

# **WELLESLEY FINANCE PLC**

Half-yearly financial report for the six months  
ended 30 June 2019 (unaudited)

Company Number 08331511

# WELLESLEY FINANCE PLC

Half-yearly financial report  
for the six months ended 30 June 2019

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## Contents

### Page:

1	Officers and advisers
2	Interim management report
7	Statement of Directors' responsibilities
8	Half-yearly statement of profit and loss and other comprehensive income
9	Half-yearly statement of financial position
10	Half-yearly statement of changes in equity
11	Half Yearly statement of cash flows
12	Notes forming part of the financial statements

# WELLESLEY FINANCE PLC

## Officers and advisers

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### **Directors**

Andrew Turnbull  
Garret Graham Wellesley

### **Registered Office**

6<sup>th</sup> Floor, St Albans House, 57/59 Haymarket, London, SW1Y 4QX

### **Company Registration Number**

08331511

### **Auditors**

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

### **Bankers**

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

### **Legal Advisers**

GRM Law, 1 Bedford Row, London, WC1R 4BZ  
Memery Crystal LLP, 44 Southampton Buildings, London, WC2A 1AP  
Linklaters LLP, One Silk St, London, EC2Y 8HQ

# WELLESLEY FINANCE PLC

## Interim management report for the six months ended 30 June 2019

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The Directors present the interim management report of Wellesley Finance plc for the six months ended 30 June 2019. This is the first half-yearly financial report that the Company has prepared.

### **About the Company**

Wellesley Finance Plc (the “Company” or “Wellesley”) is engaged in the provision of finance for medium sized developers to enable them to build lower (and mid) value homes in England and Wales where long term demand is supported by strong demographics and Government financial support for new buyers. The loans are structured by our lending team, sanctioned by our credit committee and administered by our credit operations functions. Its development loans tend to have a duration of 18-24 months and encompass both major refurbishments and ground up development. Borrowers are medium sized experienced developers with loans from £5m to £30m in scale.

The Company undertakes four principal activities: Loan origination; Loan participation; Loan syndication; and Issuance of corporate debt.

#### *Loan origination*

The Company is a recognised lender within the property development segment of the UK SME alternative finance market. It offers borrowers committed loan facilities which are typically secured upon individually evaluated property development projects. Following a period of underwriting and evaluation, the Company enters into a loan facility agreement with a borrower and advances its own corporate funds once all lending conditions have been satisfied. The Company either retains the loans on its balance sheet or it makes them available for syndication.

#### *Loan participation*

The Company ordinarily maintains some balance sheet exposure to loans that it originates and therefore is not only acting as an originator of loans but also a lender/investor in the loans it originates. Where the Company retains loan exposure on its balance sheet it normally funds its position from the proceeds of bond issuances (see fourth point below (Issuance of corporate debt)).

#### *Loan syndication*

The Company has origination and servicing mandates for two sources of funding to which it syndicates loans which meet the required investment criteria. The origination mandates are for: (i) Wellesley Secured Finance Plc; and (ii) Wellesley & Co Limited (“WACL”) (in respect to its legacy Peer-to-Peer (P2P) lending back-book). Following the syndication of a loan, the Company will typically continue to service the loans as described above and remain the facility agent for the loan. The Company may also sell a loan from its portfolio or arrange for syndication of all or part of a loan to other third parties.

#### *Issuance of corporate debt*

The Company finances its origination and loan participation activities through the issuance of bonds. These bonds are distributed as investments to retail customers by WACL.

### **Company performance**

As discussed in our most recent filed financial statements, 2018 was a year of transition at Wellesley where focus was on the managing out of the pre-2016 lending strategy loans, whilst also reducing new lending following the market uncertainty that Brexit brought. This transitional period continued through to the first six months of the 2019 financial year.

At the date of this interim report, there are only four loans remaining from the previous lending strategy, and these loans represent only a small portion of our combined loan book.

The lending strategy was improved in 2015 by a decision to concentrate on larger borrowers who typically complete developments in the regional towns and cities in the UK with an average unit value of £300k. Under this strategy, the Company has made 35 loans totalling £356m, of which 22 loans have already repaid.

