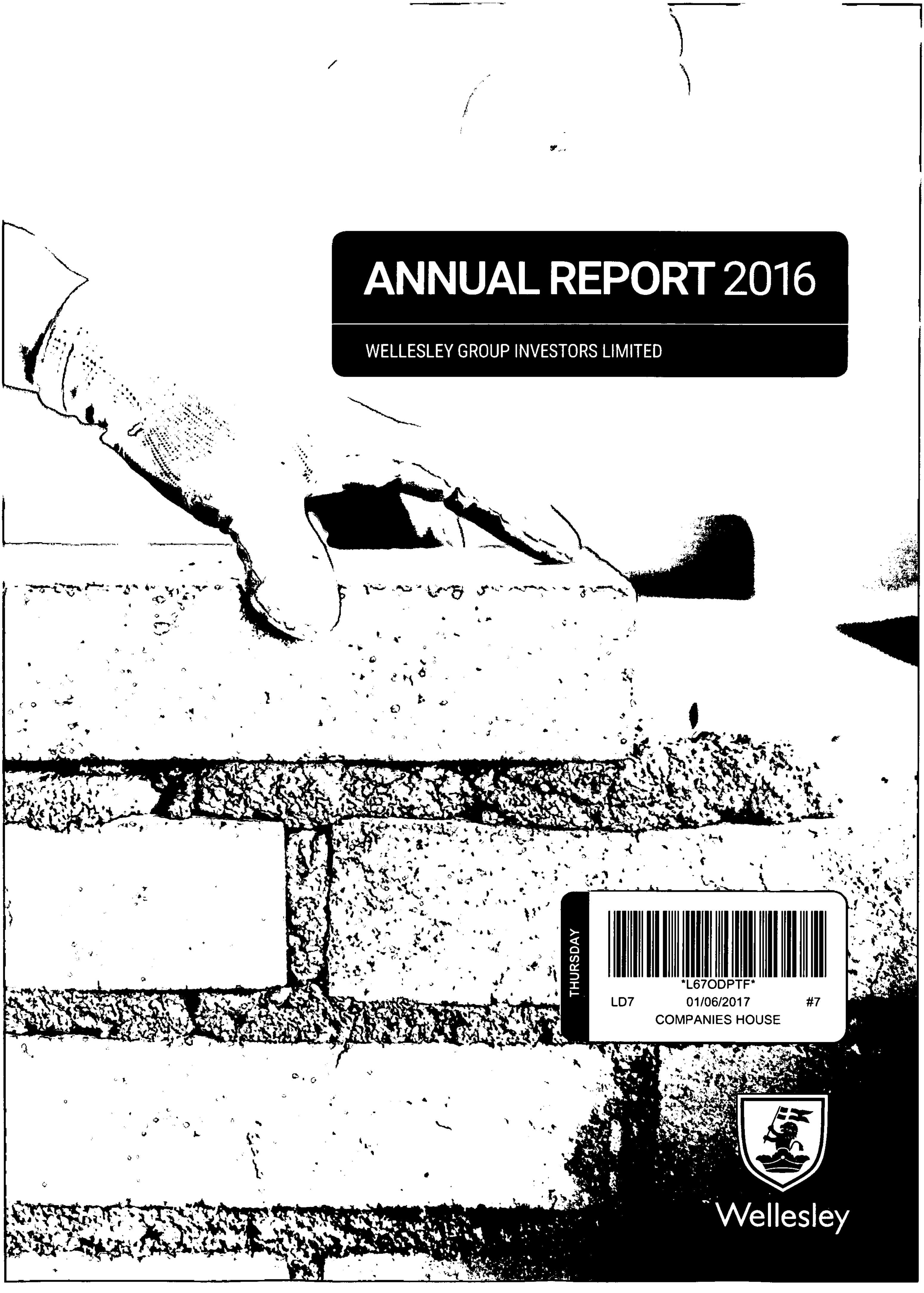
ANNUAL REPORT 2016

WELLESLEY GROUP INVESTORS LIMITED



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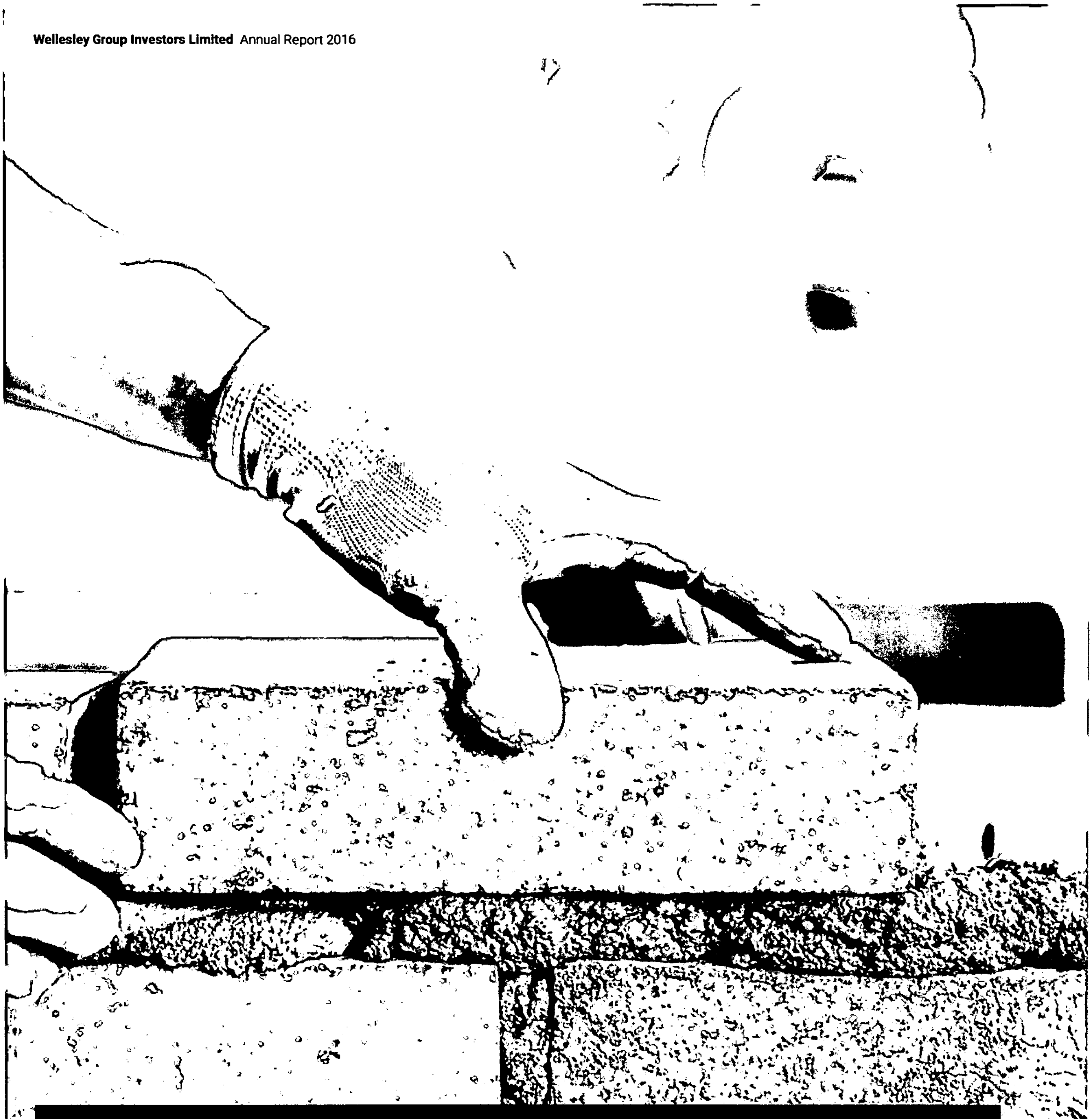
COMPANIES HOUSE

Wellesley



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CONTENTS

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Paul Cragg (Resigned 29 March 2016)
Eric Daniels (Resigned 31 May 2016)
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David Godfrey
Michael Hatchard
Lorenzo Naldini
Peter Stott (Appointed 11 March 2016)
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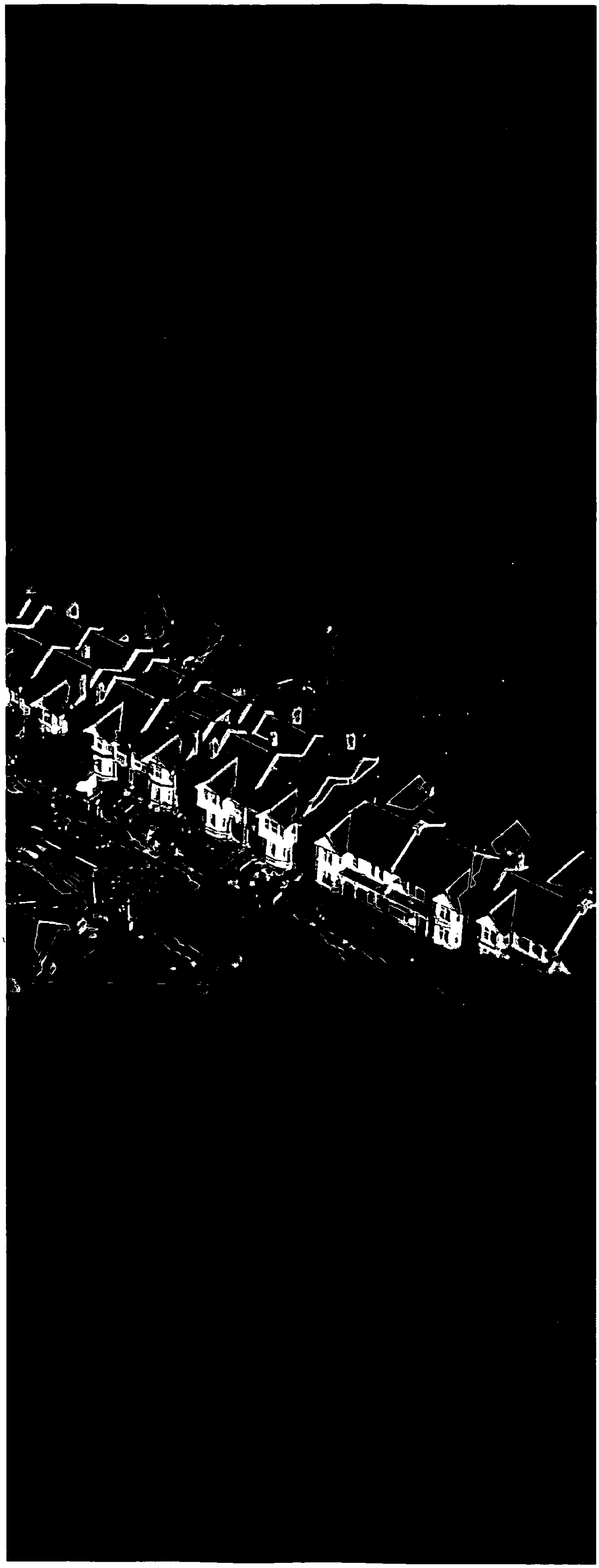
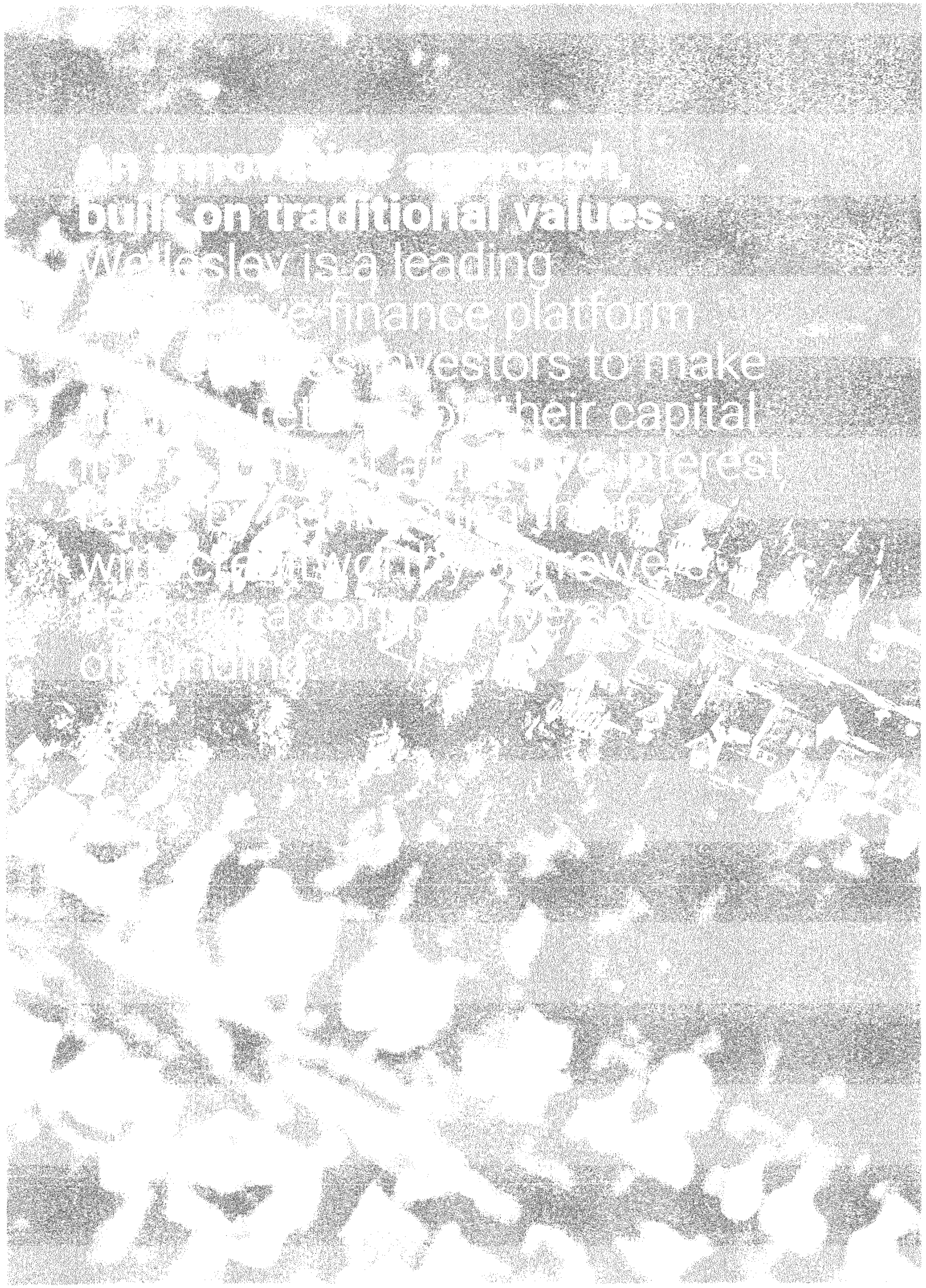



An innovative approach,
built on traditional values.
Wellesley is a leading
[illegible] finance platform
[illegible] investors to make
[illegible] their capital
[illegible] interest
rates by [illegible]
with creditworthy borrowers
seeking a competitive source
of funding.

