

CZECH BANKING ASSOCIATION

AGREEMENT ON CREATION OF SECURITY INTEREST AND MARGIN MAINTENANCE IN THE FORM OF INITIAL MARGIN (“PLEDGE AGREEMENT (IM)”)

dated as of [●]
entered into in relation to

THE MASTER AGREEMENT FOR FINANCIAL TRANSACTIONS (“MASTER AGREEMENT”)

dated as of [●]
between

[PARTY A]
(with its registered office at [●],
identification number [●])

(“Party A”)

[PARTY B]
(with its registered office at [●],
identification number [●])

(“Party B”)

Edition 10/2018

This Pledge Agreement (IM) is a Guarantee in the sense of the Master Agreement; therefore it is subject to the parts of the Master Agreement that refer to the Guarantee. The Master Agreement is composed of the General Provisions, the Special Provisions and Annexes and Supplements. Unless expressly defined in this Pledge Agreement (IM), capitalised terms have the same meaning as in the General Provisions, Special Provisions or Annexes.

The parties may supplement or replace the provisions of this Pledge Agreement (IM) in the Special Provisions.

IN THIS RESPECT IT IS AGREED as follows:

1. Interpretation

1.1 Definitions.

Account Administrator means the person keeping the relevant Securities Account in the Pledgor’s name in the relevant records.

Account Bank means each bank keeping the Bank Account.

Agreement on the Control of a Bank Account means each agreement between the Account Bank, the Pledgor and the Pledgee and specified in the Special Provisions.

Bank Account means each Pledgor’s bank account specified in the relevant table in the Special Provisions to which has been entered into an Agreement on the Control of a Bank Account (including any account superseding this account)¹.

Bank Account Agreement means each agreement between the Account Bank and the Pledgor specified in the Special Provisions.

Book-Entry Security means any book-entry security, immobilised security or other similar investment instrument of the Pledgor registered on any Securities Account on which the parties have agreed that it is eligible to be pledged and have specified it in the Special Provisions.

¹ The Bank Account must not be kept by Party A or Party B.
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Calculation Party means the party stipulated in the Special Provisions and otherwise the Pledgee.

Calculation Date means the Business Day following one of these events:

- (i) there is entered into a new Transaction (IM) which is not centrally cleared under Article 4 of EMIR or which is otherwise added under the Master Agreement;
- (ii) there is terminated an existing Transaction (IM) which is not centrally cleared under Article 4 of EMIR or which is otherwise removed from under the Master Agreement;
- (iii) based on an existing Transaction (IM) which is not centrally cleared under Article 4 of EMIR there is made another payment or delivery, other than the provision of a Pledge or Margin;
- (iv) there is calculated an Initial Margin in accordance with the standardised approach referred to in Article 11(1) of RTS and an existing Transaction (IM) is reclassified in terms of the asset category referred to in paragraph 1 of Annex IV as a result of reduced time to maturity; and
- (v) no calculation pursuant to the above paragraphs has been performed in the preceding 10 Business Days,

unless the parties agree otherwise in the Special Provisions.

Claim means each present and future claim of the Pledgor against the Account Bank arising under or in connection with the relevant Bank Account Agreement, including each claim for:

- (i) the payment of any amount standing to the credit of a Bank Account from time to time;
- (ii) the payment of any amount (including a claim which results from unjust enrichment) if a Bank Account Agreement is void, non-existent (in Czech *zánlivý*), ineffective or unenforceable, cancelled, rescinded or terminated in any other way; and
- (iii) the payment of any amount on the basis of a contractual penalty or breach of contractual or statutory duties by an Account Bank,

including their accessions (in Czech *příslušenství*) standing to the credit of the Bank Account in the Eligible Currency.

Current Value means, as at each Valuation Date, a value determined as:

- (i) the nominal value of the Claims in the Base Currency;
- (ii) the value of other Claims after conversion using the Applicable Exchange Rate;
- (iii) the Market Value of Securities or Book-Entry Securities; and
- (iv) zero in relation to other assets.

