RElendex
SECURED PEER-TO-PEER LENDING

Relendex Outcomes Statement

The following Outcomes Statement is intended to explain in clear terms Relendex's procedures for handling loans that have defaulted in some way and provides information, beyond the regulatory requirement imposed by the Financial Conduct Authority (FCA).

The Outcomes Statement is provided to enable Lenders to understand and monitor the performance of the Relendex loan portfolio and to do this by providing the following:

- Data on actual and expected rates of default on all P2P loans Relendex has originated, split by different categories of risk.
- An explanation of the assumptions used in assessing expected future default rates.
- Data for the actual returns received by Lenders, with comparison against any Target Rates offered on the Relendex platform.
- A detailed explanation of the limitations of the data provided

Please note that data relating to past performance, including the rates of default of loans made to borrowers arranged by Relendex and the rates of returns paid to Lenders should not be viewed as a guarantee of future performance.

Definition of Defaults

Lenders should be aware that there is no single definition of a default, nor an agreement as to the time in which a loan should be declared to be in default. Lenders should be further aware that to the extent that there are industry norms these relate to the consumer credit and SME lending industries which by their nature are very different to the making of commercial property loans. These rules have evolved around sectors making high frequency, relatively low value loans which collectively have a high degree of predictability as to the likelihood of default. This model is not applicable to Relendex’s business. The FCA recognises the limitations of the approach and consequently allows each platform to provide their own definitions.

The Relendex Definition of Defaults

As explained in the previous section, there is no agreed definition of a default. At Relendex, we recognise the following categories of default: -

1) Technical Default
2) Formal Default
3) In Recovery
4) Loss

1) Technical Default

The making of loans secured on commercial property is an extremely complex procedure. To protect Lenders numerous covenants and obligations may be placed on Borrowers. Some of these, like the payment of interest on due dates, are apparent to Lenders but many are not. Loans frequently may be in default, because of a minor breach of covenant of which Lenders will never be aware. They may also be in breach for something obvious like the failure to pay interest or repay a loan on a due date.

Relendex defines a Technical Default as any default that is capable to be remedied, and the Borrower is actively taking steps to remedy the default. For example, where a refinance or sale is delayed and Relendex has been kept fully informed then the process of agreeing a loan extension could give rise to a Technical Default period.

The emphasis is heavily placed upon the communication process, as explained fully in the next category.

Default interest rates would not normally be incurred during a Technical Default. Examples of a Technical Default would include, but are not limited to, the following:

- where a borrower has failed to make an interest payment by its due date;
- where an LTV covenant has been breached;
- where any other material covenant in the facility agreement has been breached; or
- where the term of the loan has expired but the borrower is in the process of negotiating an extension with Relendex.

2) Formal Default

Relendex does not place a minimum time upon the declaration of a Formal Default. During the course of a loan, Relendex actively monitors all Borrowers and usually is able to form an accurate opinion upon the progress of any loan and the potential for a default long before the end of the loan term. Relendex emphasises the importance of information flow, and its supply in a timely manner. As a regulated P2P, dealing fairly with Borrowers is an equal obligation as to protecting Lenders. Borrowers who keep Relendex well-informed and give advanced notice of any issues, rarely suffer Actual Defaults. Loans can be extended, and further finance raised, all to ensure that both Lenders and Borrowers receive satisfactory outcomes.

On the other hand, Borrowers who do not keep Relendex informed, or worse mislead us in any way, or renege on commitments, are placed into default at the earliest possible opportunity. Historically, this has seen a Formal Default being called on the date of the last interest payment being made when the loan was not even 1-day overdue, far less that the 180 days past the contractually payment date stipulated by the FCA.

Where there is uncertainty relating to a Loan's status Relendex has adopted a 90 day post contractual payment long-stop date for declaring a Formal Default.

<u>Implications of a Formal Default</u>

Default Interest Rates apply. Whilst these are set out in individual Loan Agreements, the standard default interest payment is 150% of the original coupon offered to Lenders in the Listing Documents

The risk of a loss of capital, or the non-payment of interest increases but this does not mean that Lenders will lose out as all loans are secured on property together with guarantees, (usually personal), and therefore there is a high probability of recovery of capital. Historically, the most financially rewarding investments in Relendex loans have been those which entered Actual Default and eventually repaid in full plus interest.

The loss of liquidity. This is the inevitable adverse outcome of Formal Default. Whilst a loan is in default, it cannot be traded on the Resale Marketplace. This results in a loss of liquidity. Lenders cannot have access to funds invested in a loan in default. ***Lenders are advised to mitigate against this outcome by ensuring that their portfolios are diversified and that no funds are invested that the Lender cannot afford to become illiquid.***

3) In Recovery

Where Relendex is confident that a Borrower will be able to remedy an Actual Default and is actively taking steps to so do, approved by Relendex, the Company will allow the Borrower to manage the repayment process.

Relendex recognises that the appointment of a receiver to take over the underlying assets will immediately incur additional costs for the Borrower and will reduce or entirely destroy the Borrower's capital in the property. Relendex will always endeavour to avoid these costs so long as the Borrower is actively taking steps to manage the process and is acting in good faith.

Relendex, does not hesitate to use all legal remedies including appoint receivers where the Company believes the Borrower is in any way jeopardising Lenders' interests.

Implications of Loans in Recovery

The implications are the same as for all Actual Defaults. If the Receiver, together with Relendex, can optimise the outcome, capital and interest will be recovered.

