

## Your guide to peer-to-peer investing

### Retail investor booklet



ISSUED BY SQUIRREL MONEY LIMITED

16 March 2020, Version 2.0

This Investor Booklet for Retail Investors replaces the Investor Booklet dated 10 August 2018.

This document gives you important information about investing in peer-to-peer Loans to help you decide whether you want to invest. You can also seek advice from a financial adviser to help you to make an investment decision.

# 1. Key Information Summary

## What is this?

This is a peer-to-peer (P2P) lending investment suite of Products under three distinct Investment Classes. Squirrel Money Limited (**Squirrel, we, our, or us**) operates a licenced P2P lending service through its lending Platform (the **Platform**) that allows Investors to lend to qualified Borrowers.

The types of investments offered by Squirrel for Retail Investors, the risks associated with these investments and the fees you will be charged are described in this document.

Unless the context otherwise requires, capitalised words and phrases have the meanings given to them under the heading "[Key Terms](#)" in this booklet.

## What will your money be invested in?

Squirrel's P2P lending Platform enables an eligible Borrower to raise finance which is funded by Investors using the Platform. Loans may be Secured or Unsecured, depending on the lending Investment Class, Product and Loan value.

The service includes a Reserve Fund for each Investment Class that helps protect retail investments in the event of a late borrower repayment or Borrower Default. For further details on this, see the section titled "[Reserve Fund](#)" in this booklet.

## Who manages this P2P lending service?

Squirrel is the manager of the P2P lending service. The Platform's lender of record is Squirrel P2P Trustee Limited (the **Trustee**).

## What are the returns?

The return on your investment comes from interest paid by the Borrower and is determined by the Investment Class, Investment Term and Interest Rate Type selected when you create an Investment Order. Investment returns may be affected by the non-payment of Loans by Borrowers within the Investment Class you are invested into on the Platform and/or the ability of our Reserve Fund to cover Arrears and Borrower Defaults. Interest is accrued daily and paid to you either fortnightly or monthly, depending on the Borrowers preferred repayment frequency. Interest rates offered may be Fixed or Variable during the term of your investment.

See section 2 of this booklet, "[How does this investment work?](#)" for more information.

## How can you get your money out?

You can request via the Platform to have the cleared funds in your Investor Account i.e. funds not currently invested in Loans and which are not required in respect of any outstanding Investment Orders, transferred to your Nominated Bank Account. Transfers will normally be transacted the same day if requested before 3pm or the following day if requested after 3pm, but may take up to 48 hours to reach an Investors bank account.

You can also put your active investments up for sale on our Secondary Market at any time. The sale of your investments on the Secondary Market is dependent on there being another Investor willing to take on your investments for the remainder of the Investment Term with the same Investor Interest Rate as the investment was originated with. For further details on this, see the section titled "[Secondary Market](#)" in this booklet.

## How will your investments be taxed?

We (as the Trustee's agent and on the Borrower's behalf) will deduct resident withholding tax (RWT) from interest paid to you in respect of a Loan, at the rate you select when applying to be an Investor or subsequently notified by you to us (or at such higher rate as the law may require).

For further details on this, see the section titled "[What taxes will you pay?](#)" in this booklet.

## Where can you find out more information?

You may contact us at any time to obtain further information or to request an electronic copy of any of the Platform Documents free of charge. Further information is also available on our [website](#) and the Platform.

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## 2. How does this investment work?

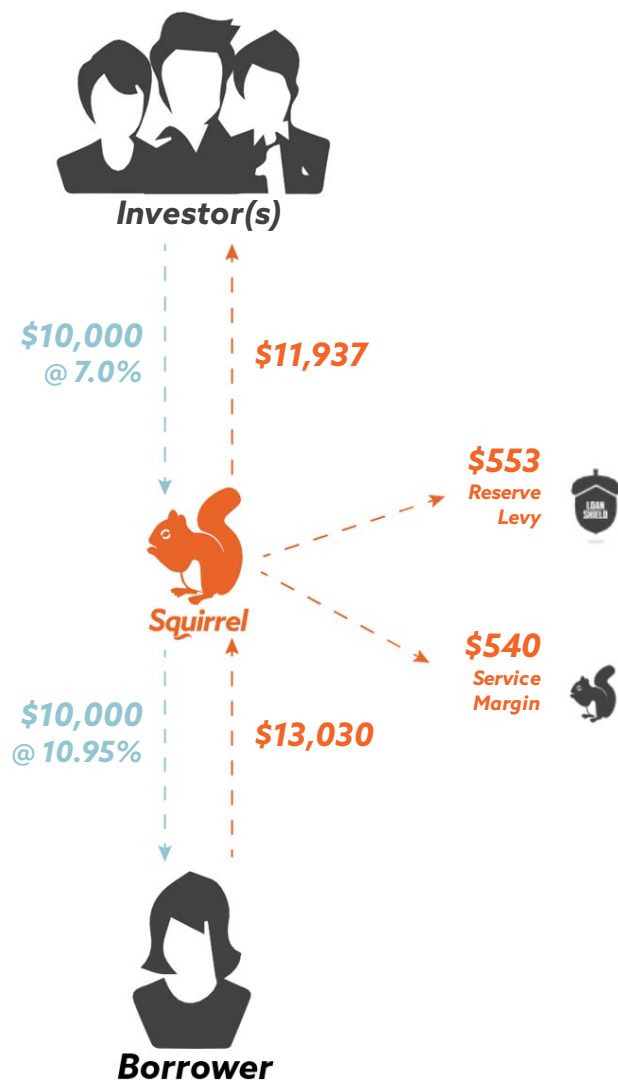
### In summary...

The diagram below depicts a P2P Personal Loan facilitated through our Platform and illustrates the aggregated transactions between the various parties/entities involved. The example is based on:

- » 5-year Personal Loan for \$10,000 with monthly repayments of principal and interest<sup>1</sup>;
- » Borrower Interest Rate of 10.95% p.a.;
- » Service Margin of 1.95% p.a.;
- » Reserve Levy of 2.00% p.a.; and
- » Investor Interest Rate of 7.00% p.a.

### Investor(s)

- » The Loan is funded by one or more Investors who receive an Investor Interest Rate of 7.0% p.a. for their respective investments over the next 5 years.
- » The Investor(s) receive interest payments of \$1,937<sup>2</sup> (collectively) over the life of the Loan.
- » Investors receive monthly repayments of principal and interest into their Investor Accounts immediately following the Borrowers repayment
- » Over its life, the Loan also generates \$553 of Reserve Levy and \$540 of Service Margin.



### Borrower

- » Is approved and draws down a Personal Loan for \$10,000 with a Loan term of 5-years and a Borrower Interest Rate of 10.95% p.a.
- » The Borrower makes 60 monthly repayments of \$217 (rounded).
- » Over the life of the Loan, the Borrower pays \$3,030 in interest.

<sup>1</sup>This example assumes all repayments are made as scheduled i.e. no early or late repayments and no Borrower Default.

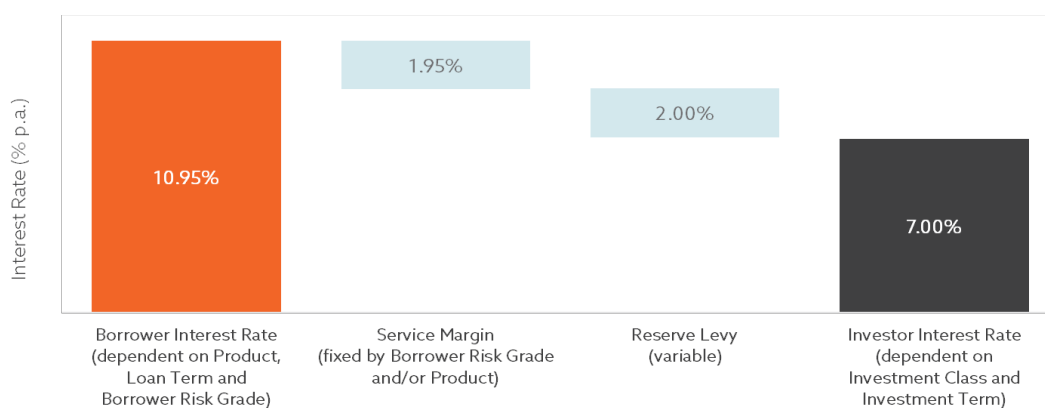
<sup>2</sup>Principal repayments on P2P investments are based on the Borrower Interest Rate and Loan Amortisation Term. This results in a slightly slower repayment of Investor principal and slightly higher interest earned over the Investment Term compared to a standard (non-P2P) principal & interest investment.

## 2. How does this investment work? *(continued)*

### Difference between the Investor rate and the borrower rate

When we lend money from the Platform, the difference between the rate that is paid to Investors and the rate that the Borrower pays is made up of the following components<sup>1</sup>:

- » **Borrower Interest Rate** – the interest rate offered to the Borrower as determined during the credit process. The offer to the Borrower is made before the Loan is matched to Investment Orders;
- » **Service Margin** – the margin paid to Squirrel on each Loan for providing the Platform, matching Investors to Borrowers and for managing the repayment of the Loan. The rate is preset for each Investment Class, Investment Term and Borrower Risk Grade combination;
- » **Reserve Levy** – the residual rate remaining after deducting the Service Margin and the Investor Interest Rate from the Borrower Interest Rate;
- » **Investor Interest Rate** – the Prevailing Interest Rate for the particular Investment Class and Investment Term. The Investor Interest Rate will either be fixed for the duration of the investment (Fixed Interest) or subject to change during the investment (Variable Interest).



<sup>1</sup> Rates shown in the chart above are for illustrative purposes only, actual rates vary by Investment Class, Investment Term and Borrower Risk Grade.