The Company is delighted that this amended strategy has not experienced any defaults or impairment. This gives the Company a five-year track record of successful lending and underpins the future of the business.

# WELLESLEY FINANCE PLC

## Interim management report for the six months ended 30 June 2019

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In terms of summarising more specific areas of performance:

### *Financial performance*

Total net income decreased by £167k over the comparable six-month period to £4.4m, due mainly to the more cautious lending strategy maintained over the past 18 months. However, with much of the legacy lending now in the past, it is encouraging to see that the Company has returned a profit before tax of £468k, compared to the £1.9m loss in the comparative period.

While a provision expense of £2.2m is noted in the statement of other comprehensive income, due solely to the pre-2016 lending strategy, progress is demonstrable and shows that the Company is again operationally profitable. This highlights the time and energy of the team in managing out the pre-2016 lending strategy loans and the repositioning of the loan book.

Administrative expenses were £889k lower than the comparative period, and further cost savings are being identified and implemented.

### *Material progression with recoveries not yet flowing through to the accounts*

Relating to the Company's original lending strategy, there are several recovery strategies underway which may be realised, the benefit of which has not yet been recognised within the accounts. Other than enforcing on physical security, Wellesley has been given personal guarantees from borrowers who have defaulted and are now being pursued for restitution.

Furthermore, where professional advisors have, in the opinion of Wellesley, fallen below the standards expected of them which has led to loan losses, the Company has initiated legal proceedings for damages. Whilst not certain, the Directors believe that there is a potential range of such recoveries of £8.9m to £12.6m. These do not meet the recognition criteria of an asset nor the disclosure criteria for a contingent asset as at the period end.

### *Loan book performance*

As discussed in the year-end financial statements, the Company continues to exit from loans issued under the old credit policy. At the time of writing only 4 such loans remain, of which 3 are completed developments and are awaiting sale. No losses have been noted on the post 2016 credit policy.

Since the 2018 year end the Company commissioned an independent stress test, completed by MIAC, on the lending it has made since the 2016 strategy. The objective of the stress test was to obtain an independent view as to the outcome of a fall in the housing market on the 19 outstanding loans which were completed since the new lending strategy was put in place. The Report can be found on the Company's website (<http://static.wellesley.co.uk/Wellesley-MIAC-Stress-Test.pdf>) but its findings suggest that even with a 33% fall in house prices the Company's cumulative losses over 100 months would be some 1.5% and where personal guarantees had been taken out, and if managing actions were taken these losses could be reduced by 50%. This is a very encouraging indicator.

### *Other*

On 28 March 2019, the Central Bank of Ireland approved the Company's prospectus for an unsecured listed bond programme. The programme would allow the Company to use proceeds for Corporate purposes.

In addition, a joint venture funding relationship has been agreed for an initial £45m of new lending.

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

## **Principal risks and uncertainties**

The principal risks to the Company are as follows:

### ***Credit risk***

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

# WELLESLEY FINANCE PLC

## Interim management report for the six months ended 30 June 2019

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Collateral based on the underlying development asset is held in relation to secured loans. Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Company will consider including a provision in the financial statements.

### **Market risk**

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

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

### **Reputational risk**

The Company has a high level of sensitivity to reputational risks, particularly those which could potentially result in the Company's retail lenders losing confidence in the stability and security of the organisation and ultimately the safety of their investment. It should be noted that a reputational event could be triggered by another participant of the industry and whilst not as a direct result of an issue within the Company's business, customers could have concerns about the industry in general.

### **Information technology and security risk**

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

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

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

Furthermore, the Company's related entity, WACL, has entered into an agreement with Third Platform Services Limited (FRN 717915) to provide safe custody and settlement services of WACL's customers' listed bonds and related client monies. As a material outsourcing arrangement, Third Platform Services Limited are subject to stringent oversight from WACL.

### **Operational and people risk**

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

The Company has invested significantly in its people and will strive to ensure that its retention rates are high. The Company has however identified certain key members of staff which would be challenging to replace either as a result of there being scarcity of skillsets or the role requiring familiarisation with a number of internal processes.

Management has aimed to mitigate these risks through:

- extended notice periods;
- deferred remuneration;
- introduction of several documented procedure manuals and simplification of processes through the introduction of software; and
- introduction of an employee incentive scheme which includes medical, critical illness cover, pension etc.