STRATEGIC REPORT

Strategic report

Purpose
The purpose of Wellesley Group Investors Limited (the "Wellesley Group") is to create enduring benefits for all of our customers, staff, shareholders and the wider UK economy by:

- Providing medium-sized developers with the funding they need to build mid-market homes in England and Wales; and
- Offering savers who are willing to take capital risk the opportunity to make returns through transparent investment products.

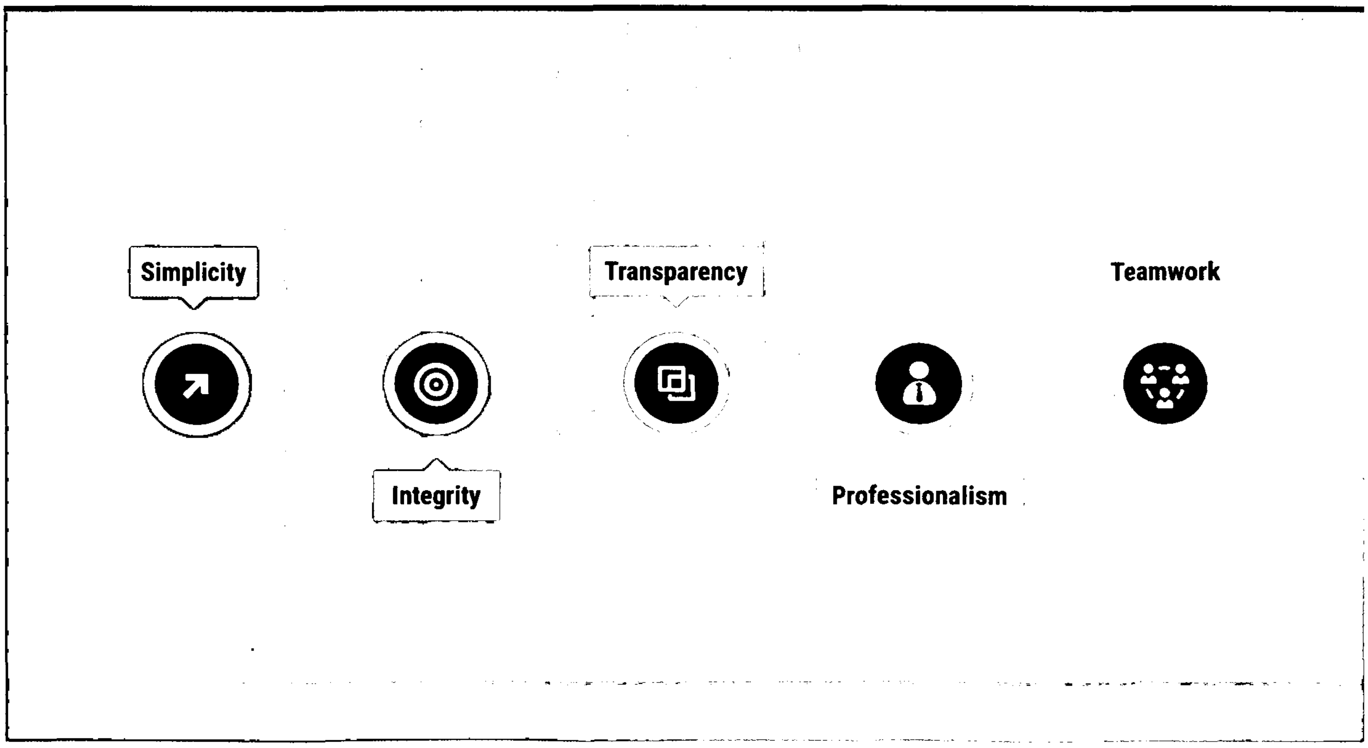
In 2016, loans provided by Wellesley Group supported the development of 822 homes and provided average investment returns of 4.49% for over 14,000 investors by the year end. Since inception, the Wellesley Group has enabled the development of more than 2,000 new family homes in England and Wales to help address the frequently reported shortage of mid-priced housing that presently exists.

We believe it is essential that savers are given the opportunity to take some risk in order to make a return. The aim of the Wellesley Group is to ensure that risk is well managed on behalf of both investors and borrowers and supported by excellent service.

We lend prudently, working with experienced developers. We focus on mid-market housing with average unit and square footage values in England and Wales, avoiding central London.

We "borrow long and lend short" – our average loan is 9 months and our investment products are an average of 23 months. We do this to give investors' confidence in our liquidity and borrowers' confidence in their source of funding.

OUR PRINCIPLES



Principles
We are building a business for the long term. We deploy industry-leading expertise to develop enduring relationships with borrowers and investors. These relationships are based on providing high integrity products and services. We operate a transparent business with high quality governance and disclosure.

Business model
We distribute investment products to retail investors which currently comprise listed bonds, mini-bonds and peer to peer investment products. We are an innovative company and will continue to develop our investment product range, aiming to bring further products to market in 2017 that will meet the investment needs of our customers and enhance transparency of both risks and returns.

A fundamental component of our business model is that all of our investments are risk bearing. All investors in every product are exposed to the inherent risks of diversified property development lending (note further details on risk in the risk review) although not all to the same extent. Mini-bond holders are unsecured investors who are investing directly in the short, medium and long term corporate performance of the Wellesley Group and are therefore exposed to all the risks of our business model throughout their investment term. Peer to peer and listed bond investments are secured directly against the borrowers' assets. As such their risk is primarily relative to the value of the underlying property development.

In exchange for bearing risk, our investors enjoy significantly higher returns than those offered by traditional deposit taking banks. This is driven by the significant levels of loss absorbing capital such banks are required to hold, the cost of which is generally passed through to customers in the form of depressed deposit rates. We have created straightforward investment products that offer customers an alternative; a higher rate of return, based on the acceptance of an increase in risk, which is clearly and transparently disclosed before, during and after their commitment.

During 2016, total investor funds grew from £156m to £206m, with 33% growth in the first half of the year, supported by significant marketing investment. In the second half of the year investor funds remained constant at £206m as we reduced marketing spend to conserve financial resources.

On the lending side of our business our strategy remains to support experienced medium sized developers with typical loan sizes between £2m and £20m. As a result of this strategy, we grew our loan book by 10% in 2016. We remain particularly focused on the developer's exit plan, targeting house values that are at or below average for the local area and strong evidence of a continuing healthy market for the properties constructed.

BUSINESS REVIEW
During 2016, the Wellesley Group completed a number of initiatives designed to increase focus on our key market, build capability in core lending and control functions and reduce costs.

We carried out a detailed review of all lending and took a number of actions designed to further reduce the risk profile of new lending. These actions include restructuring of the lending and loan management functions, the appointment of a new leadership team and working to an updated lending strategy which focuses the business primarily on property development lending in England and Wales outside central London.

As a direct result of this, we have seen strong and improving performance on key business targets over the course of the year. During the first half of the year, continued investment in marketing led to further increases in the number of investors using our platform, with committed balances in the investment book increasing to £206m. However, the impact of investing in such growth was that the business reported a loss for the first six months of the year.

In the second half of the year, marketing investment was scaled back and the business recorded a profit. Going forwards we will balance the rate of growth of the business to maintain financial resources.

STRATEGIC REPORT CONTINUED

On the lending side of the business, we are now primarily focused on property development lending in England and Wales. We aim to support mid-sized, experienced developers who are building mid-market family homes and flats. This focus has resulted in a move away from participating in the bridging loan market. This has enabled us to reduce costs and to invest in building our lending and loan management capability on the development side.

As a result, the loan book has grown by 10% over the course of 2016 and the cost to income ratio has reduced from 79% in the prior period to 78% at 31 December 2016.

In parallel, our loan impairment costs to date are 1.0% (2015: 1.2%) expressed as a percentage of the total gross loan facilities issued to date. As our operational capabilities are enhanced, we expect this figure to improve further in time.

> “During 2016, the Wellesley Group completed a number of initiatives designed to increase focus on our key market, build capability in core lending and control functions and reduce costs.”

AS WE PROGRESS INTO 2017, KEY PRIORITIES INCLUDE:

- Continuing to grow through building high quality, enduring relationships on both the borrower and investor sides of the business;
- Growing at a rate that is sustainable;
- Bringing new investment products to market;
- Continuing to work with the FCA to support positive customer outcomes, market integrity and increased competition in our key markets;
- A drive to achieve high levels of corporate disclosure; and
- Further development of our risk management framework and robust governance procedures.

FINANCIAL REVIEW

	H1 2016 (unaudited & unreviewed)	H2 2016 (unaudited & unreviewed)	2016 Full Year	18 month period to 31 Dec 2015
Total income & other operating income	£5.6m	£6.9m	£12.5m	£15.2m
Cost : Income Ratio (excluding marketing costs)	95%	68%	78%	79%
Loss before tax	(£1.5m)	£1.3m	(£0.2m)	(£3.3m)
Impairment (Lifetime losses v Lifetime gross loans) (as at end of 2015 and 2016)	n/a	n/a	1.0%	1.2%
Net lending growth on loan book	8%	2%	10%	907%
Investment book growth	33%	Nil%	33%	773%

Total income and other operating income for the year was £12.5m compared with the 18 month period to 31 December 2015 of £15.2m. Administration expenses have decreased by £6m to £11.3m during the year.

The main driver of this decrease was a £4.4m decrease in advertising and marketing during the year as the Group managed investment flows. The cost to income ratio reduced slightly from 79% in 2015 to 78% at the year end. The main drivers of this decrease in the cost:income ratio are a decrease in operating costs offset by increased investment in lending and risk capability. The Group generated a loss before tax of £(210,288) (2015: a loss of £(3,285,426)) for the year as a result of the above.

The Group experienced measured growth in lending by 10%. The growth in lending in the second half of the year was lower due to uncertainty around the Brexit vote and to allow time for a new origination team to embed themselves in the business. Investors funds grew by 33% in the first half of the year as a result of a targeted marketing campaign to raise funds which was not continued in the second half of the year resulting in nil growth. Total investor funds at the end of 2016 were £206m, up from £156m in 2015. Impairment losses reduced slightly to 1.0% in 2016 following a more stringent management of the loan portfolio.

On a like for like annualised basis, total income and other operating income increased by £2.4m over the prior period as a result of increased lending and more robust management of the loan portfolio. On a like for like annualised basis, administration expenses have remained flat at £11.3m in 2016. This is driven by a £2.2m decrease in spending on advertising and marketing along with favourable unrealised FX gains of £1.7m. This has been offset by, on a like for like annualised basis, an increase of £2.8m in staff costs following the hire of more experienced credit professionals and an increase in legal and professional fees of £0.8m. On a like for like annualised basis, the loss before tax decreased by £2.0m to £(0.2m).

Capital

In balance sheet terms the equity capital in the business is now £1.5m. In order to absorb impairment losses that would otherwise have been passed on to peer to peer investors, the Wellesley Group issued preference shares of £2.5m in September. This loss absorption was partially supported by a loan to one of the directors, Graham Wellesley, for £1.7m which is secured on the proceeds of the sale of a property. This loan is regularly reviewed by a committee of independent non-executive directors.

Total impairment losses of £4.0m have been incurred from total drawn gross facilities of £416m at 31 December 2016. During 2016 new impairment loss charges of £1.4m were recognised compared with £3.4m in 2015. This was offset by a net write back of historic impairment provisions of £0.8m. Total losses to date represent 1.0% of the drawn gross loan facilities down from 1.2% in 2015. A more focused and robust management of the loan portfolio by experienced credit professionals has resulted in more favourable outcomes on the loan portfolio.

