

Finance Wales Group

Annual report & financial statements
Year ended 31 March 2017

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COMPANIES HOUSE



Annual reports and financial statements 2017

Officers and professional advisers

Directors

Gareth Bullock	(Chairman)
Huw Morgan	(Non-Executive, Senior Independent Director)
Giles Thorley	(Chief Executive, appointed 4 April 2016)
Carol Bell	(Non-Executive)
Margaret Ulewellyn OBE	(Non-Executive)
Iraj Amiri	(Non-Executive, appointed 1 September 2016)
Roger Jaynes	(Non-Executive, appointed 1 November 2016)
Kevin O'Leary	(Director of Finance and Administration)
Clive John	(Non-Executive, resigned 30 November 2016)
Ivar Grey	(Non-Executive, resigned 30 September 2016)
Michael Owen	(Group Investment Director, resigned 4 April 2016)

Company Secretary

Judi Oates

Registered Office

**1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ**

Bankers

**Barclays Bank Plc
PO Box 69
Queen Street
Cardiff
CF10 1SG**

Auditor

**Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT**

Welcome to the Finance Wales Group

Investing for long-term impact

We have had another busy year at Finance Wales, our last before we transition into the Development Bank of Wales. We have invested over £56.5m and leveraged £79.1m from private funders, safeguarding or creating over 3,700 jobs. This year we have also seen our Help to Buy - Wales scheme expanded to £454m, the scheme supported the purchase of more than 1,800 homes in 2016/17.

Our newest fund, the replacement for JEREMIE, the Wales Business Fund was launched in July 2016. In 2017 we also expanded our stream-line application service for micro loans from £5,000 to £10,000, leading to an increase in applications of this type. With the launch of the Development Bank of Wales we're looking to further expand our investment activities and raise additional funds to help support the small business economy in Wales.

Finance Wales is a flexible, people-orientated funder – something we plan to entrench in our new structure as the Development Bank of Wales. Our people are core to what we do. They go out and meet businesses, assess their needs and tailor finance solutions which will benefit them. This report goes some way to show that success can be derived through a people-focused approach treating businesses as individuals with different needs and goals.

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Strategic report

Finance Wales at a glance

Finance Wales is a unique financial institution. We invest on behalf of the Welsh Government and to the furtherment of their policy goals. Our funds are backed by the Welsh Government, the EU, and the private sector. We provide access to funding for SMEs, providing flexible financing solutions and complementing private sector funding. We energise the Welsh economy and encourage growth here in Wales.

Business model

Creating value

For the Welsh Government

We invest for long-term impact and to strengthen the Welsh economy.

For Welsh businesses

Our investments and expertise help our customers to achieve their growth ambitions.

For Welsh citizens and their communities

Our investments help to create new jobs, safeguard existing jobs and support urban regeneration.

Activities

SME investment

We invest in young and more established micro to medium-sized businesses in a range of sectors.

Facilitating angel investment

xénos, the Wales Business Angel Network introduces high-net-worth individuals to Welsh start-up and early stage businesses.

Help to Buy – Wales

We provide shared-equity loans to purchasers of new-build homes in Wales.

Resources

Funding

Our SME investment funds are financed from both public and private sources.

People

The dedication, expertise and experience of our staff underpins our success.

Infrastructure

Our established systems and procedures provide cost-effective support to our investment activities.

[Read more about our business model on page 17](#)

Strategic priorities



Development Bank of Wales

Successfully transition to the Development Bank of Wales



Programme of rolling funds

To address funding gaps and develop an ongoing pipeline of new funding to invest in Welsh SMEs.



Expert fund delivery

To invest our funds under management in line with the economic development priorities of our stakeholders.



Effective communication

To improve our communication, raising awareness and understanding of our activities and funds.



Operational excellence

To monitor and improve our internal systems and develop the skills and expertise of our staff.

