



smart
factoring

REFERENCE INTEREST RATE METHODOLOGY

Smart Factoring

Reference interest rate methodology

Reference interest rate methodology

Contents

| | |
|--|----------|
| 1. PURPOSE AND IMPORTANCE OF REFERENCE INTEREST RATES (RIRS) | 3 |
| 2. APPLICABLE REFERENCE INTEREST RATE FOR SMART FACTORING EOOD | 3 |
| 2.1. TYPES OF REFERENCE INTEREST RATES | 3 |
| 2.1.1. Fixed interest rate | 3 |
| 2.1.2. Floating interest rate | 3 |
| 2.2. UPDATE FREQUENCY | 4 |
| 3. DEFINITION OF THE FIXED MARKUP APPLIED IN THE FLOATING INTEREST RATE STRUCTURE BY SMART FACTORING EOOD | 5 |
| 4. SIGNIFICANT CHANGE OR ABSENCE OF A REFERENCE INTEREST RATE | 5 |

1. Purpose and importance of reference interest rates (RIRs)

Reference 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, most often to reflect the costs of borrowing money in various 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 Ltd. (the Company) provides financing to its clients 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 interest rate is a combination of a reference interest rate and a fixed premium, which is different for each product.

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

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

Smart Factoring Ltd. applies **1M or 3M EURIBOR (EURIBOR** is an abbreviation of Euro Interbank Offered Rate) . Offered Rate) as a reference interest rate for financing provided in BGN and EUR.

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

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

EURIBOR is a market reference interest rate calculated for several maturities (one week and one, three, six and twelve months). 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 overnight loans . repo) in the US, based on government securities. The interest rate SOFR 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 level or 3M Euribor changes automatically on the first day of each month. The reference index applied is equal to the one published on the website of the European Monetary 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 first day of each month.

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

1M or 3M Euribor and 90 day USD SOFR can be a positive or negative value.

The company notifies its clients of any change in the level of the applied RLP no later than 1 business day before the entry into force of the updated level. The expected change is published on the company's website.

3. Definition of the fixed markup applied in the floating interest rate structure by Smart Factoring EOOD

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

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

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

- the price of capital , taking considering as both regulatory and economic capital .
- Financing costs , corresponding to the main characteristics of the factoring product - expected duration , contractual terms, behavioral assumptions.
- operational and administrative expenses .
- credit risk costs calculated for different homogeneous risky groups .
- others real costs associated with the factoring product in question , including tax considerations when are relevant .
- competition and prevailing market conditions, in particular those characteristic of the factoring business segment and the factoring product.

4. Significant change or absence of a reference interest rate

In the event that an index or indicator used as a reference interest rate changes significantly or its calculation is discontinued, 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 made in such a

way that the overall 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 in the reference interest rate according to the signed contract.

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