

FOLK 2 FOLK

OUTCOMES STATEMENT 2020

(Updated 31st July 2025)

In accordance with 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 Jan).

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 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 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, achieving in excess of £1m* profit in 2020. 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 economic situation. During the COVID-19 pandemic, FOLK2FOLK has received an increased proportion of forbearance requests.

Naturally, as the sector hit hardest by lockdown restrictions, the majority of these requests have come from the hospitality sector. The FOLK2FOLK exposure to the hospitality sector is 18% of our loan book. While this is significant, the diversified nature of our loan book will to a large degree, mitigate any sector specific shocks. A large amount of our loans within the hospitality sector are to self-catered holiday lets. These Borrowers fared better than others due to less restriction on trading. Furthermore, a significant portion of our Borrowers in this sector have diversified income streams. The result of this is that despite a long period of no trading for some, many Borrowers were able to service their loans on time.

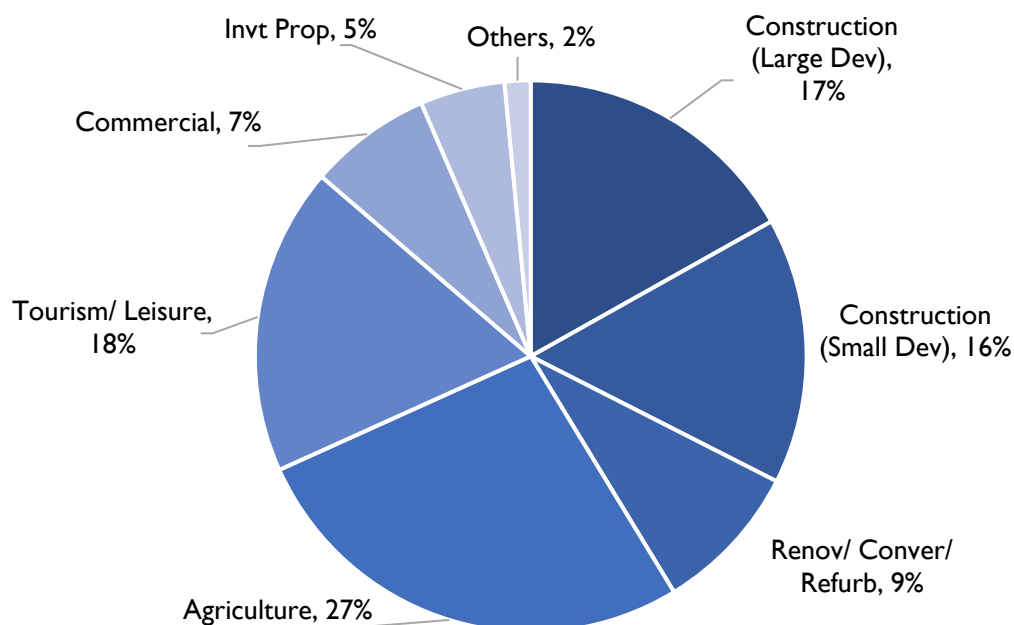
In addition, we are fortunate that many of our Borrowers are within the agricultural sector. The total exposure to this sector is 27% of our loan book. This sector remains resilient, and our rural Borrowers often have multiple sources of income which has helped them weather the storm. We have also found 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.

*This refers to FOLK2FOLK's expected profit. FOLK2FOLK's 2020 accounts are currently being audited and will be published on Companies House once complete.

The construction and development sector further makes up a significant portion of FOLK2FOLK's portfolio, in total making up 42% of our loan book, across large and small developments, and renovation/conversions. This sector has largely coped well with the pandemic, with limited government restrictions on such activity. Furthermore, government aid in the form of the Stamp Duty Holiday and other measures, have further supported this sector through this period.

Our credit review process is constantly adapting to external market forces. The pandemic has rendered some sectors at 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.

LOAN BOOK EXPOSURE BY SECTOR



- **Our approach to risk**

We take sensible steps to try to maintain low default levels and minimise Investor 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 a 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 stricter 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.

- Since the start of the COVID-19 pandemic, we began asking potential Borrowers about the impact of COVID-19. This extends our holistic view of proposals, and allows for us to make decisions in an uncertain climate.
- Since August 2020, FOLK2FOLK has enhanced its credit approval process in the form of Credit Committee. This is an extension of FOLK2FOLK's prudential activity in ensuring a healthy balance between risk and reward. The Committee requires three Senior Management Team members to approve any given loan.
- For loans with a value of £1,000,000 or above, the loan will be referred to the Risk and Audit Committee. This is part of our prudential, common-sense approach to limit exposure to unnecessary levels of risk, while maintaining an attractive interest rate reward.

