

**Credefi OOD**

7, Boycho Voyvoda Str.,  
1124 Sofia,  
Bulgaria

Date: 2<sup>nd</sup> August 2021

Dear Sirs,

We have been requested to provide an analysis of the nature of the 'CREDI Token' (CREDI) (hereinafter the '**Token**') which is to be issued by **Credefi OOD**, a company incorporated in Bulgaria with registration number 206396291 and having its registered office at 7, Boycho Voyvoda Str., 1124 Sofia, Bulgaria (the "**Company**").

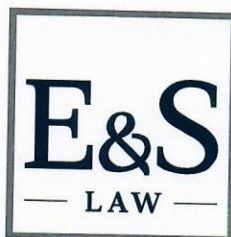
Our analysis contained hereunder is based on our understanding of the Credefi White Paper in version 5 and as made available to us on the 25th of June 2021, which we assume without any further enquiry or verification to be the most updated one and that it has not since been amended. Our analysis is also based on the clarifications and confirmations provided by the Company.

Our analysis hereunder has been carried out in the light of the Financial Instrument Test issued in accordance with Article 47 of the Virtual Financial Assets Act, Cap. 590 of the Laws of Malta (hereinafter the '**VFA Act**') in the event that issuer of the Tokens intends to offer a Virtual Financial Asset (hereinafter the '**VFA**') to the public in or from within Malta or the issuer intends to apply for admission to trading on a VFA exchange in Malta, and we have accordingly considered whether the Token represents:

- a) a Financial Instrument; or
- b) a Virtual Token; or
- c) a VFA; or
- d) Electronic Money;

for the purposes of the VFA Act.

The observations contained hereunder cannot be construed as exhaustive and are only reliable to the



extent of our interpretation of the Financial Instrument Test based on the characteristics of the Token as known to us. The Malta Financial Services Authority (hereinafter the 'MFSA') or any other authority, of their own volition and at their discretion, may apply other metrics, interpretation and/or come to a dissimilar, or completely contradictory conclusion. In addition, any such different view may be applied by such authorities with retroactive effect.

Without prejudice to the aforesaid, our observations contained hereunder are further qualified by the limitations set out at the end of this document. In light of the relevant facts as we understand them to be, and the pertinent assumptions made for the purposes hereof as confirmed by the Company, please note the following:

- A. Our opinion is limited to the laws of Malta and the Rules and Guidelines issued by the MFSA as at the date hereof.
- B. Our analysis contained hereunder is based on our understanding of the White Paper in version 5 and as made available to us on the 25th of June 2021, which we assume without any further enquiry or verification to be the most updated one and that it has not since been amended, as well as on the clarifications and confirmations provided by the Company.
- C. The Company shall develop a DeFi lending protocol that utilises a platform developed on the Ethereum Network, this being the Credefi Platform (the "Platform"). The purpose of developing the Platform is to offer a blockchain-enabled network of lenders with a safe way to invest their crypto in projects by retaining control of their investments and being able to make informed decisions as to which projects their funds are invested in with the help of algorithmic risk-assessments available to users on the Platform. The Platform will be partnered with EU licensed financial institutions to tap into existing clients, projects and partner bases, and to facilitate the operational aspect of the project such as claims management and debt collection.
- D. The Platform will be developed in three phases, each of which will introduce a new investment function, with such phases being:
  - 1. Lending to credit portfolios;





