

WELLESLEY FINANCE PLC

Annual Report and Financial Statements

For year ended 31 December 2016

Company Number 08331511

WELLESLEY FINANCE PLC

Report and financial statements
For year ended 31 December 2016

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WELLESLEY FINANCE PLC

Officers and advisers

Directors

Alastair Caie (Resigned 21 November 2016)
Andrew Moffat (Resigned 27 May 2016)
Andrew Turnbull
Garret Graham Wellesley
Gary Sher (Resigned 4 July 2016)
Paul Cragg (Resigned 29 March 2016)

Registered Office

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

Company Registration Number

08331511

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Bankers

Barclays, Leicester, Leicestershire, LE87 2BB

Lloyds, Threadneedle Street, London, EC2R 8AY

Legal Advisers

GRM Law, 1 Bedford Row, London, WC1R 4BZ

Montgomery Baker, 48 Warwick Street, London, W1B 5AW

Memery Crystal LLP, 44 Southampton Buildings, London, WC2A 1AP

WELLESLEY FINANCE PLC

Strategic report For year ended 31 December 2016

Overview

Wellesley Finance Plc (the “Company”) is principally engaged in the provision of finance for medium sized developers to enable them to build mid market homes in England and Wales. These are managed by separate origination teams, supported by a credit committee and loans administration functions.

Development loans will tend to have a typical duration of up to 24 months, and will encompass both major refurbishments and ground up development. Borrowers are usually medium sized experienced developers with loans from £2m to £20m in scale.

Funding for the business is sourced primarily through the Wellesley Group, in particular Wellesley & Co Limited that provides funding from its own peer to peer customers. The Company supplements this funding through two main areas on its statement of financial position:

1. Minibond – This is on balance sheet funding raised for terms ranging one to seven years.
2. Listed ISA Bond – An Irish stock exchange ISA eligible product.

Business and Financial Review

The Company’s income decreased by £1.8m to £11.8m (2015: £13.5m). On a like for like annualised basis, the income increased £2.7m as a result of more stringent and robust management of the loan portfolio.

The Company’s administrative expenses decreased £3.4m to £9.3m (2015: restated £12.7m). On a like for like annualised basis, administration expenses increased by £0.8m. This was driven by a higher annualised management charge of £5.4m (annualised 2015: £4.2m) from Wellesley & Co Limited which covered the marketing, promotional and other operating costs of the peer to peer platform. The annualised staff costs also increased £0.5m to £3.2m (annualised 2015: £2.6m).

The Company has generated a profit before tax of £1.4m (2015: restated £1.7m). On a like for like annualised basis, the profit before tax increased £0.2m. This was as a result of the reasons above and a £2.1m share of profits in its joint venture arrangement.

The Board are pleased with the ongoing profitability for the entity. This is after a specific assessment of the entire book for provisions, which identified the requirement for additional provisions of £3.4m (2015: £1.3m). The Company incurred realised losses of £2.1m (2015: £Nil) on four loans during the year. Lifetime losses to 31 December as a percentage of gross loans drawn was 1%, down from 1.2% in 2015. The Board anticipates this figure to continue to fall as the incidence of loan losses falls and the loan portfolio grows with more stringent and selective credit policies. During the year, the Company ceased operations in respect of bridging loans with the primary focus on development loans.

The Company benefits significantly from the wider Wellesley Group and its ability to obtain funding to enhance its business and product offering.

Key Performance Indicators (“KPIs”)

The KPIs of the business at 31 December 2016 are: Gross Loan Book ⁽¹⁾ - £164m (2015: £147m), Net interest margin (“NIM”)⁽²⁾ – 7% (2015: 9%), and Profit before tax % - 12% (2015: 13%).

The KPIs represent important measures to monitor the performance of the business. The director’s review and consider these KPIs on a monthly basis and in board meetings in order to assess the performance. This enables decisions to be made on the direction of the business.

(1) Gross Loan Book – net lending plus interest receivable

(2) NIM – net interest income/gross loan book

WELLESLEY FINANCE PLC

Strategic report (Continued)
For year ended 31 December 2016

Future Developments

As we progress into 2017, key priorities include:

- Continuing to grow through building high quality, enduring relationships with our borrowers;
- Ensuring that we grow at a rate that is sustainable; and
- Further development of our risk management framework and robust governance procedures.

Principal risks and uncertainties

The principal risks to the Company are as follows:

- Credit risk

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

Contractual commitments represent agreements entered into but not advanced as at 31 December 2016.

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 2016 was £391m (2015: £41m). 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.

WELLESLEY FINANCE PLC

Strategic report (Continued)
For year ended 31 December 2016

- Operational and people risk

The Company is exposed to the risk of losses arising from inadequate or failed procedures, systems or policies and other events that disrupt business processes.

As the Company grows and average loan sizes reduce, the Company faces increased operational risk within the lending and fund raising 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 concern 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 who 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;
- introduction of a number of documented procedure manuals and simplification of processes through the introduction of software; and
- a potential introduction of an employee incentive scheme (yet to be approved) which will include medical, critical illness cover, pension etc.

