

LENDER AND ISA GUIDE

FOLK 2 FOLK
The Local Lending Movement

Great investments.

Brilliant feeling.

Huge impact.

We believe in a fair deal for both Borrowers and Lenders, so as well as a great interest rate your FOLK2FOLK investment will be doing great things.

Join The Movement

Our mission is to help build and sustain socially and financially successful local and rural communities across the UK; something we believe is essential to Britain's pre-and post-Brexit success.

By investing £20,000 or more through FOLK2FOLK, you'll provide local, rural and entrepreneurial businesses with the funding they need to grow, develop and diversify.

But it doesn't stop there. By lending locally through us your investment has flow-on impacts. You'll be part of our Local Lending Movement: helping to create and secure local jobs which positively impacts on other local businesses; demand for better communication and connectivity increases; and local bus routes, schools and services retain their relevance. So as well as a great rate, you get a brilliant feeling and make a huge impact.

Why invest with FOLK2FOLK?

- 6.5% p.a. interest paid monthly
- Secured against UK property
- Tax efficient investments possible with our Innovative Finance ISA
- Support local businesses, nationally
- Online Lender Portal enables you to view your investment information
- We match-make you to a loan that suits your preferences*
- There are no fees to enter into a FOLK2FOLK loan#

We are providing you with this information to help you decide whether a FOLK2FOLK loan is right for you as an investment. We don't give advice and you should contact an adviser if you require financial or tax advice.

Who will you be lending to?

Through FOLK2FOLK you can choose to support local, rural and entrepreneurial businesses right outside your backdoor* or elsewhere in the UK. From farmers seeking to diversify, property renovators or developers, country hotels and pubs, right through to manufacturing businesses, yoga studios and cafés. They may require finance to start or grow their business, buy an asset or boost working capital; your funds will enable them to seize opportunities with confidence!

All business Borrowers must:

- Have land or property, other than their home, against which to secure the loan (we lend up to maximum 60% of the forced sale value of the security)
- Be based in the UK (excluding Isle of Man and Channel Isles)
- Pass our credit and reputational checks
- Be over 18

How are Borrowers assessed?

We are very particular about Borrowers and take an holistic view of the person and their business. We're choosy but fair and turn down Borrowers who don't meet our criteria. It's important, however, that you do your own due diligence and don't rely solely on FOLK2FOLK's case review when deciding to invest into a loan on the FOLK2FOLK platform.

* We always try to match Lenders' preference, whether that means matching with a local Borrower or to a particular sector; but suitable and available opportunities are not always guaranteed in which case we'll also offer you loan investments outside your preferences.

No fees apply to enter into a FOLK2FOLK loan with the exception of our IFISA when there is a wrapper fee of 1% plus VAT p.a. (Capped at £1,000 + VAT per tax year.) However fees apply if you wish to exit your investment early, see page 6 and 7.

HOW IT WORKS

Meeting your preferences

We'll always do our best to match your preferences with lending opportunities.

As a FOLK2FOLK Lender you can choose:

Location: You can choose to lend to businesses that are on your doorstep or nationwide.

Sector: You can specify particular sectors you want to support or avoid.

How long you want to lend for: You can choose to lend via Fixed Loans ranging from 1 to 5 years or our Rolling Loan which has a minimum term of 6 months but may continue for up to 5 years.

It's important to note however, that a loan which ticks all your preferences may not arise and the more specific your preferences, the longer it may take for the perfect lending opportunity to arise. As a result, when we don't have loans that meet your specific preferences we will contact you with all available loan opportunities so you can choose whether or not to lend to them.

The types of loan investments we offer

Lending opportunities we present to you will be one of the following loan types. You can choose to be offered all available opportunities regardless of loan type or you can specify your preference, i.e. you may only be interested in loans of 5 years in duration.