2. P2P lending;
  3. Trade financing.
- E. The Platform also has a security module in place which acts as an additional layer of security in relation to the funds lent by the users. The security module is funded with the Tokens and xCREDI tokens, and the purpose is for the Platform to utilise such available funds to compensate lenders in case of a default in payment by the borrower and where the liquidation of the collateral is not sufficient to cover the payment of the principal and the interest.
- F. The token economy of the Platform consists of two tokens, these being the Token and the xCREDI tokens.
- G. The Token will be developed as an ERC token on the Ethereum blockchain and hence construed to be a Distributed Ledger Technology asset in terms of the VFA Act (hereinafter the '**DLT Asset**'). The Token allows for interoperability between the Platform and the Ethereum mainnet.
- H. The Token shall be the native token of the Platform and has three main utilities within the Platform, these being the following:
- It gives Token holders access to the Platform and to participate in the investment opportunities available thereon and provides benefits to different tiers of Token holders;
  - It is distributed as a reward to users on the Platform;
  - It can be contributed to the security module as an additional layer of security on the Platform.
- I. Token holders shall be classified in different tiers according to the number of Tokens held at a given time. The different tiers provide users with different benefits in terms of:
- Better interest rates;
  - Lower fees on transactions;
  - Access to VIP projects on the Platform;
  - Early access to features on the Platform.
- J. Through the security module mechanism, Tokens deposited in the security module are subject to a



staking reward of 10% per month which is rewarded in xCREDI tokens. We understand that the Tokens deposited in the security module are only received back in the form of xCREDI tokens, meaning that they are converted into xCREDI tokens at the applicable conversion rate at the time of return. Any Tokens which are so converted into xCREDI tokens will be burned, meaning that the supply of Tokens is decreased.

- K. The Token will initially be issued to private investors, followed by a public offering. Liquidity pools will also be set up allowing Token holders to provide liquidity on UniSwap. The Token will therefore be listed on a decentralised exchange with the possibility of also listing the Token on other exchanges, whether decentralised or otherwise.
- L. The Token standard allows for interoperability outside (i) the Platform on or in relation to which it was issued or (ii) a limited network of DLT platforms.
- M. The Token allows for convertibility into other tokens.
- N. The Tokens provide for a form of digital medium recordation whose utility, value or application is restricted solely to the acquisition of goods or services.
- O. The Tokens allow the holder the right to deal freely with his instruments and to transfer any or all of them to whomsoever he pleases.
- P. The Tokens are free of any inherent rights or obligations in respect to their issuer, and their value, utility or application is restricted solely to the access to and use of the Platform.
- Q. The Tokens are not designed and/or used for the sole purposes of and/or result in the transferring of credit risk from one party to another.
- R. The Tokens are not termed as a contract for difference and do not give their holder an economic exposure, whether long or short, to the difference between the price of an underlying asset at the





start of the contract and the price when the contract is closed, or the difference in the price of two different underlying assets.

- S. The Tokens are not a derivative contract and do not have features equivalent to a derivative contract, including swaps, future or forward rate agreements, forwards, options, or other types of derivative contracts.
- T. The Tokens do not have a maturity date at issuance.
- U. The Tokens do not grant any ownership or equity interest in their issuer and/or the right to the Token holders to participate in the capital of the issuer. The Token holders do not participate directly in the profits of the Tokens' issuer, and the Tokens do not carry any entitlement whatsoever to a share of the profits, losses, assets, liabilities and/or proceeds from the liquidation of the issuer – nor do the Tokens grant any entitlement to their respective holder to acquire any such interest or entitlement in respect of the Tokens' issuer.
- V. The Tokens do not grant a right to a principal amount due of fixed sum with fixed/variable maturity, and/or a right to an amount settled in cash determined by reference to any transferable securities, currencies, interest rates or yields, commodities or other indices or measures.
- W. The Tokens do not grant a right to the Token holder to acquire or sell a transferable security.
- X. The Tokens do not grant any right of entry in the register of shareholders and/or register of debentures holders.
- Y. The Tokens are used for the purpose of placing, transferring or withdrawing value irrespective of any underlying obligations between the two parties to the transaction.
- Z. The Tokens do not grant their holder the inherent right to redeem the Tokens at any time, at par value with the Tokens' issuer upon his/her request.



AA. The Tokens do not grant their holder a claim against the Tokens' issuer's assets arising from the funds originally placed against the issuance of the Tokens.

BB. The Tokens are not used for the purpose of making payment transactions, as defined in point 5 of Article 4 of Directive 2007/64/EC whilst being accepted by a natural or legal person other than the issuer.

