31 December	
	2020	2019	2018
The Issuer – retail branches (Czech Republic)	243	342	364
Modrá pyramida – points of sale	201	205	204
SG Equipment Finance – branches	9	9	9
ATMs	802	796	776
of which: deposit taking	415	389	320
of which: contactless	286	241	0

Private banking

The Issuer offers comprehensive private banking services to clients with financial assets exceeding CZK20 million at its branches in Prague, Brno and Ostrava, and according to their preference also outside the Issuer's business premises. As of 31 December 2019, the Issuer's clients with assets in excess of CZK3 million had access to selected private banking products at 48 regional branches.

Services provided include in particular private portfolio management, a comprehensive range of investment instruments and complete banking services, real estate and Lombard loans for financing clients' private needs, as well as investment into funds for qualified investors. Other services include alternative investment solutions (real estate funds and private equity funds) and bond instruments. In 2019, the Issuer's Private Banking further developed its services directed to structuring family assets and multi-generational planning for assets transfer.

²⁰ <https://www.kb.cz/getmedia/fca14ab4-5978-4624-b8e0-fa222b38c5aa/KB-Results-3Q2020-EN.pdf.aspx> p. 6

²¹ <https://www.kb.cz/getmedia/959b00a3-11b6-4acb-9062-89deec2a8c05/KB-3Q2020-Presentation.pdf.aspx> p. 20

²² <https://www.kb.cz/getmedia/959b00a3-11b6-4acb-9062-89deec2a8c05/KB-3Q2020-Presentation.pdf.aspx> p. 41

The Issuer has also launched the NextGen Academy, an educational programme directed to succeeding generations.

ATMs, Internet Banking and Phone Banking

In addition to its branch network, the Issuer uses direct distribution channels such as ATMs, internet banking and GSM services. In 2019, the Issuer significantly accelerated client payments, as it was one of the first banks to offer instant payments to all other Czech banks and to enable this service. The acceleration of payments was improved by introducing instant payments. In mid-August 2019, the Issuer began to receive instant payments from other domestic banks that allowed their processing. Since the beginning of October 2019, the Issuer has also provided its clients with the option of submitting instant payments. At the end of 2019, instant payments became available through the Issuer's mobile banking and mobile banking business applications, as well as in MojeBanka's and MojeBanka Business' internet banking. During the above period (i.e., mid-August 2019 until the end of 2019), the Issuer processed 3.3 million incoming instant payments and 92,000 outgoing immediate payments. All immediate payments are verified in order to prevent fraudulent transactions.

The Issuer also offers payments by telephone, but also via smart watches (Apple Pay, Google Pay, Fitbit and Garmin). One-third of the Issuer's ATMs are contactless, and half of them accept deposits. As of the date of this Base Prospectus, the Issuer is the only bank in the Czech Republic with drive-up ATMs, which are used by both individuals and entrepreneurs, and also provide an accessible solution for clients with physical disabilities.

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 EU 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.

Competition remained very intense during 2019. Nevertheless, the Issuer maintained its leading position in the corporate banking market, with approximately 46% of SMEs using the Issuer's services.²³ The Issuer remains one of the two largest banks in public sector financing as it now serves 52% of clients in this sector.²⁴ The number of clients increased 0.2% in 2019 to a total of 11,000. Deposits continued to strengthen significantly, expanding their volume by 3.8% in 2019 to CZK163.9 billion.

Recent Events Particular to the Issuer

The Issuer is not aware of any recent events specific to it that would be of significant importance in assessing the Issuer's solvency.

Credit Rating

Moody's has granted the Issuer the following credit ratings (valid as of 31 December 2020):

- Long-term – A1; and
- Short-term – Prime-1.

Moody's appends long-term obligation ratings at the following levels: Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. To each generic rating category from Aa to Caa, Moody's assigns the numerical modifiers "1", "2" and "3". The modifier "1" indicates that the bank is in the higher end of its letter-rating category, the modifier "2" indicates a mid-range ranking and the modifier "3" indicates that the bank is in the lower end of its letter-rating category. Moody's also has the option of adding further guidance (referred to as "under review") as to whether a rating is likely to be upgraded (possible upgrade), downgraded (possible downgrade) or uncertain (direction uncertain). Outlooks are assigned indicating the direction of any pressure. Characteristics are positive, negative, stable and

²³ Source: Information contained in the Business Register of the Czech Statistical Office (in Czech, *Registr ekonomických subjektů Českého statistického úřadu*) and the Issuer's internal data.

²⁴ Source: Audited and consolidated financial statements of other Czech banks prepared in accordance with IFRS for 2019 and the Issuer's internal data.

developing. Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations and range from P-1, P-2, P-3 down to NP (Not Prime).

Standard & Poor's has granted the Issuer following credit ratings (valid as of 31 December 2020):

- Long-term – A; and
- Short-term – A1.

Standard & Poor's appends long-term obligation ratings at the following levels: AAA, AA, A, BBB, BB, B, CCC, CC, C and D. Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Outlooks are assigned indicating the direction of any pressure. Characteristics are positive, negative, stable and developing. Standard & Poor's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations print following level: A-1, A-2, A-3, B, C and D.

Fitch has granted the Issuer the following credit ratings (valid as of 31 December 2020):

- Long-term – A; and
- Short-term – F1.

Fitch appends long-term obligation ratings at the following levels: AAA, AA, A, BBB, BB, B, CCC, CC, C, RD and D. Fitch also has the option of adding two further guidances, i.e. outlook and watch. Both are assigned indicating the direction of any pressure. Outlook relates to longer term risks (one to two years) and watch describes risks presumed to be resolved within the next six months. Characteristics are positive, negative, evolving and, in the case of outlook stable. Fitch's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations and can reach the following levels: F1, F2, F3, B, C, RD and D.

Material Changes in the Issuer's Financing Structure

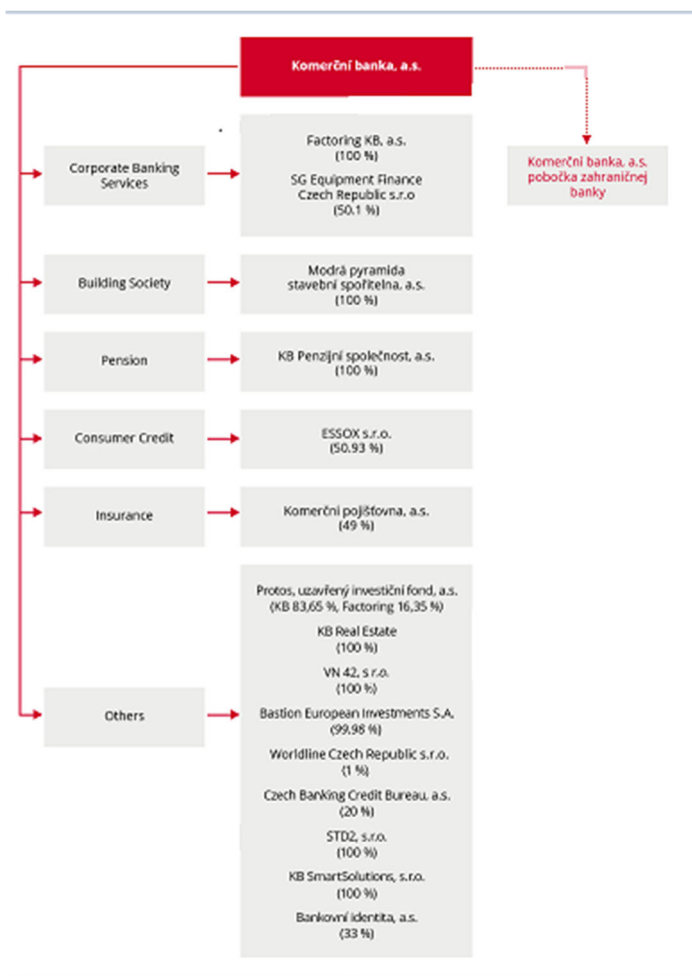
The Issuer has not been reliant on the debt capital markets for the purpose of its funding. A significant excess of client deposits over the client loans in the Issuer's balance sheet provides a high level of liquidity buffer and independence from the market funding. However, the liquidity excess is rather concentrated in the local currency (CZK) and, for the purposes of the foreign currency funding, the KB Group has been using cross-currency swaps in order to transfer the free liquidity from the base currency. Nevertheless, the Issuer would like to develop alternative funding sources to the cross-currency swap markets as these seem to be prone to overreactions in times of economic or social events. Thus, the purpose of the establishment of the Programme is to enable the Issuer to diversify its sources of foreign currencies and stabilise the related cost of such funding.

Description of the Expected Financing of the Issuer's Activities

The Issuer does not expect its strategy to change significantly in the upcoming years. The emphasis will be put on the deposits of retail and commercial clients, which sources, together with the Issuer's equity, are intended to finance the Issuer's activities. The Issuer's goal is to continue to be a self-financing bank.

Corporate Structure

As of 30 September 2020, the Issuer had 11 subsidiaries, where it held more than a 50% share, and one affiliate, Komerční pojišťovna, where it held a 49% share. The Issuer considers these companies as part of the KB Group. In addition to its ownership interests in the KB Group, the Issuer held strategic interests of 33% in Bankovní identita, a.s., 20% in Czech Banking Credit Bureau, a.s. and 1% in Worldline Czech Republic, s.r.o. The Issuer's relationship to and shareholdings in these subsidiaries as of the date of this Base Prospectus are shown in the following diagram:



Some of the subsidiaries shown in the diagram above are not consolidated in the Issuer's financial statements due to their immateriality. For an overview of companies that are consolidated in the Issuer's financial statements as of 30 September 2020, see Description of the Issuer above.

Komerční banka, a.s., pobočka zahraniční banky

In Slovakia, the Issuer serves corporate clients through KB SK. KB SK is oriented towards serving large and medium-sized enterprises with turnover of EUR40 million or more. The position of KB SK is supported by its access to the know-how of the KB and SG Groups. KB SK in Slovakia offers standard banking services, including cash management, direct banking, payment cards, financing, and investment banking products, as well as trade finance solutions.

Modrá pyramida stavební spořitelna, a.s.

Modrá pyramida is a fully-owned subsidiary of the Issuer. Based on data published by the CNB in its ARAD statistics²⁵ and internal data of the Issuer, as of 31 December 2019, it was the second-largest building savings bank in the Czech Republic as measured by loan volume having a 19% market share and, as of 30 September 2020 and based on the same data, Modrá pyramida's share in that market was 20.2%. The main products offered by Modrá pyramida include: state-subsidised savings accounts; bridging loans; and building savings loans. Modrá pyramida's distribution network of 701 advisors (as of 30 September 2020) also provides additional products of the KB Group such as mortgages and the Issuer's bank services, supplementary pension saving, mutual funds, and life and non-life insurance.

KB Penzijní společnost, a.s.

A fully-owned subsidiary of the Issuer, KB Penzijní společnost's core business is to collect contributions and manage them in pension funds pursuant to Czech Act No. 427/2011 Coll. on Supplementary Pension Savings, as amended, and as supplementary pension insurance in transformed funds. Based on data published by the Association of Pension Funds of the Czech Republic, in terms of number of participants, this pension company

²⁵ Source: CNB ARAD database available at: https://www.cnb.cz/docs/ARADY/HTML/index_en.htm

had, as of 30 September 2020, a 14% share in the supplementary pension savings market (Pillar 3)²⁶ and an 11% share in the pension insurance market.²⁷

SG Equipment Finance Czech Republic s.r.o.

SG Equipment Finance is owned by the Issuer (50.1%) and SG Equipment Finance S.A. (49.9%). Through the Issuer and its own network of seven branches in the Czech Republic and two in Slovakia, SG Equipment Finance provides financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects by leasing and lending. As of 30 September 2020 and based on data of the Czech Leasing and Finance Association, SG Equipment Finance had a 8% market share in the non-bank financing market in the Czech Republic as measured by financed amount (excluding consumer loans).

ESSOX s.r.o.

Owned by the Issuer (50.93%) and SG Financial Services Holding S.A. (49.07%). ESSOX is a non-bank provider of consumer loans and financial leasing for consumers and performs activities of payment institutions within the scope of payment services under a licence from CNB. As of 30 September 2020 and based on data published by the CNB in its ARAD statistics²⁸ and internal data of the Issuer, ESSOX had a 18.6% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association. Main products include financing of consumer goods and automobiles, general purpose loans, and revolving credit (credit cards). Through the acquisition of PSA FINANCE ČESKÁ REPUBLIKA s.r.o. and PSA FINANCE SLOVAKIA s.r.o., ESSOX entered the market for financing new cars in 2016. As of 1 January 2018, PSA FINANCE ČESKÁ REPUBLIKA s.r.o. merged with its parent company, ESSOX, and PSA FINANCE SLOVAKIA s.r.o. changed its name to ESSOX FINANCE s.r.o.

Factoring KB, a.s.

Factoring KB is a fully-owned subsidiary of the Issuer. As of 30 September 2020 and based on the data of the Czech Leasing and Finance Association, it had a 33% share of the Czech factoring market according to the volume of receivables transferred. Through its own and the Issuer's networks, the company provides the following products: domestic factoring; export factoring; import factoring; modified factoring; and receivables management.

Komerční pojišťovna, a.s.

The shareholders of Komerční pojišťovna are Sogecap S.A. (51%) and the Issuer (49%). As of 30 September 2020, Komerční pojišťovna had a 3.64% share in the life insurance market (according to methodology of the Czech Insurance Association, measured by premiums written)²⁹. Main products include savings life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans and, since 2016, non-life insurance for residential real estate and households.

Bastion European Investment S.A.

BASTION is a special purpose vehicle based in Belgium intended for financing a long-term transaction of the EU. Given the long-term profile of this transaction, BASTION was financed by both a long-term loan and the Issuer's own capital. This transaction helps to diversify the Issuer's portfolio by adding a financial asset with a very low risk profile. The ownership share of the Issuer in BASTION was 99.98% as of 31 December 2019.

ESSOX FINANCE s.r.o.

ESSOX FINANCE (formerly PSA FINANCE SLOVAKIA, s.r.o.) provides its services through the Peugeot and Citroën brands. Financial and insurance services include financial leasing, consumer credit, accident insurance for motor vehicles, liability insurance for motor vehicles, loss insurance, and operational leasing (the last of which is outsourced). The company also provides inventory financing to authorised dealers selling new Peugeot and Citroën cars. On 14 July 2017, the ownership structure of PSA FINANCE SLOVAKIA, s.r.o. changed and the sole owner of the company became ESSOX s.r.o. On 1 January 2018, the name of the company was changed to ESSOX FINANCE s.r.o.

