OUTCOMES STATEMENT – Financial Year Ending 31 December2022

Background

Proplend operates an electronic platform in relation to lending in line with its Part 4A Permission and Article 36H of the Financial Services and Markets Act (FSMA) 2000; Regulated Activities (Order) (RAO) 2001, 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 peer-to-peer 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.

Loan Structure & Oversight

The combination of higher inflation, energy prices and interest rates clearly resulted in economic activity to slow down during the latter part of 2022. This will inevitably continue over the coming months, and the effect of a downward economic cycle will impact the whole country. Proplend's prudent lending policy and risk management model will hopefully provide a degree of resistance, and 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 try and keep all loans performing and manage all parties (Borrowers & Lenders) expectations accordingly.

Proplend prices risk on a loan-by-loan basis based on the usual property metrics. Every loan is then split across up to three transparent and formulaic, LTV based tranches or credit bands for Lenders with each tranche earning a different rate of interest. This means that Lenders with different risk parameters and return requirements can all participate in the same loan.

To accommodate for the differing Investor risk & return appetites, each loan is 'tranched' 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).

Tranche A is the lowest risk, offering the lowest interest rate. Tranche C is the highest risk with the highest return. Investors can choose the investments with the risk-return profile(s) they're most comfortable with and even invest into different Tranches within the same loan. Noting that in a loan default scenario, Tranche A is paid in priority to Tranche B and Tranche C, then Tranche B is paid in priority to Tranche C.

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 can and 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: at point of loan origination we retain 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 techncial default, a Borrower must have missed a payment for more than 180 days or they are unlikely to meet their obligations without the enforcment of a security. As such, **the default rate numbers detailed in this Outcomes Statement are reflective of the FCA's defintion 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	Total Loans Originated (£)*	Avg Loan Size (£)*	Property Value (£)*	Avg Loan Term	Avg LTV
2014	1.11m	0.49m	1.78m	36 months	52.97%
2015	6.51m	1.09m	9.81m	30 months	67.38%
2016	3.27m	1.09m	5.82m	18 months	53.79%
2017	20.31m	1.02m	43.58m	17 months	58.17%
2018	21.98m	0.85m	40.56m	21 months	60.66%
2019	33.74m	0.89m	52.43m	23 months	66.24%
2020	20.33m	0.75m	32.81m	25 months	63.73%
2021	36.05m	0.84m	69.17m	28 months	58.15%
2022	36.38m	1.04m	77.23m	27 months	53.27%
Total	**180.36m**	**0.90m**	**334.44m**	**24 months**	**60.05%**

*Actual amounts have been rounded up / down to 2dp

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	26	2	0	311
2019	38	0	36	8	0	0
2020	27	0	18	0	0	0
2021	43	0	9	1	1	0
2022	35	0	4	0	0	0
Total	**201**	**1**	**125**	**11**	**1**	**311**

Notes as of 31 December for each financial year.

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 earnt during the term of the loan.

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

		Tranche A		Tranche B		Tranche C	
Year	**Loans Funded**	**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%	21.05%	3.00%	21.05%	3.00%	15.79%
2020	27	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
2021	43	3.00%	2.33%	3.00%	2.33%	3.00%	2.33%
2022	35	3.00%	0.00%	3.00%	0.00%	3.00%	0.00%
Total	**201**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

Notes as of 31 December 2022

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 "tranched"

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 11 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 8 loans in 2019, 6 of which had a Tranche C element
    d. The 1 loan in 2021 had a Tranche C element

Loans Funded / Repaid

Year	Amt Funded (£)*	Capital Amt Repaid (£)*	AUM (£)*	Interest Amt Repaid (£)*
2014	1.11m	-0.14m	0.97m	-0.01m
2015	6.51m	-	7.48m	-0.18m
2016	3.27m	-1.66m	9.09m	-0.56m
2017	20.31m	-4.95m	24.45m	-1.33m
2018	21.98m	-9.87m	36.56m	-2.19m
2019	33.74m	-21.43m	48.87m	-3.06m
2020	20.33m	-17.89m	51.31m	-3.75m
2021	36.05m	-32.21m	55.15m	-3.80m
2022	36.38m	-27.73m	63.80m	-4.43m
Total	**181.43m**	**-118.97m**	**n/a**	**-19.31m**

***Actual amounts have been rounded up / down to 2dp**

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 tranched 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 previous 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	2016	2017	2018	2019	2020	2021	2022
C	66-75%	Higher	n/a	11.64%	12.47%	11.80%	10.86%	10.54%	9.51%
B	51-65%	Medium	9.36%	10.07%	9.74%	9.63%	8.97%	8.32%	7.62%
A	0-50%	Lower	7.42%	7.76%	7.27%	7.24%	6.72%	6.48%	6.10%

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 earnt may differ from the expected interest rate returns at loan origination:

- The actual default and / or delinquency rate being different to expectations.
- The UK macroeconomic situation actualities being different to expectations.
- 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.
- The length of time taken to deploy funds i.e. Cash Drag.

---

3. 2022 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 2022, 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	9.81%	5.00%	4.81%	9.81%
B	7.87%	2.00%	5.87%	7.87%
A	6.05%	0.00%	6.05%	6.05%

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 2022, 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 2022.

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 2023.

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%
2022	A	5%	5.94%

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 (2023), 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 5.47% (11/201) 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

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 busines. 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, amd harm to its Lenders. Should a loan encounter servicing issues, more frequent monitoring of the loan may be required, at the decision and discretion of the Credit Committee.

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 fair and 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.

When determining the most appropriate course of remedial action, Proplend considers all factors pertaining to the Borrower, the asset, the economic climate all with a view to ensure recoveries are maximised for all Lenders in the loan.

7. Summary

Retail customer outcomes are a central focus of Proplend's risk control arrangements as it provides full disclosure to all its Lenders about the Platform itself and the loans it facilitates and how they are all tranched and priced via an LTV risk pricing matrix. As such, all Lenders have full discretion and control as to which loans and which LTV risk tranche they wish to invest in.

Proplend records and tracks all loan performance on an ongoing monthly basis and produces month-end metrics which capture Interest Payment Date (IPD) performance across the whole platform. This IPD metric is then shared / distributed to all Lenders via the CEO's monthly newsletter.

Proplend believes that the fair treatment of all its customers is essential to the success of its business. Customers are a key stakeholder in the company's business, along with other 3rd party financial intermediaries. Therefore, Proplend aims to treat all customers fairly, deliver good investment outcomes for investors and looks to ensure that it engages with its customers in a manner that is open and transparent and with communications that are fair, clear and not misleading.

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