INVESTOR GUIDE

Secured loan investments

FOLK 2 FOLK

FOLK2FOLK is a marketplace lending platform focused on helping business-owners across regional Britain access the finance they need to grow, develop, or diversify; while providing fixed-rate, property-backed investments for retail and institutional investors.

This guide is intended for retail investors.

Don't invest unless you're prepared to lose money. This is a high-risk investment.You may not be able to access your money easily and are unlikely to be protected if something goes wrong. Take 2 mins to learn more on page 15.

As well as earning a great rate, your FOLK2FOLK investment will be doing great things to help businesses across regional Britain.

Why invest with FOLK2FOLK?

- Earn a fixed interest rate, paid monthly
- All loans secured against UK property
- Tax efficient investments possible with our Innovative Finance ISA (IFISA)
- Help regional businesses
- There are no fees to enter into a FOLK2FOLK loan‡

This information is intended to help you decide whether a FOLK2FOLK loan is right for you as an investment. We're unable to give advice and if this is something you require you should contact your financial/tax advisor.

To be a FOLK2FOLK Investor you must live in the UK and solely UK resident for tax purposes, and have an email address.

FOLKONOMICS™

By investing £20,000 or more through FOLK2FOLK, you'll be providing regional businesses with the funding they need to grow, develop or diversify.

But it doesn't stop there. A happy by-product of investing via our platform is often a flow on of benefits to the wider community. This may include job retention and creation, the bolstering of local supply chains, or creation of new opportunities as a result of money moving through the local economy. All of which may benefit other businesses, support local services and deliver value to the wider community. We coined the term FOLKONOMICS™ to describe this human impact of finance.

What will you be investing in?

It's your choice. Businesses from across the UK and from a variety of sectors apply for a loan via FOLK2FOLK. From farmers and food producers to property renovators and developers, owners of country hotels, manufacturing businesses, yoga studios and cafes. They all require access to finance to start, grow or diversify, buy an asset or boost working capital. You can choose from our available investment opportunities and your funds will enable business owners to seize business opportunities with confidence.

All business Borrowers must:

- Have land or property, other than their home, against which to secure the loan (we typically lend up to a maximum of 60% of the market value of the security)
- Be based in the UK (excluding Isle of Man and Channel Isles)
- Pass our credit checks
- Be over 18

How are Borrowers assessed?

We are very particular about our Borrowers and take an holistic view of the person and their business. We're choosy but fair and turn down Borrowers who don't meet our criteria. It's important however, that you do your own due diligence and don't rely solely on FOLK2FOLK's case review when deciding to invest into a loan on our platform.

‡ No fees apply to enter into a FOLK2FOLK loan however fees apply if you wish to exit your investment early, see page 7.

INVESTMENT OPTIONS

Support creditworthy businesses while earning an attractive return

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Choose an investment opportunity that suits you

As a FOLK2FOLK Investor you can choose:

- **Location:** You can choose to invest into available investment opportunities in your preferred region* or further afield.
- **Sector:** You can choose opportunities only within sectors you want to support.
- **Investment term:** Our loans have a minimum term of 6 months up to a maximum of 5 years.
- **Interest rate:** (See enclosed rate card for our current interest rate.)

It's important to note however, that a loan which ticks all your preferences may not arise and the more specific your preferences, the longer it may take for the perfect investment opportunity to become available.

FOLK2FOLK loan investments at a glance

Minimum amount	£20,000
Interest Rate	(See enclosed rate card for our current interest rate.)
LTV% (market value)	Typically a maximum of 60%
Investment Term	• 6 months minimum • Terms range between 6 months and 5 years
Exiting your investment	• Exit at loan maturity. Or you may offer your loan for sale via our secondary market (fees apply, see page 7). • Early repayment by the Borrower, results in 1 month interest to Investors.

* Depending upon availability of appropriate loans.

