smart factoring

Reference Interest Rate

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1. Purpose, meaning and importance of Reference Interest Rates (RIR)

Reference Interest Rates – also known as Interest rate benchmarks or just benchmark rates – are regularly updated interest rates that are publicly accessible. They are a useful basis for all kinds of financial contracts and other more complex financial transactions. Reference Interest Rates are calculated by an independent body, most often to reflect the cost of borrowing money in different markets. Reference Interest Rates play a key role in the financial system and the economy overall.

Given the economic importance of reference interest rates, it is critical that their reliability is ensured by clear governance structures and transparent methodologies.

2. Smart Factoring EOOD applied Reference Interest Rate

Smart Factoring EOOD (The company) provides financing to its client on fixed or floating interest rate. The type of Interest rate applied is based on product specifics and structure.

2.1. Type of Interest Rates applied by Smart Factoring EOOD.

2.1.1. Fixed Interest Rate

Fixed interest rate is defined on the date of contract signage and remains unchanged for the whole contract term of the financing.

2.1.2. Floating interest rate

Floating Interest Rate is a combination of Reference Interest Rate and fixed spread that is different for each product.

Fixed spread is explicitly stated in the client`s contract and remains unchanged during the whole contract period.

Reference Interest Rate is the base for the calculation of floating interest rate.

Smart Factoring EOOD applies **1M EURIBOR (EURIBOR** is short for Euro Interbank Offered Rate**)** as a Reference Interest Rate for financing provided in BGN and EUR.

Smart Factoring EOOD applies **1M LIBOR USD (LIBOR** is short for London Interbank Offered Rate) as a Reference Interest Rate for financing provided in USD.

The type of the applied RIR is explicitly stated in the client’s contract.

EURIBOR is an unsecured market reference rate calculated for several maturities (one week, and one, three, six and twelve months). It is administered by the European Money Markets Institute (EMMI).

The Euribor rates are based on the average interest rates at which a large panel of European banks borrow funds from one another. The Euribor rates are considered to be the most important reference rates in the European money market. The interest rates do provide the basis for the price and interest rates of all kinds of financial products like interest rate swaps, interest rate futures, saving accounts and mortgages. That's the exact reason why many professionals as well as individuals do monitor the development of the Euribor rates intensively.

The **US Dollar LIBOR interest rate** is the average interbank interest rate at which a large number of banks on the London money market are prepared to lend one another unsecured funds denominated in US Dollars. The US Dollar (USD) LIBOR interest rate is available in 7 maturities, from overnight (on a daily basis) to 12 months.

2.2. Changing periodicity

The level of 1 M Euribor is automatically changed on every first date of each month. The reference index applied is equal to published on the web site of European Money Market Institute http://www.euribor-ebf.eu/euribor-org/euribor-rates.html or www.euribor-rates.eu. The level of the index is the one available (published) two business days prior the 1st of each month.

The level of 1 M USD Libor is automatically changed on every first date of each month. The reference index applied is equal to published on the web site of Worldwide interest rates and economic indicators (global-rates.com). The level of the index is the one available (published) two business days prior the 1st of each month.

1 M Euribor and 1 M USD Libor can be positive or negative value.

The company notifies its customers for the change of the level of applied RIR not later than 1 business day before updated level is in force. The expected change is published on the web page of the company.

3. Definition of fixed spread applied in the structure of floating interest rates by Smart Factoring EOOD

Fixed spread applied reflects companies' risk appetite and business strategies, including profitability and risk perspective. It is linked to the characteristics of the factoring product and consider competition and prevailing market conditions.

The fixed spread can be portfolio and product based or tailored made considering the borrower type, credit quality and riskiness of the borrower when appropriate.

The company considers and reflects in factoring products pricing all relevant costs including:

- the cost of capital considering both regulatory and economic capital.
- the cost of funding matching the key features of the factoring product – expected duration, contractual terms, behavioral assumptions.
- operating and administrative costs.

- credit risk costs calculated for different homogeneous risk groups.
- other real costs associated with the factoring product in question, including tax considerations, when relevant.
- competition and prevailing market conditions, in particular factoring business segment and for factoring product.

4. Significant change or no existence of Reference Interest Rate

In case that an index or an indicator used for Reference Interest Rate changes significantly or its calculation is stopped then floating interest rate on active contracts will be based on another publicly available and transparent index. The transition to the new RIR will be made in a way that the total interest rate applied on the factoring contract will remain unchanged on the date of the transition.

The transition date is the date of the next change of Reference Interest rate according to the signed contract.

The company notifies its customers for the transition to a new Reference Interest Rate prior the implementation of the change. The expected change is published on the web page of the company.