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

The main risks arising from the Company's financial instruments are detailed in note 22.

Graham Wellesley
Director

Approved by order of the Board on

WELLESLEY FINANCE PLC

Report of the Directors For year ended 31 December 2016

The Directors present the Strategic Report, Directors' Report and the financial statements of Wellesley Finance plc for the year ended 31 December 2016. The directors of the Company during the year were those listed on page 2. The Company has indemnity insurance for all directors of the Company.

Results and dividends

The Company profit for the year before taxation was £1.4m (2015: Restated £1.7m).

The directors do not recommend the payment of a final dividend (2015: £Nil).

Principal activities

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

Principal risks and uncertainties

The principal risks and management, including financial risk management are detailed in the Strategic Report on page 3.

Future developments

The future developments of the Company are detailed in the Strategic Report on page 3.

Post balance sheet events

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

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 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 and Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WELLESLEY FINANCE PLC

Report of the Directors *(continued)*
For year ended 31 December 2016

Auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/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 Company's auditor is aware of that information.

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

It was resolved to appoint BDO LLP as auditors. It is proposed to re-appoint BDO LLP as auditor at the Annual General Meeting.

Graham Wellesley
Director

Approved by the Board of Directors and signed on behalf of the Board on

WELLESLEY FINANCE PLC

Independent auditor's report For year ended 31 December 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WELLESLEY FINANCE PLC

We have audited the financial statements of Wellesley Finance Plc for the year ended 31 December 2016 which comprise the statement of income, statement of other comprehensive income, statement of financial position, the statement of changes in equity, the statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

WELLESLEY FINANCE PLC

Independent auditor's report
For year ended 31 December 2016

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Leigh Treacy (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

WELLESLEY FINANCE PLC

Statement of income For year ended 31 December 2016

	Notes	Year to 31 December 2016	18 month Period to 31 December 2015
		£	Restated £
Interest income		1,742,117	2,440,648
Interest expense		(2,165,141)	(3,208,207)
Net interest income		(423,024)	(767,559)
Fees and commission income	5	12,192,893	14,302,018
Total income		11,769,869	13,534,459
Other operating income		694,503	1,675,982
Net (expense)/income from derivatives and other financial instruments at fair value through profit or loss		(1,221,394)	786,023
Total operating income		11,242,978	15,996,464
Administrative expenses	6	(9,263,290)	(12,693,772)
Impairment of loans and advances	13	(3,442,625)	(1,293,260)
Write back of loans and advances	13	2,878,158	-
Write off of loans and advances		(2,114,550)	-
Amortisation	15	(23,756)	-
(Loss)/profit from operations		(723,085)	2,009,432
Bank interest		3,158	4,515
Interest expense		-	(269,180)
Share of profit in joint venture arrangement	12	2,149,766	-
Profit before tax		1,429,839	1,744,767
Income tax charge	10	(85,901)	-
Profit after taxation - attributable to the equity holders of the Company		1,343,938	1,744,767

Statement of other comprehensive income For year ended 31 December 2016

	Year to 31 December 2016	18 month Period to 31 December 2015
	£	Restated £
Profit after taxation - attributable to the equity holders of the Company	1,343,938	1,744,767
Tax on other comprehensive income	-	-
Total other comprehensive income for the year, net of taxation	-	-
Total comprehensive income for the year, net of taxation	1,343,938	1,744,767

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

The accounting policies and notes set out on pages 14 to 46 form an integral part of these financial statements.

WELLESLEY FINANCE PLC

Statement of financial position For year ended 31 December 2016

	Notes	31 December 2016	31 December 2015	1 July 2014
		£	Restated £	Restated £
Assets				
<i>Non-current assets</i>				
Intangible assets	15	102,032	63,777	-
Loans and advances to customers	11	3,082,863	404,294	304,534
Joint venture arrangement	12	3,263,553	1,113,787	-
		6,448,448	1,581,858	304,534
<i>Current assets</i>				
Cash and cash equivalents		26,913,828	22,037,630	1,421,881
Loans and advances to customers	11	31,295,229	15,988,345	702,538
Derivative financial assets	14	-	786,024	-
Other assets	16	16,903,072	7,318,449	4,751,998
		81,560,577	47,712,306	7,180,951
Total assets				
Liabilities				
<i>Current liabilities</i>				
Other liabilities	17	27,006,422	15,616,516	7,003,401
Interest-bearing loans and borrowings	18	-	-	-
		27,006,422	15,616,516	7,003,401
<i>Non-current liabilities</i>				
Interest-bearing loans and borrowings	18	50,854,077	30,173,473	-
Derivative financial liabilities	14	433,823	-	-
		78,294,322	45,789,989	7,003,401
Total liabilities				
Net assets				
Equity				
Share capital	19	50,000	50,000	50,000
Retained earnings		3,216,255	1,872,317	127,550
		3,266,255	1,922,317	177,550

The notes on pages 14 to 46 are an integral part of these financial statements.