Loan investment types:

- **Rolling Loan** – these loans are for a minimum period of 6 months and may continue for up to a maximum period of 5 years at the Borrower's choice. At any point following the initial 6 months, the Borrower may give 3 months' notice to repay the loan.
- **Fixed 1, 2, 3, 4 or 5 Loan** – fixed-term loans of either 1, 2, 3, 4 or 5 years. If the Borrower wants to renew their loan once it reaches full term, you can choose whether to continue investing in it or to exit the loan.

| | ROLLING Loan | FIXED TERM Loan |
|---|---|---|
| Minimum investment | £20,000 | |
| Interest rate | 6.5% p.a. | |
| Loan to Value ratio (LTV) | Maximum LTV 60% | |
| Eligible for Innovative Finance ISA (IFISA) | Yes (fees apply, see page 8) | |
| Investment term | <p>6 months minimum</p> <p>May continue for up to a maximum of 5 years at the Borrower's choice.</p> <p>The Borrower will give 3 months' notice to repay the loan.</p> | <p>1, 2, 3, 4 or 5 years.</p> <p>If the Borrower wants to extend, you can choose whether to remain in the loan for the period chosen by the Borrower up to maximum 5 years.</p> <p>The Borrower may choose to repay your loan before the end of the term. In which case you will receive 3 months' notice of this PLUS 3 months' interest</p> |
| Exiting your investment | <p>When the Borrower chooses to redeem their loan.</p> <p>Or you may offer your loan for sale via FOLK2FOLK's secondary market 'MarketPlace' after 6 months from initial investment. (Fees apply see page 7).</p> | <p>At redemption date</p> <p>Or you may offer your loan for sale via FOLK2FOLK's secondary market 'MarketPlace' after 6 months from initial investment. (Fees apply see page 7).</p> |



ACCESSING YOUR MONEY

Your capital investment will be returned to you once the loan reaches full term or when the Borrower chooses to redeem their loan.

However, if you wish to exit the loan prior to this, you can offer all or part of it for sale to other FOLK2FOLK Lenders via our secondary market 'MarketPlace'.

Selling your loan investments via MarketPlace

- You may only offer your loan for sale once you have been in the investment for a minimum of 6 months.
- You may offer your investments for sale in blocks of £20,000 or your full investment amount, but you can't leave less than FOLK2FOLK's minimum investment amount (which is £20,000).
- It may be that none or only some of your loan is sold if there are limited buyers available.
- You will be unable to sell the loan if the loan is impaired or in default (and for a period of 3 months after default).

There are costs associated with selling your loan

| | | |
|--------------------|--|-----------------------------------|
| Listing Fee | A non-refundable fee for listing the loan for sale. | £250 + VAT |
| Success Fee | Once the transaction is complete a Success Fee of 0.5% + VAT of the value of the loan being sold is payable. | 0.5% + VAT (less the Listing Fee) |

An illustration of these fees when selling different loan amounts

| | MarketPlace Fees illustrated | | | | | | | | | |
|--|------------------------------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Loan Size | £20,000 | £30,000 | £40,000 | £50,000 | £60,000 | £70,000 | £80,000 | £90,000 | £100,000 | £200,000 |
| Listing Fee: £250 (+ VAT) | £300 | £300 | £300 | £300 | £300 | £300 | £300 | £300 | £300 | £300 |
| Success Fee: 0.5% of the loan value (+ VAT) minus the Listing Fee | £0 | | | | £60 | £120 | £180 | £240 | £300 | £900 |

The minimum you pay is the Listing Fee of £300 (£250 + VAT) payable even if the loan doesn't sell.

Important: There is no guarantee there will be a buyer for your loan. In this instance, you'll need to remain invested for the term of the loan or until the Borrower chooses to repay.



INNOVATIVE FINANCE ISA

Earn tax-free interest while giving British businesses a boost.

The Innovative Finance ISA (IFISA) enables you to use your annual Individual Savings Account (ISA) allowance to earn tax-free interest from Peer-to-Peer lending.

What is an Innovative Finance ISA (IFISA)?

An ISA acts as a 'wrapper' around your investment so that the interest arising is tax-free. The IFISA was introduced in 2016 and is a form of ISA that can hold Peer-to-Peer loans, enabling lenders to receive the interest tax-free.

Please read all the Lender information in this Guide, not just the IFISA information.

Why invest in the FOLK2FOLK IFISA

- Receive monthly tax-free interest of 6.5% p.a.
- Invest your full 2018/19 ISA allowance of £20,000
- Secured against UK property
- Support local businesses, nationally
- Online Lender Portal enables you to access your investment information whenever suits you