The main advantage of the recovery process is that Relendex's experienced team can find an optimal solution for recovering Lenders' funds. This solution may be unavailable to a distressed Borrower. For example, Relendex may well choose to complete part or all of a development using house funds. Alternatively, Relendex may pursue other avenues to recoup otherwise lost funds including making claims against professional who in Relendex's opinions may have acted negligently.

4) Loss

There is no industry definition of a loss.

Whilst Relendex is obligated to provide a definition of a loss, and to even calculate an anticipated loss rate, this is an extremely complex task. The main definitions relate to the banking industry but are meaningless when applied to Relendex. Take 2 simple examples: -

a. A bank makes a loan. It declares a default and sells the loan to a third party at 90% of the face value. The bank declares a 10% loss. The third party recovers the loan in full. If Relendex was a bank we would be declaring the 10% loss but then when we recover the loan, our Lenders would be repaid 100% of their capital and no loss would have been incurred.
b. A Lender makes a £1,000 loan. The Lender receives £100 in interest over 12 months. The loan defaults and eventually repays £950 12 months late. The bank would calculate that the capital plus capitalised interest comes to £110 and therefore the £950 repayment represents a £150 loss.

Relendex's Lenders are unlikely to view this as the case. Lenders will say, I invested £1,000 and received back £1,050 over 2 years, approx. 2.5% return p.a. They may well say that they were expecting a 10% return but accept that a 2.5% return, whilst not being as good as desired is non the less a return and not a loss.

Relendex believes that portfolios constructed from our loan parts are effectively assets under management and therefore returns should be calculated as net returns after allowing for losses in order to provide a direct comparison with other investment opportunities.

Losses - Relendex's Policy

Relendex operates a policy of prudence. Losses are declared once assets are realised and the loss has crystalised. This declaration is made even where Relendex is pursuing additional remedies to recover the loss such as calling on personal guarantees or making negligence claims. In the event, that the latter are successful, and Lenders receive additional payments the declared loss is reduced to reflect the recovered funds.

Actual and Projected Capital Losses and Defaults

The outcomes statement table below displays the Expected Default Rate for all P2P agreements against the Actual Default Rate by reference to their risk category.

To ensure the tables are as relevant as possible for our lenders, the following table not only shows the default rates by risk category but equates these rates to those used on the Relendex trading platform.

The categories are: -

A+ This covers only Senior loans, sub 50% LTV made to Relendex Select Portfolio (RSP) members

A This covers all other Senior loans with a sub 50% LTV

B Junior This covers the Junior portion of “A” grade loans with LTVs up to 75%

B Mezzanine This covers all 2nd charge loans where Relendex has originated a Senior Loan. LTVs can be as high as 80%

Loan Distribution - The percentage of each category as a total of the loan book, is changing continuously. The RSP category is new, and its borrowers take larger loans than in other categories. This group is expected to grow faster than other ones and represent an increasingly large share of the loan book.

Actual Default/In Recovery - This shows the total amount of loans that are in default or in recovery as at the current date. It does not reflect recoverability: this is shown in the column entitled “Anticipated Loan Loss after Recovery”. These figures provide the best estimate of any known losses in the current loan book and has been compiled from the Directors’ detailed knowledge of the state of each loan. These figures are lower than those in the next column which estimates losses due from loans on the books which have yet to show any sign of stress but which in due course could become impaired.

The final column shows the effect of expected losses to Lenders’ yield. This is based upon historic yield data and calculates the anticipated loss adjusted interest rate. It takes the gross rate of the loans in each category, plus the default interest supplement on loans that can be recovered and allocates anticipated losses over the average loan duration to produce an anticipated loss (“risk adjusted”) annual yield. This model assumes the reinvestment of interest receipts.

Outcomes Statement Table

Risk Category	Description /LTV %	Category as a % of Loans Originated	Actual Default/In Recovery Rate	Anticipated Loan Loss after Recovery	Expected Long Term Loss Rate*	Anticipated Loss Adjusted Yield %
A+	Senior/RSP <50%	11.9%	0%	0%	0%	**6.58**
A	Senior <50%	67.4%	12.8%	0.6%	1.2%	**6.98**
B	Junior >50% <75%	15.7%	7.7%	3.9%	5%	**7.02**
B	Mezzanine >50% <80%	5.0%	0%	0%	5.5%	**6.92**

*Total over the whole life of a loan

Limitations of the Data

- The figures above refer to past performance and cannot be taken as an accurate indicator of future outcomes.
- The figures assume that there is no systemic collapse in the UK commercial property market
- The figures assume a normalised property cycle
- The figures do not take into account the time taken to recover loans which represents an opportunity cost
- The introduction of the RSP and enhanced borrower vetting together with the strengthening of the underwriting team should see a continuing reduction in anticipated losses. This potential improvement has not been reflected in the outcomes statement.

Anticipated Returns

It is important to note that Lenders' returns are heavily impacted not just by the rate of interest offered on individual loans and the successful repayment of these loans but by two other key factors. These can have a significant effect upon outcomes.

The factors to consider when mitigating risk and maximising returns, are: -

- Cash Drag

Above and beyond all other factors the allocation of cash to loans can be the single most significant factor determining a lender's overall return.

In the 12 months to the 30th November, our analysis shows that 16% of all lender funds was held as cash balances. This "cash drag" would have reduced actual returns by approx. 1% per annum. These balances build up for a variety of reasons including the failure to reinvest interest or repayment receipts in a timely manner.

- Diversification

The greater a lender's diversification the more likely it is that a lender's performance will match the returns in the outcomes table. The non-diversified investor could easily outperform the target rates if all goes well, but at the extreme a lender in a single Junior or Mezzanine loan could experience a total loss of capital