

MONITORING POLICY

2022-08-08
Vilnius

1. GENERAL PROVISIONS

- 1.1. This Monitoring Policy („**Policy**“) of UAB HEAVY FINANCE (“**Operator**“) describes general and specific requirements on how the Operator manages and monitors the performance of obligations by the Borrowers who have acquired financing (in the form of loans) through the crowdfunding platform operated by the Operator.
- 1.2. The main purpose of this Policy is to establish core monitoring procedures and standards and contribute to the proper monitoring of the performance of the obligations of the Borrowers.

2. DEFINITIONS

- 2.1. Unless a different meaning is required by the context, the following capitalised words used in the present Policy shall have the meanings indicated below:
 - 2.1.1. **Borrower** shall mean the party to the Loan Agreement, to whom a loan is granted through the Platform under the internal Operator’s procedures;
 - 2.1.2. **Operator** shall mean the crowdfunding service provider UAB HEAVY FINANCE, legal entity code 305576227, registered address at Birutės str. 18-1, Vilnius, Lithuania, that is the operator of crowdfunding platform www.heavyfinance.com;
 - 2.1.3. **Interest** shall mean the remuneration for the granted Loan Amount, which accrues for each calendar day on the actual outstanding Loan Amount, and it shall be considered that a year has 365 days, and a month consists of the number of calendar days;
 - 2.1.4. **Investors** shall mean the persons (funders) which are the party to the Loan Agreement and have granted the Loan Amount to the Borrower by means of the crowdfunding platform www.heavyfinance.com. The Lenders are represented by the Operator;
 - 2.1.5. **Loan Agreement** shall mean the Loan Agreement which consists of the General Terms and Special Terms together with all its annexes amendments and (or) supplements;
 - 2.1.6. **Loan Amount** shall mean the amount funded by the Lenders which is granted as a loan to the Borrower and which the Borrower must repay on the terms set forth in the Loan Agreement;
 - 2.1.7. **Payment Schedule** shall mean the schedule according to which the Borrower shall repay the Loan Amount and pay the Interest and (or) other amounts payable under the Loan Agreement as known in advance;
 - 2.1.8. **Platform** shall mean the crowdfunding platform available at www.heavyfinance.com operated by the Operator, through which the Investors grant the crowdfunding funds to the Borrower;
 - 2.1.9. **Policy** shall mean this document.
- 2.2. Other capitalised words used in the Policy shall have the meanings assigned to them in the Regulation (EU) 2020/1503, the laws of the Republic of Lithuania, resolutions of the Board of the Bank of Lithuania and other relevant legal acts, as well as the Loan Agreement and (or) other documents concluded between the Investors, the Operator and the Borrower.

3. GENERAL PROVISIONS OF LOAN MONITORING FRAMEWORK

- 3.1. The Operator shall have robust and effective monitoring framework, supported by an adequate data infrastructure, to ensure that information regarding the Borrowers is up to date, and that both internal and external reporting is reliable, complete, up to date and timely.
- 3.2. The monitoring framework shall enable the Operator to manage and monitor credit risk of the Borrowers in line with credit risk appetite, strategy, policies and procedures at portfolio.
- 3.3. The Operator shall ensure that monitoring framework is well defined and documented, is integrated into the Operator's risk management and control frameworks and allows all obligations of the Borrowers to be followed throughout their life-cycle.
- 3.4. The Operator shall consider, in the design and implementation of its monitoring framework, that:
 - 3.4.1. the framework and data infrastructure provide the capability to gather and automatically compile data regarding credit risk of the Borrowers without undue delay and with little reliance on manual processes;
 - 3.4.2. the framework and data infrastructure allow the generation of granular risk data that is compatible and used for Operator's own risk management purposes but can also meet the requirements of the supervisory authorities for regular prudential and statistical reporting;
 - 3.4.3. the framework and data infrastructure ensure effective monitoring of all credit exposures;
 - 3.4.4. the framework and data infrastructure ensure that the Operator maintains an appropriate time series of reporting for current exposures, new types of lending and early warning indicators (EWIs) over their credit risk planning horizon.
- 3.5. The Operator shall set up the monitoring process which would be based on a principle of follow-up action to support and result in a regular and informed feedback loop.
- 3.6. The Operator's monitoring framework shall cover the following:
 - 3.6.1. the payment behaviour of Borrowers, including any deviations from the requirements of Loan Agreements, including late, missed or partial payments;
 - 3.6.2. credit risk associated with the Borrower;
 - 3.6.3. credit risk per geographical location and economic sector, when applicable.
- 3.7. The Operator's monitoring framework and data infrastructure shall allow the Operator to follow the credit decision-making process, including the monitoring and reporting of all credit decisions, exceptions from the credit policies.
- 3.8. The Operator's monitoring framework shall ensure the implementation and application of relevant key risk indicators that are asset type or portfolio level specific, to determine the ongoing evolving credit risk profile of the portfolios and the Operator.
- 3.9. The Operator shall ensure that the credit risk monitoring framework and data infrastructure also enable a single Borrower review.
- 3.10. As part of credit risk monitoring and reporting, the Operator shall identify the relevant drivers of aggregate credit risk as well as the credit risk in its portfolios, taking into account macroeconomic (including demographic) factors and the fact that credit risk drivers may change over time.
- 3.11. The Operator shall ensure that credit risk data and data infrastructure meet the following requirements:
 - 3.11.1. depth and breadth so that they cover all the significant risk factors — this should allow, inter alia, exposures to be grouped together in terms of shared credit risk characteristics, such as the institutional sector to which the Borrower belongs, the purpose of the transaction and the geographical location of the Borrower / collateral, so as to enable an aggregate analysis that allows the identification of the exposure to these significant risk factors;
 - 3.11.2. accuracy, integrity, reliability and timeliness of data;
 - 3.11.3. consistency, being based on common sources of information and uniform definitions of the concepts used for credit risk management and, when possible, accounting;
 - 3.11.4. traceability, so that the source of the information can be identified.
- 3.12. The Operator shall ensure that operational metrics relating to credit risk governance are appropriate for credit profile and applied proportionately. This includes any changes in the definitions of