# WELLESLEY FINANCE PLC

## Interim management report for the six months ended 30 June 2019

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### **Liquidity Risk**

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

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

The business has multiple sources of liquidity to draw upon should the forecast cash flow position vary from plan. The uncertainty relating to timing of loan redemptions mean that many such initiatives are prepared but held in reserve until the liquidity forecast identifies a requirement for 'a lever to be pulled'. These 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 exactly which lever should be pulled, at which time to remedy the position. The following options are some that have been utilised over the past year.

- Loan sales – The Company's loan agreements allow Wellesley to transfer a facility to another party and can be completed without consent of the borrower. In the last 2 years, 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 2 years, the business has completed the refinance of loan facilities totalling £46m.
- Promotional fund raising - A tried and tested route to increase the 'normal' run rate of investment inflows is with promotional offers. These can be executed and closed within a very short timeframe. Successful promotions run over the last 2 years have raised circa £18m.
- Loans outside of contractual terms - For liquidity purposes, the Company forecasts further advances in full for all loans regardless of whether they are operating within contractual terms, or not. There may be some loans that are operating outside of their terms, which is not always a reflection of the credit risk. In those scenarios, there is not a contractual obligation to fund further advances within the contractual period.

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 Company will always be subject to liquidity risk. The regular committee meetings, and the varying levers that can be pulled have ensured that, to date, there has always been sufficient liquidity in the business to meet its obligations.

### **Risk of potential fraud**

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

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

# WELLESLEY FINANCE PLC

## Interim management report for the six months ended 30 June 2019

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### ***Brexit Risk***

As a UK-based business, the Company 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 Company may face following the United Kingdom's departure from the European Union cannot be predicted, the Company 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 Company might focus on working more with contractors with UK based supply chains.

The potential impact of a the UK's departure from the EU on 31 January 2020 is something that is under regular review by the Company and Wellesley Group however at this stage it remains satisfied that any downside movement as a result will be mitigated through a combination of the Company's and Wellesley credit policies, regional focus, oversight of the construction process and its drive to ensure the quality track records of its underlying customer base.

Approved by the Board of Directors and signed on behalf of the Board on 12 February 2020.

**Graham Wellesley**  
Director

# WELLESLEY FINANCE PLC

## Statement of Directors' responsibilities for the six months ended 30 June 2019

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The Directors are responsible for preparing the interim management report and the half-yearly financial statements in accordance with applicable law and regulations.

The Transparency (Directive 2004/109/EC) Regulations 2007 in prescribed circumstances requires the directors to prepare a half-yearly financial report covering the first 6 months of the 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 the half-yearly 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; and
- prepare the half-yearly 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 to enable them to ensure that the half-yearly 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.

Approved by the Board of Directors and signed on behalf of the Board on 12 February 2020.

**Graham Wellesley**  
Director

# WELLESLEY FINANCE PLC

## Half-yearly statement of profit and loss and other comprehensive income for the six months ended 30 June 2019

	Notes	Period ended 30 June 2019 £	Period ended 30 June 2018 * £
Interest income		5,489,949	4,194,008
Interest expense		(2,690,258)	(2,219,819)
<b>Net interest income</b>		<b>2,799,691</b>	<b>1,974,189</b>
Fee and commission income	5	2,294,615	4,436,517
Fee and commission expense	5	(1,124,438)	(2,348,175)
<b>Net fee and commission income</b>		<b>1,170,177</b>	<b>2,088,342</b>
Other fee income		413,151	487,851
<b>Total income</b>		<b>4,383,019</b>	<b>4,550,382</b>
Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss		(225,719)	106,522
<b>Total operating income</b>		<b>4,157,300</b>	<b>4,656,904</b>
Administrative expenses	6	(3,522,179)	(4,410,815)
Write off of loans and advances to customers		(158,423)	(2,150,661)
Impairment of inter-company assets	9	-	-
Amortisation of intangible assets	10	(9,083)	(9,083)
<b>Profit/(loss) from operations</b>		<b>467,615</b>	<b>(1,913,655)</b>
Bank interest		13	29
<b>Profit/(loss) before tax</b>		<b>467,628</b>	<b>(1,913,626)</b>
Income tax charge		-	-
<b>Profit/(loss) after taxation - attributable to the equity holders of the Company</b>		<b>467,628</b>	<b>(1,913,626)</b>
	<b>Notes</b>	<b>Period ended 30 June 2019 £</b>	<b>Period ended 30 June 2018 * £</b>
Profit/(loss) after taxation - attributable to the equity holders of the Company		<b>467,628</b>	<b>(1,913,626)</b>
Impairment of loans and advances to customers (net)	9	(2,239,748)	3,486,279
Tax on other comprehensive income		-	-
<b>Total other comprehensive income/(loss) for the period, net of taxation</b>		<b>(2,239,748)</b>	<b>3,486,279</b>
<b>Total comprehensive loss for the period, net of taxation</b>		<b>(1,772,120)</b>	<b>1,572,653</b>