IFISA overview

You can choose whether to lend with or without the FOLK2FOLK IFISA tax wrapper (or both) but there is an HMRC limit to how much new ISA money you can lend within the IFISA each year:

| | |
|------------------------------------|---|
| Investment amount | Your full annual ISA allowance for 2018/19 which is £20,000 or transfer existing ISA funds. FOLK2FOLK's minimum investment amount is £20,000. |
| Interest rate | 6.5% p.a. paid monthly tax-free. This is a fixed rate and will not change for the duration of that loan. Interest earned on the IFISA is paid to your specified bank account monthly. This means interest cannot be accrued inside the IFISA so the investment amount at the end of the term will remain at the amount subscribed. |
| IFISA term | From 1 to 5 years. Dependent upon the term of the loan you invest into. |
| Transferring funds from other ISAs | Yes. Existing ISA money that is transferred across to your FOLK2FOLK IFISA will need to be a minimum £20,000 (FOLK2FOLK's minimum investment amount) and in multiples of £5,000. |
| Fees | 1% Annual Administration fee + VAT on the subscription amount (capped to maximum £1,000 + VAT). Calculated on a pro-rata basis each tax year. |

Eligibility

To qualify for our IFISA you must:

- Be registered as a FOLK2FOLK Lender
- Live in the UK and be a UK resident for tax purposes
- Not have funded an ISA of any type elsewhere in the current tax year (only applicable for new subscriptions)
- Be 18 years old or over

What can be invested in the IFISA

New annual subscriptions (new ISA money)

You can use your current tax year's allowance by electronically transferring your money to FOLK2FOLK.

Transfer of existing ISA money

If you'd like to move your existing ISA money to a FOLK2FOLK IFISA, we can accept a minimum amount of £20,000 and then in multiples of £5,000. Simply complete our Transfer Authority Form once you've set up a FOLK2FOLK IFISA – and we'll do the rest. We'll contact your existing ISA Manager to arrange the transfer of your money to ensure it retains tax-free status; if you transfer the funds yourself you'll lose this.

Existing FOLK2FOLK clients cannot transfer an existing FOLK2FOLK loan investment to our IFISA, nor can an existing FOLK2FOLK loan investment be withdrawn early to pay in to our IFISA. However, when a loan redeems proceeds can be used to fund an IFISA.

Accessing your money

Upon maturity (or early repayment) of the loan, the IFISA funds will be returned to the FOLK2FOLK client money account and you will be contacted to establish what you

wish to do with your funds. You may want us to return them to you or retain them for reinvestment into another FOLK2FOLK loan.

If you wish to exit the loan earlier than the end date, you can offer all or part of it for sale to other FOLK2FOLK Lenders via our secondary MarketPlace once you have been in the investment for a minimum of 6 months from entering the loan. Fees apply (see page 7 for MarketPlace fees).

| | Whilst the money is not invested in a loan | Whilst the money is invested in a loan |
|---------------------------------------|--|--|
| FOLK2FOLK's Annual Administration Fee | 1% capped at Maximum. £1,000 | 1% capped at Maximum. £1,000 |
| Withdrawal from the ISA | £50 | £50 plus MarketPlace sale fees |
| Transfer to another ISA provider | £50 | £50 plus MarketPlace sale fees |

IFISA fees are subject to VAT. Further fees apply. For an overview of costs please refer to our General Terms & Conditions at www.folk2folk.com. Alternatively, you can call us on 0330 053 5532 (calls charged at standard national rate) to request a hard copy via the post.

Withdrawals and transfers out

If your funds are not in a loan: If your funds are held in the client money account and not invested in a loan, withdrawals and transfers out to another ISA provider are permitted. Fees apply, see page 10.

If your funds are in a loan: If your funds are invested in a loan and you wish to withdraw or transfer to another ISA provider before the end date of the loan, you may offer it for sale to other FOLK2FOLK Lenders via our secondary market. Fees apply, see page 7 and page 10).

Retaining tax-free status

If you request to withdraw your IFISA funds and have them returned to you, they will lose their tax-free status from the date of closure/ withdrawal. If you wish to have your IFISA transferred to another ISA provider, ensuring this is completed using the transfer form supplied by the new ISA provider, then the ISA will retain its tax-free status.

INVESTING IN THE IFISA

How to apply



Apply to be a FOLK2FOLK IFISA Lender

- Apply as a FOLK2FOLK Lender (see page 18).
- Email IFISA@folk2folk.com to register your interest in an IFISA and receive an application form.
- Apply and be approved as an IFISA Lender.



