WELLESLEY GROUP INVESTORS LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2018

Company Number 08478238

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Report and financial statements
for the year ended 31 December 2018

Contents

Page:

WELLESLEY GROUP INVESTORS LIMITED

Officers and advisers

Directors

Andrew Turnbull	
Graham Wellesley	
Mark Winlow	(Appointed 3 July 2018)
James Wilson	(Appointed 3 July 2018)
Anthony Fane	(Resigned 12 January 2018)
Michael Hatchard	(Resigned 28 February 2018)
David Godfrey	(Resigned 1 September 2018)
Peter Stott	(Resigned 1 September 2018)
Lorenzo Naldini	(Resigned 2 September 2019)
Ian McKenzie	(Appointed 24 April 2018, resigned 30 November 2019)

Registered Office
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Registration Number
08478238

Auditors
Haysmacintyre LLP, 10 Queen Street Place, London, EC4R 1AG

Bankers
Barclays, Leicester, Leicestershire, LE87 2BB
Lloyds, Threadneedle Street, London, EC2R 8AY

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

Introduction

These financial statements for the year ended 31 December 2018 were not approved until now, late 2020, which clearly represents a significant delay. The detailed reasons why this occurred are included in this strategic report, but it is worth briefly summarising the issues so that it can frame the report for the reader.

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

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

Further details of the CVA and its impact on the Group are included on pages 5 and 6.

Financial review of the year ended 31 December 2018

Gross operating income for the year was £15.6m compared with the period to 31 December 2017 (as restated) of £20.5m. The cost of capital in relation to this income was £8.9m (2017: £9m).

Administration expenses have increased to £10.7m (2017: £9.3m), losses on forward foreign currency exchange contracts was £375k (2017: gain of £60k) and write-offs of pre-2016 lending strategy loans totalled £6.1m (2017: £275k).

The Group generated a loss before tax of £12.8m (2017: restated loss of £1.4m) for the year.

In keeping with our strategy of exiting the remaining loans originated under the initial lending strategy, there was also a write off of £6.1m against 6 legacy loans originated prior to the 2016 change in strategy, all 6 of which had previously had provisions applied.

Furthermore, IFRS 9, which was implemented on 1 January 2018, following the global financial crisis, changed provision reporting from an incurred credit loss model to an expected credit loss model. This reporting standard impacts the Group in that it is required to make a provision against loans that while not currently expected to suffer a credit loss, are deemed to have the potential for a loss given historical credit losses suffered in the business prior to the new strategy being introduced in 2016. As a result, in addition to the known credit losses, an additional potential credit loss of £344k (2017: £87k) has been provided within the 2018 figures in respect of other loans that management do not currently expect to suffer a loss and is solely an impact of the introduction of IFRS 9.

Following the completion of the previous audit, management identified some accounting errors that has led to the Group restating its comparative figures this year. Further details are provided in note 28, and the impact of the changes was to reduce the Net Asset Value of the Group as at 31 December 2017 from (£1.37m) to (£4.65m), a reduction of £3.3m.

Post balance sheet events

There have been a significant number of post-balance sheet events noted during the extended period between the year-end and the approval of the financial statements. These are detailed below:

1) Regulatory approvals

   On 15 February 2019, Wellesley & Co Limited ("Wellesley & Co") obtained full FCA approval and facilitated the marketing of bond products to retail investors and managing existing P2P clients.

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

2) COVID outbreak
During late 2019 and early 2020, the outbreak of a respiratory disease referred to as the coronavirus was first detected in China this has now been spread globally. On 30 January 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the outbreak a "public health emergency of international concern". This issue remains live at the date of the approval of the financial statements. Further details are included within the "Business continuity risk" section on page 8.

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

The facility terms included both interest and fees being payable and was secured on some of the assets within the Group, 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. At the date this report was approved, the share price was in excess of the average purchase price meaning that there is currently an unrealised profit on the shares, although it does not currently cover all of the financing costs.

The terms and use of the facility were subsequently renegotiated to allow the Group to make use of the funds that had not been invested for lending activities. The facility was repaid in full in June 2020.

In May 2020, the Directors identified a further strategic and time sensitive opportunity on which it acted. Accordingly, on 15 May 2020 a £3.7m non-controlling strategic investment was made in 1pm PLC ("1 PM") totalling 19.99% of the issued share capital. While this is held as a long-term investment, the share price has fallen from the 21p the shares were purchased at, to 16p at the time of writing.

1pm is a non-bank specialist finance provider listed on the AIM market of the LSE who operate a hybrid model by providing funding for UK SMEs as a lender and arranging funding for both UK SMEs and consumers as a broker. The purchase was made from operating cash and did not require any borrowing.

4) Initial delays in the approval of the audited financial statements
As discussed above, and detailed more fully in note 28, following the completion of the 2017 audit several accounting errors were identified. The correction of these errors took a significant amount of time to work through and resolve and it was not until early 2020 that the financial statement corrections had all been made.

During this same time period of late 2019 and early 2020, Wellesley Finance suffered a significant timing delay in the repayment of one of its material development loans. While Wellesley Finance ultimately received full repayment of all amounts due, and no event of default was called by it, the delay impacted the operations of the business. While Wellesley Finance's liquidity forecasts deal with, and model, various stressed scenarios, this delay was longer than could have been expected and went beyond the normal types of delays ever experienced in Wellesley Finance's past. After utilising the various liquidity levers documented in the Strategic report, Wellesley Finance was still required to take further action and so for a period of 31 days in March and April 2020, delayed repayments to 262 clients (2% of the total client 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.

As part of this process of delaying some payments, the regulated entity, Wellesley & Co notified the FCA. This then triggered significant dialogue from April 2020 onwards and, amid the COVID-19 crisis and various other firms also making liquidity decisions, resulted in the FCA requesting that Wellesley & Co sign a Voluntary Requirements Notice (a "VREQ"). This is a voluntary and temporary measure to restrict regulated activity. The regulated entity, Wellesley & Co signed the VREQ in September 2020. Full details can be seen on the FCA register.

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, Wellesley completed (in May 2020) 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 over a relatively short number of years was possible. The BOD was completed with input from Duff & Phelps who also reviewed the forecasts and assumptions made therein.

Having resolved the liquidity delay and having completed the BOD, it was expected that the financial statements would be approved in June 2020.

5) Further delays in the approval of the audited financial statements
On 18 June 2020, the FCA published CP20/8 requesting input from the industry on proposed changes to policy. This included specific restrictions of marketing activities in relation to the distribution of certain Listed Bonds. These bonds included those that Wellesley Finance planned to issue under the recently approved listed bond programme, and those issued by an out-of-group entity, Wellesley Secured Finance PLC ("Wellesley Secured Finance") who used the proceeds to buy portions of loans from Wellesley Finance.

Therefore, if the proposed changes were to become policy, this would have a material impact on Wellesley Finance's ability to raise new funding. The Board, based on forecasts prepared using an alternative fundraising approach, remained of the view that the Group was a going concern but noted that this approach would not deliver the required improvement of the Group's NAV over an acceptable timeline. As such, a review of the Group's future strategy was required.

Understandably the auditors wanted to await the outcome of this review prior to issuing their audit report on the financial statements.

6) Amendments to balances owed by Directors
On 30 July 2020, the Board Oversight Committee (BOC) approved, in principle, to amend the terms of the loans made to the Directors. The first loan documented below remains subject to a formal legal process and at the time that these financial statements were approved had not been finalised. Accordingly, the amounts disclosed above have not been restated.

The loan issued by Wellesley Bridging Company Limited to Graham Wellesley, issued for proper commercial reasons as part of a subscription of preference shares in the Group, is to be restated to reflect more accurately the terms upon which the loan was taken out by Mr Wellesley in 2016. The key changes are:

1) A reduction in the capital balance of £56,889, representing unauthorised fees that had been added to the loan without the agreement of Mr Wellesley. The original loan principal is now restated at £1.6m.

2) The terms of the agreement will be restated to reflect a 7% annual interest rate, which the Directors consider to be a comparable market rate. The previous rate used to calculate interest was 10% per annum.

3) The calculation of interest has also been restated to reflect the preference share methodology, which is now compounded annually instead of monthly.

If the amounts are to be restated as expected, the balance at 31 December 2018 would be amended from £2,074k to £1,864k, and the balance at 31 December 2017 would be amended from £1,878k to £1,742k. Income from the loan will also be reduced in 2018 and 2017 by £75k and £64k respectively.

The loan issued by the company to a director, Andrew Turnbull has been reclassified from a personal loan to a limited recourse business loan. The loan was connected to the initial issuance of shares to Mr Turnbull and was a component of his management incentive arrangement with the major shareholders of the company. Repayment of this loan will now be solely from the proceeds realised from the sale of the shares legally and beneficially owned by Mr Turnbull upon a future exit from the business. Accordingly, there are no changes to the amount due.

7) Restructuring the Group – CVA in Wellesley Finance- September 2020
Following a significant amount of work completed and professional advice taken, the difficult decision was made to enact a CVA within Wellesley Finance as this was considered to generate the best outcome for investors from the options available. While such an agreement is regrettable as it means that investors will not receive all amounts invested, it was necessary to ensure that investor returns could be maximised.

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

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

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

- Unsecured creditors were provided with the forecast returns of two scenarios; one based on the CVA being successful and the other based on it being unsuccessful. The unsuccessful scenario assumes that the Group would enter administration, while the successful scenario assumes that the Group would continue in business, restructure its liabilities and provide a higher return to investors than would be achieved in administration.
- The premium offered in the scenario based on the CVA being successful takes two forms. The first being a cash offer at a premium of circa 10p in the £, over the estimated amount available in administration. The second offer being a premium of circa 25p in the £ over the estimated amount available in administration, via the offering of equity in Wellesley Finance. The equity would be in the form of preferred shares and would return value via buy back of the shares on target dates.
- The net impact of this on Wellesley Finance and the Group would be a reduction in investor liabilities and an increase in the NAV. The exact change will not be known until later in the year since investors need to vote on whether they wish to accept the cash or the equity offer, the accounting treatment of these offers being different. There are also different cash offers based on the status of the investment product which further complicate matters. The forecast is that an all cash offer would reduce investor liabilities by circa £45m against a reduction of circa £33m via the equity offer.
- Non-investor liabilities are also party to the CVA.

Formal approval of the CVA was obtained on 14 October 2020 with the vote having closed the day before.

The CVA can be challenged within 28 days of the above date. There are only 2 grounds on which a CVA can be successfully challenged and given the amount of legal and professional advice taken during the process, no successful challenge is anticipated by the directors of Wellesley Finance.

As well as the improvement to the net asset position of the Group highlighted above in respect of investor liabilities, the CVA, as a material non-adjusting post balance sheet event, could well have a negative impact on certain asset values in the Group. The amounts below are particularly at risk:

a) Intangible assets – They are currently valued at £1.3m in these financial statements and this will need to be reviewed in due course as to whether they still remain of value, or whether they relate to a discontinued/obsolete asset or legal entity.

b) Deferred tax asset – The asset is currently valued at £362k in these financial statements and is in respect of Wellesley & Co Limited. As part of the CVA, it may well be the case that the entity will be closed or restructured and may lead to there being an inability to realise the value of the asset. This will be reviewed in due course.

8) Other
On 30 August 2019, the Group entered into a lease extension on its current office premises, the terms of which are not materially different to the existing terms. Subsequently, in September 2020, notice was given to the landlord and the lease is due to terminated in January 2021.

Future strategy

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

Given Wellesley Finance is now no longer involved in the issuance of debt to the public, and in order to issue the Preferred Shares, it is in the process of re-registering as a private limited company and will become Wellesley Finance Limited. Re-registration is expected to occur shortly.

