WELLESLEY FINANCE LIMITED
(formerly Wellesley Finance plc)

Annual Report and Financial Statements
for the year ended 31 December 2019

Company Number 08331511

WELLESLEY FINANCE LIMITED

Report and financial statements
for the year ended 31 December 2019

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Officers and advisers

Directors
Andrew Turnbull
Graham Wellesley

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Company Registration Number
08331511

Auditors
MHA MacIntyre Hudson, 6th Floor, 2 London Wall Place, London, EC2Y 5AU

Bankers
Barclays, Leicester, Leicestershire, LE87 2BB

Legal Advisers
Howard Kennedy LLP, 1 London Bridge, London, SE1 9BG

Introduction

These financial statements for the year ended 31 December 2019 were not approved within the original 6-month filing deadline. The detailed reasons why this occurred are included in this strategic report, but it is worth briefly summarising the issues so that it can frame the report for the reader.

Initially, there were delays suffered due to some material misstatements in the previous years' audited figures that took significant time to resolve. After this, a short-term liquidity issue led to the temporary suspension of investment maturities in March 2020, which in turn resulted in discussions with the regulator, the Financial Conduct Authority ("FCA").

Then finally, a proposed change in the regulatory landscape and the impact of COVID meant that on 24 September 2020, the Company needed to present creditors with a Company Voluntary Arrangement ("CVA") that would materially impact all aspects of the Company.

Further details of the proposed CVA and its impact on the Group are included in note 23 which begins on page 35.

Discontinuation of Mini Bond issuance

The Directors had previously made the strategic decision to move away from the Mini-Bond market and to only offer fully regulated and listed bond instruments. This was evidenced by including this strategic intention in the Group's Business Plan that was sent to the FCA in 2018 as part of the authorisation application of a fellow subsidiary company (Wellesley & Co Limited ("WACL")).

The FCA approved WACL's request for full FCA authorisation on 15 February 2019 and as a result no new Mini-Bonds were issued after 2nd July 2019.

Financial performance and Business review

The Company's loss before tax was £13.7m (2018: loss of £10.2m). This was made up of: (i) an increase in the net interest margin from £6.5m to £8.1m; (ii) a reduction in administrative expenses of 6% from £7.5m to £7.1m; and (iii) as described more fully in note 23, the Company also needed to write off a material amount due to it from Wellesley Secured Finance plc totalling £1.16m, and also increased the provision against inter-company debt to £15.9m.

In respect of the loan performance, this demonstrated a significant improvement in the underlying business fundamentals at that time and is reflective of the quality of the borrowing relationships we are now working with, and the cost reductions that had been achieved.

Due to Company now having less loans that are provided against, the key net interest margin metric has increased by 25% as the interest-bearing balance for accounting purposes is longer being decreased by historic provisions. The closure of these older, non-performing loans also freed up capital and management time to focus on the sourcing of new loans and opportunities.

As mentioned above, in early 2016 the Company implemented a major change in lending strategy in anticipation to changes it had identified in the UK housing market at an early stage, so moving to make larger loans to better capitalised developers and only those with significant track records in their market segment. Wellesley has moved from a transactional to a relationship lending model and has built the in-house capability to nurture these long-term lending relationships. Since implementing this strategy, Wellesley has experienced no defaults or impairments on the lending generated under this approach to credit.

The Company suffered a £3.95m net impairment charge for the year (2018: net release of £0.9m) against the legacy loan strategy, while write off of loans from the same cohort totalled £0.2m (2018: £6.1m)

The Company's total assets as at 31 December 2019 were £83.5m (2018: £99m) while total liabilities were £110.3m (2018: £108.2m) and leaves the Company with a negative net asset value. This deficit is expected to be recovered through: (i) the recovery strategies discussed in more detail below but expected to be between £3.9m-£6.5m; (ii) the income already inherent in the current loan book which alongside the reduction in costs will see further operational profitability; (iii) increased lending from new lending opportunities already secured and other in the pipeline; and (iv) through the unwinding of the accounting discount for the time value of money included in the loan book (£1.7m at 31/12/19).

The Central Bank of Ireland approved the Company's prospectus for an unsecured listed bond programme on 28 March 2019. The programme allowed Wellesley Finance to use proceeds for Corporate purposes, albeit no funds were raised under it. The programme will be terminated in due course.

Key Performance Indicators ("KPIs")

The KPIs of the business at 31 December 2019 were:

- Gross Loan Book – £141m (2018: £152m) of which £87m (2018: £88m) is owned by the Company and held on its Statement of financial position, and £54m (2018: £64m) which is owned by other entities but is serviced by the Company. The latter portion of gross loan book represents assets owned by Peer-to-Peer investors and Wellesley Secured Finance Plc. The Gross Loan Book decreased by £11m primarily as a high volume of redemptions were received during the year, which were not replaced by new loans.

- Net interest yield – This is calculated as Company's total income divided by its proportion of the gross loan book (as above). Based on the closing loan book value, the income yield increased from 4.3% to 5.8% on the prior year.

- Impairment and Write off of development loans – Impairment losses for the year totalled £4m (2018: a write back of £0.9m) and continue to be solely related to the legacy loans previously discussed. No new loans suffered any impairment. Write offs in respect of closed out loans totalled £0.2m (2018: £6.1m) as one more of the legacy loans was written out of the book. It is expected that there will be further write offs during 2020 as more of the provided for loans are closed out.

The KPIs represent important measures for the directors to monitor the performance of the business. The directors review and consider these KPIs on a monthly basis, and in board meetings, in order to assess the performance. This enables decisions to make on the direction of the business.

Post balance sheet events

Significant post balance sheet events were noted that affect the Company and its other subsidiaries and are all disclosed in note 23 on page 35.

No other information has been identified since the statement of financial position date about conditions existing at the statement of financial position date which is required to be disclosed in these financial statements.

Future strategy

Following the approval of the CVA, that was not challenged within the applicable time period, the Group will now seek to undertake a corporate simplification exercise to reorganise its multiple corporate entities down to just 3 or 4. This will involve transferring the majority of staff and assets in the Group to Wellesley Finance (the entity in which equity is offered as part of the CVA), and settling outstanding intra-group balances where possible. Wellesley Group Investors would remain the top-holding company representing the Group's shareholders, with Wellesley Group Limited the intermediate holding company.

The lack of fund-raising ability will also mean changes in the corporate strategy and in summary Wellesley will look to:

- Focus on institutional syndicated lending, which in turn removes future funding risk;
- Increasing recurring fee income from loan servicing activities;
- Operate an opportunistic but prudent approach to credit strategy;
- Fund the business activity using current resources, that are recycled into loan deals;
- Leverage existing borrower relationships; and
- Enhanced profitability through material cost reductions.

Principal risks and uncertainties

The principal risks to the Company are as follows:

Credit risk

As a loan participant, the Company's is exposed to the credit risk of its borrowers. For each loan, the Company obtains a legal charge on the assets it is lending against. It is acknowledged that the property market is cyclical and that the Company is operating in a period of the cycle which would be considered as relatively stable which has resulted in favourable conditions for lending. The board regularly reassesses its view on the risks presented by the market and also the overall stage of the property cycle.

Contractual commitments represent agreements entered into but not advanced as at 31 December 2019.

Collateral based on the underlying development asset is held in relation to secured loans. Total collateral in respect of loans and advances held at 31 December 2019 was £293m (2018: £528m). Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Company will consider including a provision in the financial statements.

Market risk

The Company is exposed to the risk that the value of, or income arising from, the Company's assets and liabilities change as a result of changes to interest rates.

The Company's treasury function is responsible for managing the Company's exposure to all aspects of interest rate risk. The Company's Asset and Liability Committee ("ALCO") regularly convenes to consider reports on all aspects of interest rate risk.

Reputational risk

The Group had a high level of sensitivity to reputational risks, particularly those which could potentially result in the Group's retail lenders losing confidence in the stability and security of the organisation and ultimately the safety of their investment.

Given the current position with the CVA, we expect that the Group will suffer reputational damage. This will certainly be the case in respect of our investors who will have lost money, but also potentially from borrowers. All efforts have been made to maximise the value that could be returned to investors and creditors during the difficult time since CP20/8 was issued, and further effort will be expended in trying to repair this potential loss of trust.

Information technology and security risk

The peer to peer platform is an online business and therefore the information technology and information system security is paramount for the successful running of the Company. The following risks are specifically identified:

- Attack to take over accounts and attempt to withdraw funds;
- Attack to steal customer data; and
- Distributed denial of service ("DDOS") rendering the Company's systems temporarily inaccessible.

All these issues are tested by a regular penetration testing service that the Company has performed on information systems.

Operational and people risk

As the Company grows and average loan sizes increase, the Company faces increased operational risk within the lending and fundraising areas of the business. The greatest area of risk relates to the process of releasing advances to borrowers, registering charges on security and managing the repayment/collections of all loans. The Company identified this as an area of risk more than a year ago and has put software in place to manage much of these processes. The software is in the process of being implemented after a period of development that needed to occur in order to ensure it was fit for purpose.

The Group has invested significantly in its people and have previously strived to ensure that its staff retention rates are high. Given recent events, management will need to work hard to ensure that they can retain those considered to be key to the future of the Group.

Liquidity Risk
The Company's sources of funding are all retail peer to peer/bond market correlated and as such there is less diversification than what would be considered the norm for a financial services institution. The Company does hold asset terms which are approximately half the duration of its liability terms and therefore does not operate with a funding mismatch. However, it should be noted that the Company does have an unfunded forward liability on its development facility future drawdowns which it expects to fund with the repayment of loans which are due to be repaid.

The Company monitors its forward cash flow position regularly; however, it could potentially have difficulty in making its future drawdowns if a number of loans were to be delayed in repayment. This risk is mitigated by the fact that failure to fund the future drawdowns is unlikely to result in a breach of our obligations albeit the development would be delayed which would increase financing costs and ultimately reduce credit quality.
Liquidity forecasts are reviewed by the Liquidity Committee at least weekly, and more frequently if required, and so enables an informed decision-making process on potential liquidity shortfalls. The following options are some that have been utilised over the past year.

- Loan sales – The Company's loan agreements allow Wellesley to transfer a facility to another party and can be completed without consent of the borrower. In the last twelve months, the business has completed the sale of loan facilities totalling £35.4m, demonstrating the ability to identify appropriate counterparties and execute transactions in a timely manner should the decision to be taken to do so.

- Loan refinance - A commonly used transaction in development finance is to refinance with another loan provider. While this requires borrower consent, the prospective transaction is often introduced by the borrower as they approach practical completion of a build when the risk profile has softened and commercially favourable rates become available. Wellesley are able to influence borrower behaviour by varying fees, some of which will not have accrued given their contingent nature. In the last twelve months, the business has completed the refinance of loan facilities totalling £46m.

- Loans outside of contractual terms - For liquidity purposes, the Company forecasts further advances in full for all loans regardless of whether they are operating within contractual terms, or not. There may be some loans that are operating outside of their terms, which is not always a reflection of the credit risk. In those scenarios, there is not a contractual obligation to fund further advances within the contractual period.

In addition to the above examples, the Group also has other options available to it, such as the sale of investments. The Group holds two external investments in ordinary shares of Urban Exposure and 1PM. The current value of those investments (at 31 December2020), based on their quoted bid prices, are £3.3m and £4m respectively, having recently sold circa £12.2m worth of shares between 25th November 2020 and 23 December 2020. Since both companies are quoted, it should be possible to realise further cash subject to liquidity in the shares.

The investment in Urban Exposure is particularly relevant here given that it is currently enacting a wind-down strategy to return cash to shareholders. On 22 September 2020, it announced that expected shareholder returns from the wind down strategy to be within a range of between 72p-78p per ordinary share (bid value is 73p at the 31 December2020) and provided an estimate that 90% of proceeds would distributed within a year. On 18 December 2020 it was announced that the current tender price for the shares would be 75p per ordinary share. Future tender prices may be different to this price.

This was followed up with a further announcement on 1 October 2020 when Urban Exposure indicated that the initial pay-out would be paid within 2 months of that date. The Group has included in its cash flow forecast for the 15 months to 31 December 2021 its estimate of the amount it will receive in December 2020 and the remaining amount due in 2021 is also included.

Between 25th November and 23 December 2020, Cloverleaf 374 Limited sold 16.8m of its shares in Urban Exposure at prices between 71.5p-75p. This realised proceeds, net of charges, of around £12.2m, and a profit of around £2.5m, which were returned to WF in part settlement of the inter-co loan.

Unlike more traditional lending businesses that invest in more simple asset classes (for example mortgages as compared to property development) that can estimate future inflows of cash with real certainty, the development lending industry is far more likely to see variations in timing. As a result, the Company will always be subject to liquidity risk. The regular committee meetings, and the varying levers that can be pulled have ensured that, to date, there has always been sufficient liquidity in the business to meet its obligations.

Risk of potential fraud
As an originator of loan assets, the Company is exposed to possible fraud by borrowers, purported borrowers, their professional advisors such as solicitors, accountants or valuers as well as by employees. Attempted fraud typically involves borrowers, either acting alone or in concert with professional advisors, seeking to obtain funds by adopting a false identity or using a false inflated property valuation or purporting to own a property or seeking a release of security without redeeming the underlying loan. In addition, solicitors could abscond with completion monies, although redress under the indemnity arrangements required by the Solicitors Regulation Authority is normally available in such circumstances.

The Company has in place processes and procedures to counter fraud, and insurance in place providing an indemnity against losses arising from dishonest, fraudulent or malicious acts committed by its staff, outside valuers and outside solicitors.

Business continuity risk
During late 2019 and early 2020, the outbreak of a respiratory disease referred to as the coronavirus was first detected in China and this has since been spread globally. On 30 January 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the outbreak a "public health emergency of international concern". This issue is fast moving, and the position remains live, volatile and uncertain at the date of the approval of these financial statements

The Group continues to monitor the situation and the impact it may or may not have on the operations of the wider business as well as the potential impact on the assets of the Group. The UK government have previously made the decision that all citizens working outside of critical industries/functions are to stay at home where possible. While not currently the case, there may be a second such occurrence. While construction workers continued to work on some sites during the first "lock-down", this may not be the case in further future occurrences and could restrict the ability of some of our borrowers to complete the developments on which their loans are secured, with the impact on each borrower depending on the amount of work still needed on site to obtain practical completion. A contraction in mortgage lending has also been seen and this will further restrict the ability of buyers to complete on such purchases.

For completed developments where sales have been achieved there is a risk that legal completions may not occur in a timely fashion, although at present we have only seen minor delays as the key third parties have largely been able to operate from home effectively. This may also lead to a negative impact on house prices.

Therefore, this could lead to increases in any or all of credit, market and liquidity risk, despite this scenario likely leading to increased revenue for the Group as its facilities remain open for longer.

Liquidity risks are partly offset by an expected corresponding reduction in requested drawdowns.
Further options available to the business include:

- Access to the Coronavirus job retention scheme (utilised at the date of the approval of the financial statements)
- The UK Government originally funded 80% of staff designated to be furloughed for a period of 3 months, capped at £2,500 per month per employee. A more flexible scheme has since been introduced.
- Reduction in staff costs from a staff reduction plan.
- Delayed payment of non-critical expenses.
- Delay or suspension of payments of interest and/or investment maturities.

Credit and market risks are areas of concern, but the Group has very strong credit policies in place along with security over the assets. These ensure that there is enough headroom in the loan to value of each development to be able to deal with such a shift in property value, and the first charge on the assets means the Group remains protected.

Reference should also be made here in respect of the recent restructure, as documented post balance sheet events note earlier in this strategic report, that was completed, as this was undertaken in order to further strengthen the ability of the Group to continue into the future.

The main risks arising from the Company's financial instruments are detailed in note 20.

Brexit Risk
As a UK-based business, the Group is particularly exposed to any domestic economic downturn which could affect existing and prospective borrowers and the value of their development projects. The United Kingdom's vote to leave the European Union and subsequent notice under Article 50 of the Treaty on European Union has presented uncertainty to the UK economy. Whilst the precise nature of the risks and uncertainties that the Group may face following the United Kingdom's departure from the European Union cannot be predicted, the Group has identified a concentration of potential risks relating to its lending activities. These risks are primarily focussed upon the construction process involved when its developers are building properties and the residential property values upon which project viability is underpinned.

Brexit may cause increased costs in labour and materials from the European Union. However, as Wellesley appoint their own independent surveyor to each project, any costs will be reviewed and then stressed internally prior to funding the deal. More detailed underwriting of costs would be expected including analysis of the developer's supply chain. In addition, the Group might focus on working more with contractors with UK based supply chains.

Section 172 statement
Section 172 of the Companies Act 2006 requires a director of an entity to act in the way he or she considers, in good faith, would be most likely to promote the success of the entity for the benefit of its members as a whole. As part of the Entity's deliberations and decision making process, the Directors also takes into account the following:

(i) likely consequences of any decision in the long term;
(ii) the interests of the entity's employees;
(iii) the need to foster the entity's business relationships with suppliers, customers and others;
(iv) the impact of the entity's operations on the community and the environment;
(v) the desirability of the entity maintaining a reputation for high standards of business conduct; and
(vi) the need to act fairly between members of the company.

The Directors consider its stakeholders to be: (a) the employees of the Company and the wider Wellesley Group; (b) our borrowers; (c) our investors; (d) the UK regulator; and (e) all those that live in the societies we serve.

During 2019, the Directors gave careful consideration to the factors set out above in discharging their duties under section 172. The Directors recognise that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values. The Directors are committed to effective engagement with all of its stakeholders.

Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Company's engagement with stakeholders, the Directors seek to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision making. The Directors acknowledge however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders. The Directors also challenge management to ensure all stakeholder interests are considered in the day to day management and operations of the Company.

The Directors seek to understand the interests and views of the Company's, and wider Group's, stakeholders by engaging with them directly as appropriate. The Directors will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the Company and wider Group means that stakeholder engagement often takes place at an operational level. The majority of decisions made by the Directors during the year are deemed to be routine in nature and are taken on a cyclical basis. The Directors are also focused on delivering both fair and right outcomes for all its Stakeholders. The product proposition for both internal and external customer groups has been debated by the Directors. As a result of these activities, The Directors believes it has demonstrated compliance with their legal duty under s.172 of the Companies Act 2006.

Graham Wellesley
Director
Approved by order of the Board on 31 December2020

The Directors present the Strategic Report, Directors' Report and the Financial statements of Wellesley Finance Limited for the year ended 31 December 2019. The directors of the Company during the year were those listed on page 1. The Company has indemnity insurance for all directors of the Company.

Results and dividends
The Company's comprehensive loss for the year was £17.6m (2018: £9.3m).

The directors do not recommend the payment of a final dividend (2018: £Nil).

Principal activities
The Company is engaged in the provision of finance for medium sized property developers in England and Wales.

Principal risks and uncertainties
The principal risks and uncertainties of the Company are disclosed on pages 4 to 7 in the Strategic report. The Directors consider the most material of these to be Liquidity risk given that the timing of cashflows in a Development Lending business can be volatile. As discussed on page 5, these are actively managed by the Company's regular Liquidity Committee meetings, and the maintenance of multiple funding options that can be utilised in various scenarios.

Future developments
The future developments of the Company are to ensure that maximum value is returned to investors and creditors as agreed as part of the CVA, as well as enacting the updated business strategy and model without the ability to use retail investor funding. We aim to continue to grow enduring relationships with high quality borrowers which will enable the Group to drive a robust and sustainable loan portfolio.

Post balance sheet events
Significant post balance sheet events were noted that affect the Company and its other subsidiaries and are all disclosed in note 23 which starts on page 35.

No other information has been identified since the statement of financial position date about conditions existing at the statement of financial position date which is required to be disclosed in these financial statements.

Strategic report
Principal risks and uncertainties and information on the Company's risk management policies are included in the Strategic report.

Going concern
The Company's business activities, together with the factors likely to affect its future development and its financial position are described in the Strategic report. Of particular importance is the recent approval of the CVA, referred to on pages 2-3, as well as the Liquidity risk, as highlighted on page 5, and mitigation strategies that would then be applied.

After making enquiries, preparing and reviewing the cashflow forecast and having assessed that sufficient future funding is available to the business to meet its future financial obligations, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and financial statements.

Notwithstanding the above assessment, the Directors recognise that there are some issues which indicate that a material uncertainty exists that may cast significant doubt on the Company and the Group's ability to continue as a going concern and they are:

- As the Company can no longer raise external funding from retail investors there is a risk that it will not have sufficient liquidity resources to fund the remaining development loans or indeed the payments due under the CVA. The loan book has contracted over the last year and this reduces the number of levers the Company can pull to mitigate liquidity issues, as the loan portfolio is now made up of a small number of larger loans; and

- While confidence is high that the Group more widely will realise its investment in Urban Exposure in the timescale referred to above, and repay the inter-co loan to the company there is always a risk that proceeds could be delayed.

The Directors are aware through preparing liquidity forecasts that in order to make the scheduled CVA payments of circa £8.1m in December 2020, £18.1m in June 2021 and £31.7m in December 2021 that there are a number of uncertainties regarding incoming cash flows. It should be noted that the amounts mentioned above are based on the best estimates of the Directors with regard to the percentage of creditors who will opt for the cash offer and those who will opt for the equity offer as part of the CVA.

On 16th December 2020, the first of the 3 payments listed above was made ahead of the scheduled payment date of 31st December 2020.

In the first half of 2021, the liquidity forecasts assume further redemptions from the loan book of £46.2m which are key to ensuring the second CVA payment of circa £18.1m can be made in June 2021.

In the second half of 2021, the Company is also assuming that there will be no significant delays in loan redemptions of £36.1m and it will liquidate its remaining investments for £12.2m to enable it to make the final CVA payment of £31.7m in December 2021.

As the Directors have highlighted in their assessment, the loan book is made up of a small number of large loans, and acknowledge that if one of those loans were to become distressed or face significant delays, thus delaying the redemption of a material cash sum, then the Company may not be able to meet the liabilities of the CVA as they fall due.

The directors are aware of this risk and in order to mitigate it, they are considering the partial sale of one of those development loans, which would have two cash flow benefits. Firstly, it would provide an immediate cash injection to the Group and secondly, it would remove the need to fund further drawdowns in respect of this loan. Of course, it would reduce loan redemptions but it would provide more liquidity to the Group in the short term and allow it to focus on institutional syndicated lending.

The forecasts do not account for this loan sale.

If the Group was unable to liquidate the holding in Urban Exposure in line with the forecasted cashflows, then it could also affect the Group's ability to meet CVA liabilities as they fall due. That said, between 25th November and 23 December 2020, Cloverleaf 374 Limited sold 16.8m of its shares in Urban Exposure at prices between 71.5p-75p. This realised proceeds, net of charges, of around £12.2m, and a profit of around £2.5m.

The Directors therefore acknowledge that a material uncertainty exists as a result of the reliance on the redemption of the loan book and liquidation of the holding in Urban Exposure to meet the liabilities of the CVA.

Whilst the Directors are strongly of the view that they will be able to redeem the current loan book as well as liquidate holdings in Urban Exposure in a timely manner to ensure payment of said CVA, a material uncertainty exists in this respect which could lead the Group to cease to be a going concern.

If that were the case, then the financial statements would be required to be prepared on an alternative basis.

Statement of directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.
Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standard ("IFRS") as adopted by the European Union and applicable law.

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standard ("IFRS") as adopted by the European Union have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

As disclosed in the Strategic Report, the Company had its prospectus for an unsecured listed bond programme approved the Central Bank of Ireland on 28 March 2019. This in turns meant that the Company would become classified as a "Public Interest Entity" (a "PIE") on the issuance of debt when planned in 2020.

On discussion with our previous auditor, Haysmacintyre LLP, we were advised that following a risk review of the firm's public interest entity audits, a decision had been made to only audit low risk PIE clients. As a result, they did not seek reappointment.

It was therefore resolved to appoint MHA MacIntyre Hudson as auditors during the year, and it is proposed to reappoint MHA MacIntyre Hudson as auditor at the Annual General Meeting.

Graham Wellesley
Director

Approved by the Board of Directors and signed on behalf of the Board on 31 December2020.

Independent Auditor's Report to the Members of Wellesley Finance Limited

Opinion
We have audited the financial statements of Wellesley Finance Limited (the "company") for the year ended 31 December 2019, which comprise the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as applied in accordance with the provisions to the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019, and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern
We draw attention to notes 2.3 and 23 of the financial statements, which outline the significant developments post year-end which have impaired the company's ability to raise external funding from retail investors to meet its commitments under existing agreements with borrowers. The company is now subject to a CVA and there is a risk relating to its ability to achieve the funding requirements necessary to meet the obligations to the bondholders and creditors as set out in the CVA. As stated in note 2.3 of the financial statements, these events or conditions indicate that a material uncertainty exists that may cast a significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of a matter
We draw attention to note 23 of the financial statements which outlines significant developments post year end. The company is no longer able to raise external financing and subsequent to the year-end has entered into a CVA with bondholders and creditors. Under the terms of this CVA the Company disposed of its loan portfolio in 2020 (realising a loss of £21.1m). Our opinion in not modified in respect of this matter.

Other information
The directors are responsible for the other information. The other information comprises the information in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Wellesley Finance Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic reports and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditors/audit-assurance. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for this report, or for the opinions we have formed.

R Shaunak

Rakesh Shaunak *Senior Statutory Auditor*
For and on behalf of MHA MacIntyre Hudson, *Statutory Auditor*
6th Floor
2 London Wall Place
London, EC2Y 5AU
31 December 2020

WELLESLEY FINANCE LIMITED

Statement of profit and loss and other comprehensive income
for the year ended 31 December 2019

Statement of profit & loss	**Notes**	**2019**	**2018**
		£'000	£'000
Interest income		10,946	7,675
Interest expense		(5,415)	(4,651)
Net interest income		**5,531**	**3,024**
Fee and commission income	5	3,677	6,917
Fee and commission expense	5	(1,819)	(4,191)
Net fee and commission income		**1,858**	**2,726**
Other fee income		739	771
Total income		**8,128**	**6,521**
Loss on derivatives and other financial instruments at fair value through profit or loss		(215)	(375)
Total operating income		**7,913**	**6,146**
Administrative expenses	6	(7,072)	(7,539)
Write off of loans and advances to customers		(195)	(6,056)
Write off of affiliate company debt		(1,165)	-
Impairment of inter-company assets	14	(13,164)	(2,800)
Loss from operations		**(13,683)**	**(10,249)**
Bank interest		-	-
Loss before tax		**(13,683)**	**(10,249)**
Income tax charge	9	(1)	-
Loss after taxation - attributable to the equity holders of the Company		**(13,684)**	**(10,249)**
Impairment of loans and advances to customers	11	(3,954)	903
Total other comprehensive (loss)/income for the year		**(3,954)**	**903**
Total comprehensive loss for the year		**(17,638)**	**(9,346)**

There are no items in the statement of other comprehensive income which could be reclassified to the statement of profit and loss in subsequent years.

The accounting policies and notes set out on pages 17 to 37 form an integral part of these financial statements.

WELLESLEY FINANCE LIMITED

Statement of financial position
as at 31 December 2019

	Notes	2019	2018
		£'000	£'000
Assets			
Non-current assets			
Intangible assets	13	-	38
Loans and advances to customers	10	23,197	23,437
Deferred tax asset	9	-	1
		23,197	**23,476**
Current assets			
Cash and cash equivalents		3,351	1,781
Loans and advances to customers	10	51,699	56,250
Derivative financial assets	12	34	-
Other assets	14	5,221	17,497
Total assets		**83,502**	**99,004**
Liabilities			
Current liabilities			
Derivative financial liabilities	12	-	586
Other liabilities	15	12,529	8,080
Interest-bearing loans and borrowings	16	39,303	25,578
		51,832	**34,244**
Non-current liabilities			
Interest-bearing loans and borrowings	16	58,511	73,963
Total liabilities		**110,343**	**108,207**
Net assets		**(26,841)**	**(9,203)**
Equity			
Share capital	17	50	50
Retained earnings		(26,891)	(9,253)
Total equity		**(26,841)**	**(9,203)**

The notes on pages 17 to 37 are an integral part of these financial statements.

These financial statements were approved by the Board of directors on 31 December 2020 and were signed on its behalf by:

Graham Wellesley

Director
Company number 08331511

WELLESLEY FINANCE LIMITED

Statement of changes in equity
for the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019	**50**	**(9,253)**	**(9,203)**
Total comprehensive income for the year			
Loss for the year	-	(13,684)	(13,684)
Other comprehensive income	-	(3,954)	(3,954)
Total comprehensive loss for the year	**-**	**(17,638)**	**(17,638)**
Balance at 31 December 2019	**50**	**(26,891)**	**(26,841)**

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	**50**	**93**	**143**
Total comprehensive income for the year			
Loss for the year	-	(10,249)	(10,249)
Other comprehensive income	-	903	903
Total comprehensive loss for the year	**-**	**(9,346)**	**(9,346)**
Balance at 31 December 2018	**50**	**(9,253)**	**(9,203)**

The notes on pages 17 to 37 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2019

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Loss before taxation	(13,683)	(10,249)
Adjustments for non-cash items:		
Amortisation of intangible assets	-	18
Loss on disposal of intangible assets	38	-
Interest expense on loans and borrowings	5,415	4,651
(Gain)/loss) on derivatives and other financial instruments at fair value	(620)	14
Impairment losses on inter-company balances	13,164	2,800
Write off of loans and advances	195	6,056
Foreign currency revaluation of loans and advances	108	65
	4,617	**3,355**
Adjustments for working capital items and loans & advances:		
Increase in other assets	(888)	(3,879)
Increase in other liabilities	4,449	2,006
Increase in operating assets	(9,070)	(32,959)
Net cash flows used in operating activities	**(892)**	**(31,477)**
Cash flows from investing activities		
Purchase of listed bonds	(375)	(5)
Sale of portions of loans and advances	10,007	4,793
Net cash generated by investing activities	**9,632**	**4,788**
Cash flows from financing activities		
Proceeds from interest-bearing loans and borrowings, net of transaction costs	11,999	36,391
Repayment of interest-bearing loans and borrowings	(15,292)	(16,512)
Interest payment on loans and borrowings	(3,848)	(3,442)
Net cash (used in)/generated by financing activities	**(7,141)**	**16,437**
Net increase/(decrease) in cash and cash equivalents	**1,599**	**(10,252)**
Cash and cash equivalents at the start of the year	1,781	11,997
Foreign currency revaluation of cash balances	(29)	36
Cash and cash equivalents at the end of the year	**3,351**	**1,781**

The notes on pages 17 to 37 are an integral part of these financial statements.

1 Nature of operations

Wellesley Finance Limited has re-registered as a private limited Company, limited by shares. It is a provider of finance to medium sized property developers with the funding they need to build mid-market homes in England and Wales. The Company's registered number is 08331511 and registered office at 6th Floor, St Albans House, 57/59 Haymarket, London, SW1Y 4QX.

2 Basis of preparation

2.1 Accounting basis

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU").

The comparative period is the year ended 31 December 2018.

The presentational and functional currency of the financial statements is Pound Sterling.

The financial statements have been prepared on the historical cost basis except for the following material items in the financial statements:

- derivative financial instruments are measured at fair value through profit or loss; and
- loans and advances to customers designated at fair value through profit or loss.

The accounting policies that have been used in the preparation of these financial statements are described below. The particular accounting policies adopted by the Directors are described below and have been applied consistently year on year.

2.2 New accounting standards

There are several standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods. The Company has decided not to early adopt any of them and does not feel there will be a material impact caused by them.

The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting policies, changes in accounting estimates and errors) are both amended reflecting changes to the definition of "Material";
- IFRS 3 (Business combinations) is amended to reflect the definition of "Business"; and
- A revised conceptual framework for financial reporting.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendment also clarifies that "settlement" includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instruments separately from the liability component of a compound financial instruments. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

2.3 Going concern

The financial statements have been prepared on a going concern basis. The Directors have considered relevant information, including the annual budget, forecast future cash flows and the impact of subsequent events in making their assessment.

The Company's business activities, together with the factors likely to affect its future development and its financial position are described in the Strategic report and the post balance sheet events detailed in note 19. Of particular importance is the recent approval of the CVA, referred to in note 23, as well as the Liquidity risk, as highlighted on page 5, and mitigation strategies that would then be applied.

After making enquiries, preparing and reviewing the cashflow forecast and having assessed that sufficient future funding is available to the business to meet its future financial obligations, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and financial statements.

Notwithstanding the above assessment, the Directors recognise that there are some issues which indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. This is especially the case as the Company is reliant on inter-group funding to fund operations. They are:

- As the wider Wellesley Group can no longer raise external funding from retail investors there is a risk that it will not have sufficient liquidity resources to fund the remaining development loans or indeed the payments due under the CVA. The loan book has contracted over the last year and this reduces the number of levers the Group can pull to mitigate liquidity issues, as the loan portfolio is now made up of a small number of larger loans; and

- While confidence is high that the Group will realise its investment in Urban Exposure in the timescale referred to above, there is always a risk that proceeds could be delayed.

The Directors are aware through preparing liquidity forecasts that in order to make the scheduled CVA payments of circa £8.1m in December 2020, £18.1m in June 2021 and £31.7m in December 2021 that there are a number of uncertainties regarding incoming cash flows. It should be noted that the amounts mentioned above are based on the best estimates of the Directors with regard to the percentage of creditors who will opt for the cash offer and those who will opt for the equity offer as part of the CVA.

On 16th December 2020, the first of the 3 payments listed above was made ahead of the scheduled payment date of 31st December 2020.

In the first half of 2021, the liquidity forecasts assume further redemptions from the loan book of £46.2m which are key to ensuring the second CVA payment of circa £18.1m can be made in June 2021.

In the second half of 2021, the Company is also assuming that there will be no significant delays in loan redemptions of £36.1m and it will liquidate its remaining investments for £12.2m to enable it to make the final CVA payment of £31.7m in December 2021.

As the Directors have highlighted in their assessment, the loan book is made up of a small number of large loans, of which three loans make up 78% of the remaining loan book and acknowledge that if one of those loans were to become distressed or face significant delays, thus delaying the redemption of a material cash sum, then the Group may not be able to meet the liabilities of the CVA as they fall due.

The directors are aware of this risk and in order to mitigate it, they are considering the partial sale of one of those development loans, which would have two cash flow benefits. Firstly, it would provide an immediate cash injection to the Group and secondly, it would remove the need to fund further drawdowns in respect of this loan. Of course, it would reduce loan redemptions but it would provide more liquidity to the Company in the short term and allow it to focus on institutional syndicated lending.

The forecasts do not account for this loan sale.

If the wider Group was unable to liquidate the holding in Urban Exposure in line with the forecasted cashflows, then it could also affect the Company's ability to meet CVA liabilities as they fall due.
The Directors therefore acknowledge that a material uncertainty exists as a result of the reliance on the redemption of the loan book and liquidation of the holding in Urban Exposure to meet the liabilities of the CVA.

Whilst the Directors are strongly of the view that they will be able to redeem the current loan book as well as liquidate holdings in Urban Exposure in a timely manner to ensure payment of said CVA, they acknowledge that these scenarios give rise to a material uncertainty as it could impact the ability of the group to continue as a going concern.

While principally a holding Company, the COVID-19 pandemic and the ensuing economic shutdown has had a significant impact on two of the company's major subsidiaries.

The Company operates in the property development lending space. With building sites closing in the immediate term, this is likely to have a knock-on effect on the date of practical completion of the developments. This will then lead to delays in the subsequent sale of those properties, as well as other developments that have been completed and were going through a sales process.

In response to the COVID-19 pandemic, the Directors have performed a robust analysis of forecast future cash flows taking into account the potential impact on the business of possible future scenarios arising from the impact of COVID-19. This analysis also considers the effectiveness of available measures to assist in mitigating the impact.

Based on these assessments and having regard to the resources available to the entity, the Directors have concluded that they can continue to adopt the going concern basis in preparing the annual report and accounts.

3 Significant accounting policies

3.1 Interest income and expense

Interest income and expense is recognised in the statement of profit and loss on an effective interest rate ("EIR") basis in accordance with IFRS 9. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the instrument but does not consider the assets' future credit losses.

The EIR is applied to the Company's portion of the amortised cost of the loan asset. Where a loan asset becomes impaired, the amortised cost of the loan is reduced by the expected loss for income calculation purposes.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets and where there is a change in those assessments the remaining amount of any unamortised discount or premiums is adjusted so that the interest continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment arising is recognised within interest income in the statement of profit and loss of the current period.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premium arising on the acquisition of loan portfolios.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.2 Fees and commission income

The Company derecognises portions of loans that have been purchased by other parties. The Company acts as an agent on behalf of Peer to Peer ("P2P") customers who have purchased portions of loans and where these P2P customers are fully exposed to the risks and rewards of those portions of loans and advances. As a result, the Company presents its fees and commissions income net.

3.3 Other operating income

Arrangement fees, administration fees and contracted exit fees relating to loans and advances to customers are included within interest income as part of the EIR calculation.

Undrawn fees, legal fees, valuation fees and early access fees which are not considered integral to the EIR are recognised on an accruals basis, in accordance with IFRS 15, when the service has been provided or received.

3.4 Fees payable

Fees and expenses which are costs directly attributable to the issue of a financial instrument (*i.e.* direct promotional costs, legal fees) are included in interest expense as part of the EIR calculation. When they are not incremental costs that are directly attributable, they are recognised within fees as the services are received.

3.5 Financial instruments – recognition and de-recognition

Recognition

The Company initially recognises loans and advances, interest-bearing loans and borrowings issued on the date they are originated, at fair value less transaction costs.

De-recognition
De-recognition of financial assets and liabilities is the point at which an asset or liability is removed from the statement of financial position.

Financial assets are derecognised when:

- the rights to receive cash flows from the assets have ceased; and
- the Company has transferred substantially all the risk and rewards of ownership of the assets.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the statement of profit and loss.

The Company's accounting policy is as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially measured at fair value plus transactions costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value which is calculated as the NPV of future cashflows, discounted using the original EIR. Loans and receivables mainly comprise loans and advances to customers.

3.6 Financial instruments

Financial Assets
The Company classifies its financial assets (excluding derivatives) as loans and receivables.

The Company recognises its portion of each sterling denominated loan and advance originated on its statement of financial position. As for the remaining portion of originated loans and advances, the Company acts solely as an agent on behalf of P2P customers who are fully exposed to the risks and rewards of these loans and advances. The remainder of each sterling denominated loan and advance is held "off balance sheet".

Expected Credit Losses ("ECL") – Development loan portfolio
IFRS 9 introduces a three-stage model for impairment based on changes in credit quality since initial recognition with each stage representing a change in the credit risk of financial instrument. If a significant increase in credit risk is identified, the financial instrument is moved from stage one to two but is not yet deemed to be credit impaired. Financial instruments that are deemed to be credit impaired are then moved to stage three. The expected credit loss for financial instruments which are in stage one equals to the portion of lifetime expected credit losses that result from default events within the next twelve months. The expected credit loss for financial instruments in stages two and three is equal to the expected lifetime credit losses.

Wellesley consider that the primary trigger of a significant increase in its credit risk is where the internal credit rating, decreases by 2 rating categories since initial recognition. The borrowers to whom the loans purchased were originally made to are not rated by external agencies, and so internal ratings are the most appropriate key drivers.

ECL's are calculated in a way that reflects:

- An unbiased and probability weighted amount that evaluates several potential outcomes, including scenarios where a loss does and does not occur, and based on the maximum contractual period (including extension options) that Wellesley is exposed to credit risk. For undrawn loan commitments, Wellesley's ability to demand repayment and cancel the undrawn commitment does not limit the exposure of credit losses to the notice period;

- The time value of money; and

- Reasonable and supportable information, available without undue cost or effort, about past events, current conditions and future economic conditions.

On an on-going basis the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Expected Credit Losses ("ECL") – Inter-company receivables
Inter-company loans provided by the Company to other group entities are repayable on demand and do not carry an interest rate. For the calculation of the ECL, Wellesley need to consider the ability of these entities to repay the debt at the reporting date and, if this is not likely, what the debt recovery plan would be. The Company has no intention of calling this debt in the foreseeable future.

Following the completion of the CVA, and the restructure that followed, the provision made against inter-company loans to other entities in the group were increased to fully impair amounts owed from entities that have no further means to repay. Therefore, the original 31 December 2019 year end provision of £2.8m was increased to £15.96m.

<u>Financial Liabilities</u>
Financial liabilities are contractual obligations to deliver cash or another financial asset.

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit and loss over the period of the borrowings using the EIR method.

Interest-bearing loans and borrowings issued by the Company are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the EIR after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument. All interest-bearing loans and borrowings issued by the Company are classified as financial liabilities at amortised cost.

3.7 Financial instruments and fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Company measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide a fair value on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the issue of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price – *i.e.* the fair value of the consideration received or given.

3.8 Derivative financial instruments

The Company enters into derivative transactions only for the purpose of reducing exposure to fluctuations in exchange rates; they are not used for proprietary trading purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Fair values are obtained from quoted market prices in active markets and, where they are not available, from valuation techniques, discounted cash flow models and option pricing models. Derivatives are measured as assets where the fair value is positive and liabilities where their fair value is negative.

3.9 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.10 Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities held at the statement of financial position date are translated into sterling at the exchange rates ruling at the statement of financial position date. Non-monetary assets carried at historical cost should be reported using the exchange rate at the date of the transaction.

Non-monetary assets carried at fair value should be reported at the rate that existed when the fair values were determined

Exchange differences are charged or credited to the statement of income.

3.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the statement of comprehensive income except to the extent that is relates to a business combination, or items recognised directly in equity or in equity through other comprehensive income.

Current tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the period end date.

Deferred tax

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary difference, the carry forward of unused tax credits and any unused losses. Such assets and liabilities are not recognised if they arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting date and reduced to the extent that it is not probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right of offset exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3.12 Intangible assets

Database software

Expenditure on database software related to the customer relationship management ("CRM") software which enables customers to invest in investment products marketed by the Company.

Expenditure on database software was recognised as an asset when the Company was able to demonstrate its intention and ability to complete the development and use the website and brand in a manner that will generate future economic benefits and can reliably measure the costs to complete the development.

Database software assets were amortised on a straight-line basis in the income statement over its useful life from the date it is available for use. The estimated useful life of website and brand assets was five years but has since been fully amortised to zero.

3.13 Equity instruments

The Company classifies instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Company to deliver cash or other financial assets or to exchange financial asset or financial liabilities with another party under conditions that are potentially unfavourable to the Company, or where the instrument will or may be settled in the Company's own equity instruments but includes no obligation to deliver a variable number of the Company's own equity instruments then it is treated as an equity instrument. Accordingly, the Company's share capital is presented as a component of equity within shareholders' funds. Any dividend or other distributions on equity instruments are recognised in equity. Related income tax is accounted for in accordance with IAS 12.

3.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balance and bank balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4 Critical accounting estimates and judgements

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgement and assumptions that are considered to be the most important to the portrayal of the Company's financial condition are those relating to loan impairment provisions.

The following are deemed to be judgements:

IFRS 9 – business model assessment

IFRS 9 requires the Company to determine how to classify its loan assets in the context of its business model for managing those loans assets to generate cash flows. This business model assessment is determined at a level that reflects how the group of loan assets (rather than intentions for an individual loan) are managed together to achieve its business objective. While this may need determining at the entity level (as the Company may have several business models for differing assets), the Company considers that all loans should be grouped together under one business model, as all loans are originated and managed for the same purpose, to generate cash flows of interest, fees and returns of principal.

The Company considers it integral to the business objective that portions of originated loans are sold to other parties, while also maintaining a portion for itself. This is because it facilitates the opening of differing funding sources, which is important given that Peer-to-Peer funding is in run-off. Therefore, without the differing funding streams that Wellesley open by selling portions of its loans, it would not be able to meet its business objectives.

IFRS 9 gives further guidance on areas that might help support a business model assessment and include: (a) the level at which the business model is assessed and reported; (b) the risks affecting performance of the business model and how they are managed; and (c) how managers of the business are compensated. In addition to these, the Company also included the following considerations in assessing their business model: (a) how performance of the business is evaluated and reported; (b) the primary business objective; and (c) the level and driver of sales.

When reviewing all of these factors, the Directors have assessed that the business model for holding loan assets is, for accounting purposes, to both collect contractual cash flows and to sell financial assets. This assessment then requires the Company to measure its loan asset portfolio at Fair value through other comprehensive income ("FVTOCI") rather than Fair value through profit and loss ("FVTPL").

The fair value of the Company's loan assets is difficult to assess because they are not publicly traded and there is not a highly liquid secondary market on which to obtain prices. In addition, loans are normally issued to support bespoke developments and so benchmarking the loans against loans on similar developments in similar locations is very challenging.

Ultimately the value of the loan asset depends on the ability of the borrower to repay the principal, fees, and interest as well any expenses suffered on their behalf which have been added to the loan balance. The Company's experience it that there is only a movement in the fair value of the loan where there is a risk that Company does not receive full repayment of all amounts it is due. When this is the case, a provision for an expected credit loss would be recognised, with a corresponding FV adjustment made to the value of the loan.

IFRS 9 states that for assets measured at FVTOCI, the amount recognised in the P&L should be the same as the amounts that would have been recognised if accounted for at amortised cost. In that sense, the fair value of loans will be equal to the NPV of the expected future cash-flows, discounted using the initial EIR of the loan.

What this means for the financial statements is that any provisions made for expected credit losses no longer appear in the statement of profit and loss account, and instead appear in the statement of other comprehensive income. If the expected loss crystallises into an actual loss, then the loss is recognised through the statement of profit and loss, with the provision for expected credit losses reversed from the statement of other comprehensive income.

EIRs
IFRS 9 requires interest earned/incurred from loans and advances/financial liabilities to be measured under the EIR method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The carrying value of loans and advances/financial liabilities would therefore be affected by unexpected market movements resulting in altered customer behaviour models used to compare to actual outcomes and incorrect assumptions. Transaction costs should be incorporated in the EIR method. Management identifies these costs as those which relate directly to acquiring the loan and advance/financial liabilities as transaction costs.

ECLs
On an on-going basis the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

Balances owed by group undertakings
The Company is owed £20.2m (2018: £18.5m) from other group companies. Of this amount, £14.1m (2018: £11.3m) is due from group holding entities whose assets are investments in various subsidiaries. Therefore, it might appear that there is an uncertainty as to whether these balances will be recoverable.

These inter-company debts are repayable on demand, but the Directors have no plans to demand repayment in the foreseeable future.

The Company continues to fund the wider group's expenses as it is the main operating entity in the structure. All expenses paid (most of which are payroll related) are for the ultimate benefit of the Group and are considered to add corporate value. There are various initiatives in place to ensure that all entities are appropriately funded, and these are being actively reviewed. In the absence of such plans coming to fruition, the ultimate repayment will need to be through a future liquidity event.

Notwithstanding this assessment, IFRS 9's implementation requires the Directors to make an assessment as to what potential future losses could be suffered. Following the completion of the CVA, and the restructure that followed, the provision made against inter-company loans to other entities in the group were increased to fully impair amounts owed from entities that have no further means to repay. Therefore, the original 31 December 2019 year end provision of £2.8m was increased to £15.96m.

Acting as agent
The Company acts as agent on behalf of its P2P investors. Management apply the EIR method in calculating the fee and commission income and expense for acting as agent.

5 Fee and commission income/expense

	2019	2018
	£'000	£'000
Income on loans and advances to customers - agent	3,677	6,917
Fee expense on Peer-to-Peer capital - agent	(1,819)	(4,191)
	1,858	**2,726**

6 Administrative expenses

	Note	2019	2018
		£'000	£'000
Staff costs	7	1,121	1,327
Amortisation of intangible assets	13	-	18
Loss on disposal	13	38	-
Advertising & marketing		615	1,411
Legal & professional		734	302
Irrecoverable VAT		-	66
FX on foreign currency loans		108	65
Management charge	21	3,906	3,623
Other administrative expenses		550	727
		7,072	**7,539**

All other administrative expenses are incurred in the normal course of business.

7 Staff costs

Staff cost have been allocated per department as follows:

	2019	2018
Wages and salaries	£'000	£'000
Central functions	40	125
Operations	-	38
Credit operations	356	346
Loan origination	561	638
	957	**1,147**
Social security costs	122	134
Pension costs	29	30
Employee benefits	13	16
	1,121	**1,327**

Average staff numbers in the year have been allocated per department as follows:

	2019	2018
Central functions	-	1
Operations	-	1
Credit operations	4	5
Loan origination	5	6
	9	**13**

The Company's Directors are remunerated by other companies within the Group.

8 Auditor's remuneration

	2019	2018
	£'000	£'000
Auditor's remuneration for audit services provided	**214**	**94**

9 Taxation

	2019	2018
	£'000	£'000
Current tax:		
UK corporation tax at 19% (2018: 19%)	-	-
Total current tax	**-**	**-**
Deferred tax:		
Current year	1	-
Adjustment in respect of previous periods	-	-
Effect of changes in tax rate	-	-
Total deferred tax	**1**	**-**
Total tax charge/(credit)	**1**	**-**
Reconciliation of tax charge:		
Loss on ordinary activities before tax	(13,683)	(10,249)
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2018: 19%)	(2,560)	(1,947)
Effects of:		
Adjust closing deferred tax to average rate of 19.00%	119	-
Expenses not deductible	6	7
Tax rate changes	(135)	-
Effects of group relief/ other reliefs	26	(2)
Deferred tax not recognised	2,546	1,940
Non qualifying asset	-	2
Temporary differences not recognised	(1)	-
Total tax charge/(credit)	**1**	**-**
Deferred tax assets		
Provision at start of period	1	1
Adjustment in respect of prior years	-	-
Effect of changes in tax rate	-	-
Additional charge to Statement of profit and loss for the period	(1)	-
Provision at end of period	**-**	**1**

10 Loans and advances to customers

	2019 £'000	2018 £'000
Gross loan receivables	87,290	88,127
Less provisions	(12,394)	(8,440)
	74,896	**79,687**
Amounts falling due:		
Within one year	51,699	56,250
In the second to fifth year inclusive	23,197	23,437
	74,896	**79,687**

11 Provisions on loans and advances to customers

The movement in provisions in respect of loans during the year was as follows:

	2019 £'000	2018 £'000
At the beginning of the year	8,440	9,343
Charge for provisions	3,954	8,098
Write back of provisions	-	(9,001)
At the end of the year	**12,394**	**8,440**

The provision is made against loans and advances to customers. The provision is estimated to realise in the next twelve months.

12 Derivatives held for risk management

Amounts included in the statement of financial position are analysed as follows:

		2019		2018
	Assets	**Liabilities**	**Assets**	**Liabilities**
	£'000	£'000	£'000	£'000
Euro-GBP forward currency contracts	34	-	-	586

The Company uses forward foreign exchange derivatives, not designated in qualifying hedge relationships, to manage its exposure to foreign exchange risk on a currency loan provided to customers in Spain.

13 Intangible assets

	Database software 2019 £'000	Database software 2018 £'000
Cost		
At the beginning of the year	91	91
Additions	-	-
Disposals	(91)	-
At the end of the year	**-**	**91**
Amortisation		
At the beginning of the year	53	35
Amortisation charge for the year	-	18
Disposals	(53)	-
At the end of the year	**-**	**53**
Net book value		
At the beginning of the year	**38**	**56**
At the end of the year	**-**	**38**

14 Other assets

	2019 £'000	2018 £'000
Other receivables	506	688
Prepayments	56	12
Balance owed by group undertakings	4,233	15,705
Balance owed by affiliate entity	426	1,092
	5,221	**17,497**

The balances owed by group undertakings of £4,233k (2018: £15,705k) are net of an expected credit loss of £16m (2018: £2.8m), following an assessment of the recoverability of those inter-company balances now that the CVA has been completed.

The balance owed by an affiliate entity is stated after a write off of £1.2m of debt no longer expected to be recovered.

The amounts owed from related parties are unsecured, have no fixed repayment date and are interest free.

15 Other liabilities

	2019 £'000	2018 £'000
Trade payables	3,503	1,493
Other taxation and social security costs	204	191
Accruals and deferred income	284	489
Other payables	3,381	5,437
Balance owed to group undertakings	5,157	470
	12,529	**8,080**

The amounts owed to group undertakings are unsecured, have no fixed repayment date and are interest free.

16 Interest-bearing loans and borrowings

	2019 £'000	2018 £'000
At the beginning of the year	99,540	78,452
Issued in the year	11,802	36,739
Redeemed in the year	(15,292)	(16,512)
Net accrued interest movement	1,567	1,209
Transaction costs, net	197	(347)
At the end of the year	**97,814**	**99,541**
Due within one year	39,303	25,578
Due over one year	58,511	73,963
	97,814	**99,541**

The capital outstanding within Interest-bearing loans and borrowings is for Minibond £94,328,553 (2018: £97,867,187) and is comprised of both secured and unsecured bonds. Interest rates average on a weighted average basis are around 5.3% on the Minibond.

17 Share capital

	2019 £'000	2018 £'000
50,000 issued ordinary shares at £1 each (2018: 50,000)	50	50

The 50,000 ordinary shares at £1 each are fully paid up at the year end.

The shares have full voting, dividend and capital distribution (including winding up) rights and are not redeemable. The only reserves at the year-end are the retained earnings which represent all retained profits and losses.

18 Financial instruments

The following tables summarise the classification and carrying amounts of the Company's financial assets and liabilities:

2019	Loans and receivables £'000	Fair value through profit or loss £'000	Assets/liabilities at amortised cost £'000	Total £'000
Loans and advances to customers	74,896	-	-	**74,896**
Cash and cash equivalents	-	3,351	-	**3,351**
Derivative financial assets	-	33	-	**33**
Deferred tax asset	-	-	-	**-**
Other assets	563	-	-	**563**
Balance owed by group undertakings	4,233	-	-	**4,233**
Balance owed by affiliate entity	426	-	-	**426**
Total financial assets	**80,118**	**3,384**	**-**	**83,502**
Derivative financial liabilities	-	-	-	**-**
Interest-bearing loans and borrowings	-	-	97,814	**97,814**
Other payables	-	-	7,372	**7,372**
Balance owed to group undertakings	-	-	5,157	**5,157**
Total financial liabilities	**-**	**-**	**110,343**	**110,343**

2018	Loans and receivables £'000	Fair value through profit or loss £'000	Assets/liabilities at amortised cost £'000	Total £'000
Loans and advances to customers	79,687	-	-	**79,687**
Cash and cash equivalents	-	1,781	-	**1,781**
Derivative financial assets	-	-	-	**-**
Deferred tax asset	-	1	-	**1**
Other assets	700	-	-	**700**
Balance owed by group undertakings	15,705	-	-	**15,705**
Balance owed by affiliate entity	1,092	-	-	**1,092**
Total financial assets	**97,184**	**1,782**	**-**	**98,966**
Derivative financial liabilities	-	586	-	**586**
Interest-bearing loans and borrowings	-	-	99,541	**99,541**
Other payables	-	-	7,610	**7,610**
Balance owed to group undertakings	-	-	470	**470**
Total financial liabilities	**-**	**586**	**107,621**	**108,207**

The Company uses amortised cost as an approximation for the fair value of loans and advances. Amortised cost is a reasonable proxy for fair value due to the following: (i) application of the current interest rate in the EIR calculation; and (ii) the term of the loans and advances are short term.

Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active, the Company establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction. For financial liabilities held at fair value, the Company takes into account changes in credit risk and other observable data in order to reflect the measurement of financial liabilities.

The Company measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (*i.e.* as prices) or indirectly (*i.e.* derived from prices); and
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. *For all other financial instruments, the Company determines fair values using* valuation techniques.

The following table provides an analysis of financial assets and liabilities held on the statement of financial position at fair value, into Level 1 to Level 3 based on the degree to which the fair value is observable:

2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivative financial assets	-	34	-	**34**
Total financial assets	**-**	**34**	**-**	**34**

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities				
Derivative financial liabilities	-	586	-	**586**
Total financial liabilities	**-**	**586**	**-**	**586**

19 Commitments and contingent liabilities

At 31 December 2019, the Company had undrawn commitments to lend of £52,033k (2018: £107,641k) assuming that all loans remain within their contractual terms.

The below details the split of amounts falling due in respect of total contractual cashflows on loans and advances:

	2019	2018
Amounts falling due:	£'000	£'000
Within one year	24,991	41,950
In the second to fifth year inclusive	27,042	65,691
After five years	-	-
	52,033	**107,641**

20 Risk management

The main areas of risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Reputational risk;
- Information technology and security; and
- Operational and people risk

Credit risk
The Company's principal business activity is providing residential property loans. For each loan, the Company obtains a legal charge on the assets it is lending against. It is acknowledged that the property market is cyclical and that the Company is operating in a period of the cycle which would be considered as relatively stable with inflating property prices which has resulted in favourable conditions for lending. The board regularly reassesses its view on the risks presented by the market and also the overall stage of the property cycle.

In the prior year there was a change in internal credit rating policy which saw a 4-category system replaced by a 5-category system. The new system rates loans as either: Strong, Good, Satisfactory, Weak or Default.

Factors that help determine and define the categories of credit rating include: the loan to gross development value %; the loan to original land value %: the level and quality of security obtained; the repayment period; compliance with loan covenants; and the progress of development work.

The below details the credit quality of the loans and advances to customers:

	2019	2018
IFRS 9 Staging Categorisation	£'000	£'000
Loans in Stage 1	22,169	26,745
Loans in Stage 2	43,281	52,943
Loans in Stage 3	21,430	8,409
Loans and advances to customers (Refer to note 10)	**86,880**	**88,097**

The above does not include a capital balance of £410k (2018: £30k) for investment by Wellesley Finance Limited in Irish Listed ISA bond.

At 31 December 2019, all loans and advances to customers are operating under a 'Rolled' interest basis meaning that the loan interest is added to value of the loan, rather than being paid regularly ("Serviced"). As a result, there are no overdue amounts as at 31 December 2019 (2018: nil).

The Company's maximum exposure to credit risk after provisions for impairment is as follows:

	2019	2018
	£'000	£'000
Financial assets		
Cash and cash equivalents	3,351	1,781
Loans and advances to customers	74,896	79,687
Other assets	5,221	17,497
Derivative financial assets	34	-
	83,502	**98,965**
Contractual commitments	52,033	107,641
Total credit risk	**135,535**	**206,606**
Financial liabilities		
Interest-bearing loans and borrowings	97,814	99,541
Derivative financial liabilities	-	586
Total counterparty risk	**97,814**	**100,127**

Contractual commitments represent agreements entered into but not advanced as at 31 December 2019.

Collateral, based on the underlying development asset, held in relation to secured loans is capped at the amount outstanding on an individual basis. Total collateral in respect of loans and advances held at 31 December 2019 was £386m (2018: £528m). Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Company will consider including a provision in the financial statements.

Liquidity risk
The Company's sources of funding are all retail peer to peer/bond market correlated and as such there is less diversification than what would be considered the norm for a financial services institution. The Company does hold asset terms which are approximately half the duration of its liability terms and therefore does not operate with a funding mismatch. However, it should be noted that the Company does have an unfunded forward liability on its development facility future drawdowns which it expects to fund with the repayment of loans which are due to be repaid.

The below details when the contractual Euro/Sterling cash outflows and corresponding Sterling/Euro cash inflows are due on the forward exchange derivative positions:

	2019	2018
Amounts falling due:	€'000	€'000
Within one year	1,726	16,344
In the second to fifth year inclusive	-	-
After five years	-	-
	1,726	**16,344**

	2019	2018
Amounts falling due:	£'000	£'000
Within one year	1,497	14,168
In the second to fifth year inclusive	-	-
After five years	-	-
	1,497	**14,168**

The below details the split of amounts falling due in respect of liabilities:

At 31 December 2019	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Trade payables	3,503	-	-	-
Other taxation and social security costs	204	-	-	-
Accruals and deferred income	284	-	-	-
Other payables	3,381	-	-	-
Balance owed to group undertakings	5,157	-	-	-
Interest-bearing loans and borrowings	4,871	34,432	34,955	23,556
	17,400	**34,432**	**34,955**	**23,556**

At 31 December 2018	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Trade payables	1,493	-	-	-
Other taxation and social security costs	191	-	-	-
Accruals and deferred income	382	107	-	-
Other payables	5,437	-	-	-
Balance owed to group undertakings	470	-	-	-
Interest-bearing loans and borrowings	4,228	21,349	40,629	33,333
Derivative financial liabilities	586	-	-	-
	12,787	**21,456**	**40,629**	**33,333**

The Company monitors its forward cash flow position however could potentially have difficulty in making its future drawdowns if a number of loans were to be delayed in repayment. This being said, this risk is mitigated by the fact that failure to fund the future drawdowns is unlikely to result in a breach of our obligations albeit the development would be delayed which would increase financing costs and ultimately reduce credit quality.

Market risk
Market risk is the risk that the value of, or income arising from, the Company's assets and liabilities change as a result of changes in market prices, the principal element being the interest rate risk.

The Company has minimal foreign currency exposure and engages in hedging strategies to minimise risk.

The Company's treasury function is responsible for managing the Company's exposure to all aspects of market risk within the operational limits set out in the Company's treasury policies. ALCO approves the Company's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

Interest rate risk
Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and lending products that we offer.

In particular, changes to interest rates could potentially impact the value of the properties to which the loans and advances of the Company are secured against.

The interest rate on the total value of the loan portfolio of £74,896k (2018: £79,686k) is fixed. The Company has no exposure to floating interest rates on the loan portfolio. The Company considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the guidance by the Bank of England Monetary Policy Committee on expectations of future long-term interest rates. The Company estimates that a +/- 200 bps movement in interest rates paid / received would have impacted the overall balance sheet net asset values as follows:

- +/- 200 bps - +/-£110,621 (2018: +/-£60,487)

Basis risk
Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics. This is monitored closely and regularly reported to ALCO. The risk is managed by matching and where appropriate, through the use of derivatives, with established risk limits and other control procedures.

The Company's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly.