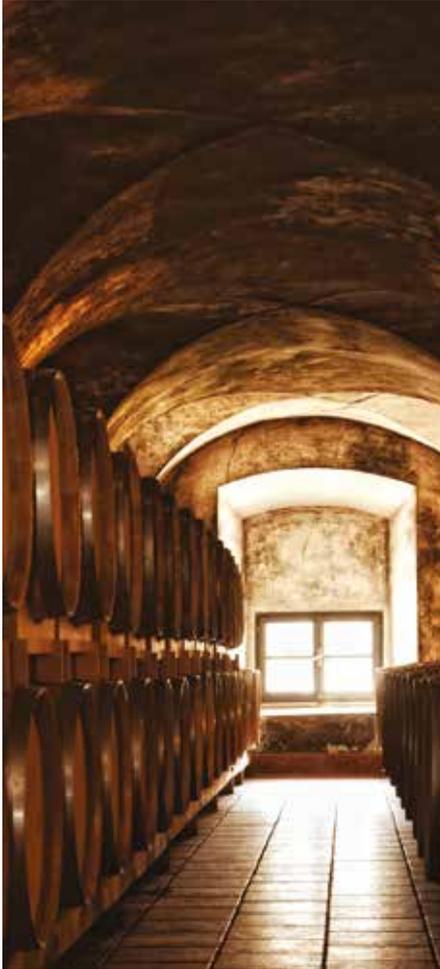
Account set up

- Your IFISA wrapper is created and ready to receive your funds.
- Once funds received, you'll be added to our waiting list. You have 14 days during which you have a right to cancel. You won't be matched to a loan investment until after this time.



Start earning tax-free!

- Once you reach the top of our waiting list we'll contact you with loan opportunities to start earning tax-free interest.



Annual Administration Fee

The Annual Administration fee is for the creation and administration of the IFISA wrapper. It is payable from the time the IFISA wrapper is created which is prior to being matched to a loan and interest being earned.

- 1% + VAT p.a. is payable on the amount you subscribe to the IFISA. It will be capped at a maximum of £1,000 + VAT per year.
- It is calculated each tax year on a pro-rata basis from the date your funds are received.
- It will be collected by Direct Debit from your specified bank account the month after your funds are received, after which it will be payable from the 6th of April every year and will be collected by Direct Debit the following month.

While we charge a fee for providing our IFISA tax wrapper; there are no fees to enter into a loan outside the tax wrapper.

Interest after Fees and Tax

The table opposite illustrates how much interest you could earn on your FOLK2FOLK loan investment depending upon: how much you invest, whether you use our IFISA tax wrapper; your Personal Savings Allowance and your tax rate.

Interest after Fees and Tax

The impact of tax will vary according to your personal tax situation and may be subject to change in the future. FOLK2FOLK cannot give tax advice and you should seek tax advice if

required. You should take into account your own tax situation (tax rate, personal savings allowance and any other tax factors) using figures for the tax year in question.

This table uses figures from the HMRC website^{***} but you should note that tax rates and the tax rules are subject to change.

| Loan Value £20,000 | | | Interest before fee and tax | Fee for IFISA tax wrapper (inc VAT) | Interest after Fee and Tax (See the column for your tax rate) | | |
|------------------------------|------------------------|--------------------------------------|-----------------------------|-------------------------------------|--|------------|----------------|
| | | | | | 20% Basic | 40% Higher | 45% Additional |
| Interest rate 6.5% | Outside IFISA wrapper | Interest on loan p.a. | £1,300 | N/A | £1,040 | £780 | £715 |
| | | If using Personal Savings Allowance* | | | £1,240 | £980 | N/A |
| | Inside IFISA wrapper** | Interest on loan p.a. | £1,300 | -£240 | £1,060 | £1,060 | £1,060 |

| Loan Value £100,000 | | | Interest before fee and tax | Fee for IFISA tax wrapper (inc VAT) | Interest after Fee and Tax (See the column for your tax rate) | | |
|-------------------------------|------------------------|--------------------------------------|-----------------------------|-------------------------------------|--|------------|----------------|
| | | | | | 20% Basic | 40% Higher | 45% Additional |
| Interest rate 6.5% | Outside IFISA wrapper | Interest on loan p.a. | £6,500 | N/A | £5,200 | £3,900 | £3,575 |
| | | If using Personal Savings Allowance* | | | £5,400 | £4,100 | N/A |
| | Inside IFISA wrapper** | Interest on loan p.a. | £6,500 | -£1,200 | £5,300 | £5,300 | £5,300 |

* Personal savings allowance for the tax year 2018/19 is £1,000 for Basic rate taxpayers and £500 for higher rate taxpayers. Source: www.gov.uk

** This assumes you use your entire 2018/19 ISA allowance of £20,000 on the FOLK2FOLK IFISA

*** Source: www.gov.uk



RISKS AND THINGS YOU SHOULD KNOW

We'd like to draw your attention to things you should know including risk and how we manage it. If there's anything you don't understand, please contact us.

Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions. We'd also like to draw your attention to the following risks associated with lending through a Peer-to-Peer platform:

General

Your capital is at risk

Peer-to-Peer lending is not covered by the Financial Services Compensation Scheme (FSCS). What do we mean when by this?

This means compensation is not available from the FSCS if a Peer-to-Peer lender cannot meet its liabilities in respect of its products. Nor do Lenders have recourse to the FSCS for the failure of Borrowers to meet loan interest payments or loan capital repayment.

A FOLK2FOLK Peer-to-Peer loan is a useful element of a diversified investment portfolio. The minimum loan investment is £20,000. You should not consider a FOLK2FOLK Peer-to-Peer loan if it would result in 'putting all your eggs in one basket'.

Risk of failure of FOLK2FOLK

We're authorised and regulated by the Financial Conduct Authority (FCA) which requires us to maintain a certain level of regulatory capital. This means that there should always be sufficient capital for an orderly wind-down of the company.

If FOLK2FOLK Limited were to stop operating, although there'd be no new loans, the existing loans would be passed to a standby servicing company that would ensure the continuation of administration of existing loans until maturity or until Borrowers repaid.

Interest rate

Our loan interest rates are fixed and set out in the loan documentation applicable to your loan. This means that the interest rate you receive won't increase or decrease if market interest rates change. Under normal circumstances, your loan investment will provide you with 6.5% p.a. interest paid monthly in equal instalments.

Timings of payments

However, if your Borrower is unable to meet monthly payments temporarily you will not receive your interest payments until they start

paying again, therefore this investment may not be suitable if you rely upon the income or rely upon it being paid promptly. The missed interest payments will still be due to you and will rise to a higher interest rate (see General Terms & Conditions) but they will be delayed.

Timings

There are no guarantees as to how long it will take to be matched to a loan. It depends on supply and demand.

Once in a loan, your Borrower may repay the loan earlier than the anticipated end date. If this happens you can choose to go back on the Lender waiting list.

Defaults

If your Borrower defaults and there is an extreme downturn in the property market, there's a risk of delay in selling the property, against which the loan is secured, to repay your loan.

If your Borrower defaults or falls into arrears there's a risk the Borrower may not pay interest (in full or part) and may not be able to repay your capital in full when due. Therefore this



investment may not be suitable if you rely upon prompt repayment. The outstanding amount will be deferred until the loan status has been repaired or (if required) enforcement action concluded with the security being sold.

There's a risk, though unlikely because our loans don't exceed a 60% Loan to Value, that the sale of the security property may not release sufficient funds to repay all the costs of enforcement, outstanding interest and capital sum.

FOLK2FOLK has had very few defaults since we started in 2013 – however past performance is not a reliable indicator of future results. You can read about how we handled a default and more detail on our default record on our website at www.folk2folk.com/default.

Accessing your Money

FOLK2FOLK loans are illiquid assets which means you cannot assume you can exit them quickly. You should be prepared to hold your loan investment until maturity. As a Lender you have the right to offer your loans for sale via our secondary market 'MarketPlace' after 6 months but there's no guarantee anyone will buy it. Fees apply.

If your loan were to fall into arrears or default you can't offer your loan for sale on MarketPlace and you'd need to wait for the loan situation to be repaired or the defaulted loan recovered.

There is no right to cancel your investment in a loan since it is an agreement secured on land.

Tax

Tax treatment depends upon your individual circumstances and may be subject to change in future. Interest payments are paid over to Lenders on a gross basis and it is the Lender's responsibility to report and pay any tax due.

Spreading your risk

If you have sufficient funds, you can diversify your risk exposure by spreading your money over a number of loans, rather than concentrating them in one. The minimum amount that can be invested into a single loan is £20,000.

We don't give advice

It's your responsibility to assess whether lending via FOLK2FOLK is suitable for you, with particular regard to your risk appetite and your personal financial circumstances. We're not advising you on the appropriateness or suitability of any loan and we'd recommend you take

advice from an independent financial advisor if you're in any doubt as to whether investing via a Peer-to-Peer loan is suitable for you.