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

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

Principal risks and uncertainties

The principal risks to the Company are as follows:

Credit risk

As a loan participant, the Group is exposed to the credit risk of its borrowers. For each loan, the Group obtains a legal charge on the assets it is lending against. It is acknowledged that the property market is cyclical and that the Group 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 the overall stage of the property cycle.

Contractual commitments represent agreements entered into but not advanced as at 31 December 2018.

Collateral based on the underlying development asset is held in relation to secured loans. Total collateral in respect of loans and advances held at 31 December 2018 was £528m (2017: £594m). Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Group will consider including a provision in the financial statements.

Market risk

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

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

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

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

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

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

Liquidity Risk
The Group monitors its forward cash flow position regularly; however, it could potentially have difficulty in making its future drawdowns if several loans were to be delayed in repayment. This risk is mitigated by the fact that failure to fund the future drawdowns is unlikely to result in a breach of our obligations albeit the development would be delayed which would increase financing costs and ultimately reduce credit quality. However, it should be noted that the Group does have an unfunded forward liability on its development facility future drawdowns which it expects to fund with the repayment of loans which are due to be repaid.

Liquidity forecasts are reviewed by the Liquidity Committee at least weekly, and more frequently if required, and so enables an informed decision-making process on potential liquidity shortfalls. The following options are some that have been utilised over the past year.

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

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

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

In addition to the above examples, the Group also has other options available to it, such as the sale of investments. The Group holds two external investments in ordinary shares of Urban Exposure and 1PM. The current value of those investments, based on their quoted bid prices, are £14.7m and £3m respectively on the date of approval of these financial statements. Since both companies are quoted, it should be possible to realise cash subject to liquidity in the shares.

The investment in Urban Exposure is particularly relevant here given that it is currently enacting a wind-down strategy to return cash to shareholders. On 22 September 2020, it announced that expected shareholder returns from the wind down strategy to be within a range of between 72p-78p per ordinary share (current bid value is 68.5p at the date of approval of these financial statements) and provided an estimate that 90% of proceeds would distributed within a year.

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

Unlike more traditional lending businesses that can estimate future inflows of cash with real certainty, the development lending industry is far more likely to see variations in timing. As a result, the Group will always be subject to liquidity risk. The regular committee meetings, and the varying levers that can be pulled have ensured that, to date, there has always been sufficient liquidity in the business to meet its obligations. A move towards syndicated institutional lending will also reduce risk in this respect as the Group would not be responsible for future drawdowns. This is discussed in more detail in the "Future strategy" section above.

Risk of potential fraud
As an originator of loan assets, the Group 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 Group 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.

Brexit Risk
As a UK-based business, the Group is particularly exposed to any domestic economic downturn which could affect existing and prospective borrowers and the value of their development projects. The United Kingdom's vote to leave the European Union and subsequent notice under Article 50 of the Treaty on European Union has presented uncertainty to the UK economy. Whilst the precise nature of the risks and uncertainties that the Group may face following the United Kingdom's departure from the European Union cannot be predicted, the Group has identified a concentration of potential risks relating to its lending activities. These risks are primarily focussed upon the construction process involved when its developers are building properties and the residential property values upon which project viability is underpinned.
Brexit may cause increased costs in labour and materials from the European Union. However, as Wellesley appoint their own independent surveyor to each project, any costs will be reviewed and then stressed internally prior to funding the deal. More detailed underwriting of costs would be expected including analysis of the developer's supply chain. In addition, the Group might focus on working more with contractors with UK based supply chains.

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

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

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

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

Liquidity risks are partly offset by an expected corresponding reduction in requested drawdowns.

Further options available to the business include:

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

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

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

Approach to Risk Management

The Group manages risk through its Enterprise Risk Management Framework (ERMF) where the strategy of the Group is translated in to key risks, which are them monitored and reported to ExCo and Board. The Governance, Risk & Compliance team (GRC) also supports best practice and compliance in risk management and reporting.

Committees

At 31 December 2018, the Board consisted of two independent non-executive directors, one non-executive and three executive directors, with scheduled meetings held 6 times a year. The Board is responsible for promoting the long-term success of the Group, and it does this by:

- determining the business strategy and related risk appetite; and
- holding the executive to account for the performance of the business.

The Board is also responsible for:

- effective risk management processes to enable delivery of the strategy and business performance within the approved risk appetite and risk control framework; and
- the system of internal controls, to provide effective and efficient operations, internal financial controls and compliance with applicable laws and regulations.

At each Board meeting the Directors discuss strategic and business matters, financial, operational, risk and governance issues and other relevant business items that arise. Board sub-Committees provide oral reports from the Chairs of each sub-Committee at the next board meeting.
The Board is supported by four key committees which have been established over the last eighteen months:

- Risk & Audit Committee
- Remuneration Committee
- Executive Committee
- Asset and Liability Committee

The Risk & Audit Committee is responsible for the development and maintenance of the Group's risk management framework, and that strategy, principles, policies and resources are aligned to the Group's risk appetite, as well as to regulatory and industry best practices in respect of both prudential and conduct risks. It is also responsible for proper reporting of the financial performance of the Group and for meeting the auditors and reviewing the reports from the auditors in relation to the financial statements. The Risk and Audit Committee is chaired by an independent non-executive.

The Remuneration Committee is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their and staff remuneration. The Remuneration Committee is chaired by an independent non-executive.

The Executive Committee is responsible for presenting and agreeing options to deliver the strategy to the Board. Once agreed it is accountable for the delivery of the agreed plans and to report on progress and variances to plan. During the year Dagmar Petersen (General Counsel) was a member of the company's Executive Committee in addition to the Executive Directors. In her executive capacity, she also attended most Group Board meetings.

The Asset and Liability Committee is responsible for various items such as: decisions on investment product offerings; the allocation of funding sources to certain assets; oversight of asset and liability management; oversight of liquidity position; and oversight of the FX risk position.

Key Performance Indicators ("KPIs")

The KPIs of the business at 31 December 2018 were:

- Gross Loan Book – £152m (2017: £171m) of which £88m (2017: £66m) is held on the statement of financial position and £64m (2017: £105m) is held off the statement of financial position. The portion of gross loan book not recognised on the statement of financial position represents assets owned by Peer-to-Peer investors and Wellesley Secured Finance. The Gross Loan Book decreased by £19m primarily as a high volume of redemptions were received during the year, which were not replaced by new loans.

- Net interest margin ("NIM") – NIM on development loans is calculated as total income divided by gross loan book (as above). There was a decline in the NIM to 4.29% from 6.60% in the prior year.

- Impairment of loans and advances, net – credit of £0.9m (2017: restated charge £6.7m) and loss before tax % - 48.5% (2017: restated profit before tax % + 6.3%) on Group's development loans.

The KPIs represent important measures for the directors to monitor the performance of the business. The directors review and consider these KPIs monthly, and in board meetings, to assess the performance.

Mark Winlow - Chairman
15 October 2020

Chief Executive's statement
for the year ended 31 December 2018

In September 2020, we announced that we had suspended all payments to investors as we looked to restructure following a strategic review conducted with the support of specialist restructuring advisors.

After seven years of trading, liquidity issues have been brought to a head by the COVID-19 pandemic and proposed changes in the regulatory environment which meant that Wellesley could not raise funding through the issue of listed bonds on Euronext Dublin (formerly the Irish Stock Exchange). As such, we needed to restructure the business to recapitalise and address these challenges accordingly.

Following professional advice, Wellesley Finance proposed a CVA to its creditors, which offered an alternative to an otherwise disorderly wind-down and likely insolvency which would result in an inferior outcome for all investors. The CVA was designed to provide Wellesley Finance the opportunity to stabilise the business, restructure its balance sheet and provide a better outcome for every investor.

This announcement is clearly very disappointing news for all our investors. On behalf of management, I want to express how sorry we are that we have had to take these measures as it impacts all our loyal investors.

Wellesley has financed over 3,600 much needed new homes across the UK since we launched in 2013. However, in 2020 the business has come under increasing pressure from the two unforeseen reasons previously mentioned. With Wellesley no longer able to raise funds via its listed bond investment programme, it meant that the business model was no longer viable in the new climate. This is because it presents a funding gap between the completion of loans with borrowers returning funds and the continued drawdown on more recent loans by developers to finish building developments projects.

We proactively engaged with specialist restructuring advisors to ensure we reached a conclusion that best serves our creditors. The steps that have been taken include an intra-group transfer of the loan book to ensure that it could continue to be serviced thereby protecting, insofar as possible, the interests of the investors. This transfer has already generated a better outcome for asset backed investors of the Group. In addition to this intra-group transfer, Wellesley will continue with its progress in delivering a resolution which, with the benefit of a CVA, will provide an improved outcome for our every investor of the Group which continues to remain our priority.

Graham Wellesley
Chief Executive Officer
15 October 2020

The Directors present the Strategic Report, Directors' Report and the financial statements of the Wellesley Group Investors Limited (the "Group") for the year ended 31 December 2018. The directors of the Group during the year were those listed on page 1.

Results and dividends

The Group loss for the year before taxation was £12.8m (restated 2017: loss of £1.4m). The Company loss for the year was £3.4m (2017: loss of £1.3m). The directors do not recommend the payment of a dividend (2017: £Nil).

Principal activities

The Group is engaged in the provision of medium-term finance for mid-market property developers in England and Wales. The Group benefits from the peer-to-peer platform operated by Wellesley & Co Limited which enables Wellesley Finance to provide financing to borrowers.

Strategic report

Principal risks and uncertainties and information on the Group's risk management policies are included in the Strategic report on page 2 to 10.

Principal risk and uncertainties

The principal risks and uncertainties of the Group are disclosed on pages 6 to 9 in the Strategic report. The Directors consider the most material of these to be Reputational and Liquidity risk given the recently approved CVA and the impact of COVID on the timing of future cashflows, which in a Development Lending business can already be considered as volatile. As discussed on page 7, the latter is actively managed by the Group's regular Liquidity Committee meetings.

Future developments

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

Post balance sheet events

There have been a significant number of post-balance sheet events noted during the extended period between the year-end and the time the financial statements were approved. These are detailed on pages 2-6, and in note 17 on page 37.

Going concern

The Group's business activities, together with the factors likely to affect its future development and its financial position are described in the Strategic report. Of particular importance is the recent approval of the CVA, referred to on pages 5-6, as well as the Liquidity risk, as highlighted on pages 7-8, and mitigation strategies that would then be applied.

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

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

- The CVA may be successfully challenged in the 28-day period;
- As the Group can no longer raise external funding from retail investors there is a risk that it will not have sufficient liquidity resources to fund the remaining development loans or indeed the payments due under the CVA. The loan book has contracted over the last year and this reduces the number of levers the Group can pull to mitigate liquidity issues, as the loan portfolio is now made up of a small number of larger loans; and

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

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

The Directors have forecasted that they would need to either liquidate a substantial portion of the Group's holding in Urban Exposure at its current market value or refinance an existing development loan prior to December 2020 in order to be able to make the first payment of £8.1m. Additionally the Group is reliant on there being no material delays in receiving £10.5m in loan redemptions in the same time period.

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

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

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

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

The forecasts do not account for this loan sale.

If the Group was unable to liquidate the holding in Urban Exposure in line with the forecasted cashflows, then it could also affect the Group's ability to meet CVA liabilities as they fall due.

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

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

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

Current Directors' biographies

Graham Wellesley - Group Chief Executive Officer
Graham is an experienced Chief Executive Officer and entrepreneur within the financial services sector. Most of Graham's professional experience has been based in the City of London within retail and institutional capital markets trading. Graham's first experience as a Chief Executive was for IFX Markets Limited, a company that he founded in 1993 which was one of the first online institutional and retail providers of foreign exchange trading.

Graham led IFX Markets Limited through the process of becoming a public company quoted on the Main Market of the London Stock Exchange. Graham successfully sold his stake in the business in 2002. Having gained considerable experience in leading a listed company, in 2004 Graham took on his second CEO position for an online trading firm, ODL Group Limited, which he grew from being a small organisation of 15 staff to an international brokerage for foreign exchange trading with regulated subsidiaries in Chicago and Tokyo (among others).