\* See note 15 for additional financial information in respect of the year ended 31 December 2018.

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

The accounting policies and notes set out on pages 12 to 23 form an integral part of these financial statements.

# WELLESLEY FINANCE PLC

## Half-yearly statement of financial position as at 30 June 2019

	Notes	As at 30 June 2019 £	As at 30 June 2018 £
<b>Assets</b>			
<i>Non-current assets</i>			
Intangible assets	10	29,339	47,505
Loans and advances to customers	8	22,625,693	27,459,104
Deferred tax asset		825	825
		<b>22,655,857</b>	<b>27,507,434</b>
<i>Current assets</i>			
Cash and cash equivalents		6,307,240	13,298,428
Loans and advances to customers	8	54,301,664	35,816,223
Other assets	11	17,726,490	20,209,522
<b>Total assets</b>		<b>100,991,251</b>	<b>96,831,608</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Other liabilities	12	6,319,315	9,169,668
Interest-bearing loans and borrowings	13	27,004,733	11,138,737
		<b>33,324,048</b>	<b>20,308,405</b>
<i>Non-current liabilities</i>			
Interest-bearing loans and borrowings	13	78,089,377	74,588,033
Derivative financial liabilities		552,683	219,267
<b>Total liabilities</b>		<b>111,966,108</b>	<b>95,115,704</b>
<b>Net assets</b>		<b>(10,974,857)</b>	<b>1,715,904</b>
<b>Equity</b>			
Share capital	14	50,000	50,000
Retained earnings		(11,024,857)	1,665,904
<b>Total equity</b>		<b>(10,974,857)</b>	<b>1,715,904</b>

# WELLESLEY FINANCE PLC

## Half-yearly statement of changes in equity for the six months ended 30 June 2019

	Share capital £	Retained earnings £	Total equity £
<b>Balance at 1 January 2019</b>	<b>50,000</b>	<b>(9,252,737)</b>	<b>(9,202,737)</b>
<b>Total comprehensive income for the period</b>			
Profit for the period	-	467,628	467,628
Other comprehensive loss	-	(2,239,748)	(2,239,748)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(1,772,120)</b>	<b>(1,772,120)</b>
<b>Balance at 30 June 2019</b>	<b>50,000</b>	<b>(11,024,857)</b>	<b>(10,974,857)</b>

	Share capital £	Retained earnings £	Total equity £
<b>Balance at 1 January 2018</b>	<b>50,000</b>	<b>93,250</b>	<b>143,250</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	-	(1,913,626)	(1,913,626)
Other comprehensive income	-	3,486,279	3,486,279
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>1,572,653</b>	<b>1,572,653</b>
<b>Balance at 30 June 2018</b>	<b>50,000</b>	<b>1,665,904</b>	<b>1,715,904</b>