### **1. Classification of the Tokens**

In order to properly determine the nature of the Token in terms of Maltese Law, the features of the Token have to be analysed to classify the Token as:

- (i) a Virtual Token in terms of the VFA Act; or
- (ii) a Financial Instrument in terms of the Investment Services Act, Chapter 370 of the Laws of Malta (hereinafter the "ISA"); or
- (iii) Electronic Money in terms of the Financial Institutions Act, Chapter 376 of the Laws of Malta (hereinafter the "FIA"); or
- (iv) a VFA, in terms of the VFA Act.

For this purpose, below we have detailed the characteristics and features of the above DLT asset types in terms of Maltese Law.

#### *1.1. Virtual Token*

In terms of the VFA Act, a Virtual Token is defined as *"a form of digital medium recordation whose utility, value or application is restricted solely to the acquisition of goods or services, either solely within the DLT platform on or in relation to which it was issued or within a limited network of DLT platforms: Provided that the term "DLT platform" referred to in this definition shall exclude DLT exchanges: Provided further that a virtual token which is or may be converted into another DLT asset type shall be treated as the DLT asset type into which it is or may be converted."*

In view of the aforementioned definition, for the Token to be classified as a Virtual Token, it must:





1. represent a form of digital medium recordation having its utility, value or application restricted solely to the acquisition of goods or services;
2. not be listed or admitted to trading on an exchange, either locally or abroad;
3. not allow for interoperability outside the DLT platform on or in relation to which it was issued or a limited network of DLT platforms;
4. not allow for convertibility into another DLT asset type.

#### *1.2. Financial Instrument*

A token may also be deemed to be a financial instrument, if it has the features or characteristics of those instruments listed in the Second Schedule of the ISA, specifically:

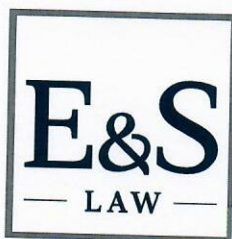
- (a) Transferable Securities - Those classes of securities which are negotiable on the capital market and include:
  - a. shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depository receipts in respect of shares;
  - b. bonds or other forms of securitised debt, including depository receipts in respect of such securities;
  - c. any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.
- (b) Money Market Instruments - Those classes of instruments which are normally dealt with on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment;
- (c) Units in collective investment schemes;
- (d) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivative



instruments, financial indices or financial measures which may be settled physically or in cash;

- (e) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
- (f) Options, futures, swaps, and any other derivative contracts relating to commodities, that can be physically settled provided that they are traded on a regulated market, within the meaning of the Financial Markets Act a Multilateral Trading Facility (hereinafter “MTF”), or an Organised Trading Facility (hereinafter “OTF”), except for wholesale energy products traded on an Organised Trading Facility that must be physically settled;
- (g) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled, are not for commercial purposes, are not included in (f) above, and, which have the characteristics of other derivative instruments;
- (h) Derivative instruments for the transfer of credit risk;
- (i) Rights under a contract for differences or under any other contract the purpose or intended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price for property of any description or in an index or other factor designated for that purpose in the contract;
- (j) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in (a) to (m) herein, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;





- (k) Certificates or other instruments which confer property rights in respect of any instrument indicated in (a) to (m) herein;
- (l) Foreign exchange acquired or held for investment purposes;
- (m) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

### *1.3. Virtual Financial Assets (VFAs)*

In terms of the VFA Act, a VFA is defined as “*any form of digital medium recordation that is used as a digital medium of exchange, unit of account, or store of value and that is not (a) electronic money, (b) a financial instrument or (c) a virtual token*”.

In view of the aforementioned definition, for the Token to be classified as a VFA, it must:

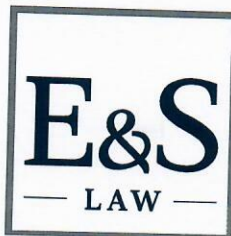
1. satisfy the purpose test, in so far as it must be a digital medium recordation that is used as a digital medium of exchange, unit of account or store of value; and
2. must not be classified as (i) electronic money, (ii) a financial instrument or (iii) a virtual token.

