

FOLK 2 FOLK

FOLK2FOLK OUTCOMES STATEMENT 2024

(updated 31st July 2025)

In accordance with Financial Conduct Authority (FCA) requirements effective from 9th December 2019, FOLK2FOLK publishes an Outcomes Statement within four months of the end of each financial year (our financial year end is 31 Jan).

PURPOSE

To help Investors understand the performance of our loan portfolio, covering:

1. Expected and actual default rates by risk category.
2. Key assumptions driving expected default rates.
3. Actual returns compared to Target Rates 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.

Market context and FOLK2FOLK performance

Despite a turbulent year in 2023, FOLK2FOLK achieved a £1.84m pre-tax profit in 2024, marking six consecutive years of profitability. However, 2024 brought ongoing macroeconomic challenges, including global instability, shifting UK fiscal policies, and a cautious credit environment.

Loan Book Risk Management

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 60% loan to value (LTV).
- Common-sense approach and 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.
- Prudent in the running of our own business, viewing platform stability and financial resilience as key elements of managing risk for our customers.
- 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 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.

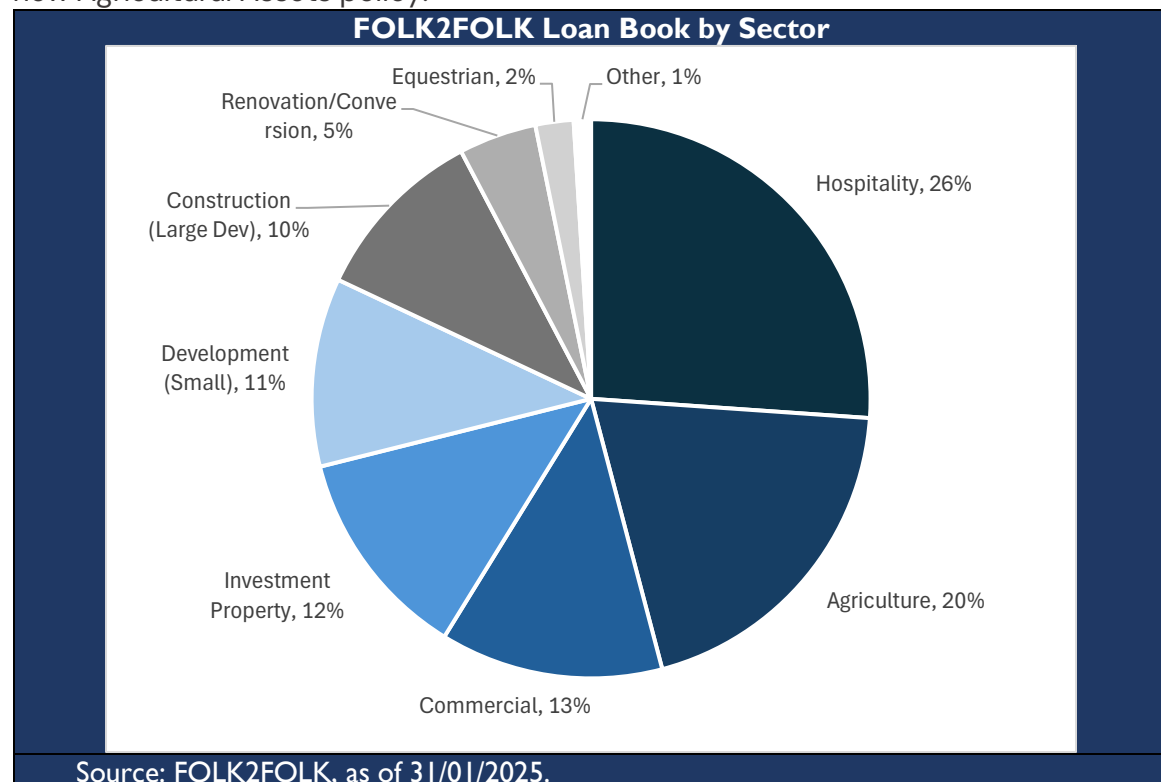
- As an additional enhancement to risk management, a regular Credit Committee meets to review single name credit risk (on a risk-based approach), evaluate concentration risk and assess effectiveness of the Credit Risk Management Policy.
- Regular assessment of our loan offering interest rate against market and Bank of England base rates. 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 property development loan, and on Credit Scoring.

