

## UAB HEAVY FINANCE

### RULES FOR ASSESSING THE RELIABILITY OF PROJECT OWNERS AND ACCEPTABILITY OF CROWDFUNDING TRANSACTIONS TO FUNDERS

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Vilnius

#### 1. GENERAL PROVISIONS

- 1.1. The present rules for assessing the reliability of Project Owners of UAB HEAVY FINANCE (hereinafter - the **Company**), operator of a crowdfunding platform Heavyfinance.com, and the acceptability of crowdfunding transactions to funders (hereinafter - the **Rules**) set out the requirements to be followed in assessing the criteria of reputation and creditworthiness of Project Owners as well as the procedure of assessment of acceptability of specific crowdfunding transactions to funders.
- 1.2. The Rules have been prepared in accordance with the Law on Crowdfunding of the Republic of Lithuania, the Rules for assessing the acceptability of financing transactions of crowdfunding platform operators to funders and the reliability of project owners, approved by Resolution No. 03-169 of the Board of the Bank of Lithuania of 29 November 2016, and other applicable legislation.
- 1.3. The Manager of the Company shall be responsible for the continuous observance of the present Rules.

#### 2. TERMS AND DEFINITIONS

- 2.1. The terms used in these Rules shall have the meanings defined in the Law on Crowdfunding of the Republic of Lithuania and other legal acts applicable to the Company's activities, unless the terms are defined otherwise in this section of the Rules.
- 2.2. Unless the context requires otherwise, the capitalised terms used in these Rules shall have the following meanings:
  - 2.2.1. **Law** – the Law on Crowdfunding of the Republic of Lithuania;
  - 2.2.2. **User** - a person who is registered on the Platform and uses it to finance the Project or to obtain funding for the Project published on the Platform.
  - 2.2.3. **Platform** - a crowdfunding platform administered by the Company, through which funders are able to provide crowdfunding funds to the Project Owner.
  - 2.2.4. **Supervisory Authority** - the Bank of Lithuania.
  - 2.2.5. **Project** - a project prepared for the purpose of business, except for consumption, and published on the Platform, for the implementation of which the Project Owner seeks to attract the crowdfunding from the funders.
  - 2.2.6. **Project Owner** - a User who initiates and publishes the Project for the funders through the Platform. The Project Owner can be either be a legal or a natural person - an entrepreneur (for example, a farmer who has registered a farmer's farm and is engaged in agricultural activities).
  - 2.2.7. **Participant** - a shareholder, participant of the Project Owner or another person whose share of directly or indirectly held voting rights or the authorised capital is equal to or exceed 20 percent or who may have a direct and / or indirect decisive influence on the Project Owner.
  - 2.2.8. **Manager** - Director of the Company.

#### 3. ASSESSMENT OF RELIABILITY OF PROJECT OWNERS

- 3.1. The Company shall take all necessary measures to ensure that the crowdfunding transactions executed through the Platform and Project Owners conform to the requirements of legislation. If it becomes clear that the Project Owner fails to meet the requirements of reputation and creditworthiness set by the Company, the Company shall immediately terminate the publication on the Platform of a Project the financing whereof does not comply with legal requirements.
- 3.2. The Company shall take all necessary steps to prevent the use of the Platform for criminal purposes. In case of reasonable suspicions that the Platform is being used for illegal purposes, the Company's employees shall inform the competent authorities, terminate the publication and financing of the Project, and follow the instructions of the law enforcement authorities.
- 3.3. The reliability assessment of the Project Owner performed in the Company consists of:
  - 3.3.1. assessment of the reputation of the Project Owner, its manager and the Participants;
  - 3.3.2. assessment of creditworthiness of the Project Owner.
- 3.4. Taking into account the information, provided by the Project Owner and available to the Company, the Company shall assess objectively foreseeable significant factors that may affect reliability of the Project Owner.
- 3.5. The Company shall keep the information, data and documents collected (assessed) during the reliability assessment of the Project Owner for 10 years from the date of concluding the crowdfunding transaction (if such a crowdfunding transaction was concluded) or from the date of receipt of this data (if such a crowdfunding transaction was not concluded), except for the cases where longer terms of data storage are established in other legal acts regulating the legal protection of personal data and storage of documents. The Company shall ensure that the information collected and evaluated during the Project Owner's reliability assessment could be reviewed and verified at any time during the storage period of the said data.

