

PRINCIPLES FOR DETERMINING INTEREST RATES AND THE METHOD AND DYNAMICS OF CALCULATING INTEREST ON LOANS AND DEPOSITS OF

PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO

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1. PRINCIPLES FOR DETERMINING INTEREST RATES AND THE METHOD AND DYNAMICS OF CALCULATING INTEREST ON LOANS AND DEPOSITS OF PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO

The present Principles define the method of determining interest rates, method of their calculation, their duration period, date of their re-pricing, and maturity dates and payment of interest.

Interest rate is determined by:

- type of product
- customer - Bank business relation
- maturity structure
- currency
- amount
- market
- other factors (regulations, expenses and other).

The Principles shall apply to interest-bearing products:

- taken loans, deposits and securities (liabilities)
- given loans (including B/E discounting, factoring and overdrafts), deposits and securities (claims).

The Principles shall apply to all the Bank's clients (domestic and foreign individuals, legal entities and other business entities).

2. REGULATORY FRAME

The determination of interest rates on loans and deposits in business relations with the clients of PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO (hereinafter: PBZ) is regulated by:

- Obligations Act
- Interest Rates Act
- Decisions by regulatory and supervisory bodies
- Other statutory regulations and by-laws
- PBZ Management Board Decisions
- ALCO Decisions
- PBZ Credit Committee Decisions
- These Principles for determining interest rates and the method and dynamics of calculating interest on loans and deposits of PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO
- Other Decisions by PBZ relevant bodies

3. INTEREST RATES CATEGORIES

Taking into account the variability of interest rates, PBZ contracts fixed or floating interest rates with its clients:

- **Fixed** interest rate is the rate that remains unchanged throughout the entire life of a facility or deposit (**F**).
- **Floating** interest rate is the rate subject to changes throughout the life of a facility or deposit, and can be:
 1. **Market indexed (I)** - interest rate subject to changes in regard of market index, margin and/or other costs.
 2. Floating pursuant to the **Decision by the Management Board** or another Bank's relevant body (**P**).
 3. Floating pursuant to **decisions by external authorities, i.e. relevant institutions (E)**.

3.1. MARKET INDEXED INTEREST RATE (I)

Formula for determining market indexed interest rate: $I = aX_t\% \pm m \pm z$, whereas:

I = amount of market indexed interest rate expressed in %

a = percentage value of market index (if not specified, then it is 100%)

Xt% = market index (Euribor, Libor, Zibor, yield to T-Bills and other), whereas t denotes time period

m(% or p.p.) = interest spread

z(% or p.p.) = other costs and risk premiums included in the product price.

All the mentioned components (all elements are variable) influence the change in interest rates.

Market indexed interest rates can have determined **caps and floors**, in which case they determine maximum or minimum interest rates in the duration of a contractual relation: **$f \leq I \leq c$**

f = lower interest rate limit (floor)

c = upper interest rate limit (cap)

3.2. MARKET INDICES

change in accordance with movements on money market or another market where prices are quoted as prescribed by these Principles.

Market indices defined by the PBZ Principles:

CURRENCY	MARKET INDEX*	MARKET INDEX TIME REFERENCE
HRK	yield to T-Bills of the Ministry of Finance	91 days, 182 days, 364 days
	Zibor	1 month, 3 months, 6 months
EUR	Euribor	1 month, 3 months, 6 months, 12 months
	Libor	1 month, 3 months, 6 months, 12 months
CHF, USD, GBP	Libor	1 month, 3 months, 6 months, 12 months
OTHER CURRENCIES	Libor	1 month, 3 months, 6 months, 12 months

*Pursuant to its Decisions, the Bank may determine also other market indices and market index time references.

4. CHANGES IN INTEREST RATES - REPRICING

Re-pricing is the re-determination of the interest rate level in line with contracted variability terms.

Re-pricing period is the period between two successive points of setting the interest rate level.