Loan Book composition

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.

Hospitality, Construction, and Agriculture remain the major segments of our loan book:

- Hospitality (26%): Most of FOLK2FOLK's hospitality exposure lies in self-catering holiday accommodation and wedding venues which saw steady demand, despite rising costs and upcoming higher National Insurance contribution.
- Construction (Large and Small development) (21%): Exposure decreased slightly due to softer demand for development finance.
- Agriculture (20%): Stable exposure with attention on any potential impact of the new Agricultural Assets policy.



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1. Expected and actual default rates 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 including over–maturity loans in the 180–days default figures, to better align with the FCA’s default definition. This led to an increase in defaults reported, though it’s important to note that though capital repayment was overdue, interest continued to be paid. This means investors have still been receiving monthly returns in these cases and at a higher interest rate.

EXPECTED & ACTUAL DEFAULTS:

Reporting Period ¹	Investor Losses (£)	Investor losses (%) ²	Total Defaults (all events)	Of which defaulted loans still paying interest
2013	£0	0%	0 (0%)	-
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 ³	£0	0%	2 (1.4%)	-
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%)
2024	£0	0%	26 (12.1%)	12 (2.5%)
Expected 2025	0	0%	12%	2%

Source: FOLK2FOLK, 2025

Definitions:

1. Reporting period for 2013 to 2018 is calendar year. 2019 onwards changed to our financial year (Feb to Jan) In accordance with FCA requirements,
2. Amount of capital lost by Investors as % of outstanding loan book.
3. Changed from FOLK2FOLK definition of default (14 days) to FCA definition (180 days)

Notes:

- Late interest not shown as a default at end of reporting period if subsequently paid in full.
- Loans in forbearance are not included in default as Investors have agreed to revised terms.

DEFAULTS BY RISK CATEGORY 2024:

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 2025.

Risk Category – Annual Interest Rate (%)	Average EXPECTED default rate (% of category)	Average EXPECTED default rate of (% of loan book)	Average ACTUAL default rate (% of category)	Average ACTUAL default rate (% of loan book)
6.00	11.0	0.3	0.0	0.0
6.50	16.4	6.8	22.8	9.4
7.50	12.7	0.6	15.1	0.8
8.00	17.4	1.5	16.3	1.4
8.75	11.0	3.1	0.5	0.1
9.25	11.0	0.4	0.0	0.0
9.50	11.0	0.2	0.0	0.0
9.75	11.0	0.3	0.0	0.0
10.00	11.0	0.4	0.0	0.0
10.25	11.0	0.3	0.0	0.0

Source: FOLK2FOLK, 2025

2. Key assumptions driving expected default rates.

- Over Maturity exposure has eased: Now reduced to 2.5% of the loan book.
- Macroeconomic headwinds will likely persist: Although the market anticipates further Bank of England base rate cuts in 2025, the economy is likely to remain subdued, due to cautious macroeconomic outlook, both domestically and globally, as volatility in the global capital markets will have a trickle-down impact on consumer confidence.
- Expected default levels to be the same: 2025 defaults are projected to be similar to 2024, with cautious optimism due to potential Bank of England base rate cuts.
- Proactive borrower engagement: FOLK2FOLK will continue its pro-active approach, monitoring via periodic reviews and acting on arrears in a timely fashion.

3. Actual returns compared to Target Rates offered.

FOLK2FOLK does not offer a Target Rate, instead a fixed interest rate is applied to each loan, which during 2024 started from 8.75% p.a. This means the interest rate Investors receive will not increase or decrease due to market fluctuations. At the end of 2024, the average interest rate across the total loan book was 8.22% p.a.

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

However, returns may exceed expectations in cases of early redemption or impairment uplift (investors receive a higher interest once a loan goes into default) but may be reduced if repayments are delayed or capital is lost.

Closing summary

FOLK2FOLK continues to deliver consistent returns for investors despite a challenging economic backdrop. While default rates (especially under FCA definitions) have risen due to regulatory reporting changes and market factors, investor losses remain at £0 as a result of proactive risk management. Looking ahead, we anticipate a stable default rate, with continued close monitoring and support for borrowers.
