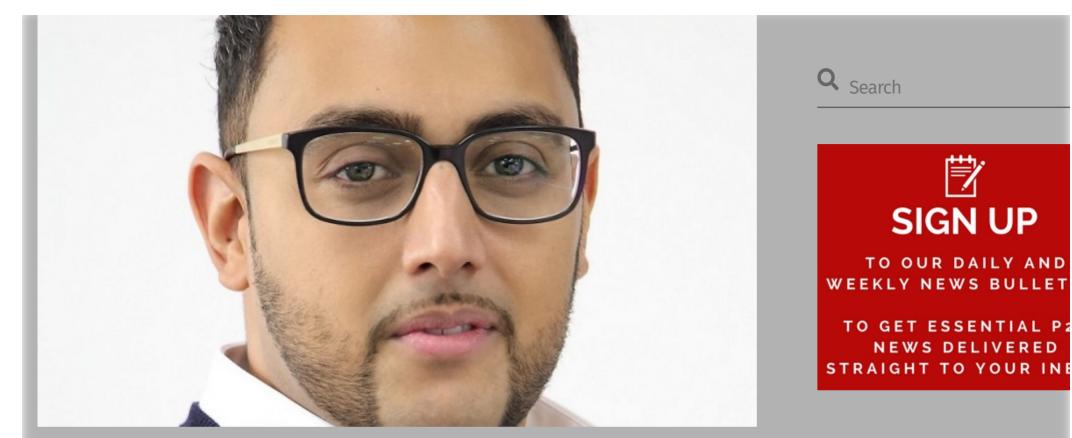
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MAY **10** 2021

## 4th Way backs Kuflink and reaffirms top rating after 'auditor headache'

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Peer-to-peer lending analyst 4th Way has heralded Kuflink's handling of its auditor issues and reaffirmed its three out of three rating.

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Over half of SMEs expect to use reco loan scheme It was revealed last month that EY had formally stepped down as auditor of P2P bridging lender Kuflink in February, citing issues with VAT liabilities, governance and record-keeping.

There was no suggestion of any wrongdoing by Kuflink, nor any issues related to loans on the platform, cash in Kuflink's account or lenders' segregated client bank accounts.

Kuflink's chief executive Narinder Khattoare (pictured) said last month that the business has already worked through many of concerns raised with its new auditors MHA MacIntyre Hudson.

4th Way has been speaking with Kuflink to understand the issues raised and how it is combating them.

The research firm said the platform has given itself an "unnecessary headache" but has been "dealing with the matters openly and head on".

"We at 4thWay feel that Kuflink is taking this seriously enough and is being transparent," 4th Way said.

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In defence of Kuflink's VAT liability, 4th Way said that the issue was complicated.

"In fairness to Kuflink, its VAT obligations aren't the simplest, since its primary business activity is not VAT-able," 4th Way said.

"That slightly offsets its mistake. Even Ernst & Young failed to notice that Kuflink should be collecting and paying some VAT for about a year, according to Kuflink."

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The VAT amount due has subsequently been identified as £160,000, which is less than the approximately £500,000 contingency that Kuflink had provided for, 4th Way added.

Kuflink has told 4th Way that its lenders and its equity investors are happy with the platform.

No more than eight lenders have listed £35,000 to be sold early on Kuflink's secondary market since the accounting issues were made public.

The platform told 4th Way that it is in profit for the 2021 calendar year-to-date after big costcutting efforts, which meets its forecasts in its 2019 accounts. Khattoare has said that he expects a full-year profit for the current year.

"Kuflink's auditors transferred the account from a local branch of Ernst & Young to its Canary Wharf branch, which is more suited to auditing the accounts of banks and other businesses that conduct activities like banks," said 4th Way's head of research Neil Faulkner.

"This branch presumably sets extra high standards as a consequence of dealing with the major banks, and it's not surprising that it considers a much smaller business's governance to be lesswell constructed."

However, Faulkner said he would expect P2P companies of Kuflink's size to get the legal, accounting and corporate aspects right.

"Kuflink has given itself a headache and potentially caused itself a little reputational damage, although apparently no harm to its business, since lenders are satisfied to keep lending.

"When investors select investments – including P2P accounts – there's always something of a checklist that you need to go through, listing the pluses and minuses, before deciding whether to

commit any money. Even the best P2P lending companies have some ticks in some of the minus boxes. This is a new minus tick for Kuflink.

"It will need to keep working to move this tick to the plus side by showing highly effective processes, governance, accurate accounts that no longer need to be dramatically restated every year, and timely filing of company accounts."

Faulkner said the case for lending through Kuflink remains virtually unchanged and it has a Plus rating of three out of three with 4th Way.

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