



# Outcomes Statement

Year End December 2022

## Introduction

In accordance with COBS 18.12.23 R, Lendwise publishes an outcomes statement in order to present actual and expected default rates by risk category to help consumers monitor the performance of our loan book in relation to defaults. This document also provides a summary of the assumptions used in determining expected future default rates.

Reporting Year: 2022	
Expected default rate	Actual Default rate
5.0%	1.18%

As of 31 December 2022	
Aggregate balance in default	£444,335
Aggregate recoveries	£119,121

\*: Amounts and calculations related to the aggregate loan book balances and defaults as of 31/12/2022.

## Impact of adverse economic conditions on Borrowers

During 2022, a number of borrowers experienced the impact of adverse economic conditions in the country (post-covid employment stagnation, rising interest rates) which hindered their ability to keep up with loan repayments and forced them to seek forbearance from us.

Our policy is to exercise every effort to critically examine all requests for forbearance from borrowers considering the consequences caused by economic, health and any other serious conditions. When considering such requests, we take due regard to the duty of care owed to the lenders of these loans as well. Our overarching principle is to achieve the fairest possible outcome for both borrowers and lenders with all aspects of FCA guidance in consideration.

During 2022 there were 15 borrowers with a total loan amount of £438,318 who qualified and received forbearance as a result of various adverse conditions including financial distress and health or mental issues. As of 31/12/2022, these temporary arrangements were completed and there were no borrowers who were on an active payment holiday or some other form of payment forbearance.

## Default rates

The default amounts shown in the table above represent the loans that have been categorised as defaults due to surpassing 90 days in arrears (as per our internal policy on default classification). They also include those loans that have been internally classified as defaulted for reasons other than meeting the above delinquency criterion (reasons that constitute a breach of contract). A significant number of the loans in default are repaying and we envisage a material recovery in amounts albeit over a longer than normally expected time horizon. Recoveries from defaulted loans in 2022 amounted to £119,122, representing 27% of the total amounts in default.

There are also certain borrowers who have missed one or more payments without previously notifying us of payment difficulties or establishing contact to request forbearance or responding to our attempts to engage with them. Whilst our credit collection team is constantly working on trying to communicate with them and work out a mutually beneficial solution, we also have to anticipate that a certain number of them will eventually default on their loans.

### Methodology, assumptions and caveats

The aftereffects of the pandemic, coupled with the impact of rising interest rates and inflation create a negative economic sentiment which has an impact on the level of defaults experienced. This is embedded in our model of calculating expected defaults. The model is constantly updated and enhanced as more data becomes available. Furthermore, the analysis of results from past experience is used to enhance our loan application underwriting towards improving the quality of loans originated and reduce default rates accordingly.

We are now in the fifth year of our operation with almost 70% of our loans now in repayment. As we continue to grow, more loans start reaching the repayment phase enlarging the size of the available data we have for analysis. Loans for the first three years of operations are now fully in repayment. Default recoveries are factored in the calculation of the actual default rate and expected default rates, as a result.

The expected annual default rate is reviewed on a quarterly basis to reflect the most recent performance of the portfolio as well as the macroeconomic conditions in the economy.

Below we provide an explanation of how we calculate actual and expected default rates:

Term	Definition	Explanation
<b>Actual Default Rate</b>	The proportion of loans which were late for more than 90 days or where there was a breach of contract at the date of reporting	We calculate the actual rate on a running basis. We take the total value of all loans in default at the end of the period, and we divide it by the total value of all outstanding loans (irrespective of their status).
<b>Expected Default Rate</b>	The proportion of loans that are expected to be in default (in accordance with our definition of defaults) at the end of the period	The sum of all loans expected to be in default at the end of the period divided by the total expected value of all outstanding loans for the same period (irrespective of their status)

The next outcomes statement in relation to 2023 will be published no later than 30 April 2024.