As described above, given the Borrower Interest Rate is established during our credit decisioning process and the Service Margin and Investor Interest Rate are preset for each Investment Class, Investment Term and Borrower Risk Grade combination, any extra margin created in the lending process is absorbed into the Reserve Fund via a higher Reserve Levy – for the benefit of all Investors.

### A choice of Investment Classes

The Platform offers three Investment Classes for you to invest into. We define an Investment Class as group of Loans written under the same (or fundamentally similar) credit policy and that have substantively similar underlying credit risks. The three Investment Classes available on the Platform are:

Investment Class	Description
Personal Loans	Personal Loans up to \$70,000 <sup>1</sup> that can be used to renovate a property, purchase household items, consolidate debt, fund the purchase of a motor vehicle or other items such as holidays and weddings. This Investment Class contains two distinct investment Products: <ul style="list-style-type: none"> <li>• Homeowners Loans paying interest-only for the first 12 months, before rolling over to principal &amp; interest repayments over 5 years;</li> <li>• Other Personal Loans paying principal &amp; interest over Investment Terms between 2 and 7 years.</li> </ul>
Home Loans	First-registered mortgages of up to \$1,000,000 <sup>1</sup> per security for property owners where the property is to be occupied for personal use or held as a residential investment. Borrowers can select either interest-only or principal & interest repayments and can be for investment terms up to 7 years.
Business Property Loans	First-registered mortgages of up to \$1,000,000 <sup>1</sup> per security for property owners where the Loan proceeds and property are being used primarily for business purposes in relation to residential property. The Loan may be offered to builders to fund construction of a residential property. Loans are usually interest-only and can be for a maximum of 2 years.

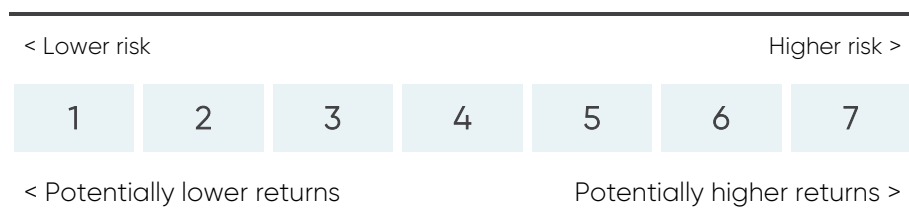
<sup>1</sup> Terms and conditions apply.

## 2. How does this investment work? *(continued)*

### Risk ratings

To assist Investors with their own risk assessment of a P2P investment, we have assigned each Investment Class a Credit Risk Rating. We have adopted a Credit Risk Rating scale to help describe what we see as the residual credit risk associated with each Investment Class.

The factors we have considered when determining the residual credit risk are described in the Investment Class description tables contained within the section titled "[Description of your investment options](#)" below. The Credit Risk Rating is provided as general guidance only.



The Credit Risk Rating scale ranges from 1 (very low risk) to 7 (very high risk). The Credit Risk Rating we attribute to each Investment Class reflects the risk that we perceive is associated with it based on a defined set of criteria described against each Investment Class and in consideration of the risk mitigants such as the availability of a Reserve Fund and the loss coverage provided by that Reserve Fund or the security available to the Investment Class (on average).

**Please note:** there are other risks associated with P2P lending that are not considered by the credit risk ratings and that Investors need to be aware of. The additional risks are discussed in this booklet under the section headed "[What are the risks of investing?](#)".

### What services do Squirrel and the Trustee provide?

Investors and the Trustee appoint us to act as agent for the services provided in relation to the Platform including entering into agreements on behalf of Investors, opening and administering bank accounts, transferring funds and settling Loans and administering and enforcing the terms of the Loans.

Investors appoint the Trustee to act as bare trustee under a separate bare trust in relation to the Investor's interest in each Loan in which the Investor is participating. An Investor will not deal directly with the Borrower and all correspondence and actions in respect of the Borrower and/or the Loan are undertaken by the Trustee or by us on your or the Trustee's behalf.

### How do you get investment returns?

Interest and Principal (if applicable) is paid to each Investor with an interest in a Loan each time the Borrower associated with that Loan makes a scheduled repayment, or when the Borrower makes an early repayment on the Loan. Scheduled repayments are either fortnightly or monthly and are determined by the Borrower when they apply for their Loan but can be changed at any time during the Investment Term at their request.

If the Borrower misses a repayment on a Loan that has the protection offered by a Reserve Fund, that Reserve Fund will attempt to cover any principal and interest that was scheduled to be repaid on that Loan, to the extent that the Reserve Fund has sufficient funds available and where it is not currently in Active Management. We will then seek collection of any Loan arrears from the Borrower, with any recoveries repaid into the applicable Reserve Fund. The ability of the Reserve Fund to cover Arrears and Borrower Default is reliant on there being enough funds available to the Reserve Fund.

For further details on how Reserve Funds on our Platform operates and when Active Management of a Reserve Fund would apply, see the section titled "[Reserve Fund](#)" below or refer to the Reserve Fund Policy available on our [website](#).

The applicable Service Margin fee will be deducted from each Borrower repayment with Investor interest payments made after deducting RWT at the rate applicable to the Investor.

## 2. How does this investment work? *(continued)*

### Investment orders

To make funds available for investment on the Platform, an Investor must create an Investment Order. The Investment Order contains the following details:

- » the Investment Class and Investment Term the Investor would like to invest into;
- » the maximum amount they are wanting to invest (selected to the extent that they have enough funds in their on-call Investor Account and at a level that meets or exceeds the minimum investment threshold); and
- » an acceptance of the Interest Rate Type offered by the selected Investment Class.

The minimum investment amount is \$500 and the maximum a Retail Investor can invest through our platform (in aggregate) is \$2 million. An eligible Investor may create an Investment Order anywhere within that range.

Investment Orders can be fully or partially allocated by the Platform to individual Loans that meet the conditions specified on the Investment Order.

An Investment Order can be withdrawn by the Investor up until the point it has been fully matched to Loans. If an Investment Order is withdrawn, any unmatched funds on that Investment Order will be returned to the Investor Account (the Investors 'on-call' account) immediately.

The interest rate achieved by an Investor will be the Prevailing Interest Rate for the prescribed Investment Class and Investment Term at the point that the Investment Order is matched to a Loan. The Prevailing Interest Rate is subject to change from time-to-time, with scheduled changes notified to Investors in accordance with the Platform terms and conditions.

The Reserve Fund model employed by Squirrel reduces the need for Investors to create small investments into many Loans on the Platform within the same Investment Class in order to achieve diversification of risk. Under the Reserve Fund model, any losses incurred against Loans on the Platform are either absorbed by the applicable Reserve Fund (if any) or, if the losses exceed the funds available to the Reserve Fund, the losses would be socialised by the Trustee across all Investors covered by that same Reserve Fund in proportion to their active investments. For more information on the operation of the Reserve Fund, see the section titled '[Reserve Fund](#)' below.

### Funds matching

The Platform attempts to match Investment Orders to Loans awaiting funding every 30 minutes. Our automatic matching process takes the following approach:

- » Loans awaiting funding are ranked on a "first come, first served" basis, with Loans submitted earliest in time having initial priority over later submitted Loans;
- » Investment Orders are also ranked on a "first come, first served" basis within each Investment Class and Investment Term, with Investment Orders submitted earliest in time having priority over later submitted Investment Orders.

Once this sequence is determined, the Platform matches off as many Investment Orders (sequentially, in full or part) as are required to fulfil the Loans awaiting funding.

A Loan must be 100% funded before Investment Orders are committed to that Loan e.g. if a \$10,000 Loan requires funding and you have placed a \$6,000 Investment Order which is top of the Investment Order queue, we would need a further \$4,000 from other Investment Orders before matching occurs.

If a Loan cannot be fully funded immediately, the Platform will look to the next Loan awaiting funding and attempt to fully fund it by matching the available Investment Orders to it and if it cannot, move to the next Loan awaiting funding and so on, eventually circling back to the original top-priority loan in the queue.

## 2. How does this investment work? *(continued)*

### How your money is received and dealt with by us

We have an Investor Account in the name of the Trustee which is held on a separate bare trust by the Trustee for each Investor who has transferred funds into, and to the extent to which such funds remain in, the Investor Account.

Once an Investment Order has been matched to a Loan, Investors authorise us and the Trustee to transfer the value of the Investment Order (or part there-of) matched with the relevant Loan, from the Investor Account to the Borrowers nominated bank account(s) and to otherwise take such steps to settle the Loan under the terms of the Loan Agreement.

Investment Orders may also be automatically matched with an existing Loan available for transfer on our Secondary Market. In this case, Investors authorise us and the Trustee to transfer the value of the Investment Order, or part of the Investment Order matched with the relevant Loan, from the Investor Account to the relevant Investor(s) selling the Loan. Any interest earned on funds held on an Investor's behalf in the Investor Account will be held by the Trustee as bare trustee for the Investor.

### Squirrel participation as an Investor on the platform

We may use the Platform from time to time in the capacity of a Retail Investor to provide liquidity to the Platform and the Secondary Market. Squirrel's investments into Personal Loans when we participate in the capacity of a Retail Investor are put up for sale immediately on the Secondary Market.

We may also fund whole Loans on the Platform in the capacity of a Wholesale Investor or permit other Wholesale Investors to fund whole Loans on the Platform. The Wholesale Investor associated with Squirrel will only take priority over Retail Investors in the following situations:

- » to provide initial funding for Home Loans and Business Property Loans that require guaranteed funding on specific dates; and
- » where there are insufficient Investment Orders by Retail Investors to meet the full value of any other Loan and the Loan has been awaiting funding for more than 24 hours.

To the extent that the Squirrel Wholesale Investor holds Loans that qualify for transfer to Retail Investors ('Qualifying Loans') per our Secondary Market Rules, we have committed to ensure that at least one Qualifying Loan is always made available for transfer to Retail Investors. Qualifying Loans will be made available for transfer to Retail Investors on a 'first in, first out' basis, with Loans settled earliest in time having priority over later settled Loans.

