WELLESLEY FINANCE LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2020

Company Number 08331511

WELLESLEY FINANCE LIMITED

Report and financial statements
for the year ended 31 December 2020

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Officers and advisers

Directors
Andrew Turnbull
Garret Graham The Earl of Cowley (Resigned on 06 April 2021)

Registered Office
483 Green Lanes, London, N13 4BS

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
Shoosmiths, 2 Colmore Square, 38 Colmore Circus Queensway, Birmingham, B4 6SH

Restructuring of the Company

During the year to 31 December 2020, the Company navigated numerous exceptional events that had a profound effect on the operations of the Company and ultimately led to a major restructuring after reaching a compromise agreement with its creditors in the form of a Company Voluntary Arrangement ("CVA"). Full details are included in this strategic report but are summarised below to provide context for the reader of these financial statements.

On 1 January 2020 the Financial Conduct Authority ("FCA") introduced a temporary product intervention relating to mini-bonds which was due to last twelve months. The intervention restricted the issuance of 'mini-bonds' to retail investors. The Company and the wider Wellesley Group of companies had anticipated the likelihood of changes to the 'mini-bond' market and therefore had modified its source of funding to increase its reliance on Listed Bonds which were regulated instruments approved for distribution to retail customers.

During late 2019 and early 2020, the Company suffered a significant timing delay in the repayment of one of its development loans. While the Company ultimately received full repayment of all amounts due, and no event of default occurred, the delay impacted the operations of the business. While the Company's liquidity forecasts dealt with, and modelled, various stressed scenarios, this delay was longer than could have been expected and went beyond the normal types of delays experienced in the Company's past. After utilising the various liquidity contingencies available, the Company was still required to take further action and so for a period of 31 days in March and April 2020, delayed repayments to 262 retail investors (2% of the total investor base) totalling £1.53m (1.2% of the total investment book). These were all subsequently repaid along with additional interest to compensate for the short delay.

The Company's sister company, Wellesley & Co. Limited ("WACL"), as the regulated entity in the wider Wellesley Group, notified the FCA of the proposed delay to repayments, and extensive dialogue followed from April 2020 onwards.

To provide the Directors and other third parties with further comfort surrounding the ability of the business to recover its Net Asset Value ("NAV") position, the Company commissioned specialist professional support to produce a detailed 60-page Business Overview Document ("BOD"). This explained the business model in more detail as well as including forecasts for the forthcoming years that showed a recovery of the NAV was possible and it therefore supported the Directors' going concern assessment of the business. The BOD was completed with input from Kroll (formerly Duff & Phelps) who also reviewed the forecasts and assumptions made therein.

On 18 June 2020, the FCA published CP20/8 where it outlined its plans to permanently ban mini-bonds from being issued to retail customers and also its intentions to widen the scope of the ban to include bonds which whilst listed, do not frequently trade. This latter inclusion impacted the both the listed bonds that the Company planned to issue itself under a recently approved listed bond programme, and those issued by an out-of-group entity, Wellesley Secured Finance PLC ("WSF") that was fully invested in loans originated and managed by the Company. Therefore, if the proposed changes were to become policy, as the Company expected to be the case, this would have a material impact on the Company's ability to meet its obligations to its creditors the proposed changes became policy later in the same year upon the publication of PS20/15.

Whilst dealing with these unpredicted changes to the Company's funding sources, the unprecedented COVID-19 crisis had put stress on construction delivery milestones which impacted on the ability of certain borrowers to service their respective loan commitments, which, in turn, created additional cashflow issues for the Company.

In light of both the long-term impact of the changes to the Company's funding planning and also the stress put on its cashflow due to COVID, the Director's quickly identified that the business would need to restructure its liabilities. The Company sought professional advice and instructed Kroll and Shoosmiths LLP to undertake a review of the Company and wider Group's business and affairs and consideration of the various contingency and restructuring options available.

Restructuring of the Company (continued)
The Company considered its options and the likely effect on its creditors in an insolvency scenario. In the event of an administration or liquidation of the Company, Wellesley Security Trustees Limited ("WSTL"), as security trustee, would take control of the Loans. However, due to the complex investment structure, WSTL would not easily have access to, or the ability to procure, additional funding in order to fund the further commitments in relation to the Loans. This would present WSTL with two options: either to wind down the Loan Book or sell the Loan Book on a distressed basis. It was decided that neither of these options were in the best interests of the Company's stakeholders and so, following professional advice and legal counsel, the Company marketed the Loan Book for sale with the assistance of Kroll Real Estate Advisory Team, and following completion of the marketing process, the Loan Book was ultimately sold to a newly formed subsidiary, Cloverleaf 376 Limited ("C376") at a premium to the price of the third party bids, all of which were subject to further due diligence and at risk of value erosion.

In September 2020, following the sale of the loan book, the Company suspended all payments to investors and proposed a Company Voluntary Arrangement ("CVA") to its creditors. The FCA requested that the Company's sister company, WACL sign a Voluntary Requirements Notice (a "VREQ") which is a voluntary and temporary measure to restrict regulated activity. WACL signed the VREQ in September 2020 and full details can be seen on the FCA register

The combination of the Loan Book Sale and the CVA provided all investors the opportunity to receive a higher amount than they would otherwise receive should the Company had entered administration or liquidation, which the Directors considered to be the best outcome for creditors.

