credefi

White Paper

Content

1. Vision

1.1. Liberalizing and decentralizing the banking industry

For ages the banking industry has been controlled by a few privileged powerful institutions that have been in control of most of the world's wealth. The interest of the average individual, the millions of depositors and non-professional investors, has been consistently neglected. Huge profits have been made by those privileged without sharing in an equitable and fair way with those contributing with their funds. Time has come to challenge this model and offer a new convention to the financial industry. The key to finding the new way lies in the hands of technology.

Blockchain has shown us that there can be a better way. A system in which decision-making is done by the majority and not centralized with the few. The decentralized finance technologies opened wide doors for technical, but above all functional improvement in most processes in the financial industry. However, so far the real-life application of this new approach and the peer-to-peer financing projects in particular are few and offer limited features. For the time being they do not produce a fair rate of return for the investors. At Credefi we are committed to:

- giving you back control over your wealth
- enabling you to make informed investment choices
- offering you opportunities that bring a high rate of return
- improving the access to finance to those in need

Credefi has designed a system that allows lending and borrowing money on a decentralized platform where the interest is determined by the users' individual risk appetite. We aim to provide a full spectrum of services, similar to what the traditional banking industry is offering, however, in a fully decentralized way. The platform will connect users and enable peer-to-peer lending that goes beyond what we have experienced so far. Credefi is going to give its users the option to invest in credit portfolios, individual loans, or do trade finance, directly through their personal wallet.

Our vision: **Banking redefined**

1.2. Our core beliefs

Traditional banking services

Current banking services exclude a wide range of potential borrowers due to

over-restrictive regulation and centralized and slow decision-making and operations. A traditional bank operates with the deposited money of its customers (depositors) and via centralized decision-making estimates the risk and return of its operations. This means depositors have zero choice, control or even knowledge where and how their funds are invested. In most cases banks make a considerable profit from their operations based on the interest rate spread (the difference between the interest rate charged to borrowers and the one paid to depositors). Current interest rates for depositors are at a historical low, meaning you receive almost no interest for your funds, and in some cases they are even negative.

- During the financial crisis of 2008 this fact became apparent, as it turned out that the money of depositors had been heavily invested in the subprime mortgage segment. This in turn meant that when those mortgages went under water and collaterals were liquidated, their value did not suffice to cover the principal and millions of depositors lost their money even without knowing that their banks had been investing in these risky assets.

- As of today, banks use a variety of unsubstantiated excuses to apply all-time-low interest rates on deposits. They claim this is “the best possible yield in the current state of the world economy” while still keeping in secret where your money is invested and how much they earn. We challenge you to call your bank and ask what interest they are going to give you for a deposit of EUR 10 000 and inversely, what interest they will charge you for a loan of that amount for the same time period. We are sure you won’t like the results. We have done this numerous times!

At Credefi we believe that you should have control over what assets your money is invested in and that the return from the investment should be paid in full to the actual investor - yourself.

At the same time our platform will provide the means for each borrower to apply and be evaluated using professional risk assessment algorithms. After the assessment, a recommended rate of return is assigned to the applications, the projects are uploaded to the platform and all users will be able to make an informed choice on where and how much to invest, as well as what return to expect.

The current crypto space does not offer flexibility to manage the funds invested

Within the current crypto space, the technology of decentralization has given the means to participate in a global market without regulations and central decision-making. However, until now there has been no project that provides the professional tools of the credit industry to its token holders, while enabling them to manage their own funds in a decentralized way. Credefi’s solution offers its users a choice to either passively earn a yield by funding loan portfolios or lend to individual

projects with potentially higher returns. Furthermore, in the long run Credefi aims to become a market-driven, automated lending system. All of these features will be launched in three distinct phases explained in detail below. Credefi is the first project offering all the functionalities of a self-service Bank in the crypto space.

1.3. High level tokenomics

The Credefi token economy setup follows a two token system with added incentives for users who contribute to the system's stability, pioneered by protocols like SushiSwap and AAVE. The tokenomics consists of:

- **CREDI** – a token used for participation and rewards on the platform.
- **xCREDI** – a variable supply (but deflationary in the long-run) token created by burning CREDI and stabilizing the Credefi ecosystem.

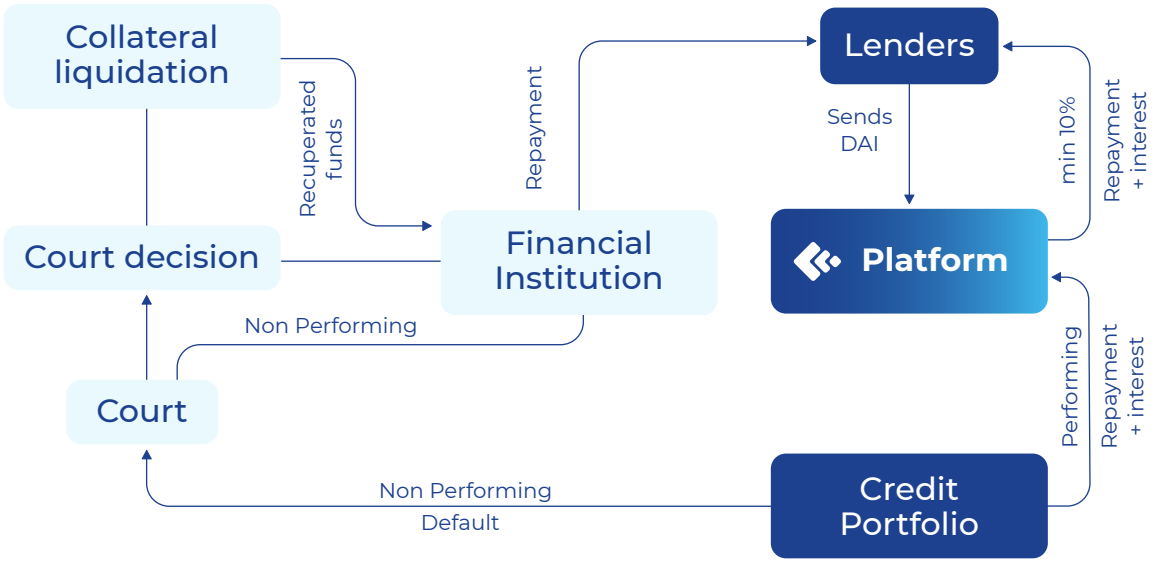
2. Platform development

Credefi's platform will be developed in three phases. Each phase introduces different services to the CREDI holders and the public. Outlined below are the details of the three phases of the project and the value added to both the platform and the community with each milestone.

2.1. Phase 1: Lending to credit portfolios

Any CREDI token holder will have the right to lend in DAI, USDC or USDT stablecoin on Credefi's platform and earn interest for the duration of the loan smart contract. The participants on the platform will have the choice to invest in different portfolios depending on the risk they are willing to take. The platform participants will have full visibility over the projects contained in the respective portfolio and their individual credit scores and profiles. The platform will provide a risk assessment and credit score data to the users, hence giving them the means to make an informed decision where to invest. Furthermore, by lending on the platform they will be rewarded with CREDI tokens.