In 2010, Graham merged the firm with Forex Capital Markets as part of a take public strategy resulting in its flotation on the New York Stock Exchange forming the largest global provider of retail foreign exchange trading.

Since the financial crisis, Graham has applied his experience in dealing with retail and institutional investors to the alternative lending market. Prior to establishing the Group, Graham was responsible for the creation of an agricultural lending fund which specialised in financing farm machinery called Prestige Asset Management Limited where Graham held the position of chairman and held a significant shareholding.

Andrew Turnbull - Group Managing Director
Prior to co-founding the Group, Andrew's career was within the City of London working within the retail and institutional online trading industry. Andrew's roles have included being Marketing Director for ODL Group Limited and latterly Senior Vice-President for Forex Capital Markets Limited which saw him specialise in providing retail and institutional foreign exchange trading platform services to major banks within the United Kingdom and Europe.

Andrew is responsible for managing all commercial aspects for the Company and the Group which includes origination of new lending, relationship management, retail marketing and customer service.

Mark Winlow - Independent Non-Executive Chairman, Wellesley Group
As well as holding the chair of the Group, Mark also chairs insurer Ageas and employee services provider, Personal Group. He is a director at reinsurer TransRe and Starling Bank. Mark has over 35 years' experience in financial services in the UK and internationally, including as managing director of Zurich's UK Personal Lines business. As a consultant, Mark was a partner in KPMG, AT Kearney and EY.

James Wilson - Independent Non-Executive Director, Wellesley Group
James has 30 years Financial Services experience as an Approved Person across many sectors including banking, insurance and investment management. He has a strong legal, regulatory and risk background having spent time at the Law Society of Scotland and the Financial Services Authority. James also has extensive Board and Governance experience across small and larger organisations including RBS and Standard Life and has managed regulatory relationships and successfully navigated regulatory inspections. He is a member of the Personal Finance Society (DipPFS) and Fellow of the Chartered Institute for Securities and Investments (FCSI) and possesses the Financial Times Non-Executive Director Diploma and an MBA.

Statement of Directors' responsibilities for the year ended 31 December 2018

Statement of directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standard ("IFRS") as adopted by the European Union and applicable law.

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

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

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

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

Auditors
Each of the persons who is a director at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

As discussed in the Strategic Report, the Corporate Group intended to list its new listed bond on the Irish stock exchange in the coming months. The impact of this is that the Corporate Group becomes classified as a "Public Interest Entity" (a "PIE").

On discussion with our current auditor, Haysmacintyre LLP, we were advised that, following a risk review of the firm's public interest entity audits, a decision had been made to audit only certain PIE clients. As a result, they have communicated to us that they will not be seeking reappointment.

They further confirmed that there were no matters that needed to be brought to the attention of members or creditors.

As a result, the Company has appointed MHA Macintyre Hudson LLP to act as its new auditor for the year ended 31 December 2019.

Graham Wellesley
Director

Approved by the Board of Directors and signed on behalf of the Board on 15 October 2020.

Independent auditor's report to the members of Wellesley Group Investors Limited

Opinion
We have audited the financial statements of Wellesley Group Investors Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and Company Statement of Cash Flows and the related notes, including a summary of significant accounting policies and notes to the financial statements, for the year ended 31 December 2018. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

• give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
• have been properly prepared in accordance with IFRSs as adopted by the European Union; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

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

Material uncertainty related to going concern
We draw attention to note 2.4 on pages 23 and 24 and note 1.2 on page 54 which details various events and conditions, including a possible challenge of the CVA, that management have taken into account in their going concern assessment. As stated in these notes, these events and conditions indicate that material uncertainties exist that may cast significant doubt on the ability of the Group and the parent company to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and parent company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter
We draw attention to note 28 of the financial statements, which describes the impact of prior year restatements identified during the course of the preparation of these financial statements and the risk that adjustments identified and recognised in the year ended 31 December 2017 may relate to prior periods or vice versa. Our opinion is not modified in this respect.

Emphasis of matter – balances owed by group undertakings
We draw attention to note 8 of the parent company financial statements, in respect of balances owed by group undertakings, which describes the assessment of the recoverability of those balances under various scenarios and the calculation of the expected credit loss. Our opinion is not modified in this respect.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the group and parent company 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
• the information given in the strategic 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
• the parent company 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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 15, 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.

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 auditor's* report.

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

Simon Wilks (Senior Statutory Auditor)
For and on behalf of Haysmacintyre LLP, Statutory Auditors

10 Queen Street Place
London
EC4R 1AG

15 October 2020

WELLESLEY GROUP INVESTORS LIMITED

Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2018

Consolidated statement of profit & loss	**Notes**	**2018**	**2017**
		£	**£**
			Restated
Interest income		7,872,060	5,898,494
Interest expense		(4,686,021)	(2,637,477)
Net interest income		3,186,039	3,261,017
Fee and commission income		6,916,639	13,875,306
Fee and commission expense		(4,191,235)	(6,397,427)
Net fee and commission income		2,725,404	7,477,879
Other fee income		774,013	709,773
Total income		**6,685,456**	**11,448,669**
Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss		(374,631)	60,120
Total operating income		**6,310,825**	**11,508,789**
Administrative expenses	6	(10,688,102)	(9,326,074)
Write off of loans and advances to customers		(6,055,603)	(274,788)
Depreciation and amortisation	15, 16	(835,481)	(378,391)
(Loss)/profit from operations		**(11,268,361)**	**1,529,536**
Bank interest		10,439	1,142
Share of (loss)/profit in joint venture arrangement	13	(1,579,123)	786,236
Exceptional income/(expense)	28	-	(3,699,685)
Loss before tax		**(12,837,045)**	**(1,382,771)**
Income tax credit/(charge)	10	144,380	(678,722)
Loss after taxation - attributable to the equity holders of the Company		**(12,692,665)**	**(2,061,493)**

	Notes	**2018**	**2017**
		£	**£**
Consolidated statement of other comprehensive income			
			Restated
Loss after taxation - attributable to the equity holders of the Company		**(12,692,665)**	**(2,061,493)**
Impairment of loans and advances to customers (net)	12	903,327	(6,715,328)
Tax on other comprehensive income		-	-
Total other comprehensive income/(loss) for the year, net of taxation		**903,327**	**(6,715,328)**
Total comprehensive (loss) for the year, net of taxation		**(11,789,338)**	**(8,776,821)**

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 22 to 49 form an integral part of these financial statements.

WELLESLEY GROUP INVESTORS LIMITED

Consolidated statement of financial position
as at 31 December 2018

	Notes	2018	2017	1 January 2017
		£	£	£
Assets			Restated	Restated
Non-current assets				
Property, plant and equipment	15	107,656	188,019	256,683
Intangible assets	16	1,302,318	1,468,734	830,341
Loans and advances to customers	11	23,437,309	24,635,369	25,331,400
Deferred tax asset		362,250	224,566	859,714
Investment in joint venture	13	2,470,665	4,049,788	6,527,105
		27,680,198	**30,566,476**	**33,805,243**
Current assets				
Cash and cash equivalents		4,156,903	13,976,343	34,882,722
Loans and advances to customers	11	56,249,541	32,133,090	2,495,372
Other assets	17	4,843,069	5,062,761	4,645,392
Total assets		**92,929,711**	**81,738,670**	**75,828,729**
Liabilities				
Current liabilities				
Other liabilities	18	7,245,107	7,366,993	21,545,380
Interest-bearing loans and borrowings	19	25,577,617	10,193,492	3,930,717
		32,822,724	**17,560,485**	**25,476,097**
Non-current liabilities				
Interest-bearing loans and borrowings	19	73,962,595	68,258,418	45,794,116
Derivative financial liabilities	14	585,858	571,895	433,823
Total liabilities		**107,371,177**	**86,390,798**	**71,704,036**
Net assets		**(14,441,466)**	**(4,652,128)**	**4,124,693**
Equity				
Share capital	20	4,596,075	3,176,152	3,176,152
Share premium	21	2,852,577	2,272,500	2,272,500
Retained earnings		(21,890,118)	(10,100,780)	(1,323,959)
Total equity		**(14,441,466)**	**(4,652,128)**	**4,124,693**

The notes on pages 22 to 49 are an integral part of these financial statements.

These financial statements were approved by the Board of directors on 15 October 2020 and were signed on its behalf by:

Graham Wellesley

Director
Company number 08478238

WELLESLEY GROUP INVESTORS LIMITED

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 January 2018 as restated	**3,176,152**	**2,272,500**	**(10,100,780)**	**(4,652,128)**
Total comprehensive income for the year				
Loss for the year	-	-	(12,692,665)	(12,692,665)
Other comprehensive income	-	-	903,327	903,327
Total comprehensive income for the year	**-**	**-**	**(11,789,338)**	**(11,789,338)**
Transactions with owners recorded directly in equity:				
Issue of shares	1,419,923	580,077	-	2,000,000
Total contributions by and distributions to owners	**1,419,923**	**580,077**	**-**	**2,000,000**
Balance at 31 December 2018	**4,596,075**	**2,852,577**	**(21,890,118)**	**(14,441,466)**

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 January 2017 as previously stated	**3,176,327**	**2,272,500**	**(4,192,924)**	**1,255,903**
Prior period adjustments	(175)	-	2,868,965	2,868,790
Balance at 1 January 2017 as restated	**3,176,152**	**2,272,500**	**(1,323,959)**	**4,124,693**
Total comprehensive income for the year				
Loss for the year	-	-	(2,061,493)	(2,061,493)
Other comprehensive loss	-	-	(6,715,328)	(6,715,328)
Total comprehensive income for the year	**-**	**-**	**(8,776,821)**	**(8,776,821)**
Balance at 31 December 2017 as Restated	**3,176,152**	**2,272,500**	**(10,100,780)**	**(4,652,128)**

The notes on pages 22 to 49 are an integral part of these financial statements.

WELLESLEY GROUP INVESTORS LIMITED

Consolidated statement of cash flows for the year ended 31 December 2018

	2018 £	2017 £ Restated
Cash flows from operating activities		
Loss before taxation	(12,837,045)	(1,382,771)
Adjustments for non-cash items:		
Amortisation of intangible assets	753,475	296,990
Depreciation of fixed assets	82,006	81,401
Interest expense on loans and borrowings	4,533,810	2,653,581
Net expense from derivatives and other financial instruments at fair value through profit or loss	13,963	138,072
Write off of loans and advances	6,055,603	274,788
Foreign currency revaluation of loans and advances	64,677	159,996
Share of loss/(profit) in joint venture arrangement	1,579,123	(786,235)
	245,612	**1,435,822**
Adjustments for working capital items:		
Increase in other assets	(8,115,014)	(4,127,089)
Increase/(decrease) in other liabilities	8,501,964	(10,454,702)
Increase in operating assets	(32,928,982)	(40,591,900)
Net cash flows utilised by operating activities	**(32,296,420)**	**(53,737,869)**
Cash flows from investing activities		
Purchase of intangible assets	(587,059)	(935,384)
Purchase of listed bonds	(5,000)	(225,000)
Sale of portions of loans and advances	4,596,717	4,926,072
Net cash generated by investing activities	**4,004,658**	**3,765,688**
Cash flows from financing activities		
Proceeds from issue of shares	2,000,000	-
Proceeds from interest-bearing loans and borrowings, net of transaction costs	36,390,475	34,245,129
Repayment of interest-bearing loans and borrowings	(16,511,538)	(5,044,050)
Interest payment on loans and borrowings	(3,441,588)	(3,426,205)
Net cash generated by financing activities	**18,437,349**	**25,774,874**
Net (decrease) in cash and cash equivalents	**(9,854,413)**	**(24,197,307)**
Cash and cash equivalents at the start of the year	13,976,343	38,474,864
Foreign currency revaluation of cash balances	34,973	(301,214)
Cash and cash equivalents at the end of the year	**4,156,903**	**13,976,343**

The notes on pages 22 to 49 are an integral part of these financial statements.

