

TERMS AND CONDITIONS FOR INTEREST RATE DERIVATIVES

Valid from 01.02.2011

1. GENERAL PROVISIONS

1.1 The terms and conditions for interest rate derivatives (hereinafter **Service Conditions**) shall serve as the Service Conditions in the meaning of the Financial Markets Client Agreement and its annexes (hereinafter **the Client Agreement**) concluded between the Bank and the Client, regulating the relations between the Bank and the Client upon conducting Interest Rate Derivatives, and establishing the procedures for conducting Interest Rate Derivatives.

2. DEFINITIONS

2.1 In addition to the definitions specified in the Client Agreement, the following capitalised definitions shall apply for the Service Conditions:

2.1.1 Alternative Rate means the fixed or floating interest rate agreed between the Contractual Parties upon the conclusion of Interest Rate Derivatives, which is to be applied, on a temporary or permanent basis, instead of the Base Rate, when the condition specified in the corresponding Interest Rate Derivative falls due;

2.1.2 Interest Rate Derivative means a transaction, pursuant to which the Contractual Parties shall make, on the established Value Date(s) and in accordance with the agreed terms and conditions, interest payments on the Nominal Amount of the corresponding Interest Rate Derivative, whereas, as a rule, the interest rates payable by the Contractual Parties are calculated on a separate basis. No nominal amount payments shall be made based on the Interest Rate Derivative;

2.1.3 Net Market Value means costs or loss which the Bank incurs or would incur, or positive return which the Bank receives or would receive if it concludes, for the purposes of preserving the economic equivalent of the terminated Transaction, a transaction on the terms and conditions similar to those of the terminated Transaction (taking into account the agreed mutual future payments under the terminated Transaction, related option transactions or other specific conditions) under the prevailing market conditions at time of the termination. The Net Market Value is determined by the Bank based on the quotation provided by a professional market participant chosen by the Bank;

2.1.4 Nominal Amount means the calculated amount denominated in the currency valid in the Republic of Estonia or in other currency accepted by the Bank, on which the interest payments to be made for the corresponding Interest Rate Derivative are calculated in accordance with the terms and conditions for the given Interest Rate Derivative transaction;

2.1.5 Banking Day means a calendar day which is not a Saturday, a Sunday, a national or a state holiday in the Republic of Estonia or a day-off in the country of the main financial centre for the currency in which the Nominal Amount of the corresponding Interest Rate Derivative is denominated;

2.1.6 Base Rate means the fixed or floating interest rate which forms the basis for calculating the interest payments payable by the Parties for the corresponding Interest Rate Derivative, and which amount or procedures, terms and conditions for the establishment of which shall be agreed between the Parties upon the conclusion of the Interest Rate Derivative;

2.1.7 Outstanding Amount means amounts which were due and unpaid by the Party before the date of premature termination;

2.1.8 Value Date(s) mean the Banking Day(s) agreed upon the conclusion of the Interest Rate Derivative, on which interest payments shall be made in accordance with the terms and conditions of the Interest Rate Derivative and these Terms and Conditions.

3. PROCEDURE FOR INTEREST RATE DERIVATIVES

3.1 Material conditions for Orders on Interest Rate Derivatives:

3.1.1 currency and initial amount of the Nominal Amount;

3.1.2 the schedule for the Nominal Amount changes, i.e. the terms and conditions for the nominal amount changes and the deadlines thereof, if the Nominal Amount is variable;

3.1.3 specification of the Base Rate to be used for calculating the interest payments to be made by the Bank;

3.1.4 specification of the Base Rate to be used for calculating the interest payments to be made by the Client;

3.1.5 terms and conditions for applying the Alternative Rate(s), if the Parties wish to include the option of using Alternative Rate(s) for the corresponding Interest Rate Derivative;

3.1.6 commencement date and maturity date of the Interest Rate Derivative;

3.1.7 Value Date(s).

3.2 The Bank shall conduct the calculations related to the Interest Rate Derivative by specifying the floating interest rate(s) for the corresponding Interest Rate Derivative as well as the amounts of mutual interest payments to be made in accordance with the terms and conditions of the Interest Rate Derivative on the Value Date(s) and by informing the Client thereof.

3.3 On the agreed Value Date(s) the Bank shall compare the interest payments to be made by the Parties. The accounts shall be set-off automatically on respective Value Date(s) (without a separate application) – the Party, whose payable interest payment is larger, shall pay the difference to the other party.

3.4 Upon premature termination of the Interest Rate Derivative, the Bank shall specify the mutual interest payments to be made until the maturity date under the Interest Rate Derivative as at the date of the premature termination of the Interest Rate Derivative in accordance with Clause 3.5. The corresponding payment obligations shall be settled pursuant to the procedure specified in Clause 3.3.

3.5 Upon premature termination of the Client Agreement and/or Interest Rate Derivative, the Bank shall calculate the Net Market Value of the Transaction as of the date of premature termination. The Bank shall add to or subtract from the Net Market Value the Outstanding Amount. The result of the calculation is payable by the Bank or the Client, respectively, on the value date of the termination of the Transaction, which is the second Banking Day after the day of premature termination. In the absence of any manifest error, such calculation shall be binding evidence of the amounts of mutual payment obligations.

3.6 If no quotation by professional market participant is available for a specific Transaction or the calculation method stipulated in Clause 3.5 does not give practical or reasonable result according to the Bank or the Net Market Value is determined in another way according to market practice or if the calculation of loss has been specified with the Client for the performed Transaction, the Bank shall determine the Net Market Value pursuant to its professional assessment according to the actual profit or loss the Bank had to bear due to premature termination of the Transaction.

4. COLLATERAL

4.1 The Client shall, upon the request by the Bank, provide a Collateral, generally in the form of a guarantee deposit, to the Bank to guarantee fulfilment of the payment obligation arising from the Interest Rate Derivative.

4.2 The essential conditions of the Order, or respective Agreement, of the Collateral are the amount of the guarantee deposit, value date, repayment day, interest rate and, if so agreed, Collateral period and repayable total amount if the Collateral is released in full.

4.3 Unless otherwise agreed upon the accepting of the Order, the Bank shall debit the collateral amount from the Client's corresponding account on the date of the acceptance of the Order. The guarantee deposit shall be denominated in the currency of the Nominal Amount of the corresponding Interest Rate Derivative.