- In the case of market indexed interest rates tied to Euribor, Zibor, Libor, **and yields on Treasury bills of the Ministry of Finance of the Republic of Croatia**, if not otherwise contracted / defined, the frequency of a change in the interest rate shall correspond with time reference of the market index and with the contracted date of the interest rate change.
- Changes in interest rates which are dependent on the Bank's Management Board decisions or on external decisions, occur in accordance with relevant bodies' decisions or contracts.

4.1. MARKET INDICES FORMATION

1. For loans whose interest rate is tied to market indices **EURIBOR, LIBOR, ZIBOR** or to yields on **Treasury bills** of the Ministry of Finance of the Republic of Croatia the standard setting is the interest rate formed on Reuters at 11:00 h **two business days** prior to the **beginning of the re-pricing period** in which the disbursement of funds took place, and the same shall be valid till the end of the re-pricing period, if not otherwise specified under the contract for a particular product. If in a single re-pricing period there are several disbursements of loan tranches or multiple drawdowns, for each drawdown within the same re-pricing period applied shall be the interest rate valid with the first drawdown, if not contracted / defined otherwise.
2. For certain loans and received deposit funds, whose market index is tied to **EURIBOR, LIBOR, ZIBOR** or to yields on **Treasury bills** of the Ministry of Finance of the Republic of Croatia, the interest rate is taken as formed on Reuters at 11:00 h **two business days prior to the release of loan or receipt of deposit funds**, and the same shall be valid till the end of re-pricing period. If in a single re-pricing period there are several disbursements of loan tranches or multiple drawdowns, for each drawdown formed shall be the interest rate as described hereof, if not otherwise contracted / defined.
3. For **other market indices** the updating is made in accordance with instructions and procedures applied for respective indices and/or types of products.
4. Interest rate based on the market index shall be valid till the end of current re-pricing period, when a new value shall be determined for the next period.
5. If a certain market index ceases to exist, the contracting parties shall stipulate a new market index in writing.

4.2. REPRICING DATE

PBZ shall apply two ways of re-pricing:

1. **at the beginning of calendar periods** - interest rate changes *at the beginning of the calendar period*:
 - with monthly re-pricing - interest rate is determined at the beginning of the calendar month (1.1; 1.2; 1.3 ...) in line with previously mentioned formation of market indices for the current re-pricing period
 - with quarterly re-pricing - interest rate is determined at the beginning of the calendar quarter (1.1; 1.4; 1.7 and 1.10) in line with previously mentioned formation of market indices for the current re-pricing period
 - with semi-annual re-pricing - interest rate is determined at the beginning of the calendar half-year period (1.1 and 1.7) in line with previously mentioned formation of market indices for the current re-pricing period
 - with annual re-pricing - interest rate is determined at the beginning of the calendar year (1.1) in line with previously mentioned formation of market indices for the current re-pricing period.
2. **on a contractually defined or in some other way defined date** - interest rate changes *on a contractually or in other way defined date (re-pricing date)*:
 - with monthly re-pricing - interest rate is determined on a stipulated date for the next monthly re-pricing period (for example from 17.1 till 17.2, or for example 30.6 till 31.7)
 - with quarterly re-pricing - interest rate is determined on a stipulated date for quarterly re-pricing period (for example from 15.12 till 15.3, or for example 30.9 till 31.12)
 - with semi-annual re-pricing - interest rate is determined on a stipulated date for the next six-month re-pricing period (for example from 26.2 till 26.8, or for example 31.12 till 30.6)
 - with annual re-pricing - interest rate is determined on a stipulated date for the next year (for example from 14.7 till 14.7, or for example 31.12 till 31.12)
 - following some other frequency according to time reference from a market index or contract.