²⁶ <https://www.apfcr.cz/wp-content/uploads/2020/08/Dopl%C5%88kov%C3%A9-penzijn%C3%AD-spo%C5%99en%C3%AD-2Q-2020.pdf>

²⁷ <https://www.apfcr.cz/wp-content/uploads/2020/08/TRANSFORMOVAN%C3%89-FONDY-2.-Q-2020.pdf>

²⁸ Source: CNB ARAD database available at: https://www.cnb.cz/docs/ARADY/HTML/index_en.htm

²⁹ <http://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2020Q3-CAP-CZ-2020-11-03-WEB.pdf> p. 4

VN 42, s.r.o.

The Issuer is the sole owner of VN 42, s.r.o. which was established in 2013 to provide administration and maintenance for real property and real estate services. In 2013, the Issuer placed its headquarters at Václavské náměstí 42 into VN 42, s.r.o. which subsequently leased the building to the Issuer.

KB Real Estate, s.r.o.

The Issuer is the sole owner of KB Real Estate, s.r.o. which was established in 2011 to provide administration and maintenance of real property and real estate services. In 2012, KB Real Estate, s.r.o. acquired the office building in Stodůlky, which was subsequently leased to the Issuer.

STD2, s.r.o.

The Issuer is the sole owner of STD 2, s.r.o. (originally named Office Center Stodůlky a.s.) which was purchased in 2017 and owns the office building in Stodůlky, the construction of which was completed in 2018. The company STD2, s.r.o. rents office space to the Issuer.

Protos, uzavřený investiční fond, a.s.

Protos, uzavřený investiční fond, a.s. (a closed-end investment fund) was established in 2007 as a fund for qualified investors. The fund's investment objective is the implementation of investment decisions, in particular primary issues of government bonds and other receivables issued or guaranteed by governments of the EU member states. The fund's long-term intention is to provide a regular and equitable dividend that follows the principle of accrued revenues and costs in the company's accounts. For this reason, the company prefers to minimise purchases and sales into and from the asset portfolio in such a way that trading gains and losses do not create additional dividend volatility. The ownership share of the Issuer in Protos, uzavřený investiční fond, a.s. was 83.65% as of 31 December 2019. The share of Factoring KB in Protos, uzavřený investiční fond, a.s. was 16.35% as of 31 December 2019.

KB SmartSolutions, s.r.o.

The Issuer is the sole owner of KB SmartSolutions. On 7 January 2019, KB SmartSolutions was established to facilitate the preparation of some new KB Group services. The company focuses on supporting the financing and development of external start-ups, but it also provides support to and for internal innovative solutions.

KB Advisory, s. r. o.

The company KB Advisory was established on 16 September 2019 as a consultancy for small and medium-sized enterprises and municipalities. It is a fully-owned subsidiary of the KB SmartSolutions, which is a fully-owned subsidiary of the Issuer.

My Smart Living, s.r.o.

On 8 January 2019, My Smart Living was established to provide comprehensive solutions for clients' needs in relation to housing. It is a fully-owned subsidiary of the KB SmartSolutions, which is a fully-owned subsidiary of the Issuer.

Principal Markets

The Issuer operates primarily in the Czech market and is present in all regions of the Czech Republic. It is a universal bank and offers services to both foreign and domestic retail clients, small and medium enterprises, large corporate customers, institutional clients and high net-worth individuals, in both Czech Koruna and foreign currencies. Apart from the Czech Republic, the Issuer also operates in Slovakia through KB SK and Belgium through BASTION.

Information and Communication Technology

The Issuer treats the area of cybersecurity seriously, realising its importance in an increasingly digitalised society and as part of its digital provision of services. The Issuer aims to carefully protect its business, including in terms of its interactions with its clients – against foreseeable threats originating from the ever-evolving digital environment.

Throughout 2019, the Issuer improved its cyber defence through process improvements in the internal security operations centre, practice rehearsals, and learning from those events experienced. In 2019, the Issuer also started to work closely with one of the leading cybersecurity houses on threats monitoring and response with the aim to achieve higher quality of the internal cyber response know-how.

Furthermore, the Issuer continued to maintain its dedicated security website (<https://www.kb.cz/security>) and to promote usage of IBM's protective client security tool Trusteer Rapport among clients using internet and mobile banking solutions. Trusteer is focused on protection from specific threats, such as fake, harmful websites (phishing) and malware, and on preventing attempts to detect passwords (e.g. keylogging). The Issuer's anti-fraud detection system is intended to save the funds the Issuer's clients by detecting and blocking suspicious payments initiated in an authorised way by the impacted client but on the basis of an originally fraudulent request.

Properties

As of 30 September 2020, the KB Group held properties (land plots and buildings) with a net book value of CZK5,805 million. Of these, the properties owned for investment purposes had a book value of CZK0 as of 30 September 2020.

Risk review and risk assessment under the Issuer's Internal Capital Adequacy Assessment Process

Regulatory requirement under Pillar 2 of the CRR is to assess all the risks and evaluate a capital requirement necessary to support them in a time horizon of at least three years. The risks taken shall be stress tested in order to prove the ability of the bank to sustain adverse development in the future. The Issuer's Internal Capital Adequacy Assessment Process (**ICAAP**) is an ongoing process; the required frequency of reporting to the management body is semi-annual. The overall holistic risks evaluation is a part of an overall internal risk management framework.

ICAAP offers an overall risk profile review, related capital requirement analysis and consequent recommendations for capital management. Moreover, ICAAP provides at the same time results and impact analysis on leverage and selected indicators of the Risk Appetite Statement (**RAS**) and the Recovery Plan (**RP**).

A formalised risk review is usually provided annually in compliance with regulatory requirements (ECB Guide to ICAAP), and a regular Risk Control Self-Assessment (**RCSA**) process is also provided annually. In 2020, a formalised risk review was conducted twice within ICAAP and the last risk review was conducted especially with the focus on the impacts stemming from the Covid-19 pandemic.

A risk review approach is based on a holistic view on the risk management process as all material risk which the KB Group is exposed to is under the management/supervision of the risk department (except business risk which is modelled and captured through business volumes and margins projections under the finance department). Standard and regular annual RCSA processes are used to identify and evaluate all risks connected to operational processes in respect of all risk managed (including legal, reputational, model, IT risks, etc.). RCSA therefore encompasses all material risks from an operational point of view.

The Covid-19 pandemic impacts more risk categories (in terms of the impact on magnitude of the risk). However, no new risk type or category was recognised in connection with the Covid-19 pandemic. Generally, the Covid-19 pandemic impact changed the perception of the significance of risks, but the impact of Covid-19 does not necessarily entail an increase in all types of risks as described below. The main area impacted by Covid-19 is considered to be credit risk. Generally, the Covid-19 outbreak has had a significant impact on the banks market risk area. However, due to its prudent approach to market risk, the impact on the Issuer is considered to be limited. The impact on operational risk is considered to be limited, even though, from an operational point of view, cybersecurity or business continuity are real challenges in the context of Covid-19.

No material impact of Covid-19 on structural risk has been observed due to the following:

- Liquidity and funding risk – no stress behaviour has been identified in the client deposits and loan portfolios. Loan repayment delays caused by payment moratoriums have an immaterial effect on liquidity. The Issuer is not dependent on market funding.
- Interest rate risk in the banking book (**IRRBB**) – the Issuer's management of IRRBB exposure is primarily economic value-based and in this respect the Issuer is not materially affected by yield curve changes due to limited open positions (on the other hand, low interest rate environment does affect the Issuer's net interest margin).

- Foreign exchange risk in the banking book – the Issuer only has immaterial open foreign exchange positions and is therefore not affected by the CZK weakening or other currency movements caused by the Covid-19 situation.

No material impact of Covid-19 on other types of risks (compliance, reputation, etc.) has been observed.

Risk categories where change is measured or perceived in respect of Covid-19

Credit risk

After the outbreak of Covid-19, the Issuer decided not to dramatically change its credit risk appetite in order to continue to provide high-quality service to the clients and support them as well as the whole economy. Instead, the Issuer decided to apply a series of targeted measures:

- Limitation of credit risk appetite for clients from the sensitive sectors vulnerable to Covid-19 impact (automotive, hospitality, entertainment, transport, etc.).
- Accelerating the implementation of the Issuer's digital risk strategy by: (i) modernising the retail soft collection set-up; (ii) activating new risk enablers in the E2E digitisation of lending processes; (iii) implementation of data science and AI components in loan origination and monitoring activities; and (iv) upgrading fraud prevention schemes.
- Since the end of March 2020, the Issuer has granted instalment deferral ("private payment moratorium") and, since April 2020, instalments have been deferred under the Covid-19 Loan Moratorium Act. During the summer of 2020, the Issuer actively approached its clients under the Moratorium and, following the end of the Moratorium period in October, the Issuer has been supporting clients in financial difficulties via an individual approach.
- Participating in other proactive governmental measures under the umbrella of state institutions (Českomoravská záruční a rozvojová banka, a. s., Exportní garanční a pojišťovací společnost, a.s.) in order to support the Czech economy.

The choice of targeted measures is supported with outputs from frequent predictions of cost of risk and risk weight. While the Issuer cannot guarantee that such predictions will always prove correct, the Issuer believes that, in the anticipated Covid-19 scenario, cost of risk and risk weight ought to remain at a reasonably acceptable level.

The credit risk quality of the part of the Issuer's portfolio which is not under the Moratorium seems to show resilience to the Covid-19 crisis. The credit risk quality of the part of the Issuer's portfolio under the Moratorium is dynamically monitored (client-by-client analysis for corporate clients, client surveys and data analysis for retail). The current estimate of the cost of risk for 2020 (up to 80 bps for the KB Group) captures also an adverse scenario of future losses for this moratorium portfolio.

Market risk

Operational Covid-19 thresholds were defined for selected market risk metrics as a response to the deterioration of the liquidity observed on the CZK market. A temporary framework was implemented on 9 April 2020 until liquidity is reassessed as being back to normal. Liquidity is reassessed on a weekly basis and thresholds are set at a level lower than the standard market risk limits. The metrics concerned are CZK Interest Rate sensitivity, CZK CIM and XCCY bases spread sensitivity and limits on government bonds.

Operational risk

In the context of Covid-19, the Issuer adjusted many processes in order to assure the continuity of business activities (critical/vital and the rest). Even when changes needed to be imposed very quickly, the Issuer has followed standard validation workflow processes. On the top of that, to ensure a sound and robust internal control system, all such implemented changes representing increasing risk are the subject of a BYPASS review process which is reported by the whole organisation to the Issuer's operational risk. The 2020 RCSA update will take into consideration the bypasses as well as new or increased risks, particularly in the area of IT and IS security

which comes with post-Covid-19 changes in servicing our clients and the Smart Office concept for the Issuer's employees.

Model risk

Basel models (PD, LGD, CCF and ELBE) are calibrated in line with regulation. The calibration should capture any significant deterioration of the macroeconomic situation. Moreover, all Basel models are being updated in order to follow new EBA guidelines on internal ratings-based approach (**IRBA**) modelling and the new definition of default. This means that the model risk resulting from Covid-19 impacts is considered to be limited. However, the predictive power of other types of models (mainly granting) may be influenced by the impacts of Covid-19. In response, the Issuer's risk arm has accelerated the digital risk strategy by introducing new risk enablers in the E2E digitisation of lending processes and implementing of data science and AI components in loan origination and monitoring activities.

Business risk

Business risk related to Covid-19 is being reflected in the bank's projection of estimated volumes and spreads. Negative impacts of Covid-19 in the Czech economy has been, to an extent, mitigated by government support. The Issuer's aim has been to reflect its participation in these programmes in its projections as much as possible.

In March 2020, the CNB adopted a set of measures to stabilise the domestic economy following the Covid-19 outbreak, including steep interest rate cuts, which brought the repo rate to 1.00%. In May 2020, the CNB adopted additional measures, including a further interest rate cut, with the repo rate decreased to 0.25%.

Structural risks

Structural risk management relies to a great extent on behavioural models. The latest model monitoring as of 30 September 2020 revealed no substantial issues or structural changes in client behaviour which would invalidate currently used models:

- Decline of term loan prepayment rates at the outset of the pandemic was observed. However, as the first shock wore off, prepayment rates seem to have gradually recovered to standard levels.
- There was an increase in the drawdown rates in some parts of the revolving credit portfolio. However, they remained well within their standard (historically observed) ranges.
- In general, client deposit balances have been actually increasing since the outbreak of the pandemic. Model monitoring is performed on a regular basis, so any potential changes in client behaviour are likely to be detected in good time.

Most recent ICAAP results

In general, based on the ICAAP analysis (validated by the Board of Directors of the Issuer on 29 September 2020 based on the position as of 30 June 2020), the KB Group has a strong capital base which consists mostly of the highest quality Common Equity Tier 1 capital (**CET1**). This capital is a solid base for coverage of all considered risks and their volatilities as resulting from the stress testing on the existing portfolio and estimated business growth. The major risk to which the Issuer is exposed is the credit risk (on average 87% of the total risk Pillar 2 profile on four years' horizon according to the baseline Covid-19 scenario excluding credit concentration risk) which dominates all other risks. The credit risk is the most sensitive to macroeconomic development. The second-largest risk is operational risk (on average 6%). Capital requirement on market risk represents 3% on average of the total risk, credit concentration risk is of 2% share and capital requirement on interest rate risk in the banking book share is 2% on average as well. Under a Covid-19 prolonged stress scenario, the composition of a Pillar 2 capital requirement is practically the same.

As of 30 September 2020, the capital adequacy ratio of KB Group reached 21.6% (19.4% as of 30 September 2019), and Core Tier 1 capital stood at 20.9% (18.9% as of 30 September 2019).

The KB Group is able to maintain its capital adequacy ratio above or mostly within the management buffer and consequently above the overall capital requirement under both considered scenarios, i.e. under the baseline Covid-19 economic scenario and the Covid-19 prolonged stress scenario.

Brief description of the key risks identified under ICAAP

Credit risk including counterparty credit risk, excluding concentration risk – Risk of losses arising from the inability of the KB Group's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions and activities.

Credit concentration risk – Risk of fluctuation of cost of risk due to uneven distribution of exposures to single counterparties or industries.

Market risk – Market risk is the risk of impact of market rates and prices changes on the bank's profit/loss (P/L). The Issuer's P/L is sensitive to the following risks: foreign exchange risk; interest rate risk; and commodity risk in consequence of the positions of the trading book.

