FOLK 2 FOLK

OUTCOMES STATEMENT 2021

(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 31 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.

- **External Factors driving FOLK2FOLK and the Loan Book**
  FOLK2FOLK is a profitable and financially resilient business, achieving close to £2m* profit in 2021. Through 2021, COVID continued to impact the economy and a small proportion of our borrowers experienced problems with payment issues; resulting in £11m of forbearance agreements. By the end of 2021, the outstanding exposure to these agreements was £4m. This indicates there are lingering effects of the pandemic in certain sectors, such as Hospitality, however some recovery has been observed. We have, and continue to, monitor forbearance agreements closely.

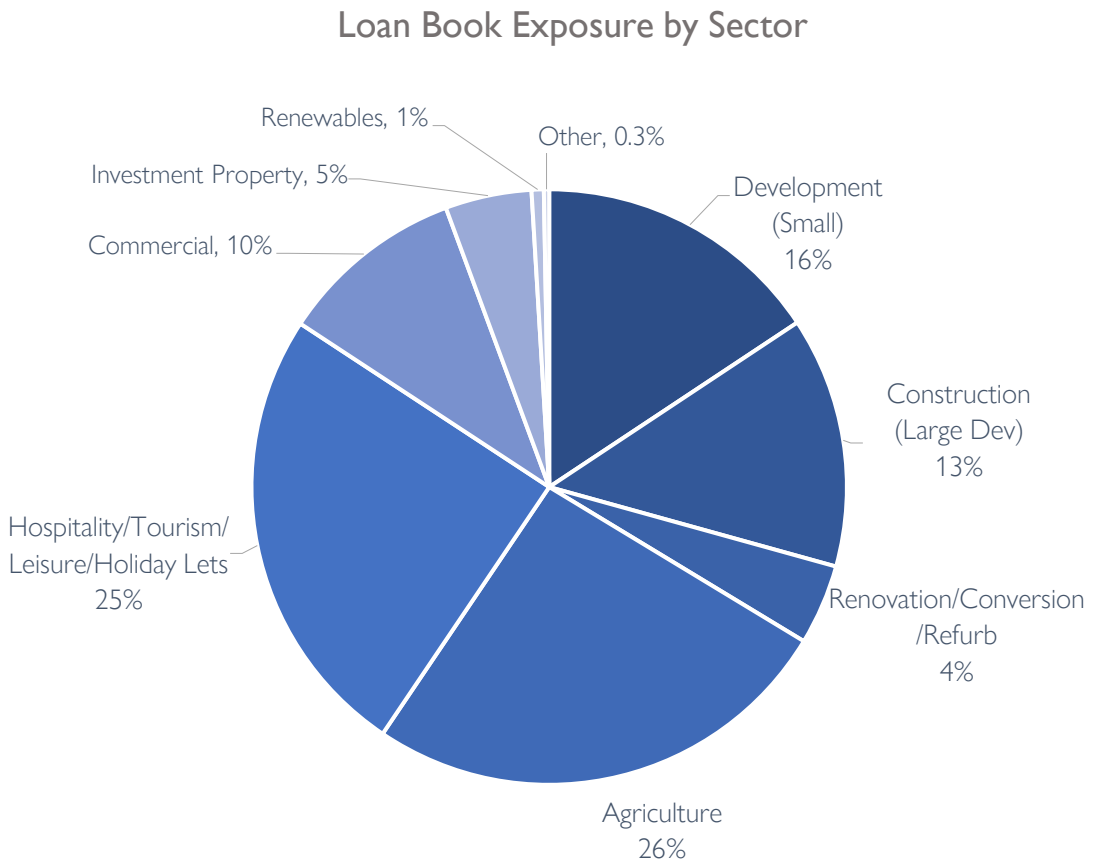
  Although the wider Hospitality sector was hardest hit by COVID, FOLK2FOLK's exposure to the sector is largely within the self-catering industry, rather than restaurants or hotels - which were more adversely impacted. As such, we are comfortable with our exposure by end of 2021 to the sector, at 25% of the loan book.

