

FOLK2FOLK

The Local Lending Movement

OUTCOMES STATEMENT 2019

In accordance with new Financial Conduct Authority (FCA) requirements that came into effect on 9th December 2019, FOLK2FOLK must publish an Outcomes Statement within four months of the end of each financial year (our financial year end is 30 January).

PURPOSE

The purpose of this Outcomes Statement is to enable investors to understand the performance of FOLK2FOLK's loan portfolio and, in accordance with FCA requirements, must show the following:

1. Expected and actual default rate of all P2P loans the firm has originated by risk category
2. A summary of the assumptions used in determining expected future default rates
3. The actual return against any Target Rate offered.

SUPPORTING NOTES

- **Definition of default**

The FCA's definition of default for secured P2P loans is when the Borrower is **180 days** past the contractual payment due date. Internally, FOLK2FOLK defines a loan as in default when it is **14 days** past the contractual payment date. Where data is included within this Outcomes Statement it is clearly noted which definition of default has been used.

- **The impact of Covid-19 on FOLK2FOLK and its loan book**

FOLK2FOLK is a profitable and financially resilient business. There is no 'Covid-19 factoring' in the forward-looking default projections of this Outcomes Statement due to lack of data upon which to base assumptions, however, we do include information regarding the impact on our loan book to date.

We continue to monitor the situation and maintain close communication with customers regarding the changing economic situation. Usual business terms continue to apply with the exception of a small number of loans where new terms of forbearance have been agreed case by case with Borrowers and investors. We undertake regular reviews of our loan book enabling us to check loan health and identify and address any potential issues early on.

Our credit review process is constantly adapting to external market forces, the pandemic has rendered some sectors much higher risk than previously, and this is factored into our decision making. When assessing applications, we consider how the crisis is likely to impact on each Borrower. We have added a COVID-19 section to our credit assessment process and include how we have assessed the COVID-19 impact in the loan information we provide to investors.

We are fortunate that many of our Borrowers are within the agricultural sector, which remains resilient, and our rural Borrowers often have multiple sources of income which is helping them weather the storm. We have also found that some sales of properties, including new homes, have still taken place creating cashflow for our Borrowers and repayment of loans to our investors. There is also a fair amount of refinance activity elsewhere, again providing liquidity to our investors to re-invest via our platform.

- **Our approach to risk**

We take sensible steps to try to maintain low default levels and minimise Lender losses:

- All loans are secured against land or property (but not the Borrower's home). We only lend up to a maximum of 60% loan to value (Open Market Value).
- We have a common-sense approach and take an holistic view when assessing Borrowers. Our risk management framework means we adhere to strict credit risk parameters, matching the interest rate reward with the risk; taking heed of, and being alert to, external factors and market forces that can influence levels of risk.
- We are prudent in the running of our own business, viewing platform stability and financial resilience as key elements of managing risk for our customers.
- We take additional care in early identification of late payments by defining our own definition of 'default'. We foster a culture of 'no surprises' by maintaining regular dialogue with Borrowers and any missed payments are flagged internally within one day.

FOLK2FOLK OUTCOMES STATEMENT 2019

I. Expected and actual default rate of all peer to peer loans FOLK2FOLK has originated by risk category

From 2013- 2018 our default reporting was based upon FOLK2FOLK's definition of default (when contractual payment is 14 days past the due date), however, as a result of new FCA requirements rolled out on 9th December 2019, this was adapted for our 2019 reporting to align with the FCA's 180 day definition in accordance with FCA requirements.

EXPECTED & ACTUAL DEFAULTS:

Year ¹	Investor Losses Value ²	Investor losses % ³	Number of Defaults ⁴	Defaults % ⁵	
2013	£0	0%	0	0%	Using FOLK2FOLK definition of default (14 days)
2014	£0	0%	0	0%	
2015	£0	0%	0	0%	
2016	£0	0%	1	0.27%	
2017	£0	0%	3	1.50%	
2018	£0	0%	3	1.71%	
2019	£0	0%	2	1.43%	Using FCA definition of default (180 days)
Expected 2020 ⁶	£0	0%	2	1.50%	

Source: FOLK2FOLK

Definitions:

1. Reporting period for 2013 to 2018 is calendar year. In accordance with FCA requirements, reporting period for 2019 changed to our financial year (Feb 2019 to Jan 2020)
2. Amount of capital lost by investors in the reporting period
3. Amount of capital lost by investors in the reporting period as % of outstanding loan book
4. The number of loans in default at end of reporting period
5. The value of loans in default as a % of outstanding loan book at end of reporting period
6. We do not have enough data to determine expected rates of default for 2020 as a result of the pandemic. As such, there is no 'Covid-19 factoring' in these assumed figures.