Foreign exchange risk of banking book – Foreign exchange risk is present if movements of market foreign exchange rates influence the current or future financial performance of the Issuer.

Interest rate risk in banking book – Risk to the KB Group's earnings and/or economic value arising from adverse movements in interest rates.

Liquidity risk – Risk that the KB Group will not be able to meet its financial obligations in a timely manner and/or at reasonable cost.

Operational risk – Operational risk related to Market Activities, Finance, Risk, Information Technology, Resources, Advisory and Financing, Post-Trade Activity, Standard Banking Services, Corporate Secretariat, Extended Offer, Savings and Investments, Compliance, Financing, Recoveries and Disputes, Communication, Third party – Customers, Counterparties and Partners, Payment Trades and Services, Human Resources, Issued Guarantees, Asset Management and Private Banking, Internal Control, Flows Management and General Management. Activities referential was defined on the level of the SG Group in order to promote and enable risk assessment by major processes/activities performed by the KB Group.

Business risk – Risk that the bank will not be able to keep the planned spreads and volumes due to the adverse economic environment or increased competition on the market.

MANAGEMENT AND EMPLOYEES

The Issuer is a Czech joint-stock company established and 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 the 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 25 April 2018, as filed in the Issuer's collection of deeds in the Czech Commercial Register which is publicly accessible at <https://or.justice.cz/>. The business address of each of the directors (as well as the members of the Supervisory Board, the Executive, Audit and Risk Committees) is the Issuer's registered office at Prague 1, Na Příkopě 33 Descr. No. 969, Postal Code 114 07, Czech Republic.

Management Structure and Committees

The Issuer has a two-tier board system consisting of a Board of Directors and a Supervisory Board. The General Meeting of shareholders is the supreme body of the Issuer, which takes the most significant decisions regarding the Issuer, such as increases and decreases of share capital, appointments of two-thirds to the Issuer's Supervisory Board or approval of its financial statements. The Board of Directors represents the Issuer in all matters and is charged with its management, while the Supervisory Board is an independent body responsible for the supervision of the Issuer's activities and of the Board of Directors in its management of the Issuer. Under the Czech Corporations Act, the Supervisory Board may not make management decisions. However, its prior approval is required by law or the Articles of Association for certain matters.

The Issuer also established the Audit Committee and the Risk Committee. The Audit Committee is an independent governing body of the Issuer elected by and reporting to the General Meeting of shareholders and plays an important role in supervising the Issuer's proper management, the independence and objectivity of the external auditor, the auditor's conduct of the mandatory audit, effectiveness of the risk management systems (together with the Risk Committee), and mechanisms of internal management and control. The Risk Committee monitors the Issuer's approach to risk, its strategy in the risk area, acceptable levels of risk, and risk management.

The Issuer acceded to and upholds all the principal standards of the Corporate Governance Code of the Czech Republic (2018) issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular, G20/OECD Principles of Corporate Governance from 2015).

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 keeping of the Issuer's accounting records, integration of the accounting system and financial reporting, reliability of financial and operating control, smooth conduct of activities and the Issuer's operations on the financial market in compliance with the object and plan of its activities.

Pursuant to its Articles of Association, the Board of Directors of the Issuer consists of six 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 four years. There are no limits on reappointment. As of the date of this Base Prospectus, the Board of Directors has all six 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:

Name	Year of Birth	Position	Commencement of Membership in Board of Directors	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Jan Juchelka	1971	Chairman	3 August 2017	3 August 2017	3 August 2021
Didier Luc Marie Colin	1963	Member	1 October 2017	1 October 2017	1 October 2021
David Formánek	1968	Member	1 August 2018	1 August 2018	1 August 2022
Miroslav Hiršl	1972	Member	1 August 2018	1 August 2018	1 August 2022
Margus Simson	1978	Member	14 January 2019	14 January 2019	14 January 2023
Jitka Haubová	1977	Member	4 June 2020	4 June 2020	4 June 2024

Jan Juchelka

Date of appointment:	3 August 2017
Experience and other relevant information:	A graduate of the Silesian University in Opava, he worked from 2012 in the SG's headquarters in corporate and investment banking as managing director, head of coverage with responsibility for corporate clients in the CEE region, Middle East, and Africa. He also worked as senior banker for the CEE region. The Issuer's Board of Directors elected Mr Juchelka as chairman of the Board of Directors with effect from 3 August 2017. Mr Juchelka further serves as chairman of the Supervisory Board of Modrá pyramida, ESSOX, and KB SmartSolutions, and he is a member of the Supervisory Board of ESSOX FINANCE, SG Equipment Finance, Komerční pojišťovna, and ALD Automotive s.r.o. He also is a member of the Czech Banking Association's Executive Board.

Didier Luc Marie Colin

Date of appointment:	1 October 2017
Experience and other relevant information:	A graduate in finance at Dauphine University in Paris and also City University of New York, he has many years' experience within the SG Group, where he started working during the early 1990s. In 2000, he was promoted to deputy country manager and subsequently to country manager for Canada. From this position, he moved into the Issuer in 2004 as member of the Board of Directors responsible for risk management. In 2011, he became director for the European region; as part of this function, he supervised SG's activities in the CEE region. With effect from 1 October 2017, he was elected by the Supervisory Board as a member of the Board of Directors of the Issuer in charge of risk management. He is a member of the Supervisory Boards of ESSOX, ESSOX FINANCE, and SG Equipment Finance.

David Formánek

Date of appointment:	1 August 2018
Experience and other relevant information:	A graduate of the University of Economics in Prague in the field of foreign trade economics. From 1993 to 2001, he worked within the branch of Deutsche Bank AG in Prague. Between 2001 and 2014, he worked at the Issuer, first as deputy director and subsequently as director of the Prague business division, then as deputy director for human resources and executive director for human resources. Between 2014 and 2018, he worked as CEO and chairman of the Board of Directors of Modrá pyramida. Since August 2018, he has been a member of the Board of Directors of the Issuer. He is also a member of the Supervisory Board of Modrá pyramida.

Miroslav Hiršl

Date of appointment:	1 August 2018
Experience and other relevant information:	A graduate from the University of Economics in Prague with a focus on foreign trade and banking and postgraduate studies at the Graduate School of Banking in Boulder, Colorado, United States of America. Between 2014 and 2018, he served as CEO and member of the Board of Directors of Soci�t� G�n�rale Montenegro AD. From August 2018, he became a member of the Board of Directors of the Issuer. He is also vice-chairman of the Supervisory Board of the company Modrá pyramida and a member of the Supervisory Boards of the companies Komerční pojišťovna, KB Penzijní společnost, ESSOX and KB SmartSolutions.

Margus Simson

Date of appointment:	14 January 2019
Experience and other relevant information:	An economics graduate of Tallinn University of Technology. From 2009 to 2013, he held various IT positions within Eesti Energia AS, the largest energy producer and supplier in Estonia. From 2009 to 2017, he worked as a digital strategy expert and CEO at Ziraff OU, the largest digital services company in Estonia. From 2017 to 2019, he held the position of CDO and digitalisation director at Luminor Bank AS. Effective from 14 January 2019, he was elected a member of the Board of Directors of the Issuer by the Supervisory Board.

Jitka Haubová

Date of appointment:	4 June 2020
Experience and other relevant information:	Graduated from the Prague University of Economics, majoring in Finance and Accounting, completed a Financial Management course at Galilee College in Israel, obtained a certificate as a structural funds specialist from the European Commission, and is a certified international auditor for quality processes. She started her professional career by joining the Czech Government's agency for support of trade, CzechTrade, where she also served as the CEO. She co-owned a family café and restaurant for several years. Jitka joined the Issuer's Trade Finance department in 2006. From 2012, she held various managerial roles in Corporate and Municipal Banking, before joining the Board of Directors as Executive Director for Corporate Banking.

Supervisory Board

The Supervisory Board is the supervisory authority of the Issuer. It appoints and recalls the members of the Board of Directors, the oversees exercise of the Board of Directors' powers, the Issuer's activities, and the effectiveness and efficiency of the Issuer's management and control system as a whole.

Pursuant to the Articles of Association of the Issuer, the Supervisory Board of the Issuer consists of nine members (natural persons). Two-thirds of the Supervisory Board members are elected and removed by the General Meeting, one-third of the Supervisory Board members are elected and removed by the Issuer's employees. The members of the Supervisory Board are appointed for a term of four years. As of the date of this Base Prospectus, the Supervisory Board has all nine members.

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

Name	Year of Birth	Position	Commencement of Membership	Commencement of Current Term of Office	Date of Expiration of the Current Term of Office
Jean-Luc André	1954	Chairman	24 April 2013	2 May 2017	2 May 2021
Joseph Parer					
Giovanni Luca Soma	1960	Vice-Chairman	1 May 2013	2 May 2017	2 May 2021
Cécile Camilli	1975	Member	25 April 2019	25 April 2019	25 April 2023
Maylis Marie	1981	Member	29 June 2020	29 June 2020	29 June 2024
Suzanne Coupet					
Petr Dvořák	1960	Member	2 June 2017	2 June 2017	2 June 2021
Ondřej Kudrna	1979	Member	14 January 2019	14 January 2019	14 January 2023
Sylva Kynychová	1972	Member	14 January 2019	14 January 2019	14 January 2023
Vojtěch Šmajer	1987	Member	14 January 2019	14 January 2019	14 January 2023
Petra Wendelová	1962	Member	25 April 2019	25 April 2019	25 April 2023

Jean-Luc André Joseph Parer

Date of appointment:	2 May 2017
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Experience and other relevant information: A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at SG in 1981 in the Inspection department. In 2012, he became a member of the Executive Committee of the SG Group, serving as head of the International Banking, Financial Services and Insurance Industry division. From 2017, he has been an advisor to SG's executive management. He is currently retired. Mr Parer is a member of the Supervisory Board of the company Société Générale Marocaine de Banques and a member of the Boards of Directors of the companies Rosbank PJSC, BRD – Groupe Société Générale SA and Société Générale de Banques Côte d'Ivoire. Since 2012, he has also been a member of the Supervisory Board of the Issuer, and, since 2013, he has been its chairman.

Giovanni Luca Soma

Date of appointment: 2 May 2017
Experience and other relevant information: An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. Since October 2017, he has been a manager of the business unit Europe within SG international retail banking. Mr. Soma is chairman of the Supervisory Board of the company Hanseatic Bank GmbH & Co KG. Furthermore, he is chairman of the Board of Directors of the BRD – Groupe Société Générale SA, vice-chairman of the Board of Directors of the company Fidelity SpA and a member of the Board of Directors of Rosbank PJSC. Since 2013, he has been a member and vice-chairman of the Supervisory Board of the Issuer.

Cécile Camilli

Date of appointment: 25 April 2019
Experience and other relevant information: A graduate of Paris IX-Dauphine, where she earned a bachelor's degree in business management, and City University of New York, where she earned an MA in business administration in finance. Since 1999, she has held various positions within Société Générale. From 2013 to 2019, she was executive director and head of Debt Capital markets for CEE, Middle East, and Africa. Effective from 15 January 2019, she was appointed by the Supervisory Board as a substitute member of the Supervisory Board and elected as a member of the Supervisory Board of the Issuer by the General Meeting on 25 April 2019.

Maylis Marie Suzanne Coupet

Date of appointment: 29 June 2020
Experience and other relevant information: A graduate of the École Normale Supérieure de Cachan, France, in the field of social sciences and the École Nationale de la Statistique et de l'Administration Économique. Since 2017, she has been a senior banker within SG's Retail Banking department. Effective from 4 December 2019 until the next General Meeting, she is appointed as substitute member of the Supervisory Board of the Issuer.

Petr Dvořák

Date of appointment: 2 June 2017
Experience and other relevant information: A graduate of the University of Economics in Prague, where he completed his PhD in 2003 and was named associate professor of finance in 2005. From 2006 to 2014, he was the Dean of the Faculty of Finance and Accounting and, since 2014, he has been Vice Rector for Academic Affairs of the University of Economics in Prague. He is a member of several scientific and editorial boards and an author of numerous

publications. Mr Dvořák is also a member of the management board of the company Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s., and chairman of the Audit Committee of the company Modrá pyramida. Since 2017, he has been an independent member of the Supervisory Board of the Issuer.

Ondřej Kudrna

Date of appointment:	14 January 2019
Experience and other relevant information:	A graduate of the Business Academy Lobkovice, branch of economics and accounting. In May 2007, he became director of the Neratovice branch of the Issuer, where he is responsible for the development of subordinates, business and financial results of the entrusted team, and compliance with the procedures of the cash and sales department. He currently holds the position of branch director in the Issuer. He has been a member of the trade union of the Issuer since joining the Issuer. Effective from 14 January 2019, he was elected a member of the Supervisory Board of the Issuer.

Sylva Kynychová

Date of appointment:	14 January 2019
Experience and other relevant information:	A graduate of the Banking Institute/College of Banking, majoring in banking management. Since joining the Issuer, she has been a member of the trade union, and, since April 2018, she has been partially released from her employment duties to serve as chairwoman of the union committee of the Issuer's trade union. Ms Kynychová is also a member of the Supervisory Board of the insurance company Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví. Effective from 14 January 2019, she was elected as member of the Supervisory Board of the Issuer.

Vojtěch Šmajer

Date of appointment:	14 January 2019
Experience and other relevant information:	A graduate of the Faculty of Law and the Faculty of Economics and Administration of Masaryk University in Brno. Before joining the Issuer, he worked in sales positions at Sberbank CZ, a.s. and in BNP Paribas Personal Finance, S.A. Since 2015, he has been working at the Issuer, first as an investment specialist and since 1 August 2018 as a bank advisor for very wealthy clientele at a branch in Brno. Effective from 14 January 2019, he was elected a member of the Supervisory Board of the Issuer.

Petra Wendelová

Date of appointment:	25 April 2019
Experience and other relevant information:	She graduated from the University of Economics in Prague, where she earned the title Ing. in economic statistics and a CSc. in economic sciences. Between 2000 and 2014, she was a partner at Ernst & Young and managing director and also a leading partner in the area of mergers and acquisitions. Since 2016, she has been vice-chairman of the Supervisory Board of Linet Group SE. Effective 25 April 2019, she was elected as an independent member of the Supervisory Board of the Issuer.

Audit Committee

The Audit Committee plays an important role in supervising the Issuer's proper management, the independence and objectivity of the external auditor, the auditor's conduct of the mandatory audit, effectiveness of the risk management systems (together with the Risk Committee), and mechanisms of internal management and control.