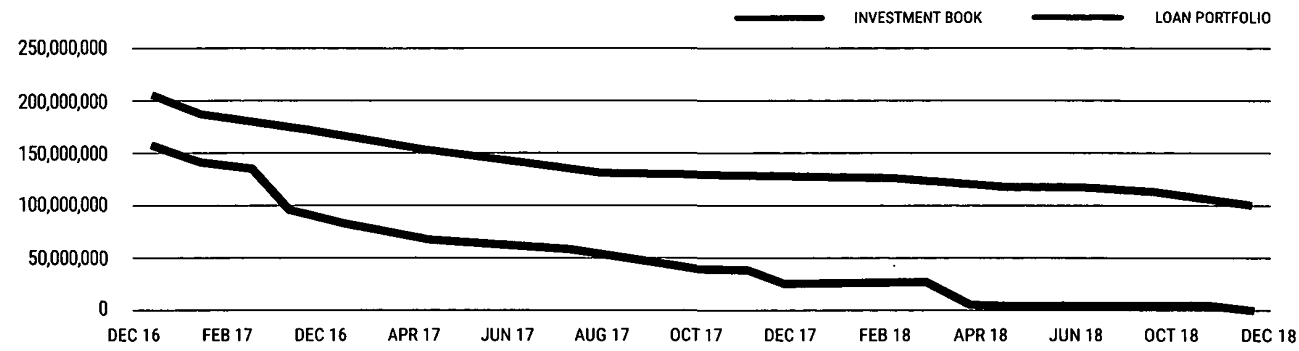
Funding

Liquidity

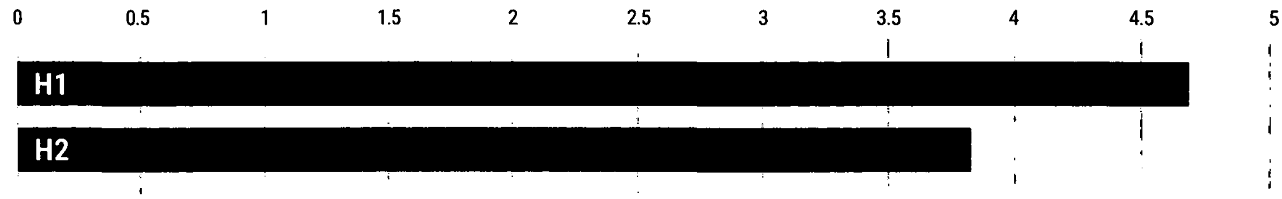
Managing liquidity risk effectively is fundamental to delivering the sustainable growth of the business. Property development finance involves making forward commitments to borrowers to provide funding throughout the duration of their projects. Loan facilities are generally agreed for terms of between 12 and 24 months, comprising an initial advance to purchase the site, and multiple further advances to fund the ongoing development until the practical completion stage. Sales proceeds on these completed developments are then used to repay the facility.

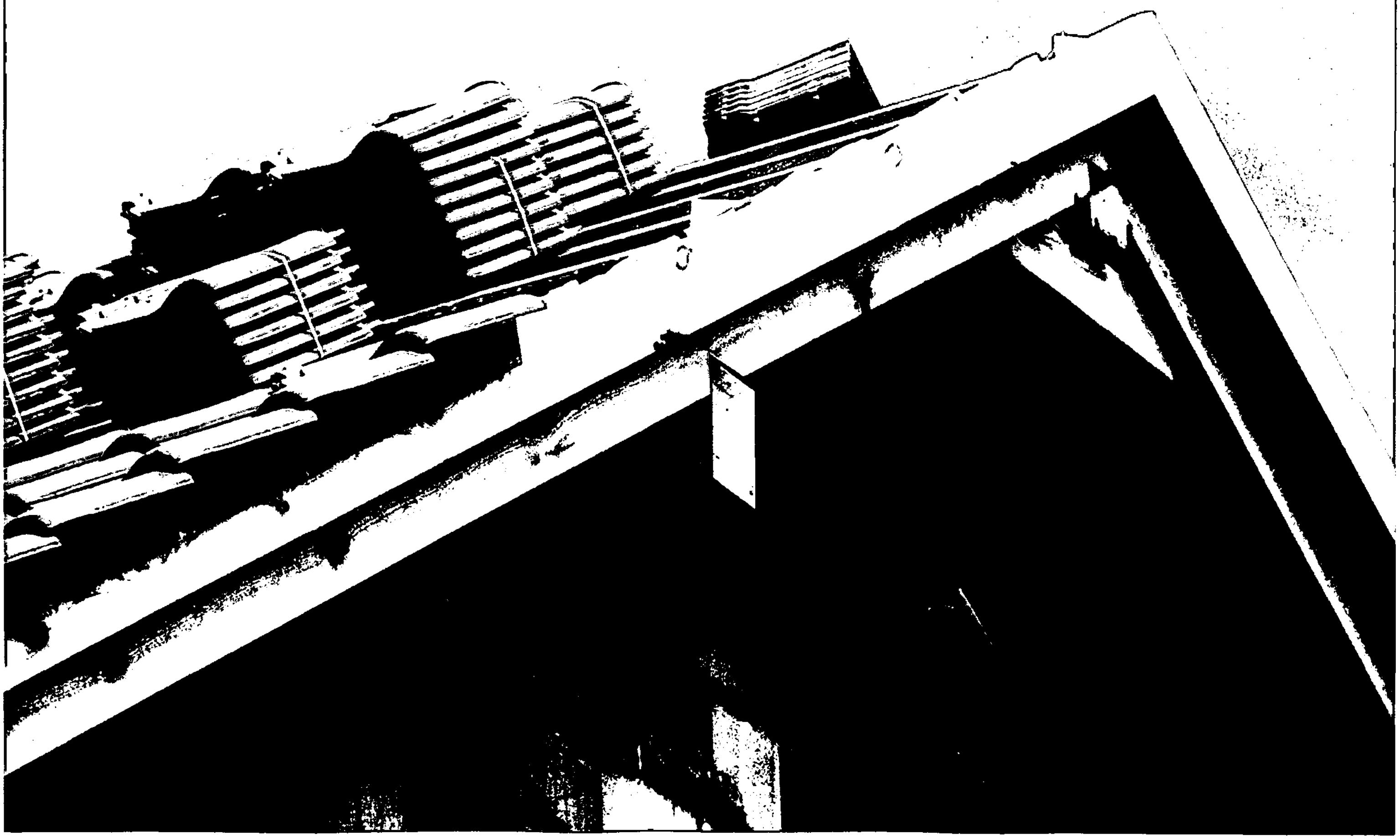
STRATEGIC REPORT CONTINUED

1. CURRENT INVESTMENT BOOK AND LOAN PORTFOLIO RUN-OFF



2. COST OF INTEREST (RETAIL FUNDING %)





As a result of the multiple advances made to borrowers, our loan book will typically have a duration of around one year. To fund the current loan portfolio and future commitments to existing borrowers, we have raised investments for terms ranging from one to five years. The investment book will typically have a duration of around two years meaning that our investments are of significantly longer duration than the loans they fund. In structuring our funding in this way, we maintain liquidity for both our investors and our borrowers.

We further mitigate liquidity risk by choosing to raise more investments than required to meet lending obligations, thereby providing a buffer against unforeseen liquidity events that could manifest in the short term. The liquidity buffer is monitored and reviewed by the Asset and Liability Committee("ALCO"). Funding maturities are diversified to mitigate concentration risk and uphold the liquidity buffer.

Funding performance in 2016
During 2016, the Wellesley Group successfully raised over £100m of new investments from over 2,000 customers growing our investment book by 33% to £206m and our customer base by 17% to over 14,000.

During the first half of the year, we invested in growing our brand through "The Wellesley Way" marketing campaigns, TV advertising and online comparison site presence. We also invested in enhancing our customer user experience in a concerted effort to make investing more straightforward for our customers. These initiatives delivered our most successful half year customer fund raise to date with investor funds growing by 33% the first half of the year. Such investment in our retail customer offering contributed to a first half year loss before tax, but also provided significant liquidity throughout a time of uncertainty following the Brexit vote.

The success of fundraising activities in the first half of the year provided the flexibility to concentrate marketing efforts on organic fund raising in the second half of the year, consequently reducing our marketing costs by 82%.

The chart 1 opposite illustrates the declining cost of acquisition of retail customers demonstrating the success of the marketing efficiency initiatives.

A prolonged low interest rate environment and continued enhancement of our product offering has led to increased demand for our investment products and a corresponding reduction in interest rates to attract new investment as illustrated by chart 2 opposite.

GROUP CHAIRMAN'S STATEMENT

At the core of our philosophy is our drive to provide excellent outcomes for our investors, borrowers and stakeholders.

DAVID GODFREY CHAIRMAN

Our purpose is to bring together two socially important markets which have been left under-served by traditional banks following the last financial crisis: 1) providing funding for mid-market developments in England and Wales; and 2) offering savers the opportunity to take some risk in return for increased rewards by investing in property development lending on our platform or indirect investment through bonds. In bringing these markets together, our aim is to create enduring benefits for all our customers and stakeholders.

Following the financial crisis of 2008, the availability of funding to medium sized property developers in the UK reduced dramatically as a result of traditional banks experiencing cost pressures and regulatory changes. One aspect of these changes in regulation has been significant increases in the capital requirements of UK banks. At the same time, the demand for family housing in cities and towns within England and Wales continues to exceed supply. This has created a need for alternative forms of funding to support growth in UK housing stock. In providing funding for mid-market developments, the Wellesley Group are addressing the undersupply of housing and therefore are playing a positive role in the sustainable economic growth of the country.

As a response to the enduring effects of the financial crisis, central banks have intervened in wholesale funding markets in ways which have adversely impacted the returns available to savers through traditional banking products. The Wellesley Group offers savers the opportunity to take some risk in return for increased rewards by investing in property development lending through direct lending on our platform or indirect investment through bonds. Unlike a traditional bank, all of our capital is risk-bearing which allows for a more attractive return to be provided.

Our ambition is to continue to improve the quality of our lending and counterparty quality.

At the core of our philosophy is our drive to provide excellent outcomes for our investors, borrowers and stakeholders. Our commitment to the highest professional standards is reflected in the priority given to the ongoing development of corporate governance. The Board currently comprises seven directors, three of whom are independent non-executive directors. Responsibilities are delegated from the board to four key committees. The Audit Committee, Risk Committee and Remuneration Committee are chaired by non-executive directors and the chief executive officer chairs the Executive Committee. The board and I are committed to achieving our goal of excellence within governance and stakeholder management.

I believe that the outlook for the Wellesley Group is positive. The Executive Committee have made a series of organisational changes in 2016 which have improved our ability to grow and mature as a lending business. Growth will be achieved through building high quality relationships on both the borrower and investor sides of the business. The lending environment remains positive for the Wellesley Group's chosen segment of property lending largely as a result of shortages of housing stock in certain areas of England and Wales and furthermore as a result of an overall lack of bank credit supply to medium sized developers. Furthermore, the Wellesley Group has created a significant brand presence in the UK as a result of its investment in advertising and its track record of delivering its stated investment returns to all customers. We believe that the organisation has demonstrated the capability of being a scalable long term provider of alternative investment products.

I would like to conclude by thanking my co-Directors, the Executive Committee and every other member of the Wellesley Group team for their tireless efforts, dedication and positivity during a year which saw many changes to the business. Our past and future successes are dictated by the quality of our people and we are very fortunate in that the quality of our personnel is strong for the size and stage of our company. I look forward to working with the team in 2017 in pursuit of our stated ambitions.

David Godfrey Chairman

CHIEF EXECUTIVE'S STATEMENT

The Wellesley Group is fundamentally a people business. Our long-term success depends upon the quality of our relationships with borrowers and investors.

GRAHAM WELLESLEY CEO AND FOUNDER

The Wellesley Group is fundamentally a people business. Our long-term success depends upon the quality of our relationships with borrowers and investors. We depend upon the talent and engagement of our team to deliver the excellent service and successful risk management which underpins delivery for our customers. Commercial performance flows from those key relationships.

That is why my greatest priority has been the continued development of the Wellesley Group team. We have recruited into a number of key leadership positions and have continued to develop the structure and focus of the organisation at pace during 2016. We have successfully implemented a number of initiatives designed to build organisational capability, reduce risk and improve financial performance.

Although the overall financial result for the year was a small loss before tax of £0.2m (2015: a loss before tax of £3.3m), I am pleased to report that the second half of the year was profitable, nearly offsetting the significant investment in growth made in the first half.

Other than the improvements to our financial performance, I am delighted to report that this programme has successfully delivered marked improvement to the organisation's operating capabilities. Loan origination grew by 10% over the year with a further 48 loan facilities being written with a total value of £125.4m which brought the total outstanding loan facilities to £247m.

2016 OUR KEY INITIATIVES

JAN Our first Chief Risk Officer joined the Wellesley Group in 2016 along with a completely new management team in our lending functions – credit, recoveries, lending operations and relationship management.

MAR One additional non-executive director was appointed to improve corporate governance.

MAY We decided to exit the bridging market and focus solely on the mid-market property development market in England and Wales, enabling us to make further cost reductions and also allow our teams to focus on a single operating model and area of expertise.

JUN We reduced marketing spend to both reduce the cost base and ensure the right balance of liquidity resources.

SEP We issued £2.5m of preference shares to enable existing shareholders to absorb credit losses rather than pass them on to investors.

OCT There were two new hires into the loan origination and relationship management team in October.

The result of these changes is a simpler and clearer lending strategy, stronger team, lower cost base, growing revenues and de-risking of the back-book of lending and business model.

We have also seen our loan impairment costs mature at 1.0% when expressed as a percentage of the total gross loan facilities issued to date. It is our expectation that we will see this ratio continue to fall as the incidence of impairment falls coupled with a growing loan book. This expectation is as a result of our increased capabilities within recoveries and improved borrower quality arising from refinements made to our lending strategy.

The growth in the number of investors using our platform has seen committed balances increasing to over £200m for the first time and the total number of investors is now over 14,000.

In balance sheet terms the equity capital in the business is £1.5m (2015: negative net asset value of £0.9m) which represents an increase of £2.4m since the previous accounting period.

Our lending activities continue to be focused upon providing facilities in the £2m to £20m bracket to experienced commercial borrowers within the residential property development market in England and Wales. We focus on financing developments which have mid-market price points and we avoid exposures to large individual dwellings or prime London property.