The notes on pages 12 to 23 are an integral part of these financial statement

# WELLESLEY FINANCE PLC

## Half-yearly statement of cash flows for the six months ended 30 June 2019

	Period ended 30 June 2019 £	Period ended 30 June 2018 £
<b>Cash flows from operating activities</b>		
Profit/(loss) before taxation	467,628	(1,913,626)
<b>Adjustments for non-cash items:</b>		
Amortisation of intangible assets	9,083	9,083
Interest expense on loans and borrowings	2,690,259	2,219,819
Net expense from derivatives and other financial instruments at fair value through profit or loss	(33,174)	(352,628)
Impairment losses on inter-company balances		
Write off of loans and advances	158,423	2,150,661
Foreign currency revaluation of loans and advances	133,172	135,138
	<u>3,425,390</u>	<u>2,248,447</u>
<b>Adjustments for working capital items and loans &amp; advances:</b>		
Increase in other assets	(229,829)	(3,791,397)
(Decrease)/increase in other liabilities	(1,761,610)	3,095,481
Decrease/(increase) in operating assets	516,244	(5,072,575)
<b>Net cash flows used in operating activities</b>	<b>1,950,194</b>	<b>(3,520,045)</b>
<b>Cash flows from investing activities</b>		
Purchase of listed bonds	(5,000)	(225,000)
Sale of portions of loans and advances	(253,000)	-
<b>Net cash generated by investing activities</b>	<b>(258,000)</b>	<b>(225,000)</b>
<b>Cash flows from financing activities</b>		
Proceeds from interest-bearing loans and borrowings, net of transaction costs	11,815,584	15,144,278
Repayment of interest-bearing loans and borrowings	(7,082,141)	(9,063,870)
Interest payment on loans and borrowings	(1,869,804)	(1,025,368)
<b>Net cash generated by financing activities</b>	<b>2,863,639</b>	<b>5,055,040</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,555,833</b>	<b>1,309,995</b>
Cash and cash equivalents at the start of the year	1,780,735	11,997,245
Foreign currency revaluation of cash balances	(29,329)	(8,811)
<b>Cash and cash equivalents at the end of the year</b>	<b>6,307,240</b>	<b>13,298,428</b>

The notes on pages 12 to 23 are an integral part of these financial statements.

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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### 1 Nature of operations

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

### 2 Basis of preparation

#### 2.1 Accounting basis

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

The accounting period is the six-month period ended 30 June 2019 and the comparative period is the six-month period ended 30 June 2018.

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 other comprehensive income.

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.

#### 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 Company 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 25.

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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### **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.

### **3.4 Fees payable**

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

### **3.5 Financial instruments – recognition and de-recognition**

#### *Recognition*

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

#### *De-recognition*

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

Financial assets are derecognised when:

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

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

The Company's accounting policy is as follows:

#### *Loans and receivables*

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

### **3.6 Financial instruments**

#### Financial Assets

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

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

#### *Expected Credit Losses ("ECL") – Development loan portfolio*

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

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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

ECL's are calculated in a way that reflects:

- An unbiased and probability weighted amount that evaluates several potential outcomes, including scenarios where a loss does and does not occur, and based on the maximum contractual period (including extension options) that Wellesley is exposed to credit risk. For undrawn loan commitments, Wellesley's ability to demand repayment and cancel the undrawn commitment does not limit the exposure of credit losses to the notice period;
- The time value of money; and
- Reasonable and supportable information, available without undue cost or effort, about past events, current conditions and future economic conditions.

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

### *Expected Credit Losses ("ECL") – Inter-company receivables*

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

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

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

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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### 3.7 Financial instruments and fair values

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

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

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the issue of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take 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 Company enters into derivative transactions only for the purpose of reducing exposure to fluctuations in exchange rates; they are not used for proprietary trading purposes.

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

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

### 3.9 Provisions

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

### 3.10 Foreign currencies

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

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

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

### 3.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the statement of comprehensive income except to the extent that it 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.

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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

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

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

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

### 3.12 Intangible assets

#### *Database software*

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

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

Database software 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 database software assets is five years.

### 3.13 Equity instruments

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

### 3.14 Cash and cash equivalents

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

## 4 Critical accounting estimates and judgements

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

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

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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The following are deemed to be judgements:

### *IFRS 9 – business model assessment*

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

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

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

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

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

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

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

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

### *EIRs*

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

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

### *Loan impairment provisions*

Loan portfolios across the Company 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.

### *Balances owed by group undertakings*

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

These inter-company debts are repayable on demand, but the Directors have no plans to demand repayment in the foreseeable future. Such inter-company funding is not unusual when businesses are in early stage and/or pre-IPO.