Phase 1: Passive income generation



2.2. Phase 2: P2P Lending

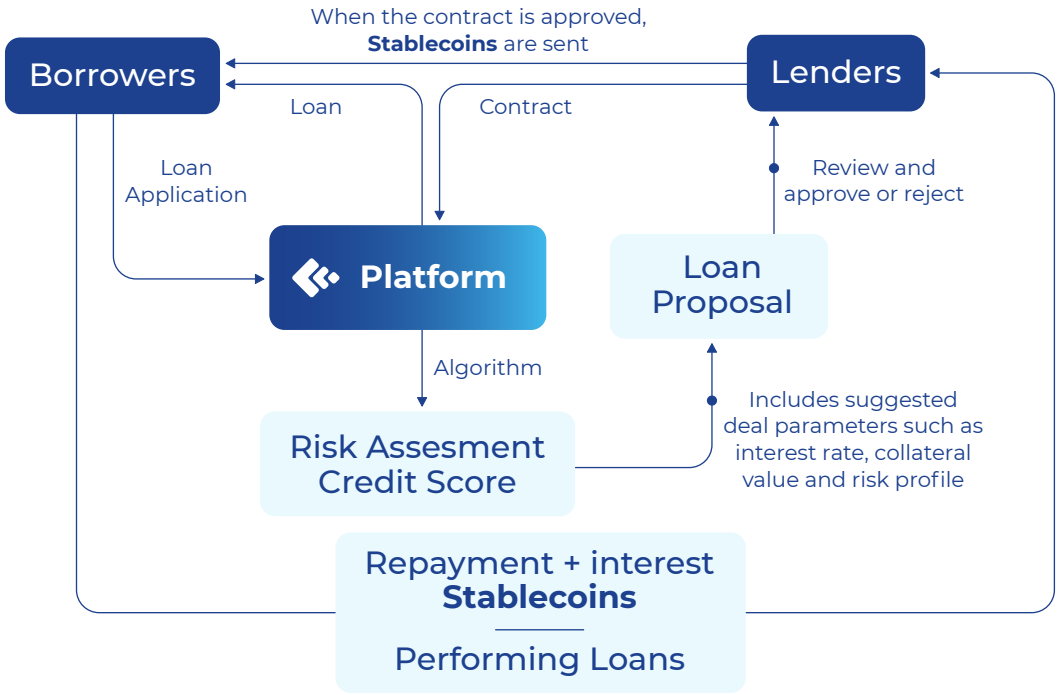
In phase 2 we will take full advantage of the decentralized nature of the blockchain with direct peer-2-peer finance, liberalizing the process of lending and borrowing by connecting interested parties worldwide directly without intermediaries (our platform is only an enabler). The process will be structured as follows.

Once a project (loan request) is uploaded, the platform will perform a risk assessment and a review of the relevant legal framework. The analysis will first ensure the project's legal compliance and then measure its sustainability and probability of default, recommending a suitable interest rate that lenders should charge. The token holders will then have the option to invest directly in any proposed project they deem viable and profitable. One of the key advantages of Credefi is that the investments will be legally protected through a loan agreement designed by a team of professionals and an accredited financial institution registered in the European Union.

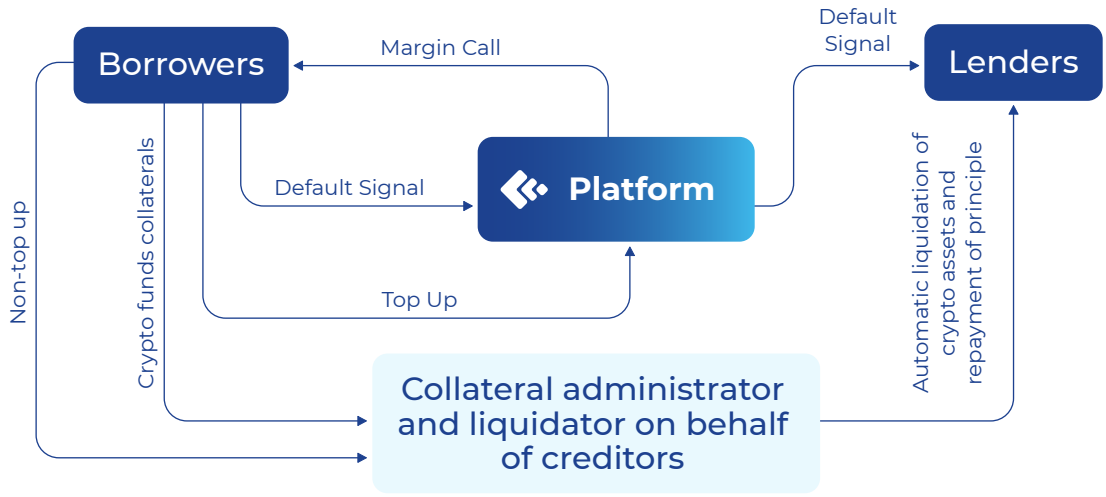
The design of the credit deal will be assisted by the partner financial institutions, increasing the security of the investment for lenders. If the deal includes providing a real asset as collateral (e.g. a real estate), the collateral will be assigned to our partner financial institution and in the case the loan becomes non-performing, the institution will liquidate the collateral and return the proceeds to the lenders.

Credefi will use its proprietary algorithms to calculate and suggest loan parameters that are fair for both parties. Furthermore, the Credefi community will be able to evaluate and customize the parameters in a decentralized mechanism believed to give the best outcomes. This means that any lender will be able to ignore all odds and finance a project if he believes in it. This is clearly NOT possible in the current financing system.

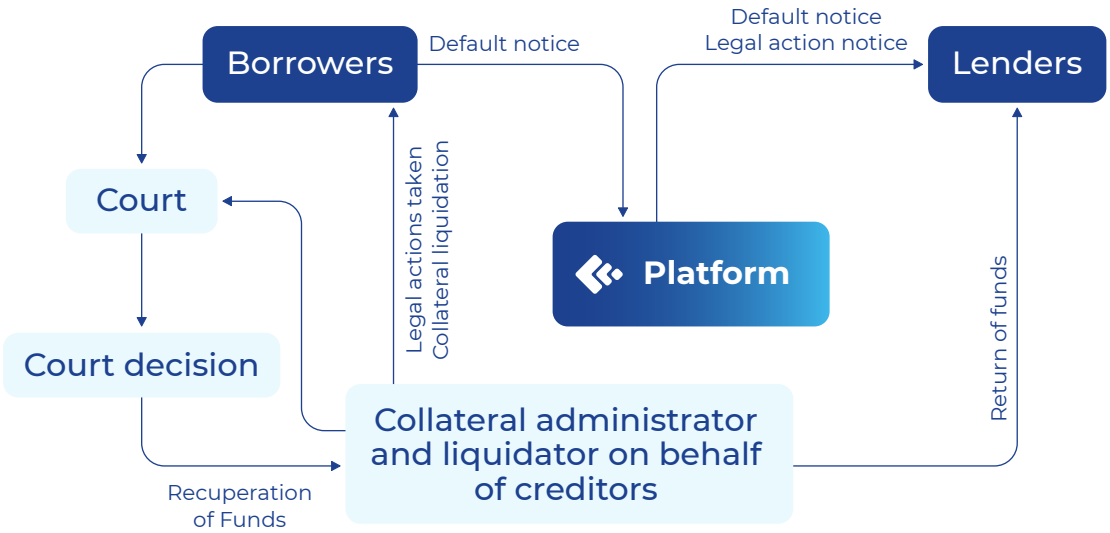
Phase 2: Peer 2 Peer



Phase 2: Peer 2 Peer (Credit Default - Crypto Assets)