During 2016, in excess of 60% of housing units financed by the Wellesley Group were below £250,000 per unit. For this reason, much of our origination sits outside London, within the populous cities and towns of England and Wales.

Our approach to lending enables the creation of new homes either by way of ground-up development or through the refurbishment of existing buildings. Our strategy is to finance multi-unit developments in populated regions of England and Wales with a general bias towards lending outside of central London. During the year, we have made a number of adjustments to our lending strategy. In September, we chose to exit the transactional bridging loan market to concentrate on our core strategy. This move enabled us to reduce costs and to invest in the operational capabilities related to our development lending. We have also seen our origination team focus on larger sized loans to developers who are able to participate with larger percentages of equity within the deals. These factors have resulted in us dealing with higher quality professional developers who would otherwise borrow from high street banks. As a result, we have reduced our borrower interest rates in light of reduced risk, improved risk adjusted returns to investors and improved saleability.

Our borrowers require a high quality of service and expect a traditional relationship. Speed of execution and certainty of funds are important aspects of the Wellesley Group's service from the borrower's perspective; such factors often outweigh pricing competition. We believe that nurturing lasting relationships with borrowers and intermediaries is key to future success within development lending and we generally avoid taking a transactional approach to loan origination.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Our relationship driven approach aims to maximise our understanding of our borrower's needs and position which allows us to understand the risks associated with further lending. Within concentration limits, we aim to capture future deal flow from existing customers as well as establish new relationships which will form the foundations for long term growth. Building high levels of borrower and investor engagement is something the whole team at the Wellesley Group is committed to. We pride ourselves on bringing a straightforward and professional approach to our business.

Historically our property development financing activity included both England and Wales and Mallorca, Spain. A total of four developments in Spain were funded by the Wellesley Group. No new development facilities have been entered into in Spain since March 2015 and three of the four have been repaid with full recovery of all capital and interest. Full recovery is also expected on the one remaining facility.

Our lending activities are funded predominantly by retail investors seeking higher yield in return for taking some additional risk relative to high street banks (who are members of the Financial Services Compensation Scheme ("FSCS")) . Wellesley & Co Limited, a Wellesley Group subsidiary which is authorised and regulated by the Financial Conduct Authority ("FCA") under Interim Permissions, operates a peer to peer lending platform which allows retail investors to directly participate in property development loans. Furthermore, our investors can purchase retail bonds which are issued as part of an ongoing programme by Wellesley Finance Plc. Across both investor types, we have over 14,000 active investors who have committed more than £206m at an average rate of 4.49%. We distribute our investment products directly to our customers via our website and in doing so we have created a well-recognised consumer brand.

Our approach has been to provide high service standards combined with attractive risk adjusted returns to our investors. As part of our marketing strategy, we have invested in various forms of media including television, newspaper, comparison sites and digital advertising. Through careful campaign management, we have delivered attractive returns to our existing investors and believe that we have the ability to adjust fundraising volumes according to the needs of our borrowers. We believe that the brand and distribution process that we have created represents a valuable aspect of our business which presents significant hurdles to competitors wishing to replicate.

Regulation of the peer to peer lending industry was introduced in 2014 by the FCA in the form of interim permissions which require holders to make an application for full permissions afterwards. As with all other major peer-to-peer lending firms, Wellesley & Co Limited, our regulated subsidiary, is working with the FCA as it navigates the application process. We believe that regulation is a positive event which will lead to further stable growth of what is still a fledgling industry. Although the process of becoming fully authorised has taken longer than expected, we remain committed to providing excellent outcomes for our investors.

In summary, I believe that the significant strengthening of our team positions us well to succeed with our plans for 2017. We will continue to refine our ability to balance the rate of growth of the business to ensure that our financial resources are maintained. Through effective risk management we are committed to serving the best interest of our borrowers, investors and shareholders. We strive to achieve high quality investment returns for our investors whilst delivering a much needed service to our borrowers. Above all, we seek to conduct ourselves with integrity and the highest professional standards.

Graham Wellesley Chief Executive Officer

OUR AWARDS IN 2016

2016 BEST PEER TO PEER

CORPORATE LIVEWIRE FINANCE AWARDS

2016 BEST ALTERNATIVE SAVINGS ACCOUNT PROVIDER

MONEYSUPERMARKET.COM

"We are building a business for the long term. We deploy industry-leading expertise to develop enduring relationships with borrowers and investors"

RISK REPORT

Loan portfolio

During 2016, the Wellesley Group revisited its strategy and determined that its core market was in the larger scheme development finance market. This will result in the firm having a target portfolio which is based on a smaller number of larger sized loans for schemes consisting of many average sized dwellings. As a direct consequence, the firm exited the "bridging" market which was characterised by loans considerably below £1m with low levels of complexity.

We saw the overall quality of the portfolio stabilise as the "legacy" loans from 2014 and early 2015 were either repaid or were worked through to a final outcome with increased volume of higher quality lending being booked. Specifically, as at the end of 2016 the total cumulative provisions of £4.0m represents 1.0% of the lending facilities agreed since the business began lending in 2013. 75.2% of the total relates to three loans out of the 252 that were made since the company started lending. These loans were made in 2014 and without these the cumulative figure would have been £1.1m which would have been 0.26% of lifetime lending.

In terms of extension risk, of the 64 loans made since the start of 2015, 9 (14.0%) were beyond their original approved term at the end at the reporting date. This is a common feature of property development finance and we monitor such loans closely to ensure that the delays are reasonable and relate to normal development issues which can be rectified.

Within 2016, we recruited further experienced credit professionals into the business to further improve the quality of our decision making and ongoing management of the portfolio. We expect to see further improvement in the portfolio quality during 2017 due to improved origination, ongoing repayment of historic transactions and a return in the firm's investment in a high quality recovery capability.

Approach to Risk Management

Given the firm is relatively early in its development and the Chief Risk Officer was appointed in February 2016, it would be reasonable to view the year as being one where the foundations were put in place for some of the more material risk categories.

As a consequence of this appointment, the firm was able to begin the process of adopting an enterprise-wide approach to risk management. A material risk framework was created and approved by the Board Risk Committee in the second quarter of 2016. It considers all risk categories on a periodic basis to ensure both current and emerging risks are understood and are addressed appropriately. It was agreed by the Board Risk Committee that the main headline areas of risk were Credit, Operational, Liquidity, Governance, Strategy & Business Model, Reputation, Conduct & Culture, Execution, Technology and Outsourcing. A further review was completed by a third party which supported both the starting point and the proposed action plan.

Specifically, progress in Credit Risk and Liquidity Risk has been good and some positive strides have been made on the Conduct & Culture agenda. The work done to clarify and communicate the core focus of the firm has also shown through in improvements to the Strategy & Business Model Risk rating. Areas of particular focus for 2017 will be around Operational Risk, Execution Risk and Technology where less progress was made in 2016. We will need to evolve our current position to one where the control environment is more clearly established across the firm at a lower level of detail and this is part of the overall transition plan we are committed to.

While there has been some progress made in the year on those areas that are within the firm's control, we saw the impact of negative press. While this consumed management time in providing the transparent and clear answers needed, it was positive to note that despite the volume of adverse commentary the retail investor base remained resilient.

“Within 2016, we recruited further experienced credit professionals into the business to further improve the quality of our decision making and ongoing management of the portfolio”

Given this is a living document, the first annual review of the Material Risk Framework will be presented to the Board in the near term. This may result in some risk categories being combined (e.g. Operational Risk and Execution Risk) and certain ones being separated out in the light of industry developments (e.g. Cyber). Some sub definition changes are also likely with new risks identified which require focus. All of this will be set in the context that sound risk management is based on three central principles – the simplest possible organisational construct, a risk approach which "follows the money" and a strong three lines of defence approach.

Some of the more material risk categories over the year are detailed below:

Credit Risk
The Wellesley Group is exposed to the risk that borrowers will not fulfil their obligation to repay in line with the loan agreement. Default risk arises if negative factors emerge related to the customer, project or market conditions. Extension risk arises where either borrower performance or the market result in projects running beyond the original contracted terms.

The firm regularly reviews its lending strategy and existing portfolio in the light of market developments and borrower performance. All aspects of new facilities are subject to extensive challenge by the Business Acceptance Credit Committee ("BAC"), chaired by the Group Chief Risk Officer. An Asset Review Forum monitors and manages the performance of the current loan book and recommends action where appropriate to BAC.

The majority of the Wellesley Group's lending is secured over the life of the assets. The Wellesley Group's financial asset exposure to non-customer counterparties is limited to foreign exchange forward contracts and cash at bank.

During the year, the overall performance of the book improved as the issues arising from legacy loans dating back to 2014 were actively managed towards conclusion and new, higher quality lending was originated. This can be seen in the plateau and slight reduction in the lifetime loss ratio and the lower incidence in extensions from the more recently originated loans. All credit policy criteria were consolidated into a formal Credit Policy which was approved by the Board in February 2017. Recruitment of the more experienced people into the "lending spine" of the business was completed during the year.

Operational Risk
The firm is exposed to the risk of losses arising from inadequate or failed procedures, systems or policies and other events that disrupt business processes. This exists for the firm as it provides relatively large financial solutions to a range of customers and the facilities rely on a number of internal and external teams. It also offers solutions to retail investors where customer outcomes are critical.

From a lending perspective, there is a significant focus on ensuring the deal completed is consistent with that approved by BAC. Variation of the deal from that which was approved, the failure to implement the relevant controls or to ensure compliance with covenants and conditions could result in significant operational risk to the business. As a result, operational risk exists throughout the loan lifecycle and not just at inception. Operational risk can also exist as a result of outsourcing arrangements in areas such as technology. With key elements of the customer journey for retail investors underpinned by technology, failings in this area could cause that risk to increase.

The firm has addressed this to date by having specialist teams responsible for particular areas of the loan life-cycle, retail investor customer journey and technology oversight. This is planned to be bolstered by the creation of an outsourcing risk framework and more dedicated resource which will be a logical output of the Target Operating Model being developed.

Touching on execution risk at this point, the firm has invested in dedicated project management resource and has now created a full transition plan with all the necessary resource to deliver it clearly identified. Further investments are planned going forward which include a recently completed hire of a Process Analyst who will work to ensure all key processes are appropriately documented.

Strategy & Business Model Risk
There is a risk that corporate strategy is unclear or that the appropriate business model and performance indicators are not in place. Within this context there is also a risk that the firm either does not have or loses the licences and permissions it needs to deliver its strategy.

RISK REPORT CONTINUED

Wellesley & Co Limited operates under an interim authorisation with applications for full authorisation under consideration by the FCA as is the case for all firms in this position. Wellesley & Co Limited applied for a licence in August 2014 and there is a risk that the FCA may not grant a full licence to Wellesley & Co Limited or that a licence will be granted with material conditions attached which could require the firm to transition its funding sources to execute its strategy or require it to raise additional capital.

The firm is in regular communication with the FCA with both parties working towards full authorisation. There is a comprehensive transition plan which is subject to regular Executive Committee and Board oversight which falls under the day-to-day leadership of a dedicated Project Manager. During the year, the strategic intent of the firm was clarified to be a lending business which seeks to offer the opportunity to risk aware retail investors to participate in that activity.

Liquidity Risk
The Wellesley Group is exposed to the liquidity risk arising from potential mis-match between the requirement to fund its operations and available funding sources.

This is primarily addressed as the business strategy is to "borrow long and lend short" with the average tenor of loans being shorter than the average maturity of the funding sources. In addition, the firm employs a Treasurer who is accountable for managing the liability position on a day-to-day basis and reporting that to the firm's Asset and Liability Committee ("ALCO") which meets monthly. Good progress was made during the year in terms of the management and monitoring of funding by tenor, type and use with solid future forecasts extending over reasonable timescales.

Reputational Risk
The Wellesley Group has a high level of sensitivity to reputational risks, particularly those which could potentially result in adverse consumer reaction. Given the relative immaturity of the sector as a whole, it is possible that an event causing reputational damage in another firm could have an impact on the firm. Examples of this would include a run of 'early access' requests which would impact the firm's liquidity management and overall ability to operate or a significant fall off in the demand for the investment products which underpin current and future lending commitments.