#### **4. ASSESSMENT OF REPUTATION OF PROJECT OWNERS**

- 4.1. The Company shall apply to the Project Owner for assessment of the information on:
  - 4.1.1. the Project Owner itself; and
  - 4.1.2. The manager and Participants of the Project Owner (legal person).
- 4.2. In assessing the reputation of the Project Owners, the Company's employees shall rely on the documents and information provided by the Project Owner, its manager and the Participants, as well as the information collected by the Company's employees.
- 4.3. When assessing reputation, the Company shall collect the data from the following sources:
  - 4.3.1. The Project Owner, its manager and the Participants must complete the questionnaire provided in Annex No. 1 to these Rules (not to be made public) thereby providing information about their reputation;
  - 4.3.2. The Company's employees shall additionally, and to the maximum possible extent, check the publicly available and published information about the Project Owner, its manager and Participants, as well as check the databases available to the Company, i.e. the Information System of Legal Entities Participants (JADIS), the Register of Legal Entities (RLE), Creditinfo and Scorify Credit Bureau Systems, public information on relevant court proceedings;
  - 4.3.3. If necessary, the Company's employees may additionally request the submission of additional documents, written explanations and other information that has not been specified in the completed questionnaire and/or which is necessary for detailing the collected data and dispelling doubts, as well as check the relevant information in other sources and/or databases not specified in Clause 4.3.2. of these Rules.
- 4.4. The following circumstances shall be assessed when assessing the reputation of the Project Owner:

- 4.4.1. whether a person has been convicted or a pre-trial investigation has been initiated into financial crimes or criminal offences, intentional bankruptcies, other serious or very serious crimes and/or criminal offences (or relevant criminal offences under the criminal laws of other states);
  - 4.4.2. whether there is evidence that the person being assessed is in default or has previously been in default of its credit obligations;
  - 4.4.3. litigation records;
  - 4.4.4. violations of law related to bad faith and / or fraud, other violations of law (violations of the legal acts regulating the activities of legal entities, the scope of activities of the Project Owner, bankruptcy, insolvency of companies or consumer protection in particular);
  - 4.4.5. visibility and experience in the field of activities of the Project Owner;
  - 4.4.6. publicly available and published information on the reputation of the Project Owner, its manager and the Participants;
  - 4.4.7. other facts relevant to the reliability assessment of the Project Owner's reputation.
- 4.5. The Project Owners seeking to publish Projects on the Platform **must be of an impeccable reputation**. The reputation of the Project Owner is considered to be impeccable if there is no information to the contrary about the reputation of the Project Owner, its manager or the Participants and there are no valid grounds to doubt the reputation of the Project Owner.
- 4.6. In order to assess the reputation of the Project Owner, the Company shall take the following steps:
- 4.6.1. First, the Company's employees shall collect information about the Project Owner, its manager and the Participants;
  - 4.6.2. Second, the Company's employees, having collected sufficient information from the Project Owner for assessment of reputation of it, its managers and participants, shall assess the totality of the collected information. The Project Owner's reputation assessment process shall take place in two stages:
    - 4.6.2.1. first, it shall be ascertained whether the Project Owner, its manager and the Participants meet **all the minimum reputational requirements**, i.e. the Company must make sure that the Project Owner, its manager and the Participants do not fall under (and there are no reasonable doubts about that) any of the conditions specified in Article 8 (1) (1) of the Law (hereinafter referred to as the "**Minimum Reputational Requirements**"). If it is established that the Project Owner, Manager or Participant does not meet the minimum reputational requirements, the Project Owner may not be considered to be of an impeccable reputation and its Project may not be published on the Platform. Only if the Company's employees can reasonably believe that all the minimum reputational requirements are met, a second stage of reputation assessment may be performed;
    - 4.6.2.2. If the minimum reputational requirements are met, **additional reputational assessment criteria** shall be taken into account, which may affect the final reliability assessment rating of the Project Owner (for example, publicly available sources contain negative information about the person's reputation, a person omits certain circumstances, etc.). Additional reputational assessment criteria and their impact on the final Project Owner's reliability assessment score are detailed in Annex No. 3 to the Rules (which is not to be made public) (hereinafter - **Additional Reputational Assessment Criteria**).
- 4.7. In case the Project Owner re-publishes the Project on the Platform, the Company shall not be required to re-check the information provided by the Project Owner, unless the Company's employees have reason to doubt the reliability or relevance of the information provided.