Phase 2: Peer 2 Peer (Credit Default - Tangible Assets)

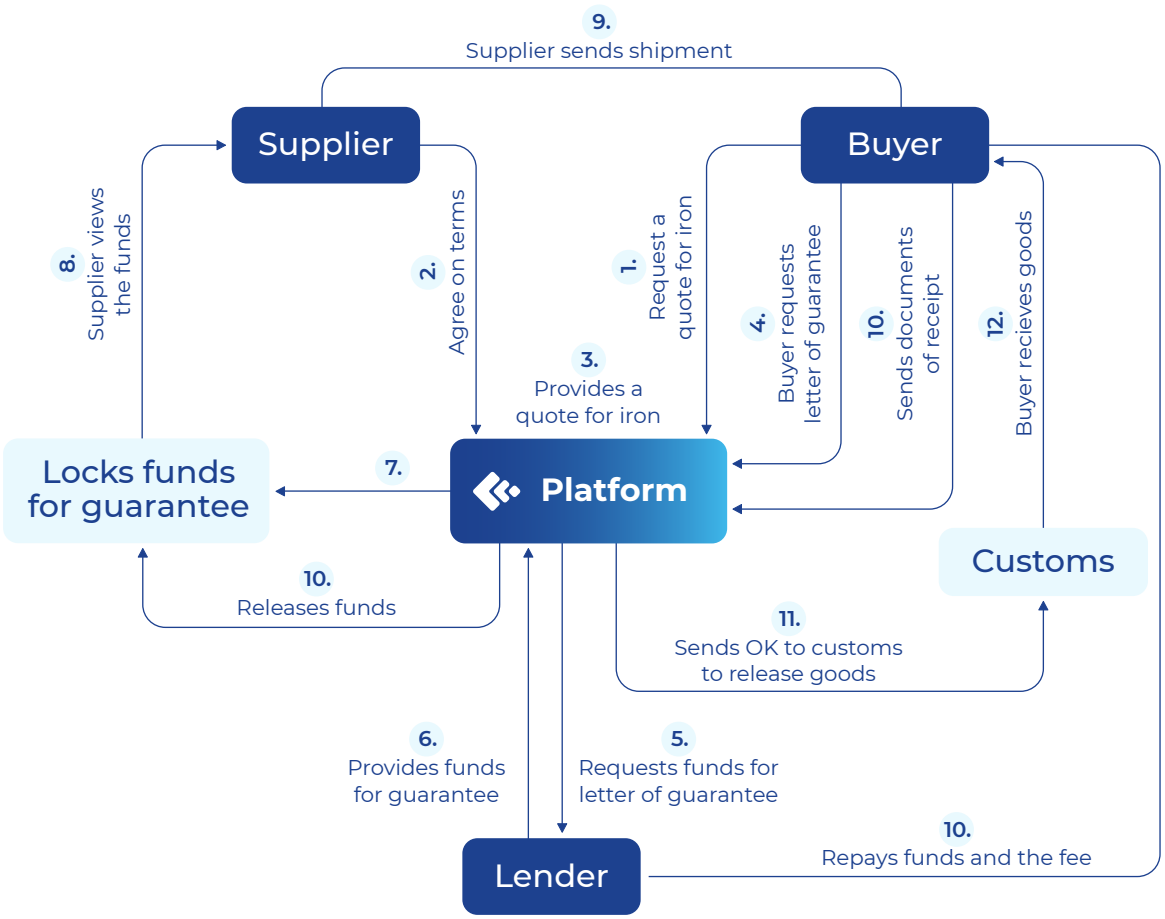


2.3. Phase 3: Trade Finance

In Phase 3 Credefi will offer trade finance for both lenders and borrowers. Credefi aims to combine traditional banking instruments with the aspect of decentralization, offering a wide spectrum of services to its customers. Lenders and borrowers will be able not only to meet in a credit deal but also to underwrite a Letter of Credit or a Letter of Guarantee, as well as factoring services.

How does it work? A party (buyer) registered on the Credefi platform will be able to list its needs for a specific product. Once a counterparty (supplier) agrees to supply it, they would access all the necessary documentation for the product on the platform. After the buyer reviews and agrees with the respective terms and conditions, he would pay the asked price in stablecoins and the platform will lock the tokens until the product is received. All parties will be able to follow up the status of the shipment of the goods. Once the buyer uploads a goods received note, the locked wallet will be made available to the supplier and the funds will be accessible for withdrawal.

Phase 3: Trade Finance



3. Tokenomics

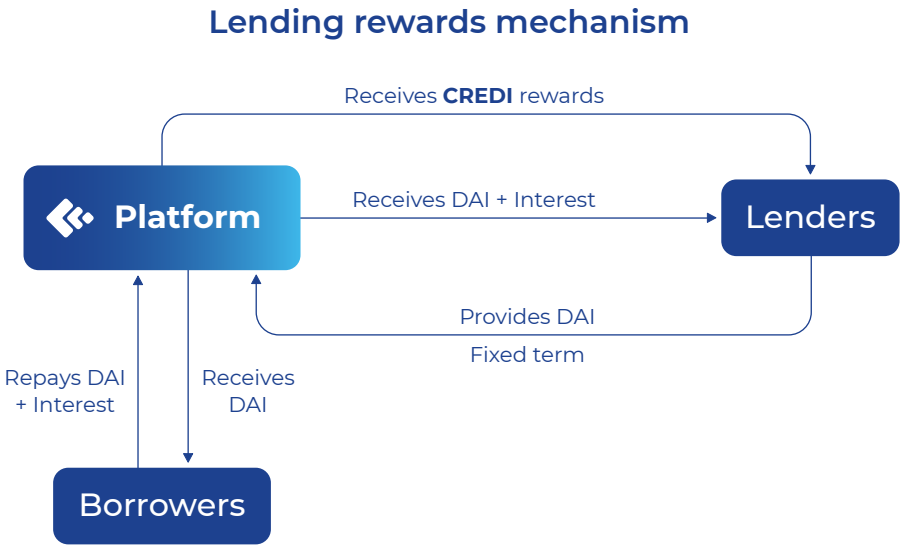
Credefi's platform will be developed in three phases. Each phase introduces different services to the CREDI holders and the public. Outlined below are the details of the three phases of the project and the value added to both the platform and the community with each milestone.