Members of the Audit Committee are appointed by the General Meeting. The majority of members of the Audit Committee, including the Chairperson, are independent and professionally qualified.

Pursuant to the Articles of Association of the Issuer, the Audit Committee of the Issuer consists of at least three members (natural persons). As of the date of this Base Prospectus, the Audit Committee has three members.

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

Name	Year of Birth	Position	Commencement of Membership	Commencement of Current Term of Office	Date of Expiration of the Current Term of Office
Giovanni Luca Soma	1960	Member	25 April 2013	26 April 2017	26 April 2021
Petr Dvořák	1960	Member	26 April 2018	26 April 2018	25 April 2022
Petra Wendelová	1962	Chairman	25 April 2019	25 April 2019	25 April 2023

Giovanni Luca Soma

Date of appointment:	26 April 2017
Experience and other relevant information:	An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. Since October 2017, he has been a manager of the business unit Europe within SG's international retail banking. Mr. Soma is chairman of the Supervisory Board of the company Hanseatic Bank GmbH & Co KG. Furthermore, he is chairman of the Board of Directors of the BRD – Groupe Société Générale SA, vice-chairman of the Board of Directors of the company Fidelity SpA and a member of the Board of Directors of Rosbank PJSC. Since 2013, he has been a member and vice-chairman of the Supervisory Board of the Issuer.

Petr Dvořák

Date of appointment:	26 April 2018
Experience and other relevant information:	A graduate of the University of Economics in Prague, where he completed his PhD in 2003 and was named associate professor of finance in 2005. From 2006 to 2014, he was Dean of the Faculty of Finance and Accounting, and, since 2014, he has been Vice Rector for Academic Affairs of the University of Economics in Prague. He is a member of several scientific and editorial boards and an author of numerous publications. Mr Dvořák is also a member of the management board of the company Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s., and chairman of the Audit Committee of the company Modrá pyramida. Since 2017, he has been an independent member of the Supervisory Board of the Issuer.

Petra Wendelová

Date of appointment:	25 April 2019
Experience and other relevant information:	She graduated from the University of Economics in Prague, where she earned the title Ing. in economic statistics and a CSc. in economic sciences. Between 2000 and 2014, she was a partner at Ernst & Young and managing director and also a leading partner in the area of mergers and acquisitions. Since 2016, she has been vice-chairman of the Supervisory Board of Linet Group SE. Effective 25 April 2019, she was elected as an independent member of the Supervisory Board of the Issuer.

Risk Committee

Members of the Risk Committee are appointed by the Supervisory Board of the Issuer. The Risk Committee monitors the Issuer's approach to risk, its strategy in the risk area, acceptable levels of risk, and risk management.

Pursuant to the Articles of Association of the Issuer, the Risk Committee of the Issuer consists of at least two members (natural persons). As of the date of this Base Prospectus, the Risk Committee has three members, one of whom is independent (currently Petra Wendelová). The risk committee meets according to need, but at least twice per year.

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

Name	Year of Birth	Position	Commencement of Membership	Commencement of Current Term of Office	Date of Expiration of the Current Term of Office
Giovanni Luca Soma	1960	Member	25 September 2014	3 October 2018	3 October 2022
Jean-Luc André	1954	Member	25 September 2014	3 October 2018	3 October 2022
Joseph Parer					
Petra Wendelová	1962	Chairman	25 April 2019	25 April 2019	25 April 2023

Giovanni Luca Soma

Date of appointment:

3 October 2018

Experience and other relevant information:

An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. Since October 2017, he has been a manager of the business unit Europe within SG's international retail banking. Mr. Soma is chairman of the Supervisory Board of the company Hanseatic Bank GmbH & Co KG. Furthermore, he is chairman of the Board of Directors of the BRD – Groupe Société Générale SA, vice-chairman of the Board of Directors of the company Fidelity SpA and a member of the Board of Directors of Rosbank PJSC. Since 2013, he has been a member and vice-chairman of the Supervisory Board of the Issuer.

Jean-Luc André Joseph

Parer**Date of appointment:**

3 October 2018

Experience and other relevant information:

A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at SG in 1981 in the Inspection department. In 2012, he became a member of the Executive Committee of the SG Group, serving as head of the International Banking division, and, since 2013, head of the International Banking, Financial Services and Insurance Industry division. From 2017, he had been an advisor to SG's executive management. He is currently retired. Mr Parer is a member of the Supervisory Board of the company Société Générale Marocaine de Banques and a member of the Boards of Directors of the companies Rosbank PJSC, BRD – Groupe Société Générale SA and Société Générale de Banques Côte d'Ivoire. Since 2012, he has also been a member of the Supervisory Board of the Issuer, and, since 2013, he has been its chairman.

Petra Wendelová

Date of appointment:

25 April 2019

Experience and other relevant information:

She graduated from the University of Economics in Prague, where she earned the title Ing. in economic statistics and a CSc. in economic sciences. Between 2000 and 2014, she was a partner at Ernst & Young and managing director and also a leading partner in the area of mergers and acquisitions. Since 2016, she has been vice-chairman of the Supervisory Board of

Linet Group SE. Effective 25 April 2019, she was elected as an independent member of the Supervisory Board of the Issuer.

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

The Issuer is not aware of any possible conflicts of interest between the duties of the members of its Board of Directors, the Supervisory Board, the Audit Committee and the Risk Committee owed to the Issuer and their private interests or other duties. The Issuer further states that Didier Luc Marie Colin concluded an employment contract with SG, which contract shall resume its effect once his tenure at the Issuer comes to an end, and has been delegated to serve as a director of the Issuer.

Principal Activities Outside of the Issuer

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

<u><i>Members of the Board of Directors</i></u>	<u><i>Activity</i></u>
Jan Juchelka	<p><i>Member of the Supervisory Board of:</i></p> <ul style="list-style-type: none"> • Modrá pyramida stavební spořitelna, a.s.(chairman) • ESSOX s.r.o. (chairman) • KB SmartSolutions (chairman) • ESSOX FINANCE • SG Equipment Finance Czech Republic, s.r.o. • Komerční pojišťovna, a.s. • ALD Automotive s.r.o. • ALD Automotive Slovakia s.r.o. • Essox Finance, s.r.o. (chairman) <p><i>Member of the Executive Board of:</i></p> <ul style="list-style-type: none"> • Czech Banking Association
Didier Luc Marie Colin	<p><i>Member of the Supervisory Board:</i></p> <ul style="list-style-type: none"> • ESSOX s.r.o. • SG Equipment Finance Czech Republic s.r.o. • Essox Finance, s.r.o.
David Formánek	<p><i>Member of the Supervisory Board of:</i></p> <ul style="list-style-type: none"> • Modrá pyramida stavební spořitelna, a.s.
Miroslav Hiršl	<p><i>Member of the Supervisory Board of:</i></p> <ul style="list-style-type: none"> • Modrá pyramida stavební spořitelna, a.s. (vice-chairman) • Komerční pojišťovna, a.s. • ESSOX s.r.o. • KB SmartSolutions, s.r.o. • KB Penzijní společnost, a.s. • Amundi Czech Republic Asset Management, a.s.

Margus Simson

- Amundi Czech Republic, Investiční společnost, a.s.

Member of the Supervisory Board of:

Jitka Haubová

- Bankovní identita, a.s.

Member of the Supervisory Board of:

- Factoring KB, a.s.

Members of the Supervisory Board

Jean-Luc André Joseph Parer

Member of the Supervisory Board of:

- Société Générale Marocaine de Banques SA

Member of the Board of Directors of:

- Rosbank PJSC
- BRD – Groupe Société Générale SA
- Société Générale de Banques Côte d'Ivoire SA

Giovanni Luca Soma

Member of the Supervisory Board of:

- Hanseatic Bank GmbH & Co KG, Germany (chairman)

Member of the Board of Directors of:

- Compagnie Générale de Location d'Equipements SA (chairman)
- BRD – Groupe Société Générale SA, Romania (chairman)
- Fidelity SpA (chairman)
- Rosbank PJSC
- ALD Automotive Italia S.r.l.

Petr Dvořák

Member of the Management Board of:

- Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s.

Member of the Audit Committee of:

- Modrá pyramida stavební spořitelna, a.s.

Member of the Supervisory Board of:

- Unie studentů Vysoké školy ekonomické v Praze, z.s. (Union of students of the University of Economics in Prague)

Sylva Kynychová

Member of the Supervisory Board of:

- Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví (Professional health insurance company for employees of banks, insurance companies and the construction)

Member of the Trade Union Bureau and member of the Trade Union Committee of:

- Odborový svaz pracovníků peněžnictví a pojišťovnictví (Trade union of finance and insurance workers)

Petra Wendelová

Member of the Supervisory Board of:

- LINET Group SE (vice-chairman)
- Nadace Národní galerie v Praze (National Gallery in Prague Foundation)

Ownership of interest in:

- Betelgeuze Star s.r.o. (10%)

Members of the Audit Committee

Giovanni Luca Soma

Member of the Supervisory Board of:

- Hanseatic Bank GmbH & Co KG (chairman)
- Member of the Board of Directors of:
- CGL (chairman)
- BRD – Groupe Société Générale SA (chairman)
- Fiditalia SpA (chairman)
- Rosbank PJSC
- ALD Automotive Italia SpA

Petr Dvořák

Member of the Management Board of:

- Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s.

Member of the Audit Committee of:

- Modrá pyramida stavební spořitelna, a.s.

Member of the Supervisory Board of:

- Unie studentů Vysoké školy ekonomické v Praze, z.s. (Union of students of the University of Economics in Prague)

Petra Wendelová

Member of the Supervisory Board of:

- LINET Group SE (vice-chairman)
- Nadace Národní galerie v Praze (National Gallery in Prague Foundation)

Ownership interest in:

- Betelgeuze Star s.r.o. (10%)

Members of the Risk Committee

Giovanni Luca Soma

Member of the Supervisory Board of:

- Hanseatic Bank GmbH & Co KG, Germany (chairman)

Member of the Board of Directors of:

- CGL (chairman)
- BRD – Groupe Société Générale SA, Romania (chairman)
- Fiditalia SpA (chairman)
- Rosbank PJSC
- ALD Automotive Italia SpA

Jean-Luc André Joseph Parer

Member of the Supervisory Board of:

- Société Générale Marocaine de Banques SA

Petra Wendelová

Member of the Board of Directors of:

- Rosbank PJSC, Russia
- BRD – Groupe Société Générale SA
- Société Générale de Banques Côte d'Ivoire SA

Member of the Supervisory Board of:

- LINET Group SE (vice-chairman)
- Nadace Národní galerie v Praze (National Gallery in Prague Foundation)

Ownership of interest in:

- Betelgeuze Star s.r.o. (10%)

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2019, the KB Group was controlled by SG, which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments, and other types of transactions. These transactions are carried out on an arm's length basis.

Amounts due to and from the KB Group companies

As of 30 September 2020, the KB Group had deposits of CZK2,007 million (31 December 2019: CZK2,116 million, 31 December 2018: CZK1,339 million) due to Komerční pojišťovna. As of 30 September 2020, the positive fair value of financial derivatives in relation to Komerční pojišťovna amounted to CZK1,229 million (2019: CZK928 million, 2018: CZK837 million) and the negative fair value to CZK25 million (2019: CZK61 million, 2018: CZK210 million).

As of 30 September 2020, the book value of mortgage bonds issued by the Issuer was CZK801 million (2019: CZK803 million, 2018: CZK804 million). The interest expense from mortgage bonds amounted to CZK17 million (2019: CZK20 million, 2018: CZK20 million). The book value of subordinate debt provided to Komerční pojišťovna is in the amount of CZK443 million (2019: CZK0 million, 2018: CZK0 million).

As of 31 December 2019 and 2018, the interest income from financial derivatives of Komerční pojišťovna to the KB Group amounted to CZK1,015 million (2018: CZK743 million) and interest expense on financial derivatives totalled CZK819 million (2018: CZK517 million). Interest expense from deposits amounted to CZK42 million (2018: CZK15 million), fee income of the KB Group arising from intermediation totalled CZK430 million (2018: CZK420 million), fee expense amounted to CZK86 million (2018: CZK79 million), insurance expenses totalled CZK10 million (2018: CZK10 million), and other income totalled CZK21 million (2018: CZK17 million).

As of 30 September 2020 and 2019, the interest income from financial derivatives of Komerční pojišťovna to the KB Group amounted to CZK842 million (2019: CZK758 million) and interest expense on financial derivatives totalled CZK689 million (2019: CZK602 million). Interest expense from deposits amounted to CZK29 million (2019: CZK43 million), fee income of the KB Group arising from intermediation totalled CZK319 million (2019: CZK303 million), fee expense amounted to CZK70 million (2019: CZK67 million), insurance expenses totalled CZK9 million (2019: CZK8 million), and other income totalled CZK17 million (2019: CZK14 million).

Amounts due to and from the SG Group companies

The following table shows the principal balances due from SG Group companies.

CZK millions	30 September 2020		31 December 2019		31 December 2018	
	Total	Of which derivatives	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,709	0	7,753	0	7,100	0
ALD Automotive Slovakia s. r. o.	51	0	27	0	74	0
BRD – Groupe Soci�t� G�n�rale SA	11	0	21	0	17	0
Rosbank PJSC	173	0	601	0	193	0
SG Bruxelles	0	0	0	0	3	0
SG Expressbank	0	0	0	0	48	0
SG Marocaine de Banques	0	0	0	0	6	0
SG Zurich	0	0	202	0	228	0
SKB Banka D.D. Ljubljana	0	0	0	0	1	0

Société Générale Ghana Limited	17	0	0	0	0	0
Société Générale China Limited	38	0	41	0	41	0
Société Générale International Limited	2	0	2	0	2,210	0
Société Générale Londres	0	0	16	0	0	0
Société Générale oddzial w Polsce	50	32	2	0	0	0
Société Générale Paris	15,882	5,093	12,397	4,736	14,348	5,733
Total	22,934	5,125	21,062	4,736	24,269	5,733

The following table shows the principal balances owed to SG Group companies.