### Reporting

We will provide transaction information to you in accordance with the requirements of the Financial Markets Conduct Act 2013 (FMCA) and the regulations made under it. You will receive transaction information and all other relevant reports and information (including disclosure documents) through the Platform.

We will provide you with a record of all transactions made on the Platform on a continuous basis, including the value of the Loans you are invested in and the dates the Loans were entered into.


Withholding Tax Certificates will be available on the Platform at the completion of each tax year.

We do not disclose to Investors whether security or a guarantee has been provided in relation to the Loan before it is entered into. Investors should be aware that all Personal Loans may be unsecured, however all Home Loans and Business Property Loans will be secured over property.



### 3. Description of your investment options

#### Investment Class: Personal Loans

Description	Personal Loans up to \$70,000 that can be used to renovate a property, purchase household items, consolidate debt, fund the purchase of a motor vehicle or other items such as holidays and weddings.
Features	<p><b>Homeowners Loan (1 + 5 years):</b></p> <ul style="list-style-type: none"> <li>Interest only for the first 12 months, then investment converts to principal &amp; interest with a 5-year Amortisation Term after the initial 12-month period;</li> <li>Investments will automatically be put up for transfer on the Secondary Market (at no cost to the Investor) after 12 months<sup>1</sup>;</li> <li>Loans above \$20,000 able to be secured via caveat over Borrower's home.</li> </ul> <p><b>Other Personal Loans (2 to 7 years):</b></p> <ul style="list-style-type: none"> <li>All Other Personal Loans are principal &amp; interest Loans with an Amortisation Term that matches the Investment Term;</li> <li>Loans over \$20,000<sup>7</sup> secured over physical property (vehicle or house).</li> </ul>
Credit risk factors and residual risk rating	<ul style="list-style-type: none"> <li>Small average Loan size (+) &lt; Lower risk</li> <li>&gt;90% of loans rated A, B or C risk grade (+)  Higher risk &gt;</li> <li>Diversified portfolio (+) &lt; Potentially lower returns</li> <li>Reserve fund for Retail Investors with loss socialisation (+) Potentially higher returns &gt;</li> <li>High-proportion of Loans either unsecured or with security that provides limited value (-)</li> </ul>
Reserve Fund	Personal Loan Reserve Fund available to Retail Investors. Reserve levies will be set at between 0.05% and 8.50% per Loan dependent on Borrower Risk Grade.
Secured	Circa 55%
Avg. Loan size	Circa \$17,000
Investor Return <sup>3</sup>	This Investment Class offers Fixed Interest returns, meaning interest rates remain constant for the duration of the investment <sup>4</sup> . Prevailing Interest Rates can be found on our <a href="#">website</a> . Prevailing Interest Rates displayed are <u>before</u> the deduction of RWT, but <u>after</u> the deduction of the Service Margin.
Service Margin <sup>5</sup>	A fee of between 0.95% and 2.95% p.a. of the Loan balance dependent on Borrower Risk Grade. This fee is deducted from Borrower interest repayments.
Secondary Market <sup>6</sup>	A fee of 1% on any Loan balance transferred (up to a max. of \$50 per investment) deducted from the net proceeds following the transfer of the Loan to another Investor.

- The ability to transfer an investment on our Secondary Market is dependent on another Investor being willing to take over that investment for the remainder of its Investment Term on the same terms as you signed up to. The original Investor will remain invested in that Loan until another Investor can be found. Investors should be prepared for the possibility that they will be required to remain invested in that Loan for a period up to 6 years. Investors can manually cancel the order to transfer their investments after the first year via the Platform up until the point another Investor has accepted the investment offer.
- See the section titled '[What are the fees for Investors?](#)' below for more information.
- The actual rate of return will be determined by the Prevailing Interest Rate on the Platform at the time of allocating Investment Orders to Loans. Squirrel can divert up to 100% of Investor Interest payments into the Reserve Fund associated with this Investment Class. For more information on the operation of the Reserve Fund, see the section titled '[Reserve Fund](#)' below.
- The Investor Interest Rate for Homeowners Loans changes when the investment converts from interest-only to principal & interest at the end of the first year.
- Service Margin is charged to the Investor by deducting from the Borrower's gross interest repayments. See the section titled '[What are the fees for Investors?](#)' below for more information.
- Secondary Market fees do not apply to the Homeowners Loans sold automatically after the first 12-months period. See the section titled '[Secondary Market](#)' for more information.
- Motor vehicle Loans are always secured over the motor vehicle.

### 3. Description of your investment options (continued)

#### Investment Class: Home Loans

Description	First-registered mortgages of up to \$1,000,000 per security for property owners where the property is to be occupied for personal use or held as a residential investment. Borrowers can select either interest-only or principal & interest repayments and can be for investment terms up to 7 years. The Loan will target high credit quality market niches that are not well served by banks and have low loan-to-value ratios (LVR).															
Features	<ul style="list-style-type: none"> <li>• Maximum Loan size per security of \$1,000,000 in Auckland and \$700,000 for properties outside of Auckland with a maximum exposure per borrower of \$2,000,000;</li> <li>• Owner-occupied or residential investment properties;</li> <li>• Maximum Loan term of 7 years;</li> <li>• Maximum LVR of 80%;</li> <li>• Interest only option available to Borrowers;</li> <li>• Maximum Loan Amortisation Term of 30 years;</li> <li>• All Loans will be secured by first registered mortgages over residential property;</li> <li>• Lending will be focused primarily on borrowers within metro-locations (any urban area with a population over 150,000).</li> </ul>															
Credit risk factors and residual risk rating	<ul style="list-style-type: none"> <li>• Weighted average loan book LVR &lt; 60% (+)</li> <li>• High average Loan size (-)</li> <li>• Reserve fund for Retail Investors (+)</li> <li>• Low diversification in young portfolio (-)</li> <li>• Quality of Security (+)</li> </ul>	<p style="text-align: center;">&lt; Lower risk <span style="float: right;">Higher risk &gt;</span></p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="border: 1px solid black; padding: 2px 10px;">1</td> <td style="border: 1px solid black; padding: 2px 10px;">2</td> <td style="background-color: #f4a460; border: 1px solid black; padding: 2px 10px;">3</td> <td style="border: 1px solid black; padding: 2px 10px;">4</td> <td style="border: 1px solid black; padding: 2px 10px;">5</td> <td style="border: 1px solid black; padding: 2px 10px;">6</td> <td style="border: 1px solid black; padding: 2px 10px;">7</td> </tr> <tr> <td colspan="3" style="text-align: center;">&lt; Potentially lower returns</td> <td colspan="4" style="text-align: center;">Potentially higher returns &gt;</td> </tr> </table>	1	2	3	4	5	6	7	< Potentially lower returns			Potentially higher returns >			
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Investment class parameters / limits <sup>4</sup>	<b>Parameter</b>	<b>Limit</b>														
	Loan-to-value ratio (weighted average)	<60%														
	Loans over 80% LVR	Nil														
	Houses under construction	<5%														
	Bridging loans	<20%														
	Non-metro locations	<5%														
	Apartments	<20%														
	Self-Employed	<20%														
	Adverse credit history	<5%														
Reserve Fund	Home Loan Reserve Fund available to Retail Investors. Reserve levies will be set at between 0.05% and 0.30% per Loan dependent on Borrower Risk Grade.															
Secured	100%															
Avg. loan size	Circa \$700,000															
Investor Return <sup>1</sup>	This Investment Class offers Variable Interest returns, meaning interest rates are subject to change during the term of the investment. Prevailing Interest Rates can be found on our <a href="#">website</a> . Prevailing Interest Rates displayed are <u>before</u> the deduction of RWT, but <u>after</u> the deduction of the Service Margin.															
Service Margin <sup>2</sup>	A fee of between 0.40% and 2.75% p.a. of the Loan balance dependent on Borrower Risk Grade and loan purpose. This fee is deducted from Borrower interest repayments.															
Secondary Market <sup>3</sup>	A fee of 1% on any Loan balance transferred (up to a max. of \$50 per investment) deducted from the net proceeds following the transfer of the Loan to another Investor.															

1. The actual rate of return will be determined by the Prevailing Interest Rates on the Platform at the time of allocating Investor funds to Loans. For Variable Interest investments, the Prevailing Interest Rate is set by us from time to time during the term of an investment. Squirrel can divert up to 100% of Investor Interest payments into the Reserve Fund associated with this Investment Class. For more information on the operation of the Reserve Fund, see the section titled '[Reserve Fund](#)'.
2. See the section titled '[What are the fees for Investors?](#)' for more information.
3. See the section titled '[Secondary Market](#)' for more information.
4. Investment Class limits are intended to be applied once the active loan book for the Investment Class reaches \$100 million. The investment class parameters will be used as a guideline whilst the loan book is below \$100 million.