1 Nature of operations

The Group (together, "Wellesley Group Investors Limited", (the "Group"), Wellesley Finance PLC, Wellesley & Co Limited, Wellesley Secured Funding Limited, Wellesley Group Limited, Provision Funding Limited, Wellesley Lease Finance Limited, Wellesley Investment Services Limited, Wellesley Servicing Group Limited, Wellesley Property Lending Limited, Wellesley Bridging Co Limited, Wellesley Capital Limited, Wellesley Loans Limited and Wellesley Nominees Limited") is a provider of funding to medium-sized developers who are focused on building mid-market homes in England and Wales while offering savers, who are willing to take capital risk, the opportunity to make returns through transparent investment products.

2 Basis of preparation

2.1 Accounting basis

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

The comparative period is the year ended 31 December 2017 and has been restated as documented in note 28.

The presentational currency of the financial statements is Pound Sterling.

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

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

The preparation of the financial statements 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 estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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.

In accordance with IAS 1 "Presentation of Financial Statements" paragraph 40A (Change in accounting policy, retrospective restatement or reclassification), a third statement of financial position has been prepared for the beginning of the preceding period (as at 1 January 2017). This is required because of the retrospective restatement of the financial statements due to identified errors. Full details regarding these restatements can be found in note 28.

2.2 New accounting standards

New standards and amendments

The following standards and amendments are new and applied for the first time for the annual reporting year commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments

The standard includes new requirements in respect of the recognition and measurement, impairment and derecognition of financial assets as well as general hedge accounting. One of the biggest changes sees an expected credit loss model replacing the previous incurred loss model. The standard became effective for accounting periods beginning on or after 1 January 2018.

The Group has adopted the accounting standard as required using the full retrospective approach for transition and as a result it has been necessary to make a retrospective adjustment for comparative purposes. This is further detailed in note 28.

IFRS 15 Revenue from contracts with customers
IFRS 15 Revenue replaced IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. There has been no material impact from the adoption of IFRS 15 Revenue from Contracts with Customers.

2.3 Future accounting developments
The following standards and amendments to existing standards have been published, but in some cases, not yet adopted by the EU. They are mandatory from the financial period beginning on or after the effective dates shown below.

- IFRS 16 – Leases. Applicable for financial years beginning on or after 1 January 2019. IFRS 16 was endorsed by the EU in October 2018.

- Annual improvements to IFRS Standards 2015-2017 cycle - Annual periods beginning on or after 1 January 2019. Earlier application is permitted.

IFRS 16 Leases
IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The Group holds operating leases for office premises and other small items such as office printers. On review of IFRS 16 in respect of these leases, there will not be a material impact on the Group statement of profit and loss or Group statement of financial position on a net basis.

2.4 Going concern
The financial statements are prepared on a going concern basis as the Directors are satisfied, with the CVA having been passed, that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements).

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

- The CVA may be successfully challenged in the 28-day period;

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

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

In making the assessment, based on the CVA being enacted, the Directors have considered a wide range of information relating to present and future conditions, including the likely statement of financial position after the CVA, future projections of profitability, cash flows and the revised strategy of the business. The Directors have also reviewed the planned mitigating responses to liquidity issues as discussed in the Strategic report. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The Directors are satisfied that the liquidity of the Group will be met by the redemption of development loans and the realisation of its investment in Urban Exposure, where a wind down strategy is in place which should return significant proceeds (current value at the date of approval of these financial statements is £14.7m) to the Group over the course of the next year. Full details of the Liquidity risk of the Group and its mitigation strategies can be found on pages 7 and 8.

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

The Directors have forecasted that they would need to either liquidate a substantial portion of the Group's holding in Urban Exposure at its current market value or refinance an existing development loan prior to December 2020 in order to be able to make the first payment of £8.1m. Additionally the Group is reliant on there being no material delays in receiving £10.5m in loan redemptions in the same time period.

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

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

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

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

The forecasts do not account for this loan sale.

If the Group was unable to liquidate the holding in Urban Exposure in line with the forecasted cashflows, then it could also affect the Group's ability to meet CVA liabilities as they fall due.

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

Whilst the Directors are strongly of the view that they will be able to redeem the current loan book as well as liquidate holdings in Urban Exposure in a timely manner to ensure payment of said CVA, a material uncertainty in this respect which could lead the Group to cease to be a going concern. If that were the case, then the financial statements would be required to be prepared on an alternative basis.

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 Group 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 amortised cost of the loan asset. Where a loan asset becomes impaired, the amortised cost of the loan is reduced by the expected loss for income calculation purposes.

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

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

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

Interest income and expense presented in the statement of profit and loss include interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis.

The Group recognises its portion of each sterling denominated loan and advance originated on its statement of financial position. The remainder of each sterling denominated loan relates to the funding from P2P investors and Wellesley Secured Finance. Interest income and interest expense is recognised on these balances as outlined above. Any principal funded by P2P investors or purchased by Wellesley Secured Finance is derecognised further described in note 3.5.

3.2 Fees and commission income

For the remaining portion of originated loans and advances, the Group acts as an agent on behalf of Peer to Peer ("P2P") customers who are fully exposed to the risks and rewards of these loans and advances. As a result, the Group 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 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 Group 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 Group 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 Group's accounting policy is as follows:

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

3.6 Financial instruments

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

The Group 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 Group 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 Group 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.

The Company have used a 5-scenario approach in its assessment of its ECL.

The criteria that the Group uses to determine that there is objective evidence of impairment loss include, but not limited to, the following:

- delinquency in contractual payments of principal or interest;
- cash flow or other trading difficulties experienced by the borrower;
- initiation of bankruptcy proceedings; and
- change in market value of assets

The Group's portion of the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit and loss.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for impairment in the statement of profit and loss. Allowances for impairment losses are released at the point when it is deemed that, following a subsequent event, the risk has reduced such that an allowance is no longer required.

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 Group 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 Group 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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group 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 Group 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 in to 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 Group 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 Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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

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

3.11 Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary difference, the carry forward of unused tax credits and any unused losses. Such assets and liabilities are not recognised if they arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries except where the Group 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 Group intends to settle its current tax assets and liabilities on a net basis.

3.12 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset or costs incurred in bringing the asset to use. Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost of each asset to realisable values on a straight-line basis over its expected useful life, as follows:

- Leasehold improvements – five years
- Furniture, fixture, fittings and equipment – five years
- Computer equipment – five years

3.13 Intangible assets

Expenditure on database software relates to the customer relationship management ("CRM") software which enables customers to invest in investment products marketed by the Group. Expenditure on software development relates to the development of Pegasus Investment Matching ("PIM"), a bespoke matching and treasury monitoring tool which is expected to be used for the P2P products and for the existing bonds, mini bonds and listed bonds.

Expenditure on intangible assets is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the asset in a manner that will generate future economic benefits and can reliably measure the costs to complete the development.

Intangible assets are amortised on a straight-line basis in the statement of profit and loss over its useful life from the date it is available for use. The estimated useful life of intangible assets is five years.

3.14 Equity instruments

The Group 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 Group 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 Group, or where the instrument will or may be settled in the Group's own equity instruments but includes no obligation to deliver a variable number of the Group's own equity instruments then it is treated as an equity instrument. Accordingly, the Group'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.

3.15 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 Investment in Group undertakings

Investments in Group undertakings are initially recognised at cost. At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the Group estimates the investment's recoverable amount. The investment is valued at its recoverable/realisable value.

5 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 the most important to the portrayal of the Group'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 Group to determine how to classify its loan assets in the context of its business model for managing those loans assets to generate cash flows. This business model assessment is determined at a level that reflects how the group of loan assets (rather than intentions for an individual loan) are managed together to achieve its business objective. While this may need determining at the entity level (as the Group may have several business models for differing assets), the Group 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 Group considers it integral to the business objective that portions of originated loans are sold to other parties, while also maintaining a portion for itself. This is because it facilitates the opening of differing funding sources, which is important given that Peer-to-Peer funding is in run-off. Therefore, without the differing funding streams that Wellesley open by selling portions of its loans, it would not be able to meet its business objectives.

IFRS 9 gives further guidance on areas that might help support a business model assessment and include: (a) the level at which the business model is assessed and reported; (b) the risks affecting performance of the business model and how they are managed; and (c) how managers of the business are compensated. In addition to these, the Group 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 Group 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 Group'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 Group's experience it that there is only a movement in the fair value of the loan where there is a risk that Group 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 do not 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.

Loan impairment provisions
Loan portfolios across the Group are reviewed on at least a monthly basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of the impairment loss is management's best estimate of losses incurred in the portfolio at the statement of financial position date and reflects expected future cash flows based on both the likelihood of a loan or advance being written off and the estimated loss on such a write-off. Please see note 11 for details of the provisions carried forward at the year end and the amounts charged as an expense and released during the year.

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

The following is deemed to require a certain level of judgement by the directors:

Intangible assets
The Group assesses its intangible assets at least annually for evidence of impairment. Where the asset is under development, the Group considers whether it is reasonably likely to complete the asset and bring it to use. The Group also considers if the asset will generate sufficient economic benefit over the and above the current carrying value of the asset. See note 16 for details.

6 Administrative expenses

	Note	2018	2017
		£	£
Staff costs	7	4,775,524	5,133,916
Advertising & marketing		2,662,532	692,064
Direct office costs		623,664	648,125
Legal & professional		522,202	510,683
IT costs		519,044	436,514
Irrecoverable VAT		66,485	232,412
FX on foreign currency loans		64,677	159,996
Other administrative expenses		1,453,974	1,512,364
		10,688,102	**9,326,074**

Office lease expense of £189,823 (2017: £226,064) is included in direct office costs. All other administrative expenses are incurred in the normal course of business.

7 Staff costs

Staff cost have been allocated per department as follows:

	2018	2017
	£	£
Wages and salaries		
Central functions	1,122,975	1,230,508
Directors	1,047,583	1,031,179
Operations	962,660	1,025,603
Credit operations	345,876	561,743
Loan origination	660,041	733,430
	4,139,135	**4,582,463**
Social security costs	490,109	487,947
Pension costs	104,279	30,609
Employee benefits	42,001	32,897
	4,775,524	**5,133,916**

Staff numbers have been allocated per department as follows at the year-end:

	2018	2017
Central functions	2	3
Directors	3	3
Operations	31	29
Credit operations	5	6
Loan origination	6	8
	47	**49**

8 Directors' emoluments

	2018	2017
	£	£
Directors' emoluments	1,071,583	1,033,679
	1,071,583	**1,033,679**

The emoluments for the highest paid director during the year was £357,438 (2017: £351,458). Directors' emoluments include a defined contribution pension expense of £24,000 (2017: £2,500) payable on behalf of 3 (2017: 2) directors.