[Read more about our strategy on page 13](#)

Finance Wales at a glance



Key performance indicators 2017

Finance Wales



1,163
Jobs created



£79.1m
Additional private
investment leveraged



2,555 Jobs
safeguarded



£56.5m
Invested in Welsh
businesses

Help to Buy – Wales



1,870
Homeowners
assisted



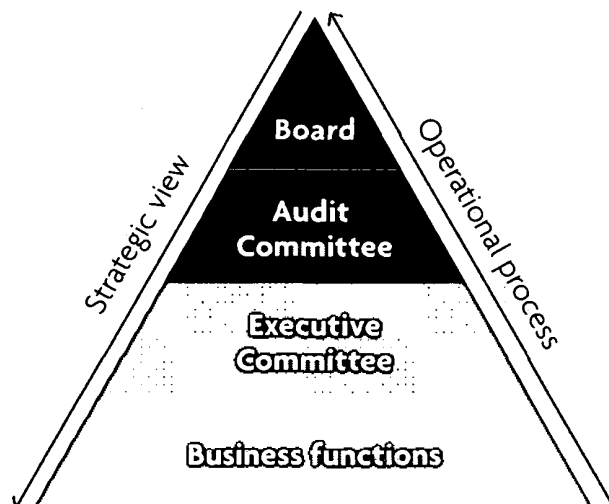
£69.3m
Shared equity
loans

Read more about our KPIs on page 28

Risk management

Finance Wales has a strong risk management culture

Risk management is embedded in our operations and we have a comprehensive system of internal controls and an on-going process to identify, evaluate and manage risks.



Read more about our Risks on page 34

3 FINANCE WALES PLC

Finance Wales at a glance

We provide short-term project finance, longer-term growth finance as well as follow on investment and additional working capital as the business grows.

We can invest £1,000 to £3m at a time in micro to medium sized enterprises and non SMEs across Wales. Financing options can be drawn from a number of investment funds up to a total of £5m in a single business.

Funds currently in investment mode

Fund	Size	Investments
Wales Business Fund	£136m	Early stage technology ventures Development capital Acquisition
Wales SME Investment Fund	£40m	Development capital succession Acquisition
Wales Management Succession Fund	£25m	Management buy-outs Management buy-ins Ownership transfers
Wales Capital Growth Fund	£25m	Short-term loans
Wales Micro-business Loan Fund	£18m	Start-up development capital
Wales Property Development Fund	£10m	Short-term loans
Wales Technology Venture Investment Fund	£10m	Technology ventures
Wales Technology Seed Fund	£7.5m	Early stage
Wales Local Energy Fund	£6.3m	Development and capital project loans
Help to Buy – Wales	£170m	Shared-equity loans
Help to Buy – Wales II	£284m	Shared-equity loans
NPIF Debt Finance – North West	£51m	Development capital
NPIF Debt Finance – Tees Valley & Cumbria	£51m	Development capital
Tees Valley Catalyst Fund	£10m	Short-term loans
North East Property Fund	£10m	Short-term loans

We have a number of exciting initiatives in the pipeline for the coming financial year which will expand the breadth of our reach and complement existing funds.