### 3. Description of your investment options (continued)

#### Investment Class: Business Property Loans

Description	Loan for property owners where the Loan proceeds are being used primarily for business purposes. The Loan will appeal to property investors, small-scale developers and builders looking for lending up to \$1 million to fund a single property purchase/development or pre-development funding of a property purchase, typically with a confirmed buyer at the completion of the build.															
Features	<ul style="list-style-type: none"> <li>• Maximum Loan size of \$1,000,000 per security coupled with a maximum exposure per borrower of \$2,000,000;</li> <li>• Maximum Loan term of 2 years;</li> <li>• Maximum LVR of 70% of registered valuation or up to 80% of sale price if property is pre-sold;</li> <li>• Interest only investment;</li> <li>• Borrowers will be expected to have clear exit strategies;</li> <li>• All Loans will be secured by first registered mortgages over residential property;</li> <li>• Lending will be focused primarily on borrowers within metro-locations (any urban area with a population over 150,000).</li> </ul>															
Credit risk factors and residual risk rating	<ul style="list-style-type: none"> <li>• Weighted average Loan book LVR &lt; 60% (+)</li> <li>• High average Loan size (-)</li> <li>• Reserve fund for Retail Investors (+)</li> <li>• Low diversification in young portfolio (-)</li> <li>• Quality of Security (+)</li> </ul>	<p style="text-align: center;">&lt; Lower risk <span style="float: right;">Higher risk &gt;</span></p> <table style="margin: auto; text-align: center;"> <tr> <td style="border: 1px solid black; padding: 2px 10px;">1</td> <td style="border: 1px solid black; padding: 2px 10px;">2</td> <td style="border: 1px solid black; padding: 2px 10px;">3</td> <td style="border: 1px solid black; padding: 2px 10px; background-color: #f4a460;">4</td> <td style="border: 1px solid black; padding: 2px 10px;">5</td> <td style="border: 1px solid black; padding: 2px 10px;">6</td> <td style="border: 1px solid black; padding: 2px 10px;">7</td> </tr> <tr> <td colspan="3">&lt; Potentially lower returns</td> <td></td> <td colspan="3">Potentially higher returns &gt;</td> </tr> </table>	1	2	3	4	5	6	7	< Potentially lower returns				Potentially higher returns >		
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Investment class parameters / limits <sup>4</sup>	<b>Parameter</b>	<b>Limit</b>														
	Loan-to-value ratio (weighted average)	<60%														
	Loans over 80% LVR	Nil														
	Non-metro locations	<5%														
	Commercially zoned property	<10%														
	Non-build business purposes	<20%														
	Adverse credit history	<5%														
Reserve Fund	Business Property Loan Reserve Fund available to Retail Investors. Reserve levies will be set at between 0.50% and 1.50% per Loan dependent on Borrower Risk Grade.															
Secured	100%															
Avg. loan size	Circa \$600,000															
Investor Return <sup>1</sup>	This Investment Class offers Variable Interest returns, meaning interest rates are subject to change during the term of the investment. Prevailing Interest Rates can be found on our <a href="#">website</a> . Prevailing Interest Rates displayed are <u>before</u> the deduction of RWT, but <u>after</u> the deduction of the Service Margin.															
Service Margin <sup>2</sup>	A fee of between 0.50% and 2.00% p.a. of the Loan balance dependent on Borrower Risk Grade. This fee is deducted from Borrower interest repayments.															
Secondary Market <sup>3</sup>	A fee of 1% on any Loan balance transferred (up to a max. of \$50 per investment) deducted from the net proceeds following the transfer of the Loan to another Investor.															

1. The actual rate of return will be determined by the Prevailing Interest Rates on the Platform at the time of allocating Investor funds to Loans. For Variable Interest investments, the Prevailing Interest Rate is set by us from time to time during the term of an investment. Squirrel can divert up to 100% of Investor Interest payments into the Reserve Fund associated with this Investment Class. For more information on the operation of the Reserve Fund, see the section titled '[Reserve Fund](#)' below.
2. See the section titled '[What are the fees for Investors?](#)' for more information.
3. See the section titled '[Secondary Market](#)' for more information.
4. Investment Class limits are intended to be applied once the active loan book for the Investment Class reaches \$100 million. The investment class parameters will be used as a guideline whilst the loan book is below \$100 million.

### 3. Description of your investment options (continued)

#### Repayment Patterns

The tables below demonstrate how investments within each Investment Class would repay principal and how much interest would be earned each year before the deduction of RWT (if any) based on a \$10,000 investment with monthly repayments and under the maximum Investment Term and Amortisation Term offered by each Product.

Things to note include:

- Investment Terms and Amortisation Terms may vary by Loan;
- The examples provided assume that there are no Borrower Defaults that cannot be covered by the applicable Reserve Fund and no early repayments. Our experience suggests that Loan prepayment rates can be in the vicinity of 30-40% per annum for Personal Loans and 20-30% per annum for Home Loans and Business Property Loans;
- Principal repayments on P2P investments are based on the Borrower Interest Rate and Loan Amortisation Term. This results in a slightly slower repayment of Investor principal and slightly higher interest earned over the Investment Term compared to a standard (non-P2P) principal & interest investment at the same Investor Interest Rate and Investment Term;
- Investor Interest Rates used in the example below are indicative based on the Prevailing Interest Rates as of the date of this booklet.

#### Investment Class: Personal Loans<sup>1</sup>

Product	Repayment Profile																								
<p><b>Homeowners Loan</b>  <u>One plus five-year Investment Term<sup>2</sup></u>                      Repayment features:</p> <ul style="list-style-type: none"> <li>• Interest only at 6.0% for first year i.e. no principal repayments made;</li> <li>• At the conclusion of the first year, the investment converts to principal &amp; interest repayment with an Investor Interest Rate of 8.0%. Principal progressively repaid over the subsequent five years.</li> </ul>	<table border="1"> <caption>Homeowners Loan Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Principal Repayment</th> <th>Gross Interest</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$0</td><td>\$600</td></tr> <tr><td>2</td><td>\$1,590</td><td>\$742</td></tr> <tr><td>3</td><td>\$1,773</td><td>\$609</td></tr> <tr><td>4</td><td>\$461</td><td>\$1,975</td></tr> <tr><td>5</td><td>\$2,205</td><td>\$293</td></tr> <tr><td>6</td><td>\$108</td><td>\$2,457</td></tr> </tbody> </table>	Year	Principal Repayment	Gross Interest	1	\$0	\$600	2	\$1,590	\$742	3	\$1,773	\$609	4	\$461	\$1,975	5	\$2,205	\$293	6	\$108	\$2,457			
Year	Principal Repayment	Gross Interest																							
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6	\$108	\$2,457																							
<p><b>Other Personal Loans</b>  <u>Seven-year Investment Term</u>                      Repayment features:</p> <ul style="list-style-type: none"> <li>• Investment offers principal &amp; interest repayments from month one;</li> <li>• Investor Interest Rate of 7.5% p.a.;</li> <li>• Investment progressively repaid over the subsequent seven-years.</li> </ul>	<table border="1"> <caption>Other Personal Loans (Seven-year) Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Principal Repayment</th> <th>Gross Interest</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$1,007</td><td>\$716</td></tr> <tr><td>2</td><td>\$1,122</td><td>\$636</td></tr> <tr><td>3</td><td>\$1,249</td><td>\$550</td></tr> <tr><td>4</td><td>\$449</td><td>\$1,396</td></tr> <tr><td>5</td><td>\$339</td><td>\$1,556</td></tr> <tr><td>6</td><td>\$216</td><td>\$1,736</td></tr> <tr><td>7</td><td>\$80</td><td>\$1,934</td></tr> </tbody> </table>	Year	Principal Repayment	Gross Interest	1	\$1,007	\$716	2	\$1,122	\$636	3	\$1,249	\$550	4	\$449	\$1,396	5	\$339	\$1,556	6	\$216	\$1,736	7	\$80	\$1,934
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<p><b>Other Personal Loans</b>  <u>Three-year Investment Term</u>                      Repayment features:</p> <ul style="list-style-type: none"> <li>• Investment offers principal &amp; interest repayments from month one;</li> <li>• Investor Interest Rate of 6.5% p.a.;</li> <li>• Investment progressively repaid over the subsequent three-years.</li> </ul>	<table border="1"> <caption>Other Personal Loans (Three-year) Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Principal Repayment</th> <th>Gross Interest</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$2,978</td><td>\$562</td></tr> <tr><td>2</td><td>\$359</td><td>\$3,321</td></tr> <tr><td>3</td><td>\$132</td><td>\$3,700</td></tr> </tbody> </table>	Year	Principal Repayment	Gross Interest	1	\$2,978	\$562	2	\$359	\$3,321	3	\$132	\$3,700												
Year	Principal Repayment	Gross Interest																							
1	\$2,978	\$562																							
2	\$359	\$3,321																							
3	\$132	\$3,700																							

1. The examples above all assume that the applicable Borrower Interest Rate is 10.95% p.a.
2. Investments in Homeowners Loans are automatically offered for transfer on the Secondary Market at the conclusion of the first year before converting to principal & interest repayments. Investors can elect to retain their investment by opting out of the transfer.