Notes:

- Figures refer to the past and past performance is not a reliable indicator of future results
- If late interest was subsequently paid in full, it is not shown as a default at end of reporting period.
- Loans currently in forbearance due to coronavirus are not included in 2020 expected default figures as investors in those loans have agreed to the revised terms of the loan.

DEFAULTS BY RISK CATEGORY 2019:

Loan to Value (LTV) is at Open Market Value (OMV)

- **Category A:** 0% - 40% LTV – Lower risk when compared to other FOLK2FOLK loans
- **Category B:** 40% - 50% LTV – Medium risk when compared to other FOLK2FOLK loans
- **Category C:** 50% - 60% LTV – Higher risk when compared to other FOLK2FOLK loans

Risk Category	LTV ¹	Category as a % of loan book ²	Number of loans in default ³
A	0% - 40% LTV	23%	0
B	40% - 50% LTV	12%	0
C	50% - 60% LTV	65%	2

Source: FOLK2FOLK

Definitions:

1. Loan to value (LTV) range for each risk category
2. A percentage breakdown of our loan book by risk category
3. Number of loans in default for each risk category

Notes:

- These figures refer to the past (2019 financial year reporting period) and past performance is not a reliable indicator of future results

2. A summary of the assumptions used in determining expected future default rates

Based on past default data, we began 2020 anticipating a continuation of 2019 trends; reflected in our Expected & Actual Defaults table above.

We do not have enough data to make informed assumptions regarding the potential impact on our loan book for 2020 due to the unique nature of the pandemic situation. There is still much unknown about the timeframes and knock on impacts for the nation, its businesses, and its people. For transparency, we disclose the following impacts on our loan book to date:

- £28m of our loan book is made up of businesses in the Hospitality or Leisure & Tourism sectors which is where we anticipate the greatest risk.
- As at publication date of this Outcomes Statement (18 May 2020), seven Borrowers are subject to forbearance measures. We are closely monitoring these loans and maintaining close communication with Borrowers.

3. The actual return against any Target Rate offered

FOLK2FOLK does not offer a Target Rate instead a fixed interest rate is applied to each loan. This means the interest rate investors receive will not increase or decrease if market interest rates change. While our interest rates range from 4.5% p.a. up to 9% p.a., 78% of our loan book is at our typical rate of 6.5% p.a.

Under normal circumstances, loan investment will provide investors with the fixed interest rate paid monthly in equal instalments. The investor's return can be based on the interest rate. However, several factors can influence the actual return received - resulting in a greater or lesser amount including:

- If a loan is impaired, investors earn the 'interest rate' which is 2% higher than the 'reduced interest rate' the Borrower usually pays (as defined in our terms and conditions) for the duration it is impaired, ultimately giving investors a greater than expected return.
- If a Borrower gives notice early, investors receive interest in lieu of notice thus delivering a greater than expected return.

- If the Borrower is unable to pay interest and/or repay capital it would impact on returns.
- Other factors that may negatively impact overall return include: delayed payments; the impact of tax; time spent in between loan investments when the investor is not earning interest; and secondary market (MarketPlace) fees if the investor wishes to exit the investment early (no fees to enter into a loan).

INTEREST RATES BY YEAR

The below table shows our headline interest rates for each year of operation.

	Typical Interest Rate ¹
2013	7.5% p.a.
2014	7.5% p.a.
2015	6.5% p.a.
2016 ²	5.5% - 6.5% p.a.
2017	5.5% - 6.5% p.a.
2018	6.5% p.a.
2019 ³	4.5% - 6.5% p.a.
2020	4.5% - 9% p.a.

Source: FOLK2FOLK

Definitions:

1. This shows our typical interest rates for each year
2. In 2016 FOLK2FOLK introduced a lower interest rate option at 5.5% p.a.
3. In 2019 FOLK2FOLK broadened its span of interest rates from 4.5% p.a. up to 9% p.a.