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

Andrew Turnbull
Director
Company number 08331511

Graham Wellesley
Director

WELLESLEY FINANCE PLC

Statement of changes in equity For year ended 31 December 2016

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2016	50,000	1,872,317	1,922,317
Total comprehensive income for the year			
Profit for the year	-	1,343,938	1,343,938
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,343,938	1,343,938
Transactions with owners recorded directly in equity:			
Issue of shares	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance at 31 December 2016	50,000	3,216,255	3,266,255
Balance at 1 July 2014	50,000	(855,486)	(805,486)
Prior period error restatement	-	983,036	983,036
Balance at 1 July 2014 (Restated)	50,000	127,550	177,550
Total comprehensive income for the period			
Profit for the period	-	1,187,160	1,187,160
Other comprehensive income	-	-	-
Prior period error restatement	-	557,607	557,607
Restated profit	-	1,744,767	1,744,767
Total comprehensive income for the period	-	1,744,767	1,744,767
Transactions with owners recorded directly in equity:			
Issue of shares	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance at 31 December 2015	50,000	1,872,317	1,922,317

The notes on pages 14 to 46 are an integral part of these financial statements.

WELLESLEY FINANCE PLC

Statement of cash flows For year ended 31 December 2016

	Year to 31 December 2016	18 months Period to 31 December 2015
	£	Restated £
Cash flows from operating activities		
Profit before taxation	1,429,839	1,744,767
Adjustments for non-cash items:		
Amortisation	23,756	-
Net expense/interest from derivatives and other financial instruments at fair value through profit or loss	1,221,394	(786,024)
Impairment losses on loans and advances	3,442,625	1,293,260
(Write back) on loans and advances	(2,878,158)	-
Write off of loans and advances	2,114,550	-
Foreign currency revaluation of loans and advances	(1,172,576)	290,868
Share of profit in joint venture arrangement	(2,149,766)	-
Write off of payable	-	301,375
	<u>2,031,664</u>	<u>2,844,246</u>
Adjustments for working capital items and loans & advances:		
(Increase) in other assets	(9,584,623)	(2,583,033)
Increase in other liabilities	10,809,856	8,036,899
(Increase) in operating assets	(18,316,400)	(17,715,268)
Tax (paid)	-	(115,301)
Net cash flows used in operating activities	<u>(15,059,503)</u>	<u>(9,532,457)</u>
Cash flows from financing activities		
Proceeds from interest-bearing loans and borrowings	20,508,464	32,495,310
Repayment of interest-bearing loans and borrowings	(621,040)	(2,321,837)
Net cash used in financing activities	<u>19,887,424</u>	<u>30,173,473</u>
Net increase in cash and cash equivalents	<u>4,827,921</u>	<u>20,641,016</u>
Cash and cash equivalents at the start of the year	22,037,630	1,421,881
Foreign currency revaluation of cash balances	48,277	(25,267)
Movement during the year	4,827,921	20,641,016
Cash and cash equivalents at the end of the year	<u>26,913,828</u>	<u>22,037,630</u>

The notes on pages 14 to 46 are an integral part of these financial statements.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

1 Nature of operations

Wellesley Finance Plc, is a provider of finance to medium sized developers with the funding they need to build mid market homes in England and Wales.

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 comparatives are for the 18 month period to 31 December 2015.

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
- debt securities 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.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Note 4.

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

The financial statements of the Company were restated for the prior period. The immediate parent of the Company, Wellesley Group Investors Limited (the "Group"), signed its financial statements for the prior period after the Company. There were several adjustments in relation to changes to estimates in the Group financial statements which have impacted the Company's prior year results. Details of these adjustments are in note 25.

2.2 Future accounting developments

New standards and amendments

There have been no new standards having a material impact on the financial statements for the period. 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 9 – Financial instruments classification and measurement. Applicable for financial years beginning on or after 1 January 2018. IFRS 9 was endorsed by the EU in September 2016.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

2 Basis of preparation *(Continued)*

2.2 Future accounting developments *(Continued)*

- IFRS 15 – Revenue from contracts with customers. Applicable for financial years beginning on or after 1 January 2018. IFRS 15 was endorsed by the EU in October 2016.
- IFRS 16 – Leases. Applicable for financial years beginning on or after 1 January 2019. IFRS 16 is yet to be endorsed by the EU

The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting.

The key changes relate to:

- Financial assets: Financial assets will be held at either fair value or amortised cost, except for equity investments not held for trading and certain debt instruments, which may be held at fair value through other comprehensive income;
- Financial liabilities: Gains and losses arising from changes in own credit on non-derivative financial liabilities designated at fair value through profit or loss will be excluded from the income statement and instead taken to other comprehensive income; and
- Impairment: Credit losses expected at the statement of financial position date (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances.

Adoption is not mandatory until periods beginning on or after 1 January 2018. The standard was endorsed by the EU in September 2016. A work stream will be undertaken in 2017 to assess the impact of this standard on the Company.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue will replace 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. A work stream will be undertaken in 2017 to assess the impact of this standard on the Company.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

2 Basis of preparation *(Continued)*

2.2 Future accounting developments *(Continued)*

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. A work stream will be undertaken in 2017 to assess the impact of this standard on the Company.

