

BOOKBUILDING AND ALLOCATION POLICY FOR DEBT CAPITAL MARKETS TRANSACTIONS

VERSION 1.0
July 2018

1. General Purpose

This summary policy document serves to describe the principles that Komeční banka, a.s. (herein after referred as “KB”) will follow while allocating new issues in the Czech capital market¹ to illustrate how we can incorporate issuers’ requirements in this process. These guiding principles stem from the Markets in Financial Instruments Directive (“MIFID II”) and related regulations (including the market abuse regulation).

2. Conflicts of Interest

KB maintains effective arrangements to prevent recommendations on placing from being inappropriately influenced by any existing or future relationships. KB maintains effective internal arrangements (rules, procedures, trainings and controls) to prevent or manage conflicts of interests that may arise within the provision of investment services to the issuer and provision of investment services to investors. KB shall not accept any third-party payments or benefits unless such payments or benefits comply with the inducements requirements laid down in relevant EU or Czech regulation. For more information about managing of conflict of interest, please contact your relationship manager.

3. KB Bond & Securitisation Allocation Services

KB Institutional Sales (“Institutional Sales”) is responsible for communication with investors, while KB Corporate Finance (“Origination”) is responsible for the pricing and allocation process and owes a primary duty of care to issuers. It does not have a similar duty of care to investor clients. The Origination owe a primary duty of care to issuers, and they will remain at the issuers’ disposal throughout the process. As is customary in fixed-income benchmark offerings, the price and allocation will be determined by means of a book-building process. This process enables KB, as bookrunner, to build a picture of investor interest and demand for an offering, while also assisting in price determination. Prior to the allocation and pricing, Origination together with Institutional Sales will, subject to the need to manage the risk of the transaction, ensure that the book remains open for a reasonable period of time, i.e. a minimum of 60 minutes for new bond issues, unless otherwise agreed with the issuer. Origination with help of Institutional Sales will maintain open communication with the issuer and will provide regular updates as to the progress of the book-building, including any specific investor’s indication of interest.

4. Communication with Issuers

KB, when acting in a lead capacity, must at all times maintain open communications with the Issuer both prior to and during the offering process. In particular, but not limited to:

- Origination will provide the client with cost transparency;
- Origination will provide clear and detailed explanation of the bookbuilding or allocation process, including pricing protocols and hedging strategies, taking into account the experience of the Issuer.
- Origination with participation of Institutional Sales will agree with the issuer on their interests and objectives in the transaction, including any desired allocation strategy.

Ahead of final allocations, Origination together with Institutional Sales participation will provide the Issuer, either by call or by mail, with details of the book of demand at different price levels. This information may include coverage levels across the book as a whole and price sensitivity across the book. The Issuer will be given the opportunity to discuss the provisional schedule of allocations on an allocation meeting or call (on recorded line). A final allocation schedule of allocations will be provided to the Issuer for approval, taking into account any request or any instructions by the Issuer.

5. Book Building Principles

We seek to build an appropriate range of investors to whom bonds will be allocated in order to achieve reasonable price stability and an orderly aftermarket with sufficient liquidity after the issuance. Allocations must take into consideration compliance with both regulatory obligations and the commercial and legal imperatives of a particular transaction including as set out in the relevant offering memorandum (selling restrictions).

6. Allocation Process

6.1 Allocation Considerations for the Issuer

The issuer of the securities may opt, at an early stage in the book-building process, to provide KB, as bookrunner, with their preferences and requirements regarding certain key aspects of the allocation. This could for instance include:

1. Any preferred geographical jurisdiction on which an issuer would like to focus
2. The type of investors that an issuer would like to favour or allocate in a specific way
3. Any specific investor that an issuer would like to allocate differently than other comparable investors and the reasoning behind this choice

6.2 Allocation Considerations for the bookrunner

As bookrunner, KB would be glad to proceed with allocations solely in accordance with the obligations and imperatives set above, in consultation with any other bookrunner. We will specifically take into account the following key factors and considerations:

1. Type of investor: for example, whether the investor is a hedge fund, mutual fund, tracker or other
2. Anticipated time horizon: whether investors have a long-term or short-term horizon, taking into account that short-term investors are needed to ensure an efficient and liquid market
3. Previous behaviour: for example, investors who have held their allocation for longer periods compared to those investors who have been known to flip their allocation in a way that is inconsistent with their expected investment horizon
4. Historic involvement: whether the investor has invested in the same or similar securities in the past
5. Investor engagement: participation in market soundings, roadshows, or the quality and timeliness of their feedback during the pre-marketing and marketing phase
6. Order characteristics: these may include the size of the order (both in absolute terms and relative to portfolio), price sensitivity expressed by the investor, the timing and timeliness of an order, consistency with the investor's stated investment strategy objectives and the assets managed and the credibility of statements of the investor's intention
7. Whether there is reasonable suspicion that an order could be an order that gives, or is likely to give, false or misleading signals as to the demand for a financial instrument, or attempts to do so

As bookrunner, KB may allow part of an allocation to be made to "in-house accounts" or affiliated entities. However, transactions of this type are subject to limitations, including potential legal and regulatory requirements for advance prospectus and/or screen disclosure (subject to legal and/or compliance clearance) concerning in-house allocations and misleading statements.

7. Communicating with Investors, roadshows and market sounding

KB will endeavour to communicate roadshow group invitations and one to one slot availability to all relevant investors in its coverage universe (selling restrictions permitting). The list of investors to be **selected** for one to one slots will be agreed by the Origination and the issuer.

From time to time, Institutional Sales and Origination may need to communicate with investors, or certain investors may request information about a book-building and allocation process that KB is managing. Institutional Sales will observe a standard of equality of information between investors. In particular, Institutional Sales should not communicate information that might be deemed to provide an advantage to the recipient unless that information has been made publicly or readily available.

Final allocation data will be considered by our staff at minimum as confidential information² and in certain instances may even qualify as inside information³. The data in its collated state is "Private Side" data and is confidentially held by our Institutional Sales and Origination officers.

Once the allocation for the transaction has been approved by the Issuer and any other joint-bookrunner, the final allocations and, if appropriate and agreed between the Issuer and the joint-bookrunners, the level of coverage of the transaction, will be communicated to the investors in a coordinated manner. Such communication, both within KB and towards third parties, will pay careful attention to (i) the confidentiality of the information and the sharing of such information on a "need to know" basis only and (ii) make sure it does not constitute price sensitive information and (iii) that no conflict exists.

8. KB Staff Requirements

Our staff are in addition to this policy subject to requirements in respect of, but not limited to, Market Abuse, Insider Dealing, Market manipulation and other relevant rules and regulations as imposed per jurisdictions and internally within KB.

¹ Excludes issues under Rule 144a

² i.e., will only be shared on a need to know basis within KB, will be flagged as confidential in a clear manner and will be handled with care (e.g., any extensive review will be conducted in a secure area and the information will not be referred to during internal meetings other than in general terms)

³ KB has implemented systems, controls, procedures, and policies to manage the flow of inside information internally. Institutional Sales and Origination officers must observe all rules applicable to confidential information in addition to the use of code names, password protected files, and the use of appropriate email categorisation when sending inside information