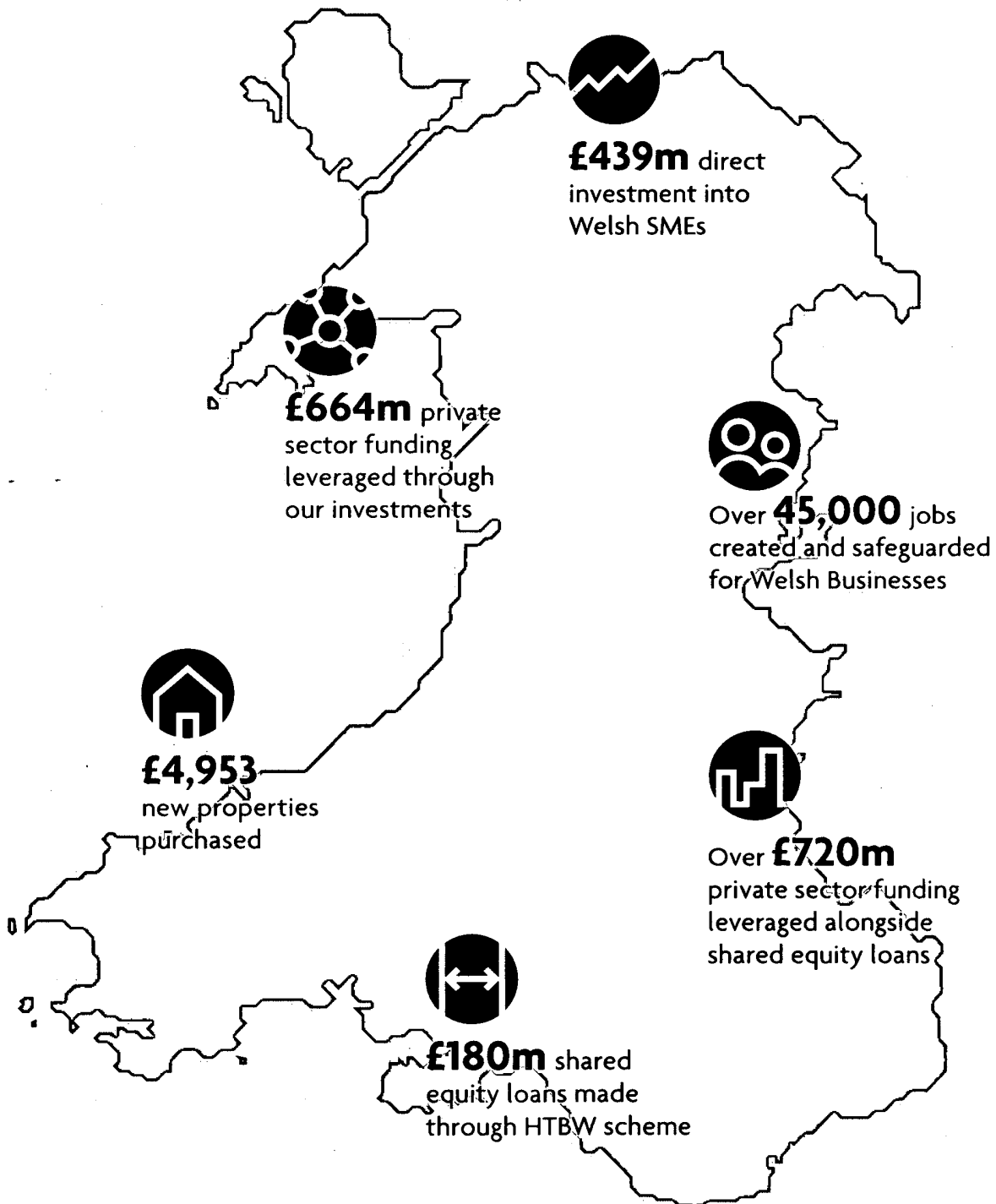
Our funds have public and private backers including:



Finance Wales at a glance



Our impact since inception



Chairman's statement



The last twelve months have been a particularly busy and successful period for Finance Wales. Within our core activity we have deployed into the Welsh economy higher levels of loans and investments than ever before and exceeded our principal target of jobs created and safeguarded. At the same time we have been heavily focused on detailed preparations for the creation of the Development Bank of Wales, an objective enshrined in the current Welsh Government's policy.

I am particularly pleased that our new Chief Executive, Giles Thorley, who joined us in April last year, has led the executive team to a record year of achievements. In Wales we made direct investments of £56.5m, created or safeguarded 3,718 jobs and leveraged £79.1m of additional private sector funds. In his report Giles provides more detail behind those figures. I invite you to read his report which illustrates great examples of Welsh entrepreneurs and business people building not only their own future but that of their employees and, in aggregate, helping the Welsh economy and society to prosper.

Also of note this year was our final repayment of the amounts due to the European Investment Bank under the Wales JEREMIE Fund. It should be a source of pride for Wales that it has been an effective investor of European structural funds and has fully repaid the debt on schedule.

All successful companies must understand their purpose and be able to communicate it effectively to their staff and stakeholders. Finance Wales's purpose remains what it always has been - to make available loans and equity investments to micro, small and medium-sized Welsh enterprises where private sector providers are unable or unwilling to provide some or any of that finance. Our challenge is to take risks that the private sector banks and investments funds will not assume owing to their own risk policy constraints. We thereby fill that 'gap' between good business plans and finance availability. Our 'sweet spot' is providing just enough of our limited investment funds - taxpayers' money - to cover specific risks thereby enabling private sector financiers to fund the larger part of the proposition. We call this 'private

sector leverage' and it is one of our most important operational measures. Although owned by Welsh Ministers, Finance Wales operates wholly in the private sector, working in close collaboration and partnership with banks and investment funds.