### *1.4. Electronic Money (e-money)*

A token may be classified as e-money if it satisfies all the requirements listed in the FIA where Electronic Money is defined as “*electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions and which is accepted by a person other than the issuer of the electronic money*”

In view of the above, for a token to be classified as e-money, it has to satisfy the below criteria:

1. It represents monetary value stored electronically, including magnetically;
2. The holder of the token has a claim on the issuer arising from the funds originally placed against the issuance of the token;
3. The token is issued on receipt of funds at par value and is redeemable at par value with the issuer upon request of the token holder;



- (k) Certificates or other instruments which confer property rights in respect of any instrument indicated in (a) to (m) herein;
- (l) Foreign exchange acquired or held for investment purposes;
- (m) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

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In terms of the VFA Act, a VFA is defined as *“any form of digital medium recordation that is used as a digital medium of exchange, unit of account, or store of value and that is not (a) electronic money, (b) a financial instrument or (c) a virtual token”*.

In view of the aforementioned definition, for the Token to be classified as a VFA, it must:

1. satisfy the purpose test, in so far as it must be a digital medium recordation that is used as a digital medium of exchange, unit of account or store of value; and
2. must not be classified as (i) electronic money, (ii) a financial instrument or (iii) a virtual token.

### *1.4. Electronic Money (e-money)*

A token may be classified as e-money if it satisfies all the requirements listed in the FIA where Electronic Money is defined as *“electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions and which is accepted by a person other than the issuer of the electronic money”*

In view of the above, for a token to be classified as e-money, it has to satisfy the below criteria:

1. It represents monetary value stored electronically, including magnetically;
2. The holder of the token has a claim on the issuer arising from the funds originally placed against the issuance of the token;
3. The token is issued on receipt of funds at par value and is redeemable at par value with the issuer upon request of the token holder;





4. The purpose of the token is to make payment transactions, these being acts, initiated by the payer or by the payee, of placing, transferring or withdrawing funds, irrespective of any underlying obligations between the payer and the payee;
5. The token is accepted by a natural or legal person other than the issuer.

## **2. Financial Instrument Test**

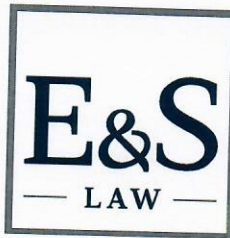
On the 24th July 2018 the MFSA has introduced and published a Financial Instrument Test, with an updated version being published on the 8<sup>th</sup> of April 2019. This test has been structured as a negative test whereby if a token does not qualify as either a Virtual Token, a Financial Instrument, or Electronic Money, it shall qualify as a VFA.

For the purpose of this analysis, we have carried out the Financial Instrument Test in relation to the Token, as downloaded from <https://www.mfsa.com.mt/fintech/virtual-financial-assets/guidance/financial-instrument-test/> and which we assume without any further enquiry or verification, to be the most updated one and that it has not since been amended. Any future amendments to the test may render this opinion null and void without a subsequent completion of any such updated Financial Instrument Test.

### *2.1. Virtual Token*

While the Token may seem to be akin to a Virtual Token in terms of its utility, value or application being restricted solely to the Network or a limited network of DLT platforms, the first proviso included to the definition of Virtual Token as mentioned in point 1.1. above, precludes Virtual Tokens from being admitted to trading on any cryptocurrency exchanges. From the information available to us, the Token will be made available to trade across exchanges. Furthermore, the Token also possesses features in its standard which support convertibility, with no specific limitations or restrictions to the contrary.

Based on the above, the Token cannot be classified as a Virtual Token because it is tradeable outside the Network and by virtue of its token standard which allows for convertibility with other DLT Assets outside the Network.



