

OUTCOMES STATEMENT - 2019

In line with the FCA's Policy Statement PS19/14 which came into force on the 9th December 2019, and in accordance with the Conduct of Business Sourcebook (COBS) rule 18.12.21, Proplend must publish within four months of its financial year-end (our financial year-end is 31 December) an Outcomes Statement.

The Outcomes Statement will help you monitor and understand the performance of the loan portfolio, as it will show the expected and actual default rate of all loans originated within a financial year by reference to risk categories. It will also show the actual return against any Target Rate offered.

COVID-19

We are continuing to maintain close monitoring of the whole loan portfolio on a loan by loan basis to ensure each Borrower is able to service their ongoing Interest/upcoming redemption obligations, and if there are any foreseeable difficulties, that we will strategically review on a consensual basis to keep all loans performing and manage all parties (Borrowers & Lenders) expectations accordingly.

Proplend is one of the few P2P platforms which operates a dedicated loan by loan "Interest Reserve"

- Proplend deducts a minimum of 3 months' worth of interest payments on all loans (whether a mortgage or a bridge) and retains it in the Interest Reserve
- the Interest Reserve is ringfenced on a loan by loan basis, i.e. the Interest Reserve for loan A is only used for loan A
- whilst 90% of the time, the Interest Reserve is never utilised, it is put in place to cover for the unknown i.e. times such as those we currently find ourselves in
- Commercial Mortgages: we currently hold a minimum of 3 months and a maximum of 6 months with an average of 4.4 months across all loans
- Commercial Bridges: we currently hold a minimum 3 month Interest Reserve on all loans plus the interest payments for the term of the loan

We continue to post updates to Lenders on a loan by loan basis either via email or via the platform on each Loans History.

As per the FCA's updated definition of default for secured loans an actual default rather than a technical default, a Borrower must have missed a payment for more than 180 days or they are unlikely to meet their obligations without the enforcement of a security. As such, the default rate detailed in this Outcomes Statement is reflective of the FCA's definition of an actual default as detailed above.

However, from an internal Proplend perspective, loans are typically classified as being in "default" if one of the below has occurred, please note this is not an exhaustive list (see the Proplend Members Agreement for the definitive list). <https://www.proplend.com/docs/terms-and-conditions.pdf>

- Two or more consecutive Repayments (of interest) are in Arrears; or
- Any Repayment (of principal) is in Arrears for more than 90 days; or
- The Borrower has breached the terms of any Security Document between the Borrower and Proplend Security Limited and has failed to remedy that breach within 7 days of receiving a written notice to do so

Loss is defined as the actual or expected loss to investors, if any, on a loan in 'Default' after recoveries of the loan amount achieved and/or expected.

1. Loan Statistics / Performance Actuals

Year	Loans Funded	Interest Arrears ¹ (>90 Days)	Loans Repaid ²	Loan Defaults ³ (Aged)	Loan Defaults ⁴ (Current)	Lender Losses £ ⁵ (Amount Lost)
2014	3	0	3	0	0	0
2015	6	0	6	0	0	0
2016	3	0	3	0	0	0
2017	20	1	18	0	0	0
2018	26	0	11	1	1	tbd ⁶
2019	38	0	6	0	0	0
Total	96	1	47	1	1	0

Notes as of 31 December 2019

1. Number of loans by origination year that have been in interest arrears >180 days
2. Number of loans by origination year that have been repaid
3. Number of loans by origination year that have had a "Default" status
4. Number of loans by origination year that are currently in a "Default" state
5. Investor loss (£) by origination year resulting from interest arrears and maturity Defaults, for loans repaid to date
6. tbd – Pending formal resolution of the recovery process for the loan currently in "Default"

Default Rates per Tranche (Expected / Actual) – number of loans >180 days past due

Year	Loans Funded	Tranche A		Tranche B		Tranche C	
		Expected	Actual	Expected	Actual	Expected	Actual
2014	3	1.00%	0.00%	1.00%	0.00%	1.00%	0.00%
2015	6	2.00%	0.00%	2.00%	0.00%	2.00%	0.00%
2016	3	2.00%	0.00%	2.00%	0.00%	2.00%	0.00%
2017	20	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
2018	26	3.00%	3.85%	3.00%	3.85%	3.00%	0.00%
2019	38	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
Total	96	n/a	n/a	n/a	n/a	n/a	n/a

Notes as of 31 December 2019

1. Number of loans by origination year reflective of the FCA's definition of an actual default i.e. loans more than 180 days past-due expressed as a percentage of the number of defaulted loans vs the number of loans funded.
2. To accommodate for the differing Investor risk & return appetites, each loan is "tranching" into up to three loan-to-value (LTV) based, risk-priced investments – Tranche A (0-50% LTV), Tranche B (51-65% LTV) and Tranche C (66-75% LTV). Noting that if a loan goes into default this affects the whole loan and not just each individual tranche.

3. Number of loans by origination year that have had an Actual “default” status.
 - a. The 1 loan in 2018 also had a Tranche B element

Loans Funded / Repaid

	2014	2015	2016	2017	2018	2019
Amt Funded (£)	1,107,500	6,513,000	3,265,000	20,310,863	21,977,600	33,744,900
Amt Repaid (£)	-£137,500	n/a	-1,660,000	-4,952,520	-9,872,500	-21,431,000
AUM (£)	970,000	7,483,000	9,088,000	24,446,343	36,551,443	48,865,343

Note: The amounts funded & repaid reflect actual amounts during each calendar year, whilst the AUM amount is as at the static date of 31 December for each calendar year.