Today, Finance Wales is a company of some 144 people across 4 regional offices in Wales. Our year-end balance sheet shows loans and investments of £357m and since inception 16 years ago Finance Wales has made loans and investments of £439m whilst leveraging an additional £664m from private sector financiers - all told, over £1 billion of financial support. The Help to Buy Scheme has invested an additional £180m leveraging an additional £720m from the private sector with the benefit felt across communities throughout the country. Our overall impact is now over £2 billion. Our loans and investments are made from discrete funds specifically dedicated to certain economic sectors. Additionally, Finance Wales continues to evolve into a delivery organisation for Welsh Government departments as a whole. Through our existing organisation and skills we can create cost-effective, targeted solutions to support government policy initiatives.

The Development Bank of Wales

A key programme during the year has been the preparation for the launch of the Development Bank of Wales (DBW). Independent reports initiated by the Welsh Government recommended the creation of a development bank in order to intensify and expand the support for micro-to-medium Welsh enterprises. The concept was adopted as policy by the present government. With our colleagues in Welsh



Chairman's statement

Government, Finance Wales has made much progress in clarifying the business and legal issues required to facilitate the launch. We have also been running numerous programmes aimed at making our internal policies and processes more efficient and fit for the expanded purpose, particularly the investment approval and execution process. I am hopeful that a launch of the DBW can be achieved later this financial year.

It is important that we communicate the benefits the DBW can bring to the Welsh economy and the difference it will make. Like any development bank, the DBW will continue to do what Finance Wales does today - provide growth finance to Welsh enterprises - but it needs to do so at greater scale so that it can achieve an even bigger impact. The majority of our funding to date has come from the Welsh Government on whose budgets there is always a heavy call. The DBW will therefore need to demonstrate that its use of such funds can achieve the best outcomes for the Welsh economy. We will also explore whether we can raise new funds from the private sector to complement those from government.

In addition, the DBW will have a new business intelligence unit, analysing Welsh industry and working in partnership with other agencies, Welsh universities and the ONS in Newport. The new unit will aim to identify key business trends, obstacles and opportunities, offering insight into specific areas where the DBW and the private sector might need to develop new services and collaborations or offer recommendations on potential policy or structural changes. Over time, a consistent stream of fact-based outputs should inform our strategy.

A third activity of the DBW will be to focus on the vital need for business support and advice. A business's growth potential is not always about finance but often about issues of succession, ambition and capability. Research shows that the majority of small businesses do not seek finance but do occasionally need advice. Professional coordination with the various entities delivering these support activities today will be important. An ambitious future objective would be to identify those small businesses which have the potential to be significantly bigger and more successful, then provide advice and support to help achieve that growth.

The new DBW will have a headquarters in North Wales in support of the government's commitment to spread prosperity and jobs across the country as a whole.

Our stakeholders

Finance Wales sits, as will the DBW, within a network of interdependent stakeholders who need to work effectively together. Assembly members and government officials set policy and facilitate execution; business owners need advice and finance; our staff need to be informed specialists; taxpayers want to see their valuable money being used effectively. We must be consistently clear about our role, as much about what we do as what we don't do. We need also to be more effective at communicating the specific needs and issues of micro-to-medium Welsh businesses into policy-makers.

Outlook

Finance Wales will be busy in the new financial year, with the expected launch of the new DBW and our usual aim to exceed the previous year's targets. We have some important additional funds to deploy. The Welsh Business Fund is by far the biggest, totalling £136m. It launched in July 2016 and has a very ambitious requirement to leverage co-investment from the private sector.

During 2016-17 the Board had to say farewell to two long-standing non-executive directors, Ivar Grey and Clive John, both having completed ten years of service. Ivar and Clive each made exceptional contributions to the company and I speak for all my board colleagues in thanking them for their dedication and professionalism. I am delighted that we have been able to appoint two new non-executive directors - Iraj Amiri, who chairs the Audit and Risk Committee, and Roger Jeynes. Both are very experienced business professionals and it is testament to the ambition of the company - and its prospective successor, the DBW - that we have been able to attract directors of such calibre.

I would like to thank all our staff for your dedication, enthusiasm and talent in once again achieving significant progress this year. I know that you are already focusing on doing more and better this next year.