### 3. Description of your investment options (continued)

#### Repayment Patterns (continued)

##### Investment Class: Home Loans

Product	Repayment Profile																								
<p>The Borrower under these Loan agreements can opt for Interest-only repayments or for a Principal &amp; Interest repayment schedule. If the Borrower selects the Principal &amp; Interest repayment option, the maximum Loan Amortisation Term offered available is 30 years. This means that investments into this Investment Class will see a lump sum repayment of principal at the end of the Investment Term.</p>																									
<p><b>Principal &amp; Interest Loan<sup>1</sup></b></p> <p><i>Repayment features:</i></p> <ul style="list-style-type: none"> <li>Investment offers principal &amp; interest repayments from month one;</li> <li>Investor Interest Rate of 4.0% p.a.<sup>2</sup>;</li> <li>Maximum Investment Term of seven years;</li> <li>Lump sum repayment of remaining principal outstanding at the completion of the Investment Term;</li> </ul>	<table border="1"> <caption>Principal &amp; Interest Loan Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Gross Interest</th> <th>Principal</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$399</td><td>\$105</td></tr> <tr><td>2</td><td>\$394</td><td>\$114</td></tr> <tr><td>3</td><td>\$389</td><td>\$122</td></tr> <tr><td>4</td><td>\$384</td><td>\$130</td></tr> <tr><td>5</td><td>\$380</td><td>\$138</td></tr> <tr><td>6</td><td>\$373</td><td>\$149</td></tr> <tr><td>7</td><td>\$367</td><td>\$9,242</td></tr> </tbody> </table>	Year	Gross Interest	Principal	1	\$399	\$105	2	\$394	\$114	3	\$389	\$122	4	\$384	\$130	5	\$380	\$138	6	\$373	\$149	7	\$367	\$9,242
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1	\$399	\$105																							
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5	\$380	\$138																							
6	\$373	\$149																							
7	\$367	\$9,242																							
<p><b>Interest-only Loan</b></p> <p><i>Repayment features:</i></p> <ul style="list-style-type: none"> <li>Investment offers interest-only repayments from month one and for the term of the Investment;</li> <li>Investor Interest Rate of 4.0% p.a.<sup>2</sup>;</li> <li>Maximum Investment Term of seven years;</li> <li>Lump sum repayment of principal invested at the completion of the Investment Term.</li> </ul>	<table border="1"> <caption>Interest-only Loan Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Gross Interest</th> <th>Principal</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$400</td><td>\$0</td></tr> <tr><td>2</td><td>\$400</td><td>\$0</td></tr> <tr><td>3</td><td>\$400</td><td>\$0</td></tr> <tr><td>4</td><td>\$400</td><td>\$0</td></tr> <tr><td>5</td><td>\$400</td><td>\$0</td></tr> <tr><td>6</td><td>\$400</td><td>\$0</td></tr> <tr><td>7</td><td>\$400</td><td>\$10,000</td></tr> </tbody> </table>	Year	Gross Interest	Principal	1	\$400	\$0	2	\$400	\$0	3	\$400	\$0	4	\$400	\$0	5	\$400	\$0	6	\$400	\$0	7	\$400	\$10,000
Year	Gross Interest	Principal																							
1	\$400	\$0																							
2	\$400	\$0																							
3	\$400	\$0																							
4	\$400	\$0																							
5	\$400	\$0																							
6	\$400	\$0																							
7	\$400	\$10,000																							

##### Investment Class: Business Property Loans

Product	Repayment Profile									
<p><b>Business Property Loan</b></p> <p><i>Repayment features:</i></p> <ul style="list-style-type: none"> <li>Investment offers interest-only repayments from month one for the term of the Investment;</li> <li>Investor Interest Rate of 5.0% p.a.<sup>2</sup>;</li> <li>Maximum Investment Term of two years;</li> <li>Lump sum repayment of principal invested at the completion of the Investment Term.</li> </ul>	<table border="1"> <caption>Business Property Loan Repayment Profile</caption> <thead> <tr> <th>Year</th> <th>Gross Interest</th> <th>Principal</th> </tr> </thead> <tbody> <tr><td>1</td><td>\$500</td><td>\$0</td></tr> <tr><td>2</td><td>\$500</td><td>\$10,000</td></tr> </tbody> </table>	Year	Gross Interest	Principal	1	\$500	\$0	2	\$500	\$10,000
Year	Gross Interest	Principal								
1	\$500	\$0								
2	\$500	\$10,000								

- The Home Loan Principal & Interest example above assumes a Loan Amortization Term of 30 years and a Borrower Interest Rate of 4.95% that remains constant for the duration of the Loan.
- Investments into this Investment Class offer Variable Interest returns, meaning the Investor Interest Rate can change during the Investment Term. No changes are assumed in these examples.

## 4. What are the risks of investing?

The following risk factors should be considered when investing in P2P Loans:

### Credit risk

The risk of Borrower Default is one of the most significant risks for Investors in P2P Loans. Borrower Default can occur for a variety of reasons including the Borrower falling on hard times, death or serious illness and on occasion fraudulent behaviour. Broader environmental (macro) factors such as recessions etc. can also influence the prevalence of Borrower Default.

The factors that help mitigate this risk include our credit decisioning processes, the security that may be associated with individual Loans underwritten, our Reserve Fund model and the Trustee's ability to socialise any credit losses across all Investors. The life-to-date Borrower Default Rate for Loans originated on our Platform can be viewed on our website under each Investment Class.

### Debt recovery risk

If a Borrower defaults on their Loan, we may act to collect overdue payments, including appointing an external collections agency or using available legal remedies, including where appropriate, court action. If the Loan is secured, collection actions may include the secured asset being repossessed or sold. There is however no guarantee that any security available to a Loan or our recovery actions will be sufficient to fully recover the outstanding balance of that Loan and the fees associated with the collection of the debt. Recovery efforts, such as mortgagee sales, can also take time to realise results delaying the repayment to the Reserve Fund and/or the Investor.

### No Reserve Fund protection

The Reserve Fund model has been put in place to help protect your investments in the event of a late Borrower repayment or Borrower Default. Each Reserve Fund is funded by applying a Reserve Levy to the Borrower Interest Rate which is aligned to the Borrower Risk Grade and corresponding modelled probability of default.

The Reserve Fund is not an insurance product however and we cannot guarantee or warrant that it will have enough funds available to it to enable you to be fully compensated in either of these events. For further detail about how our Reserve Funds operate, including what would happen if a Reserve Fund was depleted, see the section titled "[Reserve Fund](#)" below or refer to our Reserve Fund Policy.

### Liquidity risk

Investments into P2P Loans are fixed-term investments and as such the ability for an Investor to liquidate an investment at will is inherently more limited than an on-call investment.

Our Platform includes a Secondary Market which provides Investors the opportunity to transfer their investments to other Investors. The ability to transfer your investment(s) is however completely dependent on another Investor being willing to take over your investment for the remainder of its term on the same investment terms, including the interest rate, that you signed up to. If a willing Investor cannot be found, you will not be able to transfer your interest in a Loan and may be required to remain invested in that Loan for its full term.

**You should therefore ensure that you can afford to have your money committed for at least the full term of the Loan(s) that you invest into.**

### Loan availability risk

Your ability to make an investment into a P2P Loan is restricted by the:

- » availability of approved Borrowers; and
- » level of other Investor monies awaiting investments.

Whilst we offer an automatic re-investment facility, the factors above will ultimately determine how long it takes to get your funds invested and therefore generating a return.

The consequence of a limited availability of Loans that meet your investment criteria is that your uninvested money may remain in your Investor Account not generating an investment return for an extended period.

### Early repayment risk

Lending in the higher interest rate categories typically see high prepayment rates. As mentioned above, our experience suggests that prepayment rates can be in the vicinity of 30-40% per annum for Personal Loans and 20-30% per annum for Home Loans and Business Property Loans

As a result of this, it should not be unexpected to see a reasonable proportion of the investments you make to fully repay before the original Investment Term is reached.

## 4. What are the risks of investing? *(continued)*

### Early repayment risk *(continued)*

In addition to the inherently high prepayment rate with higher-interest lending, one of the key features of our lending products is that Borrowers on the Platform can repay their Loans at any time without penalty and on occasion we even assist the Borrower to refinance their loan if that makes sense for the Borrower.

If a Loan is repaid early, the outstanding principal and interest (accrued up until the repayment date) is transferred to the Investor(s) in that Loan as soon as the early repayment is received.

The consequence of early repayments is that the Investor(s) in those Loans have their principal returned before the original Investment Term expires and they therefore do not receive the amount of interest income that they would have received if the Loan had continued for its full Investment Term.

### Cyber risk

Our Platform is entirely online and as such this exposes us to threat of cyber fraud.

In recognition of this risk our IT team have gone to great lengths to make the Platform secure, including undertaking an external IT security audit with KPMG. Should a cyber-attack manage to breach our walls, your money has the additional protection of knowing that all funds in the Platform are held in a Trust and can only be transferred out of the Platform using our online banking system with dual signing authority.

As part of our licence to operate, we also maintain a disaster recovery and termination plan and we have insurances in place to protect against both cyber- crime and fraud.

### P2P new regulation risks

The peer-to-peer industry and legislation in New Zealand are still relatively new and regulators such as the Financial Markets Authority and Commerce Commission, and the Courts, are still developing their positions on how to apply the law.

If a regulator were to take a position which is inconsistent with our current practice, it could affect how we are able to operate our business and, in an extreme case such as in relation to consumer credit legislation, the ability to enforce loans. To keep abreast of current legislation and its interpretation we regularly seek legal advice from experts in this field.

### Regulatory and/or Operational risk

There are several conditions that Squirrel must satisfy to maintain its licence to operate as a P2P lender. Failure to comply with those conditions could see Squirrel's licence removed or its conditions changed. We have however put a strong governance framework in place and are regularly audited to ensure we do not breach any of our licensing conditions.

If Squirrel was placed into receivership, we have set aside funds to help run-off the Loan book by way of a bank bond (underwritten by the Bank of New Zealand) for the benefit of the Trustee. This bond (plus access to the ongoing Squirrel margin on Loan repayments) is in place to ensure an appointed third party can continue to administer the collection of Borrower repayments and payments to Investors until such time the Loan book has run-off.

### Risk mitigants

We've put in place several measures to help mitigate risks above and we discuss those throughout the rest of this booklet.



## 5. Credit decisioning processes

Our lending decisions are based on structured credit processes appropriate for each Investment Class and include the following steps:

### Identity verification

We verify the identities of the applicants online using a New Zealand driver's licence or passport and we run checks to ensure potential borrowers are not on a watchlist or have a registered stolen identification.

### Credit checks

We use credit bureaus Centrix and Equifax to provide us with a summary of a potential Borrower's prior credit history and ensure there are no registered credit defaults. We participate in comprehensive credit reporting which means we share and receive a Borrower's monthly repayment information with all other subscribing credit providers including banks, finance companies and utilities providers (e.g. phone and power companies). Essentially, this means if an applicant has missed current or past repayments, it should be listed on their credit file and reflected in their credit score.

### Credit risk modelling

In combination with the credit check, the credit bureaus provide us with a credit score which indicates the likelihood of a Borrower meeting their repayment obligations based on their previous credit history. We apply these scores to our internally developed credit risk model to estimate the Borrower's probability of default.

### Debt servicing ability

A Borrower's income and expense information are verified against their last 3 months of bank statement activity to ensure they meet minimum debt servicing requirements and have satisfactory bank account conduct.