2.3 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied 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). In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Company's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking management actions into account as appropriate if the additional capital needed to continue the forecast growth strategy is not forthcoming.

3 Significant accounting policies

3.1 Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate ("EIR") basis in accordance with IAS 39. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the instrument but does not consider the assets' future credit losses.

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 income statement 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 income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis

The Company recognises its portion of each sterling denominated loan and advance originated on its statement of financial position. In addition, in respect of euro denominated loans and advances, the Company holds 100% of these on its statement of financial position. Interest income and interest expense is recognised on these balances as outlined above.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements
For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.2 Fees and commission income

For the remaining portion of originated loans and advances, the Company acts as an agent on behalf of P2P customers who are fully exposed to the risks and rewards of these loans and advances. As a result, the Company presents its fees and commissions income net.

3.3 Other operating income

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

Undrawn fees, legal 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

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 fee 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.

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 they are qualifying transfers and:

- 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 income statement.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.6 Financial instruments

Financial Assets

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

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 and that the Company does not intend to sell immediately or in the near term. These are initially measured at fair value plus transactions costs that are directly attributable to the financial asset. Subsequently, they are measured at amortised cost using the EIR. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to customers.

The Company recognises its portion of each sterling denominated loan and advance originated on its statement of financial position. In addition, in respect of euro denominated loans and advances, the Company holds 100% of these on its statement of financial position.

For the remaining portion of originated loans and advances, the Company acts as an agent on behalf of peer to peer customers who are fully exposed to the risks and rewards of these loans and advances.

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 income statement 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.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

3 Significant accounting policies (Continued)

3.6 Financial instruments (Continued)

Impairment loss

All financial assets that are not found to be individually impaired are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

On an on-going basis the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 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 income statement.

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 income statement. 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. Management have considered the requirement for a collective provision concluding that it will be nil at the period end.

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.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.8 Joint venture arrangements

Joint ventures are arrangements in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement and are accounted for using the equity method of accounting in line with IFRS 11 Joint Arrangements.

Subsequently, joint ventures are accounted for using the equity method, where the Company's share of post-acquisition profits and losses and other comprehensive income are recognised in the statement of income.

The Company has non-uniform accounting policies with the joint venture. An adjustment has been made to measure the fair value of an investment property under construction, that had previously been measured at cost, as fair value could not be reliably calculated.

3.9 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.

3.10 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.

3.11 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.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.12 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.

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.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements
For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.13 Intangible assets

Website and brand development

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

Website and brand development assets are amortised on a straight line basis in the income statement over its useful life from the date it is available for use. The estimated useful life of website and brand assets is five years.

If impairment is indicated, the asset's recoverable amount (being the greater of fair value less costs to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and fair value less costs to sell, an impairment loss is recognised in the income statement.

ISA & mini bond setup fees

Expenditure on ISA and mini bond setup fees is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the raising of the ISA and mini bonds. The Company will generate future economic benefits from these set up fees.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

3 Significant accounting policies *(Continued)*

3.14 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.

3.15 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 Use of estimates and judgements

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

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

The following are deemed to be judgements:

EIRs

IAS 39 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.

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 13 for details.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

4 Use of estimates and judgements (Continued)

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 15 for details.

5 Fees and commission income

	Year to 31 December 2016	18 month Period to 31 December 2015 Restated
	£	£
Fees and commission income	12,192,893	14,302,018
	12,192,893	14,302,018

6 Administrative expenses

		Year to 31 December 2016	18 month Period to 31 December 2015 Restated
	Note	£	£
Staff costs	7	3,159,598	3,965,112
Advertising & marketing		127,494	-
Legal & professional		340,255	104,027
Irrecoverable VAT		914,478	1,316,658
FX on foreign currency loans		(1,170,619)	805,965
Management charge	23	5,431,400	6,252,779
Other administrative expenses		460,684	249,231
		9,263,290	12,693,772

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

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

7 Staff costs

	Year to 31 December 2016	18 month Period to 31 December 2015 Restated
	£	£
Staff cost have been allocated per department as follows:		
Wages and salaries		
Central functions	453,283	816,247
Directors	508,654	1,569,531
Operations	439,416	257,170
Credit operations	498,893	105,635
Loan origination	925,254	859,792
	2,825,500	3,608,375
Social security costs	334,098	356,737
	3,159,598	3,965,112

	Year to 31 December 2016	18 month Period to 31 December 2015 Restated
Staff numbers have been allocated per department as follows at the year end:		
Central functions	6	8
Directors	3	4
Operations	4	4
Credit operations	10	1
Loan origination	11	7
	34	24

The average number of persons employed by the Company during the year was 34 (31 December 2015: 24)

All key management personnel are directors of the Company.

8 Key management personnel remuneration

	Year to 31 December 2016	18 month Period to 31 December 2015
	£	£
Directors' emoluments	508,654	1,569,531
Redundancy costs	30,000	-
	538,654	1,569,531

The emoluments for the highest paid director during the year was £181,282 (31 December 2015: £447,475).