### *2.2. Financial Instrument: Transferable Security*

The VFA Act refers to the definition in the Second Schedule to the ISA to define a 'financial instrument'. The Second Schedule lists the following as being financial instruments:

- a. Transferable Securities;
- b. Money Market Instruments;
- c. Units in Collective Investment Schemes;
- d. Options, Futures, Swaps, Forward Rate Contracts and other Derivative Contracts;
- e. Rights Under a Contract for Difference;
- f. Emissions Allowances.

The features of the Token have been examined to determine whether it has characteristics similar to the financial instruments listed above, in terms of the Financial Instrument Test.

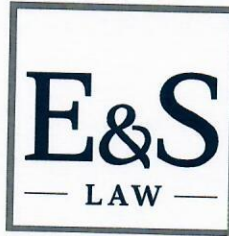
Based on our analysis under the Financial Instrument Test and in view of the facts on the Token as noted at the outset, we have determined that the Token has no characteristic that would make it akin to the financial instruments stated in points a-f above. Our conclusion is based on the sequence and factors which were inputted in the Financial Instrument Test.

### *2.3. Electronic Money*

The Token also does not appear to have the attributes of Electronic Money as defined in the FIA. As such, it would appear that the Token has the attributes of a currency as it constitutes a medium of exchange between users of the Network and the Network itself and a limited network of DLT platforms and partners, and therefore it has a monetary value which will be electronically stored and accounted for on the blockchain. In this sense, the Token is used for the purpose of placing, transferring or withdrawing value irrespective of any underlying obligations between the two parties to the transaction.

Nevertheless, we also understand that the Token holder does not have any right to redeem the Token at par value with the issuer upon his request and does not have a claim against the issuer's assets arising from the funds originally placed against the issuance of the Token.





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- e. Rights Under a Contract for Difference;
- f. Emissions Allowances.

The features of the Token have been examined to determine whether it has characteristics similar to the financial instruments listed above, in terms of the Financial Instrument Test.

Based on our analysis under the Financial Instrument Test and in view of the facts on the Token as noted at the outset, we have determined that the Token has no characteristic that would make it akin to the financial instruments stated in points a-f above. Our conclusion is based on the sequence and factors which were inputted in the Financial Instrument Test.

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The Token also does not appear to have the attributes of Electronic Money as defined in the FIA. As such, it would appear that the Token has the attributes of a currency as it constitutes a medium of exchange between users of the Network and the Network itself and a limited network of DLT platforms and partners, and therefore it has a monetary value which will be electronically stored and accounted for on the blockchain. In this sense, the Token is used for the purpose of placing, transferring or withdrawing value irrespective of any underlying obligations between the two parties to the transaction.

Nevertheless, we also understand that the Token holder does not have any right to redeem the Token at par value with the issuer upon his request and does not have a claim against the issuer's assets arising from the funds originally placed against the issuance of the Token.



Therefore, notwithstanding that the Token may be similar to electronic money in the sense that it represents a medium of exchange, the determination of the Financial Instrument Test establishes that the characteristics as described above do not establish the Token as Electronic Money.

#### *2.4. Conclusion*

In light of the above and the determination of the Financial Instrument Test, we consider the Token to be neither a Virtual Token, nor Electronic Money. Moreover, it does not fall within any of the parameters of a Financial Instrument, as defined in the Second Schedule of the ISA. The Token does not possess the necessary characteristics required to be considered a transferable security, money market instrument, unit in a collective investment scheme, option, future, swap, forward rate contract and other derivative contracts, a right under a contract for difference, and/or emissions allowance.

In conclusion and in terms of the Financial Instrument Test, we therefore conclude that the Token appears to represent a Virtual Financial Asset in terms of the VFA Act and is not a Virtual Token, Electronic Money or a transferable security as explained above.

If the nature, characteristics or functionalities of the Token change, a new Financial Instrument Test would need to be conducted in order to analyse whether the Token is indeed a VFA.