### Risk grading

Approved Borrowers are allocated a Borrower Risk Grade based on their strength across each of the criteria outlined above. The Borrower Risk Grade will help determine the level of Reserve Levy (if any) that will apply to the Loan and therefore contributes to the overall Borrower Interest Rate.

### Quality of security offered

Any security provided by the Borrower is assessed to ensure it is of acceptable quality to meet the requirements of the loan. This may include the requirement to provide a registered valuation or other professional inspections to determine the securities current condition and value.



## 6. Reserve Fund

### Reserve Fund purpose

The purpose of a Reserve Fund is to build a trust fund for Retail Investors in Loans covered by that Reserve Fund to help meet missed payments or losses from defaulting Borrowers. Reserve Funds are held by the Trustee as bare trustee for Retail Investors in relation to certain Loans made under the Platform.

We may establish additional Reserve Funds as set out in the Reserve Fund Policy, for example, by having separate Reserve Funds for different Investor Types, Investment Classes and/or Loan Cohorts.

Our Reserve Fund model effectively socialises lending losses across the entire Loan portfolio to which it applies, meaning individual Investors do not bear the full credit risk of the individual Loan or Borrower to which they are matched.

The existence of a Reserve Fund does not provide Retail Investors a guarantee nor is it an insurance product, but thanks to our Reserve Funds no Investor has lost a cent of principal or interest owed to them to date. Our number one objective is to maintain that track record, but we must stress that the past performance of our Reserve Funds is not a guarantee of their future performance.

### How is a Reserve Fund funded?

We apply a risk premium (known as a Reserve Levy) of between 0% and 8.5% per annum to each Borrower's interest rate based on their risk grade and corresponding probability of default. We then deduct the applicable Reserve Levy from all interest payments received from Borrowers and deposit those funds into the applicable Reserve Fund.

All default charges e.g. Default Fees and Default Interest recovered from Borrowers under Loan Agreements covered by a Reserve Fund will also be paid into the applicable Reserve Fund.

If you are investing in Loans covered by a Reserve Fund, you acknowledge that a proportion of each interest payment received (on your behalf) by the Trustee under a Loan Agreement will be paid into the Reserve Fund in accordance with the terms of the Reserve Fund Policy.

### Reserve Fund for Personal Loans

In addition to the Reserve Levies and default charges collected, we contributed \$200,000 into the Reserve Fund applicable to Personal Loans via a loan to the Trustee. This loan will only be repayable to us if the Reserve Fund Coverage Ratio for that Reserve Fund exceeds 4% (of the active Loan book covered by that Reserve Fund) and remains above 4% immediately after the repayment.

### Reserve Funds for Home Loans and Business Property Loans

The Reserve Funds for Retail Investors that are invested into Home Loans or Business Property Loans (respectively) will each have available to them an on-call facility of up to \$100,000 made available by Squirrel to the Trustee (On-call Facility). The On-call Facility will be available to the Reserve Fund up until 31 March 2023 at which point each Reserve Fund is expected to be completely self-sufficient. Each On-call Facility is supported by a bank guarantee that the Trustee can call upon should Squirrel not be able to satisfy the Trustees call on the On-call Facility (up to the facility limit).

The Trustee will hold any funds advanced under the On-call Facility on trust as bare trustee for the benefit of the Retail Investors that are invested in Loans covered by the Reserve Fund. The Trustee may use the funds advanced at its discretion, subject to Squirrel's rights to repayment. The Trustee will only be required to make repayments to Squirrel of advances made under the On-call Facility to the extent that the balance of the Reserve Fund remains above \$0 immediately after the repayment.

Where a loan is secured, and the loan defaults, the Reserve Fund will step in to make investor payments until such time as the security is realised.

### Sufficient funds available

Payment from a Reserve Fund is subject to there being enough funds available to the applicable Reserve Fund to cover current and reasonably expected future defaults and arrears at the relevant time.

Neither we nor the Trustee guarantees that there will be enough funds available to a Reserve Fund to meet any overdue Loan repayments or claims in respect of the Reserve Fund at any time.

The Reserve Fund does not guarantee your investment, it simply provides a buffer to help protect your investments from expected credit losses (and then some) and it provides Retail Investors greater predictability of investment repayments by attempting to step in whenever a Borrower misses a scheduled repayment.

Reserve Fund protection is not available to Wholesale Investors and Wholesale Investors do not contribute to the Reserve Funds.

## 6. Reserve Fund *(continued)*

### Active Management

If we have reason to believe that a Reserve Fund will not have enough funds to cover current or reasonably expected future Borrower Defaults or arrears, under the terms of the Reserve Fund policy we may decide to place the Reserve Fund into what we call 'Active Management' which allows the Trustee to divert up to 100% of the Investor interest payable under each of the Loans covered by that Reserve Fund into the Reserve Fund rather than to the Investors. The Trustee cannot divert repayments of Investor principal into the Reserve Fund.

When in Active Management, the Trustee will apply the following principles when considering claims submitted to the Reserve Fund:

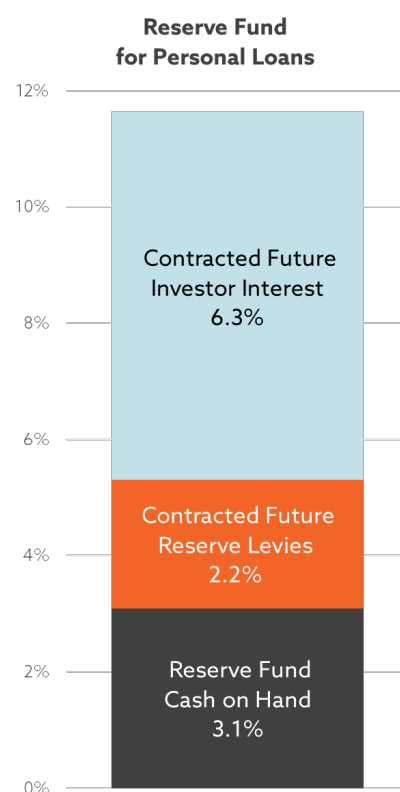
- » To provide the most equitable use of funds available in the interests of all affected Investors; and
- » Repayment of affected Investors' principal will take precedence over payment of interest to other Investors who have interests in Loans covered by that Reserve Fund.

A Reserve Fund will remain in Active Management until such time as we decide that its balance has been restored to a level that will provide adequate protection against expected future losses associated with the Loans covered by that Reserve Fund at the point of entry into Active Management and to enable it to operate in accordance with the Reserve Fund policy.

### Funding available to the Reserve Fund

The following funding sources are ultimately available to a Reserve Fund and collectively they stand between your invested principal and Borrower defaults. The chart below uses the Personal Loan Book and its Reserve Fund to demonstrate the various funding sources available to a Reserve Fund:

- Reserve Fund Cash on Hand** - The cash held in the Reserve Fund (including the \$200k Squirrel Advance) are at a level that allows the Reserve Fund to cover Borrower Defaults of up to circa 3.1% of the Active Personal Loan Book<sup>1</sup>. This cover would be available immediately;
- Contracted Future Reserve Levies** - The Reserve Fund also has access to the contracted future Reserve Levies to assist in covering further losses. Future Reserve Levies currently amount to circa 2.2%<sup>1</sup> of the Active Personal Loan Book<sup>1</sup>. These levies would accumulate as non-defaulting Borrower interest repayments are received over a period of up to 7 years. Our modelling suggests that circa 48% of the total expected future Reserve Levies would be collected within the first 12 months, with circa 75% collected within the first 24 months;
- Contracted Future Investor Interest** - If the Trustee deems the need more urgent than waiting for future Reserve Levies or the requirement greater than what those levies could accommodate, the Trustee can call Active Management and immediately apply a haircut of up to 100% to Investor interest payments. In the extreme scenario where the Trustee applied a 100% haircut to all future Investor interest payments, the Reserve Fund would collect additional funding of circa 6.3% of the Active Personal Loan Book<sup>1</sup>;



The three items above would (over the timeframes mentioned above) generate Reserve Fund funding of circa 11.6% of the Active Personal Loan Book<sup>1</sup>. Only if Borrower Defaults exceeded that level would Investor principal be put at risk.

<sup>1</sup> As of 29 February 2020. Modelling based on an Active Loan Book of \$15.8m and Reserve Fund balance of \$487k (including the Squirrel Advance) as that date and the modelled contracted future Reserve Levies and Investor Interest (both discounted at 50%) from that date.

### Current balances of the Reserve Funds

The balance of each Reserve Fund and their Reserve Fund Coverage Ratios can be accessed [here](#).

## 7. Secondary Market

### Secondary Market purpose and process

We provide a Secondary Market which gives Investors the opportunity to seek to transfer an investment to another Investor at any time. If a qualifying investment is put onto the Secondary Market, we attempt to match that investment with other Investors who have qualifying Investment Orders available in that Investment Class.

Investors may withdraw their request to transfer their investment via the Secondary Market at any time prior to that investment being matched to and accepted by another Investor. Interests in Loans may only be transferred between Retail Investors on the same terms as held by the transferring Investor, including as to outstanding term and interest rate. We may allow interests in Loans to be transferred between Wholesale Investors on differing terms if mutually agreed to by the respective Wholesale Investors.

Once an investment is transferred, the outstanding principal and any accrued interest will be repaid to the original Investor less any fees payable for the sale of the investment. For a description of the fees that will be payable on the Secondary Market, refer to the section titled "What are the fees for Investors?".