CZK millions	30 September 2020		31 December 2019		31 December 2018	
	Total	Of which derivatives	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	373	0	370	0	389	0
BRD – Groupe Société Générale SA	7	0	1	0	8	0
Crédit du Nord	82	0	75	0	5	0
PEMA Praha, spol. s.r.o.	0	0	0	0	26	0
Rosbank PJSC	0	0	4	0	0	0
SG Amsterdam	11	0	20	0	68	0
SG Banques au Liban	0	0	1	0	2	0
SG Bruxelles	0	0	3	0	9	0
SG Expressbank	0	0	0	0	54	0
SG Frankfurt	0	0	0	0	45	0
SG ISSUER	1	0	1	0	1	0
SG Milan	5	0	11	0	2	0
SG Option Europe	1	0	1	0	0	0
SG Private Banking (Suisse)	156	0	92	0	143	0
SG Zurich	41	0	81	0	53	0
SGSS Nantes	1	0	3	0	2	0
Société Générale Bank & Trust	0	0	64	0	650	0
Société Générale Factoring	211	0	774	0	21	0
Société Générale Londres	50	0	31	0	88	0
Société Générale Luxembourg	27	0	0	0	0	9
Société Générale New York	470	0	10	0	8	0
Société Générale oddzial w Polsce	16	0	6	0	2	0
Société Générale Paris	55,894	12,833	53,649	9,208	50,161	8,486
SOGEPROM Česká republika s.r.o., v likvidaci	4	0	4	0	5	0
Total	57,350	12,833	55,201	9,208	51,742	8,486

Amounts due to and from the SG Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty, and fair values of derivatives.

As of 30 September 2020 and as of 31 December 2019 and 2018, the KB Group also carried off-balance sheet exposures to the SG Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK492,826 million (2019: CZK491,189 million, 2018: CZK515,728 million) and CZK443,449 million (2019: CZK438,112 million, 2018: CZK461,281 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances, and guarantees for credit exposures.

As of 30 September 2020 and as of 31 December 2019 and 2018, the KB Group also recorded other accounts receivable and payable from and to SG Group entities the amounts of which are not significant.

During the year ended 31 December 2019, the KB Group had total income of CZK33,057 million (2018: CZK39,157 million) and total expenses of CZK33,212 million (2018: CZK37,661 million) in relation to SG Group entities. Up to 30 September 2020, the KB Group had in the year 2020 total income of CZK44,682 million (2018: CZK24,296 million) and total expenses of CZK48,349 million (2018: CZK25,965 million) in relation to the SG Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy, and software services.

In connection with lease contracts the KB Group records:

CZK millions	30 September 2020		31 December 2019		1 January 2019	
	Right-of-use assets	Lease liabilities	Right-of-use assets	Lease liabilities	Right-of-use assets	Lease liabilities
ALD Automotive s.r.o.	133	90	140	92	157	93
ALD Automotive Slovakia s. r. o.	2	2	2	2	2	2
Total	135	92	142	94	159	95

CZK millions	30 September 2020		30 September 2019		31 December 2019		1 January 2019	
	Depreciation expense	Interest expense	Depreciation expense	Interest expense	Depreciation expense	Interest expense	Depreciation expense	Interest expense
ALD Automotive s.r.o.	18	1	20	1	26	1	N/A	N/A
ALD Automotive Slovakia s. r. o.	0	0	0	0	1	0	N/A	N/A
Total	18	1	20	1	27	1	N/A	N/A

As of 31 December 2019 and 2018, the KB Group reported a loss of CZK2 million (2018: N/A) on terminated contracts.

As of 30 September 2020 and 2019, the KB Group reported a loss of CZK2 million (2019: CZK2 million) on terminated contracts.

CZECH BANKING REGULATION

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 KB 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.

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 the Czech Act No. 6/1993 Coll., on the Czech National Bank, as amended (the **Czech CNB Act**), the Czech Banking Act, the Czech Capital Markets Act, the Czech Capital Markets Supervision Act, the Czech Act No. 253/2008 Coll., the Act on Some Measures against Money-Laundering and Financing of Terrorism, as amended, the Czech Act No. 370/2017 Coll., on Payment Services, as amended, the Czech Bonds Act, the Czech Act No. 93/2009 Coll., on Auditors, as amended, the 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, as amended (the **Czech Financial Conglomerates Act**), the **Czech Recovery and Resolution Act**, the Czech Act No. 257/2016 Coll., on Consumer Credit, as amended (the **Czech Consumer Credit Act**) and certain regulations issued by the CNB (known as measures and decrees) as well as directly applicable EU laws and regulations.

The CNB

The CNB exercises regulatory and supervisory powers over the banking sector, as well as the rest of the Czech financial sector (including the capital markets, insurance, pension funds, credit unions and electronic money institutions as well as the foreign exchange sector). The CNB also carries out the traditional activities of a central bank including fostering price stability through monetary policy as well as fostering financial stability and safe functioning of the financial system in the Czech Republic.

As a general rule, the CNB exercises banking supervision over Czech banks (including subsidiaries of foreign banks incorporated in the Czech Republic) and Czech branches of banks established outside the EEA. Banks established in EEA countries other than the Czech Republic which are 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 their supervision is also partially carried out by the CNB.

Under the Czech CNB Act and the Czech Banking Act, the CNB is empowered with an array of powers to regulate and supervise the Czech banking system. These powers, among others, include the power to: (i) grant banking licences; (ii) issue regulations containing the terms and conditions of entry into the banking sector and setting down prudential rules for specific areas of banking business; (iii) monitor the activities of banks, branches of foreign banks 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 Remedial Measures and Penalties below).

Licensing

As a general rule, only joint-stock 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 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 respective bank is permitted to conduct. In some cases, licences also contain conditions the bank must meet prior to commencing a particular permitted activity or while conducting 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 fulfilment of special conditions.

Activities Requiring Prior Consent of or Notification to the CNB

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

Prior consent of the CNB is required, without limitation: (i) where a person proposes to acquire or increase a direct or indirect participation in a Czech bank so that it would reach or exceed 10%, 20%, 30% or 50% 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 enterprise 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%, 20%, 30% or 50% 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 changes proposed to a bank's articles of association relating to the parts that are required by law; (iii) of proposed personnel changes in the board of directors and senior management of the bank; (iv) of the bank's intent to establish a legal entity (subsidiary), branch or representation abroad or to provide services abroad without establishing a branch; and (v) of the identity of a bank's auditor.

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

Capital Adequacy Requirements

In December 2010, the Basel Committee 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 **CRD IV** and 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., on the Performance of the Activities of Banks, Credit Unions and Investment Firms, as amended (the **Prudential Rules Decree**)) implementing the **CRD IV** into Czech law were 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) CET 1 instruments; (ii) additional tier 1 instruments (the **AT 1**) (CET 1 and AT 1 together constituting the **Tier 1**); and (iii) tier 2 instruments (the **Tier 2**).

Institutions are required at all times to satisfy the following capital ratios for own funds: (i) a CET 1 ratio of 4.5%; (ii) a Tier 1 ratio of 6%; and (iii) a total capital ratio constituted of the Tier 1 and Tier 2 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, while 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) increased from 2% to 4.5%.

The new rules established the following new capital buffers: (i) the capital conservation buffer; (ii) the countercyclical capital buffer; (iii) the systemic risk buffer; (iv) the global systemic institutions buffer and (v) the other systemic institutions buffer. The capital conservation buffer is equal to 2.5%. The countercyclical capital buffer is 0.5% in the Czech Republic since 1 July 2020. The systemic risk buffer applicable to the Issuer is currently 3.0%. The other systemic institutions buffer applicable to the Issuer is equal to 0%.

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

Under Basel III, banks (such as the Issuer) are required to meet two new liquidity standards: (i) an LCR and (ii) an NSFR. The LCR requires banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario specified by supervisors. The NSFR measures the amount of longer term, stable sources of funding available to a bank in relation to the stable funding it requires over a one year period of extended stress, given the liquidity profiles of its assets and its off-balance sheet exposures.

At the same time, the criteria for each capital instrument became more stringent; due to harmonised 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 relation to the Covid-19 outbreak, the ECB announced in a press release dated 12 March 2020³⁰ an introduction of certain extraordinary measures to ensure the ability of banks to continue to fund the real economy and provide significant capital relief to banks in support of the economy. This means that ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 requirements (i.e. a capital requirement which applies in addition to, and covers risks which are underestimated or not covered by, the minimum capital requirement – also known as the Pillar 1) could also be met by partial use of capital instruments that do not qualify as CET1, for example AT 1 or Tier 2 instruments. Further to these measures, the banks are recommended to continue to apply sound underwriting standards, pursue adequate policies regarding the recognition and coverage of non-performing exposures and conduct capital planning.

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

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

The CNB is authorised to apply certain remedial measures linked to failure to meet capital adequacy criteria. For example, if a bank's capital ratio falls below two-thirds of the minimum limit currently set at 8%, the CNB may require the bank, among other things, to increase its capital to a sufficient level, to limit the acquisition of certain higher-risk assets, to refrain from paying interest on deposits where relevant interest rates would be in excess of the then current market level or to cease providing any loans to persons that have close personal or proprietary links with the bank. If the ratio falls below one-third of the prescribed minimum, the CNB is obliged to revoke the bank's licence, unless the bank is subject to a crisis resolution measure (in Czech, *opatření k řešení krize*) pursuant to the Czech Recovery and Resolution Act.

Furthermore, on 23 November 2016, the European Commission published its proposal for an EU Banking reform package including proposals to amend the CRR, the CRD IV and the BRRD (the **EU Banking Reform**) as part of the finalisation of the Basel III framework and its implementation in the EU. The individual pieces of law forming the EU Banking Reform were adopted on 20 May 2019. The amendments include, inter alia, introduction of a new asset class of "non-preferred" senior debt, changes to the market risk framework by implementing the fundamental review of the trading book, changes to the counterparty credit risk framework, introduction of a

³⁰ <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200312-43351ac3ac.en.html>

leverage ratio requirement, binding implementation of the NSFR requirement, revisions to the Pillar 2 framework and revisions to the framework concerning interest rate risk in the banking book.

Financial Conglomerates

Starting in September 2005, the Czech Financial Conglomerates Act came into 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" when under certain circumstances it is subject to a regulation of the Czech Financial Conglomerates Act.

According to the Czech Financial Conglomerates Act a financial conglomerate is a group or subgroup if:

1. the group or subgroup is headed by: (i) a regulated person, such as a bank, credit institution, insurance company or securities broker, which either: (a) controls a person in the financial sector; or (b) is a person who exercises a significant influence on a person in the financial sector; or (c) is a person connected to other person in financial sector through a unified management (d) is a person, the majority of whose members of statutory, managing and supervisory bodies comprise during most of the relevant accounting period individuals or persons, who are at the same time members of the statutory, managing and supervisory bodies of another person in the financial sector, or (ii) a person who is not a regulated person, provided the activity of the group is performed predominantly in the financial sector;
2. at least one person in the group or subgroup belongs to the insurance sector and at least one person in the group or subgroup belongs to the banking sector or investment services sector; and
3. the activities in the insurance sector of the group or subgroup in their aggregate and the activities in the banking sector and investment services sector of the group or subgroup in their aggregate are significant (where the extent of the sector's significance is specified in detail in the Czech Financial Conglomerates Act).

The supplementary regulation under the Czech Financial Conglomerates Act concerns mainly the following three areas at the level of the financial conglomerate:

- (a) capital adequacy;
- (b) risk management; and
- (c) intra-group transactions.

The supplementary supervision is exercised at the level of the financial conglomerate, i.e. at the level of the regulated entity which is at the top of the financial conglomerate, or at the level of the regulated entity, the parent of which is a mixed financial holding company (i.e., a non-regulated entity controls a regulated entity) which has its head office in the EU.

As of the date of this Base Prospectus, neither the Issuer nor any member of the KB Group is considered a regulated person subject to direct supplementary supervision at the level of a financial conglomerate. However, the SG Group is considered a financial conglomerate, and therefore is subject to such supplementary supervision.

Minimum Reserves

Under the Czech CNB Act, 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% of the total liabilities of the institution required to hold such reserves, net of its liabilities owed to other regulated persons. Currently, the CNB requires minimum reserves to amount to at least 2% 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 equal to twice the average Lombard rate applicable during the period in which it was obliged to meet such minimum reserve requirements.

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.

Classification of Receivables and Impairment

Under the Czech Banking Act, CRR and the Prudential Rules Decree, Czech banks and branches of foreign banks established outside the EEA are required to classify their exposures (especially those originating from granting of credit) according to the likelihood of default on such receivables into the following classes: (i) performing exposures; and (ii) non-performing exposures. The classification is realised in accordance with the approach to classification of exposures set out in the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to CRR. Following such classification, Czech banks and branches of foreign banks must follow procedures set by the Prudential Rules Decree to set amounts of expected losses on the exposures and create provisions and reserves to cover them.

Large Exposures

Under the Czech Banking Act, the CRR 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 CRR that limit the amount of their assets and off-balance sheet items in respect of a person or economically connected group of persons. For the purposes of these rules, a large exposure to a person or economically connected group of persons is deemed to exist if the exposure value is equal to or higher than 10% of a bank's eligible capital.

As a general rule, a Czech bank shall not incur an exposure, after taking into account the effect of the credit risk mitigation, to a client or group of connected clients the value of which exceeds 25% of its eligible capital. If a group of connected clients includes one or more credit institutions or investment firms, the value of the exposure must not exceed 25% of a Czech bank's eligible capital or EUR150 million, whichever is higher, provided that the sum of exposure values, after taking into account the credit risk mitigation, to all connected clients that are not credit institutions or investment firms must not exceed 25% of the Czech bank's eligible capital.

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

Qualified Participations

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

Under the Czech Banking Act, a bank may acquire a participation or share in another legal entity, incorporate another legal entity or participate in its incorporation only if: (a) the bank does not become a participant with unlimited liability; (b) the legal entity is not a person having a qualified participation in such bank (with some exemptions stated by the Czech Banking Act); (c) there are no legal or other obstacles to effective supervision of the bank's activities; or (d) the investment is in compliance with the total strategy of the bank and the bank controls the risks connected with such investment, in particular, in light of the eventual obligations of the bank arising therefrom.

Disclosure of Information

Banks are required to disclose and file with the CNB a number of reports, including quarterly and annual reports. The form of the reports is specified in various CNB decrees. The annual report must contain, among other things, the bank's financial statements and the external auditor's report. Since 2002, banks' internal risk management systems must also be audited by statutory auditors, unless the CNB waives this requirement or limits it to only some parts thereof. The CNB reviews these reports and monitors whether regulations on liquidity, large exposures, capital adequacy, capital, qualified participations and other matters have been observed. Banks are also required to introduce effective mechanisms for dealing with customer complaints and to inform customers about these mechanisms in their premises. Banks must also disclose basic information about themselves, their shareholder structure, the structure of the consolidated group to which they belong, and their activities and financial situation on their website. Certain banks are also obliged to disclose information on compliance with the prudential rules.