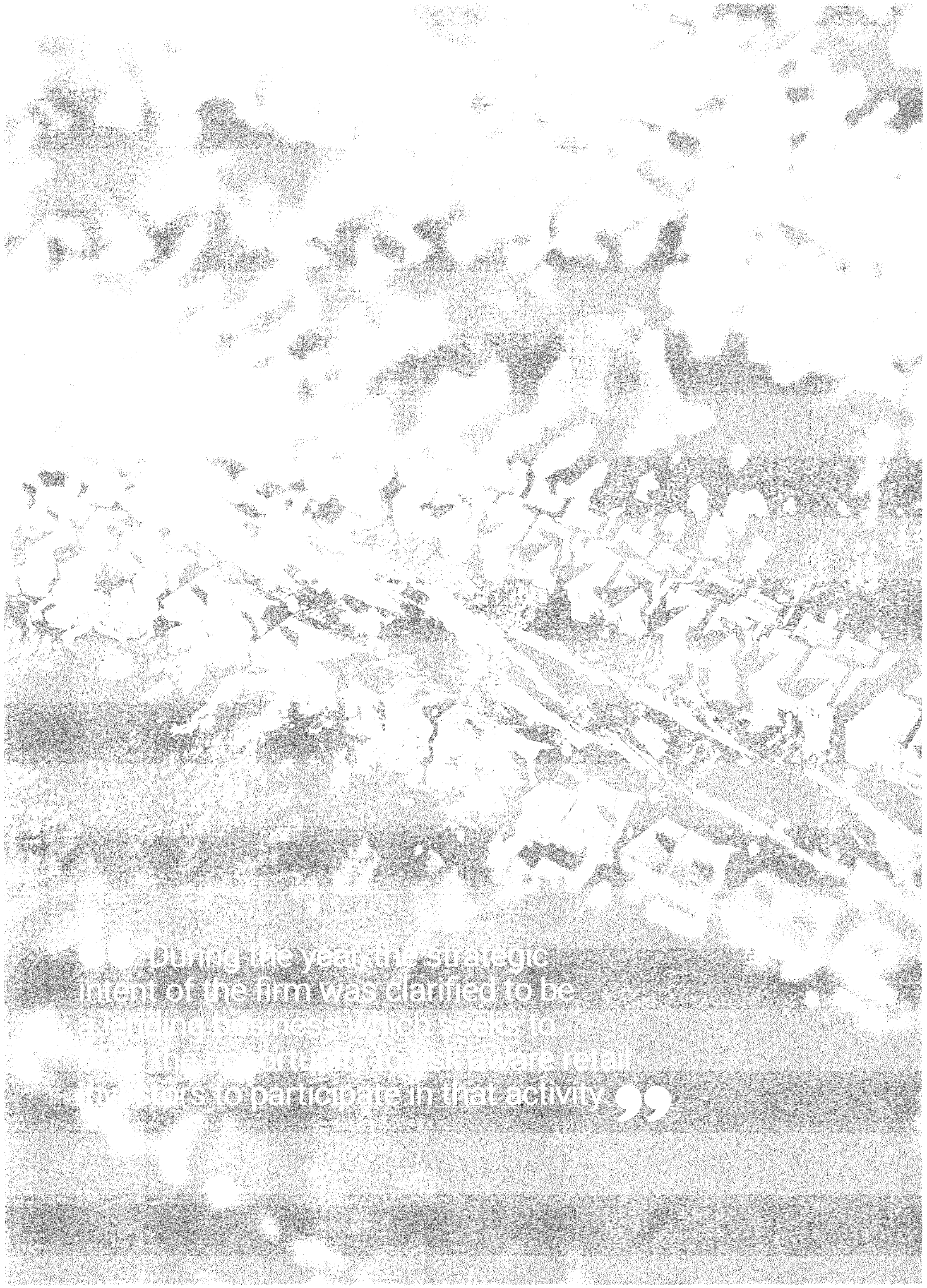
The firm manages this through ongoing direct engagement with the customer base and also broader industry engagement. The firm utilises retained PR consultants for media feedback and proactive corporate affairs. There have been several negative articles written about the firm and in all cases, we engaged positively and transparently with the media to provide clear and unambiguous answers to their questions. The retail investor base and our borrowing customers remained very resilient through this period.

Technology Risk
The Wellesley Group is exposed to the risk that customers may experience service disruptions or the firm may incur losses arising from system defects or failures including illegal or unauthorised use of computer systems. The firm takes this very seriously and even though it doesn't operate clearing accounts or payment processing systems, it handles large value payments both inbound and outbound.

This has been an area of considerable focus for the firm and during the year, an extensive exercise was completed to understand the potential for a "strategic solution" to the enterprise IT needs of the firm. Key to this was balancing speed of delivery and cost. As a result, recruitment has taken place to enable the firm to become more "self-reliant" which will also contribute to a stronger position in terms of outsourcing risk.
One area which will be given greater prominence in this area is cyber-crime. We believe a more explicit and distinct approach is needed in this area given external developments and the need for us to protect retail investors – and borrowing customers – to the highest standard.

The firm has foreign currency exposure and engages in forward exchange contracts to minimise risk.

The main risks arising from the Wellesley Group's financial instruments are detailed in note 23.



“During the year, the strategic intent of the firm was clarified to be a lending business which seeks to [illegible] the opportunity to risk aware retail investors to participate in that activity.”

DIRECTOR BIOGRAPHIES


Graham Wellesley


Andrew Turnbull


David Godfrey


Anthony Fane


Michael Hatchard


Lorenzo Naldini


Peter Stott

Executive Directors

Graham Wellesley
Group Chief Executive Officer

Graham started his career in the City working within the derivatives industry for firms including Hoare Govett and ING Bank before founding IFX Markets. After taking the company public on the London Stock Exchange, Graham acquired ODL Securities in 2004. The company grew to being a leader in FX trading and was merged with FXCM in 2010 as part of the company's flotation on the New York Stock Exchange. Graham has also held the position of chairman of agricultural lending company Prestige Asset Management. Graham founded the Wellesley Group in 2013. Graham is an Executive Director of the Wellesley Group.

Andrew Turnbull
Group Managing Director

Andrew started his career in London working within the derivative trading industry as an investment adviser and sales manager. Andrew's most recent roles were within ODL Securities and then FXCM where he performed the roles of Marketing Director and latterly Vice-President for FXCM Europe, specialising in the retail and institutional foreign exchange trading platform services. Whilst at FXCM, Andrew managed their trading relationship with Barclays Stockbrokers which was branded Barclays Margin FX. Andrew is an Executive Director of the Wellesley Group.

Non-Executive Directors

David Godfrey
Independent Non-Executive Chairman, Wellesley Group
Until October 2015, David Godfrey was Chief Executive of UK Export Finance ("ECGD") having joined the Management Board as a Non-Executive Director in 2003, and being appointed CEO in September 2013. Prior to taking up the CEO role at ECGD, David had been Chief Risk Officer at Pension Insurance Corporation, a specialist insurer of defined benefit pension schemes. He has extensive experience of corporate banking and insurance, having held posts as Head of Risk for the Wholesale Banking Division at Lloyds Banking Group from 2009 to 2011, and as a member of the Executive Board of Swiss Re. At Swiss Re, he was also Chief Risk Officer for the Financial Services Group. David has also held positions with JP Morgan in London and New York and, prior to that, with Bankers Trust Company. In addition, he is a Non-Executive Director of Nomura Europe Holdings where he chairs the Board Risk Committee, and of Charity Bank Ltd where he chairs the Board Credit Risk Committee.

Anthony Fane
Non-Executive Director, Wellesley Group
Before starting his career in financial services, Anthony spent six years serving with the Grenadier Guards as a platoon commander in London and Northern Ireland. He started as a bond salesman and trader at Swiss Bank Corporation International and Bank of America. He then joined BNP Paribas where he managed the Financial Institutions syndicate function and later the Financial Institutions Group Debt Capital Markets team. Anthony was responsible for arranging senior debt, preference share and securitisation issues for European Banks and Insurance companies. He spent thirteen years at BNP Paribas before working at WH Ireland as a corporate finance advisor for renewable energy projects. Anthony co-founded Wellesley & Co in 2013.

Michael Hatchard
Independent Non-Executive Director, Wellesley Group
Michael Hatchard is the head of the English law practice at law firm Skadden, Arps, Slate, Meagher & Flom (UK) LLP. He has extensive experience in corporate law, including joint ventures, mergers, strategic investments and divestments, and transactions governed by the U.K. or other European takeover regimes. His practice includes restructurings, refinancings and reorganisations. Michael also advises companies, boards and individual directors on a broad range of corporate governance responsibilities, including contentious public meetings, disclosure, directors' duties, and individual director liability and protection.

Lorenzo Naldini
Non-Executive Director, Wellesley Group
Lorenzo started his career in the financial derivatives industry until he and Graham decided to go into business together. Their first business was IFX Group Plc, which was an online foreign exchange trading provider founded in 1995. After the successful flotation of the business on the London Stock Exchange he joined Graham at ODL Group Ltd, a foreign exchange and commodity trading firm. The company grew to being a leader in FX trading and was merged with FXCM in 2010 as part of the company's flotation on the New York Stock Exchange . Lorenzo co-founded Wellesley & Co in 2013.

Peter Stott
Independent Non-Executive Director, Wellesley Group
Peter Stott has held senior positions both in the UK and US. He joined Wellesley in 2016 from investment bank, Greenhill & Co, where he was a Managing Director and Senior Adviser since 2005. Prior to this, Peter spent 17 years at Morgan Stanley as a Managing Director and Co-Head of UK Investment Banking. In previous appointments, he was a banker in the New York and London offices of The First Boston Corporation and, prior to that, a management consultant with McKinsey & Co. Inc. in the firm's Washington, DC office. Peter graduated from Aberdeen University with a degree in law and he also obtained an MBA with distinction from the Harvard Business School. He brings best-in-class investment banking, governance and risk management experience to the Wellesley Group board.

CORPORATE GOVERNANCE

Committees

At 31 December 2016, the Board consisted of a minimum of five non-executive directors and two executive directors. Scheduled meetings of the Board are held 13 times a year. The Board is responsible for promoting the long term success of the firm. It does this by:

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

The Board is also responsible for:

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

At each Board meeting the Directors discuss strategic and business matters, financial, operational, risk and governance issues and other relevant business items that arise.

Board sub-Committees provide oral reports from the Chairs of each sub-Committee at the next board meeting.

The Board is supported by four key committees which have been established over the last eighteen months:

- Risk Committee
- Audit Committee
- Remuneration Committee
- Executive Committee

The Risk Committee is responsible for the development and maintenance of the Group's Risk Management Framework, and that strategy, principles, policies and resources are aligned to the Group's risk appetite, as well as to regulatory and industry best practices in respect of both prudential and conduct risks.

The Audit Committee meets a minimum of two times a year and is responsible for proper reporting of the financial performance of the Group and for meeting the auditors and reviewing the reports from the auditors in relation to the financial statements.

The Remuneration Committee is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration.

The Wellesley Group Investors Limited Executive Committee is responsible for presenting and agreeing options to deliver the strategy to the Board. Once agreed it is accountable for the delivery of the agreed plans and to report on progress and variances to plan.

DIRECTOR'S REMUNERATION

	Base salary £'000	Non-executive director fee £'000	Taxable benefit £'000	Annual bonus £'000	Total £'000	Growth Shares
GG Wellesley	342	-	-	-	342	-
AJ Turnbull	244	-	-	-	244	-
DW Godfrey	-	87	-	-	87	4,110
M Hatchard	-	48	-	-	48	4,110
P Stott	-	33	-	-	33	-
AJ Fane	-	40	-	-	40	-
L Naldini	-	55	-	-	55	-
PA Cragg	24	-	-	-	24	-
EJ Daniels	-	50	-	-	50	8,221
	610	**313**	**-**	**-**	**923**	**16,441**

BOARD COMMITTEE ATTENDANCE

	Number of Board meetings	Number of Board Audit Committee meetings	Number of Board Risk Committee meetings	Number of Executive Committee meetings
GG Wellesley	13	3	-	12
AJ Turnbull	13	3	2	12
DW Godfrey	12	3	2	-
M Hatchard	11	-	-	-
P Stott	8	3	-	-
AJ Fane	13	2	2	-
L Naldini	12	1	-	-
PA Cragg	-	-	-	-
EJ Daniels	6	-	1	-
Total number of meetings	**13**	**3**	**2**	**12**

It should be noted that Alasdair Lenman (Chief Financial Officer) and Stephen Bell (Chief Risk Officer) are both members of the Wellesley Group Investors Limited Executive Committee along with Graham Wellesley and Andrew Turnbull. In their respective executive capacities, both Alasdair Lenman (June 2016) and Stephen Bell (February 2016) were attendees of most Wellesley Group Investors Limited Board meetings since their date of joining.

REPORT OF THE DIRECTORS

The Directors present the Strategic Report, Directors' Report and the financial statements of the Wellesley Group Investors Limited (the "Group") for the year ended 31 December 2016. The directors of the Group during the year were those listed on page 2.

Results and dividends
The Group loss for the year before taxation was £(210,288) (2015: loss before taxation £3,285,426). The taxation credit for the year was a credit £84,566 (2015: a credit of £757,278).

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

Principal activities
The Group is engaged in the provision of medium term finance for mid-market property developers in England and Wales. The Group benefits from the peer to peer activities of Wellesley & Co Limited which enables Wellesley Finance Plc to provide financing to borrowers. Wellesley Group Investors Limited, (the "Company"), is principally engaged to act as a holding company.

Principal risk and uncertainties
The principal risks and management, including financial risk management are detailed in the Strategic Report on page 4.

Future developments
The future developments of the group are detailed in the Strategic Report on page 4.

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.

Going concern
The financial statements are prepared on a going concern basis, as the directors have considered financial projections for the two years from the date of approval of the financial statements which supports the directors' view that the Group and Company will continue to operate as a going concern.

The directors have reviewed financial projections and cash forecasts under various scenarios over a two-year period to the end of 2018, which illustrate adequate levels of liquidity and capital for this period. Business investment and the pace of expansion will be managed within the levels of investment available. In summary, the directors are satisfied that the actions being taken to manage the capital and liquidity position of the Group are aligned to the strategic objectives of the Group.

