

METHODOLOGY FOR DETERMINING THE REFERENCE INTEREST RATE FOR CONSUMER LOANS OF CENTRAL COOPERATIVE BANK PLC

I. CALCULATION OF THE REFERENCE INTEREST RATE

1. The reference interest rate for consumer loans (RIR_{cl}) of CCB Plc of CCB Plc is calculated as the sum of the following components with various weights upon its determination according to the following formula:

$$RIR_n = (T_1 * BRFR + T_2 * R * 1 / (1 - (MRR + DIF))) + T_3 * HICP) / (1 - tax) + RRB$$

Where:

T₁ – weight of the risk free rate of return for Bulgaria;

BRFR – risk free rate of return for Bulgaria;

T₂ – weight of the attracted resource in the liabilities in the Banking system;

R – interest rate of the deposits from households of the Banking system;

MRR – value of the minimum required reserves, determined by BNB;

DIF – the value of the contribution to the Bulgarian Deposit Guarantee Fund;

T₃ – weight of the index of the harmonized consumer prices;

HICP – value of the index of the harmonized consumer prices;

tax – amount of the tax rate of the corporate tax in Bulgaria or the rate, with which the income from main business of Banks is taxed, if different;

RRB – required risk buffer

* - multiplication sign

2. DETAILED BREAKDOWN OF THE COMPONENTS OF RIR_{cl}

2.1. T_i is the weight of the respective index, with which it participates in the formula for determining RIR_{cl}

$T_1 + T_2 + T_3 = 1$, whereas the values of the respective weights are:

$T_1 = 25\%$; $T_2 = 60\%$; $T_3 = 15\%$;

2.2. **BRFR** is the risk free rate of return for investments in Bulgaria, expressed as the profitability of the 10-year benchmark government securities, issued by the Republic of Bulgaria. This profitability is published on a monthly basis by BNB in Interest Statistics – in the report “Profitability of government securities and long-term interest rate for an evaluation of the degree of convergence” – LIR – a long-term interest rate for an evaluation of the degree of convergence.

http://stat.bnb.bg/bnb/dd/Yield_on_GSecurities_NEW.nsf/fsWebIndexBG

2.3. **R** is the weighted average (compared to the published volumes) interest rate in the respective currency on the balances of term deposits with a maturity **from 1 day to 6 months** of the Households sector of the Banking system. This data has been published on a monthly basis by BNB.

http://stat.bnb.bg/bnb/dd/IR_OA_TIME_DEP_NEW.nsf/fsWebIndexBG

100 basis points (b.p.) = 1% 2

2.4. **MRR** is the value of the determined by BNB in Ordinance №21 minimum required reserves, which banks maintain with BNB, expressed as a percent of the deposit base.

2.5. DIF is the amount of the contribution, which banks make to the Bank Deposit Insurance Fund, according to the Bank Deposit Insurance Act, expressed as a percentage of the deposit base.

2.6. HICP is the value of the index of the harmonized consumer prices. For the purposes of the calculations a harmonized index of the consumer prices is used, showing the change compared to the respective period of the previous year in %;

2.7. RRB is the required minimum risk buffer. For loans in BGN it has a constant value of 140 basis points or 1.4%, for loans in EUR a constant value of 150 basis points or 1.5%, and for loans in USD a constant value of 220 basis points or 2.2%.

II. PROCEDURE FOR CALCULATING RIR FOR CONSUMER LOANS, AUTHORITIES OF CCB PLC, RESPONSIBLE FOR RIR DETERMINING, FREQUENCY OF CHANGE AND THRESHOLD OF SIGNIFICANCE

3. As at the day of entry into force of the present methodology RIR_{cl} of the Bank is determined in the way, specified in **Section I**, based on the up-to-date data of the respective components, published by BNB and NSI.

4. The value of RIR_{cl} is calculated twice a year – in the period from 01.02 to 15.02 and from 01.08 to 15.08 every year according to the formula in **Section I**, based on the values of the components for the last month, for which data has been published by BNB and NSI. The calculation is made by the Risk Management Division, whereas the value of RIR_{cl} is rounded to the second decimal, so that it is divided by 0.1 without any excess.

5. RIR_{cl} is changed in case upon the current calculation, the obtained value differs by over 100 basis points from the effective value for the respective currency.

6. The information about the amount of RIR_{cl} is published on the official web site of the Bank within the deadline under p.4 of the present section and enters into force on the following workday.

7. The publishing of the information about the amount of RIR_{cl} on the web site of the Bank is assigned to the director of Risk Management division, respectively the implementation of RIR_{cl} under the specific relationships – of the director of Retail Banking Division.

8. In case of increasing the value of RIR_{cl} upon its current determination, the Management Board of CCB Plc is entitled to postpone the entry into force of the change.

III. ADDITIONAL PROVISIONS:

9. In view of transparency and trust in its relationships with clients in compliance with the regulatory requirements, the Bank announces on its web site and in the offices the methodology for determining the RIR_{cl} , its up-to-date value, as well as an archive of its previous values.

100 basis points (b.p.) = 1% 3

10. The Bank informs on time the borrowers about the changed RIR_{cl} and the date, on which it enters into force, via publishing them on the official web site of the Bank.

The present methodology has been coordinated with:
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