ACCESSING YOUR MONEY

Your capital investment will be returned to you once the loan reaches full term or when the borrower chooses to redeem their loan. You may also list it for sale via our secondary market.

If you wish to exit the loan prior to term, you can offer all or part of it for sale to other FOLK2FOLK Investors via our secondary market.

Selling your loan investments via our secondary market

- You may offer your investments for sale in blocks of £20,000 or your full investment amount, but you can't leave less than FOLK2FOLK's minimum investment amount (currently £20,000).
- Successful disposal is dependent upon demand. It may be that none or only some of your loan is sold if there are limited or no buyers available.
- You will be unable to sell the loan if the loan is impaired or in default (and for a period of 3 months after default).
- FOLK2FOLK loans are illiquid assets which means you cannot assume you can exit them quickly.
- There is a flat fee of £250 to list an investment for sale via our secondary market, regardless of the size of the investment. This listing fee applies even if the investment does not sell.

Important: There is no guarantee there will be a buyer for your loan. In this instance, you'll need to remain invested for the term of the loan or until the Borrower chooses to repay.

INNOVATIVE FINANCE ISA (IFISA)

An IFISA enables you to use your annual Individual Savings Account (ISA) allowance to earn tax-free interest from secured marketplace loans.

What is an Innovative Finance ISA (IFISA)?

An ISA acts as a 'wrapper' around your investment so that the interest arising is tax-free. The IFISA was introduced in 2016 and is a form of ISA that can hold secured marketplace loans, enabling Investors to receive the interest tax-free.

Please read all the Investor information in this Guide, not just the IFISA information.

Why invest in the FOLK2FOLK IFISA

- Receive a fixed monthly return, tax-free
- Earn tax-free monthly income
- Invest your full annual ISA allowance of £20,000
- Secured against UK property
- Support regional businesses

IFISA overview

Our IFISA is an income generating ISA. You can earn tax-free monthly income without reducing your capital.

You can choose whether to invest with or without the FOLK2FOLK IFISA tax wrapper (or both) but there is an HMRC limit to how much new ISA money you can invest within the IFISA each year.

Investment amount	**Your full annual ISA allowance** which is £20,000 or unlimited exisiting ISA funds. FOLK2FOLK's minimum investment amount is £20,000.
Interest rate	**A fixed interest rate will be paid monthly tax-free** (See enclosed rate card for our current interest rate.) Interest earned on the IFISA is paid to your specified bank account monthly. This means interest cannot be accrued inside the IFISA so the investment amount at the end of the term will remain at the amount subscribed.
IFISA term	**From 6 months to 5 years.** Dependent upon the term of the loan you invest into.
Transferring funds from other ISAs	**Yes.** Existing ISA money that is transferred across to your FOLK2FOLK IFISA will need to be a minimum £20,000 (FOLK2FOLK's minimum investment amount) and in multiples of £5,000.

Eligibility

To qualify for our IFISA you must:

- Be registered as a FOLK2FOLK Investor
- Live in the UK and solely UK resident for tax purposes
- Not have funded an ISA of any type elsewhere in the current tax year (only applicable for new subscriptions)
- Be 18 years old or over

What can be invested in the IFISA

New annual subscriptions (new ISA money)

You can use your current tax year's allowance by electronically transferring your money to FOLK2FOLK.

Transfer of existing ISA money

If you'd like to move your existing ISA money to a FOLK2FOLK IFISA, we can accept a minimum amount of £20,000 and then in multiples of £5,000. Simply complete our Transfer Authority Form once you've set up a FOLK2FOLK IFISA – and we'll do the rest.

We'll contact your existing ISA Manager to arrange the transfer of your money to ensure it retains tax-free status; if you transfer the funds yourself you will lose this.

Existing FOLK2FOLK Investors cannot transfer an existing FOLK2FOLK loan investment to our IFISA, nor can an existing FOLK2FOLK loan investment be sold on the secondary market and repaid into our IFISA. However, when a loan redeems proceeds can be used to fund an IFISA.