5. CHANGE OF SPREAD AND OTHER COSTS AND RISK PREMIUM

In the course of a business relation, the Bank is authorised to change the spread and to include the expenses and risk premium, at any moment, against previous notice to the client, delivered in the manner provided for in these Principles, at least 15 days before the change takes place, in the event that regulations have been modified, including modifications or passing of new CNB by-laws, that funding prices on local or foreign money market have changed, in the event of risk premium movements for Croatia (defined by CDS spread), inability of funding based on the contracted interest rate and due to changes of other circumstances affecting the funding costs and/or respective customer business relation.

The Bank shall be authorised to change the interest on deposits taken (demand, time - specified purpose and non-specified purpose) for previously mentioned reasons and under previously stated conditions.

6. INTEREST CALCULATION

6.1. INTEREST RATES may be:

- **Ordinary:**

→ **Payable** / deposit rates that are calculated on:

- demand deposits
- time deposits
- loans taken

→ Loan rates that are calculated on approved credits/loans/borrowings.

- **Interim** interest rates that are calculated in the period of utilization.
- **Default** interest rates that are calculated on overdue obligations, except to the extent to which this is prevented by relevant legal provisions.

Interest rates shall be determined and contracted as annual nominal rates.

6.2. BUSINESS RULES:

1. Interest shall be calculated according to the contracted calculation method or the method applied to a particular PBZ product.
2. Interest shall be calculated on the principal amount, not yet due, or a drawn loan portion / overdraft, i.e. on the deposit amount, in line with Item 1.
3. The period for which the interest is calculated customarily corresponds to the re-pricing period, unless otherwise stipulated / determined.
4. Depending on the type of product, calculation method, and if not otherwise contracted / defined, the counting of days for interest calculation shall be done as follows:
 - the first day is included, and the last is not included, or
 - the first day is not included, and the last is included in the calculation.

6.3. INTEREST CALCULATION FREQUENCY

By applying the above listed business rules, interest shall be calculated in one of the below described frequency modes:

1. **at the end of calendar periods** - interest shall be calculated for the previous accounting period:
 - with monthly calculation - interest shall be calculated at the end of calendar month (31.1 for January; 28.2 for February; 31.3 ...) for the previous monthly accounting period
 - with quarterly calculation - interest shall be calculated at the end of calendar quarter (31.3; 30.6; 30.9 and 31.12) for the previous quarterly accounting period
 - with semi-annual calculation - interest shall be calculated at the end of calendar half-year period (30.6 and 31.12) for the previous semi-annual accounting period
 - at another frequency, on the last day in the accounting period (daily, bi-monthly, annually and similar)
2. **on a contractually defined or in some other way defined date** - interest shall be calculated at the frequency that corresponds to the one specified in the contract or otherwise defined:
 - with monthly calculation - interest shall be calculated on a determined date in a month for the previous monthly accounting period (for example on 17.2 for the period from 17.1 till 17.2)
 - with quarterly calculation - interest shall be calculated on a determined date in a quarter for the previous quarterly accounting period (for example 15.3 for the period from 15.12 till 15.3)
 - with semi-annual calculation - interest shall be calculated on a determined date in a half-year period for the previous semi-annual accounting period (for example 26.8 for the period from 26.2 till 26.8)
 - at another frequency on the determined day in the accounting period (daily, bi-monthly, annually, one-off and similar).

7. INTEREST MATURITY AND SETTLEMENT

Interest on loans becomes payable on the last day of the accounting period, i.e. on the date specified in the contract/interest note, and the settlement can be made:

- a) by direct debiting of the client's account with the Bank, or
- b) by payment made by the client or third person.

8. INTEREST DISBURSEMENT

On funds held in clients' accounts with the Bank (demand deposits and non-specific purpose time deposits) credited shall be clients' accounts with the amount of accrued interest, in accordance with the dynamics and terms defined in the agreement, respective decision on interest rates of the Bank and these Principles.

Interest on specific purpose time deposits shall be calculated and disbursed in the manner provided for in the contract on the specific purpose time deposit.