## 5. ASSESSMENT OF CREDITWORTHINESS OF PROJECT OWNERS

- 5.1. Before publishing the Project on the Platform, the Company's employees shall also assess the creditworthiness of the Project Owner, which includes an assessment of the Project Owner's financial situation, the Project and the security instruments.
- 5.2. When assessing the creditworthiness of the Project Owner, the Company's employees shall:
  - 5.2.1. collect the information on the financial condition of the Project Owner, including information on its liabilities and assets, profitability, etc.
  - 5.2.2. assess whether the Project Owner is realistically able to meet the financial obligations to the funders within the set deadlines, whether the Project Owner's planned income will be sufficient to fulfil the obligations assumed under the crowdfunding transaction;
  - 5.2.3. make sure that no bankruptcy and / or restructuring proceedings have been instituted against the Project Owner, its manager, Participants (and there is no information that the proceedings are impending) (for this purpose the Company follows the information in the Creditinfo and Scorify databases);
  - 5.2.4. assess the condition, value, degree of pledge, liquidity, liquidation value and other relevant parameters of the pledged property (heavy machinery). If a third party seeks to provide additional security instruments (e.g. surety, guarantee) for the Project Owner, the creditworthiness of such person shall be assessed *mutatis mutandis* as that of the Project Owner.
  - 5.2.5. evaluate the Project itself, its scope and validity in the activities of the Project Owner;
- 5.3. In the event the Project Owner seeks to raise from 1 to 8 million euros within a period of 12 months, the Company's employees shall additionally evaluate the information document prepared by the Project Owner, in accordance with the procedure established in the legal acts. Only an information document prepared by the Project Owner and approved by the Company may be published on the Platform. Before approving the information document, the Company must make sure that it is complete, including whether the information provided in it is comprehensible, not contradictory and in compliance with the rules for submission of information set forth in the Law and other legal acts regulating the drafting of the information document. Such an approval of the information document shall in no way be construed as a confirmation of the accuracy of the information contained therein and / or a recommendation to the funders.
- 5.4. In assessing the creditworthiness of the Project Owner, the Company's employees shall be guided by the information and documents provided by the Project Owner (and, if relevant, by other third parties, such as guarantors) as well as the data collected by the Company's employees themselves.
- 5.5. In order to assess the creditworthiness of the Project Owner in accordance with Clause 5.1 of these Rules, the Company shall also evaluate the information and confirmations provided by the Project Owner, the Project Owner's application for a financing transaction and replies to other inquiries of the Company to the Project Owner. In all cases, the Company must collect at least the following information from the Project Owner:
  - 5.5.1. contact details:
    - 5.5.1.1. of the Project Owner: name, company code, registered and actual office address, e-mail, telephone number (if the Project Owner is a natural person - an entrepreneur: name, surname, personal identification number, place of residence and place of activities, basis for carrying out the activities, e-mail, telephone number);
    - 5.5.1.2. of the Project Owner's manager: name, surname, residential address, e-mail, telephone number, position;

