



Wellesley Finance Plc



Half-Yearly Financial Report for the six months ended 30 June 2018

WELLESLEY FINANCE PLC
COMPANY NUMBER 08331511



Directors

Andrew Turnbull

Garret Graham Wellesley

Registered Office

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

Company Registration Number

08331511

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



1 Nature of operations

Wellesley Finance Plc 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.

2 Basis of preparation

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 policies applied in the preparation of these half-yearly accounts are consistent with those applied for the financial statements for the year-ended 31 December 2017.

The presentational currency of the financial statements is Sterling.

The preparation of the financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company’s accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

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 throughout the period.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



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 premium 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 loan and advance purchased on its statement of financial position. Interest income and interest expense is recognised on these balances as outlined above.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



3 Significant accounting policies (continued)

3.2 Financial instruments

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.

3.3 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 transaction 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.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



3 Significant accounting policies (continued)

3.3 Financial instruments (continued)

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.

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 whether there is objective evidence of impairment loss include, but are 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.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



3 Significant accounting policies (continued)

3.3 Financial instruments (continued)

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.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



3 Significant accounting policies (continued)

3.4 Taxation

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Under the powers conferred by the Act, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement. The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both the Act and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. Deferred tax is not provided for.

3.5 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.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



3 Significant accounting policies (continued)

3.6 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.

Notes to Half-Yearly Financial Statements – period ended 30 June 2018



4 Use of estimates and judgements (continued)

Loan impairment provisions

Loan portfolios across the Group are reviewed on at least a monthly basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of the impairment loss is management's best estimate of losses incurred in the portfolio at the statement of financial position date and reflects expected future cash flows based on both the likelihood of a loan or advance being written off and the estimated loss on such a write-off. See note 12 for details.

Intangible assets

The Group assesses its intangible assets at least annually for evidence of impairment. Where the asset is under development, the Group considers whether it is reasonably likely to complete the asset and bring it to use. The Group also considers if the asset will generate sufficient economic benefit over the and above the current carrying value of the asset. See note 15 for details.

Acting as agent

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

5 Prior period error

On 5th August 2016, the ownership of International Can Puig Building, Sociedad Limitada was transferred from Wellesley Finance plc to Wellesley Investment Services Limited, a related party which required a restatement. For more detailed information please see note 24 of the year-end financial statements of Wellesley Finance PLC.



Half-Yearly Statement of Comprehensive Income – period ended 30 June 2018

	Six months ended 30 June 2018 (unaudited) £	Six months ended 30 June 2017 (unaudited) £
Interest income	3,921,056	2,774,521
Interest expense	(2,196,146)	(1,806,354)
Net interest income	1,724,910	968,167
Fee and commission income	7,281,962	7,336,492
Fee and commission expense	(2,379,178)	(3,038,643)
Net fee and commission income	4,902,784	4,297,849
Other fee income	95,105	227,347
Total income	6,722,799	5,493,363
Net income/(expense) from derivatives and other financial instruments at fair value through profit or loss	72,153	(137,996)
Total operating income	6,794,952	5,355,367
Administrative expenses	(3,147,560)	(2,518,301)
Impairment (loss)/write back	-	13,458
Profit from operations	3,647,392	2,850,524
Bank interest	29	758
Profit before tax	3,647,420	2,851,282
Taxation charge	(693,010)	(427,692)
Profit after tax	2,954,410	2,423,590

	Six months ended 30 June 2018 (unaudited) £	Six months ended 30 June 2017 (unaudited) £
Profit after taxation - attributable to the equity holders of the Company	2,954,410	2,423,590
Tax on other comprehensive income	-	-
Total other comprehensive income for the period, net of taxation	-	-
Total comprehensive profit for the period, net of taxation	2,954,410	2,423,590

