

Terms and conditions for interest rate derivatives

Valid as of 03.01.2018

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 Derivative and Cross Currency Swap transactions, and establishing the procedures for conducting the Transactions.

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 **Cross Currency Swap (CCS)** means a transaction, pursuant to which the Parties shall make, on the established Value Date(s) and in accordance with the agreed terms and conditions, interest payments on the Nominal Amounts, which are expressed in different currencies, and upon the respective agreement, shall exchange the Nominal Amounts;
- 2.1.2 **Interest Rate Derivative** means a transaction, pursuant to which the 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 Transaction, whereas, as a rule, the interest rates payable by the Parties are calculated on a different 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 official currency of the Republic of Estonia or in another currency accepted by the Bank, on which the interest payments to be made for the corresponding Transaction are calculated in accordance with the terms and conditions for the given Transaction;
- 2.1.5 **Banking Day** means a calendar day when the Bank is open for settlements, which is not a Saturday, a Sunday, a national or a state holiday in the Republic of Estonia;
- 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 Transaction, and the level of the rates or procedures, terms and conditions for the establishment of the rates shall be agreed between the Parties upon the conclusion of the Transaction;
- 2.1.7 **Outstanding Amount** means amount(s) which were due under the Transaction and unpaid by the Party before the date of premature cancellation of the Transaction;
- 2.1.8 **Value Date(s)** mean the Banking Day(s) agreed upon the conclusion of the Transaction, on which interest payments (and upon the respective agreement Nominal Amount payments) shall be made in accordance with the terms and conditions of the Transaction and these Service Conditions. In case it is not possible to execute a payment on the Banking Day agreed as a Value Date (e.g. because the banks in the country of the main financial centre of the currency of the Nominal Amount(s) of the Transaction are not open for settlement), then the payment is executed on the next Banking Day when it is possible to execute the payment.

3. Procedure of the transaction

- 3.1 Material conditions for Orders on Interest Rate Derivatives and Cross Currency Swaps:
- 3.1.1 Currency(ies) and initial amount(s) of the Nominal Amount(s);

- 3.1.2 the schedule for the changes of the Nominal Amount(s), i.e. the terms and conditions for the changes of the Nominal Amount(s) and the dates thereof, if the Nominal Amount(s) 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 commencement date and maturity date of the Transaction;
 - 3.1.6 Value Date(s) for mutual interest payments;
 - 3.1.7 Value Date(s) for exchange of Nominal Amounts if the Parties agree to exchange Nominal Amounts in a CCS Transaction.
- 3.2 The Bank shall conduct the calculations related to the Transactions by specifying the floating interest rate(s) for the corresponding Transactions as well as the amounts of mutual interest payments to be made in accordance with the terms and conditions of the Transactions on the Value Date(s) and by informing the Client thereof.
 - 3.3 In case of Interest Rate Derivatives the Bank shall compare the interest payments to be made by the Parties on the agreed Value Date(s). The payment obligations shall be set-off automatically on the 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 In case of CCS Transactions the mutual interest and Nominal Amount payments shall not be set-off and all payments shall be made by both Parties in the full amount, except in case of premature cancellation of a CCS Transaction. The Bank is not obligated to execute a payment under a CCS Transaction in case the Client has not ensured the execution of or has not executed its payment.
 - 3.5 Upon premature cancellation of the Client Agreement and/or Transaction, the Bank shall calculate the Net Market Value of the Transaction as at the date of premature cancellation. If both Parties have Outstanding Amounts, then these Outstanding Amounts are set-off automatically (without a separate application) on the date of cancellation and if the Outstanding Amounts are in different currencies, the Bank may, before set-off, convert them into the official currency of the Republic of Estonia at the effective rate on the date of cancellation.
 - 3.6 The Bank shall add to or subtract from the Net Market Value the Outstanding Amount (or the difference from the set-off of Outstanding Amounts under Clause 3.5). The result of the calculation is payable by the Bank or the Client, respectively, on the value date of the cancellation of the Transaction, which is the 5th (fifth) Banking Day after the day of premature cancellation. In the absence of any manifest error, the Bank's calculation shall be binding evidence of the amounts of mutual payment obligations.
 - 3.7 If no quotation by a professional market participant is available for a specific Transaction or the calculation method stipulated in Clause 2.1.3 does not give practical or reasonable result according to the Bank's assessment 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 concluded Transaction, the Bank shall determine the amounts to be paid according to the actual profit or loss the Bank received due to premature cancellation of the Transaction.

4. Collateral

- 4.1 The Client shall, upon the request by the Bank, provide a Collateral to the Bank to secure fulfilment of the payment obligations arising from the Transaction. The Collateral is in the form of a cash collateral transferred to the Bank or in any other form acceptable to the Bank,
- 4.2 In the event the Collateral is in the form of cash transferred to the Bank, the essential conditions of the Order, or respective agreement, of the Collateral are the amount of the cash collateral, value date, repayment day, interest rate, if so agreed, Collateral period and repayable total amount if the Collateral is released in full.
- 4.3 Unless otherwise agreed, the Bank shall debit the cash collateral amount from the Client's corresponding account on the date of the acceptance of the Order.
- 4.4. At the request of the Bank, the Client shall conclude agreement on the other type of a Collateral (eg security deposit or other Collateral accepted by the Bank). Setting of such Collateral and other conditions shall be agreed in the Collateral agreement.