3.1. CREDI

The CREDI token is the native token of the Credefi ecosystem and has three main functions. It serves as a rewards distribution token,an additional security layer of the platform, and enables users of the platform to participate in the investment opportunities. CREDI is our main token and it will be the one that is going to be purchased by investors in the private and public sales.

Furthermore, CREDI has a perpetual inflation of ~5% per year based on the remaining CREDI token supply. This means that an amount of new CREDI will be released into the system each year. This inflation will be split between (exact allocations to be shown in our detailed Tokenomics paper):

- Users who lend on the platform



- Liquidity providers for CREDI on UniSwap
- Liquidity providers who deposit their xCREDI LP tokens in the security module (more on xCREDI in the next section)

Another main utility function of CREDI is to act as an additional security layer for the loans issued on the platform. Any CREDI available in the security module can be used by the Credefi platform to compensate lenders in case a loan on the platform goes into default and liquidation and the collateral proves insufficient to cover the loan principal plus interest.

CREDI holders will be divided into tiers depending on the holding amount and each tier will bring different benefits and utilities to the CREDI token holder. Thus, in addition to the above mentioned utilities, CREDI will also provide its holders the following benefits depending on the tier level:

- Better rates
- Lower fees
- Access to VIP projects
- Early access to features of the platform

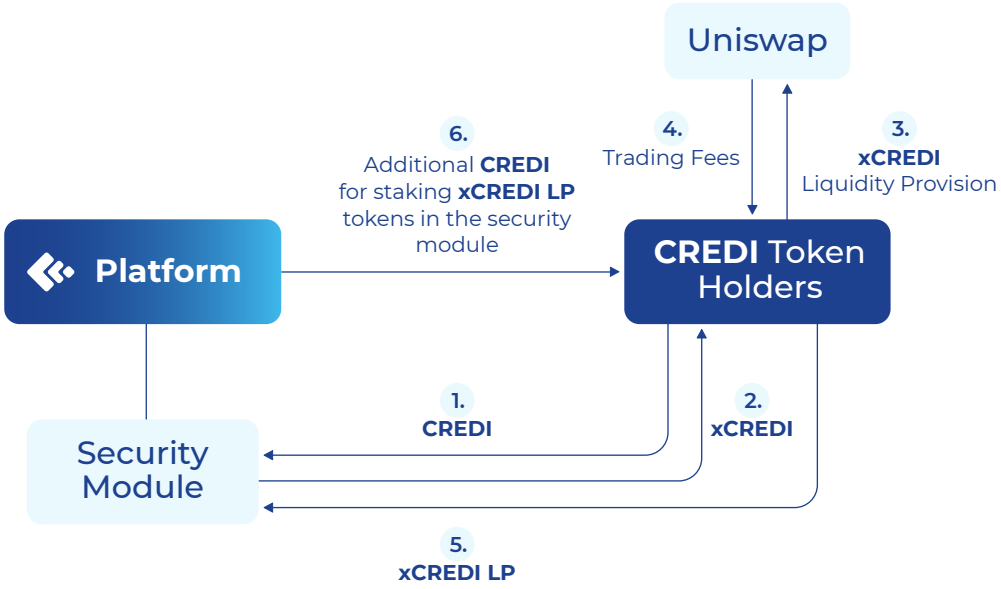
3.2. xCREDI

xCREDI is obtained by depositing CREDI in the security module. Any CREDI deposited in the security module is subject to 10 months vesting and a staking reward of 10% per month. For example: if a user deposits 1,000 CREDI in the security module and the current CREDI/xCREDI conversion rate is 1:1, this user will get 100 xCREDI per month for 10 months. Any CREDI not yet converted to xCREDI is usable by the security module for system stability.

Once a user has xCREDI they can opt for (combination of the below is possible):

- Participating in the future governance of the platform
- Providing liquidity to the xCREDI/DAI pair and receive part of the trading fees
- Staking xCREDI LP obtained from providing liquidity on Uniswap in the security module to receive CREDI rewards on top of the trading fees for the liquidity provision on UniSwap

xCREDI LP tokens rewards mechanism

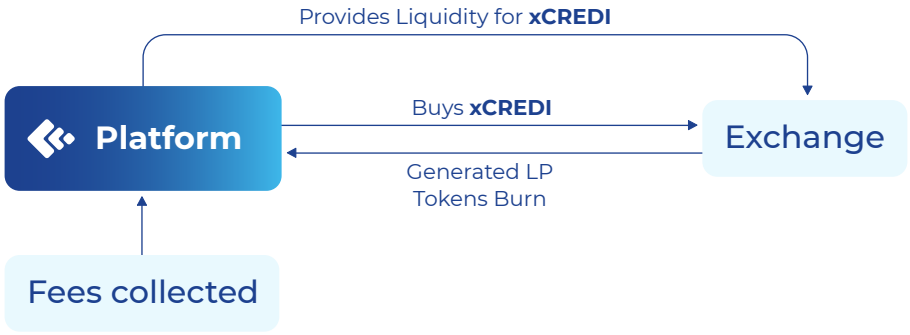


Conversion rate. The CREDI/xCREDI conversion rate is defined as a bonding curve, where the more CREDI is converted to xCREDI, the more expensive subsequent conversions become. The exact bonding curve is described in the Tokenomics paper. Any CREDI that has already been converted to xCREDI gets burned. It means that even though CREDI has a constant annual inflation, it could become deflationary in the long run, depending on the volume converted to xCREDI.

Multipliers. Users who deposit their CREDI in the security module will have the option to choose a cliff for their deposit. The higher the cliff, the higher the multiplier between CREDI to xCREDI. If we continue the example from above, a user who deposits 1,000 CREDI at a conversion rate of 1:1 with no cliff would get 1,000 xCREDI in 10 months (10% per month). If the same user decides to deposit the CREDI with a cliff of 12 months, he will get a multiplier on the xCREDI received. In this second scenario he would receive no xCREDI for 12 months and after that (10% x Multiplier) per month. Longer cliffs get better multipliers as defined in the Tokenomics paper.

Buyback & LP. A percentage of all fees/interest collected on the Credefi platform will go towards a buyback and liquidity provision program for xCREDI. The resulting LP tokens will be burned. This will create constant deflationary pressure for xCREDI.

xCREDI value creation



3.3. Governance

The governance of the platform will be split into three separate phases outlined below:

a) "Start-up phase" phase - during that period, our team will manage the project. The reason behind this decision is that there might be bugs and events, which require immediate hotfixes

b) "Community Participation" phase - during that period, the team will take suggestions from the community via our Forum, and proposed changes will be discussed and voted among the team.

c) "Decentralisation" phase - during that period, the team will put out all the changes to the system for a community vote via an off-chain voting solution

In order to participate in the system's governance, users will need to stake xCREDI in the governance module of the platform.