Gareth Bullock
Chairman

Chief Executive's statement



Our purpose, providing investment for micro to medium-sized Welsh businesses, remains at the forefront of everything we do. We fill a gap left by mainstream lenders, offering flexible finance solutions to companies who may struggle to get the package they need from the traditional sources of finance. We're seeing a decreased risk appetite in the wider investment market, we're able to step in and take that risk burden to help support ambitious Welsh businesses. I'm proud of that, I'm proud of our flexibility and the approach our staff take to tailor deals for micro to medium companies.

Performance highlights

Finance Wales

We've had a positive year, despite an uncertain economic climate. We've helped create or safeguard over 3,700 jobs in Wales by investing in 245 companies. As an active co-investor we also leveraged £79.1m in private investment over the 2016/17 financial year. We're always looking for new and innovative ways to attract third party funding into Welsh business, something which will only become more important over the next few years.

It has been a very active year for the Technology Venture Investments team. In August 2016 the team exceeded the £3m investment milestone for the £7.5m Wales Technology Seed Fund, investing more than £2.3m in the 2016/17 financial year alone and leveraging £1.24m from private sector funders.

Help to Buy Wales

1,870 properties were purchased through the Help to Buy - Wales (HTBW) scheme during the year. To date, HTBW has invested £180m, leveraging an additional £720m from the private sector, bringing overall impact since inception to £900m.

We have also started seeing a small number of repayments on the scheme, as buyers have started to move on from their HTBW home, or have the ability to repay their loans in full. Such repayments have resulted in profits of £98k in 2017 (2016: £9k).

The fund was topped up to £454m in the 2016/17 financial year, extending the scheme until 2020.

Chief Executive's statement



FW Capital

FW Capital has had a productive 12 months; the team successfully invested two JEREMIE Funds in the North of England. The £45m North West Fund for Loans Plus in the North West became fully invested in June 2016 and £24.4m was invested from the North East Growth Plus Fund in January 2017, exceeding target.

After a competitive bidding process FW Capital secured the management of more than £112m in funds across the North of England. This includes the £10m North East Property Fund and £102m in Northern Powerhouse funds across the North West, Cumbria and Tees Valley. The team has since opened a new office in Cumbria and hired five new talented investment staff to support the deployment of these funds.

Segmental review

The Finance Wales Group has grown substantially since it was set-up in 2001.

Our activities can be segregated into three distinct segments:

Finance Wales plc Fund Support/Entrusted Entity	Fund Management Activity	Fund intermediary Activity
Finance Wales plc has a number of obligations to fulfill, notably: stakeholder communications and engagement; monitoring and reporting fund performance; securing a rolling programme of funds; ensuring compliance with state aid guidelines; marketing the various funds we have on offer; providing 'back-office' functions such as Finance, HR and IT, and providing a network of offices across Wales.	<p>Finance Wales Investments Limited (FWIL) :</p> <p>Our Welsh Fund Management business sources and manages commercial investments in Welsh SMEs and administers the Help To Buy-Wales scheme. Funds managed by FWIL are primarily held by Finance Wales plc.</p>	<p>FW Capital Limited:</p> <p>In contrast to FWIL, the funds managed by FW Capital are sourced from third parties. Based on our strong track record and reputation we have successfully tendered and won fund management contracts in the North of England.</p>
		<p>All fund related activity is undertaken through various subsidiary entities. The funds contract with the Fund Management Businesses or external providers for Fund Management Services. And with the Plc Company for "back-office" functions. The performance of the fund intermediaries is heavily influenced by provisioning levels and equity realisations.</p>

	FY17	FY16	FY15
PLC - Fund Support / Entrusted Entity	0.0	(0.5)	(0.3)
Fund Management Activity	2.8	0.2	1.2
Fund Intermediary Activity	(9.5)	(3.4)	(14.2)
Deferred income release	17.9	1.7	13.0
Equity realisations	3.3	(0.4)	4.6
IFRS adjustments	(1.2)	1.1	(3.4)
Total Fund Intermediary Activity	10.6	(1.0)	0.1
Total profit / (loss)	13.4	(1.3)	1.0

