

Methodology for calculating Banks' Cost of Funding (BCF)

Definition, methodology and BCF change criteria

Cost of Funding Definition

Bank Cost of Funding – the interest rate for the respective currency, upon which the Bank ensures resource for financing of clients, which resource is being increased with the expense for managing the maturity structure of the Bank's assets and liabilities, as well as with other statutory costs.

Cost of Funding Change Criteria

The Bank's Cost of Funding is being determined by its Local Risk Management Committee (LMRC) and may be reviewed on a monthly basis and changed based on the terms and conditions below.

Upon a change in the market situation, representing a change in one or more of the conditions, stated further below, which in their totality impact the Bank's Cost of Funding, the Bank may unilaterally change the Interest Rate in its BCF part (see the definition above), namely:

1. Change with a minimum of 5% monthly of the average annual interest rate values on the attracted term deposits from non-financial institutions and households, announced in the statistics of the Central Bank, or a cumulative change of minimum 9% over a 3-month period.
2. Change with a minimum 5% monthly of the Republic of Bulgaria's main market risk benchmark (presently being Credit Default Swap/CDS) for periods ranging between 1 and 5 years.
3. Change in the Republic of Bulgaria's credit rating by some of the main rating agencies (S&P, Moody's, Fitch and others).
4. Change by minimum 1% monthly of the generally accepted money market indices for the respective currency (EURIBOR, LIBOR, interest rate on BGN deposits of households with agreed maturity of over 3 (three) and up to 6 (six) months, in accordance with the interest rate statistics of the Bulgarian National Bank, namely *Interest rates and volumes of deposit balances with agreed maturity and repo deals of Households/ incl. Non-profit Institutions, Servicing Households (NPISH)*/**

** Until 01.07.2018 a component of the BCF for Bulgarian leva was the 12-month Sofibor, subsequently replaced by the SIR in accordance with the rules of Regulation (EU) 2016/1011 of the European Parliament and of the Council dated 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) № 596/2014, given the discontinuation of the Sofibor index calculation by the BNB

5. Changes in the regulatory framework and/or in the Central Bank regulations, pertaining to the functioning of banks and the requirements to those, including also the imposing of restrictions.
6. Change in the maturity structure of liabilities as compared to the maturity structure of assets and impacting the costs of the Bank for their management.

Note: The base values of the indicators as per Item 1) and Item 4) as a rule are being measured in percentages, while as per Item 2) in basis points. The changes, stated in the respective items are being calculated as a percentage change of the relevant indicator, and not as a change, measured in basis points.

Reference Interest Rate (BCF) Calculation Methodology

Bank Cost of Funding in BGN

As per the methodology, adopted by the Bank, BCF in BGN is being calculated through a formula, representing a sum of three main components – costs for primary deposit resource, costs for secondary deposit resource and additional costs, defined, as follows:

Costs for primary deposit resource in BGN

The costs for the primary deposit resource in BGN have been calculated in the following manner: to the amount „A (BGN)” (as defined further below), divided by $(1 - \text{the current amount of the Minimum Reserve Requirement in \%})$ we add the defined by the regulator premium installment to the Bulgarian Deposit Insurance Fund (BDIF) in %, weighted with the relative share in % of the term deposits in BGN out of the total BGN resource of United Bulgarian Bank* AD.

„A (BGN)” is being defined as the product of:

- The relative share in %* of the term deposits in BGN out of the Bank's total BGN resource
- The averaged interest rate on new BGN deposits of the Households sector, published in the bank statistics of the Bulgarian National Bank
- A statistical dependency ratio between the average interest rates on BGN term deposits, published by the Bulgarian National Bank, and those on BGN term deposits with United Bulgarian Bank* AD

Cost of secondary resource in BGN

The costs of secondary resource in BGN have been calculated as a product of:

- The relative share in %* of the total BGN resource of the secondary funding by United Bulgarian Bank* AD in BGN, including credit lines, swap deals, bond issues and others.
- The achieved average monthly values of interest rates on BGN deposits of households with agreed maturity of over 3 (three) and up to 6 (six) months, in accordance with the interest rate statistics of the

Bulgarian National Bank, namely *Interest rates and volumes of deposit balances with agreed maturity and repo deals of Households/ incl. Non-profit Institutions, Servicing Households (NPISH)*/ in % over the last two years, averaged after removing the top 10 percent of highest values (90-th percentile).