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

9 Auditor's remuneration

	Year to 31 December 2016	18 month Period to 31 December 2015
	£	£
Auditor's remuneration	27,500	27,500
<i>Amounts receivable by the Company's auditor and their associates in respect of other services:</i>		
Tax compliance services	6,000	6,000
	33,500	33,500

10 Taxation

	Year to 31 December 2016	18 month Period to 31 December 2015 Restated
	£	£
Recognised in the Statement of Comprehensive Income		
Current tax:		
UK corporation tax at 20% (2015: 20.50%)	(1,825)	-
Total current tax	(1,825)	-
Deferred tax:		
Origination and reversal of temporary difference	87,726	-
Total deferred tax	87,726	-
Total tax charge/(credit)	85,901	-
Reconciliation of tax charge:		
Profit on ordinary activities before tax	1,429,839	1,744,767
Tax on profit on ordinary activities at standard corporation tax rate of 20% (2015: 20.50%)	285,968	357,677
Effects of:		
Expenses not deductible for tax purposes	16,137	-
Adjustments for losses	-	-
Adjustment to tax charge in respect of previous periods	(1,825)	-
Income not taxable for tax purposes	-	(432,167)
Group relief (claimed)/surrendered	(232,730)	74,490
Effect of rate change on deferred tax	(5,181)	-
Adjustment to tax charge in respect of previous period	23,532	-
Total tax charge	85,901	-

WELLESLEY FINANCE PLC

Notes forming part of the financial statements
For year ended 31 December 2016

11 Loans and advances to customers

	31 December 2016	31 December 2015
	£	Restated £
Gross loan receivables	36,235,819	17,685,899
Less provisions	(1,857,727)	(1,293,260)
	34,378,092	16,392,639
Amounts falling due:		
Within one year	31,295,229	15,988,345
In the second to fifth year inclusive	3,082,863	404,294
After five years	-	-
	34,378,092	16,392,639

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

12 Joint ventures

	31 December 2016	31 December 2015
	£	£
Opening balance	1,113,787	-
Cost of investment in joint venture	-	1,113,787
Company share of profit of joint venture	2,149,766	-
	3,263,553	1,113,787

In September 2015, the Company undertook a restructuring of one of its loans in Spain. As a result of this restructuring, the Company entered into a 50:50 joint venture with the underlying Spanish operating company, International Can Puig Building, Sociedad Limitada. 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.

Due to the disproportionate cost of obtaining financial statements for this joint venture in the prior period, the directors did not include disclosure of the assets and liabilities or the profit or loss for the period.

Summarised financial information in relation to the joint venture is presented below:

	31 December 2016	31 December 2015
	£	£
Current assets	10,774,703	-
Fair value adjustment	7,183,448	-
Current liabilities	268,361	-
Non-current liabilities	11,162,684	-
<i>Included in the above amounts are:</i>		
Cash and cash equivalents	15,722	-
Current financial liabilities (excluding trade payables)	-	-
Non-current financial liabilities (excluding trade payables)	11,162,684	-
Net assets	6,527,106	-
Company share of net assets (50%)	3,263,553	-
Profit from continuing operations	4,299,532	-
Company share of profit from continuing operations (50%)	2,149,766	-

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

13 Provisions

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

	31 December 2016	31 December 2015
	£	£
At the beginning of the year	1,293,260	-
Charge for provisions	3,442,625	1,293,260
Write back of provisions	(2,878,158)	-
At the end of the year	1,857,727	1,293,260

The provision is made against loans and advances to customers. The provision is estimated to crystallise in the next twelve months. The write back of provisions relates to loans and advances previously provided for now recovered.

14 Derivatives held for risk management

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

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
	£	£	£	£
Foreign exchange	-	433,823	786,024	-
	-	433,823	786,024	-

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

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

15 Intangible assets

	ISA & mini bond setup fees £	Website & brand development £	Total £
31 December 2016			
<i>Cost</i>			
At the beginning of the year	-	63,777	63,777
Additions	34,958	27,053	62,011
Disposals	-	-	-
At the end of the year	34,958	90,830	125,788
<i>Amortisation</i>			
At the beginning of the year	-	-	-
Amortisation charge for the year	7,680	16,076	23,756
Disposals	-	-	-
At the end of the year	7,680	16,076	23,756
<i>Net book value</i>			
At the end of the year	27,278	74,754	102,032
Restated 31 December 2015			
<i>Cost</i>			
At the beginning of the period	-	-	-
Additions	-	63,777	63,777
Disposals	-	-	-
At the end of the period	-	63,777	63,777
<i>Amortisation</i>			
At the beginning of the year	-	-	-
Amortisation charge for the period	-	-	-
Disposals	-	-	-
At the end of the period	-	-	-
<i>Net book value</i>			
At the end of the period	-	63,777	63,777

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

16 Other assets

	31 December 2016	31 December 2015
	£	£
Other receivables	1,757,923	375,510
Prepayments	40,100	-
Amounts owed by group undertakings	15,092,230	6,942,939
Deferred tax asset	12,819	-
	16,903,072	7,318,449

