

FOLK2FOLK

OUTCOMES STATEMENT 2023

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**

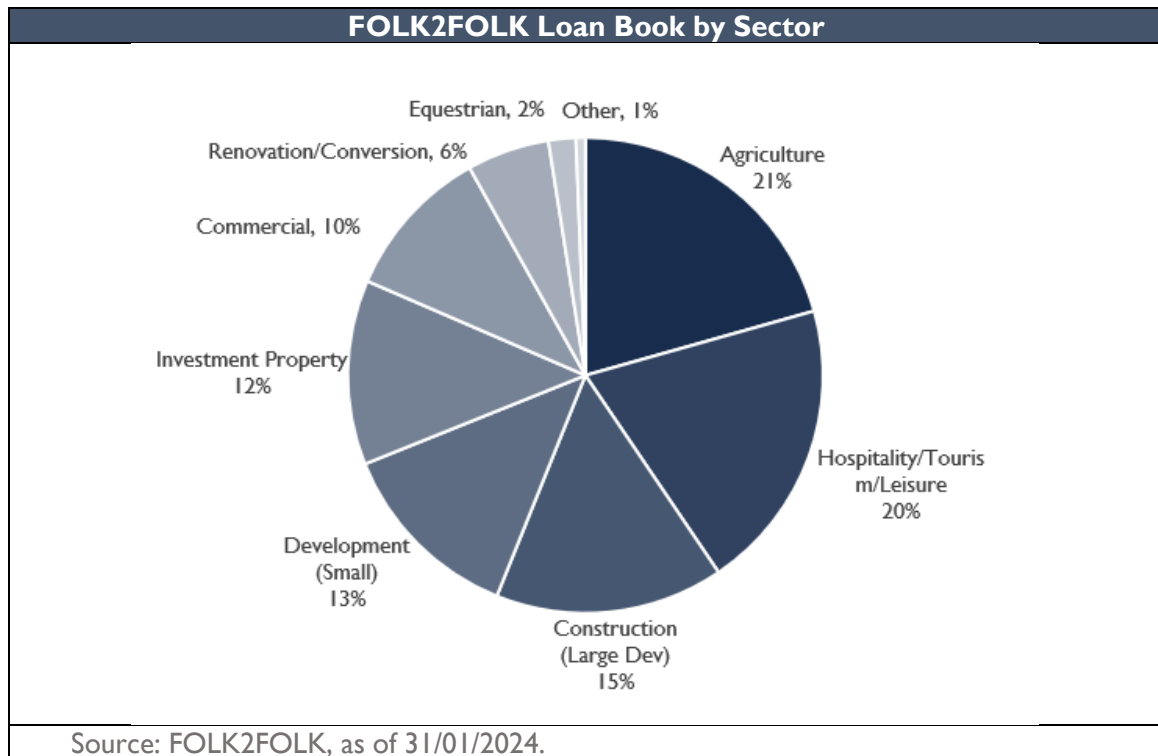
FOLK2FOLK is a profitable and financially resilient business, achieving £1.28m pre-tax profit in 2023, marking five consecutive years of consistent profitability.

2023 has been another turbulent year for the credit market. Continued inflationary pressure led to a further 1.25% hike in base rate by the Bank of England over the course of the year; the current base rate benchmark is 5% higher than the level at the end of 2021. This sharp rise led to high market mortgage rates and softened housing prices. Coupled with a technical recession in the UK, these factors are the notable headwinds challenging the commercial credit market within which FOLK2FOLK operates.

Large-scale Construction and Small-scale Development, Hospitality and Agriculture remain the three major segments of our loan book. Large-scale Construction and Small-scale Development comprise 28% of our loan book and while the industry continues to adapt to the new norm of elevated labour and materials costs, FOLK2FOLK observes that the softened market appetite has led to slower property sales and completions for developers.

Agriculture and Hospitality, each comprise c.20% of the loan book. Most of FOLK2FOLK's hospitality exposure lies in self-catering holiday accommodation and wedding venues which saw steady booking numbers, however, hospitality businesses overall are experiencing higher overhead costs. Meanwhile, Agriculture sector trends are overall stable.

Our Credit Risk Management Policy ensures that concentration risks are mitigated by policy limits on sector, geographical regions, and single name exposure. This is to ensure that FOLK2FOLK maintains a diversified loan book. Any exception to policy is recorded and the overall level is capped at 10% of new loans in the 12-month period. These concentration limits are regularly monitored and reviewed.



