Lending Works
Shield Policy

Lending Works

Purpose and scope

This Lending Works Shield Contingency Fund Policy (**"Policy"**) sets out the structure, key features and governance framework of the Lending Works Shield Contingency Fund (**"Shield"**).

Overview

The purpose of the Shield is to provide first-loss cover to retail investors against losses on their loans. In the event that a borrower misses a scheduled loan repayment, the Shield steps in to make that payment to investors instead. The Shield diversifies your investment across a much wider pool of loans and ensures returns are distributed fairly between investors.

Legal structure

The Shield is operated by Lending Works Trustee Limited (company registration number 08565343) (the **"Trustee"**), in accordance with the Lending Works Shield Trust Deed which governs its use.

Funding

The Shield consists of a contingency fund, which is topped up daily by a share of the arrangement fees and interest paid by borrowers on their loans. The amount each loan contributes to the Shield is based on its expected loss rate.

All funds are held in a segregated bank account with NatWest Bank plc. The Trustee legally owns all funds held within the Shield but those funds are held for the benefit of retail investors, for the sole purpose of providing compensation against potential credit losses and administering the Shield. Lending Works does not have legal ownership of any funds.

The two key components of the Shield are the amount of cash held within the segregated bank account, which is maintained at a level sufficient to cover expected short-term claims, and the amount of contractual future interest income to be received over the remaining term of the loans, which must cover expected remaining losses on the portfolio.

When a borrower misses a scheduled loan repayment, Lending Works carries out collections and recoveries strategies in order to bring the loan back up to date. Any money subsequently recovered from borrowers is paid back into the Shield.

Funds held by the Trustee cannot be used to settle the obligations of Lending Works in the event of insolvency. In case of insolvency, any funds held in the Trustee would continue to be made available for the purpose of providing compensation against potential credit losses, and the amount of contractual future interest income to the extent available after insolvency costs being covered.

Payment mechanism

The Board of Directors of the Trustee must consider the ability of the Shield to make compensation payments at the time of any such claim, based upon the latest forward-looking financial projections. However, in the ordinary course of business, such payments will be made automatically by the Shield once a claim has been triggered, provided there are sufficient funds available.

The Board of the Trustee has absolute discretion on compensation payments made by the Shield and cannot provide a guarantee of achieving the target returns received by investors over the lifetime of the loans in their portfolio.

Cohort-based approach

While the contingency fund is held in one bank account, each annual cohort (e.g. 2020) of loans is assessed independently. The interest rates paid to investors are variable, if required, to account for variations in the performance of each annual cohort. This enables the Shield to continue to provide first-loss cover throughout the cycle and regardless of any adversity caused by economic or political conditions. The expected returns are always measured based on the returns received by investors over the lifetime of the loans in their portfolio. Our expected loss rate determines the amount of money reserved into the Shield. However, the performance of each annual cohort of loans, and the economy and macroeconomic conditions as a whole, are variable.

If an annual cohort of loans performs worse than expected - i.e. the value of expected claims on the Shield is higher than the amount of its expected future income; an adjustment is made to the expected investor returns for that cohort to ensure the Shield receives adequate funding. Such adjustments are reviewed and communicated to investors quarterly, following approval by the Board of Directors of the Trustee.

If an annual cohort of loans performs better than expected - i.e. there is a residual balance after settling all claims; such funds may be utilised against other annual cohorts that might be performing less well, at the absolute discretion of the Trustee.

Governance

The Shield is governed by the Board of Directors of the Trustee, which reports directly to Lending Works' Risk and Audit Committee. The Board consists of:

- Simon Waugh, Non-Executive Chairman and Chair of the Risk and Audit Committee
- Nicholas Harding, Chief Executive Officer
- Ines Maia, Head of Risk and Chair of the Risk Committee
- Matthew Powell, Chief Finance Officer

The committee provides oversight to the application of the Shield while managing any conflicts of interest between Lending Works and the Trustee.

The Lending Works Shield does not give you a right to a payment so you may not receive a pay-out even if you suffer loss. The Lending Works Trustee has absolute discretion as to the amount that may be paid, including making no payment at all. Therefore, investors should not rely on possible pay-outs from the Lending Works Shield when considering whether or how much to invest.