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

17 Other liabilities

	31 December 2016	31 December 2015
	£	Restated £
Trade payables	54,711	5,599
Other taxation and social security costs	166,241	108,914
Accruals and deferred income	24,606,057	13,319,421
Other payables	46,799	49,998
Amounts owed to group undertakings	2,132,614	2,132,584
	27,006,422	15,616,516

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

18 Interest-bearing loans and borrowings

	31 December 2016	31 December 2015
	£	£
At the beginning of the year	30,173,473	-
Issued in the year	19,329,197	32,495,310
Redeemed in the year	(621,040)	(3,141,719)
Interest payable	1,972,447	819,882
Total interest-bearing loans and borrowings at the end of the year	50,854,077	30,173,473
Due within one year	-	-
Due over one year	50,854,077	30,173,473
	50,854,077	30,173,473

Interest-bearing loans and borrowings consist of a Minibond £45,515,077 (2015: £25,440,473) and an Irish Listed ISA bond £5,339,000 (2015: £4,733,000). The Irish Listed ISA bond is secured on the loans and advances to customers. The Minibond is unsecured.

Interest rates range from 6% to 8% on the Minibond. The interest rate charged on the Irish Listed ISA bond is 5.5%.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

19 Share capital

	31 December 2016	31 December 2015
	£	£
50,000 issued ordinary shares at £1 each (50,000 authorised ordinary shares at £1 each)	50,000	50,000
	<u>50,000</u>	<u>50,000</u>

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.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

20 Financial instruments and fair values

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

31 December 2016	Loans and receivables £	Fair value through profit or loss £	Liabilities at amortised cost £	Total £
Loans and advances to customers	34,378,092	-	-	34,378,092
Derivatives held for risk management	-	-	-	-
Total financial assets	34,378,092	-	-	34,378,092

	Loans and receivables £	Fair value through profit or loss £	Liabilities at amortised cost £	Total £
Derivatives held for risk management	-	433,823	-	433,823
Interest-bearing loans and borrowings	-	-	50,854,077	50,854,077
Total financial liabilities	-	433,823	50,854,077	51,287,900

31 December 2015 Restated	Loans and receivables £	Fair value through profit or loss £	Liabilities at amortised cost £	Total £
Loans and advances to customers	16,392,639	-	-	16,392,639
Derivatives held for risk management	-	786,024	-	786,024
Total financial assets	16,392,639	786,024	-	17,178,663

	Loans and receivables £	Fair value through profit or loss £	Liabilities at amortised cost £	Total £
Derivatives held for risk management	-	-	-	-
Interest-bearing loans and borrowings	-	-	30,173,473	30,173,473
Total financial liabilities	-	-	30,173,473	30,173,473

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

20 Financial instruments and fair values (continued)

The Company uses amortised cost as an approximation for the fair value of loans and advances. Amortised cost is a reasonable proxy for fair value due to the following: 1) application of the current interest rate in the EIR calculation; and 2) the term of the loans and advances are short term.

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

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

31 December 2016	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Derivatives held for risk management	-	-	-	-
Total financial assets	-	-	-	-
Financial liabilities				
Derivatives held for risk management	-	433,823	-	433,823
Total financial liabilities	-	433,823	-	433,823
31 December 2015	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Derivatives held for risk management	-	786,024	-	786,024
Total financial assets	-	786,024	-	786,024
Financial liabilities				
Derivatives held for risk management	-	-	-	-
Total financial liabilities	-	-	-	-

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

21 Commitments and contingent liabilities

At 31 December 2016, the Company had undrawn commitments to lend £55,104,929 (2015: £6,731,324).

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

	31 December 2016	31 December 2015
	£	£
Amounts falling due:		
Within one year	28,179,986	2,264,802
In the second to fifth year inclusive	26,924,943	4,466,522
After five years	-	-
	55,104,929	6,731,324

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management

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

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

Credit risk

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

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

31 December 2016	Total
Loans and advances to customers	£
Performing within terms	18,696,606
Performing in arrears	212,226
Watch list	13,611,533
Impaired	1,857,727
Loans and advances to customers	<u>34,378,092</u>
31 December 2015 Restated	Total
Loans and advances to customers	£
Performing within terms	13,092,945
Performing in arrears	660,183
Watch list	1,346,251
Impaired	1,293,260
Loans and advances to customers	<u>16,392,639</u>

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management *(continued)*

The below details the ageing of loans and advances past due but not impaired:

31 December 2016	Total
Loans and advances in arrears and watch list	£
Overdue by three months	3,616,425
Overdue between three months to six months	4,357,113
Overdue by greater than six months	5,850,221
	13,823,759
31 December 2015 Restated	Total
Loans and advances in arrears and watch list	£
Overdue by three months	1,259,698
Overdue between three months to six months	465,150
Overdue by greater than six months	281,586
	2,006,434

During the year, the Company reanalysed how it reviewed the performance metrics of the loan portfolio. The Company now reviews its portfolio under the following metrics: 1) Performing within terms; 2) Performing in arrears; 3) Watch list; and 4) Impairment. This allows for a more robust review of the loan portfolio and enables the credit team to identify and resolve loans and advances which require closer monitoring. The directors have carried out a full review of each individual loan and anything past due is closely monitored.

