Wellesley Secured Finance Plc

Company number 10565816

Half-Yearly Financial Report
for the six months ended 30 June 2019
(unaudited)

Directors
Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Ian Charles Sholto McKenzie

Company Secretary
Intertrust Corporate Services Limited
Registered Office
35 Great St. Helen's, London, EC3A 6AP
Company Registration Number
10565816

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

Bankers
US Bank, 125 Old Broad Street, London, EC2N 1AR

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

Interim Management Report

The Directors present the Interim Management Report for Wellesley Secured Finance Plc (‘the Company’) for the six months ended 30 June 2019.

Financial performance

Net interest income increased by £22k over the last six month period to £130k. During the six month period, the Company has issued one new Listed Bond Series on the Euronext Dublin Stock Exchange, raising a net amount of £280k which was subsequently used to acquire Borrower Loans from Wellesley Finance plc.

Administrative expenses were £164k, an increase of £106k over the prior period, and mostly comprise of legal and professional fees associated with the Secured Note Programme.

Loss before tax for the period ended 30 June 2019 was £47k (period ended 30 June 2018: profit before tax of £39k).

IFRS 9

IFRS 9 (“Financial Instruments”) came into effect and was adopted on 1 January 2018. Management devoted a sufficient amount of time to implement this new accounting standard. This required a review of a number of assets including the loan portfolio, inter-company balances, subordinated loan and trade receivables. This has led to an expected credit loss of £229k being recognised at 30 June 2019. In order to comply with the new standard the prior year comparative has been calculated and recognised as ‘nil’. The methodology used can be found in the accounting policies.

Principal risks and uncertainties

<u>Credit risk</u>

The Company’s principal business activity is purchasing property development loans from Wellesley Finance plc. For each loan, the Company obtains a legal charge on the assets it is lending against. It is acknowledged that the property market is cyclical and that the Company is operating in a period of the cycle which would be considered as relatively stable, which has resulted in favourable conditions for lending. The board regularly reassess its view on the risks presented by the market and the overall stage of the property cycle. Changes to interest rates could potentially impact the value of the properties to which the loans and advances of the Company are secured against.

<u>Market risk</u>

The Company engages Wellesley Finance plc to service and manage the loans. The treasury function of the wider Wellesley Group (a related party) manages the Company’s exposure to all aspects of interest rate risk. The Wellesley Group’s Asset and Liability Committee (“ALCO”) regularly convene to consider reports on all aspects of interest rate risk.

<u>Operational risk</u>

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 of wider Wellesley Group of companies.
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.

Liquidity Risk

The Company's source of funding is the proceeds of issuing retail bonds. The Company faces the liquidity risk of investors requesting early redemption of their notes.

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. The Company monitors its forward cash flow position and Wellesley Finance plc prefunds the interest liability of each series fundraising by providing the Company with a credit facility.

Brexit Risk

As a UK-based business, the Company is particularly exposed to any domestic economic downturn which could affect existing and prospective borrowers and the value of their development projects. The United Kingdom's vote to leave the European Union and subsequent notice under Article 50 of the Treaty on European Union has presented uncertainty to the UK economy. Whilst the precise nature of the risks and uncertainties that the Company may face following the United Kingdom's departure from the European Union cannot be predicted, the Company has identified a concentration of potential risks relating to its lending activities. These risks are primarily focused upon the construction process involved when its developers are building properties and the residential property values upon which project viability is underpinned.

Brexit may cause increased costs in labour and materials from the European Union. However, as Wellesley appoint their own independent surveyor to each project, any costs will be reviewed and then stressed internally prior to funding the deal. More detailed underwriting of costs would be expected including analysis of the developer's supply chain. In addition the Company might focus on working more with contractors with UK based supply chains.

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

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

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Helena Whitaker ***Per pro Intertrust Directors 1 Limited***

Director

16 August 2019

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

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the half-yearly financial statements, the Directors are required to:

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

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

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

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Helena Whitaker ***Per pro Intertrust Directors 1 Limited***

Director

16 August 2019

Half-Yearly Statement of Comprehensive Income for the period ended 30 June 2019

Wellesley Secured Finance plc. Half-Yearly Statement of Comprehensive Income		Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Gross income		405,401	308,051
Interest expense		(275,329)	(199,819)
Net interest income		**130,072**	**108,232**
Administrative expenses	5	(163,975)	(58,119)
Impairment provision		-	-
(Loss)/profit from operations		**(33,903)**	**50,113**
Interest expense on related party loan	5	(13,101)	(11,130)
(Loss)/profit before tax		**(47,004)**	**38,983**
Taxation charge		-	-
(Loss)/profit after tax		**(47,004)**	**38,983**