- 5.5.1.3. of the Project Owner's Participants: company name, company code, registered office address, shareholding, contact details (e.g. e-mail, telephone number); for natural persons - name, surname, personal identification number, shareholding, contact details (e.g. e-mail, telephone number);
    - 5.5.1.4. if the security instruments are provided by a third party, the contact details of this third party shall be collected as of the Project Owner.
  - 5.5.2. the approved financial statements of the Project Owner (and the third party guarantor or surety, if any) for the past three years (or for a shorter time frame if the activities have been carried out for a shorter period); the information and documents on the assets held by the right of ownership shall be collected;
  - 5.5.3. if the Project Owner (and / or the third party guarantor or surety) is a natural person - an entrepreneur, he shall be asked to provide reliable documents substantiating the structure of income and expenses derived from the activities in the last three years (or for a shorter time frame, if the activities were carried out for a shorter period), as well as the structure of its assets and liabilities assumed;
  - 5.5.4. a written explanation of the currently known (or implied) circumstances that may have a negative impact on the Project Owner's financial indicators or performance of the activities in the future.
- 5.6. In order to assess the financial condition of the Project Owner (and the third party having provided a security instrument, if any) and its ability to meet the financial obligations, the Company's employees shall also use their access to the available registers. The Company shall enter into agreements with SE Center of Registers on access to the Register of Legal Entities, Information System of Legal Entities Participants, Mortgage Register, Real Property Register, Population Register, Register of Property Seizure Acts, as well as with UAB Creditinfo Lietuva on the access to Creditinfo Credit Bureau System as well as UAB Scorify on the access to the Scorify Credit Bureau System (if necessary and possible, the Company shall acquire access to other registers as well). The Company's employees shall assess on the basis of reliable data:
  - 5.6.1. financial situation: amount of income, sources of income, their diversity, sustainability, profitability, possible change in the future;
  - 5.6.2. activity history and information on current and past defective fulfilment of financial obligations;
  - 5.6.3. existing and planned liabilities (if the Company is or should be aware of them);
  - 5.6.4. of the owner of the Project (and the person who has provided a guarantee, suretyship or another security instrument of a similar nature, if any) and the impact of known circumstances on the economic and financial situation of the Project Owner and the ability of the Project Owner to properly fulfil its financial obligations throughout the period of validity of the loan agreement.
- 5.7. If the data provided by the Project Owner differs from the data obtained by the Company from the databases, the **data on the basis of which the credit assessment of the Project Owner would be more conservative will be used for the creditworthiness assessment of the Project Owner.**

## **6. CREDIT RISK LEVELS**

- 6.1. Upon collecting the necessary information, the Company shall individually assess each Project Owner, persons securing the obligations of the Project Owner, security instruments (if any). The creditworthiness assessment shall be carried out in accordance with the assessment methodology approved in these Rules. The Company's employees must ensure the objectivity of the creditworthiness assessment, i.e. that each Project Owner is assessed based on the same assessment criteria and standards approved in the Rules.

- 6.2. In performing the creditworthiness assessment, the Company shall seek to assess the probability of the funder incurring losses. The Company shall classify the credit risk of Project Owners according to the following ratings:
  - 6.2.1. A + (lowest risk)
  - 6.2.2. A (very low risk);
  - 6.2.3. B+ (low risk)
  - 6.2.4. B (lower than average risk);
  - 6.2.5. C+ (medium risk)
  - 6.2.6. C (higher than average risk);
  - 6.2.7. D (excessive risk);
- 6.3. The Project Owners shall be given credit risk ratings based on the following criteria:
  - 6.3.1. Period of activities of the Project Owner;
  - 6.3.2. the ratio of the amount of the loan and the amount of existing liabilities to revenue;
  - 6.3.3. change in revenue (during the full financial year compared to the previous financial year);
  - 6.3.4. net profitability (net profit / revenue)
  - 6.3.5. equity ratio (equity / assets);
  - 6.3.6. current liquidity ratio (current assets / current liabilities);
  - 6.3.7. average maturity of debts, in days;
  - 6.3.8. LTV (Loan to value) ratio, etc.
- 6.4. The employees of the Company shall assess all the criteria referred to in Clause 6.3 of the Rules and the coefficients assigned to them. In the assessment of the said criteria, the Company's employees shall follow the Project Owners' Credit Score Calculation Procedure (in Annex No. 3 to the Rules) (hereinafter referred to as the Credit Score Calculation Procedure), which provides the final credit score calculation algorithm and constitutes the Company's trade secret (the Credit Score Calculation Procedure is considered to constitute the Company's trade secret and is not to be made public).
- 6.5. In addition to the criteria specified in Clause 6.3 of the Rules, in individual cases the Company may also assess other information that may be relevant and important in assessing the level of credit risk of the Project Owner. Additional information shall be assessed in accordance with the Credit Score Calculation Procedure. In this case, the Company's employees shall indicate in detail the additional circumstances and their impact on the creditworthiness of the Project Owner in the Project Owner's Creditworthiness Assessment Form (submitted together with the Credit Score Calculation Procedure).
- 6.6. Upon completion of the of the Project Owner's creditworthiness assessment, the final creditworthiness score shall be calculated and the Company shall assign to the Project Owner one of the ratings provided for in Clause 6.2 of the Rules (the Credit Score Calculation Procedure shall be followed):
  - 6.6.1. If the final credit score is equal to or higher than 8, **an A + (lowest risk) rating is assigned;**
  - 6.6.2. If the final credit score is from 7 (inclusive) to 8, **an A (very low risk) rating is assigned;**
  - 6.6.3. If the final credit score is from 6 (inclusive) to 7, **a B+ (low risk) rating is assigned;**
  - 6.6.4. If the final credit score is from 5 (inclusive) to 6, **a B (lower than average risk) rating is assigned;**