If not otherwise stipulated, upon expiry of a time deposit, time deposit funds shall be transferred, jointly with accrued interest, to the client's demand deposit. Upon expiry of a time deposit, the Bank shall calculate interest at the rate of interest on demand deposits determined by the respective decision on interest rates of the Bank, if the client has not contracted the prolongation of a time deposit, i.e. a new time deposit.

9. WORKING AND NON-WORKING DAYS

If not otherwise stipulated / determined, in situations when maturity date falls on a non-working day and the settlement cannot be made via distribution channels of the Bank, the first following business day shall be regarded as the maturity date, and interest shall be calculated till the contracted maturity date.

10. LOAN PREPAYMENT

For loan prepayment, PBZ shall calculate and collect interest for the period until the day on which a loan has been fully or partially prepaid.

On the remaining unrepaid portion, interest shall be calculated in accordance with the agreement.

On the prepaid loan amount, PBZ shall charge the clients with a fee for loan prepayment in accordance with the respective decision on fees charged by PBZ, if not otherwise stipulated / determined, except to the extent to which this is prevented by relevant legal provisions.

11. EARLY TERMINATION OF TIME DEPOSITS

At the client's request, PBZ may terminate a time deposit ahead of expiry of its term, where interest shall be calculated for the time deposit period in accordance with the Bank's Decision on interest rates, i.e. for Retail Banking Group clients, depending on the type of a time deposit, in accordance with the General Operating Terms of PBZ d.d. applied in retail banking, if not stipulated otherwise.

PBZ shall charge the client with a fee for early termination of a time deposit, on the terminated / disbursed deposit amount, in accordance with the Bank's by-laws currently in force, if not otherwise stipulated / determined.

12. INTEREST CALCULATION METHODS

Interest shall be calculated by using the end-of-period, proportional method (simple interest calculation); the equivalent method (compound interest calculation); or by using some other method stipulated in the contract.

Formula for simple interest calculation:

$$K = \frac{G * d * p}{g * 100}$$

Formula for compound interest calculation:

$$K = G * \left[\left(1 + \frac{p}{100} \right)^{\frac{d}{g}} - 1 \right]$$

where:

K – interest amount

d – number of days of compounding

g – number of days in a year

G – calculation base

p – annual interest rate

and where the compounding period d/g may be calculated in one of the following ways:

- a) actual (d) / actual (g)
- b) 30 / actual (g)
- c) actual / 360
- d) 30 / 360
- e) actual / 365

13. INTERIM INTEREST

In the loan drawdown period, as of the first loan drawdown day till the commenced loan repayment, the interim interest shall be calculated.

If not otherwise stipulated / determined, interim interest shall be calculated using the calculation method contracted for ordinary interest, taking into account the actual number of days.

With single drawdown loans, interim interest shall be calculated as of the drawdown date till the commenced loan repayment.

If there are several disbursements of loan tranches or multiple drawdowns, for each drawdown the rate shall be formed in accordance with these Principles, as specified in chapter 4.1, if not contracted / defined otherwise.

If not stipulated otherwise or if interim interest has not been separately specified in the contract, the rate, method of determination and the calculation of interest in the drawdown period shall be equal to those applied for ordinary interest.

14. ORDINARY INTEREST

Ordinary interest shall be calculated on the not yet matured loan principal, deposit principal, and on the drawn portion of revolving loan / overdraft.

15. DEFAULT INTEREST

If not stipulated otherwise, on the calculation and payment of default interest, when a client is overdue with the fulfilment of financial obligations, applied shall be statutory default interest, variable as per regulations.

Default interest shall be calculated by applying the end-of-period simple interest calculation on matured principal amount without adding default interest to the principal upon expiry of the accounting period, by using the mathematical formula prescribed by law.

Default interest shall be calculated for the entire period of delay from the first day upon maturity date, without calculating the compound interest.

If not stipulated otherwise, the calculation shall be made on a monthly basis, at the end of month.

16. EFFECTIVE INTEREST RATE

Effective interest rate shall be calculated in accordance with the CNB regulations.

