



Provision Fund Policy

Assetz Provision Funding Limited (“APFL”), a UK Limited Company, has been set up to provide discretionary Provision Funds linked to specific, identified Assetz Capital Investment Accounts.

This document describes the policy applicable to the Provision Funds operated by APFL on behalf of Assetz Capital. All references to “Provision Fund” in the document below shall apply equally to each of the Provision Funds held for each of the Investments Accounts, unless specifically stated otherwise.

How the Provision Fund is funded

Each Provision Fund is funded principally and presently by:

- Cash provided by Assetz Capital (typically when a new Provision Fund is launched and “seeded” to allow it to provide some coverage straight away).
- Part of the interest rate coupon paid by the borrower on an ongoing basis (above and beyond the target interest rate of the associated Investment Account) which serves to grow and/or replenish the Provision Fund over time.

The balance, blend and source of the funding may vary over time at the discretion of the Directors of APFL with any changes of a material nature reflected in this policy document.

How the Provision Fund is governed

The Provision Fund is governed by the Directors of APFL. The Directors of APFL will determine whether payment should be made from the Provision Fund on a case-by-case basis depending on the circumstances.

At least some of the Directors of APFL are presently common with Assetz SME Capital Limited, the regulated entity which trades as Assetz Capital, but this may change over time if considered appropriate.

Who the Provision Fund monies belong to?

The Provision Fund monies are held by APFL for the purpose of covering, on a discretionary basis:

- actual capital losses (following recovery work) arising from a defaulted loan
- delayed / missed payments on a performing loan within the Access Accounts only (not any discontinued Investment Accounts which may still benefit from a Provision Fund)

The Provision Fund monies belong ultimately to Assetz Capital, until such time as a discretionary decision is taken to utilise the Provision Fund.

The aim is for the Provision Funds to have sufficient cash to be able to cover actual losses incurred on loans held within the relevant Investment Accounts as they arise, however, Assetz Capital can provide no guarantee of this. From time to time Assetz Capital may decide that excess cash or assets exist and may draw that excess value to Assetz Capital without any obligation to repay, but in doing so will be mindful of the overriding aims of the Provision Funds.

Considerations the fund operator takes into account when deciding whether or how to exercise its discretion to pay out from the fund

It is the intention of the Directors of APFL that, subject to funds being available, they would agree to pay out under all reasonable circumstances where, firstly, there is a genuine capital loss on a defaulted loan and, secondly, where there is a delayed / missed payment on a performing loan for an Access Account that would otherwise affect it paying target rate (the latter operation does not apply to any discontinued Investment Accounts).

When deciding whether or how to exercise the discretion to make a payment from the Provision Fund the Directors of APFL consider a number of factors including, but not limited to:

- i. whether or not the fund has sufficient money to pay
- ii. that APFL, as the fund operator, has absolute discretion in any event not to pay or to decide the amount of the payment

“Ring-fencing” in the Provision Funds relating to the Access Accounts

The Assetz Capital Access Accounts prioritise liquidity and consistency of interest payments and seek to avoid, where possible, situations where lenders are unable to withdraw their funds in normal market conditions. For this reason, all loans remain tradeable within the Access Accounts and all Access Account users participate equally in every loan held within the relevant account. This means that lenders will own parts of loans which may be in difficulty or even in default.

To treat lenders fairly and to avoid situations where a lender might join a loan which may already be facing a loss, the discretionary decision for Access Account loans is taken immediately once:

- the loan defaults, or;
- Assetz Capital considers that the borrower is unlikely to pay its obligations under the P2P agreement in full, without the firm enforcing any relevant security interest or taking other steps with analogous effect

If there is sufficient money within the relevant Provision Fund to fully cover the assessment of the Loss Given Default (“LGD”) on such a loan the discretionary decision to cover that loss is taken immediately and the LGD amount is “ring-fenced” (i.e.: set aside specifically to cover any actual loss arising from that loan). “Ring-fenced” amounts are not included in the available funds for the Provision Funds as they are no longer available, having been allocated to cover the loan in question. Should the loan recover and become a performing loan again (perhaps because the

borrower corrects the issues which caused the loan to default) the “ring-fenced” funds can be released and become available funds within the Provision Fund once more.

If there is not sufficient money within the relevant Provision Fund to fully cover the assessment of the Loss Given Default then the loan will not be allowed to trade within the Access Accounts, thereby preventing lenders from gaining or increasing a holding in a loan which is in difficulty and which may ultimately face a loss.

An explanation of the process for considering whether to make a discretionary payment from the fund

For loans held in the Access Accounts, and in respect of those Access Account holdings, the discretionary decision is taken immediately when the loan defaults, or when Assetz Capital considers that the borrower is unlikely to pay its obligations under the P2P agreement in full, without the firm enforcing any relevant security interest or taking other steps with analogous effect. The payment will not be made unless and until losses crystallise, but the funds required to cover the assessment of the Loss Given Default will be “ring-fenced” and held specifically for that purpose.

For other discontinued Investment Accounts (other than Access Accounts), and in respect of holdings in those other accounts, the discretionary decision is taken once losses have crystallised, after recovery action. In these situations, payment will be made promptly following a discretionary decision to utilise the Provision Fund.

The discretionary decisions are taken by the Directors of APFL, having due consideration of this policy and any legal or regulatory requirements applying to the operation of a Provision Fund.

A description of how that money will be treated in the event of the firm’s insolvency

It is intended that, in the event that the firm has triggered its Wind Down Arrangements and entered insolvency that the Provision Fund should continue to operate as at present during the orderly wind down. That is, it is intended that during the wind-down process the general provisions of this policy should continue to apply.

However, if faced with a scenario where, despite Assetz Capital’s planned wind-down arrangements, there are not sufficient funds to pursue a recovery action which should otherwise create a favourable outcome for lenders, the Provision Fund may also exercise discretion to fund those recovery efforts if it is in the best interest of lenders to do so. (It is likely to be in the best interest of all lenders in a Provision Fund-protected Investment Account if the cost of pursuing a recovery is less than the call upon the Provision Fund if no recovery is attempted.)