**Please note: the Secondary Market relies on other willing Investors taking up the Loans put up for transfer. If no willing Investors are available, the original Investor may not be able to transfer their interests in a Loan and may be required to remain invested in that Loan for its full term.**

### Automatic Transfer Criteria

An Investment Order awaiting matching on the Platform will be automatically matched with an interest in a Loan available for transfer via the Secondary Market where the Investment Order meets the Automatic Transfer Criteria being:

- a. the Investment Class and Interest Rate Type on the Investment Order match the Investment Class and Interest Rate Type of the Loan being transferred;
- b. the funds available on the Investment Order are greater than or equal to the value of the investment being transferred;
- c. the Prevailing Interest Rate under the Investment Order equals or is less than the interest rate of the Loan being transferred; and
- d. the Remaining Term Criteria is met, being:

#### For Personal Loans:

- Investment Orders with an Investment Term of one year will be matched to any Homeowners Loan that meets the criteria in points a. to c. above and where the remaining balance of its initial one-year term is six months or more;
- Investment Orders with an Investment Term of two to three years will be matched to any Personal Loan that meets the criteria in points a. to c. above and where the remaining balance of its term is between one and three years (inclusive); and
- Investment Orders with an Investment Term of five to seven years will be matched to any Personal Loan that meets the criteria in points a. to c. above and where the remaining balance of its term is more than three years.

#### For Home Loans:

- Investment Orders will be matched to any Home Loan that meets the criteria in points a. to c. above regardless of the remaining balance of its term.

#### For Business Property Loans:

- Investment Orders will be matched to any Business Property Loan that meets the criteria in points a. to c. above regardless of the remaining balance of its term.

In the event that there is more than one Investment Order which meets the Automatic Transfer Criteria, eligible Investment Orders will be ranked on a "first come, first served" basis, with Investment Orders submitted earliest in time having priority over later submitted Investment Orders.

## 7. Secondary Market *(continued)*

### Secondary Transfer Criteria

Where an interest in a Loan available for transfer on the Secondary Market cannot be matched to available Investment Orders under the Automatic Transfer Criteria above, we apply our Secondary Transfer Criteria. Further detail on how this criteria is applied can be found in the Secondary Market Rules available on our [website](#).

### Loans that have experienced a credit event

Investments being transferred where the underlying Loan has suffered a Credit Event (i.e. missed repayment(s), hardship, default) will not be automatically matched to an Investment Order and instead an email will be sent to the new Investor disclosing the details of the Credit Event associated with the Loan and providing an opportunity to accept or decline the investment on that basis. Under this scenario, a new Investor continues to benefit from the protection offered by the Reserve Fund associated with the Loan (if any) and does not directly bear the credit risk of the underlying Loan to which they are investing.

Further information regarding the Secondary Market can be found in the [Secondary Market Rules](#).

## 8. What are the fees for Investors?

### Service Margin

We deduct a Service Margin of between 0.30% and 2.95% per annum of the outstanding Loan balance from gross interest payments made by the Borrower under a Loan Agreement. Service Margins vary between Investment Classes and can be dependent on Borrower Risk Grade.

We disclose the actual Service Margin that will apply to a Loan on the Platform.

### Secondary Market Transfers

Investors will be required to pay a Transfer Fee of 1% of the outstanding principal amount of the Loan (up to a maximum of NZ\$50) on the transfer of an interest in a Loan via the Secondary Market.

We will deduct the Transfer Fee from the amount paid by the replacement Investor on the transfer of your interest in the Loan.

Interests in the Homeowners Loan transferred at the end of the 12-month interest only period will not incur Secondary Market transfer fees.

We do not charge the Transfer Fee where Squirrel or a vehicle associated with Squirrel is using the Secondary Market and may choose not to charge Transfer Fees to Wholesale Investors.

Further details of the fees payable by Investors and Borrowers are disclosed on the Platform and can be accessed [here](#). We may alter the fees payable by Investors by providing notice of the amendments on the Platform. Any amendments we make to the fees payable by Investors will only apply in relation to new Loans entered into following the date which the amendments are made.



## 9. What taxes will you pay?

We (as the Trustee's agent and on the Borrower's behalf) will deduct RWT from the interest paid to you in respect of your investments into Loans, at the rate you selected when you applied to be an Investor (or at such higher rate as the law may require).

The possible rates are: 0%, 10.5% (individuals only) and 17.5%, 30%, or 33% for both individuals and trusts. A rate of 0% can be only used if you provide us with a copy of the RWT Exemption Certificate for you or the investment entity you use on the Platform.

If you do not nominate an RWT rate but have provided a valid IRD number, you will automatically have RWT deducted at 33%. From 1 April 2020, if you do not provide a valid IRD number, RWT will be deducted at the 'non-declaration' rate of 45%.

It is important that you choose the RWT rate appropriate to your level of taxable income. This ensures that the correct amount of tax is deducted from the interest you receive on your investments. If you choose a rate that is too low or too high, you may have a tax bill to pay or refund due (respectively) at the end of the income year. To help you determine the appropriate to select, go to: [ird.govt.nz/rwt/receiving/](https://ird.govt.nz/rwt/receiving/).

If you are still unsure of the appropriate RWT rate to select, we recommend you seek professional advice or contact the IRD. It is your responsibility to tell us your RWT rate when you invest or if your tax situation changes.

## 10. Who's involved?

### Licenced P2P Lending Provider

Squirrel is licenced under the Financial Markets Conduct Act 2013 by the Financial Markets Authority to provide P2P lending services in New Zealand (FSP354706).

Squirrel is also registered on the Register of Financial Service Providers (FSPR) in accordance with the requirements of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide P2P lending services.

As the Platform's lender of record, Squirrel P2P Trustee Limited (as Trustee) is registered on the FSPR to provide credit under a credit contract and to provide a broking service (FSP415167).

Under the P2P lending regulations, licenced service providers are subject to strict criteria and must be able to demonstrate the ability to operate the business effectively with an experienced director and senior management team who are fit for their positions.

As a licenced P2P lending service provider we are also required to provide our Regulators annual compliance reports, comply with fair dealing obligations in the Financial Markets Conduct Act, provide disclosure statements and easily understood client agreements and be a member of a financial dispute resolution scheme.

### Board of directors

The Board of Directors meets monthly, except December. Our annual statutory accounts are audited by KPMG and we get external legal advice from MinterEllisonRuddWatts.



**John Bolton**  
BCom, MInstD

### Non-Independent Executive Director, Chief Executive Officer

(Appointed as a director on 22 October 2015)

John founded Squirrel Mortgages Limited in 2008 and is the Chief Executive Officer of Squirrel Group Limited.

John previously held positions at two major financial institutions being General Manager Products for ANZ Bank and Head of Marketing and Strategy and Head of Business Advisory at Westpac.

John has a Bachelor of Commerce degree from Victoria University, is a director and member of Financial Advice New Zealand and is a Member of the New Zealand Institute of Directors.



**Stewart McRobie**  
BCom, CA, CMInstD, FCPA

### Chairman, Independent Non-Executive Director

(Appointed on 12 February 2016)

Stewart is a chartered accountant (CA) and Chief Financial Officer (CFO) at the Ministry of Business, Innovation & Employment.

Stewart has significant senior management experience having held several other CFO roles, most recently with the New Zealand Racing Board and previously at ASB, AMP and Westpac.

Stewart has a Bachelor of Commerce degree from the University of Otago, is a CA member of Chartered Accountants Australia and New Zealand, is a Chartered Member of the New Zealand Institute of Directors and a Fellow of CPA Australia.



**Vaughan Underwood**  
MBA, MInstD

### Independent Non-Executive Director

(Appointed on 12 February 2016)

Vaughan is Chief Executive Officer (CEO) of Super Shuttle New Zealand Limited and has previously been CEO at Heartland Bank (Home Equity Release division), Seniors Money International, AXA New Zealand, Sterling Grace Portfolio Management (part of Spicers) and Emerald Group (Food division).

Vaughan holds a Diploma of Business Management and an MBA from Henley Management College.

## 11. How to lodge a complaint

Complaints about your investment with Squirrel can be made to any Squirrel representative. If you are still not happy with any problem you have, you should refer your complaint to:

**Write to:** Squirrel Money Limited  
PO Box 911254, Victoria Street West Auckland 1142

**Email:** [money@squirrel.co.nz](mailto:money@squirrel.co.nz)

**Phone:** 0800 21 22 33

Any complaint which reaches this level will receive the personal attention of a senior member of the Squirrel team. If after raising the matter with Squirrel, you are still not satisfied, you can contact our independent dispute resolution service.

Both Squirrel and the Trustee are members of an independent dispute resolution scheme operated by Financial Services Complaints Limited (FSCL). If Squirrel hasn't been able to resolve your complaint in a way that you think is satisfactory within 40 business days, you can contact FSCL at:

**Write to:** Financial Services Complaints Limited  
PO Box 5967, Lambton Quay Wellington 6145

**Visit:** 4th Floor, 101 Lambton Quay, Wellington 6011

**Email:** [info@fscl.org.nz](mailto:info@fscl.org.nz)

**Phone:** 0800 347 257

**Web:** [www.fscl.org.nz](http://www.fscl.org.nz)

FSCL will not charge a fee to you to investigate or resolve a complaint.

## 12. Where you can find more information

Further details regarding the services provided by us are set out in the following Platform Documents which are available on the Platform and our [website](#):

- » Disclosure statement
- » Terms and conditions
- » Investor agreement
- » Borrower agreement
- » Fair dealing policy
- » Reserve fund policy
- » Secondary market rules
- » Loan agreements
- » Privacy policy

## 13. How to apply

### Platform Membership

The first step is to apply for membership to the Platform. Any person or corporate entity can apply to be a member and an Investor.

To be accepted as a member of the Platform, individuals must:

- a. be a permanent New Zealand resident and a New Zealand Tax Resident;
- b. be 18 years of age or older at the time of submitting the application;
- c. have a New Zealand domiciled bank account;
- d. truthfully provide all of the information requested in the application form;
- e. complete all verification processes in relation to their identity and personal information to our satisfaction;
- f. not be carrying on the business of being a creditor under a credit contract (as defined in the CCCFA), unless registered to do so on the FSPR; and
- g. meet any other requirements notified by us from time to time.