Risk & Return / Expected Stress Test Rates

All Proplend loans are split in upto three fixed loan-to-value (LTV) based risk tranches:

- Tranche C: 66 – 75% LTV = Higher Risk
- Tranche B: 51 – 65% LTV = Medium Risk
- Tranche A: 0 – 50% LTV = Lower Risk

2. Returns by Year

For the past 5 years, Proplend has enabled investors to earn attractive rates of risk adjusted returns across all three Loan to Value based risk tranches.

Tranche	LTV	Risk	2014	2015	2016	2017	2018	2019
C	66-75%	Higher	n/a	9.39%	n/a	11.64%	12.47%	13.40%
B	51-65%	Medium	6.30%	7.70%	9.36%	10.07%	9.74%	10.34%
A	0-50%	Lower	5.29%	6.16%	7.42%	7.76%	7.27%	7.24%

The above returns are the average net returns p.a. before bad debt and taxes for loans originated in the denoted year, whilst noting that there were no Tranche C loans originated in 2014 and 2016.

Reasons why the actual return earned may differ from the interest rate at origination:

- The default and / or delinquency rate being different to expectations
 - The UK macroeconomic situation in 2020 being different to expectations
 - The Company’s loan volumes each month being different from forecasts
 - Depending on the supply and demand for loans from both a Borrowers and Lenders risk / return pricing perspective, the loans could be risked priced either below or above the Target Rate
 - Reduction in interest payable due to changes in Borrower’s behaviour resulting in more early redemptions
 - Increase in interest payable (penalty interest) due to Borrower’s not being able deliver on their exit strategy on or behalf the loan maturity date
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3. 2019 Returns by Tranche

The table below denotes the annualised percentage return after fees, but before bad debt and taxes for active loans on the platform for the 12-month period to 31 December 2019, with interest not re-lent. Calculated taking an average of the Annual Interest Rate (AIR) across all loans. The average AIR isn't weighted based on the value of monies lent and assumes that the average AIR is achievable based on lending the same amount to all loans listed on the platform.

Tranche	Average Annual Interest Rate (AIR) ¹	Expected Losses Proplend Stress Test ²	Average AIR After Expected (Stress Tested) Losses ³	Actual Return ⁴
C	12.09%	3.00%	9.09%	12.09%
B	9.60%	0.30%	9.30%	9.60%
A	7.27%	0.00%	7.27%	7.27%

Notes

1. Annualised percentage return after fees, but before bad debt and taxes for active loans on the platform for the 12-month period to 31 December 2019, with interest not re-lent.
2. Assuming property values fall by 30%
3. This is calculated as Average Annual Interest Rate minus Expected Losses Proplend Stress Test
4. The Actual Return equates to the Average Annual Interest Rate as no losses were incurred across the platform during the calendar year 2019

It is important to note that “cash drag” which is a term used by investors to describe the negative effects on their returns of sitting on cash whilst waiting to fund an investment opportunity can occur frequently. This is because, there is often a timing gap between the point when a lender deposits funds and the point at which a loan is originated and matched against those funds. Therefore, any predicted returns are solely based off funds that have actually been invested into a loan and not funds that have been deposited and not yet deployed.

4. Auto-Lend Target Rate

The Auto-Lend functionality can be tailored to a range of personal investment preferences. Allocating to the safest 0-50% loan-to-value (LTV) Tranche A (only) loan parts, it targets a minimum return of 5% p.a. after fees, but before bad debt and taxes.

Given the aforementioned historical performance of Tranche A loan returns, the current advertised Target Rate of return of 5% p.a. is expected to be at least maintained but more than likely exceeded for 2020.

The Target Rate return for Auto-Lend is neither guaranteed, nor a capped rate (as we pass on the actual return). It is intended more as an indication of what Lenders who've enabled the Auto-Lend functionality can reasonably expect to earn (once invested) on their funds - given the limited risk exposure that Auto-Lend exposes them to.

Year	Tranche	Target Rate	Actual Return
2018	A	5%	6.74%
2019	A	5%	7.23%

Note: Auto-Lend functionality has only been available since August 2018

5. Expected Future Default Rate

Proplend expects the future default rate to remain static in the coming year (2020), due to the following factors:

- Prior demonstrable track record of a de-minimis quantum of loans actually going into a default status.
- Actual overall loan default percentage from inception being 1.04% (1/96) of loans funded.
- Robust loan underwriting and due diligence practices.
- Active on-going Borrower dialogue, risk management and loan oversight.

We have therefore suggested no increment in the default rate for the next period, due to the factors outlined above, whilst acknowledging that no two defaults are ever the same as each loan invariably has a differing set of circumstances therefore you cannot necessarily engage or use the same levers for each loan that requires a work-out strategy.

6. Risk Management & Summary

In accordance with FCA rules and guidelines Proplend has in place a robust Risk Management Framework which is appropriate to the nature, scale and complexity of its business. The aim of the Risk Management Framework is to ensure Proplend pay due consideration to the associated risks when underwriting a new loan and the ongoing monitoring thereof to proactively minimise any potential risk of default.

To assess such risks, a risk rating and pricing model has been created to fit in with Proplend's business model and is monitored and updated as required to remain in full compliance with the FCA's Risk Management Framework rules and guidelines.

Proplend recommends that, investors should diversify their loan portfolio to help minimise the risk to their capital. By spreading loan investments across multiple Borrowers, this will reduce the potential impact of a single Borrower failing to repay their interest or loan capital.