9 Auditor's remuneration

	2018	2017
	£	£
Auditor's remuneration for audit services provided:		
Wellesley Group Investors Limited	57,774	86,703
Subsidiary entities	136,498	113,768
	194,272	**200,471**

10 Taxation

	2018	2017
	£	£
		Restated
Current tax:		
UK corporation tax at 19% (2017: 19.26%)	-	-
Adjustments in respect of prior years	(6,697)	-
Total current tax	**(6,697)**	**-**
Deferred tax:		
Current year	(277,224)	618,167
Origination and reversal of temporary difference	33,553	16,216
Adjustment in respect of previous periods	-	91,982
Effect of changes in tax rate	105,988	(47,643)
Total deferred tax	**(137,683)**	**678,722**
Total tax (credit)/charge	**(144,380)**	**678,722**
Reconciliation of tax credit:		
Loss on ordinary activities before tax	**(12,837,045)**	**(1,382,771)**
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2017: 19.26%)	(2,439,039)	(266,322)
Effects of:		
Adjustments in respect of prior years	26,856	103,466
Expenses not deductible	460,335	21,407
Income not taxable	-	49,330
Tax rate changes	105,891	(68,683)
Effects of group relief/other relief	(55,568)	(64,603)
Amounts not recognised	1,754,722	1,033,442
Additional deduction for R&D expenditure	-	(129,315)
Non qualifying asset	2,423	-
Total tax (credit)/charge	**(144,380)**	**678,722**

	2018	2017
	£	£
		Restated
Deferred tax assets		
Provision at start of period	(224,563)	(903,296)
Adjustment in respect of prior years	33,552	91,959
Effect of changes in tax rate	-	12,182
Additional charge to Statement of profit and loss for the period	(171,239)	574,589
Provision at end of period	**(362,250)**	**(224,566)**

The Group forecasts a future return to profitability, and therefore considers the deferred tax asset as being recoverable.

11 Loans and advances to customers

	2018	2017
	£	£
		Restated
Gross loan receivables	88,127,151	66,112,087
Less provisions	(8,440,301)	(9,343,628)
	79,686,850	**56,768,459**
Amounts falling due:		
Within one year	56,249,541	32,133,090
In the second to fifth year inclusive	23,437,309	24,635,369
	79,686,850	**56,768,459**

12 Provisions on loans and advances to customers

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

	2018	2017
	£	£
		Restated
At the beginning of the year	9,343,628	2,628,300
Charge for provisions	8,098,069	7,010,115
Write back of provisions	(9,001,396)	(294,787)
Total provision (credit)/charge for the year	**(903,327)**	**6,715,328**
At the end of the year	**8,440,301**	**9,343,628**

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

13 Investment in joint venture

	2018	2017
	£	£
Opening balance	4,049,788	3,263,552
Group share of profit of joint venture	(1,579,123)	786,236
	2,470,665	**4,049,788**

The primary activity of International Can Puig Building, Sociedad Limitada is the development of apartments in central Palma, Majorca. The registered address of International Can Puig Building, Sociedad Limitada is Avenida Alejandro Rossello 15 5E (07002), Palma de Mallorca, Balearic Islands.

The joint venture is accounted for based on the equity method of accounting under IFRS 11 Joint Arrangements. Summarised financial information in relation to the joint venture is presented below:

	2018	2017
	£	£
Current assets	5,296,047	13,345,928
Fair value adjustment	1,456,563	5,451,648
Total assets	**6,752,610**	**18,797,576**
Current liabilities	292,768	468,847
Non-current liabilities	1,518,511	10,229,151
Total Liabilities	**1,811,279**	**10,697,998**
Included in the above amounts are:		
Cash and cash equivalents	555,366	62,967
Current financial liabilities (excluding trade payables)	292,768	468,847
Non-current financial liabilities (excluding trade payables)	1,518,511	10,229,152
Net assets	**4,941,331**	**8,099,578**
Group share of net assets (50%)	**2,470,665**	**4,049,788**
(Loss)/profit from continuing operations	**(3,158,246)**	**1,572,472**
Group share of (loss)/profit from continuing operations (50%)	**(1,579,123)**	**786,236**

14 Derivatives held for risk management

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

		2018		2017
	Assets	Liabilities	Assets	Liabilities
	£	£	£	£
			Restated	Restated
Foreign exchange	-	585,858	-	571,895
	-	**585,858**	**-**	**571,895**

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

15 Property, plant and equipment

2018	Leasehold improvements £	Furniture, fixtures, fittings & equipment £	Computer equipment £	Total £
Cost				
At the beginning of the year	190,082	108,003	123,438	**421,523**
Additions	-	-	1,643	**1,643**
Disposals	-	-	-	-
At the end of the year	**190,082**	**108,003**	**125,081**	**423,166**
Amortisation				
At the beginning of the year	112,550	52,433	68,521	**233,504**
Amortisation charge for the year	37,118	21,499	23,389	**82,006**
Disposals	-	-	-	-
At the end of the year	**149,668**	**73,932**	**91,910**	**315,510**
Net book value				
At the beginning of the year	**77,532**	**55,570**	**54,917**	**188,019**
At the end of the year	**40,414**	**34,071**	**33,171**	**107,656**

2017	Leasehold improvements £	Furniture, fixtures, fittings & equipment £	Computer equipment £	Total £
Cost				
At the beginning of the year	176,080	111,985	120,721	**408,786**
Additions	14,002	(3,982)	2,717	**12,737**
Disposals	-	-	-	-
At the end of the year	**190,082**	**108,003**	**123,438**	**421,523**
Amortisation				
At the beginning of the year	74,767	32,241	45,095	**152,103**
Amortisation charge for the year	37,783	20,192	23,426	**81,401**
Disposals	-	-	-	-
At the end of the year	**112,550**	**52,433**	**68,521**	**233,504**
Net book value				
At the beginning of the year	**101,313**	**79,744**	**75,625**	**256,682**
At the end of the year	**77,532**	**55,570**	**54,917**	**188,019**

16 Intangible assets

2018	Database software	Software development	Total
	£	£	£
Cost			
At the beginning of the year	1,654,245	402,618	**2,056,863**
Additions	507,505	79,555	**587,060**
Disposals	-	-	-
At the end of the year	**2,161,750**	**482,173**	**2,643,923**
Amortisation			
At the beginning of the year	559,363	28,766	**588,129**
Amortisation charge for the year	584,726	168,750	**753,476**
Disposals	-	-	-
At the end of the year	**1,144,089**	**197,516**	**1,341,605**
Net book value			
At the beginning of the year	**1,094,882**	**373,852**	**1,468,734**
At the end of the year	**1,017,661**	**284,657**	**1,302,318**

2017	Database software	Software development	Total
	£	£	£
Cost			
At the beginning of the year	1,121,480	-	**1,121,480**
Additions	532,765	402,618	**935,383**
Disposals	-	-	-
At the end of the year	**1,654,245**	**402,618**	**2,056,863**
Amortisation			
At the beginning of the year	291,139	-	**291,139**
Amortisation charge for the year	268,224	28,766	**296,990**
Disposals	-	-	-
At the end of the year	**559,363**	**28,766**	**588,129**
Net book value			
At the beginning of the year	**830,341**	**-**	**830,341**
At the end of the year	**1,094,882**	**373,852**	**1,468,734**

17 Other assets

	2018	2017
	£	£
Other receivables	1,371,523	2,216,256
Prepayments	182,429	289,780
Balance owed by affiliate entities	1,093,093	560,555
Balance owed by directors	2,196,024	1,996,170
	4,843,069	**5,062,761**

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

On 30 July 2020, the Board Oversight Committee (BOC) approved, in principle, to amend the terms of the loans made to the Directors. The first loan documented below remains subject to a formal legal process and at the time that these financial statements were approved had not been finalised. Accordingly, the amounts disclosed above have not been restated.

The loan issued by Wellesley Bridging Company Limited to Graham Wellesley, issued for proper commercial reasons as part of a subscription of preference shares in the Group, is to be restated to reflect more accurately the terms upon which the loan was taken out by Mr Wellesley in 2016. The key changes are:

1) A reduction in the capital balance of £56,889, representing unauthorised fees that had been added to the loan without the agreement of Mr Wellesley. The original loan principal is now restated at £1.6m.
2) The terms of the agreement will be restated to reflect a 7% annual interest rate, which the Directors consider to be a comparable market rate. The previous rate used to calculate interest was 10% per annum.
3) The calculation of interest has also been restated to reflect the preference share methodology, which is now compounded annually instead of monthly.

If the amounts are to be restated as expected, the balance at 31 December 2018 would be amended from £2,074k to £1,864k, and the balance at 31 December 2017 would be amended from £1,878k to £1,742k. Income from the loan will also be reduced in 2018 and 2017 by £75k and £64k respectively.

The loan issued by the company to a director, Andrew Turnbull has been reclassified from a personal loan to a limited recourse business loan. The loan was connected to the initial issuance of shares to Mr Turnbull and was a component of his management incentive arrangement with the major shareholders of the company. Repayment of this loan will now be solely from the proceeds realised from the sale of the shares legally and beneficially owned by Mr Turnbull upon a future exit from the business. Accordingly, there are no changes to the amount due.

18 Other liabilities

	2018 £	2017 £
Trade payables	52,754	17,418
Other taxation and social security costs	460,095	465,376
Accruals and deferred income	1,163,069	1,305,765
Other payables	5,569,189	5,578,434
	7,245,107	**7,366,993**

19 Interest-bearing loans and borrowings

	2018 £	2017 £ Restated
At the beginning of the year (as restated)	78,451,910	50,039,561
Issued in the year	36,738,362	34,548,953
Redeemed in the year	(16,511,538)	(5,044,050)
Interest payable	1,209,366	(788,730)
Transaction costs, net	(347,888)	(303,824)
Total interest-bearing loans and borrowings at the end of the year	**99,540,212**	**78,451,910**
Due within one year	25,577,617	10,193,492
Due over one year	73,962,595	68,258,418
	99,540,212	**78,451,910**

The capital outstanding within Interest-bearing loans and borrowings is for Minibond £97,867,187 (2017: £72,217,885) and an Irish Listed ISA bond £nil (2017: £5,383,000). The Minibond is comprised of both secured and unsecured bonds.

Interest rates range from 2.9% to 8% on the Minibond.

20 Share capital

During the year, the Directors decided to simplify the share capital structure of the Company as part of a wider capital raise of a new class of convertible preferred shares. In doing so, the following key changes to the capital base were made:

- The Puttable Instrument was redeemed in exchange for the issuance of 112,191 Ordinary shares.
- Existing Preference shareholders agreed to waive certain existing rights on those shares and to vary the future preference share terms, in return for the issuance of 1,440,141 Ordinary shares. These were issued out of existing capital reserves.
- A new class of Preference share was created, and £2m was raised in the Convertible Preferred Shares.
- A further £110,000 of capital (1,100 shares) was received in respect of the Convertible Preferred Share before the year end, but as the formal allocation of shares was not made until January 2019, the amounts are reflected in creditors.
- The Articles of Association were amended to reflect those changes.

The Company have Preference Shares in issue which are accounted for as equity due to the following characteristics: (1) They do not have a fixed maturity date; (2) They are not redeemable by the equity holder; (3) Dividends are only due to the shareholders if declared by the Company; (4) They may be settled via the issuance of additional equity instruments of the Company; and (5) They are only repaid on a liquidation after all other creditors and liabilities are repaid, and hence bear equity risk.

	2018	2017
	£	£
2,341,520 issued ordinary shares at £1 each (2017: 789,188)	2,341,520	789,188
20,551 "Growth" shares at £0.10p each (2017: 20,551)	2,055	2,055
"Puttable" shares at £1 each (2017: 2,132,409)	-	2,132,409
2,525,000 preference shares at £0.10p each (2017: 2,525,000)	252,500	252,500
20,000 convertible preferred shares at £100 each (2017: nil)	2,000,000	-
	4,596,075	**3,176,152**

All ordinary shares of £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.