Additional costs

Additional costs in %, which impact the cost of funding, and have originated due to changes in the legislation or resulting from administrative acts, following the date of entry into force of the Act on the Amendment and Supplement to the Consumer Loan Act (in effect as of 31.08.2010)

* The values of the relative shares take into account the maturity structure dynamics.

Bank Cost of Funding in EUR

In accordance with the methodology, adopted by the Bank, BCF for EUR is being calculated through a formula, representing a sum of three main components - costs for primary deposit resource, costs for secondary resource and additional costs, defined, as follows:

Costs for primary deposit resource in EUR

The costs for the primary deposit resource in EUR have been calculated in the following manner: to the amount „A (EUR)” (as defined further below), divided by $(1 - \text{the current amount of the Minimum Reserve Requirement in \%})$ we add the defined by the regulator premium installment to the Bulgarian Deposit Insurance Fund (BDIF) in %, weighted with the relative share in % of the term deposits in EUR out of the total EUR resource of United Bulgarian Bank* AD.

„A (EUR)” is being defined as the product of:

- The relative share in %* of the term deposits in EUR out of the total EUR resource of United Bulgarian Bank* AD
- The average interest rate on new EUR deposits of Households and Non-profit Institutions, Servicing Households (NPISH) sector, published in the bank statistics of the Bulgarian National Bank
- A statistical dependency ratio between the average interest rates on EUR term deposits, published by the Bulgarian National Bank, and those on EUR term deposits with United Bulgarian Bank* AD

Costs for secondary resource in EUR

The costs of secondary resource in EUR have been calculated as a product of:

- The relative share in %* of the resource in EUR out of the secondary funding by United Bulgarian Bank* AD in EUR, including credit lines, swap deals, syndicated loans and others.

- The sum of:
 - The current average monthly value of the 12-month EURIBOR
 - The achieved average monthly values of the 2-year Credit Default Swap of Bulgaria over the last two years, averaged after removing the top 10 percent of highest values (90 - th percentile)

The product is being divided by (1-Minimum Reserve Requirement on attracted funds from abroad in %).

Additional costs

Additional costs in %, which impact the cost of funding, and have originated due to changes in the legislation or resulting from administrative acts, following the date of entry into force of the Act on the Amendment and Supplement to the Consumer Loan Act (in effect as of 31.08.2010)

* The values of the relative shares take into account the maturity structure dynamics

Rules for review and change of the BCF in EUR and BGN

- The Bank monitors on a monthly basis the fluctuations of the dynamic values in the model, as it reconsiders the BCF at least once in a 6-month period based on the averaged values of the model for the preceding 6-month period, juxtaposed to the current BCF value.
- Should there be a deviation exceeding 50 basis points, the Bank shall render the BCF value equal to the averaged value of the mathematical model for the most recent 6-month period, by rounding it up to the second digit after the decimal point, so as to enable BCF to be divisible by 0.05 without remainder.

Should there be objective impossibility to obtain a quote for EURIBOR, CDS, interest rate on BGN deposits of households with agreed maturity of over 3 (three) and up to 6 (six) months, in accordance with the interest rate statistics of the Bulgarian National Bank („BNB") *Interest rates and volumes of deposit balances with agreed maturity and repo deals of Households/ incl. Non-profit Institutions, Servicing Households (NPISH)/*" or another respective index, replacing the quoted ones, the Bank shall reserve itself the right to use in the said model the average values from the indicative offers of at least three independent market players, concerning the respective period and currency.