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

Notwithstanding this assessment, IFRS 9's implementation requires the Directors to make an assessment as to what potential future losses could be suffered. As a result, an assessment of various scenarios was completed, and this led to an expected credit loss of £2.8m being recognised at 31 December 2018. No further charge has been recognised in this 6-month period.

### *Acting as agent*

The Company 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 Company assesses its intangible assets at least annually for evidence of impairment. Where the asset is under development, the Company considers whether it is reasonably likely to complete the asset and bring it to use. The Company also considers if the asset will generate sufficient economic benefit over the and above the current carrying value of the asset. See note 13 for details.

## 5 Fee and commission income/expense

	Period ended 30 June 2019	Period ended 30 June 2018
	£	£
Income on loans and advances to customers - agent	2,294,615	4,436,517
Fee expense on Peer-to-Peer capital - agent	(1,124,438)	(2,348,175)
	<b>1,170,177</b>	<b>2,088,342</b>

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

### 6 Administrative expenses

	Notes	Period ended 30 June 2019	Period ended 30 June 2018
		£	£
Staff costs	7	552,988	658,739
Advertising & marketing		281,313	91,590
Legal & professional		683,988	115,659
Irrecoverable VAT		-	33,366
FX on foreign currency loans		133,172	135,138
Management charge		1,619,026	3,119,802
Other administrative expenses		251,692	256,522
		<b>3,522,179</b>	<b>4,410,815</b>

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

### 7 Staff costs

Staff cost have been split as follows:

	Period ended 30 June 2019	Period ended 30 June 2018
	£	£
<i>Wages and salaries</i>		
Central functions	31,667	50,000
Operations	8,333	9,346
Credit operations	165,732	129,339
Loan origination	262,244	382,449
	<b>467,976</b>	<b>571,134</b>
Social security costs	67,945	70,939
Pension costs	16,968	16,665
Employee benefits	100	-
	<b>552,988</b>	<b>658,739</b>

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

	Period ended 30 June 2019	Period ended 30 June 2018
Central functions	1	1
Operations	-	1
Credit operations	4	4
Loan origination	5	7
	<b>10</b>	<b>13</b>

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

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

### 8 Loans and advances to customers

	As at 30 June 2019 £	As at 30 June 2018 £
Gross loan receivables	87,607,406	69,132,675
Less provisions	(10,680,049)	(5,857,349)
	<b>76,927,357</b>	<b>63,275,327</b>
Amounts falling due:		
Within one year	54,301,664	35,816,223
In the second to fifth year inclusive	22,625,693	27,459,104
	<b>76,927,357</b>	<b>63,275,327</b>

### 9 Provisions

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

	As at 30 June 2019 £	As at 30 June 2018 £
At the beginning of the period	11,240,301	9,343,628
Charge for provisions on loans and advances to customers	2,239,748	(3,453,279)
Charge for provisions on loans to other group entities	-	-
Write back of provisions	-	(33,000)
<b>At the end of the period</b>	<b>13,480,049</b>	<b>5,857,349</b>

The provision is made against loans and advances to customers. The provision is estimated to realise in the next 12-24 months.

### 10 Intangible assets

Database software	As at 30 June 2019 £	As at 30 June 2018 £
<i>Cost</i>		
At the beginning of the period	90,830	90,830
Additions	-	-
Disposals	-	-
<b>At the end of the period</b>	<b>90,830</b>	<b>90,830</b>
<i>Amortisation</i>		
At the beginning of the period	52,408	34,242
Amortisation charge for the period	9,083	9,083
Disposals	-	-
<b>At the end of the period</b>	<b>61,491</b>	<b>43,325</b>
<i>Net book value</i>		
<b>At the beginning of the period</b>	<b>38,422</b>	<b>56,588</b>
<b>At the end of the period</b>	<b>29,339</b>	<b>47,505</b>

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

### 11 Other assets

	As at 30 June 2019	As at 30 June 2018
	£	£
Other receivables	581,052	624,085
Prepayments	10,625	275,812
Balance owed by group undertakings	16,135,794	18,276,910
Balance owed by affiliate entity	999,019	1,032,716
	<b>17,726,490</b>	<b>20,209,522</b>

The balance owed by group undertakings of £16,135,794 is net of an expected credit loss of £2,800,000 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. These amounts are unsecured, have no fixed repayment date and are interest free.