### **3. Limitations/Qualifications**

We have not acted as legal counsel to the Company in any other manner whatsoever and we are, accordingly, not familiar with the actual operations or financial affairs of the Company.

This opinion is strictly limited to the matters stated in it and does not apply by implication or otherwise to any other matters including any regulatory obligations arising out of the VFA Act or any other applicable law in relation to the offering of the Tokens to the public or otherwise, through any means of offering including but not limited to an Initial Exchange Offering and an Initial Coin Offering.

This opinion is based on and is subject to the assumptions, limitations and qualifications stated herein.





This opinion is limited to the Laws of Malta in force in Malta as at the date hereof. In issuing this opinion, we have not investigated or analysed the laws of any jurisdiction other than Malta. We express no opinion on any matters of direct or indirect taxation, nor do we express any opinion as to matters of fact.

Any advice provided in virtue of this opinion is based solely on our analysis of the Whitepaper and on our understanding of the relevant facts as confirmed by the Company and interpretation of the laws referred to herein as in force in Malta on the date hereof. Any relevant authorities may, of course, give a different interpretation to the provisions of the relevant laws – different, that is, to our interpretation of the same provisions.

This opinion is based solely on our investigation and analysis of the facts as made available to us and subject to the limitations stated herein. This opinion is limited to the matters stated herein and does not extend to and is not to be read as extending by implications to, any other matter in connection with the DLT Assets to which they relate, or otherwise.

Should any information or documentation provided to us for the purposes hereof or should any facts or assumptions made be incorrect or unfounded then the contents of this opinion may be materially affected.

We do not assume any obligation to advise any person of any subsequent change in, or in the interpretation of, the relevant laws of Malta.

These observations are addressed to and are for your exclusive benefit. No other party shall make use of or rely on this opinion without our prior express consent. However, we shall only be responsible towards the addressee and therefore cannot accept any liability for any loss or damage caused as a consequence of any of the Company's related parties or any other third parties having relied on the information contained herein.

Any opinion of law given in respect of a particular fact, issue or set of facts should not be deemed or



construed to constitute an assurance or guarantee that no claim or pretension or proceedings of any kind will be made, initiated or taken by third parties thereon at any time in the future. This opinion is not to be construed as a prediction of the outcome of litigation.

The aggregate liability of E&S Law and its partners, lawyers, agents and employees or any of them for any damages or losses shall be limited to five (5) times the value of the fees charged by E&S Law for the issuance of this opinion. No recourse may be taken against individual partners, lawyers, agents and employees of E&S Law.

For the purposes of the immediately preceding paragraph, damages and losses shall mean the aggregate of all damages or losses (including interest thereon, if any) and costs suffered or incurred by any person in connection with or as a result of this opinion and which are attributable to E&S Law (and/or its partners, lawyers, agents and employees or any of them) including as a result of breach of statutory duty, tort, negligence, gross negligence, wilful misconduct or fault by or of E&S Law (and/or its partners, lawyers, agents and employees or any of them). In order to limit the personal liability and exposure to litigation of our partners, lawyers, employees and agents, this opinion is addressed to you on the basis that you or any other party will not bring any claim for damages resulting from or in relation to this opinion against any of such persons personally.

In addition to the above, no claim whatsoever may be brought or set up against E&S Law (and its partners, lawyers, agents and employees or any of them) upon and subsequent to the lapse of two (2) years from the date hereof.

Finally, your acceptance of the limitations set out herein shall be assumed in the absence of any specific objection in writing communicated to and acknowledged by E&S Law within a reasonable time subsequent to the issue hereof in any form. E&S Law shall be entitled to relinquish its engagement in connection herewith should you object to any limitation provided that E&S Law shall be entitled to fees chargeable for services rendered until the date the engagement is effectively terminated. You shall not be entitled to rely on any part of this opinion should E&S Law relinquish its engagement as aforesaid.





Yours faithfully,

A handwritten signature in blue ink, appearing to be 'D. Vella', is written over a horizontal line.

**Dr Deborah Vella**

Advocate