

METHODOLOGY
FOR CALCULATING THE REFERENCE INTEREST RATE OF CIBANK JSC
FOR RETAIL LOANS

1. General provisions

1.1. This methodology defines the way in which the reference interest rate of CIBANK JSC (the "Bank") is determined and calculated, as well as the terms for subsequent changes to its value.

1.2. The methodology is applicable to contracts for retail loans with a variable interest rate offered from 14.07.2014.

1.3. For the purposes of this methodology:

1.3.1. "Loan Interest Rate" is the interest rate expressed as a fixed or variable interest rate applied on an annual basis to the amount of the disbursed loan.

1.3.2. "Variable Interest Rate on the Loan," is the interest rate for retail loan contracts under which the Bank and the borrower have agreed that the contractual interest rate is to be formed on the basis of the **reference interest rate** (variable component) in BGN/EUR plus a **fixed margin**.

1.3.3. "Reference Interest Rate" of CIBANK (RIR) is the interest rate used as a basis to calculate the variable interest rate applicable to contracts for consumer and mortgage loans. The RIR value is determined for each currency in which the Bank grants retail loans;

1.3.4. The Fixed Margin reflects the risk which the Bank takes in providing the loan. The margin is written in the loan contract and it cannot be changed unilaterally for the entire term of the loan contract. In forming the fixed margin, the bank takes into account elements such as:

- the creditworthiness the borrower;
- the term and purpose of the loan;
- quality of the collateral;
- the risk of non-repayment;
- other risk factors.

2. Calculating the reference interest rate

2.1. RIR is calculated using the following formula:

$$RIR = \frac{25\% \times Deposit Rate_{HH_{BS}} + 45\% \times Deposit rate_{Total_{BS}}}{(1 - MRR)} + 30\% \times IBOR$$

where:

Deposit Rate_{HH_{BS}} - Interest rate on deposits of households with maturity from 1 day to 2 years, in the currency of the loan. This indicator is calculated by the Bulgarian National Bank (BNB) as a weighted average for the banking system. It is published monthly in the interest rate statistics of the regulator on its official website. There is a direct link to the document published by the BNB on CIBANK's website.

Deposit rate_{TotalBS} - This indicator includes the sum of the following two figures divided by the sum of the volumes of deposits of households and of non-financial institutions:

- the value of the interest rate on deposits of households with maturity from 1 day to 2 years multiplied by the volume of these deposits and
- the value of the interest rate on deposits of non-financial enterprises with maturity from 1 day to 2 years multiplied by the volume of these deposits.

The formula for calculating the indicator **Deposit rate**_{TotalBS} is as follows:

$$\mathbf{Deposit\ rate}_{\mathbf{TotalBS}} = \frac{\mathbf{Deposit\ Rate}_{\mathbf{HHBS}} \times \mathbf{V}_{\mathbf{HHBS}} + \mathbf{Deposit\ Rate}_{\mathbf{NFBS}} \times \mathbf{V}_{\mathbf{NFBS}}}{\mathbf{V}_{\mathbf{HHBS}} + \mathbf{V}_{\mathbf{NFBS}}}$$

where:

Deposit Rate_{HHBS} is determined in line with the above.

Deposit Rate_{NFBS} - Interest rate on deposits of non-financial enterprises with maturity from 1 day to 2 years, in the currency of the loan. This indicator is calculated by the Bulgarian National Bank (BNB) as a weighted average for the banking system. It is posted monthly in the interest rate statistics of the regulator on its official website. There is a direct link to the document published by the BNB on CIBANK's website.

V_{HHBS} - Volume of deposits of households with maturity from 1 day to 2 years, in the currency of the loan. There is a direct link to the document published by the BNB on CIBANK's website.

V_{NFBS} - Volume of deposits of non-financial enterprises with maturity from 1 day to 2 years, in the currency of the loan. There is a direct link to the document published by the BNB on CIBANK's website.

All values of the stated indicators are in the respective currency of the loan.

MRR is the rate of the minimum required reserves which banks maintain in their accounts in BNB under Ordinance № 21 of BNB dated 19.02.1998 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks (Promulgated in State Gazette, issue 28 dated 11.03.1998). The indicator value is set at the level of the stated regulation. Under the existing Ordinance № 21, at the time of adopting this methodology, it is 10% (0,1) of the funds attracted in banks in BGN and in foreign currency.

The value of **MRR** is determined at the time of adopting this methodology and is subject to change in case of amendments to the respective legislation regarding its value. Changes to the mentioned legislation, which do not include cancellation or change of the amount of the relevant indicator, do not affect the application of this methodology.

IBOR - 6-monthly indexes of the interbank market - SOFIBOR for loans in BGN and EURIBOR for loans in EUR. We use the monthly values of indexes published by BNB, calculated as averages of the daily values.

2.2. In case of cancellation of an index or indicator included in the formula of this methodology, it is replaced by a similar one determined by the same source. If such is not available, then the index or indicator is kept at the last posted value used for the calculation of RIR.

2.3. The value obtained for RIR is rounded and posted in percentages with an accuracy of one decimal place (example: 3.268% is rounded and posted as 3.3%). The posted value is used to calculate the new repayment schedule.

3. Terms for determining and changing the reference interest rate

3.1. The first calculation of RIR using this methodology was performed with the values of the relevant indexes and indicators on 31.05.2014.

3.2. The recalculation of the value of RIR under this methodology is to be carried out twice a year - by the last working day of July and of January, using the values of the respective indexes and indicators as at 30 June and 31 December.

3.3. A change in the value of RIR shall take effect on 1 August and 1 February only if the difference between the existing and the new RIR in absolute value equals or exceeds 0.5%.

4. Information disclosure and publicity

4.1. In line with the legal requirements, the Bank has announced on its website this methodology, the current reference interest rate calculated by using this methodology and shall maintain data for all values of RIR, which the Bank has determined under the terms of the Methodology for its calculation. The methodology and the current RIR are available in the Bank's offices/branches.

4.2. In case of a change to the RIR, the Bank shall notify its customers on the website of CIBANK JSC and in the bank offices/branches on the last working day of July and January.

This methodology for calculating the reference interest rate of CIBANK JSC for retail loans was adopted with a decision of the Management Board of Minutes No. 25/09.06.2014 and is effective from 14.07.2014.