Decrease Amount has the meaning specified in Clause 6.2(i) of this Pledge Agreement (IM).

Eligible Currency is a currency regarding which the parties have agreed in the Special Provisions that the Pledgor's Claims may be kept in it on a Bank Account.

Final Security Day means the day agreed in the Special Provisions.

Financial Collateral Arrangements Act means Act No. 408/2010 Coll., on Financial Collateral Arrangements, as amended.

Increase Amount has the meaning specified in Clause 6.1(ii) of this Pledge Agreement (IM).

Initial Margin means for each Pledgor separately the amount determined on each Valuation Date in accordance with Articles 9 and 11 and Annex IV RTS (standard model) or according to special models in accordance with Section 4 RTS or in accordance with both models that relates to the Transactions (IM). The way of calculation of the Initial Margin in respect to each Pledgor separately is specified in the Special Provisions. If the parties fail to choose a model, the standard model will be used.

Maximum Secured Amount means CZK 1,000,000,000,000 (or its equivalent in a foreign currency determined using the exchange rates of CZK to foreign currencies announced by the Czech National Bank as at the date of this Pledge Agreement (IM)), unless the parties agree a different amount in the Special Provisions.

Minimum Amount means, in relation to each Pledgor, the amount agreed in the Special Provisions.

New Pledge has the meaning specified In Clause 5.2 of this Pledge Agreement (IM).

Pledge means, as at each Calculation Date, the group of assets in relation to which the Pledgor has created a security interest in accordance with this Pledge Agreement (IM) and which consists of:

- (i) Securities;
- (ii) Claims; and
- (iii) Securities Accounts, including any Book-Entry Security.

Pledge Amount (IM) means, for the Party that is the Pledgor on each Calculation Date, the result of the following calculation, whereas if the result is lower than zero, the Pledge Amount (IM) will be deemed to be zero:

- (i) the Initial Margin applicable to the Pledgor minus
- (ii) the Threshold applicable to the Pledgor.

RTS means Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, as amended.

Secured Debts means each debt specified in Clause 2 of this Pledge Agreement (IM).

Securities means the Pledgor's securities specified as eligible to be pledged in the Special Provisions.

Securities Account means any of the Pledgor's securities accounts specified in the relevant table in the Special Provisions that is kept by the Account Administrator.

Security Period means, in relation to the Pledgee, the period beginning on the date of this Pledge Agreement (IM) and the Special Provisions referring to this Pledge Agreement (IM) and ending on the earliest of:

- (i) the date on which all the Secured Debts of the Pledgor have been unconditionally and irrevocably paid and discharged in full and on which no new Secured Debt of the Pledgor to the Pledgee may arise; or
- (ii) the date on which the Pledgee has unilaterally waived in writing its rights created under this Pledge Agreement (IM); or

- (iii) the date on which the Pledgee's rights created under this Pledge Agreement (IM) otherwise terminate with the Pledgee's written consent; or
- (iv) the date that is the Final Security Day.

Substitute Assets has the meaning specified in Section 3(2)(b) of the General Provisions.

Threshold means, in relation to each Pledgor, the amount agreed in the Special Provisions.

Transaction (IM) means any financial transaction entered into in accordance with Section 1(1) of the General Provisions under the Master Agreement that is also specified in the Special Provisions.

Valuation Date means any Business Day.