3.4. Token sale and distribution

The initial sale of the token will provide necessary funding to develop the platform and release the next phases. It will also provide the liquidity necessary for phase 1 to begin its operation and build its network of partner financial institutions worldwide. In phase 1 Credefi will partner with financial institutions for the creation of credit portfolios which will generate yield based on the risk profile of the borrowers. The initial token distribution will be as follows:

- Private sale: **CREDI 250 million**
- Public sale: **CREDI 20 million**
- Liquidity provision: **CREDI 150 million**
- Ecosystem incentives: **CREDI 250 million**
- Team and advisors: **CREDI 250 million**
- Reserve: **CREDI 80 million**

Additional information regarding the Token sale and distribution mechanisms can be found in our Token economy paper.

4. Credefi's Commitments to the community

Credefi makes the following three commitments in order to cultivate the fairest marketplace possible:

4.1. Credefi Treasury

The fees Credefi is going to collect vary depending on the market segment the particular project is classified in. In phase 1, the fee is going to be a percentage of the yield generated by the applicable portfolio. In phase 2, Credefi is going to collect 0.25% (25 basis points) from Borrowers on loan origination. The fees charged in the crediting activity for phase 3 projects will be in the range of 0.10% (10 basis points) up to 0.30% (30 basis points) again collected from the borrowers. Credefi will reinvest a percentage of these funds to support the constant development of the platform.

4.2. Credit risk assessment

The problem most DeFi projects face when lending on the blockchain is the risk of

non-payment carried by the lenders. Credefi is developing a decentralized crediting platform powered by the community. Our solution is to combine the traditional collateralization with a decentralized form of lending, working together with a recognized **financial institution licensed in the EU**.

The above financial institution will assume the role of **collateral administrator and liquidator on behalf of the lenders**. The institution is licensed in the EU and has the right to make claims in international courts. Once the court procedures are finalized and actual collaterals are settled, the recuperated funds will be returned to the lenders.

Credefi will perform **credit risk assessment in the beginning, to be complemented / replaced by AI in the future**. Accurate risk scoring of borrowers will inform lenders' decision-making and help protect their funds. This is achieved by giving lenders all the necessary information of the risk profile and legal status of the prospective borrowers, hence allowing an informed choice to be made.

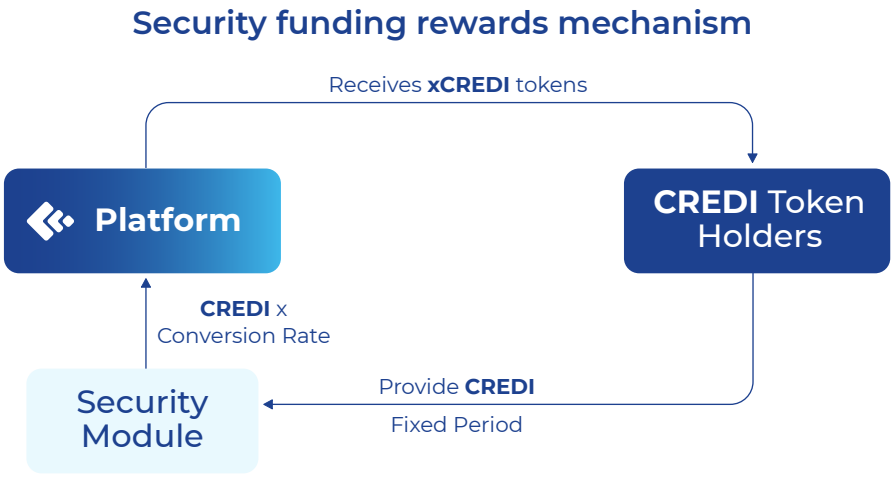
Credefi will offer **only risk assessed loans** on its platform. This will protect both lenders and merchants.

4.3. Credefi security module

As described above, the security of funds provided on the platform is one of our main priorities and therefore we will create a second line of defense against loss of funds due to defaults. Credefi introduces a security module where any CREDI and xCREDI which is available in the module can be used by the Credefi platform to compensate lenders in case a loan on the platform goes into default and liquidating the collateral proves insufficient to cover the loan principal and interest. Although supporting the security of the system bears a considerable risk for token holders, participants in the security module get significant incentives for this.

The incentives are:

- Significant allocation from the CREDI inflation
- The option to participate in the platform governance



5. Risk Management

A traditional bank is exposed to three key groups of risks associated with its activities - credit risk, operational risk and liquidity risk. At Credefi, in order to protect the participants in the platform and their funds, we have mitigated those risks in the following manner:

5.1. Credit risk

This risk is the most relevant one in any lending activity, the risk of the borrower failing to repay its loan. The assessment of this risk is crucial to any lender and it is fairly complex. When assessing this risk there is no single factor model. It needs to take into account different variables and how they affect the overall probability of repayment. Banks have invested heavily in developing different scoring models to estimate how a credit will perform over the years until maturity. Our team includes professionals who have extensive experience in the banking sector, including specialists in credit risk assessment who have worked in collaboration with one of the best companies in the sphere of credit score modelling and development. We have developed and implemented proprietary credit scoring models that will be applied at the moment of credit exposure origination (application models), as well as behavioral models aiming to quantify the risk associated with a particular exposure through its lifetime. The models estimating the credit risk associated with a credit facility are built on the bases of regression models including macro and microeconomic variables, geographic characteristics, sector of economic activity and behavioral characteristics such as loan delinquency, credit utilization rates and past debt servicing history. The models observe how the variables have affected the behavior of a borrower and they give us a statistical estimate whether a project or a business is going to repay the funds or not.

For example, these risk models look at the performance of homogeneous pools of projects which have been credited before and how they have performed with similar characteristics of the potential borrower currently applying for funds. These models

assess the possibility of default on a deal based on the historical data we have for similar projects. We calculate different scenarios by changing variables such as the GDP growth of the region in which the borrower is applying from, to see all possible outcomes and whether the borrower will have the financial means to repay the loan. Credefi relies on the expertise of our team and the use of statistical data. The algorithms have a 92% predictive power, meaning that in 92% of the cases the model gives a realistic probability of whether or not the loan will be repaid. Our plan is to expand our network of partnerships with financial institutions over time and further improve the confidence interval of our algorithms.

Another aspect of credit risk assessment is how much the lender should ask in return for taking the risk of lending money to the borrower, or the so-called risk-based pricing. The concept is that when you have calculated the probability of default over the lifetime of the loan the interest rate a lender should seek needs to be proportionate to the risk taken plus a risk premium. So, at Credefi as stated above we will assess the credit risk and suggest the interest rate that lenders should seek. For example, a project with a probability of default of 20% will be suggested to pay 25% interest on the funds borrowed to cover the risk of default and apremium on it. Since the platform is decentralized and the risk assessment described above is not binding, lenders may choose to seek a higher or lower rate of return but Credefi will have given them the tools to make an informed investment decision at the moment of credit origination as well as during the lifetime of the loan.