- 6.6.5. If the final credit score is from 4 (inclusive) to 5, **a C+ (average risk) rating is assigned;**
- 6.6.6. If the final credit score is from 3 (inclusive) to 4, **a C (higher than average risk) rating is assigned;**
- 6.6.7. If the final credit score is lower than 3, **a D (excessive risk) rating is assigned.**
- 6.7. The Project cannot be published on the Platform if the credit rating assigned to the Project Owner is D.
- 6.8. In all cases, the Projects published on the Platform must meet all of the following requirements:
  - 6.8.1. the maximum ratio of the amount of financing sought to the property to be pledged (LTV) **may not exceed 100%**. (This clause is not applicable to projects of up to 25 thousand EUR);
  - 6.8.2. the maximum possible duration of the loan agreement is **120 months**;
  - 6.8.3. the Project Owner's appropriate creditworthiness rating is **from A+ to C**.
  - 6.8.4. the maximum amount financed is **up to EUR 8 million**.
  - 6.8.5. **No bankruptcy or restructuring proceedings have been instituted** against the Project Owner (and the person providing the security instruments, if any) **(and there are no valid data to suggest that such proceedings are impending)**.
- 6.9. If the reputation of the Project Owner (its managers, shareholders) is assessed negatively (the Minimum Reputational Requirements are not met), the Project Owner's credit risk shall immediately be assessed as excessive and the respective Project shall not be published on the Platform, regardless of the positive assessment of the Project Owner's creditworthiness indicators.
- 6.10. When performing the creditworthiness assessment, the Project Owner's reliability assessment employee shall complete the Project Owner's creditworthiness assessment form submitted together with the Credit Score Calculation Procedure. The Project Owners' creditworthiness assessment form, completed and signed by the responsible employee, shall be stored together with the supporting documents and data (sources) for the terms specified in Clause 3.5 of these Rules.
- 6.11. In the case where the Project Owners are given the opportunity to change the pledged assets and / or modify other security instruments in the course of the Project, the Company shall ensure that the respective assets and / or other security instruments provided are not less than the previous obligations and / or security instruments. In all cases, such changes to the pledged assets and / or other security instruments are not possible if they would result in an attribution of a lower credit rating for the Project Owner.

## **7. REFUSAL TO PUBLISH A PROJECT**

- 7.1. The Company shall refuse to publish the Project on the Platform if at least one of the following conditions exists:
  - 7.1.1. the reputation of the Project Owner, its manager and / or the Participant is negative (i.e. the Minimum Reputational Requirements are not met); and/or
  - 7.1.2. the creditworthiness of the Project Owner is of too high risk (D rating); and/or
  - 7.1.3. the Company lacks information to perform the assessments (of reputation and / or creditworthiness) described in the Rules; and/or
  - 7.1.4. if the information available to the Company creates reason to believe that the publication of the Project on the Platform might prejudice the interests of funders.