1.2 Construction.

- (i) The provisions of this Pledge Agreement (IM) apply to each security interest created under this Pledge Agreement (IM) (the "**Security Interest**").
- (ii) Application of provisions on financial collateral arrangements. The Security Interest created under this Pledge Agreement (IM) has the nature of a financial collateral arrangement pursuant to the Financial Collateral Arrangements Act.
- (iii) Creation of Secured Debts. For purposes of the definition of Security Period, the Secured Debt can be created at any time during validity and effectiveness of the Master Agreement.
- (iv) Available Pledge. The Security Interest under this Pledge Agreement (IM) will be created only in relation to the Pledge on which the parties have agreed in the Special Provisions. If the Pledgor hands over to the Pledgee any assets on which the parties have not agreed under this Pledge Agreement (IM), they will be disregarded for the purposes of calculation of the Current Value of the Pledge. This is without prejudice to any lien of the Pledgee on such assets.
- (v) Market exchange rate. If a term market exchange rate is used in this Pledge Agreement (IM), it represents the exchange rate of CZK to a given foreign currency as announced by the Czech National Bank at the moment of exchange. In cases of different currency pairs, it will be used such exchange rate that is at the moment of exchange available and commercially reasonable on foreign exchange market.
- (vi) Bilateral nature of this Pledge Agreement (IM). All the references in this Pledge Agreement (IM) to the "**Pledgor**" and the "**Pledgee**" refer to the party that, in the particular case, acts in the position of pledgor or pledgee, irrespective of whether such party is Party A or Party B. The Pledgor will be the party that transfers the Pledge in the way stipulated in Clause 4 with the intention to pledge it to the Pledgee, and the Pledgee will be the other party.

2. **Secured Debts**

- (i) The Security Interest secures all financial debts of the Pledgor to the Pledgee that have arisen under or in connection with the Transactions (IM) and that exist as at the Date of this Pledge Agreement (IM).
- (ii) The Security Interest further secures, up to the Maximum Secured Amount at any time, all financial debts of the Pledgor to the Pledgee that will arise under or in connection with this Pledge Agreement (IM), the Transactions (IM) in the future at any time up to and including the Final Security Day, and that may be of the following type:
 - (a) interest or default interest;

- (b) debts arising under or in connection with the Transactions (IM);
- (c) debts corresponding to claims for the payment of the Final Settlement Amount;
- (d) debts under a guarantee;
- (e) costs or expenses incurred in connection with the protection, preservation or enforcement of rights or security;
- (f) damages including loss of profit and other than proprietary harm;
- (g) debts resulting from unjust enrichment; or
- (h) debts arising due to a party rescinding an agreement (in Czech *odstoupení*) or the invalidity, non-existence (in Czech *zánlivost*), ineffectiveness, illegality or unenforceability of an agreement or other legal act wilfully caused by the Pledgor.

3. Creation of security interest

3.1 Security interest.

- (i) Under Section 1309 *et seq.* of the Civil Code and Section 8 of the Financial Collateral Arrangements Act, for the purposes of securing its Secured Debts to the Pledgee, the Pledgor creates a Security Interest in the Pledge for the benefit of the Pledgee.
- (ii) The Pledgee accepts the Security Interest in the Pledge.

3.2 General. The Security Interest is continuing security for the payment, discharge and performance of the Secured Debts and will extend to the ultimate balance of all sums due as the Secured Debts regardless of any intermediate payment or discharge in whole or in part, and is not in any way prejudiced by any other security now or subsequently granted by any party or a third party.

4. Perfection of security interest

- 4.1 Perfection of security interest in the Securities. If the parties have agreed that the Pledge is formed by the Securities, the Pledgor must, at its own cost and expense, promptly, but no later than on the next Business Day after the date of this Pledge Agreement (IM) and the Special Provisions referring to this Pledge Agreement (IM) or after receipt of a request to increase security in accordance with the rules specified in Clause 7.1, execute a pledge endorsement (in Czech *zástavní rubopis*) on each Security in accordance with Section 1328(2) of the Civil Code for the benefit of the Pledgee in the agreed wording and deliver each such endorsed Security to the Pledgee.
- 4.2 Perfection of security interest in the Claims. The Security Interest created in the Claims is perfected at the moment of execution of this Pledge Agreement (IM) and the Special Provisions referring to this Pledge Agreement (IM). If at the same time there is not entered into an Agreement on the Control of a Bank Account with the relevant Account Bank, the Pledgor must without undue delay, and no later than within one Business Day, inform the Account Bank of the creation of the pledge of the Claims on the relevant Bank Account.
- 4.3 Perfection of security interest in the Securities Account. If the parties have agreed that the Pledge is formed by the Book-Entry Securities kept on the Securities Account, the Pledgor must, at its own cost and expense, promptly, but no later than on the next Business Day after the date of this Pledge Agreement (IM) and the Special Provisions referring to this Pledge Agreement (IM), (i) ensure that the Security Interest be registered on the Pledgor's account in the relevant records under Section 1333 of the Civil Code by completing and submitting an order complying with all the requirements of Section 95 of the Capital Markets Act and all other

applicable regulations, including the relevant rules issued by the person keeping the relevant records; and (ii) deliver to the Pledgee a copy of entry in the relevant records issued by the person keeping the relevant records.