Wellesley Secured Finance plc. Half-Yearly Statement of Other Comprehensive Income	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
(Loss)/profit after taxation - attributable to the equity holders of the Company	(47,004)	38,983
Net change in fair value of investment securities	-	-
Tax on other comprehensive income	-	-
Total other comprehensive income for the period, net of taxation	-	-
Total comprehensive (loss)/profit for the period, net of taxation	**(47,004)**	**38,983**

Half-Yearly Statement of Financial Position
as at 30 June 2019

Wellesley Secured Finance plc. Half-Yearly Statement of Financial Position		Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
ASSETS			
Non-current assets			
Loans and advances to customers	6	10,298,056	9,628,987
		10,298,056	**9,628,987**
Current assets			
Cash and cash equivalents		548,621	722,871
Other receivables		11,106	268,235
Prepayments		34,660	39,678
Total assets		**10,892,443**	**10,659,771**
LIABILITIES			
Current liabilites			
Accounts payable		174,445	105,368
Accruals		19,070	45,762
Provision for Corporation Tax		190	190
		193,705	**151,320**
Non-current liabilities			
Wellesley Finance plc expense account	9	755,496	455,496
Wellesley Finance plc subordinated loan	9	348,093	553,203
Interest-bearing loans and borrowings	7	9,789,982	9,454,974
Total liabilities		**11,087,276**	**10,614,993**
Net assets		**(194,833)**	**44,778**
EQUITY			
Period Earnings		(47,004)	38,983
Retained Earnings		(197,829)	(44,205)
Share Capital - Ordinary Shares	8	50,000	50,000
Total equity		**(194,833)**	**44,778**

Half-Yearly Statement of Changes in Equity
for the period ended 30 June 2019

Wellesley Secured Finance plc.
Half-Yearly Statement of changes in Equity

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2019	**50,000**	**(197,829)**	**(147,829)**
Total comprehensive loss for the period			
Loss for the period	-	(47,004)	(47,004)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	**(47,004)**	**(47,004)**
Balance at period ended 30 June 2019	**50,000**	**(244,833)**	**(194,833)**
Balance at 1 January 2018	**50,000**	**(44,205)**	**5,795**
Total comprehensive income for the period			
Profit for the period	-	38,983	38,983
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	**38,983**	**38,983**
Balance at period ended 30 June 2018	**50,000**	**(5,222)**	**44,778**

Half-Yearly Statement of Cash Flows
for the period ended 30 June 2019

Wellesley Secured Finance plc **Half-Yearly Statement of Cash Flows**	**Period ended** **30 June 2019** **£**	**Period ended** **30 June 2018** **£** **Restated**
Cash flows from operating activities		
(Loss)/profit before taxation	(47,004)	38,983
	(47,004)	**38,983**
Adjustment for working capital items and loans & advances:		
Increase in other assets	(17,400)	(292,007)
Increase in other liabilities	88,503	548,654
Increase/(decrease) in operating assets	157,219	(4,388,143)
Net cash flows used in from operating activities	**181,318**	**(4,092,513)**
Cash flows financing activities		
Net proceeds from interest-bearing loans and borrowings	34,954	75,551
Net cash used in financing activities	**34,954**	**75,551**
Net increase/(decrease) in cash and cash equivalents	**216,272**	**(4,016,962)**
Cash and cash equivalents at the start of the period	604,180	439,360
Movement during the period	(55,559)	283,511
Cash and cash equivalents at the end of the period	548,621	722,871

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

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Helena Whitaker ***Per pro Intertrust Directors 1 Limited***
Director
16 August 2019

Notes to Half-Yearly Financial Statements
for the period ended 30 June 2019

1 Nature of operations

Wellesley Secured Finance plc is a public company limited by shares. It is a securitised vehicle which raises capital on the Irish Stock Exchange trading as Euronext Dublin to buy portions of residential development property loans. The Company's registered number is 10565816 and registered office at 35 Great St. Helen's, London, EC3A 6AP.

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 comparatives are for the period from 1 January 2018 to 30 June 2018.

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.

<u>New accounting standards</u>

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

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

IFRS 9 - Financial instruments
The standard includes updated requirements in respect of the recognition and measurement, impairment and derecognition of assets as well as general hedge accounting. One of the biggest changes sees an expected credit loss model replacing the previous incurred loss model. The standard became effective for accounting periods beginning on or after 1 January 2018.

The Company has changed its accounting policies and made certain retrospective adjustments following the adoption of IFRS 9.