Half-Yearly Statement of Financial Position – period ended 30 June 2018



	At 30 June 2018 (unaudited)	At 31 December 2017 (audited)	At 30 June 2017 (unaudited) Restated
	£	£	£
<u>ASSETS</u>			
<i>Non-current assets</i>			
Loans and advances to customers	26,654,910	23,926,339	8,353,052
Intangible assets	47,505	56,588	38,393
	26,702,415	23,982,927	8,391,445
<i>Current assets</i>			
Cash and cash equivalents	13,439,726	11,997,245	22,985,892
Loans and advances to customers	34,767,273	31,208,268	35,982,669
Derivative financial assets	564,844	240,190	-
Other assets	19,000,093	16,425,344	15,265,404
Total assets	94,474,351	83,853,974	82,625,410
<u>LIABILITIES</u>			
<i>Current liabilities</i>			
Derivative financial liabilities	-	-	776,404
Other liabilities	4,697,046	698,983	7,455,217
	4,697,046	698,983	8,231,621
<i>Non-current liabilities</i>			
Interest-bearing loans and borrowings	83,451,291	79,783,387	69,158,048
Total liabilities	88,148,337	80,482,370	77,389,669
Net assets	6,326,014	3,371,604	5,235,741
<u>EQUITY</u>			
Retained Earnings	6,276,014	3,321,604	5,185,741
Share Capital - Ordinary Shares	50,000	50,000	50,000
Total equity	6,326,014	3,371,604	5,235,741

Half-Yearly Statement of Cash Flows – period ended 30 June 2018



	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
	£	£
Cash flows from operating activities		
Profit before taxation	3,647,420	2,851,282
<i>Adjustments for non-cash items</i>		
Net (income)/expense from derivatives and other financial instruments at fair value through profit or loss	(72,153)	137,996
Provisions on loans and advances	-	240,954
Foreign currency revaluation of loans and advances	135,138	(134,252)
Write (back) of loans and advances	-	(254,412)
Amortisation	9,083	9,083
	3,719,489	2,850,651
<i>Adjustment for working capital items and loans & advances:</i>		
(Increase) in other assets	(2,574,749)	(4,505,278)
Increase/(decrease) in other liabilities	2,917,414	(10,588,769)
(Increase) in operating assets	(6,287,576)	(10,015,789)
Net cash flows used in from operating activities	(2,225,422)	(22,259,185)
Cash flows financing activities		
Net proceeds from interest-bearing loans and borrowings, net of transaction costs	3,667,904	18,331,249
Net cash used in financing activities	3,667,904	18,331,249
Net movement in cash and cash equivalents	1,442,482	(3,927,936)
Cash and cash equivalents at the start of the period	11,997,245	26,913,828
Movement during the period	1,442,482	(3,927,936)
Cash and cash equivalents at the end of the period	13,439,727	22,985,892

Half-Yearly Statement of Changes in Equity– period ended 30 June 2018



	Share capital (unaudited) £	Retained earnings (unaudited) £	Total equity (unaudited) £
Balance at 1 January 2018	50,000	3,321,604	3,371,604
Total comprehensive income for the period			
Profit for the period	-	2,954,410	2,954,410
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	2,954,410	2,954,410
<i>Transactions with owners recorded directly in equity:</i>			
Issue of shares	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance at 30 June 2018	50,000	6,276,014	6,326,014
Balance at 1 January 2017 restated	50,000	2,762,151	2,812,151
Total comprehensive income for the period			
Profit for the period	-	2,423,590	2,423,590
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	2,423,590	2,423,590
<i>Transactions with owners recorded directly in equity:</i>			
Issue of shares	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance at 30 June 2017	50,000	5,185,741	5,235,741

Approved by the Board of Directors and authorised for issue and were signed on its behalf by:

Andrew Turnbull
 Director
 November 2018

Interim Management Report



Commentary

- Net interest income increased by £1.4m to £6.6m compared to the prior comparative period due to an increase in the size of the loan book over the past 12 months.
- Administration expenses increased by £0.6m to £3.1m mainly due to the increase of the management charge by a group related entity and due to increased advertising and marketing spend along with an adverse foreign exchange impact in relation to a foreign currency loan.
- No impairment charges have been recognised during the period compared to a significant impairment for the year-ended 31 December 2017 – this is due to YTD June 2018 impairment being fully recognised in the 2017 financial year accounts as post balance sheet event. Non performing loans continue to be actively managed.
- Continued efforts have being made to increase the quality of the overall loan book and new loans and advances made.
- Profit after tax for the six months to June is £3.0m (30 June 2017: £2.4m).
- Cash and cash equivalents amounted to £13.4m (30 June 2017: £23.0m) at 30 June 2018.

Statement of Directors' Responsibilities



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 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 applicable UK accounting standards have been followed; 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.

Andrew Turnbull

Director

November 2018