- **Our approach to risk**

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

- All loans are secured against UK land or property (but not the Borrower's home). Typically, we 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 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.
- The Transactional Credit Committee (TCC) has been in place since August 2020. Chaired by our Managing Director along with two other Senior Management Team members, the TCC meet to sanction all new loans. For loans over £1m, a further approval by our Risk and Audit Committee is required.
- As an additional enhancement to risk management, a Monthly Credit Committee was introduced during 2022 to review single name credit risk (on a risk-based approach), evaluate concentration risk (typically on a sector and geographical basis) and assess effectiveness of the Credit Risk Management Policy.
- Lastly, it is worth noting that given the fast-moving credit environment, FOLK2FOLK has raised its typical loan offering interest rate during 2023 following the Bank of England rate hikes. Price load factors are also in place to increase risk premiums in accordance with the Credit Risk Management Policy, based on LTV, whether it is a Development loan, and on Credit Scoring.

FOLK2FOLK OUTCOMES STATEMENT 2023

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 reporting from 2019 onwards to align with the FCA's 180-day definition in accordance with FCA requirements.

In 2022 FOLK2FOLK began inclusion of over-maturity loans in the 180-days default figures to better align with the FCA's default definition. These loans are considered in default due to non-payment of capital on maturity, even though monthly interest payments are still continuing. This led to a rise in our total number of Defaults reported.

EXPECTED & ACTUAL DEFAULTS:

Reporting Period ¹	Investor Losses Value ²	Investor losses % ³	Total Number of Defaults ⁴ (% of loan book ⁵)	Number of Defaulted loans still paying interest ⁶ (% of loan book)	
2013	£0	0%	0 (0%)	-	Using FOLK2FOLK definition of default (14 days)
2014	£0	0%	0 (%)	-	
2015	£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%)	-	
2022	£0	0%	19 (5.4%)	11 (1.3%)	
2023	£0	0%	24 (10.5%)	13 (5.8%)	
Expected 2024	£0	0%	8%	3%	

Source: FOLK2FOLK, 2024

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 (all events) at end of reporting period, these include non-interest payment, over-maturity loans and technical defaults.
5. The value of loans in default as a % of outstanding loan book at end of reporting period.
6. Number of defaulted loans still paying interest.

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 are not included in default figures as Investors in those loans have agreed to the revised terms of the loan.

DEFAULTS BY RISK CATEGORY 2022:

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.
- **Category D:** above 60% LTV – These loans have an additional loading factor added to the interest rate to reflect the risk.

Risk Category	LTV ¹	Category as a % of loan book ²	Number of cases in default ³
A	0% - 40% LTV	24%	3
B	40% - 50% LTV	19%	3
C	50% - 60% LTV	41%	15
D	>60% LTV	16%	3

Source: FOLK2FOLK, 2024

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 Borrowers in default for each risk category.

Notes:

- These figures refer to the past (2022 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

In 2022 FOLK2FOLK began to report over-maturity but interest paying loans as in Default. During 2023, the Default rate for all events increased to 10.5% due to an increase in the number of over-maturity but interest paying loans. A key contributing factor was the slowdown in the credit market which resulted in a lengthened period to refinance, leading to a repayment delay for those loans seeking to refinance as their exit strategy.

On a like-for-like basis, defaults due to 180+ days interest arrears only increased marginally from 4.1% to 4.7% in 2023. This is against a backdrop of continued tightened credit conditions. Due to the more challenging economic outlook, FOLK2FOLK has taken steps to proactively work with borrowers who are showing early signs of financial difficulties, either via agreement of a forbearance or assistance with a refinance strategy.

Although the market anticipates Bank of England base rate cuts in Q3/4 of 2024, we expect the economy will remain largely subdued, notwithstanding the impact of a General Election. While the UK is no longer in a recession, IMF's projected growth forecast in 2024 remains benign at 0.5%. These factors mean home buyers and high street banks will likely remain cautious and consumer appetite timid.

With these factors in play, we are mindful that in 2024 defaults due to interest arrears will increase moderately compared to 2023. But we are optimistic that defaults in the form of over maturity loans, resulting from delayed refinancing will start decreasing if rates do not rise further from current level.

FOLK2FOLK will continue our pro-active approach, monitoring via periodic reviews and acting on arrears in a timely fashion.

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 during the loan term will not increase or decrease if market interest rates change. However, FOLK2FOLK will closely monitor the UK market rates and adjust the minimum offering rate to be competitive with the wider market. By the end of 2023, the starting interest rate offered by FOLK2FOLK was 8.75% p.a. plus any additional

loading factors. At the end of this Outcome Statement reporting period, the average interest rate across the total loan book was 7.62% p.a.

Under normal circumstances, a loan investment will provide Investors with an expected return equal to the interest rate on the loan agreement, paid monthly in equal instalments.

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 will receive 1 month's interest at the point of redemption 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).