5. Disposing and substitution of the Pledge

- 5.1 No Pledgee may dispose of the Pledge unless it enforces it in accordance with Clause 11.
- 5.2 Each Pledgor may substitute the provided Pledge by notifying its intention to the Pledgee and stating on which Business Day and what part of the Pledge it intends to substitute. In the notification the Pledgor will also state the Claims, other Securities or other Book-Entry Securities the Pledgor will pledge to the Pledgee instead of the substituted Pledge (the “**New Pledge**”). In relation to the creation of a Security Interest in the New Pledge, both parties will act by analogy to the procedure stipulated for the perfection of a security interest in Clause 4.
- 5.3 The Pledgee will transfer to the Pledgor the substituted Pledge on the following Business Day after for the Pledgee’s benefit there has been created a Security Interest in the New Pledge and the value of the New Pledge, together with any Pledge remaining to the Pledgee, corresponds to the Pledge Amount (IM) relating to the Pledgor.

6. Duty to increase security and right to decrease security

6.1 Increasing of security.

- (i) If, on the Calculation Date, the Increase Amount in relation to the Pledgor is higher than or equal to the Minimum Amount applicable to the relevant Pledgor, on request by the Pledgee the Pledgor must increase the security at least by the Increase Amount.
- (ii) The Increase amount (the “**Increase Amount**”) in relation to the Pledgor will, on each Calculation Date, equal the amount by which:
- (a) the Pledge Amount (IM)
- exceeds
- (b) the Current Value of the Pledge held by the Pledgee or the relevant Account Bank or the person keeping the Securities Account for its benefit on such Valuation Date.
- (iii) The increasing of security pursuant to paragraph (i) above means a transfer of monetary funds to the Bank Account, transfer of the Book-Entry Securities to the Securities Account or handover of the Securities with the relevant endorsement to the Pledgee.

6.2 Returning of the Pledge.

- (i) If, on the Calculation Date, the Decrease Amount in relation to the Pledgor is higher than or equal to the Minimum Amount applicable to the Pledgor, on request by the Pledgor the Pledgee must return the required part of the Pledge up to the Decrease Amount.
- (ii) The Decrease amount (the “**Decrease Amount**”) in relation to the Pledgor will, on each Calculation Date, equal the amount by which:
- (a) the Current Value of the Pledge held by the Pledgee or the relevant Account Bank or the person keeping the Securities Account for its benefit on such Valuation Date
- exceeds
- (b) the Pledge Amount (IM).

- (iii) The returning of the Pledge pursuant to paragraph (i) means a transfer of monetary funds from a Bank Account, expression of consent to the transfer of the Book-Entry Securities from a Securities Account to the relevant person keeping the Securities Account or the return of the Securities to the Pledgor.

6.3 Assistance. The parties must render each other all necessary assistance in connection with the increasing of security or returning of the Pledge.

7. Transfers and calculations

7.1 Transfers.

- (i) If, in accordance with this Pledge Agreement (IM), a party receives a request to increase security or return the Pledge by 11:00 a.m. Prague time, it must meet the request on the same Business Day, or if it receives it later, on the immediately following Business Day.