Deposit Insurance

Primary deposits with Czech banks are insured with the Deposit Insurance Fund (the **Deposit Insurance Fund**) operated by the Financial Market Guarantee System established pursuant to the Czech Recovery and Resolution Act. All Czech banks and branches of foreign banks outside the EEA must participate in this deposit insurance scheme and contribute to the Deposit Insurance Fund. The Deposit Insurance Fund is financed from contributions from banks, funds obtained at the financial market, subsidies, repayable financial assistance and loans provided by the CNB, investment yields on its funds and proceeds from finalised insolvency and liquidation proceedings.

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

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

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

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

The level of insurance coverage is calculated by aggregating the insured deposits of each depositor with the particular bank. Since 1 January 2011, the amount that can be paid to a depositor under the scheme is equal to 100% of the aggregate of its deposits and is capped at the amount of EUR100,000 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. Since 1 January 2016, legislation has defined exceptional cases where even higher compensation may be paid out for a defined period of time. This increased compensation can exceed the basic limit of EUR100,000 by a maximum of an additional EUR100,000. Such exceptional cases are e.g. deposit compensations for deposits resulting from real estate transactions related to private residential properties, settlement of the common property of spouses after divorce, insurance settlement (in the case of injury, illness, invalidity or death) and in other cases determined by law.

A yearly contribution of a Czech bank to the Deposit Insurance Fund is calculated pursuant to a formula published by the CNB, which takes into account the amount of the insured deposits and the risk profile of the institution. In 2020, the Issuer paid CZK108 million and Modrá pyramida paid CZK24 million in contributions to the Deposit Insurance Fund.

Remedial Measures and Penalties

Under Czech law, banks are obliged to carry out their business in a prudential manner, in particular in a manner that does not impair the interests of depositors in respect of recoverability of their interests or endanger the bank's safety and soundness. Banks are also required to observe all applicable legal rules and regulations, including the terms and conditions stipulated in their licence. If the CNB detects any Shortcomings in the activities of a bank, it is authorised, among other things to: (i) require the bank to remedy the situation within a specified period by, for example, restricting some of the bank's activities, replacing persons in the bank's management or the bank's Supervisory Board, or creating adequate provisions and reserves; (ii) change the bank's licence by excluding or restricting some of the activities listed in the bank's licence; (iii) order an extraordinary audit at the expense of the bank; (iv) impose a fine of up to CZK50 million or, in some cases, of up to 10% of annual net turnover of the bank or the consolidated accounts of the parent undertaking; (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% 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 Capital Adequacy Requirements above).

Under the Czech Resolution and Recovery Act, the CNB may further exercise a range of crisis prevention measures and crisis resolution measures, as described above (see General Description of Czech Legislation relating to Mortgage Covered Bonds – 8. Czech Resolution and Recovery Act).

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 KB 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, generally enjoys enhanced protection with regard to the receivables or parts of those receivables under Mortgage Loans which constitute Cover Assets included in the Cover Pool, which are used to cover the obligations of the Issuer from the Czech Mortgage Covered Bonds (i.e. their aggregate nominal value and the value of the proportionate yield).

There are several methods to enforce a pledge over real property securing a Mortgage Loan. Where real property securing a Mortgage Loan is sold by way of judicial auction according to the Czech Civil Procedure Code, the receivables of the Issuer as a mortgage bank (or as the mortgagee) will be satisfied in priority to any other receivables of all other creditors of the mortgagor and shall be satisfied immediately following only the deduction of the costs associated with the foreclosure auctions and with the administration of a respective building and tract of land (up to one-tenth from the auction's proceeds).

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 the Czech Act No. 26/2000 Coll., on Public Auctions, as amended (the **Czech Public Auctions Act**), the mortgagee may propose the implementation of an involuntary public auction, provided that the receivable has been confirmed by an enforceable court decision, enforceable arbitral decision or was documented by way of an enforceable notarial deed, which contains the particulars prescribed by applicable law.

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

From the moment when the mortgagor of the real property receives written notice from the mortgagee of its intention to enforce the rights arising from the mortgage any legal steps undertaken by the mortgagor leading to the disposal, encumbrance or leasing of the Mortgaged Property or to the creation of new obligations that decrease the value of the Mortgaged Property or limit the ability to dispose of the Mortgaged Property are invalid. This limitation does not apply in cases where the object of the public 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 public auction from its proceeds, claims of the creditors are satisfied in the following order: (i) claims relating to the administration of a respective building and tract of land (up to one-tenth from the auction's proceeds) and claims secured by a possessory lien; (ii) claims based on a Mortgage Loan covering the obligations arising from Czech Mortgage Covered Bonds (i.e., their aggregate nominal value); (iii) claims secured by a mortgage or by a restriction on the transfer of real property (where more of these mortgages are attached to the object of the auction such claims shall be satisfied according to the order of their origination); and (iv) claims that constitute taxes, fees, public health insurance, social security insurance and contributions to the state employment policy, if these became due in the last three years prior to the auction and have been filed by the authorised auction creditors (where more such claims are filed by the auction creditors, such claims shall be satisfied proportionally).

The Czech Act No. 89/2012 Coll., the Civil Code, as amended (the **Czech Civil Code**), effective as of 1 January 2014 has introduced two new methods of mortgage enforcement. These new methods, if agreed on in writing, may serve as alternatives to the sale of the real property in judicial or public auction.

The first new method of enforcement of a claim secured by a mortgage is the direct private sale of the real property. This method is only available where the parties expressly agreed on it in writing. The mortgagee may, at any time during the process of enforcement by way of the direct private sale, change the method of enforcement

and sell the real property in public or judicial auction. The mortgagor must be notified about such a change in due course. The mortgagee is not entitled to sell the real property prior to the day falling thirty days from: (i) delivery (or deemed delivery under the terms of Czech law) of the mortgagee's notification of the commencement of enforcement to the mortgagor; or (ii) the inscription of the commencement of enforcement of the mortgage into the Czech Real Property Register, depending on which of the events set out under paragraph (i) or (ii) occurs later. Should the mortgagee enforce the mortgage by a sale that does not qualify as a sale in the public auction under the Czech Public Auctions Act, the mortgagee has a duty to proceed with expert care, in a manner which ensures that the real property is sold at standard market price and other standard market conditions and at the same time to pursue not only its own interests, but also the interests of the mortgagor.

Without undue delay after the sale of the real property, the mortgagee is obliged to provide the mortgagor with a report in writing, containing information about the sale, expenses incurred in the course of the sale, as well as information about the proceeds of the sale and their subsequent use.

The other new method of mortgage enforcement is the mortgagee's option to accept the real property as satisfaction for the secured debts. This alternative, like the enforcement by way of direct private sale, must be agreed on in writing.

Mortgage agreements relating to the Mortgaged Property generally include detailed provisions governing the option for the benefit of the Issuer to enforce the mortgage by way of direct private sale.

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

Furthermore, irrespective of the method of enforcement, the mortgagee must always notify the mortgagor in writing of the commencement of mortgage enforcement. In this notice the mortgagee shall specify the method which will be used to enforce the claim. The mortgagee cannot proceed with the enforcement of the mortgage prior to the day falling 30 days from the delivery of such notice, unless such mortgage secures consumer loan for housing purposes, in which case the standstill period extends to six months. Due delivery of the written notice has significant effects on the mortgagor's dispositional rights as the mortgagor may not, from the moment when the mortgagor receives the written notice, dispose of the real property without the mortgagee's consent. Disposition made without such consent might be void; however, a breach of this prohibition does not affect the validity of a purchase agreement entered into in the ordinary course of business, unless the purchaser must have known about the commencement of enforcement.

The information relating to the changes introduced by the Czech Civil Code are without prejudice to, and should be read in conjunction with the section headed "*The Issuer and the International Cover Pool may be exposed to substantial foreign exchange, interest and other risks related to any issuance of Mortgage Covered Bonds; such risks may only be effectively hedged against for the sole benefit of the International Cover Pool and Mortgage Covered Bondholders under the currently effective Czech law applicable to Czech Mortgage Covered Bonds upon the fulfilment certain requirements in respect of the hedging*" of this Base Prospectus.

If the borrower under a Mortgage Loan is declared insolvent and the Issuer duly registers its claim in the insolvency proceedings, the Issuer as a mortgage bank (or as the mortgagee) will qualify as a secured creditor. However, the position of the Issuer as a secured creditor can be challenged in the insolvency proceedings. Following such a challenge filed by an Insolvency Administrator or another creditor, the Issuer would have to file an action with the insolvency court demanding that the receivable arising from the Mortgage Loan be recognised as a secured receivable. Should the Issuer be recognised as a secured creditor, it would be entitled to have its claim satisfied from the borrower's assets that are subject to a first ranking security created in favour of the Issuer at any time after the decision on resolution of the borrower's insolvency by liquidation of the borrower's assets (in Czech, *konkurs*). Secured creditors are, after deduction of costs of administration (up to 4% of liquidation proceeds from the relevant asset) and liquidation (up to 5% of liquidation proceeds from the relevant asset) and remuneration of the Insolvency Administrator, satisfied from the proceeds of the liquidation of that asset in the order in which the legal grounds of their entitlement to such satisfaction from that particular asset arose. The priority of a statutory lien is determined on the basis of the date when it was inscribed into the Czech Real Property Register.

The Mortgage Credit Directive and the Czech Consumer Credit Act

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

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

The Czech Consumer Credit Act stipulates that customers are entitled to fully or partially prepay a consumer loan (including a mortgage loan) at any time before its due date. The customer can be charged only the costs reasonably incurred by the mortgage bank in connection with the prepayment. However, the mortgage bank cannot claim the costs it incurred in case of: (a) a prepayment made within three months after the mortgage bank informed the customer of a new interest rate applicable to the loan; or (b) a prepayment made in connection with a death, long-term illness or disability of the customer or his spouse or partner, which materially impaired the customer's ability to repay the loan; or (c) a partial prepayment of no more than 25% of the loan amount, provided that the repayment was made during a month preceding an anniversary of the loan agreement. If the mortgage loan was prepaid in connection with the sale of the asset securing the loan, the mortgage bank can claim the costs not exceeding 1% of the prepaid amount and no more than CZK50,000, provided that the loan agreement was entered into at least 24 months prior to the prepayment date.

The CNB Recommendation

On 8 July 2020, the CNB published an updated non-binding recommendation regarding the retail mortgage risk management (the **Recommendation 07/2020**), which replaced the previous recommendation published on 1 April 2020.

The Recommendation 07/2020 contains a recommended 90% LTV limit for retail loans secured by real property. The Recommendation 07/2020 further uses the concept of reference volume for retail loans secured by residential property which is one-half of the sum of all retail loans secured by residential property provided in the previous two quarters or, for consumer credit not secured by residential property, one-half of the sum of consumer credit not secured by residential property provided in the previous two quarters to clients who already have a retail loan secured by residential property. The Recommendation 07/2020 covers banks and credit unions providing retail mortgage loans as well as all providers granting consumer loans to customers who have already entered into a retail mortgage loan agreement (the **Providers**). However, there are new rules under which the applicability of certain paragraphs of the Recommendation 07/2020 may be transferred to the group level, provided that: (i) the respective Providers included in such group would notify the CNB of this procedure; (ii) the CNB supervises the Providers included in the group; (iii) such Providers are either controlling and controlled entities or controlled by the same controlling entity; and (iv) a Provider responsible for collective compliance with the Recommendation 07/2020 has been appointed on behalf of the group. If these conditions are fulfilled, the Providers may set an internal limit for the admissible exemptions of the limit stating, that the new retail loans provided in the relevant calendar quarter secured by residential property with an LTV exceeding 90% shall not exceed 5% of the reference volume of retail loans secured by residential property or the reference volume of retail loans not secured by residential property, provided that the internal limits should under no circumstances exceed the recommended limits by more than one-third for the individual Providers included in the group.

The debt-to-income (**DTI**) ratio and the debt service-to-income (**DSTI**) ratio shall be set by each Provider pursuant to its internal criteria, whereas the Providers should particularly prudently assess the loan applications of clients whose DTI ratio exceeds eight and DSTI ratio exceeds 40%.

The Recommendation 07/2020 also discourages the Providers from bypassing the LTV ratio by providing their customers with parallel secured or unsecured financing. The Providers were also encouraged to proceed prudently when appraising mortgaged asset and take into account their potential overvaluation.

Pursuant to the Recommendation 07/2020, mortgage loans should not be provided for a period exceeding the expected economic activity of the borrower and, in principle, they should not be provided for a period exceeding 30 years and for a period exceeding eight years in case of unsecured mortgage loans (except for the mortgage loans provided under the construction savings (in Czech, *stavební spoření*) scheme).

The Providers were also encouraged to proceed prudently when appraising mortgaged assets in connection with refinancing of existing secured mortgage loans, especially when the loan principal amount is to be increased by more than 10% or CZK200,000.

The Providers were also encouraged to proceed prudently when co-operating with mortgage brokers, particularly having regard to a potential conflict between their interests.

As of the date of this Base Prospectus, the Issuer complies with the Recommendation 07/2020.

Recent Czech Regulatory Developments Relating to the Recent Covid-19 Outbreak

On 17 April 2020, the Covid-19 Loan Moratorium Act entered into force, leading to temporary changes in credit facilities and similar products irrespective of the law governing these contractual relationships.

Under the Covid-19 Loan Moratorium Act, a borrower (either a consumer or an entrepreneur) of (i) a loan in relation which a loan agreement has been signed and which has been utilised before 26 March 2020 or (ii) a loan in relation to which a loan agreement has been signed before 26 March 2020, but the loan has not been utilised, if the loan is, *inter alia*, secured by mortgage of real estate or used for real estate development, had the option to apply for the Moratorium. If the borrower notified the lender of its intention to take advantage of the Moratorium, the Moratorium was going to run from the first day of the following calendar month after the notice date until (i) 31 October 2020 or (ii) 31 July 2020, provided that the borrower notified its intention to use such a shortened Moratorium period.

In particular, this means that: (a) the moment of fulfilment of monetary debts owed by the lender to the borrower under the loan agreement was postponed by the duration of the Moratorium; and (b) the duration of the security securing the loan was extended by the duration of the Moratorium.

During the Moratorium, both principal and interest payments were deferred for loans provided to natural persons, whereas only principal payments were deferred for loans provided to legal persons.