Another form of mitigating the credit risk taken by the lenders is through the provision of collaterals which in the event of non-repayment will serve as means to recuperate the funds of the lenders. Our collateral administrator will manage and liquidate if necessary the collaterals posted by borrowers. The platform will also provide information on the market value and any expected discount in the event of collateral liquidation, including of real estate. The features in the platform and the models used are based on deep learning risk models that would gradually become self-learning models. This will be possible after the initial set of transactions is executed on the platform. It will be an on-going process, building on the accumulated historical data and observed behavior of the borrowers. This is a data-intensive process and Credefi has planned for the implementation of sound data governance practices and modern technical infrastructure decisions.

5.2. Operational risk

Operational risk is the risk of fraudulent activity, or a borrower representing false circumstances and intending not to repay the loan from the very start. At Credefi we have mitigated this risk by partnering with a financial institution, licensed and with legal capability to represent the lenders in courts and sue the borrower until repayment. With their help we have designed a thorough KYC registration

procedure for all borrower applicants. In summary, the concept has been designed to link crypto to the real world and make the most out of the advantages of both. We are going to rely on blockchain for transparency and efficiency, and we are going to use traditional financial companies for physical operations, such as claims management, debt collection, collateral management and all sorts of client relationships. This is a new concept in the crypto world.

Our intention is to only partner with financial institutions of good reputation, excellent operational track-record and high level of management and operational systems. We have already reached an agreement with our first partnering organization accredited in the EU. We have a number of reputable international partners in the financial field that are currently on standby until the platform kicks off and gains momentum to join our ecosystem. In other words the operational risks in Credefi's proposed projects will be addressed at least as per the standards of an EU accredited financial institution.

5.3. Liquidity risk

Liquidity risk in a traditional bank arises when the bank fails to meet its obligations because of a mismatch between long and short positions. Sometimes, substantial long-term facilities get funded by short-term deposits, assuming that the deposit bases will be stable in time. However, it opens risks of not being able to satisfy unexpected withdrawal requests above certain thresholds, which in reality happens quite often.

Having a decentralized model of lending mitigates this risk automatically because the funds invested are non-custodial. They belong to the lenders who have chosen a fixed period in which they would be invested and have selected their withdrawal options in advance.

Another problem associated with liquidity risk is the mismanagement of interest payments. Sometimes banks do not effectively plan the inflows and outflows of interest payments so they end up with cash flow shortages or negative interest rate spreads, which is another form of liquidity risk.

Again, in Credefi's decentralized platform this would be impossible because we are not a bank - the lender is effectively the bank and he or she has selected the terms for investment of their funds. Lenders will directly receive the contractually agreed interest rate without any intermediaries, so this risk is mitigated.

6. DeFi Sector analysis and Credefi positioning

The biggest advantages of DeFi are that it doesn't require permission to participate,

The biggest advantages of DeFi are that it doesn't require permission to participate, same rules apply to everyone, liquidity is 'borderless' (you can access the market from anywhere & anytime as long as you have internet), and it's non-custodial so you have full control over your money and you can use it the way you want.

The meteoric rise of DeFi in 2020 is illustrated in the following figures:

- $70 billion locked in the DeFi sector
- $25 billion of which fall within the lending, assets and derivatives projects
- According to Defi Pulse, the total amount of interest generated by DeFi lending platforms equals more than $700 million
- Current outstanding debt in the Defi lending sector amounts to more than $6 billion.

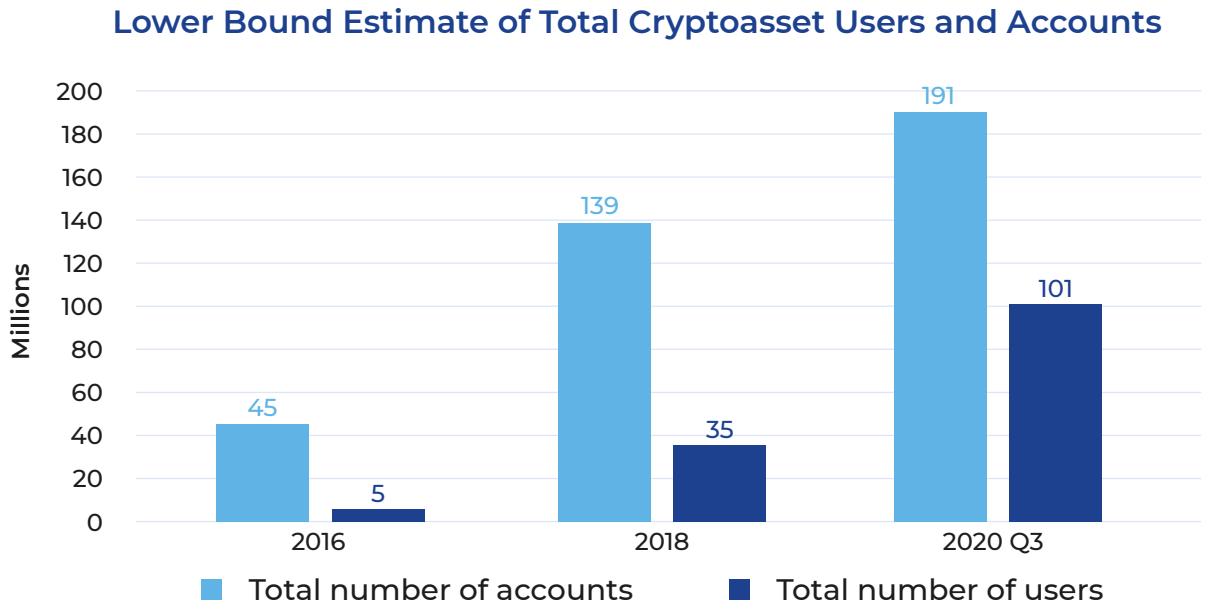
The alternative lending sector in general has seen tremendous growth recently, with total transaction value projected to reach more than $300 billion in 2021. Total transaction value is expected to show an annual growth rate (CAGR 2021-2025) of 4.7%. Taking into account that the largest segment is Crowdlending, where Credefi fits, with an expected value of $240 billion in 2021, we believe that the DeFi lending sector in general is at the beginning of its development and can reach impressive numbers.

Credefi is optimally positioned to take advantage of the tremendous growth potential of DeFi lending. Also, a key differentiator and factor for success is that Credefi is the only DeFi lending and investment platform that is backed by a real world regulated financial institution that already has access to a wide range of clients, projects and partners.

6.1. Credefi users

According to the statistics over 70% of cryptocurrency users worldwide fall within the age range of 18-45 years. We expect Credefi users to be mainly millennials, which currently amount to more than 6 million users in the Defi lending and finance sector. It wouldn't be overstated if we say that Credefi aims at more than 1 million users over the time span of 5 years.

