

BASE RATE SETTING
PROCESS AND METHODOLOGY

October 2016

1. GENERAL PROVISIONS

- a. This Base Rate Setting Process and Methodology (hereinafter “Methodology”) shall regulate and establish the process and methodology for setting the Base Rates of AstroBank Public Company Limited, which apply to credits extended by the Bank in euros and which are referenced to an internally generated base rate. It is published as required by the Law of Liberalization of Interest Rates.
- b. The Base Rates set by applying this methodology are the Base Lending Rate (Βασικό Επιτόκιο Χορηγήσεων – BEX) the Base Rate Business (Βασικό Επιτόκιο Επιχειρήσεων – BEE) and the Base Rate Housing (Βασικό Επιτόκιο Στεγαστικών – ΒΕΣ).

2. PROCESS

- a. The value of the Base Rates shall be determined by the Bank based on a calculation made in accordance with this Methodology which sets the maximum permissible rate.
- b. The Bank shall review base rates at least once per quarter, and more frequently as required. The Bank reserves the right to elaborate, periodically review and change or update this Methodology.

3. METHODOLOGY

- a. Where a base rate is governed by the Law of Liberalization of Interest Rates and is internally generated (i.e. it is not referenced to euribor, European Central Bank rates, Central Bank of Cyprus Rates or similar), it shall be calculated under this methodology which serves to ensure that the base rate covers the cost of all interest bearing debt (including customer deposits) and equity capital of the bank and the cost of the running of its operations.
- b. The value of the Base Lending Rate shall apply to all Bank Base Rate referenced loans other than Housing Loans and Business Loans which are referenced to the Bank Base Rate for Housing and the Bank Base for Business respectively. The Base Lending Rate (BEX) shall be calculated using the following formula:

$$\text{Base Rate} = a + b + c + d$$

Where:

a = weighted Cost of Deployable Deposits (being that part of total deposits that can be deployed in lending under banking regulations).

The Cost of Deployable Deposits is derived from the Bank's cost of deposits, the proportion of deposits that need to be kept in the form of liquid assets and the yield on liquid assets.

b = weighted Cost of Other Debt

The Cost of Other Debt is derived from the Bank's cost of all Interest Bearing Debt other than Customer Deposits.

c = weighted Cost of Equity (being shareholder funds and reserves)

The Cost of Equity is derived from shareholder required returns on equity (being shareholder funds and reserves) and which is subject to a minimum of 15% p.a.

Increases in yield and risk on Cyprus Government Bonds and increases in corporate and dividend tax rates increase required returns and vice versa.

d = Annual Overheads net of Non-Interest Income as a % of Deployable Capital.

Annual Overheads net of Non-Interest Income is derived from the Bank's recent accounts.

The weight applied in each case is calculated as the proportion of the Deployable Deposits, the Other Debt, the Equity, and the Annual Overheads net of Non-Interest Income, to the total Deployable Capital based on the latest available month-end data. Total Deployable Capital is Deployable Deposits + Other Debt + Equity.

Yields on liquid assets and inputs to the Housing Loans and Business Loans adjustment referred to below are also based on the latest available month-end data. Cost of Deposits and Cost of Other Debt are calculated from the three latest available completed month's data.

Overheads and Non-Interest income are calculated from the three latest available completed month's data annualised by multiplying by 4. Regulatory rules are those current at the time of preparation.

- c. The value of the Base Rate for Housing Loans shall be calculated by substituting for c in the above formula an adjusted c, which incorporates a pro-rata reduction of equity to reflect the typically lower regulatory capital requirement for housing loans.
- d. The value of the Base Rate for Business Loans shall be calculated by substituting for d in the above formula an adjusted d, which reflects the typically lower overheads net of net commission income for business loans.