Credit

Policy

GOPARITY

1. OBJECTIVE

This document aims to establish the main policies adopted by Power Parity SA (“ Goparity ”) on credit risk and which are applied to the financing campaigns presented on the platform.

This document has been prepared in accordance with Delegated Regulation (EU) 2020/358, which supplements Regulation (EU) 2020/1503 (ECSPR).

2. BASIC PRINCIPLES

Credit Risk is the risk of deterioration in the quality of the credit portfolio due to non-payment of obligations or the customer's lack of intention to comply with them, ultimately resulting in a loss for the investor.

Goparity is governed by basic principles that are essentially based on:

- Integration of external models

Goparity is constantly evolving, with greater integration of external systems for risk measurement and management as key elements in decision-making. External partner models (Iberinform and Wiserfunding) are applied in the analysis and admission process and are intended to identify operations that do not meet the risk requirements defined in the respective model.

- Application of risk concession limits

Goparity has a limit structure based on the objective of maintaining a level of risk exposure appropriate to the expected level of return and achieving adequate portfolio diversification.

- Assessment by risk analysts in measuring and monitoring risk

The incorporation of technical opinions from risk analysts is of utmost importance in measuring and monitoring risk. The analyst assesses the positive and negative aspects of the proposal and carries out the client assessment with the aim of minimizing credit risk. The analyst's opinion is a fundamental part of assessing the overall quality of risk and contributes to monitoring the risks incurred.

- Integration of the risk concession allocation system

Goparity has a system for assigning credit limits, which vary depending on the nature and amount of the credit. There are two decision-making levels, which, depending on their delegation of powers, make the decision on granting a new risk operation, taking into account the tools and information available.

- Position of advance warnings in risk monitoring.

Goparity has a monitoring system based on the alert model of external partners (Iberinform and Wiserfunding), which allows preventive monitoring of risk and detection of possible deteriorations in the quality of the credit portfolio.

- Guarantees for risk mitigation

Guarantees are used as a crucial element in the admission of credit and refinancing, and are intended to serve as a mitigation of the risk assumed. However, they do not justify the granting of credit in themselves, as the granting criteria should be based primarily on the promoter's payment capacity, with additional guarantees being considered only as a second and exceptional means of recovery when the first fails.

3. POLICY

Goparity has a risk management and control system that covers all the activities it carries out, with risk admission, analysis, monitoring and control procedures, as well as recovery, applied according to the nature and form of the risk.

Below are the credit risk policies applied in the different phases of the credit risk cycle: analysis, admission, monitoring and recovery.

3.1 General policies for granting and monitoring credit risk

- ✓ When granting risk, Goparity's business model is taken into account, which focuses on small and medium-sized organizations and financing entities and projects aligned with the United Nations Sustainable Development Goals.
- ✓ The product offering, including the term and price, is adapted to each promoter and is aimed at covering their needs, taking into account the purpose of the financing, the repayment capacity and the necessary guarantees associated with each financing line.
- ✓ The criteria for granting loans are directly related to the capacity to meet the debt service payment deadline and form, and take into account the total financial obligations assumed. This payment capacity is assessed by assessing the net cash flow from operating activities or other sources of current or confirmed income, without depending on guarantors, sureties or assets given as collateral.
- ✓ Guarantees are always considered by risk analysts when analyzing the granting of the operation as a second and exceptional recovery route, that is, in the event that the company fails to pay its obligations to investors.
- ✓ Current fund generation are identified and quantified, which will serve as the main source of reimbursement for operations and which must be the net treasury estimated based on its updated economic and financial data or, if applicable, audited economic and financial data.

- ✓ The granting of operations with special characteristics (long-term operations, with partial or total interest grace periods, with half-yearly or higher payment periods, etc.) are exceptional and follow more restrictive granting criteria.
- ✓ When granting risk, the global limits defined for the different segments are taken into account, considering the evolution of the market and the particularities of each sector.
- ✓ All operations are adequately documented and information on the client's sources of fund generation is updated at the frequency that best suits the client's risk profile.
- ✓ The minimum documentation required, which must always be updated both at the time of granting and at other significant moments during the life of the credit (e.g. .: change in conditions or risk reclassification) is as follows:
  - a) Contracts signed by holders must be duly checked to ensure that they were drafted appropriately;
  - b) The economic and financial information must be updated in a way that allows the analysis of the general solvency of current funds and the repayment capacity of credit holders and guarantors.
  - c) If the credit holder is part of an economic group, economic and financial information from the parent company must be requested, as well as consolidated information (if account consolidation applies).
  - d) Risk Center of the Bank of Portugal and declaration of non-debt from the Tax Authority and Social Security, or equivalent in other jurisdictions.
  - e) In the case of personal or corporate guarantees, income statement or updated accounts of the guarantors.
  - f) In the event of mortgage guarantees allocated to the operation, an assessment carried out less than 24 months ago by an expert registered with the CMVM, or equivalent in other jurisdictions.
  - g) In the event of equipment guarantees allocated to the operation, proforma invoice or budget for the acquisition of equipment less than 6 months old (and technical study on the equipment for energy efficiency).
  - h) In the case of there being collateral for receivables, underlying contracts.
- ✓ Compliance with all KYC verification procedures, in particular verification that the project promoter does not have a criminal record with regard to breaches of national corporate law, and that he/she is not established in a non-cooperative jurisdiction or a high-risk third country.