Statement of directors' responsibilities
The directors are responsible for preparing the strategic report, the 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 that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

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

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

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

Graham Wellesley
Director

Approved by the Board of Directors and signed on behalf of the Board on 17 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, the 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 that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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Graham Wellesley
Director

Approved by the Board of Directors and signed on behalf of the Board on 17 May 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WELLESLEY GROUP INVESTORS LIMITED

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

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 Group's and the parent Company's affairs as at 31 December 2016 and of the Group's and the parent Company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

BDO LLP

Leigh Treacy (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
17 May 2017

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2016

	Notes	Year to 31 December 2016 £'000	18 month period to 31 December 2015 Restated £'000
Interest income		1,742	2,440
Interest expense		(2,165)	(3,208)
Net interest income		**(423)**	**(768)**
Fees and commission income		12,193	14,302
Total income		**11,770**	**13,534**
Other operating income		740	1,687
Net (loss)/gain from derivatives and other financial instruments at fair value through profit or loss		(1,221)	786
Total operating income		**11,289**	**16,007**
Administrative expenses	5	(11,254)	(16,881)
Impairment of loans and advances	12	(1,357)	(3,379)
Write back of loans and advances	12	2,878	–
Write off of loans and advances		(2,115)	–
Depreciation and amortisation	14, 15	(407)	(166)
Loss from operations		**(966)**	**(4,419)**
Bank interest		3	5
Interest expense		–	(269)
Share of profit in joint venture arrangement	11	752	1,398
Loss before tax		**(211)**	**(3,285)**
Income tax credit	9	85	757
Loss after taxation – attributable to the equity holders of the Group		**(126)**	**(2,528)**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2016

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Loss after taxation – attributable to the equity holders of the Group	(126)	(2,528)
Total other comprehensive income for the year, net of taxation	**–**	**–**
Total comprehensive loss for the year, net of taxation	**(126)**	**(2,528)**

There are no items in the consolidated 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 32 to 55 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR YEAR ENDED 31 DECEMBER 2016

	Notes	31 December 2016 £'000	31 December 2015 Restated £'000
Assets			
Non-current assets			
Property, plant and equipment	14	256	446
Intangible assets	15	830	483
Loans and advances to customers	10	3,083	404
Joint venture	11	3,264	2,512
		7,433	**3,845**
Current assets			
Loans and advances to customers	10	31,295	13,615
Cash and cash equivalents		34,888	23,227
Derivative financial assets	13	–	786
Other assets	16	5,660	3,209
Total assets		**79,276**	**44,682**
Liabilities			
Current liabilities			
Other liabilities	17	26,737	15,709
		26,737	**15,709**
Non-current liabilities			
Interest-bearing loans and borrowings	18	50,626	29,895
Derivative financial liabilities	13	434	–
Total liabilities		**77,797**	**45,604**
Net assets		**1,479**	**(922)**
Equity			
Share capital	19	3,176	2,922
Share premium	20	2,273	–
Accumulated losses		(3,970)	(3,844)
Total equity		**1,479**	**(922)**

The notes on pages 32 to 55 are an integral part of these financial statements.

These financial statements were approved by the Board of directors on 17 May 2017 and were signed on its behalf by:

David Godfrey
Chairman

Graham Wellesley
Director

Company number 08478238

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2016	**2,922**	**–**	**(3,844)**	**(922)**
Total comprehensive losses for the year				
Loss for the year	–	–	(126)	(126)
Other comprehensive income	–	–	–	–
Total comprehensive losses for the year	**–**	**–**	**(126)**	**(126)**
Transactions with owners recorded directly in equity:				
Issue of shares	254	2,273	–	2,527
Total contributions by and distributions to owners	**254**	**2,273**	**–**	**2,527**
Balance at 31 December 2016	**3,176**	**2,273**	**(3,970)**	**1,479**
Balance at 1 July 2014	**750**	**–**	**(1,316)**	**(566)**
Total comprehensive losses for the period				
Loss for the period	–	–	(2,528)	(2,528)
Other comprehensive income	–	–	–	–
Total comprehensive losses for the period	**–**	**–**	**(2,528)**	**(2,528)**
Transactions with owners recorded directly in equity:				
Issue of shares	2,172	–	–	2,172
Total contributions by and distributions to owners	**2,172**	**–**	**–**	**2,172**
Balance at 31 December 2015	**2,922**	**–**	**(3,844)**	**(922)**

The notes on pages 32 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2016

	Notes	Year to 31 December 2016 £'000	18 month period to 31 December 2015 Restated £'000
Cash flows from operating activities			
Loss before taxation		(211)	(3,285)
Adjustments for non-cash items:			
Other		–	125
Amortisation of website and brand development costs		179	91
Depreciation		228	75
Net loss/(gain) from derivatives and other financial instruments at fair value through profit or loss		1,221	(786)
Impairment losses on loans and advances		1,357	3,379
(Write back) on loans and advances		(2,878)	–
Write off of loans and advances		2,115	–
Share of profit in joint venture arrangement		(752)	(1,398)
Foreign currency revaluation of loans and advances		(1,183)	291
Write off of payable		–	301
		76	(1,207)
Adjustments for working capital items and loans & advances:			
(Increase)/decrease in other assets		(550)	1,070
Increase in other liabilities		10,448	10,603
(Increase) in operating assets		(18,605)	(17,484)
Tax paid		–	(115)
Net cash flows used in operating activities		**(8,631)**	**(7,133)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(39)	(496)
Purchase of intangible assets		(526)	(490)
Net cash used in investing activities		**(565)**	**(986)**
Cash flows from financing activities			
Proceeds from issue of shares		2,527	39
Loans to related parties		(1,700)	–
Loans repaid from related parties		43	–
Proceeds from interest-bearing loans and borrowings		20,559	32,217
Repayment of interest-bearing loans and borrowings		(621)	(2,322)
Net cash generated in financing activities		**20,809**	**29,934**
Net increase in cash and cash equivalents		**11,612**	**21,816**
Cash and cash equivalents at the start of the year		23,227	1,436
Foreign currency revaluation of cash balances		48	(25)
Movement during year		11,612	21,816
Cash and cash equivalents at the end of the year		**34,888**	**23,227**

The notes on pages 32 to 55 are an integral part of these consolidated financial statements.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

1 Nature of operations

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

2 Basis of preparation

2.1 Accounting basis

The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and IFRSs 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 consolidated 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.

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.

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.
- IFRS 15 – Revenue from contracts with customers. Applicable for financial years beginning on or after 1 January 2017. 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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

2 Basis of preparation continued

2.2 Future accounting developments continued

The Group'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 Group.

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 Group.

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 Group.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are entities controlled by the Company made up to 31 December 2016.

Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

2.4 Going concern
The financial statements are prepared on a going concern basis, as the directors have considered financial projections for the two years from the date of approval of the financial statements which supports the director's view that the Group and Company will continue to operate as a going concern

The directors have reviewed financial projections and cash forecasts under various scenarios over a two-year period to the end of 2018, which illustrate adequate levels of liquidity and capital for this period. Business investment and the pace of expansion will be managed within the levels of investment available. In summary, the directors are satisfied that the actions being taken to manage the capital and liquidity position of the Group and Company are aligned to the strategic objectives of the Group and Company.

3 Significant accounting policies
3.1 Interest income and expense
Interest income and expense are recognised in the consolidated statement of comprehensive income 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 Group 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income include:

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

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

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

3.3 Other operating income
Arrangement fees 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 and other expense
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.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

3 Significant accounting policies continued

3.5 Financial instruments – recognition and de-recognition

Recognition

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

De-recognition

De-recognition of financial assets and liabilities is the point at which an asset or liability is removed from the consolidated 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 Group has transferred substantially all the risk and rewards of ownership of the assets.

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

3.6 Financial instruments

Financial Assets

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

The Group's accounting policy is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group 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 of loans and advances to customers.

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

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

NOTES FORMING PART OF THE CONSOLIDATED 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 Group 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 Group uses to determine that there is objective evidence of impairment loss include, but not limited to, the following:
- delinquency in contractual payments of principal or interest;
- cash flow or other trading difficulties experienced by the borrower;
- initiation of bankruptcy proceedings; and
- change in market value of assets

The Group's portion of the carrying amount of the asset is reduced through the use of an impairment provisioning process and the amount of the loss is recognised in the consolidated statement of comprehensive income.

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 year 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, of in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the issue of unobservable inputs. The chosen valuation techniques incorporate all the factors that market participants would take in to account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration received or given.

3.8 Joint venture
Joint ventures are arrangements in which the Group has joint control, whereby the Group 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 Group's share of post-acquisition profits and losses and other comprehensive income are recognised in the consolidated statement of comprehensive income.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

3 Significant accounting policies continued
3.8 Joint venture continued

The Group 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 Group enters into derivative transactions only for the purpose of reducing exposure to fluctuations in exchange rates; they are not used for proprietary trading purposes.

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

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

3.10 Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities held at the consolidated statement of financial position date are translated into sterling at the exchange rates ruling at the consolidated 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 consolidated statement of comprehensive income.

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

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

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

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

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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

3 Significant accounting policies continued

3.11 Taxation continued

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

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

3.12 Intangible assets

Website and brand development

Expenditure on website and brand development is recognised as an asset when the Group 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 comprehensive statement of comprehensive income.

3.13 Property, plant and equipment

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

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

3.14 Equity instruments

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

3.16 Investment in Group undertakings

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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

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 Group's financial condition are those relating to EIRs, loan impairment provisions, intangible assets and deferred tax assets.

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 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.

Deferred tax assets

The Group recognises deferred tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The Group forecasts future profits in its three-year strategic outlook and thus it is probably the deferred tax assets will be recoverable. See note 9 for details.

5 Administrative expenses

	Note	Year to 31 December 2016 £'000	18 month period to 31 December 2015 Restated £'000
Staff costs	6	5,693	4,275
Advertising & marketing		2,033	6,390
Legal & professional		1,028	978
Irrecoverable VAT		1,230	2,181
FX on foreign currency loans		(1,171)	806
Other administrative expenses		2,437	2,244
Operating lease charges		4	7
		11,254	**16,881**

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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

6 Staff costs

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Staff costs	5,071	3,918
Social security costs	592	357
Redundancy costs	30	–
	5,693	**4,275**

	Year to 31 December 2016	18 month period to 31 December 2015
Staff numbers have been allocated per department as follows at the year end:		
Central functions	33	17
Directors	7	9
Operations	7	9
Credit operations	10	2
Loan origination	11	15
	68	**52**

Salaries paid to key management personnel during the year was £539k (31 December 2015: £685k).

The average number of persons employed by the Group during the year, including Non-Executive Directors, was 68 (31 December 2015: 52).

7 Directors' emoluments

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Directors' emoluments	923	1,365
	923	**1,365**

The emoluments for the highest paid director during the year was £342k (31 December 2015: £447k).

8 Auditor's remuneration

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Auditor's remuneration:		
Wellesley Group Investors Limited	37	37
Subsidiary entities	57	45
	94	82
Amounts receivable by the Company's auditor and their associates in respect of other services:		
Tax advisory services	6	28
Other advisory services	–	50
	100	**160**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

9 Taxation

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Recognised in the Statement of Comprehensive Income	(85)	(757)
Current tax:		
UK corporation tax at 20% (2015: 20.50%)	106	(88)
Total current tax	**106**	**(88)**
Deferred tax:		
Origination and reversal of temporary difference	(190)	(669)
Total deferred tax	**(190)**	**(669)**
Total tax credit	**(85)**	**(757)**
Reconciliation of tax charge:		
(Loss) on ordinary activities before tax	(211)	(3,285)
Tax on loss on ordinary activities at standard corporation tax rate of 20% (2015: 20.50%)	(42)	(673)
Effects of:		
Expenses not deductible for tax purposes	85	95
Deferred tax not previously recognised	(82)	–
Adjustment to prior periods – current tax	158	–
Adjustment to prior periods –deferred tax	68	–
Income not taxable for tax purposes	(319)	(308)
Group relief surrendered/(claimed)	–	56
Additional deduction for R&D expenditure	(70)	(70)
Surrender of tax losses for R&D tax credit refund	20	36
Temporary differences not recognised in the computation	19	20
Adjust deferred tax rate to average rate of tax 20%	78	87
Total tax credit	**(85)**	**(757)**

10 Loans and advances to customers

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Gross loan receivables	36,236	17,398
Less: allowances for impairment losses	(1,858)	(3,379)
	34,378	**14,019**
Amounts falling due:		
Within one year	31,295	13,615
In the second to fifth year inclusive	3,083	404
After five years	–	–
	34,378	**14,019**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

11 Joint ventures

	31 December 2016 £'000	31 December 2015 £'000
Opening balance	2,512	–
Cost of investment in joint venture	–	1,114
Group share of profit of joint venture	752	1,398
	3,264	**2,512**

In September 2015, the Group undertook a restructuring of one of its loans in Spain. As a result of this restructuring, the Group 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.

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

	31 December 2016 £'000	31 December 2015 £'000
Current assets	10,775	6,427
Fair value adjustment	7,183	7,923
Current liabilities	268	1,053
Non-current liabilities	11,163	8,274
Included in the above amounts are:		
Cash and cash equivalents	16	40
Current financial liabilities (excluding trade payables)	–	–
Non-current financial liabilities (excluding trade payables)	11,163	8,274
Net assets	**6,527**	**5,023**
Group share of net assets (50%)	**3,264**	**2,512**
Profit from continuing operations	**1,504**	**2,796**
Group share of profit from continuing operations (50%)	**752**	**1,398**

12 Provisions

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

	31 December 2016 £'000	31 December 2015 £'000
At the beginning of the year	3,379	–
Charge for provisions	1,357	3,379
Write back of provisions	(2,878)	–
At the end of the year	**1,858**	**3,379**

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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

13 Derivatives held for risk management

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

	31 December 2016		31 December 2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Foreign exchange	–	434	786	–
	–	**434**	**786**	**–**

The Group 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.