7.2 Calculations.

- (i) The calculations of the Pledge Amount (IM), Current Value of the Pledge and the Increase Amount or the Decrease Amount and the related partial calculations for the purposes of Clause 6 of this Pledge Agreement (IM) will be made by the Calculation Party on each Calculation Date using the values valid always at the end of the Business Day preceding the relevant Calculation Date. The Calculation Party will notify the results to the Pledgor on the same Business Day. On the request of the other party, the Calculation Party will provide the other party with a detailed calculation of the Pledge Amount (IM), Current Value of the Pledge or the Increase Amount or the Decrease Amount.
- (ii) The notification may be connected with a request to increase security or with a recommendation to request the return of the Pledge.
- (iii) If the other party does not agree with the results notified to it by the Calculation Party pursuant to Clause 7.2(i) of this Pledge Agreement (IM), the other party may, within one Business Day following the day of sending of the notification, notify to the Calculation Party its justified objections to the content of a particular result. After a lapse of this period to no effect, the other party must not use the procedure pursuant to Clause 7.3 of this Pledge Agreement (IM).

7.3 Procedure for settlement of disputes regarding the amount of calculation.

- (i) If the other party notifies to the Calculation Party its justified objections to the content of a particular result pursuant to Clause 7.2(i) of this Pledge Agreement (IM), the Calculation Party must re-calculate the contested result and notify to the other party the result of the new calculation without undue delay. If the other party, within one Business Day following receipt of the new calculation, delivers to the Calculation Party its justified objections to the content of the new result, both parties will make reasonable efforts to settle the dispute.
- (ii) In relation to the part of the Increase Amount that is not contested by the other party, the other party continues to be obliged to increase the security pursuant to Clause 6.1 of this Pledge Agreement (IM).

8. Information duty

At the Pledgee's request, the Pledgor must, within two Business Days, send to the Pledgee a statement of the Securities Account that will contain all information on the Book-Entry Securities kept on the Securities Account and on all the security interests or sub-security interests in those Book-Entry Securities.

9. When the security interest becomes enforceable

The Security Interest created by the Pledgor under this Pledge Agreement (IM) will become immediately enforceable if an Event of Default occurs and is continuing and the Pledgor fails to pay any of its Secured Debts when due.

10. Contractual manners of enforcement of the security interest

10.1 Direct sale. The Pledgee may determine that it will realise all or only selected Securities or Book-Entry Securities in its own name on the account of the Pledgor; during this the Pledgee must act in accordance with this Clause.

- (i) The Pledgee will notify the Pledgor that it commences the enforcement of the Pledge. Non-delivery of the notice will not affect the validity of the enforcement; the notice is for information purposes only.
- (ii) When carrying out the direct sale, the Pledgee must act with due professional care so as to sell the pledged Securities or Book-Entry Securities for a price for which a comparable asset with similar liquidity can be sold under comparable circumstances in the particular place and at the particular time.
- (iii) The Pledgee may choose not to accept any bid and may make another attempt at realising the pledged Securities or Book-Entry Securities through direct sale at any time.
- (iv) In connection with the enforcement of the Security Interest under this Clause, the Pledgor must:
 - (a) hand over to the Pledgee, without undue delay, all documents and information relating to the Pledge that are required by the Pledgee for the purposes of providing them to bidders;
 - (b) render any other assistance required for, and suffer, the enforcement of the Security Interest.
- (v) If the Pledgor fails to provide the required documents or information or to render other assistance under this Clause, the Pledgee may carry out the direct sale of the pledged Securities or Book-Entry Securities solely on the basis of the documents and information available to it at that particular time.

10.2 Forfeiture of the Pledge. The Pledgee may determine that it will keep all or only selected Securities or Book-Entry Securities. During this, the Pledgee must act in accordance with this Clause.

- (i) The Pledgee may keep the Pledged Securities or Book-Entry Securities and must notify to the Pledgor the day on which the Pledgee enforced the Security Interest. Non-delivery of the notice will not affect the validity of the enforcement; the notice is for information purposes only.
- (ii) In the notice, the Pledgee will determine which pledged Securities or Book-Entry Securities it will keep, for the price corresponding to their Default Value determined on the day the Pledgee determines as the day of enforcement of the Pledge pursuant to Clause 10.2(i).
- (iii) In connection with the enforcement of the Security Interest under this Clause, the Pledgor must:
 - (a) hand over to the Pledgee, without undue delay, all documents and other information relating to the Pledge that are required by the Pledgee for the purposes of valuation;
 - (b) duly exercise all rights attached to the Pledge so that its value does not decrease;
 - (c) comply with all legal regulations in any way relating to or affecting the Pledge; and
 - (d) render any other assistance required for, and suffer, the enforcement of the Security Interest.

