

# INTERIM OUTCOMES STATEMENT

1 July 2022 – 31 December 2022

## INTRODUCTION

In line with the FCA's Policy Statement PS19/14 which came into force on the 9<sup>th</sup> December 2019, and in accordance with the Conduct of Business Sourcebook (COBS) 18.12.21R to 18.12.23R, Blend Loan Network Limited ("Blend Network") must publish within four months of its financial year-end an Outcomes Statement. Blend has changed its financial year, its financial year will now run from 1 January to 31 December, previously 1 July to 30 June. As we undergo this change there will be an extended financial year which will span 1 July 2022 – 31 December 2023. To prevent an 18 month gap where no Outcomes Statement is provided, we are publishing this interim version to cover 1 July 2022 – 31 December 2022.

Outcomes Statements are required to be publicly available on the Blend Network website for 10 years.

The Outcomes Statement shows the expected and actual default rate of all loans originated within a financial year by reference to the risk categories used by the firm. The firm will disclose borrower default where: a) the borrower is unlikely to meet its obligations under the P2P agreement without the platform enforcing any relevant security interest; or b) the borrower is past the contractual due date by more than 180 days.

## EXTERNAL ASSUMPTIONS

### Housing market & Interest rates

Since 2008/2009 we have seen very low interest rates, this changed in 2023 when the Bank of England increased interest rates to 4%. In addition, the mini-budget released in Q3 2023 caused a lot of market uncertainty and volatility, this has now stabilised. With regard to the Interest rates, we expect we may see a further rise of 50bps but then see rates start to reduce towards the end of 2023 and into early 2024.

BLEND has tightened its risk appetite in order to mitigate against this risk of these macroeconomic events.

The increase in interest rates has led to fewer property transactions, and it is likely that this will be seen through much of 2023, as a result we expect transaction volumes to be lower than previous years.

### Cost of energy and materials increase

With the price of energy and materials increasing we are continuing to maintain close on-site monitoring of each individual loan currently live in the platform to ensure each borrower is able to service their ongoing credit obligations in relation to the Blend Network lender base. Any forecasted difficulties will be addressed by the firm in a proactive manner to ensure that the loans remain performing as far as possible and that expectations on returns are appropriately managed through timely and up to date developments on loans portfolios. Updates are made to lenders on a loan by loan basis either email or via the platform. Blend Network Credit's team takes into consideration the macroeconomic environment and continuously adjust its lending parameters accordingly.

## INTERNAL ASSUMPTIONS

**Borrower's equity**  
**Borrower's experience**  
**Loan to Value**  
**Loan to Costs**  
**Liquidity of the asset**  
**Location**  
**Profit of the project**  
**Exit strategy**

## LOAN BOOK PERFORMANCE

In line with the FCA's definition, 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 for a default to have occurred. This Outcomes Statements has therefore been structured on this basis.

Year	Loans Funded (number of)	Interest Arrears <sup>1</sup> (>90 Days)	Performing loans (number of)	Loan Defaults <sup>3</sup> (historic)	Loan Defaults <sup>4</sup> (current)	Lender Losses (amount lost £)
1 Jul-- 31 Dec 2022	20	0	20	0	0	0
2021/22	29	0	29	0	0	0
2020/21	28	0	28	0	0	0
2019/20	18	0	18	0	0	0
2018/19	16	0	16	0	0	0
2017/18	11	0	10	1	0	0
<b>Total</b>	102	0	101	1	0	0

## Risk & Return

All Blend Network loans are split into 5 fixed risk categories:

- Category A: Low Risk. Very strong criteria on the project with a strong experience from the borrower and a low LTV
- Category B: Medium Risk. At least one the main criteria (LTV or Experience) is a medium risk
- Category C: Medium- High Risk. The parameters of the project have produced a medium – high risk score. It can be a highly experienced borrower with a higher LTV or medium experienced borrower with a medium LTV as examples
- Category D: High Risk. The parameters of this project have produced a high risk score but acceptable. The parameters are higher than a moderate project but still within the credit policy
- Category E: High Risk. At least one of the parameters is too high and the firm will reject the deal. This can also apply to loans that have been funded but classified as 'non-performing'. The reason could be an over-run on the costs for example with no solution to provide the additional funding. Those loans are not tradable on the secondary market.

## RETURNS BY YEAR

The below returns are the average annualised net returns before bad debt and taxes for loans originated year on year.

Category	2017/18 Expected rate	2017/18 Actual rate	2018/19 Expected rate	2018/19 Actual rate	2019/20 Expected rate	2019/20 Actual rate	2020/21 Expected rate	2020/21 Actual rate	2021/22 Expected rate	2021/22 Actual rate	1 Jul - 31 Dec 2022 Expected rate (post expected loss)	1 Jul - 31 Dec 2022 Actual rate
A	N/A	N/A	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	7.50%	7.37%	8.5%	7.81%
B	11.20%	11.20%	10.50%	10.50%	9.75%	9.75%	9.50%	9.38%	8.75%	8.83%	9.35%	8.50%
C	12.00%	12.60%	12.00%	12.00%	12.00%	12.00%	12.00%	N/A	N/A	N/A	10.25%	N/A
D	14.00%	14.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12%	N/A

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

- The default and / or delinquency rate being different to expectations
- Macroeconomic factors such as inflation
- Actual Loan volumes differing 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 to deliver on their exit strategy on or before the loan maturity date

## 2023 EXPECTED RETURNS

The table below denotes the expected annualised percentage return after fees, but before bad debt and taxes for active loans on the platform for the period 1 January 2023 – 31 December 2023, 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. When investing in a loan, there is a risk that the loan does not perform which represents a Default. A default does not always represent a loss. The loan can repay in full late, or the security can be sold and potentially repay the full amount. The risk of Default is higher than the risk of loss. The actual return is calculated as the actual return deducted by the actual loss.

<b>Risk Category</b>	<b>Average Annual Interest Rate (AIR)<sup>1</sup></b>	<b>Expected Losses</b>	<b>Average AIR After Expected</b>
A	8.60%	0.50%	8.10%
B	10.00%	1.00%	9.00%
C	12.00%	2.50%	9.50%
D	14.00%	4.25%	9.75%

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<sup>1</sup> Annualised rate after fees, but before bad debt and taxes for active loans on the platform for the preceeding 12-month period.

## RISK MANAGEMENT & SUMMARY

In accordance with FCA rules and guidelines Blend Network has in place a 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 that the firm applies due consideration to the associated risks when underwriting a new loan and the ongoing monitoring to minimise defaults on the platform.

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