IFISA fees

There are no fees to open a FOLK2FOLK IFISA , no charge to transfer to another ISA provider and no ongoing management fees

For an overview of FOLK2FOLK fees and costs, please refer to our General Terms & Conditions at www.folk2folk.com

Accessing your money

Upon maturity (or early repayment) of the loan, your IFISA funds will be returned to the FOLK2FOLK IFISA client money account, where they will retain their ISA tax-free status, you can then decide what you wish to do with your funds. You may request us to return them to you or retain them for reinvestment into another FOLK2FOLK loan.

If you wish to exit the loan earlier than the end date, you can offer all or part of it for sale to other FOLK2FOLK Investors via our secondary market. Fees apply (see page 7).

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Withdrawals and transfers out

If your funds are not in a loan:
If your funds are held in our client money account and not invested in a loan, withdrawals and transfers out to another ISA provider are permitted.

If your funds are in a loan:
If your funds are invested in a loan and you wish to withdraw or transfer to another ISA provider before the end date of the loan, you may offer it for sale to other FOLK2FOLK Investors via our secondary market (fees apply).

Retaining tax-free status

If you request to withdraw your IFISA funds and have them returned to you, they will lose their tax-free status from the date of closure/ withdrawal. To ensure your IFISA retains its tax-free status when transferring to another ISA provider you must ensure you use the transfer form they supply.

Investing in the IFISA

How to apply

Apply

- Apply as a FOLK2FOLK Investor (see page 19).
- Apply and be approved as an IFISA Investor.

IFISA set up

- Your IFISA wrapper is created and ready to receive your funds.

Start earning tax-free!

- Check our latest investment opportunities and choose an opportunity to start earning tax-free interest.

TAX AND RETURN

How much tax you pay and your likely return are influenced by a number of factors.

Tax

There are a number of factors which influence whether you will pay tax and if so, how much, on interest earnt from loan investments.

These include:

- Your tax rate
- Your Personal Allowance
- Your Personal Savings Allowance (interest from markeplace lending is eligible but limits apply. Interest earnt within the IFISA wrapper does not count towards this allowance)
- Whether you use the IFISA tax wrapper
- Whether there is any relevant irrecoverable debt and corresponding tax relief

Tax treatment depends upon your individual circumstances and may be subject to change in the future. Interest payments are paid to our Investors on a gross basis and it is your responsibility to report and pay any tax due.

What are the tax consequences of a default?

In the event of a loan default and if the security property cannot be sold for a sufficient amount to cover costs, interest owed to you and your full investment amount, this could result in a loss for you. Tax relief for this type of loss is available. You would need to seek tax advice to clarify if and how, you can obtain this tax relief.

The HMRC website provides further guidance.

Return

What is your likely actual return from investing in a FOLK2FOLK loan?

Your return is based on the interest rate of the loans in which you are invested but this may be reduced by the following factors:

- The impact of tax if applicable
- Delayed interest payments
- Defaults - if your Borrower cannot pay interest and/or repay capital (for more information see www.folk2folk.com/lend/defaults)
- Time in between loan investments when you are not receiving interest
- Secondary market selling costs (see page 7)
- Other costs resulting from Investor changes (see General Terms & Conditions for fees)

If you invest into more than one loan, the interest rates may differ so your overall return will be a combination of interest rates and the above factors.

None of the information provided by FOLK2FOLK is tax advice and you should seek advice from a tax advisor if required.

RISKS AND THINGS YOU SHOULD KNOW

We'd like to draw your attention to key risks and things you should know before investing. If there's anything you don't understand, please contact us.

General

Risk Summary for P2P Agreements or P2P Portfolios Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1. You could lose the money you invest
Many peer-to-peer (P2P) loans are made to borrowers who can't borrow money from traditional lenders such as banks. These borrowers have a higher risk of not paying you back.

