Outcomes Statement

Year End April 2020

Introduction

In accordance with COBS 18.12.21R, Crowd2Fund must publish an outcomes statement in order to detail expected and actual default rates by risk category. This document outlines in detail the outcomes statement, defines the methodology used to calculate the forecast default rate and also ongoing work for additional analysis during COVID-19. In line with the requirement of COBS 18.12.21R the platform default rate, default rate by risk category and estimated default rate is published on the Fund Statistics page which can be accessed here: www.crowd2fund.com/fund-statistics.

Outcome statement

Category	Balance in default at April 2020	Default rate at April 2020	Estimated default uplift	Expected default rate
Interest Only	£0.00	0.00%	£6,093.57	0.02%
Loans	£1,598,770.95	4.67%	£77,781.81	4.90%
Revenue Loans	£341,082.59	1.00%	£85,364.11	1.25%
Venture Debt	£118,681.00	0.35%	£24,833.36	0.42%
Total	£2,058,534.54	6.01%	£194,072.84	6.58%

Assumptions for outcomes statement

Crowd2Fund has made the following assumptions when reviewing the loan book and applying those insights to expected default rate. We took the period of 1st March 2020 to 1st July 2020 in order to provide insight of the effects of COVID-19 on the loan book performance.

- We have reviewed all COVID-19 affected loans which totalled £2,217,515.36.
- The majority of loans impacted were in the Food and Drink, Tourism and Leisure, and Retail sectors.
- We calculated an increased default rate of 2% for those affected by COVID-19 in the four-month period.
- We calculated an increased arrears rate of 3% for those affected by COVID-19 in the four-month period.
- We made the assumption that the arrears and default are unique to COVID-19 and would have otherwise not arisen.
- The current level of arrears relates to those cases that we have not been able to move to an arrangement or restructure (£459,483.88) and we assumed 50% will default.
- We have restructured £1,455,638.76 of COVID-19 affected loans and there is a risk that some of those may present as arrears going forwards.
- Assuming none of the restructured loans fall into arrears and 50% of current arrears fall into default, then we assumed a default percentage of 3.5% as a result of COVID-19 to be applied to the affected sectors.
- The value of the COVID-19 affected sectors is £5,544,938.36
- We applied a 3.5% default uplift to those sectors overall, which equates to £194,072.84
- We assumed that the defaults of the remaining portfolio not affected by COVID-19 will remain stable at 6.01%. Therefore, using this along with the default uplift of £194K, we predict the default amount to increase to £2.25million, which equates to a 6.58% default rate.

Expected default rate modelling methodology

In order to determine expected future default rates we have developed a basic model for forecasting this. As COVID-19 leaves us with an exceptionally unusual economic circumstance we are continuing to improve our modelling as more data becomes available.

Each loan has been classified into a risk category based on loan product. Each loan has also been classified by sector. We looked at how the loan statuses had changed since the beginning of COVID-19 and used this information to determine which sectors were most affected.

We split the loans affected by COVID-19 into different statuses, those being:

1. Arrears
2. Default
3. Agreement or restructured

This allows us to obtain a percentage of the loan book balance that entered into those statuses as a direct consequence of COVID-19.

Using these percentages, we applied those increases to the balances of the 3 most effected sectors, those being:

1. Food and drink
2. Tourism and leisure
3. Retail and consumer products

Combined with the assumptions outlined above, the predicted increase default amount in these sectors was added to the default rate as at our year end.

The increase in default to 6.58% is relatively small as the majority of loans that approached us were moved into arrangements or were able to settle their loans via government schemes. Additionally, we remain optimistic that some of the business in arrears or in default may still be in the process of obtaining emergency capital via government schemes.

Given continued government intervention on COVID-19 affected businesses and the unpredictability of COVID-19 or further lockdowns, it is difficult to predict further impact to these loans until there is better clarity around the economy in 2021.