In addition, according to the 3rd Global Cryptoasset Benchmarking Study by the University of Cambridge, the total number of active crypto asset users has grown exponentially, becoming three times higher than in 2018, which further supports our forecast.



6.2. Five issues with Centralized Financial Systems

The world currently operates using a centralized finance model. It is central banks who control money supply, financial intermediaries that control financial trading, borrowing and lending is conducted through banking institutions. The common user does not have any say in this system. This is where Decentralized Finance enters the picture in order to solve five key problems:

6.2.1. Centralized control

Centralization has many layers. Most consumers and businesses deal with a single bank. The bank controls rates and fees. Switching is possible, but it can be costly. The centralization phenomenon does not just pertain to the legacy financial sector. Relatively new tech players dominate certain industries, for example, Amazon (retail) and Facebook/Google (digital advertising).

6.2.2. Bank the unbanked

Today, 1.7 billion people are unbanked, making it very challenging for them to obtain loans and participate in the world of internet commerce. Further, many consumers must resort to pay-day lending operations to cover liquidity shortfalls. Being banked, however, does not preclude suffering from limited access.

6.2.3. Solve inefficiencies

A centralized financial system has many inefficiencies. Most common cases include high credit card interchange rates, costly and slow transfers of funds, high brokerage fees, lack of security and inability to create microtransactions. Many of these inefficiencies are not obvious to users. In the current banking system deposit interest rates remain very low and loan rates high because banks need to cover their

brick-and-mortar costs and make a profit. A similar issue arises in the insurance industry.

6.2.4. Improve interoperability

Consumers and businesses deal with financial institutions in an environment that lacks interconnectivity. Our financial system is siloed. Moving money from one institution to another can be unduly lengthy and complicated. A wire transfer can take three days to complete. This problem is well-known, and some attempts are being made to mitigate it.

6.2.5. Create transparency

The current financial system is not transparent. Bank customers have very little information on the financial health of their bank and must place their faith in the limited government insurance on their deposits. Bank customers seeking a loan find it difficult to determine if the offered rate is competitive. The market for loans is very fragmented, although the consumer insurance industry has made some progress with fintech services that offer to find the “lowest” price.

Current Market Analysis - loan origination in traditional bank vs. Credefi

The bank collects deposits from its customers and uses the funds for financing its credit activities. The bank charges interest rate on the money lent to the borrowers. The revenue from interest rate is utilized for covering the bank’s operational costs and cost of funds (which is the interest paid back to the depositors). On top of that the bank makes a profit. To make that work, the bank applies to the borrowers an interest rate much higher than its cost of funds. In other terms, they make money for themselves on the back of the money of their depositors.

Credefi aims to change this traditional process so that every token holder is becoming a bank.

These two processes compare as follows:

Comparison criteria	Traditional bank credit creation	Credefi credit creation
Loan	The loan is provided in fiat money collected from depositors	The loan is provided directly in stablecoins

Comparison criteria	Traditional bank credit creation	Credefi credit creation
Borrower	The borrower uses the money to pay third parties for goods and services	The borrower uses the funds to pay third parties for goods and services. They can exchange it for fiat, but have to repay the loan and the interest in the same stablecoin
Lender	The bank acts as lender and has the claim against the borrower	The coin holder is the lender and has the claim over the funds provided
Interest-bearing money	The bank receives interest from the borrower and gives a small percentage to its depositors	The lender (holder) receives the interest on the funds borrowed
Principal	The borrower has to repay the principal to the bank	The principal is protected by the Credefi credit protection function. The provider of the funds receives the principal payment in the same stablecoin from the borrower or the collateral administrator and liquidator in the event of a default
Load default	The bank uses legal means to recover its loan (non-performing loans are often sold to liquidators)	The collateral administrator and liquidator takes the matter to court
Credit risk	The bank manages credit risk using borrowers' credit scores, credit portfolios, and liquidators	The platform gives the information about the risks to the token holders or manages the credit portfolios, which are diversified and chosen by CREDI users. Please refer to credit risk section of this document

Comparison criteria	Traditional bank credit creation	Credefi credit creation
Credit score	Banks have their own proprietary credit score models that are applied to each customer	Credefi's platform calculates credit scores for every borrower. Better credit scores lead to lower credit default rates, and vice versa. Please refer to credit risk section of this document
Interest	Banks have proprietary interest rate models based on customers' credit scores	The interest rate for borrowers is set on the marketplace. Better credit scores are likely to result in lower interest rates, and vice versa. However, the calculated rates are indicative suggestions to the token holders. Ultimately, they may request higher or lower rates on the platform depending on their own assessment
Collateral	Traditional banking uses highly collateralized lending, especially for small businesses	Collaterals are allocated and suggested by the platform based on the risk assessment of the borrowers. However, these are suggestions to the token holders, and they may ultimately request other collaterals on the platform
Operational effectiveness	High spreads to cover old-fashioned and bureaucratic systems that involve massive overheads	Uses big data, proprietary statistical and risk assessment models, blockchain, and eventually AI to automate risk-assessment processes

Conventional, highly regulated banks are limited to their scope of operation for global customers, the decisions are taken on a central level and often offer

Regardless of these limitations, banks succeed in generating high net interest income (also known as lending income) in the current economic environment.

The financial services market and more specifically the credit market has proven to be one of the most profitable ones in history. However, due to the high barriers to entry and low competition, it has been one of the least innovative ones. At Credefi we believe that this is about to change, driven by the need for efficient financial services and the opportunities offered by blockchain.

When looking at the global capital allocation, we can see that it is inefficiently distributed:

Economies that are in demand of capital – usually countries with growing populations and in the developing stage, experience lower supply of capital, which results in higher interest rates. In these countries the customers seek:

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Economies that are in demand of capital – usually countries with growing populations and in the developing stage, experience lower supply of capital, which results in higher interest rates. In these countries the customers seek:

- Accessibility to financial services and reasonable collateral requirements
- Lower interest rates and access to funding

Economies that have a surplus of capital – usually countries with stable or decreasing populations and already developed, experience an oversupply of capital. In these countries the customers seek:

- Investment opportunities
- Higher return on their capital

The global capital allocation is inefficient, leading to slower economic growth. For example, the interest rates in Germany are negative. People in Germany are relatively wealthy. Applying negative interest on the deposits is a measure to incentivize spending, however the investment opportunities are relatively scarce

because the market is saturated. At the same time, in countries from the former Eastern bloc it is the other way around. There is a need for capital and an abundance of investment opportunities. Through decentralized financing, blockchain and platforms like Credefi's, these inefficiencies can be mitigated.

6.3. The Future of Wealth Creation

Credefi believes in decentralized structures that learn, adjust and adapt. In these structures the participants have all the decision-making rights and the more the participants in an ecosystem, the better and more informed choices they make. The future of wealth creation lies exactly in the concept of decentralization.

For example, why should SMEs be essentially locked to get funding only from banks in their own country? At Credefi we believe that should not be the case. For example, a project based in Germany might find people willing to invest in it from Australia, because they have seen a similar project succeed there while the banks in Germany have not. By enabling user participation in a global decentralized market, Credefi would open a pool of opportunities for both lenders and borrowers, without regulatory limitations.