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

	31 December 2016	31 December
	£	Restated
		£
Financial assets		
Cash and cash equivalents	26,913,828	22,037,630
Loans and advances to customers	34,378,092	16,392,639
Other assets	16,903,072	7,318,449
Derivative financial assets	-	786,024
	78,194,992	46,534,742
Contractual commitments	55,104,929	6,731,324
Total credit risk	133,299,921	53,266,066

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management (continued)

Contractual commitments represent agreements entered into but not advanced as at 31 December 2016.

The above table represents the maximum credit risk exposure to the Company at 31 December 2016 and 31 December 2015 without taking account of any underlying security. 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 2016 was £391m (2015: £41m). Where the amount outstanding on a loan and advance exceeds the collateral and is underperforming, the Company will consider including a provision in the financial statements.

Liquidity risk

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

The below details when the contractual euro cash outflows are due on the forward exchange derivative positions:

	31 December 2016	31 December 2015
	€	€
Amounts falling due:		
Within one year	15,628,469	9,231,730
In the second to fifth year inclusive	-	1,983,500
After five years	-	-
	15,628,469	11,215,230

The below details when the contractual sterling cash inflows are due on the forward exchange derivative positions:

	31 December 2016	31 December 2015
	£	£
Amounts falling due:		
Within one year	12,954,166	7,475,033
In the second to fifth year inclusive	-	1,578,090
After five years	-	-
	12,954,166	9,053,123

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management (continued)

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

	31 December 2016	31 December 2015
	£	Restated £
Amounts falling due:		
Within one year	27,006,422	15,616,516
In the second to fifth year inclusive	55,386,297	33,793,490
After five years	-	-
	82,392,719	49,410,006

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

Market risk

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

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

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

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and lending products that we offer. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

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 the ALCO. The risk is managed by matching and where appropriate, through the use of derivatives, with established risk limits and other control procedures.

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

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management (continued)

Foreign exchange risk

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

	31 December 2016	31 December 2015
	£	£
Assets and liabilities in euros at sterling carrying values		
Loans and advances to customers	14,886,771	8,132,361
Cash and cash equivalents	233,788	1,491,581
Deferred income	(535,483)	(703,328)
Net position	14,585,076	8,920,614

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

- Euro strengthened by 2%: +£297,655 (2015: +£182,053)
- Euro weakened by 2%: (£285,982) (2015: (£174,914))

Interest rate sensitivity gap

The interest rate on the total value of the loan portfolio of £34,378,092 (2015: £16,392,639) is fixed. The Company has no exposure to floating interest rates on the loan portfolio. The Company considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the guidance by the Bank of England Monetary Policy Committee on expectations of future long term interest rates. The Company estimates that a +/- 200 bps movement in interest rates paid / received would have impacted the overall balance sheet values as follows:

- +/- 200 bps - +/-£236,955 (2015: +/-£270,689)

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 peer to peer industry in general.

Information technology and security

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

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

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

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

22 Risk management (continued)

Operational and people risk

As the Company grows and average loan sizes reduce, the Company faces increased operational risk within the lending and fund raising 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 concern 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;
- introduction of a number of documented procedure manuals and simplification of processes through the introduction of software; and
- a potential introduction of an employee incentive scheme (yet to be approved) which will include medical, critical illness cover, pension etc.

Capital risk

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

	31 December 2016	31 December 2015
	£	Restated £
Share capital	50,000	50,000
Retained earnings	3,216,255	1,872,317
Common equity capital	3,266,255	1,922,317
Interest-bearing loans and borrowings	50,854,077	30,173,473
Other capital	50,854,077	30,173,473
Total capital base	54,120,332	32,095,790

The Company is not subject to external regulatory capital requirements. The Company is meeting its objectives for managing capital by issuing shares and raising debt where necessary. However, the capital levels are monitored both at a Company level and throughout the Wellesley Group.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

23 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 transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure) and all are due within 1 year:

The following are details of peer to peer accounts held by directors of the Company:

	31 December 2016	31 December 2015
	£	£
<i>Funded Peer to Peer Accounts</i>		
Opening balance	10	10,081
Advances	-	10,000
Repayments	(10)	(20,354)
Interest	-	283
	<u>-</u>	<u>10</u>

The maximum balance during the year was £10 (2015: £15,672)

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

23 Related party transactions (continued)

The Company is owed the below from the following related party entities. These amounts owed by group undertakings are shown in note 16.

	31 December 2016	31 December 2015
	£	£
<i>Wellesley & Co Limited</i>		
Opening balance	551,887	126,467
Advances	5,848,138	11,633,461
Management charges	5,431,400	6,252,779
Repayments	(6,691,217)	(17,460,820)
	5,140,208	551,887

The maximum balance during the period was £5,330,647 (2015: £6,192,159). During the year, the Company was charged £5,431,400 (2015: £6,252,779) in respect of management charges from Wellesley & Co Limited.