14 Property, plant and equipment

31 December 2016	Leasehold improvements £'000	Furniture, fixtures, fittings & equipment £'000	Computer equipment £'000	Total £'000
Cost				
At the beginning of the year	324	98	106	528
Additions	9	14	16	39
Disposals	–	–	(1)	(1)
At the end of the year	**333**	**112**	**121**	**566**
Depreciation				
At the beginning of the year	49	10	23	82
Depreciation charge for the year	183	22	23	228
Disposals	–	–	–	–
At the end of the year	**232**	**32**	**46**	**310**
Net book value				
At the end of the year	**101**	**80**	**75**	**256**

31 December 2015	Leasehold improvements £'000	Furniture, fixtures, fittings & equipment £'000	Computer equipment £'000	Total £'000
Cost				
At the beginning of the period	8	1	23	32
Additions	316	97	83	496
Disposals	–	–	–	–
At the end of the period	**324**	**98**	**106**	**528**
Depreciation				
At the beginning of the period	2	–	5	7
Depreciation charge for the period	47	10	18	75
Disposals	–	–	–	–
At the end of the period	**49**	**10**	**23**	**82**
Net book value				
At the end of the period	**275**	**88**	**83**	**446**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

15 Intangible assets

31 December 2016	Website & brand development £'000	Total £'000
Cost		
At the beginning of the year	595	595
Additions	526	526
At the end of the year	**1,121**	**1,121**
Amortisation		
At the beginning of the year	112	112
Amortised in the year	179	179
At the end of the year	**291**	**291**
Net book value		
At the end of the year	**830**	**830**

31 December 2015 Restated	Website & brand development £'000	Total £'000
Cost		
At the beginning of the period	105	105
Additions	490	490
At the end of the period	**595**	**595**
Amortisation		
At the beginning of the period	21	21
Additions	–	–
Amortised in the period	91	91
At the end of the period	**112**	**112**
Net book value		
At the end of the period	**483**	**483**

16 Other assets

	31 December 2016 £'000	31 December 2015 Restated £'000
Prepayments	939	1,896
Other receivables	1,906	444
Director's loan	1,814	112
Corporation tax	141	88
Deferred tax asset	860	669
	5,660	**3,209**

17 Other liabilities

	31 December 2016 £'000	31 December 2015 Restated £'000
Trade payables	301	494
Other taxation and social security costs	1,267	1,195
Accruals and deferred income	25,156	13,970
Other payables	13	50
	26,737	**15,709**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

18 Interest-bearing loans and borrowings

	31 December 2016 £'000	31 December 2015 Restated £'000
At the beginning of the year	29,895	–
Issued in the year	19,380	32,217
Redeemed in the year	(621)	(3,142)
Interest expense	1,972	820
Total interest-bearing loans and borrowings at the end of the year	**50,626**	**29,895**
Due within one year	–	–
Due over one year	50,626	29,895
	50,626	**29,895**

Interest-bearing loans and borrowings consist of a Minibond £45,244k (2015: £25,162k) and an Irish Listed ISA bond £5,382k (2015: £4,733k). 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%.

19 Share capital

	31 December 2016 £'000	31 December 2015 £'000
789,188 issued ordinary shares at £1 each (789,188 authorised ordinary shares at £1 each)	789	789
20,551 "Growth" shares at £0.10p each (20,551 authorised "Growth" shares at £0.10p each)	2	–
2,132,584 "Puttable" shares at £1 each (2,132,584 authorised "Puttable" shares at £1 each)	2,133	2,133
2,525,000 preference shares at £0.10p each (2,525,000 authorised preference shares at £0.10p each)	252	–
	3,176	**2,922**

All classes of shares are fully paid up.

The Group issued "Growth" shares of 20,551 at £0.10p each, on a number of dates throughout 2016.

The "Growth" shares have the following characteristics:
- Not interest bearing, and no dividend will be paid or accrued;
- Non-voting; and
- Subordinated to preference shares and ordinary shares on a liquidation or other distribution

In accordance with IAS 32 and SIC D34, the Puttable instrument was created at the end of December 2015. This gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on occurrence of an uncertain future event or the death or retirement of the instrument holder.

The instrument has the following characteristics:
- Not interest bearing;
- No redemption date; and
- Valued internally (as above).

The Group consider the continued appropriateness of this instrument in its periodic review of the Group capital position.

In September 2016, the Group issued 2,525,000 preference shares at £0.10p each (premium per share of £0.90p) and were fully paid up for £2,525k. The preference shares have the following characteristics:
- Non-convertible to any other financial instrument in any circumstances;
- Not interest bearing, and no dividend will be paid or accrued;
- Redeemed at the Group's discretion; and
- Redeemed at an arm's length market valuation.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

20 Share premium

	31 December 2016 £'000	31 December 2015 £'000
2,525,000 preference shares at £0.90p each (2,525,000 authorised preference shares at £0.90p each)	2,273	–
	2,273	**–**

In September 2016, the Group issued 2,525,000 preference shares with a share premium of £0.90p each.

21 Financial instruments and fair values

The following tables summarise the classification and carrying amounts of the Group's financial asset and liabilities:

31 December 2016	Loans and receivables £'000	Fair value through profit or loss £'000	Liabilities at amortised cost £'000	Total £'000
Loans and advances to customers	34,378	–	–	34,378
Derivatives held for risk management	–	–	–	–
Total financial assets	**34,378**	**–**	**–**	**34,378**

31 December 2016	Loans and receivables £'000	Fair value through profit or loss £'000	Liabilities at amortised cost £'000	Total £'000
Derivatives held for risk management	–	434	–	434
Interest-bearing loans and borrowings	–	–	50,626	50,626
Total financial liabilities	**–**	**434**	**50,626**	**51,060**

31 December 2015	Loans and receivables £'000	Fair value through profit or loss £'000	Liabilities at amortised cost £'000	Total £'000
Loans and advances to customers	14,019	–	–	14,019
Derivatives held for risk management	–	786	–	786
Total financial assets	**14,019**	**786**	**–**	**14,805**

31 December 2015	Loans and receivables £'000	Fair value through profit or loss £'000	Liabilities at amortised cost £'000	Total £'000
Derivatives held for risk management	–	–	–	–
Interest-bearing loans and borrowings	–	–	29,895	29,895
Total financial liabilities	**–**	**–**	**29,895**	**29,895**

The Group uses amortised cost as an approximate 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 Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction. For financial liabilities held at fair value, the Group takes into account changes in credit risk and other unobservable data in order to reflect the measurement of financial liabilities.

The Group measure 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 date (unobservable inputs).

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

21 Financial instruments and fair values continued

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

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

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivatives held for risk management	–	–	–	–
Total financial assets	**–**	**–**	**–**	**–**
Financial liabilities				
Derivatives held for risk management	–	434	–	434
Total financial liabilities	**–**	**434**	**–**	**434**

31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivatives held for risk management	–	786	–	786
Total financial assets	**–**	**786**	**–**	**786**
Financial liabilities				
Derivatives held for risk management	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**–**

22 Commitments and contingent liabilities

At 31 December 2016, the Group had undrawn commitments to lend £55,105k (31 December 2015: £6,731k).

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

	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due:		
Within one year	28,180	2,265
In the second to fifth year inclusive	26,925	4,466
After five years	–	–
	55,105	**6,731**

At 31 December 2016, the Group had the following operating lease commitments:

	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due:		
Within one year	2	2
In the second to fifth year inclusive	4	5
After five years	–	–
	6	**7**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

23 Risk management

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

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Regulatory and conduct risk;
- Reputational risk;
- Information technology and security; and
- Operational

Credit risk

The Group's principal business activity is providing residential property loans. For each loan, the Group obtains a legal charge on the assets it is lending against. It is acknowledged that the property market is cyclical and that the Group is operating in a period of the cycle which would be considered as relatively stable with inflating property prices which has resulted in favourable conditions for lending. The board regularly reassesses its view on the risks presented by the market and 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 £'000
Loans and advances to customers	
Performing within terms	18,697
Performing in arrears	212
Non performing – full recovery expected	13,611
Impaired	1,858
Loans and advances to customers	**34,378**

31 December 2015	Total £'000
Loans and advances to customers	
Performing within terms	9,040
Performing in arrears	526
Non performing - full recovery expected	1,074
Impaired	3,379
Loans and advances to customers	**14,019**

The below details the ageing of loans and advances which are performing in arrears and non performing – full recovery expected:

31 December 2016	Total £'000
Loans and advances performing in arrears and non performing – full recovery expected	
Overdue by three months	3,616
Overdue between three months to six months	4,357
Overdue by greater than six months	5,850
	13,823

31 December 2015	Total £'000
Loans and advances performing in arrears and non performing – full recovery expected	
Overdue by three months	1,004
Overdue between three months to six months	371
Overdue by greater than six months	225
	1,600

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

23 Risk management continued

During the year, the Group reanalysed how it reviewed the performance metrics of the loan portfolio. The Group now reviews its portfolio under the following metrics: 1) Performing within terms; 2) Performing in arrears; 3) Non performing – full recovery expected; 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 Group's maximum exposure to credit risk after provisions for impairment as follows:

	31 December 2016 £'000	31 December 2015 £'000
Financial assets		
Cash and cash equivalents	34,888	23,227
Loans and advances to customers	34,378	14,019
Other assets	5,660	3,209
Deferred financial assets	–	786
	74,926	**41,241**
Contractual commitments	55,105	6,731
Total credit risk	**130,031**	**47,972**

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 Group 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 Group will consider including a provision in the financial statements.

Liquidity risk

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

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

	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due:		
Within one year	15,628	9,232
In the second to fifth year inclusive	–	1,983
After five years	–	–
	15,628	**11,215**

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	7,475
In the second to fifth year inclusive	–	1,578
After five years	–	–
	12,954	**9,053**

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

23 Risk management continued

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

Payables	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due:		
Within one year	26,737	15,868
In the second to fifth year inclusive	55,386	–
After five years	–	33,794
	82,123	**49,662**

The Group monitors its forward cash flow position however it 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.

Moody's longer term credit rating for Barclays and Lloyds is A1 (negative) and Baa1 respectively.

Market risk

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

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

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

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and lending products that we offer. 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 Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

23 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 Group has low levels of foreign exchange risk which is managed by use of cross-currency derivatives. The table below sets out the Group's exposure to foreign exchange risk:

Assets and Liabilities in euros at sterling carrying rates	31 December 2016 £'000	31 December 2015 £'000
Loans and advances to customers	14,887	7,019
Joint venture arrangement	3,264	2,511
Cash and cash equivalents	234	1,492
Deferred income	(535)	(657)
Net position	**17,850**	**10,365**

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

- Euro strengthened by 2%: +£364k (2015: +£212k)
- Euro weakened by 2%: (£350k) (2015: (£203k))

Interest rate sensitivity gap

The Group considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the guidance by the Bank of England Monetary Policy Committee on expectations of future long term interest rates. The Group estimates that a +/- 200 bps movement in interest rates paid / received would have impacted the overall equity as follows:

- +/- 200 bps – +/-£235k (2015: +£271k)

Capital management

The following shows the capital resources held by the Group:

	31 December 2016 £'000	31 December 2015 Restated £'000
Share capital	5,449	2,922
Retained earnings	(3,970)	(3,844)
Common equity capital	**1,479**	**(922)**
Interest-bearing loans and borrowings	50,627	29,895
Other capital	**50,627**	**29,895**
Total capital base	**52,106**	**28,973**

Regulatory and conduct risk

The peer to peer market falls under the supervision of the FCA and firms are subject to the 'interim permissions regime'. The FCA requires firms to formally apply for a full FCA licence. Wellesley & Co Limited is the group member which applied for a licence in August 2014 and continues to communicate with the FCA at present.

Wellesley & Co Limited is in regular discussions with the FCA and hope to agree to an arrangement which will satisfy the requirements of all parties involved so that a licence is granted.

Notwithstanding the aforementioned risk, the Group faces more generic industry wide regulatory and conduct risks as the peer to peer market matures over time. Over the last 12 months there has been significant focus placed upon financial promotions clarity however it is likely that there will be considerably more regulation in the future. It is also worth noting that the peer to peer industry has very modest capital requirements which are only a fraction of that of the banks.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

23 Risk management continued

Reputational risk

The Group has a high level of sensitivity to reputational risks, particularly those which could potentially result in the Group's retail lenders losing confidence in the stability and security of the organisation and ultimately the safety of their investment. It is possible that an event causing reputational damage could trigger a run of 'early access' requests which could potentially cause a sudden drop in newly acquired customer funds which would impact the Group's liquidity management and overall ability to operate. 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 Group'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 Group. 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 Group's systems temporarily inaccessible.

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

Operational and people risk

As the business grows, the Group 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 Group 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 Group has invested significantly in its people and will strive to ensure that its retention rates are high. The Group 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
- an introduction of an employee incentive scheme which will include medical, critical illness cover, pension etc.

24 Subsidiary companies

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

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

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

25 Related party transactions

Related parties of the Group include key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as the Directors.

Chalet Valentine Limited and Milner Limited are companies registered in the Isle of Man and are shareholders of the Company. IFX Group Trust, a company registered in the Isle of Man, is the ultimate controlling shareholder of Chalet Valentine Limited and Milner Limited. Graham Wellesley and Lorenzo Naldini are the main beneficiaries of IFX Group Trust.

The following are transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure):

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Milner Limited		
Opening balance	–	1,013
Advances	–	–
Repayments	–	(1,106)
Interest	–	93
	–	**–**

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

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Chalet Valentine Limited		
Opening balance	–	1,031
Advances	–	–
Repayments	–	(1,122)
Interest	–	91
	–	**–**

The maximum balance during the year was £Nil (2015: £1,050k).

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Anthony Fane		
Opening balance	–	1,088
Advances	–	–
Repayments	–	(1,173)
Interest	–	85
	–	**–**

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

The Group has received loans from Milner Limited, Chalet Valentine Limited and Anthony Fane. Milner Limited, Chalet Valentine Limited and Anthony Fane are shareholders in Wellesley Group Investors Limited. The loans were repaid during the period ended 31 December 2015.

	31 December 2016 £'000	31 December 2015 £'000
Funded Peer to Peer Accounts		
Opening balance	5	10
Advances	–	15
Repayments	(5)	(21)
Interest	–	1
	–	**5**

The maximum balance during the period was £5k (2015: £16k).