21 Share premium

	2018	2017
	£	£
2,525,000 preference shares at £0.90p premium per share (2017: 2,525,000)	2,272,500	2,272,500
112,191 shares at £18.01 premium per share (2017: nil)	2,020,218	-
1,440,141 newly issued bonus shares at £1 each nominal value (2017: nil)	(1,440,141)	-
	2,852,577	**2,272,500**

22 Financial instruments and fair values

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

2018	Loans and receivables £	Fair value through profit or loss £	Assets/liabilities at amortised cost £	Total £
Loans and advances to customers	79,686,850	-	-	**79,686,850**
Cash and cash equivalents	-	4,156,903	-	**4,156,903**
Other receivables	1,916,200	-	-	**1,916,200**
Property, plant and equipment	-	-	107,656	**107,656**
Intangible assets	-	-	1,302,318	**1,302,318**
Director's loans	2,196,026	-	-	**2,196,026**
Investment in joint venture	-	2,470,665	-	**2,470,665**
Balance owed by affiliate entities	1,093,093	-	-	**1,093,093**
Total financial assets	**84,892,169**	**6,627,568**	**1,409,974**	**92,929,711**
Derivative financial liabilities	-	585,858	-	**585,858**
Interest-bearing loans and borrowings	-	-	99,540,212	**99,540,212**
Other payables	-	-	7,245,107	**7,245,107**
Balance owed to affiliate entities	-	-	-	**-**
Total financial liabilities	**-**	**585,858**	**106,785,319**	**107,371,177**

2017	Loans and receivables £	Fair value through profit or loss £	Assets/liabilities at amortised cost £	Total £
Loans and advances to customers	56,768,460	-	-	**56,768,460**
Cash and cash equivalents	-	13,976,343	-	**13,976,343**
Other receivables	2,730,602	-	-	**2,730,602**
Property, plant and equipment	-	-	188,019	**188,019**
Intangible assets	-	-	1,468,734	**1,468,734**
Director's loans	1,996,169	-	-	**1,996,169**
Investment in joint venture	-	4,049,788	-	**4,049,788**
Balance owed by affiliate entities	560,555	-	-	**560,555**
Total financial assets	**62,055,786**	**18,026,131**	**1,656,753**	**81,738,670**
Derivative financial liabilities	-	571,895	-	**571,895**
Interest-bearing loans and borrowings	-	-	78,451,910	**78,451,910**
Other payables	-	-	7,366,993	**7,366,993**
Balance owed to affiliate entities	-	-	-	**-**
Total financial liabilities	**-**	**571,895**	**85,818,904**	**86,390,798**

The Group 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 Group 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 Group considers changes in credit risk and other observable data in order to reflect the measurement of financial liabilities.

The Group 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 Group determines fair values using valuation techniques.

The following table provides an analysis of financial liabilities (there are no equivalent financial assets) 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:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Financial liabilities				
Derivative financial liabilities	-	585,858	-	**585,858**
Total financial liabilities	**-**	**585,858**	**-**	**585,858**

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Financial liabilities				
Derivative financial liabilities	-	571,896	-	**571,896**
Total financial liabilities	**-**	**571,896**	**-**	**571,896**

23 Commitments and contingent liabilities

At 31 December 2018, the Group had undrawn commitments to lend of £107,641,206 (2017: £166,890,340).

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

	2018	**2017**
	£	**£**
Amounts falling due:		
Within one year	41,950,213	102,687,460
In the second to fifth year inclusive	65,690,993	64,202,880
After five years	-	-
	107,641,206	**166,890,340**

In addition, at the reporting date, the Group has lease commitments of £139,280 expiring within one year (2017: £348,200 expiring within two years).

As discussed in the Strategic Report, the Group extended the lease on its premises in 2019 on much the same terms as that discussed above. It then gave notice to exit the lease at the end of January 2021.

24 Risk management

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

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

Credit risk

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

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

Factors that help determine and define the categories of credit rating include: the loan to gross development value %; the loan to original land value %: the level and quality of security obtained; the repayment period; compliance with loan covenants; and the progress of development work. It should be re-iterated that these are internal categorisations only and attempts to apply these categories to potential future losses should not be made without first understanding all of the loan specific issues. Indeed, as you can see from the below tables, all loans in the Satisfactory and Weak categories are expecting a full recovery.

A loan might, for example, be classified as "Weak" purely due to the breakdown of a relationship with a client or where a facility has expired and is suffering default interest. In the latter example, Wellesley may have allowed the loan to roll onto the default rate in order to incentivise the borrower to repay as soon as possible. Equally, a loan might be forced into "Default" where Wellesley have decided to enforce security in order to protect their position, and it might be that no loss will be suffered.

The prior year's credit policy was more subjective in nature, whereas the current policy is more prescriptive. As a result, mapping the new policy to the old policy would not provide a useful or meaningful comparative.

There are therefore 2 disclosures below: the current loan portfolio broken down by updated internal credit rating; and the prior year's comparative reflecting the previous internal credit ratings.

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

2018

IFRS 9 Staging Categorisation	**Internal categorisation**	**Total (£)**
Stage 1 - *Full recovery expected*	Strong	8,785,771
	Good	17,958,799
Loans in Stage 1		**26,744,570**
Stage 2 - *Full recovery expected*	Satisfactory	20,129,373
	Weak	32,813,915
Loans in Stage 2		**52,943,288**
Stage 3 - *Full recovery in doubt*	Default	8,409,293
Loans in Stage 3		**8,409,293**
Loans and advances to customers (Refer to note 11)		**88,097,151**

Following application of new internal credit rating methodology, it is challenging to present comparative information under the updated 5-category system. As a result, comparative information is presented under the historical 4-category system:

2017

IFRS 9 Staging Categorisation	Internal categorisation	Total (£)
Stage 1 - *Full recovery expected*	Performing within terms	39,035,396
	Performing in arrears	13,011,798
Loans in Stage 1		**52,047,194**
Stage 2 - *Full recovery expected*	Non performing - full recovery expected	4,337,266
Loans in Stage 2		**4,337,266**
Stage 3 - *Full recovery in doubt*	Impaired	9,343,628
Loans in Stage 3		**9,343,628**
Loans and advances to customers (Refer to note 11)		**65,728,088**

The above does not include a capital balance of £30,000 (2017: £384,000) for investment by Wellesley Finance in Irish Listed ISA bond. The below details the ageing of loans and advances past due but not impaired:

	2018 £	2017 £
Overdue by three months	-	3,154,375
Overdue between three months to six months	-	-
Overdue by greater than six months	-	14,194,689
	-	**17,349,064**

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

During 2017, the Group reviewed its portfolio under the following metrics:

(i) Performing within terms: a loan which is performing within the terms and conditions set down in the loan agreement. Any payments of principal or interest have been made on time and the Group expects the loan to be fully repaid within the original agreed timescale. Wellesley customers will be matched to loans in this category;

(ii) Performing (enhance monitoring): a loan which is performing within the terms and conditions set down in the loan agreement. It is expected to deliver a full return of principal and interest, although it may have an increased risk profile and it requires closer management from Wellesley Finance to maintain the expectation of a full return of principal and interest. This category of loans is where the Group have identified a factor which gives a cause for concern and it is closely examined so that the Group can determine whether or not it represents a threat to the full repayment of the loan facilities. Wellesley customers will be matched to loans in this category;

(iii) Non-performing: loan where the Group does not expect the loan security to be enough to cover all the loan principal and interest. This normally only happens when something has gone seriously wrong with the underlying development, or there has been a severe downturn in the overall market, and the value of the underlying asset has deteriorated considerably.

The directors have carried out a full review of each individual loan and anything past due is closely monitored.

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

	2018	2017
Financial assets	£	£
Cash and cash equivalents	4,156,903	13,976,343
Loans and advances to customers	79,686,850	56,768,460
Other assets	4,843,069	5,062,761
	88,686,822	**75,807,564**
Contractual commitments	107,641,206	166,890,340
Total credit risk	**196,328,028**	**242,697,904**
Financial liabilities		
Interest-bearing loans and borrowings	99,540,212	78,451,910
Derivative financial liabilities	585,858	571,895
Total counterparty risk	**100,126,070**	**79,023,805**

Contractual commitments represent agreements entered into but not advanced as at 31 December 2018.

Collateral, based on the underlying development asset, held in relation to secured loans is capped at the amount outstanding on an individual basis. Total collateral in respect of loans and advances held at 31 December 2018 was £528m (2017: £594m). Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Group will consider including a provision in the financial statements.

Liquidity risk

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

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

	2018	2017
Amounts falling due:	€	€
Within one year	16,344,197	16,152,730
In the second to fifth year inclusive	-	-
After five years	-	-
	16,344,197	**16,152,730**

	2018	2017
Amounts falling due:	£	£
Within one year	14,167,925	13,816,684
In the second to fifth year inclusive	-	-
After five years	-	-
	14,167,925	**13,816,684**

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

At 31 December 2018	**Up to 3 months** £	**Between 3 and 12 months** £	**Between 1 and 2 years** £	**Between 2 and 5 years** £	**Over 5 years** £
Trade payables	52,754	-	-	-	-
Other taxation and social security costs	460,095	-	-	-	-
Accruals and deferred income	1,056,236	106,833	-	-	-
Other payables	5,569,189	-	-	-	-
Amounts owed to related parties	-	-	-	-	-
Interest-bearing loans and borrowings	4,228,164	21,349,453	40,629,193	33,333,402	-
Derivative financial liabilities	585,858	-	-	-	-
	11,952,296	**21,456,286**	**40,629,193**	**33,333,402**	**-**

At 31 December 2017	**Up to 3 months** £	**Between 3 and 12 months** £	**Between 1 and 2 years** £	**Between 2 and 5 years** £	**Over 5 years** £
Trade payables	17,418	-	-	-	-
Other taxation and social security costs	465,376	-	-	-	-
Accruals and deferred income	1,174,542	47,106	70,659	13,458	-
Other payables	5,578,434	-	-	-	-
Amounts owed to related parties	-	-	-	-	-
Interest-bearing loans and borrowings	1,794,150	8,399,342	27,742,958	35,089,104	5,426,357
Derivative financial liabilities	266,391	305,504	-	-	-
	9,296,311	**8,751,952**	**27,813,617**	**35,102,562**	**5,426,357**

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

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

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

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

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

Changes to interest rates could potentially impact the value of the properties to which the loans and advances of the Group are secured against.

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

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

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

Assets and liabilities in euros at sterling carrying values	**2018**	**2017**
	£	**£**
Loans and advances to customers	1,007,215	9,588,913
Cash and cash equivalents	1,661,781	720,097
Deferred income	-	-
Net position	**2,668,996**	**10,309,010**

The Group 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%: +£54,469 (2017: +£210,388)
- Euro weakened by 2%: (£52,333) (2017: (£202,137))

Interest rate sensitivity gap
The interest rate on the total value of the loan portfolio of £79,686,350 (2017: £56,768,460) is fixed. The Group has no exposure to floating interest rates on the loan portfolio. The Group 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 Group 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 - +/-£63,721 (2017: restated +/-£65,220)

Capital risk
The Group'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:

	2018	**2017**
	£	**£**
Share capital	4,596,075	3,176,152
Retained earnings	(21,890,118)	(10,100,780)
Common equity capital	**(17,294,043)**	**(6,924,628)**
Interest-bearing loans and borrowings	99,540,212	78,451,910
Other capital	**99,540,212**	**78,451,910**
Total capital base	**82,246,169**	**71,527,283**

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

25 Subsidiary companies

The Group has the following subsidiary companies whose results are included in these consolidated financial statements:

Company Name	Country of incorporation	Class of share held	Ownership	Principal activity
Wellesley & Co Limited	England & Wales	Ordinary	100%	Bond platform
Wellesley Finance PLC	England & Wales	Ordinary	100%	Property lending company
Wellesley Secured Funding Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Lease Finance Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Investment Services Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Bridging Co Limited	England & Wales	Ordinary	100%	Financing company
Wellesley Nominees Limited	England & Wales	Ordinary	100%	Nominee company
Wellesley Group Limited	England & Wales	Ordinary	100%	Holding company
Wellesley Servicing Company Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Property Lending Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Capital Limited	England & Wales	Ordinary	100%	Dormant
Wellesley Loans Limited	England & Wales	Ordinary	100%	Dormant

As discussed in the post balance sheet events note in the strategic report, 3 new Group companies have since been formed.
They are Cloverleaf 374 Limited, Cloverleaf 375 Limited, and Cloverleaf 376 Limited. The registered address of all subsidiary companies is 6th Floor, St Albans House, 57/59 Haymarket, London, SW1Y 4QX.