7. Competition

DeFi projects are using extensively the pooling approaches (e.g. Compound and Aave). However, the pooling approach contains significant regulatory risk – if the number of clients in a pool exceeds a certain number (50-150, depending on the regulation), then a pool becomes an investment contract and needs to be regulated. This bears significant risk.

Credefi addresses this topic differently:

- Passive lending solution, depending on the risk appetite of the investor
- Peer-to-peer loans
- Project-based lending
- Trade Finance
- Partnership with an EU-based licensed financial institution to secure legal protection and operational capacity- credit administration and collateral management services

Other DeFi lending platforms	Credefi
High collateral requirements	Lower collateral requirements due to better risk assessment
Crypto-only collateral	Both crypto and traditional assets can be used as collateral
Fluctuating interest rates	Fixed interest rates
Overcollateralization used as protection	3-layer credit protection mechanism
Trade financing not available	Trade financing option for platform participants

8. The Technology

We believe in decentralization and that is the reason why the Credefi project is completely open source and therefore our code is publicly available in our GitHub repos. Credefi solves current crediting process issues by relying on technology and utilizing the best available solution that we have as a blockchain.

8.1. Ethereum blockchain

Our platform and smart contract are based on the Ethereum blockchain as the still defacto standard for DeFi (although cross-chain compatibility is quickly becoming a must-have and we are taking it into account).

Outlined below are major strengths of the Ethereum blockchain that support the concept:

- It is open source
- It has a vast amount of liquidity in its network – biggest after Bitcoin
- Proven technology in this new world, which provides us with the tools to build the Credefi app and smart contract
- Ethereum language Solidity is now a mature scripting language with an established and active community
- Ethereum is not just a platform, it comes with Turing complete smart contract scripting language
- It has a lot of useful and proven tools that help us to create a quality project
- We believe in the future of the Ethereum project, because of the organizations behind and the fact that it is constantly evolving

8.2. Risk assessment and investment evaluation technology

Our platform will collect, analyze and derive statistical indicators from the data gathered throughout the platform operations. These inputs will be analyzed by our in-house team of developers, mathematicians and investors to discover patterns

and validate them through established statistical models. The output will be used as a basis for our proprietary AI and risk assessment tools which will be extensively tested using the data collected by the platform

8.3. BSC Integration

Considering the tremendously rising popularity of Binance Smart Chain due to its miniscule fees, we are planning to build a BSC bridge before the launch of our platfofm, to enable more massive adoption and increase rapidly our user base from the very first days of the platform.

9. Roadmap

10. Organization

10.1. Credefi Ltd.

The company is registered in Bulgaria, commercial registration number No.206396291, with the purpose of organizing the proprietary development of Credefi's decentralized finance platform. Credefi's founders and team have extensive expertise in the banking and financial industry and we are partnering with a licensed financial institution. Please refer to the sections below for more information.

10.2. Credit Plus

Our partner was established in 2013 with the purpose of lending in the retail and the corporate segment. The company is licensed as a financial institution that undertakes financial operations within the EU and has gone under extensive regulatory examination by the central bank. The commercial registration number is No.202475916, the license number for a financial institution is BGR00315.

Credit Plus is our initial partner financial institution which is backing the project's development. We have chosen to work with them due to their expertise in lending and collateral management and liquidation. As stated above they will assist Credefi

in our operations as a means for collateral management and liquidation, hence protecting the funds of the lenders in the platform.

10.3. Executive Team

Ivo Grigorov, CEO

Ivo is an experienced Finance Specialist with a demonstrated history of working in the banking industry. He was extensively involved in the development and design of diverse financial instruments in both debt and equity segments. His skill set includes expertise in Market and Credit Risk, Capital Adequacy, and Management. As a strong banking and finance professional with a Master of Science (MSc) focused in Global Banking and Finance from European Business School (EBS) – London, he has a proven track record on successful implementation of financial products. Ivo has been in the blockchain and crypto market since early 2016 and a firm believer of its future applications.

Valery Beltchev, CFO

Graduate of Harvard University (MPA), MA in Finance and Banking from Paris 2 Pantheon-Assas, and PhD in banking from UNWE, Valery has a long track record in working with tier one banks such as HSBC, Fortis Bank and Crédit Agricole Bank in France. He has been in charge of big corporate clients with Société Générale in Bulgaria. He was a partner in the company representing Rothschild & Cie in Bulgaria. He was Head of Strategy and Development of the Bulgarian Development Bank, and Chairman & CEO of Fund Manager of Financial Instruments in Bulgaria (a national promotional institution operating as fund of funds for distribution of European Structural and Investment Funds with EUR 600 million assets under management). Valery has an immense drive for innovation and passion for fintech.

Valentin Dimitrov, COO

Valentin is a Co-Founder of Credefi and has a vast and diverse background in both the financial and technology sector. He gained his experience through his work for European Parliament (ECON committee), VTB Capital and a Fund of Funds with more than 600 million euro under its management. As an early adopter of bitcoin and Ethereum since 2013 while completing his degree in Bocconi University, and a technology enthusiast who has expertise in Cybersecurity matters, Valentin is a major asset of the Credefi team.

Lyubomir Blagov, CTO

Lyubomir has more than 10 years of experience in the technology sector. He has worked on multiple international projects with millions of daily users. Lyubomir possesses vast knowledge in established technologies and is always fascinated with the new ones, such as Blockchain. In addition, he founded a company that focuses on Ethereum and has already developed several successful projects. As a

skilled professional, Lyubomir will be able to make the whole project become a reality and is therefore an integral part of the Credefi team.

11. Additional information

11.1. Social media channels

Project channels:

- Website: **https://credefi.finance**
- Platform: **https://platform.credefi.finance**
- Blog: **https://credefi.finance/blog**
- Twitter: **https://www.twitter/credefi_finance**
- Telegram Official Chat: **https://t.me/credefi**
- Telegram News Chat: **https://t.me/credefi_news**
- LinkedIn: **https://www.linkedin.com/company/credefi**
- Medium: **https://medium.com/credefi**
- Reddit: **https://www.reddit.com/user/Credefi**

Disclaimer

This document is a technical whitepaper that outlines the current and future developments of the Credefi platform. This paper is intended for information purposes only. Unless expressly indicated otherwise, the products and innovations set out in this whitepaper are under development and are not currently in use. This document provides no guarantees or claims with respect to the successful development or implementation of such technologies and innovations, or the achievement of any other activities noted in this whitepaper, and disclaims any guarantees implied by law or otherwise to the extent permitted by law.

The product will be available at https://platform.credefi.finance. We are constantly working on upgrading the project, so it is possible that in some areas the product has developed further than what has been stated in the whitepaper.

The most up-to-date info's are available on our website (https://credefi.finance) and in our "one pager", which contains a concise summary for faster reading.