

INFORMATION FOR INVESTORS ON ESTATEGURU'S POLICIES OF CREDIT RISK ASSESSMENT

Estateguru undertakes a reasonable assessment of the credit risk of the crowdfunding project and the project owner before the project is published on the Estateguru platform.

Credit risk is defined by two components: as the risk that a borrower will not be able to meet its debt obligations (the repayment capacity), and what losses Estateguru's investors may face, if that happens (the recovery position).

Repayment capacity is defined as the ability to fulfill debt obligations and is the sum of repayment ability (fulfilling debt obligations from ordinary recurring business activities) and financial flexibility (the ability to raise cash from other sources than repayment ability, e.g. access to debt/loan market, divestment of assets etc). The analysis of the repayment capacity is based on the country (including macroeconomic situation), ownership and management, industry, company and financial risk. By definition, the repayment capacity is high when the risk of default is low and *vice versa*.

The second component of credit risk is recovery position (collaterals and covenants, credit structure, type of loan). To determine the recovery position is to assess the effect if the borrower cannot meet its debt obligations. Such an assessment is based on an analysis of the collaterals, covenants, guarantees or other risk mitigation measures, taken in combination with an assessment of credit structure, type of exposure and liquidity of collaterals. However, a good recovery position is never the main driver behind a positive credit decision.

Financial risk is analysed based on, where available, audited accounts covering the two latest financial years of the borrower (or if the borrower is part of a group, then consolidated financials as well), including revenue and costs, balance sheet structure, liquidity and debt coverage.

In accordance with EU rules on crowdfunding, Estateguru assesses the following:

- the credit risk of individual crowdfunding projects selected for the investor's portfolio;
- the credit risk at the investor's portfolio level; and
- the credit risk of the project owners selected for the investor's portfolio by verifying the prospect of the project owners meeting their obligations under the loan.

Credit risk assessment must be based on sufficient information, including the following:

1) A description of the crowdfunding project

A description of the crowdfunding project is to be provided by the borrower, which shall include a description of the business endeavour the loan is intended to finance, a description of the commercial activity and history of the borrower and the exit strategy, i.e. how the borrower intends to pay interest on the loan and repay the loan.

2) The purpose of the loan

The purpose of the loan is determined by the underlying business plan and must conform to one of the classes of loan intermediated by Estateguru, i.e. bridge loan, business loan or development loan. Estateguru shall determine the purpose of the loan on the basis of the information provided by the borrower.

3) The project owner and security provider

Estateguru ensures that the following checks are performed:

- that the project owner or security provider has no criminal record in respect of infringements of national rules in fields of commercial law, insolvency law, financial services law, anti-money laundering law, fraud law or professional liability obligations;
- that the project owner or security provider is not on the EU list of non-cooperative countries for tax purposes or on the EU list of high-risk third countries for AML purposes or subject to sanctions;
- via background checking services establish that there is no information on a history of systematic, severe or prolonged defaulting on payments or other indications that could be a basis for a suspicion of an unsound payment ability;
- watchlist check, consisting of a sanctions check, politically exposed persons check, checking against monitored lists and an adverse media check;
- a general search engine check to establish any search results that could be a basis for a suspicion of an unsound payment ability of the borrower.

4) The management and ownership structure of the project owner

The information on the management and ownership structure of the project owner is collected from the borrower by Estateguru generally in the form of appropriate and up to date extracts of the relevant commercial register.

5) The business plan underlying the crowdfunding project

The borrower is required to provide to Estateguru the business plan underlying the crowdfunding project. The business plan shall be provided in writing and must define in detail the objectives of the project as well as the financial and operational assumptions for the execution of the plan.

6) The existence of guarantees or collateral

Only secured loans collateralized with a real property of sufficient value can be published on the platform. Estateguru demands that the borrower prove that the borrower or a third party security grantor is able to provide such a real property as collateral. Additionally, detailed information on the real property to be provided as security shall be collected by Estateguru in accordance with subpoint 9) below.

7) Financial position of the project owner

Estateguru collects the following information on the financial position of the project owner:

- where available, audited accounts covering the two latest financial years, or in a case where such audited accounts are not available, financial statements prepared by a qualified accountant, auditor or financial advisor;
- where available, the income and cash flow generated by the crowdfunding project over the past two years;
- the expected income and cash flows of the crowdfunding project in different scenarios;
- the current and projected financial position of the project owner, including any existing liabilities;
- the availability of collateral or other guarantees.

8) Business model and strategy

Estateguru collects the following information on the business model and strategy of the project owner:

- the project owner's knowledge of the business sector related to the crowdfunding project and experience in similar projects;
- the feasibility and sustainability of the business plan linked to the crowdfunding project;
- the strengths and weaknesses of the crowdfunding project;
- the degree of competition of the business sector of the crowdfunding project;
- the type of customers and their geographical location.

9) Real estate collateral

Estateguru collects the following information on the property to be pledged as collateral:

- property type (residential or commercial);
- location and characteristics of the property;
- buildings located on the property and their characteristics;
- registry number of the property in the land register;
- ownership status and encumbrances;
- ownership history and the relevant transactions, to the extent necessary;
- agreements on leases, if any;
- environmental, heritage protection or other public law restrictions;
- insurance policies concluded for the property and their terms;
- construction permits and other authorizations, where applicable;
- property sale and purchase agreement or a draft version thereof, where applicable.

Estateguru demands from the borrower a valuation by a certified appraiser of the property or properties to be pledged as collateral. Estateguru reserves the right to only accept the valuations of specific appraisers or appraisal firms. The valuation needs to establish a clear market value of the collateral and contain sufficient information to assess whether the collateral can be readily sold on the market. The valuation for deciding new credits may not be older than 6 months (and comparable transactions cannot be older also than 6 months), except for the cases where no comparable deals in the last 6 months are available and this is explicitly noted by the valuator.

10) Guarantees or sureties

A personal guarantee or surety is to be obtained as a rule from the managing director or ultimate beneficial owner of the borrower. The maximum liability amount of the guarantee or surety shall generally correspond to the principal amount of the loan, but country differences are permitted to take account of legal constraints. For that purpose, Estateguru is required to collect the following information:

- a copy of the valid identification document of the guarantor;
- a confirmation by the guarantor of the commitment to sign the guarantee or surety with a given liability amount.

Information is collected from the borrower, third parties and various electronic information sources during the loan application process. Where possible, information presented by the borrower is validated using third party background checking services, public registers, and other sources.

However, it is important for investors to understand that Estateguru does not assume investors' risk of the borrower defaulting on the loan. Estateguru does not insure investors against credit risk or provide guarantees against losses occurring due to non-payment by the borrower.

Estateguru is not legally required to keep the risk of the investor's portfolio within a certain range, regardless of whether the investor uses Auto Invest or selects loans for their portfolio manually. As a crowdfunding service provider, Estateguru provides investors with the tools to make investment decisions and monitor their investments but managing of risks associated with investing in crowdfunded loans, such as through a reasonable diversification of investments, is the responsibility of each individual investor.

We urge investors to perform a critical self-assessment of their level of sophistication as well as their ability to bear losses associated with investing in crowdfunded loans or other investment products.