smart factoring

МЕТОДИКА ЗА РЕФЕРЕНТЕН ЛИХВЕН ПРОЦЕНТ

Smart Factoring

Reference interest rate methodology

Reference interest rate methodology

Document review and approval

History of changes			
Vs	Author (s)	Date	Description of the change
01	Elitsa Kostova - Nikova	10.07.2023	New policy
02	Elitsa Kostova - Nikova	04 .07.2024	Review
03	Elitsa Kostova - Nikova	02.12.2024	Addition of Secured Overnight Financing Rate (SOFR) reference rate

This document has been reviewed by:		
#	Reviewer (s)	Date:
1.	The managers of the company	10.07.2023
2.	Lawyers	10.07.2023
3.	The managers of the company	04.07.2024
4.	Lawyers	04.07.2024
5.	The managers of the company	02.12.2024
6	Lawyers	02.12.2024

This document has been approved by:		
#	Name (of)	Date of approval
1.	Antonia Yordanova – manager	10.07.2023
2.	Pavel Minkov - manager	10.07.2023
3.	Antonia Yordanova – manager	04.07.2024
4.	Silvia Mladenova – manager	04.07.2024
5.	Antonia Yordanova – manager	02.12.2024
6.	Silvia Mladenova – manager	02.12.2024

Periodicity of the examination: 12 months

Content

1. Purpose and meaning of reference interest rates (RBI)

Benchmark interest rates – also known as interest rate benchmarks or simply reference interest rates – are regularly updated interest rates that are publicly available. They are useful as a basis for all types of financial contracts and other more complex financial transactions. Reference interest rates are calculated by an independent body, usually to reflect the cost of borrowing money in different markets. Reference interest rates play a key role in the financial system and the economy as a whole.

Given the economic importance of reference interest rates, it is crucial that their reliability is guaranteed by robust governance structures and transparent methodologies.

2. Applicable reference interest rate for Smart Factoring EOOD

Smart Factoring EOOD (the Company) provides financing to its customers at a fixed or floating interest rate. The type of interest rate applied is based on the specifics and structure of the product.

2.1. Types of reference interest rates

2.1.1. Fixed interest rate

The fixed interest rate is determined on the date of signing the contract and remains unchanged for the entire term of the financing contract.

2.1.2. Floating interest rate

A floating rate is a combination of a reference rate and a fixed premium, which is different for each product.

The fixed allowance is expressly stated in the customer's contract and remains unchanged throughout the contract period.

The reference interest rate is the basis for calculating the floating interest rate.

Smart Factoring EOOD applies **1M EURIBOR (EURIBOR** is an abbreviation of Euro Interbank Offered Rate**)** as a reference interest rate for financing provided in BGN and EUR.

Smart Factoring EOOD applies **a 90- day SOFR USD (SOFR** stands for Secured Overnight Financing Rate) as the reference interest rate for funding provided in US dollars.

The type of RLP applied is explicitly stated in the client's contract.

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

Euribor interest rates are based on the average interest rates at which a large group of European banks borrow funds from each other. Euribor rates are considered the most important reference interest rates in the European money market. Interest rates provide the basis for the price and interest rates of all types of financial products such as interest rate swaps, interest rate futures, savings accounts and mortgages. This is the exact reason why many professionals, as well as individuals, closely monitor the development of Euribor.

SOFR reflects the interest rate on secured loans overnight repo) in the US based on government securities. The SOFR interest rate in US dollars (USD) is available in four maturities, from overnight, 30-day SOFR index, 90-day SOFR index and 180-day SOFR index.

2.2. Update frequency

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

90-day USD SOFR level changes automatically on the first of each month. The applied reference index is equal to that published on the website at https://www.sofrrate.com/. The index level is the one available (published) two business days before the 1st of each month.

1 M Euribor and 90-day USD SOFR can be positive or negative value.

The company notifies its customers of a change in the level of the applicable RLP no later than 1 business day before the updated level takes effect. The expected change is published on the company's website.

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

The applied fixed premium reflects the companies' risk appetite and business strategies, including profitability and risk outlook. It is related to the features of the factoring product and takes into account competition and prevailing market conditions.

The fixed spread can be based on the type of portfolio and product or be determined individually, taking into account the type of customer, credit quality and risk of the customer, where appropriate.

The company takes into account and reflects in the pricing of factoring products all relevant costs, including:

- the cost of capital, taking into account both regulatory and economic capital.
- Financing costs corresponding to the main characteristics of the factoring product - expected duration, contractual conditions, behavioral assumptions.
- operational and administrative costs.
- credit risk costs calculated for different homogeneous risk groups.
- other real costs related to the factoring product in question, including tax considerations where they are relevant.
- competition and prevailing market conditions, in particular those characteristic of the factoring business segment and of the factoring product.

4. Significant change or lack of benchmark interest rate

In the event that an index or indicator used for a reference interest rate changes significantly or its calculation is suspended, the floating interest rate on active contracts will be based on another publicly available and transparent index. The transition to the new RLP will be done in such a way that the total interest rate applied under the factoring contract remains unchanged on the date of the replacement.

The replacement date is the date of the next change of the reference interest rate according to the signed contract.

The company notifies its customers of the transition to a new reference interest rate before the change is implemented. The expected change is published on the company's website.