IFISA

General

- You can invest your annual ISA allowance of £20,000 in tax year 2018/19.
- The date we receive your funds is the date on which your ISA subscription starts.
- Once a new tax year starts you will have a new allowance to invest, which you can invest with FOLK2FOLK if you wish.
- IFISAs are not the same as cash ISAs. The risk of investing through a Peer-to-Peer platform is higher and there's no guarantee that your capital or interest will be repaid.
- Our Rolling Loan and our Fixed 1, 2, 3, 4 or 5 year Loans, which were introduced in July 2017, are eligible for the IFISA wrapper.
- Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions and the full contents of this Guide. If there's anything you don't understand, please contact us.

Interest

Interest is paid out tax-free to clients monthly to their specified bank account. Interest earned on the IFISA can't be accrued inside the IFISA so if £20,000 is invested, the investment amount at the end of the term will remain at £20,000.

Neither loan interest nor bank interest are payable in the following situations:

- Funds in the client money account, waiting for cancellation rights to expire, or waiting to be matched to a loan.
- A Borrower repays a loan early, IFISA funds will be transferred back in to the FOLK2FOLK client money account and await matching to another loan (if this is what client requests).
- A loan matures, IFISA funds will be transferred back in to the client money account and await matching to another loan (if this is what client requests).

IFISA Timings

Timing to start earning tax-free interest is dependent upon eligible loans being available and there are no guarantees as to how long it will take to be matched to a loan. There's a possibility funds won't be matched in that tax year. Your funds will still retain their tax-free status within an ISA wrapper but no interest will have been earned. See page 15 for general information regarding timing of FOLK2FOLK lending opportunities.

You have the right to cancel your IFISA wrapper within 14 calendar days of FOLK2FOLK receiving your funds. If you cancel within this time your funds will be returned to you and it will not count towards your tax-free allowance for the year. No annual administration fee will be payable.

Fee

Your overall return will be reduced by the fee involved; please see the Interest after Fees and Tax table on page 13 for information.

How we manage risk

Secured loans: All loans are secured against UK based land or property. We do not offer unsecured lending which is more risky than secured lending.

Maximum 60% LTV: We only lend up to a maximum of 60% of the value of the security.

'Forced sale' valuation: The valuation we use is not an open market valuation, but a valuation based on the assumption that contracts for sale are exchanged within a 60 day period. This type of valuation typically gives a lower value than an open market value.

Professional Indemnity Insurance:

We carry Professional Indemnity Insurance. As part of our processes, we take advice from external solicitors and valuers to assess the proposed security property, and we check that these external professionals also have Professional Indemnity Insurance.

We're choosy but fair about Borrowers: we take an holistic view of Borrowers, businesses and the security property and turn down those that don't meet our criteria.

Ready to become a Lender?

Now you've read the guide, if you're ready to become a Lender you can sign up now. But if you still have some questions, talk to us on: 0330 053 5532

BECOMING A LENDER

How to apply



Apply to be a Lender

- Create an online account at www.folk2folk.com
- Call 0330 053 5532
- Drop into a Branch.
A list can be found at www.folk2folk.com



Lender approval

- Identification and Anti-Money Laundering checks.
- Ensure you read our General Terms & Conditions and the loan product information, ask questions if you don't understand.
- You will be added to the Lender waiting list.



Start earning

- Review loan opportunities that are offered to you and make your own risk assessment.
- Accept loan opportunities and start receiving your monthly interest!

#JoinTheMovement

FOLK 2 FOLK

The Local Lending Movement

If you have any questions, please get in touch:



0330 053 5532

to speak to a member of our Lender Team

Calls charged at standard national rate. Available between Mon-Fri, 9am-5pm (excluding Bank Holidays)



enquiries@folk2folk.com



www.folk2folk.com



Drop into a regional branch

(for a list of branches go to www.folk2folk.com)

Branch opening times: Mon-Fri, 9am-5pm

(excluding Bank Holidays)

Follow us on



#JoinTheMovement

Your capital is at risk and is not protected under the Financial Services Compensation Scheme (FSCS). FOLK2FOLK Limited is authorised and regulated by the Financial Conduct Authority (FRN 720867). Our registered office address is NUMBER ONE Business Centre, Western Road, Launceston, Cornwall, PL15 7FJ. Company Registration No. 08178576.

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