17. INTEREST ON INACTIVE LOAN (GRACE PERIOD)

The loan is inactive if it has been fully drawn, and its repayment shall commence upon the expiry of the contracted time period - grace period.

If not stipulated otherwise by a contract or a separate decision of a competent PBZ body, in the case of inactive loans, ordinary interest shall be calculated on the amount of a loan principal that has not yet fallen due.

The interest shall be paid in intervals (monthly, quarterly, semi-annually and similar) in accordance with the concluded contract, or the decision of a competent PBZ body.

18. COLLECTION AND ITS SEQUENCE

For the client's outstanding debts, the Bank shall be entitled to directly debit the client's account with the Bank, i.e. depending on authorisations given in the contract and received security instruments.

Overdue claims, if not otherwise contracted with the client, shall be settled according to statutory provisions, following the sequence set out here below:

- expenses (including expenses of enforcement and litigation proceedings, notarial and legal fees and other expenses), and fee receivables
- default interest receivables
- ordinary interest receivables
- principal amount receivables.

19. LOANS APPROVED AGAINST SPECIFIC PURPOSE TIME DEPOSITS

Under the Decision on interest rates of PBZ, the minimum interest spread shall be determined for loans which are approved against specific purpose time deposits. Customarily, such spread shall be valid for the entire credit relation, with stipulation of equal repricing periods for the loan and the deposit.

20. OVERPAYMENT

The paid surplus of funds (prior to maturity or at debt settlement) under the loan shall be treated as overpayment on loan account. The overpayment shall be used at the next maturity, in accordance with the claim settlement sequence, or the funds shall be transferred to the client's account, at his/her request.

21. EXCHANGE RATE

For loans and deposits with the currency clause applied shall be the contracted rate of exchange.

All the claims under loans with the currency clause shall be kept in records in foreign currency equivalent:

- until maturity date, and afterwards in kuna, if the repayment has been contracted at a determined rate on maturity date, or
- until the repayment date, if the repayment has been contracted at a determined rate on payment date.

Receivables under FX loans shall be recorded in foreign currency until final settlement of obligations.

22. NOTIFICATION

22.1. OF ACCRUED INTEREST

Depending on the type of loan arrangement, the Bank shall notify the client of the amount of his/her obligation in writing, or by another agreed method of notification (repayment schedule, interest sheet, notices or other document).

In regard of deposits, the client shall be informed about the amount of calculated and credited interest in writing (by way of statements, deal confirmation or similar), or by another agreed information delivery method.

22.2. OF A CHANGE IN INTEREST RATES

Should there be a change in the interest rate on loans, or a decrease in the interest rate on deposits, due to changes in spread, costs or other circumstances specified herein, besides regular market indices movements, the Bank shall notify the client thereof in writing, and/or by announcement in the Bank's business premises intended for conducting business with clients, and/or by announcement on the PBZ internet pages no later than fifteen days before the change occurs .

If the client does not agree with the change, he/she may contact the Bank no later than by the date when the change is to occur, and may propose the termination of the contractual relation. In that case the Bank shall agree with the client the repayment terms until final settlement date, i.e. a reasonable term of early restitution of a deposit, or prepayment of a loan.

23. FINAL PROVISIONS

The Croatian law shall apply to these Principles.

Any dispute arising in connection with these Principles shall be settled before a competent court in Zagreb.

The Bank reserves the right to amend these Principles in accordance with statutory requirements and the Bank's business policy.

The Bank shall inform the clients about the amendments hereto through its business network and on its internet pages (www.pbz.hr).

These Principles shall become effective on 30 June 2009, and shall be applied as of 15 July 2009.

As of the effective date of these Principles, the Decision on principles for determining interest rates and the method and dynamics of calculating interest on loans and deposits for legal entities (which constitutes an integral part - Attachment 2 - of the Decision on PBZ interest rates in operations with legal entities, no. UB 980-56/05 of 5 July 2005), and its amendments, shall cease to take effect.

In Zagreb, 30 June 2009

PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO