

OUTCOMES STATEMENT – Financial Year Ending 31 December 2021

Proplend operates a peer-to-peer lending platform which enables Lenders to provide funding to owners / prospective owners of commercial real estate assets (Borrowers) by way of either single or multiple loans through loan contracts entered into directly between Lenders and Borrowers.

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 certain quantum's worth of interest payments on all loans (whether a mortgage, bridge or vat loan) 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 the vast majority 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 have recently experienced due to the Covid-19 pandemic and the subsequent lockdowns etc which have caused economic uncertainty across the market-place
- Commercial Mortgage loans: we currently hold a minimum of 3 months Interest Reserve on these loans
- Commercial Bridge loans: we currently hold a minimum 3 month Interest Reserve on all these loans plus the "retained" interest payments for the term of the loan
- VAT Bridge loans: we currently hold a minimum 1 month Interest Reserve on all these loans plus the "retained" 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 and when relevant loan events occur.

As per the FCA's updated definition of default for secured loans, for 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 numbers detailed in this Outcomes Statement are reflective of the FCA's definition of an actual default as detailed above i.e. loans which are more than 180 days past due.**

However, from an internal Proplend perspective, loans are typically classified as being in “default” if one or more of the below scenarios has occurred, please note this is not an exhaustive list (see the Clause 4.2 of the Proplend Loan Conditions for the definitive list).

- 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 have been achieved and/or expected.

1. Loan Statistics / Performance Actuals

Year	Loans Funded	Interest Arrears ¹	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	20	0	0	0
2018	26	0	25	2	0	311
2019	38	0	24	5	2	0
2020	27	0	13	0	0	0
2021	43	0	0	0	0	0
Total	166	1	94	7	2	311

Notes as of 31 December 2021

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. The formal resolution of the recovery process for the loan that was in “default” resulted in Lenders in Tranche B of suffering a capital loss of £311 per £1000 loan part exc. interest earned

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%	7.69%	3.00%	7.69%	3.00%	0.00%

2019	38	3.00%	13.16%	3.00%	13.16%	3.00%	13.16%
2020	27	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
2021	43	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
Total	166	n/a	n/a	n/a	n/a	n/a	n/a

Notes as of 31 December 2021

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. All 7 loans that were in a default status had a Tranche A element
 - b. The 2 loans in 2018 also had a Tranche B element
 - c. The 5 loans in 2019, all of which had a Tranche C element

Loans Funded / Repaid

Year	Amt Funded (£)	Amt Repaid (£)	AUM (£)
2014	1.11m	-0.14m	0.97m
2015	6.51m	n/a	7.48m
2016	3.27m	-1.66m	9.09m
2017	20.31m	-4.95m	24.45m
2018	21.98m	-9.87m	36.56m
2019	33.74m	-21.43m	48.87m
2020	20.33m	-17.89m	51.31m
2021	36.05m	-32.21m	55.15m

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

Risk & Return / Expected Stress Test Rates

All Proplend loans are tranching 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 7 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	2015	2016	2017	2018	2019	2020	2021
C	66-75%	Higher	9.39%	n/a	11.64%	12.47%	11.80%	10.86%	10.54%
B	51-65%	Medium	7.70%	9.36%	10.07%	9.74%	9.63%	8.97%	8.32%
A	0-50%	Lower	6.16%	7.42%	7.76%	7.27%	7.24%	6.72%	6.48%

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

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

- The actual default and / or delinquency rate being different to expectations
- The UK macroeconomic situation actualities being different to expectations
- The Company's actual loan volumes each month being different from budget 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 favourable changes in a Borrower's payment / liquidity behaviour resulting in more early / timely redemptions
- Increase in interest payable (penalty interest) due to Borrower's not being able deliver on their exit strategy(s) thereby causing loans to go past their scheduled maturity date

3. 2021 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 from 1 January to 31 December 2021, 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	11.90%	5.00%	6.90%	11.90%
B	8.89%	2.00%	6.89%	8.89%
A	6.71%	0.00%	6.71%	6.71%

Notes

1. Annualised percentage return after fees, but before bad debt and taxes for active loans on the platform for the 12-month period from 1 January to 31 December 2021, 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 2021

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 but 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, and once funds invested.

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 2022.

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%
2020	A	5%	7.09%
2021	A	5%	6.45%

Note: The 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 (2022), 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 4.22% (7/166) of loans funded.
- Four of the five loans from the 2019 origination year were to the same Borrower, whose exit strategies overran.
- 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 (RMF) 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 reviewed, monitored and updated as required to remain in full compliance with the FCA's Risk Management Framework rules and guidelines. The aim of the model is to ensure the pricing of all loans is consistent after considering the associated underlying potential risks. The model looks at a number of factors from the loan through to the Borrower and down to the underlying tenancies as well as any additional security the Borrower may have to provide as part of the overall security package.

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