Other legislative measures such as the proposed temporary changes to Czech insolvency law, which are part of the Covid-19 Insolvency Act, cause the debtor's obligation to file for insolvency (provided that the statutory conditions are met). This suspension shall last for the duration of such extraordinary measures and a further period of six months thereafter, although not beyond 30 June 2021, the date having been pushed from the original date of 31 December 2020 by the Covid-19 Insolvency Amendment Act. In addition, debtors were to be temporarily protected from insolvency petitions filed by their creditors as any such petitions filed until the end of August 2020 were to be disregarded and no entries of commencement of insolvency proceedings were to be made in the online Insolvency Register. Creditors needed to file a new insolvency petition after the end of August 2020 to effectively commence insolvency proceedings.

Under the Czech Insolvency Act, as amended, debtors with their centre of main interest in the Czech Republic are entitled to file for an Insolvency Moratorium until 30 June 2021 assuming that the debtor was not insolvent as of 5 October 2020 and has not filed for the Insolvency Moratorium previously. The Czech Insolvency Act as amended by the Covid-19 Insolvency Amendment Act also stipulates that if an Insolvency Moratorium in relation to a particular debtor was declared before the end of August 2020, the condition requiring the approval of creditors for an extension of the Insolvency Moratorium will not apply and the court may extend the duration of the Insolvency Moratorium by no more than an additional three months solely upon the debtor's request.

The effects of the Insolvency Moratorium include the following: (i) the debtor could be sued although judgments could not be enforced against it; (ii) it would not be possible to create new security over the debtor's assets or to enforce existing security; (iii) the court will not be in a position, for the period of the Insolvency Moratorium, to

declare the debtor insolvent even after a creditor files an insolvency petition; (iv) set-offs would generally be permitted; (v) the debtor should generally refrain from undertaking any material transactions, unless they are within the ordinary course of the debtor's business; (vi) counterparties would not be entitled to terminate or refuse to perform certain essential pre-existing contracts as long as the debtor continues to pay at least its claims arising during the moratorium; and (vii) although the Insolvency Moratorium itself does not provide the debtor with any payment holiday, the debtor could nevertheless prioritise payment of debts incurred during the Insolvency Moratorium.

Further, the Covid-19 Insolvency Act introduces certain exceptions and specific provisions (including application for relief, limitations in respect of enforcement of judicial decisions and occurrence of the debtor's default) that may potentially lead to prolongation of the debt enforcement proceedings as well as the process of enforcement of security interests.

General Conditions of the Market

Main Competitors

More than a dozen banks currently operate on the mortgage market in the Czech Republic. The main mortgage lenders, in addition to the Issuer, are Česká spořitelna, a.s., Československá obchodní banka, a.s., Raiffeisenbank a.s., UniCredit Bank Czech Republic and Slovakia, a.s., Hypoteční banka, a.s. and MONETA Money Bank, a.s.

Housing market

According to the March 2011 census, there were about 4,375 million dwellings in the Czech Republic and there is no overall housing deficit. Imbalances result mainly from the unequal distribution of the housing stock. On the other hand, the housing stock is largely neglected and the total required cost for its maintenance and repair is estimated in the order of tens of billions of Czech Korunas.

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%
Co-operative sector:	20%
Owner-occupied housing:	49%

Real Property under the Czech Civil Code

The Czech Civil Code effective as of 1 January 2014 introduced a different legal concept of real property in the Czech Republic, which has also certain implications for existing mortgages.

The Czech Civil Code has reintroduced the *superficies solo cedit* principle into Czech private law. In accordance with this principle, a building is considered as part of a plot of land upon which it is erected. Consequently, the building on its own is not capable of being sold or mortgaged. This might raise the question of whether a mortgage over a plot of land entered into prior to 1 January 2014 automatically extends to the building erected on such a plot of land (and *vice versa*) on the day on which the Czech Civil Code became effective. The Czech Civil Code provides certain exceptions to the *superficies solo cedit* principle, including (without limitation) the situation in which either a plot of land or a building erected on it is mortgaged in favour of a third party and the nature of this mortgage is irreconcilable with the plot of land and the building being legally treated as one legal object. As a result, in most situations where a plot of land or a building is subject to a mortgage, the plot of land and building will continue to exist as separate legal objects and an encumbrance weighting on one of these assets will not extend to the other.

Secondly, the Czech Civil Code established a pre-emption right over buildings in favour of owners of the underlying land and *vice versa*, provided that the relevant plot of land and the relevant building are not treated as a single legal object. The statutory pre-emption right must be respected in case of any disposal with the respective building or land. Therefore, if a mortgagee wishes to sell Mortgaged Property encumbered by such a pre-emption right, the building or plot of land should, in the first instance, be offered to the beneficiary of the

pre-emption right. Even if not exercised, the pre-emption right survives the sale of the real property and continues to exist.

State Housing Assistance Programmes

The state of the Czech Republic is no longer acting as an active investor on the housing market and does not own housing stock. However, at the same time, it respects the particularities of the housing market, which necessitate a certain degree of state intervention. Financial intervention by the state is concentrated into several basic areas such as promoting the construction of rental housing and technical infrastructure, support for the repair of housing stock and the provision of state loans for repairs, modernisation and expansion of the housing stock. The implementation of the above-mentioned support for housing is carried out primarily through the Ministry for Regional Development and the State Investment Support Fund (in Czech, *Státní fond podpory investic*).

The following programmes for the support of housing and for the repair of housing stock are in effect as of the date of this Base Prospectus:

Support in the area of housing financed by the Ministry for Regional Development:

- Support for housing in areas with strategic industrial zones which aims to support the development of rental housing in the areas affected by rapid growth of job opportunities by increasing the number of rental dwellings for permanent housing.
- Support for building and creating new supported dwellings which would be used in connection with provision of the social services to persons who are economically inactive due to either their age or their special needs arising from their unfavourable social situation.
- Support for the adaptation of existing residential buildings with the aim of improving their accessibility through the incorporation of basic access features at entrances and the installation of elevators where technically possible.

Support in the area of housing financed by the State Investment Support Fund³¹:

- Loans for the purpose of construction and creation of social and affordable apartments and social, affordable and combined houses.
- Loans for the purpose of construction of rental apartments and houses or for the reconstruction of buildings provided to a specified group of people, persons under 30 years of age and persons whose homes were destroyed by a natural disaster.
- Loans for the purpose of purchase and modernisation of housing for persons under 36 years of age who are taking care of a child of up to 15 years of age.
- Loans for the purpose of repairs and modernisation of residential buildings comprising at least four apartments called "Panel 2013+".
- Loans for the purpose of modernisation and reconstruction of residential buildings which aims to increase their energy efficiency and related performance.
- Aid related to natural disasters – low-interest loans and grants for amelioration of the consequences of natural disasters.

Additionally, there are also subsidies in place financed by the Ministry of the Environment through the programme "*Nová zelená úsporám*" (New Green for Savings), a grant programme funded by the sale of emission allowances for the support of renewable resources and for energy saving.

³¹ <https://www.sfpi.cz/>

The Business Strategy of the Issuer

As of 30 September 2020, in lending to individuals, the overall volume of housing loans grew by 7.8% from the year earlier. Within this total, the portfolio of mortgage loans provided by the Issuer to individual clients expanded by 6.7% to CZK241.9 billion, and Modrá pyramida's loan portfolio grew by 12.5% to CZK61.7 billion.

In connection with overall expansion of mortgage market and increasing needs of funding of housing in the Czech Republic, the Issuer expects that there should be strong preconditions for its business activities in the field of mortgage banking. The Issuer's strategy is to provide mortgage loans within a complete portfolio of products.

Types of Mortgages Provided

The Issuer provides two different types of mortgages: (i) a mortgage loan (the **Classic Mortgage**); and (ii) a home equity loan/secured loan (the **American Mortgage**). Furthermore, the Issuer provides a pre-mortgage loan.

The main difference between a Classic Mortgage and an American Mortgage is the possibility of using the proceeds raised therefrom. Proceeds raised from the Classic Mortgage can only be used for housing-related purposes, typically to buy a house or an apartment, renovate a home or build a new house (with a *de minimis* exception that applies for proceeds of up to CZK800,000, in which case the purpose restriction does not necessarily apply). Proceeds raised from the American Mortgage can be used for any purpose.

The Classic Mortgage, given its limited purposes, generally offers a lower interest rate than the American Mortgage, and in turn the American Mortgage generally offers a lower interest rate than other personal loans that are not secured by real estate.

The Classic Mortgage is provided for up to 90% LTV with a maturity of up to 30 years. The American Mortgage is provided for up to 70% LTV with a maturity of up to 20 years.

Lending Business Rules

The Issuer has a set of rules that govern the policy of credit exposure and the activities of individual departments in the Issuer's management. At the same time, procedures determining the implementation of the individual operations throughout the entire lending process, have been approved. The Issuer's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

Credit Risk Management Tools

The Issuer's client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative viewpoints using advanced scoring and rating models along with individual approval by competent risk or business managers. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until internal credit limits for the client and transaction have been duly established first. The Issuer has a strong monitoring process for clients financed and exposures granted that allows for triggering corrective actions in case deterioration is evidenced. All Issuer's scoring, rating, and Basel models are back-tested at least annually and adjusted whenever needed.

The Issuer uses an automated system for detecting credit frauds and for co-ordinated reactions to credit fraud attacks. The system is fully integrated into the Issuer's main applications. Anti-fraud tools and processes are continuously adjusted according to the market situation.

The Issuer allocates its receivables arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 comprises default (non-performing) receivables. The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

Due to its expected growing dependency on models, the Issuer established a local expert team (model risk management) to focus on model risk. It provides not only mandated regulatory review of Basel models but also

a control mechanism for the Issuer's scoring and granting models. With the growing automation, the team will provide support and control for all kinds of the Issuer's models.

The Issuer closely monitors changes in the legal environment, analyses their impacts in the area of receivables collection, and ensures their proper reflection in the Issuer's processes. In 2019, the inflow of clients into recovery has been relatively stable at rather low levels, influenced especially by good macroeconomic conditions and clients' financial situations. The Issuer continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured and secured retail portfolios to selected qualified investors.

The Issuer's credit concentration risk is actively managed as a part of overall credit risk management and utilising standard tools. The Issuer maintains its objective of taking on no excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors, and collateral providers. A system of internal limits (based on exposure and counterparty rating) is established, so that the Issuer is able to thoroughly monitor concentration risk and comply with the regulatory limits set in respect to concentration risk.

Securing of Loans

The Issuer uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the risk management arm independently of the Issuer's business lines.

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 or rights to build a building within the meaning of the Czech Civil Code can be located on the land of the mortgagor or on the land belonging to a third party, if belonging to a third party, the land has to be pledged to the Issuer as well.

The Mortgaged Property, which the Issuer accepts, is valued in accordance with the Issuer's own methodology.

Valuation of Properties

The Issuer ascertains the Mortgaged Property Value in accordance with applicable law. The valuation and monitoring of real estate collaterals accepted by the Issuer as security for corporate and retail loan exposures are delegated to a dedicated independent unit. This unit is a part of the risk management arm and co-operates with a broad group of external valuation experts. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sales process, historical experience of the KB Group, as well bankruptcy/insolvency rules, and other applicable law.

The Issuer continuously monitors both residential and commercial real estate markets and regularly re-values the real estate collaterals. The Issuer utilises appropriate techniques (individual or statistical) for this purpose in order to react adequately to market developments. The Issuer uses statistical monitoring of residential real estate market developments and applies an adjustment for pertinent residential real estate appraised values if residential real estate market values significantly decrease in relevant regions and periods. Moreover, the Issuer monitors the development of commercial rents and performs individual revaluation of pertinent commercial rental real estates if rents significantly decrease in relevant regions and commercial real estate segments. In addition, real estates securing exposures exceeding EUR3 million are individually revalued every three years.

Starting from November 2019, the Issuer has been using online statistical real estate collateral evaluation for a part of the low-risk production of mortgages as one of the steps in digitalising the mortgage loan granting process. The evaluation is provided by the company Lux Property Index, s.r.o., which is contractually authorised to use data from the database of expert prices and attributes of residential real estates into which all leading mortgage providers on the Czech market contribute.

The Issuer uses an online connection to the Czech Real Property Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estate and for regular monitoring of selected events that may put the Issuer's pledge right to real estate at risk.

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 a mortgage loan are the creation or application for registration of a mortgage over the real property, insurance on a building (if relevant) and the full restriction of transferability of the real property. Mortgage loans for construction, reconstruction, modernisation or repair are typically utilised gradually. 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 three months (for the Classic Mortgage), one, to ten or fifteen years (for both the Classic Mortgage and the American Mortgage). 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 may be accelerated on the date of the expiration of the current interest period, unless the parties agree otherwise. The client is obliged to repay the mortgage loan in the form of monthly annuity payments. The Issuer has the right to collect payments from a client's current account.

Pursuant to the Czech Consumer Credit Act, the client is entitled to the early repayment of the loan if such loan was concluded or refinanced on or after 1 December 2016. In such case, the Issuer is entitled to compensation for the costs actually incurred in connection with the early repayment up to the limit pursuant to the Czech Consumer Credit Act (see The Mortgage Credit Directive and the Czech Consumer Credit Act above).

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 or applicable laws (in each case, subject to limits of applicable laws). In accordance with the loan contract, the Issuer may take additional measures to protect its interests, especially to rescind from the contract or terminate the utilisation of the loan, require its early repayment, or enforce security provided.

TAXATION CONSIDERATIONS

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 Mortgage Covered Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules. The description also assumes that the holders of the Mortgage Covered Bonds will be the beneficial owners of any income received in respect of them, which especially excludes any person or entity that would receive income on the Mortgage Covered Bonds when acting as a proxy, agent, depositary or any similar position acting on the account of another person or entity.

The description below is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Base Prospectus, and as they apply to the Mortgage Covered Bonds issued as of the date of this Base Prospectus and before 1 January 2022. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to the holders of the Mortgage Covered Bonds.

Prospective purchasers of any of the Mortgage 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 of the Czech Republic, of a purchase of the Mortgage Covered Bonds including, without limitation, the consequences of receipt of interest and sale or redemption of the Mortgage Covered Bonds, including pending or proposed changes in applicable tax laws.

Taxation in the Czech Republic

2021 Income Taxes Amendment

In June 2020, the Czech government proposed a significant amendment to Czech income taxes act (the **Proposal**). The Proposal passed through the third reading in the Chamber of Deputies on 20 November 2020 and went to the Senate. The Senate debated the amended Proposal on 10 December 2020 and returned it with the Senate-approved amendments to the Chamber of Deputies for a new vote. The Chamber of Deputies held the vote on 22 December 2020 and adopted it. On the same day, the Parliament-approved bill (the **2021 Amendment**) went to the president of the Czech Republic for his signature.