	31 December 2016	31 December 2015
	£	£
<i>Wellesley Group Investors Limited</i>		
Opening balance	6,329,986	50,001
Advances	1,935,709	7,173,500
Repayments	(106,730)	(893,515)
	8,158,965	6,329,986

The maximum balance during the period was £8,251,827 (2015: £6,175,002)

	31 December 2016	31 December 2015
	£	£
<i>Wellesley Secured Funding Limited</i>		
Opening balance	61,066	-
Advances	31,976	397,284
Repayments	-	(336,218)
	93,042	61,066

The maximum balance during the year was £93,042 (2015: £61,066)

	31 December 2016	31 December 2015
	£	£
<i>Wellesley Bridging Co Limited</i>		
Opening balance	-	-
Advances	1,700,015	-
Repayments	-	-
	1,700,015	-

The maximum balance during the year was £1,700,015 (2015: £Nil)

Wellesley Group Investors Limited is the immediate parent of the Company. Wellesley & Co Limited, Wellesley Bridging Co Limited and Wellesley Secured Funding Limited are also wholly owned subsidiaries of Wellesley Group Investors Limited. The above transactions are considered to be at arm's length.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

23 Related party transactions *(continued)*

The Company owes the following to the related party below. These amounts owed to group undertakings are shown in note 17.

	31 December 2016	31 December 2015
	£	£
<i>Wellesley Lease Finance Limited</i>		
Opening balance	30	30
Advances	-	-
Repayments	-	-
	30	30

The maximum balance during the year was £30 (2015: £30)

	31 December 2016	31 December 2015
	£	£
		Restated
<i>Wellesley Group Investors Limited</i>		
Opening balance	2,132,584	-
Advances	-	2,132,584
Repayments	-	-
	2,132,584	2,132,584

The maximum balance during the year was £2,132,584 (2015: £2,132,584)

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

23 Related party transactions (continued)

	31 December 2016	31 December 2015
	£	£
<i>Loans owed to Milner Limited</i>		
Opening balance	-	1,013,044
Advances	-	-
Repayments	-	(1,106,079)
Interest	-	93,035
	-	-

The maximum balance during the year was £Nil (2015: £1,031,948).

	31 December 2016	31 December 2015
	£	£
<i>Loans owed to Chalet Valentine Limited</i>		
Opening balance	-	1,030,616
Advances	-	-
Repayments	-	(1,121,419)
Interest	-	90,803
	-	-

The maximum balance during the year was £Nil (2015: £1,049,520).

	31 December 2016	31 December 2015
	£	£
<i>Loans owed to Anthony Fane</i>		
Opening balance	-	1,088,138
Advances	-	-
Repayments	-	(1,173,480)
Interest	-	85,342
	-	-

The maximum balance during the year was £Nil (2015: £1,088,138).

The Company had received loans at arms length from Milner Limited, Chalet Valentine Limited and Anthony Fane. Milner Limited, Chalet Valentine Limited and Anthony Fane are shareholders in the immediate parent of the Company, Wellesley Group Investors Limited. The loans were repaid in the 18 month period to 31 December 2015.

WELLESLEY FINANCE PLC

Notes forming part of the financial statements For year ended 31 December 2016

24 Ultimate controlling party

Wellesley Group Investors Limited, a company incorporated in England, is the immediate parent of the Company. The ultimate controlling party of the immediate parent is IFX Group Trust.

25 Prior period restatement

The financial statements of the Company were restated for the prior period. The immediate parent of the Company, Wellesley Group Investors Limited (the "Group"), signed its financial statements for the prior period after the Company. There were several adjustments in relation to changes to the Group financial statements which have impacted the Company's prior year results. These are detailed below:

	Note	Impact on Income Statement Increase/(decrease) 18 month period to 31 December 2015
		£
Net interest income	1	(944,600)
Other operating income	1	1,194,815
Administration expenses	3	307,392
Impact on profit for the 18 month period to 31 December 2015		557,607

	Note	Impact on Statement of Financial Position Increase/(decrease) 31 December 2015
		£
Loans and advances to customers	1	250,215
Intangible assets	2	63,777
Other liabilities	3	(243,615)
Impact on equity at 31 December 2015		557,607

	Note	Impact on Statement of Financial Position Increase/(decrease) 1 July 2014
		£
Other liabilities	1	(983,036)
Impact on equity at 1 July 2014		983,036

Note 1

Undrawn fees were previously included in the EIR calculation. The directors changed the estimation of the EIR by removing undrawn fees from the calculation and recording these on a straight line basis over the life of a loan. The prior year net interest income was therefore calculated in error and requires retrospective adjustment in the prior period.

Note 2

The adjustment of £63,777 relates to salaries of project development staff which were expensed at the period end rather than capitalised. This error requires adjustment retrospectively in the prior period.

Note 3

The adjustment of £243,615 relates to an over accrual in respect of non contractual bonuses to staff. This error requires adjustment retrospectively in the prior period.

The correction of these errors have had no impact on cashflows reported by category of activity.