Advertised rates of return aren't guaranteed. If a borrower doesn't pay you back as agreed, you could earn less money than expected. A higher advertised rate of return means a higher risk of losing your money.

These investments can be held in an Innovative Finance ISA (IFISA). An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all your money. It only means that any potential gains from your investment will be tax free.

2. You are unlikely to get your money back quickly
Some P2P loans last for several years. You should be prepared to wait for your money to be returned even if the borrower repays on time.

Some platforms may give you the opportunity to sell your investment early through a 'secondary market', but there is no guarantee you will be able to find someone willing to buy.

Even if your agreement is advertised as affording early access to your money, you will only get your money early if someone else wants to buy your loan(s). If no one wants to buy, it could take longer to get your money back.

3. Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments. (www.fca.org.uk/investsmart/5-questions-ask-you-invest).

4. The P2P platform could fail
If the platform fails, it may be impossible for you to collect money on your loan. It could take years to get your money back, or you may not get it back at all. Even if the platform has plans in place to prevent this, they may not work in a disorderly failure.

Risk of failure of FOLK2FOLK
We're authorised and regulated by the Financial Conduct Authority which requires us to maintain a certain level of regulatory capital. This means that there should always be sufficient capital for an orderly wind-down of our business.

If we become insolvent, our platforms fails or we otherwise cease our operations, then we would look to wind-down our business in a controlled and organised way. In line with our regulatory requirements, we have appointed a standby servicer to support this wind-down process. They would, for example, continue to administer existing loans and collect borrower repayments until the earlier of loan maturity or repayment. Our current standby servicer is RSM Restructuring Advisory LLP ("RSM").

Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions.

We can select a different standby servicer at our discretion. RSM is not authorised by HM Revenue & Customs as an ISA Manager and so is not able to take over administration of IFISA Accounts. This means that Loans held within an IFISA Account would no longer keep their tax-free benefits.

5. You are unlikely to be protected if something goes wrong

The Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover investments in P2P loans. You may be able to claim if you received regulated advice to invest in P2P, and the adviser has since failed. Try the FSCS investment protection checker, www.fscs.org.uk/check/investment-protection-checker/.

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated platform, FOS may be able to consider it. Learn more about FOS protection, www.financial- ombudsman.org.uk/consumers.

If you are interested in learning more about how to protect yourself, visit the FCA's website here, www.fca.org.uk/investsmart.

For further information about peer-to-peer lending (loan-based crowdfunding), visit the FCA's website, www.fca.org.uk/consumers/crowdfunding.

Defaults

There are two aspects of default risk to consider:

- The risk of the borrower not paying interest or capital.
- The risk that the borrower defaults and the security property has to be sold to repay Investors, there is a chance the proceeds may not release sufficient funds to repay all the costs of enforcement, outstanding interest and capital sum.

Additionally, a marketplace loan investment may not be suitable for you if you rely upon prompt repayment. If your Borrower defaults and there is an extreme downturn in the property market, there's a risk of delay in selling the property against which the loan is secured, in order to repay your loan. The outstanding amount will be deferred until the loan status has been repaired or (if required) enforcement action concluded with the security being sold.

You can read about the performance of FOLK2FOLK's loan portfolio via our Outcomes Statement on our website.

Timings of payments

If your Borrower is unable to meet monthly payments temporarily you will not receive your interest payments until they start paying again, therefore this investment may not be suitable if you rely upon the income or rely upon it being paid promptly. The missed interest payments will still be due to you and will rise to a higher interest rate (see General Terms & Conditions) but they will be delayed.

General timings

There are no guarantees regarding how long it will take before you find an opportunity you would like to invest in. Once in a loan, your Borrower may repay the loan earlier than the anticipated end date. If this happens you can choose another opportunity to invest in, subject to availability.

Accessing your Money

FOLK2FOLK loans are illiquid assets which means you cannot assume you can exit them quickly. You should be prepared to hold your loan investment until maturity. As an Investor you have the right to offer your loans for sale via our secondary market, but there's no guarantee anyone will buy it (fees apply).