26 Related party transactions

Related parties of the Group 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 with fellow subsidiaries of Wellesley Group Investors Limited:

	2018	2017
	£	£
Balance owed by affiliate entities	1,093,093	560,555
Balance owed by Directors	2,196,024	1,996,170

Balances owed by Directors comprise loans to two directors (2017: two).

One of these loans, with a year-end balance of £121,738 (2017: £118,649), bears interest of 3% per annum and is repayable by the lender giving 60 days written notice. The second loan, with a year-end balance of £2,074,286 (2017: £1,877,521), bears interest of 10% per annum and is repayable on 31 December 2020, unless extended by the lending entity at its sole discretion. See note 17 for potential future changes to these loan balances.

An affiliate entity, Wellesley Secured Finance plc ("WSF"), is a related party to the Group as Wellesley Finance plc is the servicer and originator for loans purchased by WSF. The amount owed as at 31 December 2018 is split between two amounts:

(i) Expenses Facility Agreement dated 12 April 2017: £605,496 (2017: £333,496); and
(ii) Subordinated Loan Facility: £428,829 (2017: £202,104).

Wellesley Finance invested £3,000 and £2,000 in Series 6 and A respectively of the Irish Listed ISA bond issued by WSF during the year. Wellesley Finance continues to hold £10,000 and £15,000 in 3 and 5 respectively from prior year. The maximum balance during the year was £243,305 (2017: £236,092).

27 Ultimate controlling party

Graham Wellesley is the ultimate controlling party by virtue of his majority shareholding in the company.

28 Prior period restatements

1. Interest payable on the Wellesley ISA Bond (redeemed in full in 2018) and on the Wellesley Mini-Bond was over-accrued at 31 December 2017 by £1,365,699. This difference was found to relate to the financial years ended 31 December 2016 and 31 December 2017. The impact of this restatement for the year ended 31 December 2017 was £544,189, with the balance of £821,510 being an adjustment to brought forward reserves.

2. Fees payable to Peer-to-Peer investors were under-accrued at 31 December 2017 by £86,316 and as such this adjustment was made for the year ended 31 December 2017.

3. The calculation of realised and unrealised gains on Derivatives held for risk management was incorrectly calculated during the year ended 31 December 2017. As a result, an adjustment of £818,479 has been required for the year ending 31 December 2017.

4. Following the introduction of IFRS 9 on 1 January 2018, the Group is required to calculate provisions in a different way than under the previous accounting standard (IAS39). The requirement is now to calculate on an expected loss basis, rather than an incurred loss model. As a result, a comparative amount has been required for the year ended 31 December 2017, and the amount was calculated as £86,937.

5. The accounting model used for the Group's loan assets was found to be incorrect during the year. This was due to a misinterpretation of the accounting standard at the time the model was built. The misinterpretation relates to the incorrect use of the current IRR as the discount factor in the revenue model, whereas it should have used the original IRR. This meant that the amortised cost of the Group's loans was incorrect and led to differences being noted in the recognition of income, provisions, and write off of bad loans. Accordingly, adjustments have been made in each of these cases.

6. In addition to the errors highlighted in the income model above, the model was also found to have input errors. This led to some transactions being duplicated and led to the statement of financial position being overstated by £3.7m. This issue was identified by management during 2018, and as a result requires the write off of this unsubstantiated asset as an exceptional item. The exceptional item has been recognised in the 2017 Statement of profit and loss but there is a risk that it relates to periods prior to 1 January 2017. The issue went unnoticed in part due to the way that the loan book and Peer to Peer liabilities were historically recognised.

   As each loan may be partly owned by Peer to Peer customers and partly by Wellesley, calculations were completed in order to assess the amount that should appear on the statement of financial position, and how much should be derecognised. During 2018 a full reconciliation exercise was conducted, and a new CASS process implemented, to bring all loan assets and Peer to Peer liabilities onto the Statement of Financial Position (for internal reconciliation purposes only) and this identified the overstatement of assets. Updated reconciliation processes are now in place to ensure such errors cannot occur again.

7. An internal VAT review identified a further liability of the Company to a related party and hence the liability has been recognised as at 31 December 2017.

8. When Wellesley received retail funding via Peer to Peer investors in the past, the capital invested is matched to loans originated by Wellesley. At that point, Wellesley derecognise that part of the loan that they no longer own. The fee payable to Peer to Peer customers is however the liability of Wellesley and should be represented as a liability on the balance sheet. At the end of 2017 the accrued fees due to Peer to Peer customer of £5.4m was, for accounting purposes only, incorrectly matched to loans rather than appearing as a liability on the balance sheet. The net effect to the statement of profit and loss and statement of financial position is nil in both cases, but this has impacted the presentation of loan assets and liabilities accordingly.

9. When a loan is made to a shareholder, tax legislation requires the company to pay corporation tax equal to 25% of the loan balance outstanding in cases where the loan remains outstanding at the period end, and not repaid within nine months of that period. The Group paid an amount of £538,489 to HMRC in January 2018 but had not accrued for this in the 2017 financial year. Accordingly, an adjustment has been made to reflect the liability. The amount is repayable to the Group on settlement of the loan and interest.

10. Share Capital as at 31 December 2016 was overstated by £175 and hence has been restated. The impact of this restatement for the year ended 31 December 2016 was an increase in administrative expenses of £175 which resulted in the restatement of brought forward Share Capital (equity) as at 1 January 2017.

11. Share Capital as at 31 December 2017 was understated by £411 and hence has been restated. The impact of this restatement for the year ended 31 December 2017 was an decrease in administrative expenses of £411 which resulted in the restatement of brought forward Share Capital (equity) as at 31 December 2017.

12. A loan made to a Director has been reclassified from Loans and advances to Customers to Other assets to better reflect the transaction.

The effect on the statement of comprehensive income and statement of Financial Position is shown below:

	Note	Impact on Statement of comprehensive income	
		Period to 31 December 2017	Period to 31 December 2016
		£	£
Decrease in Interest expense	1	544,189	821,510
Increase in Fee and commission expense	2	(86,316)	-
Decrease in Income from derivatives and other financial instruments at fair value through profit or loss	3	(818,479)	-
Increase in Impairment of loans and advance to customers (net)	4	(86,937)	-
(Decrease)/increase in Interest income/Fee and commission income	5	(5,744,936)	2,069,850
Decrease/(increase) in Impairment of loans and advance to customers (net)	5	3,807,835	(22,395)
Decrease in Write off of loans and advances to customers	5	66,222	-
Exceptional expense	6	(3,699,685)	-
Increase in Administrative expenses	7	(127,133)	-
Increase in Administrative expenses	10	-	(175)
Decrease in Administrative Expenses	11	411	-
Impact for the year		**(6,144,829)**	**2,868,790**

	Note	Impact on Statement of financial position	
		As at 31 December 2017	As at 31 December 2016
		£	£
Decrease in Interest-bearing loans and borrowings	1	544,189	821,510
Increase in Other liabilities		(86,316)	-
Decrease in Derivative financial assets	3	(818,479)	-
Decrease in Loans and advances to customers	4	(86,937)	-
(Decrease)/increase in Loans and advances to customers	5	(5,744,936)	2,069,850
Increase/(decrease) in Loans and advances to customers	5	3,807,835	(22,395)
Increase in Loans and advances to customers	5	66,222	-
Decrease in Loans and advances to customers	6	(3,699,685)	-
Increase in Other liabilities	7	(127,133)	-
Increase in Loans and advances to customers	8	5,248,075	-
Increase in Other liabilities	8	(5,248,075)	-
Increase in Other assets	9	538,489	-
Increase in Other liabilities	9	(538,489)	-
Decrease in Share Capital	10	-	(175)
Increase in Share Capital	11	411	-
Decrease in Loans and advances to customers	12	(1,877,521)	(1,699,419)
Increase in Other assets	12	1,877,521	1,699,419
Impact on equity		**(6,144,829)**	**2,868,790**

29 Events after the statement of financial position date

No further information has been identified, other than as stated in the Strategic Report on pages 2-6 and in note 17 on page 37, in the period between 31 December 2018 and the date of approval of these financial statements that would require the Group to adjust for or disclose in these financial statements. Information on the potential financial impact of these changes are included in the strategic report where necessary.

Company statement of profit and loss and other comprehensive income for the year ended 31 December 2018

Company statement of profit & loss	Notes	2018 £	2017 £ Restated
Other fee income		3,255	3,255
Interest expense		(35,068)	-
Total operating income		**(31,813)**	**3,255**
Administrative expenses	2	(1,071,553)	(1,333,152)
Impairment of inter-company assets		(2,323,000)	-
Depreciation and amortisation	7	(9,120)	(8,279)
Loss before tax		**(3,435,486)**	**(1,338,176)**
Income tax credit/(charge)	4	-	(72,360)
Loss after taxation - attributable to the equity holders of the Company		**(3,435,486)**	**(1,410,536)**

Company statement of other comprehensive income	Notes	2018 £	2017 £ Restated
Loss after taxation - attributable to the equity holders of the Company		**(3,435,486)**	**(1,410,536)**
Total other comprehensive income/(loss) for the year, net of taxation		-	-
Total comprehensive loss for the year, net of taxation		**(3,435,486)**	**(1,410,536)**

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 Group accounting policies and notes set out on pages 22 to 49, and Company accounting policies and notes set out on pages 54 to 59 form an integral part of these financial statements.

WELLESLEY GROUP INVESTORS LIMITED

Company statement of financial position
as at 31 December 2018

	Notes	2018	2017
		£	£
Assets			**Restated**
Non-current assets			
Property, plant and equipment	7	24,054	33,174
Investment in group undertakings	6	3	3
		24,057	**33,177**
Current assets			
Cash and cash equivalents		447,437	13,812
Other assets	8	11,780,947	11,277,860
Total assets		**12,252,441**	**11,324,849**
Liabilities			
Other liabilities	9	11,398,179	9,035,101
		11,398,179	**9,035,101**
Net assets		**854,262**	**2,289,748**
Equity			
Share capital	10	4,596,075	3,176,152
Share premium	11	2,852,577	2,272,500
Retained earnings		(6,594,390)	(3,158,904)
Total equity		**854,262**	**2,289,748**

The Group accounting policies and notes set out on pages 22 to 49 and Company accounting policies and notes set out on pages 54 to 59 form an integral part of these financial statements.

These financial statements were approved by the Board of directors on 15 October 2020 and were signed on its behalf by:

Graham Wellesley

Director
Company number 08478238

WELLESLEY GROUP INVESTORS LIMITED

Company statement of changes in equity
for the year ended 31 December 2018

	Notes	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 January 2018 as restated		**3,176,152**	**2,272,500**	**(3,158,904)**	**2,289,748**
Total comprehensive income for the year					
Loss for the year		-	-	(3,435,486)	(3,435,486)
Total comprehensive income for the year		**-**	**-**	**(3,435,486)**	**(3,435,486)**
Transactions with owners recorded directly in equity:					
Issue of shares		1,419,923	580,077	-	2,000,000
Total contributions by and distributions to owners		**1,419,923**	**580,077**	**-**	**2,000,000**
Balance at 31 December 2018		**4,596,075**	**2,852,577**	**(6,594,390)**	**854,262**

	Notes	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 January 2017 as previously stated		**3,176,327**	**2,272,500**	**(1,748,543)**	**3,700,284**
Prior period adjustments	13	(175)	-	175	-
Balance at 1 January 2017 as restated		**3,176,152**	**2,272,500**	**(1,748,368)**	**3,700,284**
Total comprehensive income for the year					
Loss for the year		-	-	(1,410,536)	(1,410,536)
Total comprehensive income for the year		**-**	**-**	**(1,410,536)**	**(1,410,536)**
Balance at 31 December 2017 as restated		**3,176,152**	**2,272,500**	**(3,158,904)**	**2,289,748**

The Group accounting policies and notes set out on pages 22 to 49, and Company accounting policies and notes set out on pages 54 to 59 form an integral part of these financial statements.