- (iv) If the Pledgor fails to provide the required documents or information or to render other assistance under this Clause, the Pledgee may carry out the valuation and keep all or only selected pledged Securities or Book-Entry Securities solely on the basis of the documents and information available to it at that particular time.

10.3 Set off of Receivables. The Pledgee may unilaterally set off the Receivable or any portion thereof against the Secured Debt. For these purposes, the Pledgee may transfer the Receivable or any portion thereof to another currency using a market exchange rate determined by the Pledgee.

11. Enforcement of the security interest

After the Security Interest created under this Pledge Agreement (IM) has become enforceable, the Pledgee may immediately, in its absolute discretion, exercise any right under this Pledge Agreement (IM) or applicable law, including a set-off or assignment of the Claims from the Secured Debts.

12. Application of proceeds

12.1 Application of proceeds. Any moneys received by the Pledgee after the Security Interest created for its benefit has become enforceable or any moneys by which the Pledgee's claims are decreased as a result of exercising its rights under this Pledge Agreement (IM) must be applied in the following order of priority:

- (i) **first**, in or towards payment of all costs and expenses incurred by the Pledgee in connection with the enforcement of its rights under this Pledge Agreement (IM) and the Agreement on the Control of a Bank Account; and
- (ii) **second**, in or towards payment of the remaining Secured Debts.

12.2 Return of surplus. If, after the application of the proceeds under the preceding paragraph, any monetary funds are held by the Pledgee, the Pledgee must transfer it to the Pledgor.

13. Restrictions on dealings

For the duration of this Pledge Agreement (IM), without the prior written consent of the Pledgee, the Pledgor must not:

- (i) create or permit to subsist any other security interest in the Pledge;
- (ii) create or permit to subsist any other encumbrance on the Pledge;
- (iii) transfer the Book-Entry Securities from the Securities Account;
- (iv) attach a Bank Account or a Securities Account to any collective business asset (in Czech *věc hromadná*);
- (v) waive any right in respect of, or terminate, the Bank Account Agreement; and
- (vi) dispose of the funds on the Bank Account.

Disposing of monetary funds on the Bank Account includes any disposing of the funds, including giving of orders to payments to any third parties, to other bank accounts or to the Pledgor, and any withdrawing of funds from the Bank Account.

14. Changes to the parties

None of the parties may assign or transfer any of its rights or duties under this Pledge Agreement (IM) without the consent of the other party

15. Release and termination

At the end of the Security Period or if in relation to the Pledgee there occurs an Event of Default stipulated in Section 6.1(viii) (*Liquidation and Insolvency*) of the Special Provisions²:

- (i) the Pledgee's rights to the Pledge and other restrictions created under this Pledge Agreement (IM) will terminate; and
- (ii) all rights of both parties under this Pledge Agreement (IM) will terminate, except for the Pledgee's duty to return or substitute the Pledge to the Pledgor.

16. Governing law

- (i) This Pledge Agreement (IM), any obligations under it and any non-contractual obligations arising in connection with it are governed by Czech law.
- (ii) The Security Interest that has been or is to be created under this Pledge Agreement (IM) is governed by Czech law.

17. Enforcement

The courts of the Czech Republic have exclusive jurisdiction to settle any dispute in connection with this Pledge Agreement (IM).

[PARTY A]

[PARTY B]

Party A

Party B

Name:

Position: [●] / [under power of attorney]

Name:

Position: [●] / [under power of attorney]

Name:

Position: [●] / [under power of attorney]

Name:

Position: [●] / [under power of attorney]

² Adjusted in order to achieve compliance with Article 19(1)(g) RTS.
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