Formal approval of the CVA was obtained in October 2020 with 94.7% of the creditors voting in favour of the proposals, following which the Company initiated the strategy outlined in the CVA. The effect of the CVA on these financial statements is explained further in the Financial Performance & Business Review and the Notes to these Financial Statements on pages 18 to 37.

Financial Performance and Business Review

Financial Performance
As outlined on page 2, the Company navigated numerous exceptional events that had a profound effect on the operations of the Company and ultimately led to a major restructuring after reaching a compromise agreement with the creditors in the form of a Company Voluntary Arrangement ("CVA"). The effect of the restructuring, in particular the compromise of the Company's liabilities has had an exceptional impact on the financial statements of the Company and the financial performance should be considered in this context.

Total operating income for the year was £2.7m (2019: £7.9m) following the sale of the loan book during September 2020. The Company's profit before tax was £24.2m (2019: loss of £17.6m). This was made up of (i) a 56% reduction in administrative expenses to £3.1m (2019: £7.1m) leading up to and following the restructuring of the Company; (ii) the impact of derecognition of creditor liabilities of £37.5m (2019: nil) which represents the compromise agreement reached with creditors under the CVA; and (iii) Other expenses of £12.8m (2019: £18.5m).

Other expenses include the company writing off loans and advances to customers of £9.5m (2019: £0.2m) following the sale of the loan book; the write-off of affiliate company debt of £0.6m (2019: £1.2m) which related to amounts owed by Wellesley Secured Finance plc which the Directors are of the opinion will not be received, an increase in the impairment of intercompany assets by £1.9m (2019: £13.2m) to impair amounts receivable from group entities who following the restructure will have no further means to repay other than readily realisable liquid assets, and the write-off of intercompany debt of £882k (2019: nil) following the completion of the joint venture of Wellesley Investment Services Limited and the transfer of listed shares from Cloverleaf 374 limited to the Company, following which, both group undertakings have no further means to repay. Further details are provided in Note 22.

The Company's total comprehensive income for the year was therefore £24.2m (2019: loss of £17.6m).

The CVA
As outlined on page 2, the Company underwent a major restructuring during the period. As part of which, the Company reached a compromise agreement with creditors under a CVA. Following the approval of the CVA, the creditors of the company made an election of whether to receive cash distributions in 2021 or be issued with preferred shares in the Company.

The CVA (continued)
After the elections were made in October and November 2021, the following obligations to compromised creditors were created under the CVA:

- A cash distribution of £3.6m by 30 June 2021 (settled in full)
- A further cash distribution of £11.1m by 31 December 2021 (expected to be settled in full from liquid assets and funding from Cloverleaf 376 Limited)
- The issuance of £10.2m of preferred shares in the Company (new instruments to be issued in December 2021)

Further details are provided in Note 23. As described the Post Balance Sheet events section on page 34, the Company made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.

The Loan Book Sale ("LBS")
The Loan Book Sale to a subsidiary of the Company, Cloverleaf 376 Limited ("C376") provided the secured creditors of the Company and investors in products secured against loans originated and serviced by the Company to achieve a higher return than would otherwise have been achievable had the loans been sold to an unrelated third party.

The loan book was sold on a deferred consideration basis, the terms being as follows:

- £8m to be paid by 31 December 2020
- £15m to be paid by 30 June 2021
- £22.1m to be paid by 31 December 2021

C376 made all payments ahead of the due dates in full during December 2020 and June 2021 and continues to expect to fulfil the remaining obligations by December 2021.

Cloverleaf 374 Limited
Cloverleaf 374 Limited ("C374") was incorporated in September 2019 when the Directors identified a strategic and time sensitive opportunity to acquire a strategic stake in a competitor.

The Company arranged funding of a £20m facility from a third party. C374 then used part of this facility to purchase shares in Urban Exposure PLC ("Urban Exposure"). 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.

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.

In November and December 2020, C374 disposed of 79% of its shareholding, with the residual shareholding transferred to The Company in settlement for an outstanding intercompany loan, and as part of a corporate simplification initiative following the wider restructuring of the Wellesley Group. Following the transfer, the remaining outstanding liability of C374 to the Company (£240k) was forgiven, and the liability extinguished.

Cloverleaf 375 Limited
Cloverleaf 375 Limited ("C375") was incorporated in May 2020 when the Directors identified a strategic and time sensitive opportunity to acquire a strategic stake in a non-bank finance provider.

The Company provided funding of £3,737,196 to acquire 17,796,173 shares in Time Finance plc ("TIME") (previously 1pm plc) which represented just under 20% of TIME's share capital.

In December 2020, the shareholding investment was transferred to The Company in settlement of the outstanding intercompany loan as part of a corporate simplification initiative following the wider restructuring of the Wellesley Group. As the share price at the date of transfer was higher than the acquisition price and finance costs, the Company recognises an unrealised payable of £483k at the reporting date.

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

Office lease termination
The Company's sister company Wellesley & Co Limited terminated the lease on its office premises in September 2020 and vacated the premises in December 2020. The Company was the guarantor of the lease, and there were no early termination costs or other charges in order to terminate its obligations under the lease.

Key Performance Indicators ("KPIs")

The KPIs of the business at 31 December 2020 were:

- Profitability – measured by Profit before tax, which at the reporting date was a profit of £24.2m (2019: loss of £17.6m) following the effects of the restructure.
- Cost / Income ratio – measured by administrative expenses divided by operating income, which at the reporting date was 117% (2019: 89%). Although the Company has reduced costs following the restructure, income was lower following the loan book sale.
- Leverage – measured by total liabilities divided by total liabilities plus total equity which at the reporting date was 111% (2019: 132%) as the restructure of the Company strengthened the balance sheet.

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

Post balance sheet events

The Company made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021. Further details are provided in Note 29.

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 developments

The Company continues to trade under the supervision of Kroll (formerly Duff & Phelps) to ensure that the obligations of the CVA are met. The Company has made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.

The wider Wellesley Group is undertaking a corporate simplification exercise to consolidate its trading activities into the main trading entity, being the Company. Following the transfer of shares and extinguishment of intercompany assets and liabilities from Cloverleaf 374 and Cloverleaf 375 Limited, these entities will be dissolved.

The company will continue to support its subsidiary Cloverleaf 376 Limited in servicing the loan book and will seek further opportunities to generate such revenue as part of a new syndicated lending strategy. The company, and the wider Wellesley group has no plans to raise retail funding and will instead redeploy its capital directly, leveraging existing borrower relationships and syndicated lending partners. The Company aims to continue to grow enduring relationships with high quality borrowers which will enable the Company to build a robust and sustainable loan portfolio.

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.

Principal risks and uncertainties (continued)
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.

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. At the reporting date, the Company did not have any external loans outstanding, although as the new strategy is implemented this risk will become apparent once more.

Reputational risk
The Group had a high level of sensitivity to reputational risks as the Company is currently trading under a CVA, and this may inhibit the ability of the company to raise financing for some time and affect the Company's ability to source and manage borrower relationships. A failure by the Company to meet its obligations under the CVA could have a material impact on the ability of the Company to continue to trade.

Operational and people risk
Following the restructure, the Company has materially reduced staff numbers and overheads. It therefore has a high dependency on a few key individuals which if not retained could disrupt the operations of the Company.

Liquidity Risk
The Company is exposed to the liquidity risk arising from the requirement to fund its operations and meet its obligations under the CVA. Following the restructuring of the Company, it no longer as access to historic sources of funding from retail investors, and therefore fund-raising capabilities are limited leveraging its assets to the institutional market and asset disposal.

The Company monitors its forward cash flow position regularly; however, it could potentially have difficulty in meeting its obligations 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 not a breach of obligations when the loan is outside of contractual terms, albeit the development would be delayed which would increase financing costs and ultimately reduce credit quality.

The new lending strategy of the Company is focused on direct, syndicated lending that does not include a forward funding obligation and therefore liquidity risk will diminish as the loan book evolves through new vintages of lending.

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
Since late 2019, the outbreak of a respiratory disease referred to as the COVID-19 was first detected in China and this has since 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. COVID-19 has since been determined a pandemic.

The Company continues to monitor the situation and the impact it may or may not have on operations. The UK government has said that businesses can now return to normal working and social patterns, although this remains subject to continuous review. If tighter control measure were initiated again, all citizens working outside of critical industries/functions could be told to stay at home. The Company and the Company's critical outsourced service providers have been operating successfully remotely since 2020.

The main risks arising from the Company's financial instruments are detailed in note 26.

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.

Andrew Turnbull
Director
Approved by order of the Board on 30 September 2021

WELLESLEY FINANCE LIMITED

Report of the Director
for the year ended 31 December 2020

The Director presents the Strategic Report, Directors' Report and the Financial statements of Wellesley Finance Limited for the year ended 31 December 2020. The directors of the Company during the year were:

Andrew Turnbull
Garret Graham the Earl of Cowley (Resigned on 06 April 2021)

Results and dividends
The Company's profit after tax for the year was £24.2m (2019: a loss of £17.6m).

The director does not recommend the payment of a final dividend (2019: £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 2 to 7 in the Strategic report.

Future developments
The Company continues to trade under the supervision of Kroll (formerly Duff & Phelps) to ensure that the obligations of the CVA are met. The Company has made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.

The company will continue to support its subsidiary Cloverleaf 376 Limited in servicing the loan book and will seek further opportunities to generate such revenue as part of a new syndicated lending strategy. The company, and the wider Wellesley group has no plans to raise retail funding and will instead redeploy its capital directly, leveraging existing borrower relationships and syndicated lending partners. The Company aims to continue to grow enduring relationships with high quality borrowers which will enable the Company to build a robust and sustainable loan portfolio.

Post balance sheet events
The Company has made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021. Further details are provided in Note 29.

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
As outlined in the Strategic Report on pages 2 to 7, following the recent restructure, the Company is trading under the supervision of Kroll (formerly Duff & Phelps) to ensure that the obligations of the CVA are met. The Company has made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.

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 Director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. which supports the Director's view that the Company will continue to operate as a going concern. In doing so, the Director is satisfied that its subsidiary Cloverleaf 376 Limited ("C376") will continue to support the Company for the foreseeable future, and therefore his assessment of the Company as a going concern is based on this presumption.

Notwithstanding the above assessment, the Director recognises that C376 is reliant upon the successful work out of the loan book in C376. Whilst steady progress has been made throughout the CVA period, at the time of the publication of these financial statements, a degree of uncertainty remains in this regard.

Going concern (continued)
Following the CVA and loan book payments made in December 2020 and June 2021, £26.1m of the £57.9m of payment obligations have been met by the Company and C376 on time and in full. The remaining obligations are expected to be fulfilled, primarily funded by the repayment of loans before the end of the current year. The Director is aware through preparing liquidity forecasts that there are uncertainties regarding incoming cash flows, and these have become concentrated on a smaller number of loans as the loan book has been worked out, which in turn limits the funding contingencies available.

The Director is confident that the Company and C376 could withstand delays to the repayment of loans by restructuring or refinancing loans and other assets to navigate periods of near term liquidity stress. Such actions could provide an immediate cash injection to the Group and secondly, could transfer the borrowers need for further funding, thereby enabling the Company to redeploy capital into commercially favourable lending under the new strategy.

At the reporting date, the Company had a negative net asset value of £2.6m (2019: negative £26.8m). This deficit is expected to be recovered through: (i) the issuance of £10.2m of preferred shares to the compromised creditors who elected to be issued with preferred shares rather than receive a cash distribution; (ii) the origination of new loans under the new lending strategy outlined in the CVA; (iii) servicing fees from Cloverleaf 376 Limited for the management of the loan book, and; (iv) dividends from the Company's subsidiary Cloverleaf 376 Limited following the work out of the loan book after its obligations under the loan book sale have been met.

The improving profitability of the Company and the wider group affords the group a considerable buffer to weather the potential costs associated with any remediation of stress which has seldom been available previously. Accordingly, the Director continues to adopt the going concern basis in preparing the annual report and financial statements.

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.

Auditor

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.

It is proposed to reappoint MHA MacIntyre Hudson as auditor at the Annual General Meeting.

Andrew Turnbull
Director

Approved by the Board of Directors and signed on behalf of the Board on 30 September 2021.

Opinion

We have audited the financial statements of Wellesley Finance Limited (the 'Company') for the year ended 31 December 2020, which comprise the Statement of 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 UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinion 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 Report 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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or in the Directors' Report.

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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 directors 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 directors 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Enquiry of the entity staff in compliance functions to identify any instances of non-compliance with laws and regulations;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias;
- Reviewing minutes of meetings of those charged with governance and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' 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 Auditors' 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 our audit work, for this report, or for the opinions we have formed.

Rakesh Shaunak FCA (Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson, Statutory Auditor
London
United Kingdom
Date: 30 September 2021

WELLESLEY FINANCE LIMITED

Statement of Comprehensive Income
for the year ended 31 December 2020

	Notes	2020	2019
		£'000	£'000
Interest income	5	4,970	10,946
Interest expense	6	(3,824)	(5,415)
Net interest income		**1,146**	**5,531**
Fee and commission income	7	1,014	3,677
Fee and commission expense	7	(863)	(1,819)
Net fee and commission income		**151**	**1,858**
Other fee income	8	1,462	739
Total income		**2,759**	**8,128**
Loss on derivatives and other financial instruments at fair value through profit or loss		(91)	(215)
Total operating income		**2,668**	**7,913**
Administrative expenses	9	(3,115)	(7,072)
Impact of derecognition of creditor liabilities	23	37,485	-
Other expenses	22	(12,823)	(18,479)
Profit/(loss) before tax		**24,215**	**(17,637)**
Income tax charge	12	-	(1)
Profit/(loss) after taxation		**24,215**	**(17,638)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**24,215**	**(17,638)**

The results above are from continuing activities.

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 34 form an integral part of these financial statements.

WELLESLEY FINANCE LIMITED

Statement of Financial Position
as at 31 December 2020

	Notes	2020	2019
		£'000	£'000
Assets			
Non-current assets			
Loans and advances to customers	13	-	23,197
Investment in listed shares	15	7,511	-
		7,511	**23,197**
Current assets			
Cash and cash equivalents	16	325	3,351
Loans and advances to customers	13	63	51,699
Derivative financial assets	17	-	34
Other receivables	19	15,307	5,221
Total assets		**23,206**	**83,502**
Liabilities			
Current liabilities			
Trade and other payables	20	659	12,529
Interest-bearing loans and borrowings	21	-	21,939
Compromised creditors	23	25,173	-
		25,832	**34,468**
Non-current liabilities			
Interest-bearing loans and borrowings	21	-	75,875
Total liabilities		**25,832**	**110,343**
Net assets		**(2,626)**	**(26,841)**
Equity			
Share capital	24	50	50
Retained earnings		(2,676)	(26,891)
Total equity		**(2,626)**	**(26,841)**

These financial statements were approved by the Board of directors on 30 September 2021 and were signed on its behalf by:

Andrew Turnbull
Director
Company number 08331511

The notes on pages 18 to 37 are an integral part of these financial statements.

WELLESLEY FINANCE LIMITED

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	**50**	**(26,891)**	**(26,841)**
Total comprehensive income for the year			
Profit for the year	-	24,215	24,215
Other comprehensive income	-	-	-
Total comprehensive loss for the year	**-**	**24,215**	**24,215**
Balance at 31 December 2020	**50**	**(2,676)**	**(2,626)**

	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	-	(17,638)	(17,638)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	**-**	**(17,638)**	**(17,638)**
Balance at 31 December 2019	**50**	**(26,891)**	**(26,841)**

The notes on pages 18 to 37 are an integral part of these financial statements.

WELLESLEY FINANCE LIMITED

Statement of Cash Flows
for the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Profit/(loss) before taxation	24,215	(17,637)
Adjustments for non-cash items:		
Amortisation of intangible assets	-	38
Fair value adjustment following restructure of company	(37,485)	-
Interest expense on loans and borrowings	3,824	5,415
Loss/(gain) on derivatives and other financial instruments at fair value	34	(620)
Impairment losses on inter-company balances	1,881	13,164
Recognition of compromised creditors	25,173	-
Write-off of loans and advances	9,480	195
Loss on translation of foreign currency assets	4	108
	27,126	**663**
Adjustments for working capital items and loans & advances:		
Increase in other assets	(11,967)	(888)
(Decrease)/increase in other liabilities	(11,870)	4,449
Decrease/(increase) in operating assets	19,213	(5,116)
Net cash flows generated from/(used in) operating activities	**22,502**	**(892)**
Cash flows from investing activities		
Purchase of listed bonds	-	(375)
Investment in listed shares	(7,511)	-
Sale of portions of loans and advances	-	10,007
Net cash (used in)/generated from investing activities	**(7,511)**	**9,632**
Cash flows from financing activities		
Proceeds from interest-bearing loans and borrowings	474	11,999
Repayment of interest-bearing loans and borrowings	(15,810)	(15,292)
Interest payment on loans and borrowings	(2,677)	(3,848)
Net cash used in financing activities	**(18,013)**	**(7,141)**
Net (decrease)/increase in cash and cash equivalents	**(3,022)**	**1,599**
Cash and cash equivalents at the start of the year	3,351	1,781
Foreign currency revaluation of cash balances	(4)	(29)
Cash and cash equivalents at the end of the year	**325**	**3,351**

The notes on pages 18 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 in England and Wales. The Company's registered number is 08331511 and registered office at 483 Green Lanes, London, England, N13 4BS.

2 Basis of preparation

2.1 Accounting basis

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and with the Companies Act 2006, as applicable to companies reporting under international accounting standards. The financial statements have been prepared on the historical cost convention except where otherwise stated in the accounting policies.

The comparative period is the year ended 31 December 2019.

The presentational and functional currency of the financial statements is Pound Sterling and amounts have been rounded to the nearest £1,000.

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

New standards and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period beginning on 1 January 2020 have no impact on the disclosures or on the amounts reported in these financial statements.

At the date of approval of these financial statements, the standards and interpretations which were in issue but not yet effective that have not been applied in these financial statements are set out below.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current were issued in January 2020 and are effective for the financial year beginning on 1 January 2023 subject to EU endorsement. The amendments clarify that the classificat1on of liabilities as current or non-current should be based on the rights, in existence at the end of the reporting period, to defer settlement by at least twelve months and not on expectations about whether an entity will exercise these rights.

Amendments to IAS 16 Property, Plant and Equipment were issued in May 2020 and are effective for the financial year beginning on 1 January 2022 subject to EU endorsement. The amendments prohibit the deduction from the cost of an item of property, plant, and equipment of any proceeds from selling items produced while bringing that asset into operation and clarify that these proceeds (and the corresponding costs of production) are recognised in profit or loss.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets were issued in May 2020 and are effective for the financial year beginning on 1 January 2022 subject to EU endorsement. The amendments clarify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2 were issued in August 2020 and are effective for the financial year beginning on 1 January 2021. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and corresponding disclosure requirements.

2.2 New accounting standards (continued)

The Director does not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the financial statements of the Company in future periods.

2.3 Going concern

As outlined in the Strategic Report on pages 2 to 7, following the recent restructure, the Company is trading under the supervision of Kroll (formerly Duff & Phelps) to ensure that the obligations of the CVA are met. The Company has made all the contributions due to compromised creditors in the CVA on time and in full during June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.

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 Director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. which supports the Director's view that the Company will continue to operate as a going concern. In doing so, the Director is satisfied that its subsidiary Cloverleaf 376 Limited ("C376") will continue to support the Company for the foreseeable future, and therefore his assessment of the Company as a going concern is based on this presumption.

Notwithstanding the above assessment, the Director recognises that C376 is reliant upon the successful work out of the loan book in C376. Whilst steady progress has been made throughout the CVA period, at the time of the publication of these financial statements, a degree of uncertainty remains in this regard.

Following the CVA and loan book payments made in December 2020 and June 2021, £26.1m of the £57.9m of payment obligations have been met by the Company and C376 on time and in full. The remaining obligations are expected to be fulfilled, primarily funded by the repayment of loans before the end of the current year. The Director is aware through preparing liquidity forecasts that there are uncertainties regarding incoming cash flows, and these have become concentrated on a smaller number of loans as the loan book has been worked out, which in turn limits the funding contingencies available.

The Director is confident that the Company and C376 could withstand delays to the repayment of loans by restructuring or refinancing loans and other assets to navigate periods of near term liquidity stress. Such actions could provide an immediate cash injection to the Group and secondly, could transfer the borrowers need for further funding, thereby enabling the Company to redeploy capital into commercially favourable lending under the new strategy.

At the reporting date, the Company had a negative net asset value of £2.6m (2019: negative £26.8m). This deficit is expected to be recovered through: (i) the issuance of £10.2m of preferred shares to the compromised creditors who elected to be issued with preferred shares rather than receive a cash distribution; (ii) the origination of new loans under the new lending strategy outlined in the CVA; (iii) servicing fees from Cloverleaf 376 Limited for the management of the loan book, and; (iv) dividends from the Company's subsidiary Cloverleaf 376 Limited following the work out of the loan book after its obligations under the loan book sale have been met.

The improving profitability of the Company and the wider group affords the group a considerable buffer to weather the potential costs associated with any remediation of stress which has seldom been available previously. Accordingly, the Director continues to adopt the going concern basis in preparing the annual report and financial statements.

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.

3.1 Interest income and expense (continued)

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 acted as an agent on behalf of Peer to Peer ("P2P") customers who had purchased portions of loans and where these P2P customers were 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 (continued)

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 31 December 2020 year end provision of £15.96m was increased to £17.85m.

Financial Liabilities

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.

<u>Current tax</u>

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.

<u>Deferred tax</u>

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.

3.11 Taxation (continued)

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.

4 Critical accounting estimates and judgements (continued)

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. 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

4 Critical accounting estimates and judgements (continued)

Balances owed by group undertakings

The Company is owed £32.0m (2019: £20.2m) from other group companies. Of this amount, £20.7m (2019: £14.1m) 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 impair amounts owed from entities that have no further means to repay. Therefore, the original 31 December 2020 year end provision of £15.96m was increased to £17.85m.

Acting as agent

The Company acted 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 Interest income

	2020	2019
	£'000	£'000
Interest income	**4,970**	**10,946**

The Company derives its' interest income from providing development loan finance to its customers. The interest is calculated on an effective interest rate ("EIR") basis in accordance with IFRS 9 and recognised in the period in which it occurs.

6 Interest expense

The Company incurs its' interest expense interest bearing loans and borrowings. The interest is calculated on an effective interest rate ("EIR") basis in accordance with IFRS 9 and recognised in the period in which it occurs. Interest expense consists of cost of capital raised by the Company in order to fund its operating activities. During the reporting period the Company incurred a cost of £3.82m (2019: £5.41m) on Mini-Bond funding.

7 Fee and commission income/expense

	2020	2019
	£'000	£'000
Income on loans and advances to customers - agent	1,014	3,677
Fee expense on Peer-to-Peer capital - agent	(863)	(1,819)
	151	**1,858**

8 Other fee income

	2020	2019
	£'000	£'000
Servicing fees	496	-
Exit fee	734	556
Other fee income	232	183
	1,462	**739**

Servicing fees consist of loan servicing fee charged to Cloverleaf 376 Limited for £496k (2019: 'nil'). Exit fees relates to loans and advances to customers for £734k (2019: £556k).

9 Administrative expenses

	Note	2020 £'000	2019 £'000
Staff costs	10	609	1,121
Loss on disposal of intangible assets	18	-	38
Advertising & marketing		495	615
Legal & professional		901	734
Loss on translation of foreign currency assets		4	108
Management charge	27	890	3,906
Other administrative expenses		216	550
		3,115	**7,072**

10 Staff costs

Staff cost have been allocated per department as follows:

Wages and salaries	2020 £'000	2019 £'000
Central functions	-	40
Credit operations	138	356
Loan origination	374	561
	512	**957**
Social security costs	71	122
Pension costs	17	29
Employee benefits	9	13
	609	**1,121**

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

	2020	2019
Credit operations	3	4
Loan origination	3	5
	6	**9**

The Company's Directors are remunerated by Wellesley Group Limited, the parent of the Company.

11 Auditor's remuneration

	2020 £'000	2019 £'000
Auditor's remuneration for audit of financial statements	**69**	**214**

12 Taxation

	2020	2019
	£'000	£'000
Current tax:		
UK corporation tax at 19% (2019: 19%)	-	-
Total current tax	**-**	**-**
Deferred tax:		
Current year	-	1
Adjustment in respect of previous periods	-	-
Origination and reversal of temporary differences	-	-
Total deferred tax	**-**	**1**
Total tax charge/(credit)	**-**	**1**
Reconciliation of tax charge:		
Profit on ordinary activities before tax	24,215	(13,683)
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2019: 19%)	4,601	(2,600)
Effects of:		
Adjust closing deferred tax to average rate of 19.00%	-	119
Expenses not deductible	838	6
Income not taxable for tax purposes	(7,122)	-
Tax rate changes	(128)	(135)
Effects of group relief/ other reliefs	-	26
Deferred tax not recognised	1,811	2,585
Adjustments to tax charge in respect of previous periods - deferred tax	-	-
Temporary differences not recognised	-	(1)
Total tax charge/(credit)	**-**	**1**
Deferred tax assets		
Provision at start of period	-	1
Additional charge to Statement of profit and loss for the period	-	(1)
Provision at end of period	**-**	**-**

Deferred tax assets in respect of accumulated tax losses have not been recognised as the Company is unable to determine whether those losses will be relieved with any certainty. The Company has accumulated losses of £27,989k (2019: £6,396k).

13 Loans and advances to customers

	2020	2019
	£'000	£'000
Gross loan receivables	104	87,290
Less provisions	(41)	(12,394)
	63	**74,896**
Amounts falling due:		
Within one year	63	51,699
In the second to fifth year inclusive	-	23,197
	63	**74,896**

14 Provisions on loans and advances to customers

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

	2020	2019
	£'000	£'000
At the beginning of the year	12,394	8,440
Charge for provisions	41	3,954
Derecognition of loan book	(12,394)	-
At the end of the year	**41**	**12,394**

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

15 Investment in listed shares

No. of shares	Listed entity	MtM price per share (pence)	Book value (£'000)
4,463,511	Urban Exposure plc	0.6800	3,035
17,796,173	Time Finance plc	0.2515	4,476
			7,511

At the reporting date, the Company purchased following listed shares from its' related parties only for the purpose of proprietary trading:

(i) Transfer of 4,463,511 shares in Urban Exposure plc from Cloverleaf 374 Limited at sale price of 68p
(ii) Transfer of 17,796,173 shares in Time Finance plc from Cloverleaf 375 Limited at sale price of 25.15p

Transfer price was determined by the Mark-to-market (MtM) rate prevailing at the reporting date.

16 Cash and cash equivalents

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents ae in respect of these Statement of Financial Position amounts:

	31 December 2020	31 December 2019
	£'000	£'000
Cash at bank & in hand	325	3,351

17 Derivatives held for risk management

The Company used 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. All such contracts were closed during the reporting period.

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

		2020		2019
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Euro-GBP forward currency contracts	-	-	**34**	-

Amounts included in the statement of comprehensive income as a result of maturity of these instruments are analysed as follows:

	2020
	£'000
Derecognition of hedge instrument at maturity	34
Fair value loss on derecognition on hedge instrument	57
Total charge to the profit & loss	**91**

18 Intangible assets

	Database software 2020	Database software 2019
	£'000	£'000
Cost		
At the beginning of the year	-	91
Additions	-	-
Disposals	-	(91)
At the end of the year	-	-
Amortisation		
At the beginning of the year	-	52
Amortisation charge for the year	-	-
Disposals	-	(52)
At the end of the year	-	-
Net book value		
At the beginning of the year	-	**38**
At the end of the year	-	-

19 Other receivables

	2020	2019
	£'000	£'000
Other receivables	138	506
Prepayments	1,099	56
Amounts owed by group undertakings	14,070	4,233
Amounts owed by affiliate entity	-	426
	15,307	**5,221**

The amounts owed by group undertakings of £14m (2019: £4.2m) are net of an expected credit loss of £17.85m (2019: £15.96m), following an assessment of the recoverability of those inter-company balances now that the CVA is effective.

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

20 Trade and other payables

	2020	2019
	£'000	£'000
Trade payables	-	3,503
Other taxation and social security costs	-	204
Accruals and deferred income	169	284
Other payables	7	3,381
Amounts owed to group undertakings	483	5,157
	659	**12,529**

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

21 Interest-bearing loans and borrowings

	2020	2019
	£'000	£'000
At the beginning of the year	97,814	99,540
Issued in the year	-	11,802
Redeemed in the year	(15,810)	(15,292)
Net accrued interest movement	1,147	1,567
Transaction costs, net	474	197
Derecognition of interest-bearing loans and borrowings under CVA	(83,625)	-
At the end of the year	**-**	**97,814**
Due within one year	-	21,939
Due over one year	-	75,875
	-	**97,814**

No interest-bearing loans and borrowings are outstanding at the reporting date following the Company's Voluntary Arrangement ("CVA").

22 Other expenses

	2020	2019
	£'000	£'000
Impairment of loans and advances to customers	(41)	3,954
Write-off of loans and advances to customers	9,480	195
Write-off of group intercompany debt	882	0
Write-off of affiliate company debt	621	1,166
Impairment of inter-company assets	1,881	13,164
	12,823	**18,479**

23 Compromised creditors

	2020	2019
	£'000	£'000
Derecognition of interest-bearing loans and borrowings under CVA	(83,625)	-
Amounts payable to secured creditors from loan book sale	21,257	-
Compromised creditor obligations created under CVA	25,005	-
Impact of derecognition of non-critical trade creditor liabilities	(122)	-
Impact of derecognition of creditor liabilities	37,485	-
	-	-
Breakdown of Compromised Creditors		
Obligation to issue preferred shares	10,191	-
Obligation to make cash distributions	14,814	-
	25,005	-
Obligation to make cash distributions to non-critical trade creditors	168	-
	25,173	-

The issuance of preferred shares is expected to occur before the end of December 2021. See further details in note 2.3.

24 Share capital

	2020	2019
	£'000	£'000
50,000 issued ordinary shares at £1 each (2019: 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.

25 Financial instruments

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

2020	Loans and receivables	Fair value through profit or loss	Assets/liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers	63	-	-	**63**
Cash and cash equivalents	-	-	325	**325**
Investment in listed shares	-	7,511	-	**7,511**
Other assets	-	-	1,237	**1,237**
Amounts owed by group undertakings	-	-	14,070	**14,070**
Total financial assets	63	7,511	15,632	**23,206**
Compromised creditors	-	-	25,173	**25,173**
Other payables	-	-	176	**176**
Amounts owed to group undertakings	-	-	483	**483**
Total financial liabilities	**-**	**-**	**25,832**	**25,832**

2019	Loans and receivables	Fair value through profit or loss	Assets/liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers	74,896	-	-	**74,896**
Cash and cash equivalents	-	-	3,351	**3,351**
Derivative financial assets	-	34	-	**34**
Other assets	-	-	562	**562**
Amounts owed by group undertakings	-	-	4,233	**4,233**
Amounts owed by affiliate entity	-	-	426	**426**
Total financial assets	**74,896**	**34**	**8,572**	**83,502**
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**

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.

25 Financial instruments (continued)

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:

2020	**Level 1** £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial assets				
Investment in listed shares	7,511	-	-	7,511
Total financial assets	**7,511**	**-**	**-**	**7,511**

2019	**Level 1** £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial assets				
Loans and advances to customers	-	-	74,896	**74,896**
Derivative financial assets	-	34	-	**34**
Total financial assets	**-**	**34**	**74,896**	**74,930**

26 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
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.

The Company operates a 5-category system where loans are rated 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.

26 Risk management (continued)

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

	2020	2019
IFRS 9 Staging Categorisation	£'000	£'000
Loans in Stage 1	-	22,169
Loans in Stage 2	-	43,281
Loans in Stage 3	-	21,430
Loans and advances to customers (Refer to note 13)	**-**	**86,880**

Loans and advances to customers are generally structured under a 'rolled-up' interest basis meaning that the loan interest is added to value of the loan, rather than being paid regularly ("serviced"). There were no overdue amounts as at reporting date last year.

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

	2020	2019
	£'000	£'000
Financial assets		
Cash and cash equivalents	325	3,351
Loans and advances to customers	63	74,896
Other receivables	15,307	5,221
Derivative financial assets	-	34
	15,695	**83,502**
Contractual commitments	14,982	52,033
Total credit risk	**30,677**	**135,535**
Financial liabilities		
Interest-bearing loans and borrowings	-	97,814
Total counterparty risk	**-**	**97,814**

Contractual commitments represent the cash distribution obligations created under the CVA.

Liquidity risk
The Company is exposed to the liquidity risk arising from the requirement to fund its operations and meet its obligations under the CVA. Following the restructuring of the Company, it no longer as access to historic sources of funding from retail investors, and therefore fund-raising capabilities are limited leveraging its assets to the institutional market and asset disposal.

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

	2020	2019
Amounts falling due:	€'000	€'000
Within one year	**-**	**1,726**

	2020	2019
Amounts falling due:	£'000	£'000
Within one year	**-**	**1,497**

26 Risk management (continued)

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

At 31 December 2020	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Accruals and deferred income	169	-	-	-
Other payables	7	-	-	-
Amounts owed to group undertakings	483	-	-	-
Obligation to make cash distributions to compromised creditors	-	14,982	-	-
	659	**14,982**	**-**	**-**

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	-	-	-
Amounts owed to group undertakings	5,157	-	-	-
Interest-bearing loans and borrowings	4,750	17,190	13,738	62,137
	17,278	**17,190**	**13,738**	**62,137**

The Company monitors its forward cash flow position regularly; however, it could potentially have difficulty in meeting its obligations 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 not a breach of obligations when the loan is outside of contractual terms, 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.

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 loans and advances of the Company are typically secured against.

The interest rate on the total value of the loan portfolio prior year of £74,896k was 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 – 'Nil' (2019: +/-£110,621)

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. The Company has no exposure to floating rate instruments, although the Company's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly.

26 Risk management (continued)

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 are immaterial so not hedged. Historically, the Company has managed this risk through the use of cross-currency derivatives and closely monitors foreign currency exposure. The table below sets out the Company's exposure to foreign exchange risk:

Assets and liabilities in euros at sterling carrying values	**2020**	**2019**
	£'000	£'000
Loans and advances to customers	-	63
Cash and cash equivalents	11	1
Net position	**11**	**64**

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%: +£216 (2019: +£1,316)
- Euro weakened by 2%: (£208) (2019: (£1,264))

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:

	2020	**2019**
	£'000	£'000
Share capital	50	50
Retained earnings	(2,676)	(26,891)
Common equity capital	**(2,626)**	**(26,841)**
Interest-bearing loans and borrowings	-	97,814
Other capital	**-**	**97,814**
Total capital base	**(2,626)**	**70,973**

The Company is not subject to external regulatory capital requirements.

27 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:

	2020	**2019**
	£'000	£'000
Amounts owed by fellow subsidiaries	9,349	4,875
Amounts owed by parent	1,303	1,176
Amounts owed by ultimate parent	21,263	14,147
Amounts owed by affiliate entity	-	426
Amounts owed to fellow subsidiaries	(483)	(5,157)
	31,432	**15,467**

27 Related party transactions (continued)

Wellesley Secured Finance plc is a related party to the Company as the Company was 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. There were no amounts owed at 31 December 2020, balances owed prior year were split between two amounts:

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

These amounts were written off during the reporting period (see note 22).

Included in trade payables in note 20 prior year was an amount of £3,416k 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 2020 was £890k (2019: £3,906k).

In addition, Wellesley Finance Limited redeemed £301k (2019: invested £375k) in the Wellesley Secured Finance plc Secured Note Programme ("WSF Secured Note Programme") during the period and continues to hold £104k (2019: £405k) principal investment at the reporting date. Details are below:

	2020	**2019**
Investment by Wellesley Finance Limited in WSF Secured Note Programme	£'000	£'000
Opening balance	425	45
Advances	-	375
Repayments	(321)	-
Interest owed	-	5
	104	**425**

28 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 483 Green Lanes, London, England, N13 4BS.

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

29 Events after the statement of financial position date

Non-adjusting post balance sheet events

The Company made all the contributions due to compromised creditors in the CVA on time and in full. In total, the Company paid £3.74m of cash distributions to the Compromised Creditors on 22 June 2021 and continues to expect to fulfil the remaining obligations of the CVA by December 2021.