  Despite the unprecedented challenges facing the economy and FOLK2FOLK's borrowers, we have seen impressive growth in demand for finance from the Construction sector in 2021. The sector has weathered the pandemic well, with property values continuing to rise. This has resulted in the Construction sector becoming FOLK2FOLK's largest exposure in 2021 – with Construction, Development and Renovation/Refurbishment accounting for a third of our loan book.

  The Agricultural sector remains one of FOLK2FOLK's key sectors, making up 26% of the loan book. This sector showed great resilience to the pandemic and remains robust – with asset values stable.
  Overall, Agriculture, Hospitality and Construction are key sectors for FOLK2FOLK, making up almost 90% of our loan book. Over the past 12 months, the spread across these three sectors has become much more even. We have also seen promising growth in demand from the Commercial sector, representing 10% of our loan book.

*This refers to FOLK2FOLK's expected profit. FOLK2FOLK's 2021 accounts are currently being audited and will be published on Companies House once complete.

Our credit review processes are constantly adapting, and we have recently defined concentration triggers on total sector/regional exposure. This is to ensure that FOLK2FOLK mitigates concentration risk to any one sector/region and maintains a diversified loan book. We continue to monitor the current economic conditions facing the economy, as well as any legacy impacts of the pandemic on the loan book.



Source: FOLK2FOLK, as of 31/01/2022.

- **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). Currently, 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.
  - In 2020, we began asking potential Borrowers about the impact of COVID. 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.

- In order to mitigate concentration risk, the single Borrower exposure trigger is set at 5% of the active loan books.
- 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.

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FOLK2FOLK OUTCOMES STATEMENT 2021

1. 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%	
2019	£0	0%	2	1.4%	*Using FCA definition of default (180 days)*
2020	£0	0%	2	1.5%	
2021	£0	0%	5	1.6%	
Expected 2022	£0	0%	6	1.9%	

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 2021:

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 2022.

Risk Category (Interest Rate %)	Average Expected Default Rate (%)	Average Actual Default Rate (%)
4.50	2.0	0.0
5.00	2.0	0.0
5.50	2.0	0.0
6.00	2.0	0.0
6.50	2.5	2.1
7.00	2.0	0.0
7.50	2.0	0.0
8.00	2.0	0.0
8.50	2.0	0.0
9.00	2.0	0.0

Source: FOLK2FOLK, 2022

Notes:

- These figures refer to the past (2021 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

FOLK2FOLK concluded 2021 at a similar default level as the previous year, against a backdrop where the UK economy, especially small businesses, continued to adapt. However, we anticipate the default rate in 2022 will rise, albeit slightly to 1.9%, given several new headwinds on the horizon.

- The UK, along with the rest of the World, started 2022 with nothing short of a few economic headwinds; fuel shortage, rising energy prices, record inflations and geopolitical concerns from Ukraine/Russia. All of which will have deep impact on households and consumers, putting pressure on wages and logistic costs, which will eventually feed into the wider economy.
- For Construction/Development, rising building material costs has been a major theme since early 2021 and we believe this will remain for the foreseeable future, mitigated by a robust housing market as demonstrated by house prices. However, delays to completion may occur as a result.
- For Agriculture, although asset prices have been stable throughout the last two years, operating expenditure will likely rise in short term with higher costs in feed and fertilisers and general higher transport costs stemming from the conflict between Russia and Ukraine. However, FOLK2FOLK's exposure to agriculture is underpinned by a good quality asset base at an average of 49% LTV.
- For Hospitality, the outlook tends to move in tandem with consumer appetite for spending. As mentioned before, FOLK2FOLK's Hospitality exposure is largely made up of holiday accommodations based in the South West and has performed well relative to other Hospitality segments. 2022 has so far seen a strong booking trend given that overseas travel is still somewhat restricted, however we expect the 2023 industry outlook to be more

subdued relative to the previous three years, with tighter consumer spending as a key factor. In addition, ongoing COVID continues to mitigate full opening of some businesses, particularly certain segments of Hospitality such as restaurants and pubs, as such we expect some residual impact of COVID to linger on.

Therefore, with new uncertainties arising in 2022, we anticipate default rates to rise moderately in 2022, however, given the resilience shown by FOLK2FOLK's Borrowers through 2020 and 2021 and our continuous monitoring via annual reviews, we believe this is manageable.

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 currently 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 typically 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 redeems 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).