We may apply different eligibility criteria for trusts, entities or Wholesale Investors. Wholesale Investors must be "Wholesale Investors" for the purposes of the Financial Markets Conduct Act 2013.

Once an application for membership of the Platform has been accepted by us, the prospective Investor may apply to be an Investor on the Platform.

In order to become an Investor on the Platform, the prospective Investor needs to apply to become an Investor, meet any additional eligibility requirements for Investors notified by us from time to time and provide all of the information required in the Investor application form.

You can apply for membership to the Platform [here](#).



## 14. Key terms

Term	Description
Active Management	A process by which the Trustee can decide to divert up to 100% of Investor Interest payable under each of the Loans covered by a Reserve Fund to that Reserve Fund.
Amortisation Term	The number of years over which a Loan will be completely repaid by regular monthly payments of principal and interest. We may offer a '7-year loan on a 30-year amortisation term' which means that the regular monthly payments would fully repay by the end of 30 years, but the entire Loan balance will be due at the end of 7 years.
Arrears	Amounts that are owing in respect to active Loans that should have been paid earlier.
Borrower	A person who has been accepted as a borrower by us.
Borrower Agreement	The agreement which applies between the Borrower, us and the Trustee when a Loan is taken out via the Platform.
Borrower Default	A Loan that: <ul style="list-style-type: none"> <li>» is no longer reasonably expected to be paid; and/or</li> <li>» is no longer reported to Investor(s) as due to them, whether or not funds may still be recovered from the Borrower by other means e.g. debt collection procedures; and/or</li> <li>» has been sold pursuant to a debt collection procedure.</li> </ul>
Borrower Default Rate	Calculated by dividing the value of Borrower Defaults by the value of Loans originated.
Borrower Interest Rate	The interest rate payable by the Borrower in relation to a Loan, being the aggregate of the Investor Interest Rate, the Service Margin and the Reserve Levy (if any).
Borrower Risk Grade	An internally assessed risk grade applied to each Borrower based their strength across each of our underwriting criteria.
Business Day	A day on which banks are open for business in Auckland other than Saturdays, Sundays or public holidays.
Business Property Loan	A Loan for business purposes (including property development) that is not regulated by the CCCFA and is secured by first mortgage over one or more residential properties.
Business Variable Rate	The current Business Variable Rate as published on our website. The Business Variable Rate is set periodically at the discretion of Squirrel after consideration of current market interest rates.
CCCFA	The Credit Contracts and Consumer Finance Act 2003.
Personal Loan	A Homeowners Loan, Debt Consolidation Loan, Vehicle Loan or other Personal Loan as offered by us from time to time.
Credit Event	A Credit Event in relation to a Loan is where: <ul style="list-style-type: none"> <li>» the Borrower has previously missed a payment due under a Loan Agreement (whether or not the default in payment has been covered by the Reserve Fund); or</li> <li>» the Loan is currently in arrears; or</li> <li>» we are aware of a material adverse change in the Borrower's credit profile since the Loan was drawn down.</li> </ul>
Credit Risk Rating	An indicative risk score attributed by Squirrel to each Investment Class based on defined criteria. The risk score is derived with consideration to the risk mitigants provided by the Platform.
Debt Consolidation Loan	A Loan for the purposes of consolidating debt as offered by us from time to time.
Deed of Bare Trust	The deed of bare trust between us and the Trustee in relation to Loans and the Reserve Fund(s).
Default Fees	Fees payable by the Borrower in the event of the non-payment under a Loan Agreement.
Fair Dealing Policy	Our policy setting out when we may exclude a Borrower from using the Platform where we have reason to believe that the Borrower has engaged in prohibited conduct under the FMCA in relation to a Loan
Fixed Interest	Where the interest rate associated with an investment will remain constant for the duration of the investment.
FMCA	The Financial Markets Conduct Act 2013.

## 14. Key terms *(continued)*

Term	Description
FSPR	The Register of Financial Service Providers.
Guarantor	A guarantor in relation to a Loan.
Homeowners Loan	A Loan to homeowners as offered by us from time to time.
Housing Variable Rate	The current Housing Variable Rate as published on our website. The Housing Variable Rate is set periodically at the discretion of Squirrel after consideration of current market interest rates.
Interest Rate Change Notification Period	The minimum five Business Day period commencing on the Business Day when notification has been sent to Investors of a change in Prevailing Interest Rates.
Interest Rate Type	The designation of an investment as either: <ul style="list-style-type: none"> <li>a. Fixed Interest; or</li> <li>b. Variable Interest;</li> </ul>
Investment Class	A group of Loans written under the same (or fundamentally similar) credit policy and that have substantively similar underlying credit risks. Investment Classes currently available on the Platform include: Personal Loans, Home Loans and Business Property Loans
Investment Order	An Investor initiated offer to participate in a Loan or Loans via the Platform, specifying terms including the maximum amount, the Investment Class, the Investment Term and an acceptance of the interest rate and Interest Rate Type available on the Platform for the specified Investment Class and Investment Term.
Investment Term	The length of time for which the investment must be held by the Investor, unless the investment is sold on the Secondary Market or it repays early. Investment Terms offered on the Platform may change from time to time.
Investor	A person who has been accepted as an Investor by us, as a Wholesale Investor or a Retail Investor, and includes Squirrel where relevant.
Investor Account	The trust account operated by us on behalf of the Trustee for the benefit of Investors whose funds have been deposited into the account for the purposes of participating in a Loan or pending repayment to the Investor.
Investor Agreement	The agreement which applies between the Investor, us and the Trustee when an Investor participates in funding a Loan via the Platform.
Investor Interest Rate	The rate of interest (pre-tax) paid to an Investor invested in a Loan
Investor Type	An Investor will be categorized as either a Retail Investor or a Wholesale Investor
IRD	The New Zealand Inland Revenue Department.
Loan	A loan to a Borrower from the Trustee on behalf of the participating Investors and includes, where the context requires, rights under any associated guarantee.
Loan Agreement	The Loan agreement between the Borrower and the Trustee, and where relevant, the Guarantor in relation to a Loan.
Loan Cohort	A group of Loans settled within a pre-defined time period. For examples, Loans settled between 1 January 2019 and 31 December 2019 would form part of the "2019 Loan Cohort".
New Zealand Tax Resident	A tax resident of New Zealand per the criteria set out by the IRD
Nominated Bank Account	The account with a bank in New Zealand which is nominated by the Investor for payment of withdrawals from the Platform.
P2P	Peer-to-peer. In our case, it is applied in the context of P2P lending which is the practice of lending money to individuals through our online lending platform that is used to match Investors with Borrowers.
Home Loan	A Loan offered by us from time to time that is regulated by the CCCFA and secured by a first mortgage over a residential property.
Personal Loan	A Loan for the purposes of personal spending as offered by us, sometimes also known as 'Consumer'.
Platform	Our P2P lending platform that is operated as a licenced P2P lending service.

## 14. Key terms *(continued)*

Term	Description
Platform Documents	The suite of legal agreement for the Platform.
Prevailing Interest Rate	The interest rate currently applicable to an Investment Class and Investment Term set by us from time to time and displayed when an Investor places an Investment Order.
Product	A distinct investment option that offers unique repayment characteristics and/or Reserve Fund coverage. A Product may have more than one Investment Term available with differing Investor Interest Rate ranges per Investment Term.
Reserve Fund	The funds held on trust by the Trustee as bare trustee on behalf of Investors to cover non-payment or Borrower Default under the Loan Agreements in accordance with the Reserve Fund Policy and Deed of Bare Trust.
Reserve Fund Coverage Ratio	Calculated by dividing the current Reserve Fund value by the current value of the Active Loan Book.
Reserve Fund Policy	The policy governing the management and operation of the Reserve Fund as amended by us from time to time.
Retail Investor	An Investor other than a Wholesale Investor.
RWT	Resident withholding tax imposed under the RWT rules in the Income Tax Act 2007.
RWT Exemption Certificate	Has the meaning in section YA 1 of the Income Tax Act 2007.
Secondary Market	A market operated by us on the Platform which enables Investors to transfer their interests in relation to Loans to other Investors.
Secondary Market Rules	The rules established by us in relation to the Secondary Market.
Secured	A Secured Loan is a Loan in which the Borrower pledges some asset (e.g. a car or property) as collateral for the Loan. Any security provided will be held by the Trustee in accordance with the terms of the Borrower Agreement and the Loan Agreement and, where the Loan is covered by a Reserve Fund, is taken for the benefit of the Platform and the Reserve Fund and not for any Investor individually.
Service Margin	The amount deducted and paid to us from gross interest payments made by the Borrower under the Loan Agreement.
Squirrel, we, our or us	Squirrel Money Limited (FSP354706).
Squirrel Advance	The \$200,000 advanced by Squirrel to the Trustee for the benefit of the Reserve Fund for Personal Loans as recorded in the Deed of Bare Trust.
Terms	Means our Platform and Website Terms and Conditions.
Transfer Fee	A fee payable by the Investor in relation to a transfer of the Investor's interest in relation to a Loan Agreement via the Secondary Market.
Trustee	Squirrel P2P Trustee Limited (FSP415167) and includes any other person appointed by us to act as a trustee of Investors' interests and/or Reserve Funds from time to time.
Unsecured	An Unsecured Loan is a Loan that is issued and supported only by the Borrower's creditworthiness, rather than by any type of collateral.
Variable Interest	Where the interest rate associated with an investment is subject to change periodically during the term of the investment at the discretion of Squirrel after consideration of the Housing Variable Rate, Business Variable Rate, current market interest rates and Platform fees, levies and margins.
Vehicle Loan	A Loan for the purposes of financing a vehicle as offered by us from time to time.
Wholesale Investor	An Investor we permit to fund Loans as a wholesale lender via the Platform.