## **8. ASSESSMENT OF THE ACCEPTABILITY OF FINANCING TRANSACTIONS FOR FUNDERS**

- 8.1. The Company must offer the funder an assessment of the acceptability of the type of crowdfunding transaction (investment in loans) to the funder before giving the funder the opportunity to conclude a specific type of crowdfunding transaction for the first time through the Platform.
- 8.2. When assessing the acceptability of a specific type of crowdfunding transaction to the funder, the company shall ask the funder to provide information on its knowledge and experience in the field of investment related to the type of crowdfunding transaction planned. To this end, the Company shall provide to the funder a questionnaire prepared by the Company on the acceptability of the crowdfunding transaction to the funder, where each question is tied to a corresponding score (the questionnaire and the answer evaluation algorithm are attached as Annex No. 4 to these Rules; it constitutes a commercial secret and is not to be made public).
- 8.3. The company, taking into account the characteristics of the funder, the nature and scale of the service to be provided, the type of crowdfunding transaction envisaged, including its complexity and the inherent risk, shall ask the funder for at least the following information:
  - 8.3.1. the types of the service, transaction or financial instruments with which the funder is familiar;
  - 8.3.2. the size and frequency of the funder's transaction as well as the period over which those transactions were entered into;
  - 8.3.3. the funder's education and his current and previous profession.
- 8.4. Taking into account the information received from the funder, the Company must assess whether a specific type of crowdfunding transaction is acceptable to the funder:
  - 8.4.1. if upon the assessment of the acceptability of a particular type of crowdfunding transaction to the funder it is determined that such type of crowdfunding transaction is acceptable to the funder, the funder shall be permitted to enter into the relevant crowdfunding transaction on the Platform;
  - 8.4.2. if upon the assessment of the acceptability of a particular type of crowdfunding transaction to the funder it is determined that such type of crowdfunding transaction is not acceptable to the funder, the Company must notify the funder in writing and provide the funder with additional information on the risks related to the financing transaction and obtain confirmation from the funder that he has acquainted himself with them and wishes to enter into the financing transaction.
- 8.5. If the funder refuses to provide the Company with the information requested by the Company, referred to in Clause 8.2 of the Rules, the Company must notify the funder in writing that the refusal of the funder to provide the required information or failure to provide all the required information prevents the Company from determining whether a particular type of crowdfunding transaction is appropriate to the funder, and presenting the risks associated with the financing transaction and obtaining confirmation from the funder that he has acquainted himself with them and wishes to enter into the financing transaction.
- 8.6. The Company shall be entitled to follow the information provided by the funders, unless the Company is aware or should be aware that the information is manifestly out of date, inaccurate or incomplete.
- 8.7. The Company must keep the information, data and documents collected (assessed) during the assessment of the acceptance of the type of crowdfunding transaction to the Funder for 10 years from the date of receipt, unless other legal acts regulating legal protection of personal data and storage of documents provide for a longer term.

## **9. FINAL PROVISIONS**

- 9.1. The present Rules shall take effect from the date of their approval and may be modified or revoked only by order of the Manager. Upon amendment of these Rules, the up-to-date version thereof shall also be published on the Platform (except for the annexes to the Rules).
- 9.2. The Manager shall be responsible for the implementation and compliance with these Rules.



- 9.3. Every employee of the Company must be duly acquainted with these Rules against signature.
- 9.4. The Manager or his authorised person shall periodically, but at least once a year, review whether the requirements for assessing the reliability of Project Owners and assessing the acceptability of the type of crowdfunding transaction to the funder specified in these Rules are sufficiently effective. In carrying out the said functions, the Manager or a person authorised by him shall at least:
  - 9.4.1. periodically review the provisions of these Rules, make proposals on their improvement, ensure their compatibility with other internal documents of the Company and applicable legal acts;
  - 9.4.2. inform the Company's employees about the new procedures implemented by the Company and advise them on the procedure for the implementation of specific provisions of the Rules;
  - 9.4.3. constantly monitor changes in the legal regulation and, if necessary, immediately initiate adjustments to the Rules in accordance with the provisions of the changed legal acts.