underlying lending metrics, material changes to rating scales or systems or credit risk policies / frameworks that help define / measure credit risk and changing / altering product terms to avoid breaches of policy or exceptions.

4. MONITORING AND REGULAR CREDIT REVIEW OF BORROWERS

- 4.1. The Operator shall monitor all outstanding amounts and limits, and whether the Borrower is meeting repayment obligations, as laid down in the Loan Agreement, and is in line with the conditions set at the point of credit granting.
- 4.2. The Operator shall also monitor whether the Borrower and collateral are in line with the credit risk policies and conditions set at the point of credit granting, e.g., whether the value of collateral is maintained, whether any applicable covenants are maintained, and whether there has been a negative development in these factors or in other factors that affect the risk profile of the Borrower.
- 4.3. The Operator shall continuously monitor and assess the quality of credit exposures and the financial situation of Borrowers, to ensure that subsequent changes in credit risk, in respect of the initial recognition of the lending exposures, can be identified and quantified.
- 4.4. The ongoing monitoring shall be based on internal information regarding the Borrower's payment practices, as well as the use of external sources (e.g. credit bureau, directly from the Borrower), when relevant.
- 4.5. The overall credit risk monitoring framework and data infrastructure shall allow the Operator to verify that Borrower's creditworthiness reassessment have been performed in accordance with the credit risk policies and procedures, and for the identification of any outliers / exceptions to be flagged for follow up.

5. USE OF EARLY WARNING INDICATORS (EWI) / WATCHLIST IN CREDIT MONITORING

- 5.1. As part of the monitoring framework, the Operator shall develop, maintain and regularly evaluate relevant quantitative and qualitative EWIs that are supported by an appropriate IT and data infrastructure that would allow the timely detection of increased credit risk of the Borrowers.
- 5.2. The EWIs shall have defined trigger levels and have assigned escalation procedures, including assigned responsibilities for the follow-up actions. These escalation procedures shall include choosing Borrowers for special monitoring — a watch list.
- 5.3. The EWI framework shall contain a description of the relevance of the indicators in relation to the characteristics of transactions and Borrower types.
- 5.4. On identifying a triggered EWI event, the Operator shall apply more frequent monitoring and, when necessary, consider placing them on a watch list and undertaking predefined measures and mitigation actions.
- 5.5. When the actions include interaction with the Borrower, the Operator shall have regard to their individual circumstances.
- 5.6. As part of ongoing monitoring of credit risk, the Operator shall consider the following credit quality deterioration signals:
 - 5.6.1. negative macroeconomic events (including but not limited to economic development, changes in legislation) affecting the future profitability of an industry, a geographical segment, as well as the increased risk of unemployment for groups of individuals;
 - 5.6.2. known adverse changes in the financial position of Borrowers, such as a significant increase in debt levels or significant increases in debt service ratios;
 - 5.6.3. a significant increase in economic or market volatility that may have a negative impact on the Borrower;
 - 5.6.4. a significant increase in credit risk on other transactions of the same Borrower or significant changes in the expected payment behaviour of the Borrower, when known;
 - 5.6.5. a significant increase in credit risk due to an increase in the difficulties of the group to which the Borrower belongs, such as residents of a specific geographical area, or significant unfavourable developments in the performance of the Borrower's sector of economic activity or increased difficulties in the group of related Borrowers to which the Borrower belongs;

- 5.6.6. known legal action that may significantly affect the Borrower's financial position;
- 5.6.7. an actual or expected internal credit rating/risk classification downgrade for the transaction or Borrower or a decrease in behavioural scoring used to assess credit risk internally;
- 5.6.8. one or more Borrower-related facilities 30 days past due.

6. FOLLOW UP AND ESCALATION PROCESS ON TRIGGERED EWIs

- 6.1. When an EWI has been triggered for closer monitoring and further investigation, the Operator shall take immediate action in accordance with the Operator's policies and procedures.
- 6.2. The Operator shall perform an analysis in order to assess the severity of the triggered event and to propose suitable action and follow-up.
- 6.3. Based on the abovementioned analysis and other relevant accessible information, the Operator shall decide on the appropriate next steps.
- 6.4. Triggering EWIs shall lead to an increased frequency in the reviewing process and more intense information gathering from the Borrower. The information gathered shall be sufficient to support more frequent credit reviews of the Borrowers.

7. FINAL PROVISIONS

- 7.1. The Policy enters into effect once confirmed by a resolution of the CEO, unless the CEO's resolution prescribes a different date of the Policy coming into effect.
- 7.2. The Policy shall be reviewed annually or earlier, if necessary.