If the loan you are invested in were to fall into arrears or default you cannot offer it for sale via our secondary market and you must wait for the loan situation to be repaired or the defaulted loan recovered.

There is no right to cancel your investment in a loan since it is an agreement secured on land.

Further advances or second charges

We may arrange further advances or second charges on the property against which your loan is secured but the total Loan To Value (LTV) ratio is typically 60%.

We don't give advice

It's your responsibility to assess whether investing via FOLK2FOLK is suitable for you, with particular regard to your risk appetite and your personal financial circumstances. We will not advise you on the appropriateness or suitability of any loan and we'd recommend you take advice from an independent financial advisor if you're in any doubt as to whether investing via a marketplace loan is suitable for you.

IFISA

General

- You can invest your annual ISA allowance of £20,000.
- The date we receive your funds is the date on which your ISA subscription starts.
- Once a new tax year starts you will have a new allowance to invest, which you can invest with FOLK2FOLK if you wish.
- IFISAs are not the same as cash ISAs. The risk of investing through a peer to peer platform is higher and there's no guarantee that your capital or interest will be repaid.
- Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions and the full contents of this Investor Guide. If there's anything you don't understand, please contact us.

Interest

IFISA Interest is paid out tax-free to clients monthly to their specified bank account. Interest earned on the IFISA can't be accrued inside the IFISA so if £20,000 is invested, the investment amount at the end of the term will remain at £20,000.

Neither loan interest nor bank interest are payable in the following situations:

- On funds in the client money account waiting to be matched to a loan.
- If a Borrower repays a loan early, IFISA funds will be transferred back in to the FOLK2FOLK client money account and await investment into another loan.
- When a loan matures, IFISA funds will be transferred back in to the client money account and await investment into another loan.

IFISA Timings

Timing to start earning tax-free interest is dependent upon you choosing to invest in an available investment opportunity. There's a possibility funds won't be matched in the current tax year. Your funds will still retain their tax-free status within an ISA wrapper but no interest will have been earned.

How we measure property value

We use the ratio of the loan size against the property's open market value to calculate the Loan To Value (LTV).

How we manage risk

All loans are secured against UK based land or property. We do not offer unsecured lending which is more risky than secured lending.

Maximum LTV:

We typically lend only up to a maximum of 60% LTV based on the open market value of the security.

Professional Indemnity Insurance:

We carry Professional Indemnity Insurance. As part of our processes, we take advice from external solicitors and valuers to assess the proposed security property, and we check that these external professionals also have Professional Indemnity Insurance.

We're choosy but fair about Borrowers:

We take an holistic view of Borrowers, businesses and the security property and turn down those that don't meet our criteria.

Don't invest unless you're prepared to lose money. This is a high-risk investment.You may not be able to access your money easily and are unlikely to be protected if something goes wrong. Take 2 mins to learn more on page 15.

Ready to become an Investor?

If you've read the guide and you're ready to become an Investor you can apply now, but if you still have questions please talk to us on: 01566 773296

How to apply

Apply to be an Investor

- Apply online at www.folk2folk.com You must have an email address to register as a FOLK2FOLK investor.
- Undertake an Appropriateness Test to ensure you understand the risks.
- Confirm your level of investing experience. Depending upon your investor profile, you may be restricted in how much you can invest.

Be approved

- Identification and Anti- Money Laundering checks.
- Ensure you read our General Terms & Conditions and the loan product information, ask questions if you don't understand.

Start earning

- Review available loan opportunities and make your own risk assessment.
- Choose an investment opportunity and start receiving your monthly interest!

If you have any questions, please get in touch:

01566 773296

Calls charged at standard national rate. Available between Mon-Fri, 9am-5pm (excluding Bank Holidays)

enquiries@folk2folk.com

www.folk2folk.com

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