The president has not signed the 2021 Amendment and sent it back to the Chamber of Deputies along with a reasoned letter stating grounds for non-signing. The 2021 Amendment was promulgated in the Collection of Laws of the Czech Republic on 31 December 2020 and, accordingly, officially brought into law. As a result of this, the 2021 Amendment should become effective as of 1 January 2021. However, there are doubts whether the presidential action does not, in fact, represent an exercise of the presidential veto power, in which case the Chamber of Deputies would need to hold a new vote on upholding the 2021 Amendment for it to become a law. Although in response to those doubts, the president sent another letter to the Chamber of Deputies, stating that the first letter did not constitute a presidential veto, there is a risk that the 2021 Amendment can be rendered null and void if challenged in front of the Czech Constitutional Court. That said, the description below is based on the 2021 Amendment.

The 2021 Amendment significantly changes the tax treatment of bonds, including the abolishment of exemption from withholding tax in respect of interest payments to Non-Czech Holders and to Czech Holders who are individuals (each as defined below) on bonds issued by Czech-resident issuers outside of the Czech Republic. However, it also comprises a grandfathering provision which ensures that this exemption will apply to such bonds if they are issued before 1 January 2022. Specifically, with respect to the Mortgage Covered Bonds, it implies that interest income on the Mortgage Covered Bonds issued prior to 1 January 2022 should still qualify for the existing exemption from withholding tax as described further below.

For the sake of completeness, please note that the Mortgage Covered Bonds issued as of 1 January 2022 would be subject to the following tax treatment:

- Interest in the form of a coupon may be subject to a withholding tax depending on the tax residency of the bondholders and/or their standing as individuals or taxpayers other than individuals; and

- Interest in the form of a discount would not be subject to a withholding tax and the bondholders would generally need to self assess the tax in their tax returns on the taxable amount corresponding to the difference between the amount received from the issuer (generally the face value) and the acquisition value (with bondholders who keep accounting books declaring the interest income on an accrual basis). Furthermore, in case of bondholders who are tax residents outside of the European Union or the EEA, the issuer would be obliged to withhold an amount of 1% on a gross basis from the amount paid (i.e. including the principal) representing a tax security.

Withholding tax on Interest

All interest payments to be made by the Issuer under the Mortgage Covered Bonds may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

Notwithstanding the above, the Czech tax law is not straightforward with respect to tax treatment in situations when the Mortgage Covered Bonds are bought back by the Issuer. There is a risk that the purchase price payable by the Issuer for the Mortgage Covered Bonds, where the seller of the Mortgage 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% withholding tax.

Non-Czech Holders: Holding and Sale

Interest income on the Mortgage 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 to as the **Non-Czech Holder**) will be exempt from taxation in the Czech Republic.

Income realised by Non-Czech Holders, not holding the Mortgage Covered Bonds through a permanent establishment in the Czech Republic, from the sale of the Mortgage Covered Bonds to other Non-Czech Holders, not purchasing the Mortgage 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 Mortgage Covered Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Mortgage 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 Mortgage 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 (a) 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 from the sale of the Mortgage Covered Bonds is conferred exclusively to the former country, (b) is the beneficial owner of that income, (c) is entitled to enjoy the benefits of that double taxation treaty and (d) 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 Mortgage Covered Bonds for more than three years prior to their sale where the Mortgage Covered Bonds have not been held in connection with the business activities of the Non-Czech Holder or, if so, (ii) the Mortgage 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 Mortgage Covered Bonds realised by an individual is exempt, if the annual (worldwide) gross income (i.e. not the capital gains) of that individual from the sale of securities (including the Mortgage Covered Bonds) does not exceed the amount of CZK 100,000.

Income realised by Non-Czech Holders holding the Mortgage Covered Bonds through a permanent establishment in the Czech Republic from the sale of the Mortgage 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 Mortgage Covered Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Mortgage Covered Bonds is subject to taxation

in the Czech Republic (as discussed in the above 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% on a gross basis representing tax security, unless the Non-Czech Holder selling the Mortgage Covered Bonds is for tax purposes a resident of a member state of the European Union or the EEA or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability as declared in the Czech tax return of the Non-Czech Holder selling the Mortgage Covered Bonds. If no Czech tax return is filed, the tax authority can deem the tax security withheld to be tax assessed on and paid by the Non-Czech Holder selling the Mortgage Covered Bonds.

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 the analysis 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 Mortgage Covered Bonds or through the execution, performance, delivery and/or enforcement of the Mortgage Covered Bonds.

Czech Holders: Holding and Sale

Interest income on the Mortgage Covered Bonds held by Czech Holders is subject to Czech corporate or personal income tax, as applicable, at a flat rate of 19% (there are special rates of 5% for selected investment funds and 0% for pension funds and selected entities of pension insurance) or a progressive rate of 15% and 23% depending on the individual's applicable tax bracket (the threshold for higher bracket is 48 times the average wage which amounts to CZK 1,701,168 in 2021), respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the tax reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (i.e. most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognise the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general tax base for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and who hold the Mortgage Covered Bonds for the purposes of trading may be, under certain conditions, required to revalue the Mortgage Covered Bonds to fair value for accounting purposes, whereby the unrealised gains or losses would be accounted for as revenues or costs, respectively. Such revenues are generally taxable and the corresponding costs are generally tax-deductible for Czech tax purposes.

Any gains upon the sale of the Mortgage Covered Bonds will generally be taxable, unless exempt from tax, and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax-deductible. By contrast, a loss realised by Czech Holders who are individuals other than those mentioned in the preceding sentence is generally non-deductible, except where such loss is compensated by taxable gains on sales of other securities and the income from the sale of the Mortgage Covered Bonds is not exempt from tax.

In the case of Czech Holders who are individuals, any gain derived from the sale of the Mortgage Covered Bonds is exempt from Czech personal income tax if (i) the individual has held the Mortgage Covered Bonds for more than three years prior to their sale and the Mortgage Covered Bonds have not been held in connection with the business activities of the Czech Holder or, if so, (ii) the Mortgage 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 Mortgage Covered Bonds realised by an individual is tax-exempt, if the annual (worldwide) gross income (i.e. not the capital gains) of that individual from the sale of securities (including the Mortgage Covered Bonds) does not exceed the amount of CZK100,000.

If income realised by a Czech Holder from the sale of the Mortgage Covered Bonds is not tax-exempt (as discussed in the above paragraphs), tax rates on the capital gain, calculated generally as a difference between the sale price and acquisition price, apply as follows:

- individual Czech Holders not having held the Mortgage Covered Bonds in connection with their business activities are subject to tax at a progressive rate of 15% and 23% depending on his/her

applicable tax bracket (the threshold for higher bracket is 48 times the average wage which amounts to CZK 1,701,168 in 2021);

- individual Czech Holders having held and selling the Mortgage Covered Bonds in connection with their business activities are, in addition to the above taxation, also subject to social security and health insurance contributions; and
- Czech Holders other than individuals are subject to tax at 19% (there are special rates of 5% for selected investment funds and 0% for pension funds and selected entities of pension insurance).

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 the analysis above.

Reporting Obligation

A holder of a Mortgage Covered Bond (a Czech Holder or a Non-Czech Holder) who is an individual may be obliged to report to the Czech tax authority any income earned in connection with the Mortgage Covered Bonds if such income is exempt from taxation in the Czech Republic and exceeds, in each individual case, CZK5 million (the **Reporting Obligation**). Non-compliance with the Reporting Obligation may be penalised by a sanction of up to 15% of the gross amount of the tax exempt income.

Value Added Tax

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

Other Taxes or Duties

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

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Czech Republic) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Mortgage Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Mortgage Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Mortgage Covered Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Mortgage Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Mortgage Covered Bonds (as described under Terms and Conditions of the Mortgage Covered Bonds – Further Issues) that are not distinguishable from previously issued Mortgage Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Mortgage Covered Bonds, including the Mortgage Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders of the Mortgage Covered Bonds should consult their own tax advisers

regarding how these rules may apply to their investment in the Mortgage Covered Bonds. In the event that any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Mortgage Covered Bonds, no person will be required to pay any additional amounts as a result of the withholding.

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, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (together, the **participating Member States**), and Estonia. However, Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Mortgage Covered Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to 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 Mortgage Covered Bonds where at least one party is a financial institution, and at least one party is, or is deemed to be, established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any tax is uncertain. Additional EU Member States may decide to participate.

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

SUBSCRIPTION AND SALE

The Dealers have, in the Programme Agreement dated 4 January 2021 (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 Mortgage Covered Bonds. Any such further agreement will, *inter alia*, make provision for the conditions of the relevant Mortgage Covered Bonds, the price at which such Mortgage 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 Mortgage Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Mortgage Covered Bonds 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 Mortgage Covered Bonds 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 Mortgage Covered Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all Mortgage Covered Bonds of the Tranche of which such Mortgage 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 Mortgage Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Mortgage 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 Mortgage Covered Bonds, an offer or sale of such Mortgage 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.

European Economic Area

In relation to each Member State of the EEA, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Mortgage 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 Member State except that it may, make an offer of such Mortgage Covered Bonds to the public in that Member State:

- (a) if the Final Terms in relation to the Mortgage Covered Bonds specify that an offer of those Mortgage Covered Bonds may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a **Non-exempt Offer**), following the date of publication of a base prospectus in relation to such Mortgage Covered Bonds, which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such base prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in

the period beginning and ending on the dates specified in such base prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Mortgage Covered Bonds referred to in paragraphs (b) to (d) above shall require the Issuer or any Dealer to publish a base prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a base prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Mortgage Covered Bonds to the public** in relation to any Mortgage Covered Bonds in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Mortgage Covered Bonds.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Mortgage Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Mortgage Covered Bonds.

United Kingdom

Prohibition of sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Mortgage Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or
 - (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in

point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

- (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Mortgage Covered Bonds.

Other regulatory restrictions

Each Dealer has represented, warranted and agreed that:

- (a) *No deposit-taking*: in relation to any Mortgage Covered Bonds having 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 Mortgage Covered Bonds other than to persons: (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or (B) 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 Mortgage Covered Bonds would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 Mortgage Covered Bonds in circumstances in which section 21(1) of the FSMA does not, or, in the case of the Issuer would not, if it was not an authorised person, apply to the Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Mortgage Covered Bonds in, *from* or otherwise involving the UK.

Japan

The Mortgage 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 Mortgage 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.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Mortgage Covered Bonds or caused the Mortgage Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Mortgage Covered Bonds or cause the Mortgage Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Mortgage Covered Bonds, whether directly or indirectly,

to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Mortgage Covered Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Mortgage Covered Bonds pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Dealer has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Mortgage Covered Bonds (except for the Mortgage Covered Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the **SFO**) other than:
 - (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or
 - (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Mortgage Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Mortgage Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Mortgage Covered Bonds described herein. The Mortgage Covered Bonds may not be publicly offered, directly or

indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (the **FinSA**) and no application has or will be made to admit the Mortgage Covered Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Mortgage Covered Bonds constitutes a Prospectus pursuant to the FinSA, and neither this Base Prospectus nor any other offering or marketing material relating to the Mortgage Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

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 Mortgage 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 Mortgage 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 nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Mortgage Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme has been duly authorised by resolution of the Board of Directors of the Issuer dated 23 November 2020.

Approval of the Base Prospectus, Listing and Admission to Trading of Mortgage Covered Bonds

Application has been made to the CSSF to approve this document as a base prospectus in accordance with the Prospectus Regulation. Application may be made to the Luxembourg Stock Exchange for Mortgage 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 MiFID II and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR), respectively.

Mortgage 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 Mortgage 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, among others, any applicable requirements for notifications of competent authorities and other requirements set out in the Prospectus Regulation.

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

The Mortgage 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 Mortgage 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 and save that the minimum denomination of each Mortgage Covered Bond will be EUR100,000 or, where it is a Mortgage Covered Bond to be admitted to trading only on a regulated market, or a specific segment of a regulated market, to which only qualified investors (as defined in the Prospectus Regulation) have access, EUR1,000 (or, if the Mortgage 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 and, in the case of documents listed under paragraphs (a), (b), (c) and (e) also on the Issuer's website www.kb.cz, where they will remain publicly available in electronic form for at least ten years after their publication on the relevant websites:

- (a) the Founding Deed and Articles of Association of the Issuer (with an English translation thereof);
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2019 and 31 December 2018 (drawn up in English or 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 interim consolidated financial statements of the Issuer for the nine months ended 30 September 2020;
- (d) the Programme Agreement, the Agency Agreement and the Asset Monitor Agreement;
- (e) a copy of this Base Prospectus; and
- (f) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Mortgage 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 Mortgage Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Mortgage 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, 1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, 1855 Luxembourg.

Notification to the Czech National Bank

Pursuant to Section 8a of the Czech Capital Markets Supervision Act, the issuance of each Series and/or Tranche of the Mortgage Covered Bonds must be notified to the Czech National Bank no later than on the date of issue of the relevant Mortgage 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 Mortgage Covered Bonds.

Conditions for Determining Price

The price and amount of Mortgage 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.

No Significant or Material Adverse Change

There has been no significant change in the financial performance since 30 September 2020 or the financial position of the Issuer or the KB Group since 30 September 2020. There has been no material adverse change in the prospects of the Issuer since 31 December 2019, except for Covid-19-related impacts affecting the Czech banking sector as a whole, which are mainly represented by an increased cost of risk and lower net interest income caused by a decrease in market interest rates.

Litigation

Neither the Issuer nor any other member of the KB 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 had in such a period a significant effect on the financial position or profitability of the Issuer or the KB Group.

Material Contracts

The Issuer has not entered into any contracts (excluding contracts entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which the Issuer or another member of the KB 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, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing as of and for each of the two financial years ended on 31 December 2019 and 31 December 2018, are Deloitte Audit s.r.o. (the **Auditor**), members of the Chamber of Auditors of the Czech Republic, registration number 79.

The statutory auditor responsible for the audit of the Issuer's accounts is Ms. Daniela Hynštová, registration number 2235.

The Issuer states that neither the Auditor nor any of its members has any significant interest in the Issuer. In connection with this statement, the Issuer especially took into account the Auditor's potential ownership of securities issued by the Issuer, the Auditor's potential prior participation in any governing bodies of the Issuer, and/or the Auditor's potential affiliation with other entities involved in the Issue. The reports of the auditors of

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

Post-issuance Information

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

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