Balances owed by the affiliated entity represent subordinated loans issued on a series by series basis. They earn interest at 6% per annum and maturities vary depending on each series.

### 12 Other liabilities

	As at 30 June 2019	As at 30 June 2018
	£	£
Trade payables	26,677	76,025
Other taxation and social security costs	176,595	186,859
Accruals and deferred income	112,105	119,238
Other payables	3,795,401	7,798,518
Balance owed to group undertakings	2,208,535	989,028
	<b>6,319,315</b>	<b>9,169,668</b>

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

### 13 Interest-bearing loans and borrowings

	As at 30 June 2019	As at 30 June 2018
	£	£
At the beginning of the period	99,540,212	78,451,910
Issued in the period	11,849,512	15,030,278
Redeemed in the period	(7,082,141)	(9,063,870)
Net accrued interest movement	820,454	1,194,451
Transaction costs, net	(33,928)	114,001
<b>Total interest-bearing loans and borrowings at the end of the period</b>	<b>105,094,110</b>	<b>85,726,770</b>
Due within one year	27,004,733	11,138,737
Due over one year	78,089,377	74,588,033
	<b>105,094,110</b>	<b>85,726,770</b>

The capital outstanding within Interest-bearing loans and borrowings is for Minibond £102,570,261 (30 June 2018: £83,727,258). The Minibonds are comprised of both secured and unsecured bonds and have a weighted average interest rate of 5.4%.

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

14 Share capital	As at 30 June 2019 £	As at 30 June 2018 £
50,000 issued ordinary shares at £1 each (50,000 authorised ordinary shares at £1 each)	50,000	50,000
	<b>50,000</b>	<b>50,000</b>

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

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

### 15 Financial information in respect of the year ended 31 December 2018

The second half of the financial year ended 31 December 2018 showed a material movement away from the performance noted in the first half of the same year. Accordingly, and to be fully transparent, included below is a comparison of the financial performance for the first six-month period of 2018, against the full 2018 financial performance.

Statement of Profit & Loss and Other Comprehensive Income	Year ended 31 December 2018 £	Period ended 30 June 2018 £
Interest income	7,675,294	4,194,008
Interest expense	(4,650,953)	(2,219,819)
Net interest income	3,024,341	1,974,189
Fee and commission income	6,916,639	4,436,517
Fee and commission expense	(4,191,235)	(2,348,175)
Net fee and commission income	2,725,404	2,088,342
Other fee income	770,758	487,851
<b>Total income</b>	<b>6,520,503</b>	<b>4,550,382</b>
Net (expense)/income from derivatives at fair value through profit or loss	(374,631)	106,522
<b>Total operating income</b>	<b>6,145,872</b>	<b>4,656,904</b>
Administrative expenses	(7,521,449)	(4,410,815)
Write off of loans and advances to customers	(6,055,603)	(2,150,661)
Impairment of inter-company assets	(2,800,000)	-
Amortisation of intangible assets	(18,166)	(9,083)
<b>Loss from operations</b>	<b>(10,249,346)</b>	<b>(1,913,655)</b>
Bank interest	32	29
<b>Loss before tax</b>	<b>(10,249,314)</b>	<b>(1,913,626)</b>
Income tax charge	-	-
<b>Loss after taxation</b>	<b>(10,249,314)</b>	<b>(1,913,626)</b>
	Year ended 31 December 2018 £	Period ended 30 June 2018 £
Loss after taxation	(10,249,314)	(1,913,626)
Impairment of loans and advances to customers (net)	903,327	3,486,279
Tax on other comprehensive income	-	-
<b>Total other comprehensive income for the year/period</b>	<b>903,327</b>	<b>3,486,279</b>
<b>Total comprehensive (loss)/profit for the year/period</b>	<b>(9,345,987)</b>	<b>1,572,653</b>

# WELLESLEY FINANCE PLC

## Notes forming part of the financial statements for the six months ended 30 June 2019

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### **16 Ultimate controlling party**

Wellesley Group Limited, a company incorporated in England, is the immediate parent of the Company. Wellesley Group Investors Limited, parent of Wellesley Group Limited, prepares consolidated financial statements which includes the results of the Company for the year.

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