Company statement of cash flows
for the year ended 31 December 2018

	2018 £	2017 £ Restated
Cash flows from operating activities		
Loss before taxation	(3,435,486)	(1,338,176)
Adjustments for non-cash items:		
Amortisation of property, plant and equipment	9,120	8,279
Impairment losses on inter-company balances	2,323,000	-
	(1,103,366)	(1,329,897)
Adjustments for working capital items and loans & advances:		
Increase in other assets	(2,826,087)	(2,747,619)
Increase in other liabilities	2,363,078	2,647,380
Net cash flows used in operating activities	**(1,566,375)**	**(1,430,136)**
Cash flows from investing activities		
Net purchase of property, plant and equipment	-	(17,784)
Net cash used in investing activities	**-**	**(17,784)**
Cash flows from financing activities		
Proceeds from issue of shares	2,000,000	-
Net cash generated by financing activities	**2,000,000**	**-**
Net increase/(decrease) in cash and cash equivalents	**433,625**	**(1,447,920)**
Cash and cash equivalents at the start of the year	13,812	1,461,732
Cash and cash equivalents at the end of the year	**447,437**	**13,812**

The Group accounting policies and notes set out on pages 22 to 49, and Company accounting policies and notes set out on pages 54 to 59 form an integral part of these financial statements.

1. Basis of preparation

1.1. Accounting basis

The Company financial statements for Wellesley Group Investors Limited (the "Company") are prepared in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies adopted are set out below and in Note 2 of the consolidated financial statements.

1.2. Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied, if Wellesley Finance's CVA is not successfully challenged, that the Company has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements),

The Company derives its income and cash flow from other group entities and therefore the going concern assessment of the company is inextricably linked to the Group.

Full details are provided in Note 2.4 of the Consolidated financial statements on pages 23-24.

A material uncertainty exits which could lead the Group and therefore the company to no longer be a going concern. If that were the case, then the financial statements would be required to be prepared on an alternative basis.

1.3. Expected Credit Losses ("ECL") – Inter-company receivables

Inter-company loans provided between 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 Group has no intention of calling this debt in the foreseeable future.

Balances owed by group undertakings
The Company is owed £13.9m from other group companies, of which £13.1m is due from group entities that are not income generating and do not have cash reserves. 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. Such inter-company funding is not unusual when businesses are in early stage and/or pre-IPO.

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. As a result, an assessment of various scenarios was completed and this led to an expected credit loss of £2.3m being recognised, reducing the inter-company recoverable balance to £11.6m.

Note that this provision only appears in the Company financial statements as the provision is unwound on consolidation.

2. Administrative expenses

	Note	2018 £	2017 £
Staff costs	3	321,503	385,295
Advertising & marketing		-	1,172
Direct office costs		76,751	71,298
Legal & professional		70,182	46,333
IT costs		283,764	294,162
Other administrative expenses		319,353	534,892
		1,071,553	**1,333,152**

3. Staff costs

Staff costs have been allocated per department as follows:

	2018	2017
	£	£
Wages and salaries		
Central functions	-	22,882
Directors	267,583	311,333
	267,583	**334,215**
Social security costs	30,599	35,929
Employee benefits	23,321	15,151
	321,503	**385,295**

The average number of persons employed by the Company during the year, including Non-Executive Directors, was 4 (2017: 4). There were no pension contributions for the Directors (2017: nil).

4. Taxation

	2018	2017
	£	£
		Restated
Recognised in the Statement of Comprehensive Income		
Current tax:		
UK corporation tax at 19% (2017: 19.25%)	-	-
Total current tax	-	-
Deferred tax:		
Current year	-	(371)
Adjustment in respect of previous periods	-	56,472
Effect of changes in tax rate	-	43
Reversal of deferred tax asset	-	16,216
Total deferred tax	-	**72,360**
Total tax charge/(credit)	-	**72,360**
Reconciliation of tax charge:		
Loss on ordinary activities before tax	(3,435,486)	(1,338,176)
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2017: 19.25%)	(652,742)	(257,599)
Effects of:		
Adjustments in respect of prior years	-	56,472
Expenses not deductible	446,239	652
Tax rate changes	-	43
Effects of group relief/other reliefs	-	246,828
Amounts not recognised	206,503	9,749
Reversal of deferred tax asset	-	16,215
Total tax charge/(credit)	-	**72,360**

5. Deferred tax

	2018	2017
	£	£
Provision at start of period	-	(72,360)
Adjustment in respect of prior years	-	56,473
Deferred tax charge to I/S for the period	-	(328)
Reversal of deferred tax asset	-	16,215
Provision at end of period	-	-

6. Investments in subsidiaries

	2018	2017
	£	£
At beginning of year	3	3
At end of year	**3**	**3**

Further details of investments in subsidiaries can be found in note 25 of the Group financial statements.

7. Property, plant and equipment

2018	Leasehold improvements	Furniture, fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£
Cost				
At the beginning of the year	14,002	13,347	18,252	**45,601**
Additions	-	-	-	-
Disposals	-	-	-	-
At the end of the year	**14,002**	**13,347**	**18,252**	**45,601**
Amortisation				
At the beginning of the year	2,567	4,983	4,877	**12,427**
Amortisation charge for the year	2,800	2,669	3,651	**9,120**
Disposals	-	-	-	-
At the end of the year	**5,367**	**7,652**	**8,528**	**21,547**
Net book value				
At the beginning of the year	**11,435**	**8,364**	**13,375**	**33,174**
At the end of the year	**8,635**	**5,695**	**9,724**	**24,054**

2017	**Leasehold improvements**	**Furniture, fixtures, fittings & equipment**	**Computer equipment**	**Total**
	£	**£**	**£**	**£**
Cost				
At the beginning of the year	-	13,347	14,470	**27,817**
Additions	14,002	-	3,782	**17,784**
Disposals	-	-	-	-
At the end of the year	**14,002**	**13,347**	**18,252**	**45,601**
Amortisation				
At the beginning of the year	-	2,314	1,834	**4,148**
Amortisation charge for the year	2,567	2,669	3,043	**8,279**
Disposals	-	-	-	-
At the end of the year	**2,567**	**4,983**	**4,877**	**12,427**
Net book value				
At the beginning of the year	**-**	**11,033**	**12,636**	**23,669**
At the end of the year	**11,435**	**8,364**	**13,375**	**33,174**

8. Other assets

	2018	**2017**
	£	**£**
Other receivables	27,125	1,064
Prepayments	53,803	46,746
Balance owed by group undertakings	11,577,245	11,109,406
Balance owed by directors	121,649	118,394
Balance owed by affiliate entities	1,125	2,250
	11,780,947	**11,277,860**

The balance owed by group undertakings of £11,577,245 is net of an expected credit loss of £2,323,000, following an assessment of the recoverability of those inter-company balances, based on five scenarios, each with a probability weighting and an estimate of the potential loss.

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

The loan issued by the company to a director, Andrew Turnbull may be reclassified from a personal loan to a limited recourse business loan as detailed in note 17 on page 37. The loan was connected to the initial issuance of shares to Mr Turnbull and was a component of his management incentive arrangement with the major shareholders of the company. Repayment of this loan will now be solely from the proceeds realised from the sale of the shares legally and beneficially owned by Mr Turnbull upon a future exit from the business. Accordingly, there are no changes to the amount due.

9. Other liabilities

	2018	**2017**
	£	**£**
Trade payables	5,266	-
Other taxation and social security costs	8,472	8,388
Other payables	110,000	-
Accruals and deferred income	95,012	188,216
Balance owed to group undertakings	11,179,429	8,838,497
	11,398,179	**9,035,101**

10. Share capital

During the year, the Directors decided to simplify the share capital structure of the Company as part of a wider capital raise of a new class of convertible preferred shares. In doing so, the following key changes to the capital base were made:

- The Puttable Instrument was redeemed in exchange for the issuance of 112,191 Ordinary shares.
- Existing Preference shareholders agreed to waive certain existing rights on those shares and to vary the future preference share terms, in return for the issuance of 1,440,141 Ordinary shares. These were issued out of existing capital reserves.
- A new class of Preference share was created, and £2m was raised in the Convertible Preferred Shares.
- A further £110,000 of capital was received in respect of the Convertible Preferred Share before the year end, but as the formal allocation of shares was not made until January 2019, the amounts are reflected in creditors.
- The Articles of Association were amended to reflect those changes.

The Company have Preference Shares in issue which are accounted for as equity due to the following characteristics: (1) They do not have a fixed maturity date; (2) They are not redeemable by the equity holder; (3) Dividends are only due to the shareholders if declared by the Company; (4) They may be settled via the issuance of additional equity instruments of the Company; and (5) They are only repaid on a liquidation after all other creditors and liabilities are repaid, and hence bear equity risk.

	2018	2017
	£	£
2,341,520 issued ordinary shares at £1 each (2017: 789,188)	2,341,520	789,188
20,551 "Growth" shares at £0.10p each (2017: 20,551)	2,055	2,055
"Puttable" shares at £1 each (2017: 2,132,409)	-	2,132,409
2,525,000 preference shares at £0.10p each (2017: 2,525,000)	252,500	252,500
20,000 convertible preferred shares at £100 each (2017: nil)	2,000,000	-
	4,596,075	**3,176,152**

All ordinary shares of £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.

11. Share premium

	2018	2017
	£	£
2,525,000 preference shares at £0.90p premium per share (2017: 2,525,000)	2,272,500	2,272,500
112,191 shares at £18.01 premium per share (2017: nil)	2,020,218	-
1,440,141 newly issued bonus shares at £1 each nominal value (2017: nil)	(1,440,141)	-
	2,852,577	**2,272,500**

12. 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 following are amounts owed by subsidiaries and other related parties:

	2018	2017
	£	£
Balance owed by subsidiaries	11,577,245	11,109,404
Balance owed by affiliate entities	1,125	2,250
Balance owed by Directors	121,649	118,394

Balances owed by Directors comprise of loans to one director (2017: one). The loan, with a year-end balance of £121,738 (2017: £118,649), bears interest of 3% per annum and is repayable by the Company giving 60 days written notice. Further details of this loan are given in note 8 on page 57.

13. Prior period restatements

The effect on the statement of comprehensive income and statement of Financial Position is shown below:

	Note	Impact on Statement of comprehensive income	
		Period to 31 December 2017	Period to 31 December 2016
		£	£
Increase in Administrative Expenses	1	-	(175)
Decrease in Administrative Expenses	2	411	
Impact for the year		**411**	**(175)**

	Note	Impact on Statement of financial position	
		As at 31 December 2017	As at 31 December 2016
		£	£
Decrease in Share Capital	1	-	(175)
Increase in Share Capital	2	411	
Impact on equity		**411**	**(175)**

1. Share Capital as at 31 December 2016 was overstated by £175 and hence has been restated. The impact of this restatement for the year ended 31 December 2016 was an increase in administrative expenses of £175 which resulted in the restatement of brought forward Share Capital (equity) as at 1 January 2017.

2. Share Capital as at 31 December 2017 was understated by £411 and hence has been restated. The impact of this restatement for the year ended 31 December 2017 was a decrease in administrative expenses of £411 which resulted in the restatement of brought forward Share Capital (equity) as at 31 December 2017.

14. Events after the statement of financial position date

No further information has been identified, other than as stated in the Strategic Report on pages 2-6 and in note 8 on page 57, in the period between 31 December 2018 and the date of approval of these financial statements that would require the Group to adjust for or disclose in these financial statements. Information on the potential financial impact of these changes are included in the strategic report where necessary.