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

25 Related party transactions continued

The following are amounts owed by directors to the Group:

	Andrew Turnbull £'000	Total £'000
Opening balance	112	112
Advances	–	–
Repayments	–	–
Interest charged	3	3
Closing balance	**115**	**115**
Interest receivable	**7**	**7**

	Graham Wellesley £'000	Total £'000
Opening balance	–	–
Advances	1,700	1,700
Repayments	(43)	(43)
Interest charged	42	42
Closing balance	**1,699**	**1,699**
Interest receivable	**42**	**42**

	Andrew Turnbull £'000	Total £'000
Opening balance	–	–
Advances	109	109
Repayments	–	–
Interest charged	3	3
Closing balance	**112**	**112**
Interest receivable	**4**	**4**

	Graham Wellesley £'000	Total £'000
Opening balance	–	–
Advances	–	–
Repayments	–	–
Interest charged	–	–
Closing balance	**–**	**–**
Interest receivable	**–**	**–**

The loan to Andrew Turnbull is unsecured. The interest rate charged by the Group on the loan to Andrew Turnbull was 3.25% per annum up to 5 April 2016. From 5 April 2016, the interest rate was revised to 3% per annum.

The interest rate charged by the Group on the loan to Graham Wellesley was 10.48%. This loan is secured on the proceeds of the sale of Graham Wellesley's private assets.

26 Ultimate controlling party

IFX Group Trust, a trust incorporated in the Isle of Man, has an ultimate controlling interest in the Group.

27 Events after the statement of financial position date

In early 2017, the Group instructed legal proceedings to assign the lease on the mezzanine floor of St Albans House, 57/59 Haymarket, London, SW1Y 4QX. This has resulted in an accelerated depreciation charge of £117k of leasehold improvements to the consolidated statement of comprehensive income.

No other 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.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

28 Prior period restatement

The financial statements of the Group were restated for the prior period. Previously, the Group accounted for the set up costs in respect of bonds and marketing promotional costs as an intangible asset. In accordance with IAS 38, Intangible Assets, these two costs do not meet the definition of an intangible asset. As such, the set up costs in respect of bonds are being accounted in accordance with IAS 39 and netted off against the proceeds generated from loans and borrowings. The marketing promotional costs are being accounted as a prepayment. It should be noted that these prior period restatements are a reanalysis in the consolidated statement of financial position with no impact on the equity of the Group. The following adjustments were required in the prior period.

	Note	Impact on Statement of Financial Position increase/(decrease) 31 December 2015 £'000
Intangible assets	1	(1,617)
Prepayments	2	1,339
Loans and borrowings	3	(278)
Impact on equity at 31 December 2015		**-**

Note 1
Set up costs in respect of bonds and marketing promotional costs reanalysed from intangible assets.

Note 2
Marketing promotional costs recorded as a prepayment.

Note 3
Set up costs in respect of bonds netted off against the proceeds of interest-bearing loans and borrowings.

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2016

	Notes	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Other operating income		3	4
Total operating income		**3**	**4**
Administrative expenses	2	(1,693)	(127)
Depreciation	6	(4)	–
Loss before taxation		**(1,694)**	**(123)**
Income tax credit	4	72	–
Loss after taxation – attributable to the equity holders of the Company		**(1,622)**	**(123)**

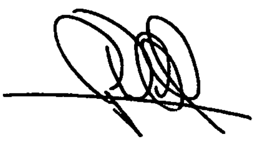
COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2016

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Loss after taxation – attributable to the equity holders of the Company	(1,622)	(123)
Total other comprehensive income for the year, net of taxation	**–**	**–**
Total comprehensive loss for the year, net of taxation	**(1,622)**	**(123)**

COMPANY STATEMENT OF FINANCIAL POSITION FOR YEAR ENDED 31 DECEMBER 2016

	Notes	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Assets			
Non-current assets			
Investment in Group undertakings	5	6,156	6,156
Property, plant and equipment	6	24	–
		6,180	**6,156**
Current assets			
Cash and cash equivalents		1,462	–
Other assets	7	2,446	2,971
Total assets		**10,088**	**9,127**
Liabilities			
Other liabilities	8	6,387	6,332
Total liabilities		**6,387**	**6,332**
Net assets		**3,701**	**2,795**
Equity			
Share capital	9	3,177	2,922
Share premium	10	2,273	–
Retained earnings		(1,749)	(127)
Total equity		**3,701**	**2,795**

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



Graham Wellesley
Director

Date: 17 May 2017

Registered number: 08478238
The notes and information on pages 60 to 64 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2016

	Notes	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Cash flows from operating activities			
Loss before taxation		(1,694)	(123)
Adjustments for non-cash items and other adjustments included within the income statement:			
Depreciation		4	–
Decrease/(increase) in trade & other assets		525	(2,222)
Increase in trade payables & other liabilities		55	6,279
Income tax credit		72	–
Net cash flows (used in)/generated from operating activities		**(1,038)**	**3,934**
Cash flows from investing activities			
Purchase of shares in Group undertakings		–	(6,106)
Net purchase of property, plant and equipment		(28)	–
Net cash used in investing activities		**(28)**	**(6,106)**
Cash flows from financing activities			
Proceeds from issue of shares		2,528	2,172
Net cash used in financing activities		**2,528**	**2,172**
Net increase in cash and cash equivalents		1,462	–
Cash and cash equivalents at the start of the year		–	–
Movement during year		1,462	–
Cash and cash equivalents at the end of the year		**1,462**	**–**

COMPANY STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2016	2,922	–	(127)	2,795
Total comprehensive income for the year				
Loss for the year	–	–	(1,622)	(1,622)
Other comprehensive income	–	–	–	–
Total comprehensive losses for the year	**–**	**–**	**(1,622)**	**(1,622)**
Transactions with owners recorded directly in equity:				
Issue of shares	255	2,273	–	2,528
Total contributions by and distributions to owners	**255**	**2,273**	**–**	**2,528**
Balance at 31 December 2016	**3,177**	**2,273**	**(1,749)**	**3,701**

Balance at 1 July 2014	750	–	(3)	747
Total comprehensive income for the period				
Loss for the period	–	–	(124)	(124)
Other comprehensive income	–	–	–	–
Total comprehensive losses for the period	**–**	**–**	**(124)**	**(124)**
Transactions with owners recorded directly in equity:				
Issue of shares	2,172	–	–	2,172
Total contributions by and distributions to owners	**2,172**	**–**	**–**	**2,172**
Balance at 31 December 2015	**2,922**	**–**	**(127)**	**2,795**

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

1 Basis of preparation

1.1 Accounting basis

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

1.2 Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

2 Administration expenses

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Staff costs (Note 3)	462	–
Advertising & marketing	22	–
Legal & professional	359	–
Other administrative expenses	850	127
	1,693	**127**

3 Staff costs

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Staff costs	422	–
Social security costs	40	–
	462	**–**

The average number of persons employed by the Company during the year, including Non-Executive Directors, was 6 (31 December 2015: Nil).

4 Taxation

	Year to 31 December 2016 £'000	18 month period to 31 December 2015 £'000
Recognised in the Statement of Comprehensive Income	–	–
Current tax:		
UK corporation tax at 20% (2015: 20.50%)	–	–
Total current tax	**–**	**–**
Deferred tax:		
Origination and reversal of temporary difference	(72)	–
Total deferred tax	**(72)**	**–**
Total tax credit	**(72)**	**–**
Reconciliation of tax charge:		
Loss on ordinary activities before tax	(1,694)	(123)
Tax on loss on ordinary activities at standard corporation tax rate of 20% (2015: 20.50%)	(339)	(25)
Effects of:		
Expenses not deductible for tax purposes	1	26
Group relief surrendered/(claimed)	251	(1)
Adjust closing deferred tax to average rate of 20%	15	–
Total tax credit	**(72)**	**–**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016

5 Investment in group undertakings

	31 December 2016 £'000	31 December 2015 £'000
At beginning of year	6,156	50
Capital injections – share capital	–	6,106
At end of year	**6,156**	**6,156**

As at 31 December 2016, £nil worth of investments (31 December 2015: £nil) were classed as impaired.

Details of subsidiary undertakings of the Company are provided in Note 24 to the consolidated financial statements. All the companies listed in Note 24 to the consolidated financial statements are related parties to the Company.

6 Tangible assets

31 December 2016	Furniture, fixtures, fittings & equipment £'000	Computer equipment £'000	Total £'000
Cost			
At the beginning of the year	–	–	–
Additions	13	16	29
Disposals	–	(1)	(1)
At the end of the year	**13**	**15**	**28**
Depreciation			
At the beginning of the year	–	–	–
Depreciation charge for the year	2	2	4
Disposals	–	–	–
At the end of the year	**2**	**2**	**4**
Net book value			
At the end of the year	**11**	**13**	**24**

7 Other assets

	31 December 2016 £'000	31 December 2015 £'000
Prepayments	67	–
Other assets	–	726
Amounts owed by director	115	112
Amounts owed by group undertakings	2,192	2,133
Deferred tax asset	72	–
	2,446	**2,971**

8 Other liabilities

	31 December 2016 £'000	31 December 2015 £'000
Amounts owed to group undertakings	6,026	6,330
Accruals	266	–
Other taxation and social security costs	7	–
Trade payables	88	2
	6,387	**6,332**

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

9 Share capital

	31 December 2016 £'000	31 December 2015 £'000
789,188 issued ordinary shares at £1 each (789,188 authorised ordinary shares at £1 each)	789	789
20,551 "Growth" shares at £0.10p each (20,551 authorised "Growth" shares at £0.10p each)	2	–
2,132,584 "Puttable" shares at £1 each (2,132,584 authorised "Puttable" shares at £1 each)	2,133	2,133
2,525,000 preference shares at £0.10p each (2,525,000 authorised preference shares at £0.10p each)	253	–
	3,177	**2,922**

All classes of shares are fully paid up.

The Group issued "Growth" shares of 20,551 at £0.10p each, on a number of dates throughout 2016.

The "Growth" shares have the following characteristics:
- Not interest bearing, and no dividend will be paid or accrued;
- Non-voting; and
- Subordinated to preference shares and ordinary shares on a liquidation or other distribution

In accordance with IAS 32 and SIC D34, the Puttable instrument was created at the end of December 2015. This gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on occurrence of an uncertain future event or the death or retirement of the instrument holder.

The instrument has the following characteristics:
- Not interest bearing;
- No redemption date; and
- Valued internally (as above).

The Group consider the continued appropriateness of this instrument in its periodic review of the Group capital position.

In September 2016, the Group issued 2,525,000 preference shares at £0.10p each (premium per share of £0.90p) and were fully paid up for £2,525k. The preference shares have the following characteristics:
- Non-convertible to any other financial instrument in any circumstances;
- Not interest bearing, and no dividend will be paid or accrued;
- Redeemed at the Group's discretion; and
- Redeemed at an arm's length market valuation.

10 Share premium

	31 December 2016 £'000	31 December 2015 £'000
2,525,000 preference shares at £0.10p each (2,525,000 authorised preference shares at £0.10p each)	2,273	–
	2,273	**–**

In September 2016, the Group issued 2,525,000 preference shares with a share premium of £0.90p each.

11 Risk management

Through its Risk Management policies, the Group is responsible for determining its principal risks, and the level of acceptable risk, as stipulated in the Group's appetite statement, thus ensuring that there is an adequate system of risk management so that the levels of capital and liquidity held are consistent with the risk profile of the business.

The risk management disclosures of the Group on pages 48 to 52 apply to the Company where relevant and therefore no additional disclosures are included in this note.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016

12 Related party transactions

Related parties of the Company include key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members. Key management personnel are defined as the Directors.

Chalet Valentine Limited and Milner Limited are companies registered in the Isle of Man and are shareholders of the Company. IFX Group Trust, a company registered in the Isle of Man, is the ultimate controlling shareholder of Chalet Valentine Limited and Milner Limited. Graham Wellesley and Lorenzo Naldini are the main beneficiaries of IFX Group Trust.

The following are transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure):

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Milner Limited		
Opening balance	–	1,013
Advances	–	–
Repayments	–	(1,106)
Interest	–	93
	–	–

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

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Chalet Valentine Limited		
Opening balance	–	1,031
Advances	–	–
Repayments	–	(1,122)
Interest	–	91
	–	–

The maximum balance during the year was £Nil (2015: £1,050k).

	31 December 2016 £'000	31 December 2015 £'000
Loans owed to Anthony Fane		
Opening balance	–	1,088
Advances	–	–
Repayments	–	(1,173)
Interest	–	85
	–	–

The Group has received loans from Milner Limited, Chalet Valentine Limited and Anthony Fane. Milner Limited, Chalet Valentine Limited and Anthony Fane are shareholders in Wellesley Group Investors Limited. The loans were repaid in the period ended 31 December 2015.

Funded Peer to Peer Accounts	31 December 2016 £'000	31 December 2015 £'000
Opening balance	5	10
Advances	–	15
Repayments	(5)	(21)
Interest	–	1
	–	5

The maximum balance during the period was £5k (2015: £16k).

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016

12 Related party transactions continued

The following are amounts owed by directors to the Company:

31 December 2016	Andrew Turnbull £'000	Total £'000
Opening balance	112	112
Advances	–	–
Repayments	–	–
Interest charged	3	3
Closing balance	**115**	**115**
Interest receivable	**7**	**7**

31 December 2015	Andrew Turnbull £'000	Total £'000
Opening balance	–	–
Advances	109	109
Repayments	–	–
Interest charged	3	3
Closing balance	**112**	**112**
Interest receivable	**4**	**4**

The loan to Andrew Turnbull is unsecured. The interest rate charged by the Group on the loan to Andrew Turnbull was 3.25% per annum up to 5 April 2016. From 5 April 2016, the interest rate was revised to 3% per annum.

13 Events after the statement of financial position date

There are no material events after the statement of financial position date.