Foreign exchange risk
Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Company has low levels of foreign exchange risk which is managed by use of cross-currency derivatives. The table below sets out the Company's exposure to foreign exchange risk:

Assets and liabilities in euros at sterling carrying values	**2019**	**2018**
	£'000	£'000
Loans and advances to customers	63	972
Cash and cash equivalents	1	1,662
Deferred income	-	-
Net position	**64**	**2,634**

The Company estimates that a 2% movement in the value of the euro would have the following impact on the statement of financial position values:

- Euro strengthened by 2%: +£1,316 (2018: +£53,756)
- Euro weakened by 2%: (£1,264) (2018: (£51,648))

Capital risk
The Company's objective is to maintain a strong capital base to support its current operations in line with relevant forecasts. Capital base for these purposes comprises shareholders' equity plus interest-rate bearing loans and borrowings. The details are below:

	2019	**2018**
	£'000	£'000
Share capital	50	50
Retained earnings	(26,891)	(9,253)
Common equity capital	**(26,841)**	**(9,203)**
Interest-bearing loans and borrowings	97,814	99,541
Other capital	**97,814**	**99,541**
Total capital base	**70,973**	**90,338**

The Company is not subject to external regulatory capital requirements. The Company is meeting its objectives for managing capital by issuing shares and raising debt where necessary. However, the capital levels are monitored both at a Company level and throughout the Wellesley Group. There have been no changes in the Company's objectives, policies and processes for managing capital from the previous period.

21 Related party transactions

Related parties of the Company include key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as the Directors.

The balances (prior to provisions for impairment) with fellow subsidiaries of Wellesley Group Investors Limited:

	2019	**2018**
	£'000	£'000
Balance owed by fellow subsidiaries	4,875	7,190
Balance owed by parent	1,176	135
Balance owed by ultimate parent	14,147	11,179
Balance owed by affiliate entity	426	1,092
Balance owed to fellow subsidiaries	(5,157)	(470)
	15,467	**19,126**

Wellesley Secured Finance plc is a related party to the Company as it is the servicer and originator for loans purchased by Wellesley Secured Finance plc. Wellesley Secured Finance plc purchased portions of loans from Wellesley Finance Limited during the year. The amount owed at 31 December 2019 was split between two amounts:

(i) Expenses Facility Agreement dated 12 April 2017: £895k (2018: £605k); and
(ii) Subordinated Loan Facility: £745k (2018: £429k).

These amounts have now been materially written off for the reasons discussed in note 23.

Included in trade payables in note 15 was an amount of £3,416k (2018: £1,485k) owed to Wellesley & Co. Limited in respect of inter-company management charge payable by Wellesley Finance Limited. The total amount charged for the year ended 31 December 2019 was £3,906k (2018: £3,623k).

In addition, Wellesley Finance Limited invested £375k (2018: £5k) in the Irish Listed ISA bond during the period and continues to hold £405k (2018: £30k) principal investment at the reporting date. Details are below:

	2019	2018
Investment by Wellesley Finance Limited in Irish Listed ISA bond	£'000	£'000
Opening balance	45	236
Advances	375	5
Repayments	-	(205)
Interest owed	5	9
	425	**45**

22 Ultimate controlling party

Wellesley Group Limited, a company incorporated in England, is the immediate parent of the Company. Wellesley Group Investors Limited, parent of Wellesley Group Limited, prepares consolidated financial statements which includes the results of the Company for the year. All entities are registered at 6th Floor, St Albans House, 57/59 Haymarket, London, SW1Y 4QX.

Graham Wellesley is the ultimate controlling party of the Group by virtue of his shareholding in Wellesley Group Investors Limited.

23 Events after the statement of financial position date

Non-adjusting post balance sheet events

COVID outbreak

During late 2019 and early 2020, the outbreak of a respiratory disease referred to as the coronavirus was first detected in China this has now been spread globally. On 30 January 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the outbreak a "public health emergency of international concern". This issue remains live at the date of the approval of the financial statements. Further details are included within the "Business continuity risk" section on page 7.

Restructuring the Company via a Company Voluntary Arrangement ("CVA") in September 2020

Following a significant amount of work completed and professional advice taken, the difficult decision was made to enact a CVA within Wellesley Finance as this was considered to generate the best outcome for investors from the options available. While such an agreement is regrettable as it means that investors will not receive all amounts invested, it was necessary to ensure that investor returns could be maximised.

Before the CVA was enacted, a new subsidiary of the Company was created called Cloverleaf 376 Limited. Cloverleaf 376 Limited, then purchased all loan assets that were held as security from P2P investors, Wellesley Finance (on behalf of secured mini-bond holders), and Wellesley Secured Finance (on behalf of the listed bond investors) at a price in excess of that available in the open market at that time. This transaction completed on 14 September 2020. This was taken to preserve the value of the loan book for investors in the event of the CVA being unsuccessful.

The consideration paid to these secured investors will be in cash, in 3 payments made between the date of approval of these financial statements and December 2021. In respect of the loan assets held on the balance sheet of Wellesley Finance, the difference between the consideration received for the loan assets and the value of the secured mini-bonds became an unsecured ordinary creditor of Wellesley Finance alongside all other creditors and is included as a liability that forms part of the CVA.

On 16th December 2020, the first of the 3 payments listed above was made ahead of the scheduled payment date of 31st December 2020.

In respect of the CVA, a summary of the key terms are as follows:

- Unsecured creditors were provided with the forecast returns of two scenarios: one based on the CVA being successful and the other based on it being unsuccessful. The unsuccessful scenario assumes that the Group would enter administration, while the successful scenario assumes that the Group would continue in business, restructure its liabilities, and provide a higher return to investors than would be achieved in administration.

- The premium offered in the scenario based on the CVA being successful takes two forms. The first being a cash offer at a premium of circa 10p in the £, over the estimated amount available in administration. The second offer being a premium of circa 25p in the £ over the estimated amount available in administration, via the offering of equity in Wellesley Finance. The equity would be in the form of preferred shares and would return value via buy back of the shares on target dates.

- The net impact of this on Wellesley Finance and the Group would be a reduction in investor liabilities to the compromised amounts and an increase in the NAV. Investors have recently finished voting on whether they wish to accept the cash or the equity offer, the accounting treatment of the offers being different. Based on this voting, and if all creditors submit a proof of claim form in due course, the NAV of the Group will benefit from a £37.4m CVA accounting gain from the transfer of the old investor liabilities to new compromised liabilities agreed under the CVA.

- Non-investor liabilities are also party to the CVA.

Formal approval of the CVA was obtained on 14 October 2020 with the vote having closed the day before. The CVA was not challenged within 28 days of the above date.

Accordingly, the provision made against inter-company loans to other entities in the group will be increased by £13.16m to fully impair amounts receivable from group entities who following the restructure will have no further means to repay.

The Company was also owed amounts from Wellesley Secured Finance plc ("WSF"), another related party. These were in the form of subordinated loans, subordinated loan interest, and a funded expense account. WSF suffered considerable losses when the loan book sale was completed such that they are unlikely to have sufficient financial resources to repay all of their bondholders in full. Residual cash in WSF is required to be distributed in accordance with the waterfall of payments included in its corporate documentation, and the Directors are of the opinion that a material amount of the amounts due to the Company will not be received. Accordingly, the amount of £1.16m was written off in 2019.

<u>Re-registration as a Limited Company</u>
On 14 October 2020, the Company re-registered itself as a Limited Company.

<u>Notice given on office lease</u>
On 30 August 2019, Wellesley & Co entered into a lease extension on its current office premises, the terms of which are not materially different to the existing terms. Subsequently, in September 2020, notice was given to the landlord and the lease is due to terminated in January 2021. The Company was the guarantor of the lease, and there are no early termination costs or other charges that the Company will need to pay in order to terminate its obligations under the lease.

Cloverleaf 374 Limited
During September 2019, the Group's Directors identified a strategic and time sensitive opportunity on which it acted. This led to the creation of this new subsidiary which was funded with a £20m facility from a third party. The new subsidiary then used part of this facility to purchase shares in Urban Exposure PLC ("Urban Exposure"), with the remainder, at times, used for liquidity purposes within the Group.

The facility terms included both interest and fees being payable and was secured on 2 specific development loans held on the balance sheet of WF, as well as on the shares purchased. The Directors expected that the appreciation in the value of the shares, as well as the dividend yield, would provide enough cover for the facility and its costs. Based on the tender price of 75p announced on 18 December 2020, the gains already realised, and the dividends received to date, the appreciation of the share price will have covered the cost of investment and all financing costs.

The terms and use of the facility were subsequently renegotiated to allow the wider Wellesley Group to make use of the funds that had not been invested for lending activities. The facility was repaid in full in June 2020 utilising an inter-company loan from the Company. At the date of the approval of these financial statements, the amount remains outstanding.

Between 25th November and 23 December 2020, Cloverleaf 374 Limited sold 16.8m of its shares in Urban Exposure at prices between 71.5p-75p. This realised proceeds, net of charges, of around £12.2m, and a profit of around £2.5m.

Cloverleaf 375 Limited
In May 2020, the Group's Directors identified a further strategic and time sensitive opportunity on which it acted. Accordingly, on 15 May 2020 a £3.7m non-controlling strategic investment was made in 1pm PLC ("1PM") totalling 19.99% of the issued share capital. A new subsidiary of the Group was created to hold this investment called Cloverleaf 375 Limited and the purchase was funded by the Company via an inter-company loan. At the date of the approval of these financial statements, the amount remains outstanding. There are no indications that the company will not be able to fully recover these amounts.