IFRS 15 - Revenue from contracts with customers
The standard sets out at what point, and how, revenue is recognised and also requires enhanced disclosure. Revenue contracts should be recognised in accordance with a single, principles based on five-step plan. The standard became effective for accounting periods beginning on or after 1 January 2018. The Company does not hold any contracts with customers and as such there is no impact on the financial statements.

3 Significant accounting policies

3.1 Interest income and expense

The effective interest rate (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.

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.

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.

Expected Credit Losses ("ECL")

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

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

ECL's are calculated in a way that reflects:

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

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

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.

When a financial asset is uncollectible, it is written off against the related provision for expected credit losses. 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 an expected credit loss of £228k at the period end (2018: Nil).

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.

3.3 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.

3.4 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.

3.5 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 the most important to the portrayal of the Company's financial condition are those relating to loan impairment provisions.

Management consider the following judgements and estimates to be significant:

EIR
IFRS 9 requires interest earned/incurred from loans and advances/financial liabilities to be measured under the EIR method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The carrying value of loans and advances/financial liabilities would therefore be affected by unexpected market movements resulting in altered customer behaviour models used to compare to actual outcomes and incorrect assumptions.

Expected Credit Losses ("ECL")
Evidence and decisions as to whether there are indications of impairments are judgements while the evaluation and effect of potential outcomes and the calculation of ECL provisions are estimates. See Note 3.2 for further explanation of estimates and judgements made.

Notes to Half-Yearly Financial Statements for the period ended 30 June 2019

5 Administrative expense

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Legal & professional	2,203	-
Bond costs	146,472	44,669
Auditors remuneration	14,400	6,250
Advertising & marketing	900	7,200
	163,975	**58,119**
Interest expense on related party loan	13,101	11,130
	177,076	**69,249**

6 Loans and advances to customers

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Gross loan receivables	10,526,229	9,628,987
Less provisions for expected credit losses	(228,173)	-
	10,298,056	**9,628,987**
Amounts falling due:		
Within one year	7,207,931	9,628,987
In the second to fifth year inclusive	3,090,125	-
	10,298,056	**9,628,987**

7 Interest-bearing loans and borrowings

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
At the beginning of the period	9,885,108	5,078,949
Issued in the period	286,000	4,569,000
Transaction costs	(18,831)	(192,794)
Redeemed in the period	(539,000)	(200,000)
Interest payable	176,705	199,819
Total interest-bearing loans and borrowings at the end of the period	**9,789,982**	**9,454,974**
Due within one year	797,650	792,440
Due over one year	8,992,332	8,662,534
	9,789,982	**9,454,974**

Notes to Half-Yearly Financial Statements for the period ended 30 June 2019

8 Share capital

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
50,000 issued ordinary shares at £1 each (50,000 authorised ordinary shares at £1 each	50,000	50,000
	50,000	**50,000**

The shares have full voting, dividend and capital distribution (including winding up) rights and are not redeemable.

9 Related party transactions

Balances with Wellesley Finance Plc are as follows:

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Balances owed to Wellesley Finance Plc	(1,157,445)	(1,254,396)

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Wellesley Finance plc.		
Opening balance	1,091,969	540,569
Advances	170,000	481,017
Repayments	-	-
Investment by Wellesley Finance plc in the Company's Irish Listed ISA bond	29,839	221,680
Interest owed	(134,363)	11,130
	1,157,445	**1,254,396**

The maximum balance during the period was £1,157,445 (Period ended 30 June 2018: £1,254,396).

Balances with Intertrust Corporate Services Limited are as follows:

	Period ended 30 June 2019 £	Period ended 30 June 2018 £ Restated
Corporate services fees	33,360	38,535
	33,360	**38,535**

The maximum balance during the period was £33,360 (Period ended 30 June 2018: £38,535).

Notes to Half-Yearly Financial Statements for the period ended 30 June 2019

10. Prior period restatement

Following refinement of the revenue recognition methodology used during the annual audit process, the statement of total comprehensive income, statement of financial position and relevant notes of the comparatives have been restated.

The impact is as follows:

1) Reduction of net interest income by £132k
2) Reduction in profit after tax by £132k
3) Reduction of the balance sheet by £161k

11. Controlling Party

The Company's immediate parent company is Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales, which holds the entire issued share capital of the Company in trust under a share trust deed. As the trustees are not entitled to any economic benefit and the beneficiaries do not have any decision making power, there is no controlling party.

Intertrust Corporate Services Limited as a wholly owned subsidiary of Intertrust Management Limited.