3.2 Credit Risk Concentration

Goparity has defined a structure of concentration limits by client, segment and geography, with the aim of maintaining a level of exposure aligned with its risk profile and adequate diversification of the credit portfolio.

Risk Concentration by Group/Client

The maximum total exposure limit assumed with a Group/Client will be a maximum of 10% of the platform's total outstanding credit portfolio.

Risk Concentration by Segment

The maximum limits for total risk concentration by segments in the credit portfolio are as follows:

- ✓ Start-up (less than 24 months of activity): 30%
- ✓ Small and medium-sized companies: 60%
- ✓ Social and non-profit sector: 30%

3.3 Credit Risk Classification

According to the risk profile of the project promoter (or group), Goparity uses a rating system that varies between A+ and C-, where A+ represents the lowest risk and C- the highest risk.

3.4 Restructuring and Recovery Policy

A client is considered to be in a situation of financial difficulties when he/she has failed to comply with any of his/her financial obligations towards investors and the platform, or if it is foreseeable, in view of the information available, that such a situation will occur, taking into account, in particular, evidence relating to that client or any entity in the group to which that client belongs.

A restructuring can be carried out before or after the customer defaults and aims to provide the customer with new conditions to repay the capital owed, the most common being an extension of the term, introduction of grace periods or changes to the frequency of interest payments and capital repayments.

We have established collection procedures in case of late payments, which may vary depending on the type of non-compliance. In general:

- ✓ If any loan payment is more than 5 days past due, we identify the borrower's loan as “Overdue” (5-90 days).
- ✓ If any loan payment is more than 90 days past due, we identify the borrower's loan as “In Default” (more than 90 days).
- ✓ If any loan has a term longer than 365 days and there is no expectation of repayment, we identify the loan as “Non-Recoverable” (more than 365 days).

When a loan payment is overdue, we forward the loan from the corresponding promoter (borrower) to our internal collections department or to an external collections agent. We typically use our internal collections department as the first step when a loan payment is up to 90 days overdue.

Collection procedures we may undertake following a borrower's non-payment include, but are not limited to:

- ✓ Try to contact the promoter by phone and email to notify them of your default and try to obtain payment from the borrower as quickly as possible.
- ✓ Sending formal letters of demand to the promoter and any/all guarantors of the promoter's loan;
- ✓ Have a demand letter from the attorney and a notice of intent to enforce the security sent to the promoter and any guarantor(s); and
- ✓ Initiate and maintain legal proceedings against the promoter and any guarantors, including insolvency proceedings if appropriate.

If a loan is more than 90 days past due, we may use an external legal services provider to take legal action against the promoter (borrower). We work with a legal team on a contingency basis, where the cost of their services and other legal costs are deducted from any amounts recovered (amounts recovered net of costs are paid to lenders on a pro rata basis as outlined in the T&Cs).

3.5. Pricing policy

The main objective of risk-adjusted price management allows us to discriminate based on the credit quality of promoters and projects.

The pricing model used by Goparity is based on the market risk-free interest rate, to which the promoter's risk premium, an expected margin and a maturity premium are added, and an impact premium is subtracted.

The interest rate associated with each offer is calculated based on the following components:

1. Risk-free interest rate: public debt yield or other local benchmark .
2. Risk premium: or expected loss , estimated as the probability of default (in English " Probability of default " or "PD") multiplied by the loss given default (in English " Loss Given Default " or "LGD").
3. Expected margin: expected return that follows market dynamics and the analyst's final assessment.
4. Maturity premium: calculated according to the forecasts of increased risk due to the illiquidity of the investment.
5. Impact premium: calculated according to the promoter/project's impact assessment and comparison with a benchmark .

The various components are reviewed periodically.

3.6. Decision model

Goparity has implemented a 2-tier decision-making model, with a system of delegation of powers for assigning credit limits that vary according to the nature and amount of risk. The levels are as follows:

1. Risk Analyst – analyses and decides on a daily basis on operations that fit the defined profile; analyses and submits remaining operations to the Risk Committee.
2. Risk Committee – meets weekly to decide on operations that, due to their characteristics, exceed the decision-making power of the Risk Analyst. The Risk Committee includes the Risk Analyst, the Chief Risk Officer(“CRO”), the Chief Commercial Officer (“CCO”) and the Chief Executive Officer (“CEO”). The CRO, CCO and CEO vote and decisions are made by simple majority.

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