FOLK2FOLK OUTCOMES STATEMENT 2020

I. Expected and actual default rate of all loans 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	0.3%	
2017	£0	0%	3	1.5%	
2018	£0	0%	3	1.7%	Using FCA definition of default (180 days)
2019	£0	0%	2	1.4%	
2020	£0	0%	2	1.5%	
Expected 2021	£0	0%	3	1.5%	

Source: FOLK2FOLK

Definitions:

1. Reporting period for 2013 to 2018 is calendar year. In accordance with FCA requirements, reporting period for 2019 onwards 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.

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 2021 expected default figures as Investors in those loans have agreed to the revised terms of the loan.

DEFAULTS BY RISK CATEGORY 2020:

Risk categories are defined by the interest rate of the loan at the start of investment; this is driven by the typical interest rate offered by FOLK2FOLK at the time of the loan agreement together with the FOLK2FOLK credit guidelines.

Expected Default Rate below is based on the average Expected Default Rate of the previous two quarters, plus an additional 0.5% which we believe is a prudent approach. The figures below are the snapshot at the point of the financial year end 31st January 2021.

Risk Category (Interest Rate %)	Average Expected Default Rate (%)	Average Actual Default Rate (%)
4.50	1.5	0.0
5.00	1.5	0.0
5.50	1.5	0.0
6.00	1.5	0.0
6.50	1.5	2.0
7.00	1.5	0.0
7.50	1.5	0.0
8.00	1.5	0.0
8.50	1.5	0.0
10.00	1.5	0.0

Source: FOLK2FOLK, 2021

Notes:

- These figures refer to the past (2020 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 rate data, we began 2021 anticipating a natural continuation of previous trends in defaults (excluding 2020 data due to abnormal conditions, although noting implications). Crucially, due to abnormal market conditions, we do not have enough data to make informed assumptions regarding the potential impact on our loan book for 2021 due to the unique nature of the pandemic. This is reflected in our Expected & Actual Defaults table above.

While much is still unknown about the implications on the nation of the ongoing COVID-19 pandemic, 2021 sees more clarity than 2020. Expected growth predictions are overall positive, however the state of the UK's SME population – FOLK2FOLK's core borrower base, is still unclear. Estimates put c.15% of the UK SME population to be in distress as of the date of publication. This would indicate that there is likely to be an increase in defaults across the UK.

However, based on the resilience shown by FOLK2FOLK's Borrowers through the pandemic, and the overwhelming ability to service payments by most Borrowers, we expect our default rate to remain low. A certain portion, as noted, are subject to forbearance measures. We are closely monitoring these loans and maintaining close communication with Borrowers. We expect that as the economy reopens, many of these Borrowers will be able to trade again and therefore service interest payments.

The following assumptions have been made in calculating the Expected Default rate for 2021:

- a. No further UK-wide lockdowns.
- b. An end of/scaling back of government business supports by Autumn 2021.

- c. Reopening of the economy including;
 - i. Construction Industry to remain strong.
 - ii. Agriculture Industry to remain unimpacted.
 - iii. Smooth, full reopening of hospitality by peak trading period.
- d. Positive economic growth in 2021, c.5%.

Therefore, we expect 2021 to be similar in terms of default rates for 2020. This is based on a projection that 2021 will be similar for businesses than 2020, with market conditions becoming less adverse for the majority, which as we close in on H2 - is a projection that we feel will be exceeded; an intuition supported by the data.

For the purposes of transparency, we disclose the following regarding our loan book to date:

- Due to the COVID-19 pandemic, FOLK2FOLK has received £11m worth of forbearance requests, from 12 Borrowers. This proportion is manageable in our view, as it represents less than 7% of FOLK2FOLK's loan book. These requests came largely from Borrowers in the hospitality and small developments, whom we maintain regular contact with. As the UK eases fully out of lockdown, we expect that the cash flow of these Borrowers will improve significantly as their businesses begin trading unrestricted. As such, we expect that their ability to service repayments will also improve.

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. The typical interest rate received by Investors is 6.5% p.a.

Under normal circumstances, a 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 fees if the investor wishes to exit the investment early (no fees to enter a loan).