Segmental performance highlights

- Our PLC Fund Support Activity has returned to a break even position
- The launch of new funds has ensured that our fund management activity is profitable once more
- Results of our Fund Intermediary activities have been heavily influenced by the release of grant income, equity realisations and adjustments made in order to comply with International Financial Reporting Standards

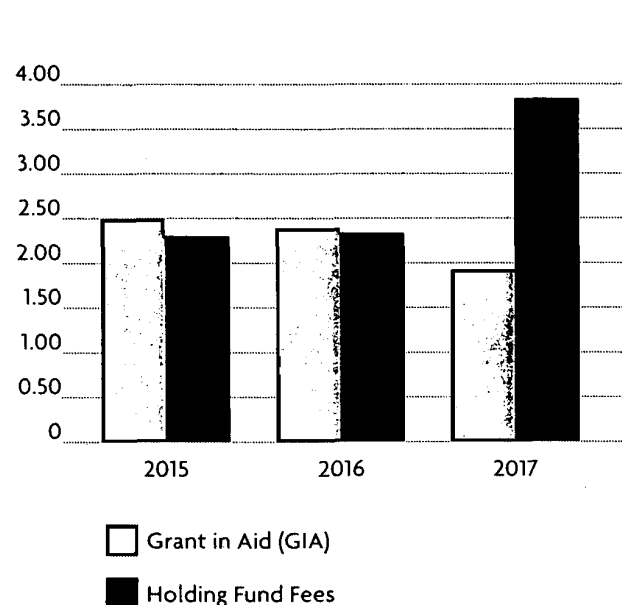
Finance Wales plc – Fund support / Entrusted entity

Our fund support activity is financed through a combination of Grant in Aid (GIA) from the Welsh Government and 'holding fund fees' charged to each of the fund intermediary entities within the Group.

The level of GIA we receive has more than halved in the last eight years. Each year we submit an annual business plan to the Welsh Government setting out our proposed GIA requirement for approval. The GIA contribution received from the Welsh Government in 2017 was £1.9m (2016: £2.4m). We have made a commitment to the Welsh Government that we will further reduce GIA to £1.7m in FY18, and replace it entirely with holding fund fees from 1 April 2018 onwards.

Holding fund fees vary from year to year and are a function of the amount and the cyclical nature of the funds in operation. The launch of the Wales Business Fund in July 2016 increased our holding fund fee income, restoring our break-even position.

The graph below shows the level of GIA and holding fund fees generated over the past three financial years.

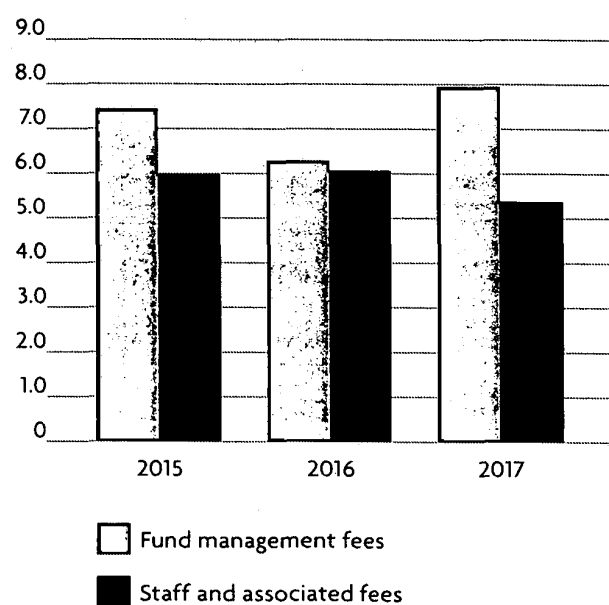


Fund management activity

The ability to generate surpluses from our fund management activities is determined by the cyclical nature of our funds. Typically each fund has a five year investing period, followed by a five year realisation period during which the fund management fees are significantly reduced. In 2016, the Wales JEREMIE fund entered its realisation period, resulting in a decrease of £1.1m in fund management fees and significantly impacting fund management profit.

The performance of our fund management activities during this financial year has been heavily impacted by fees earned on our largest investing fund, the £136m Wales Business Fund. This fund was launched in July 2016 and has, along with other new funds launched in the year, ensured that our Fund Management operations are profitable once more.

Surpluses generated by our fund management business are not distributed to shareholders but are set aside to accumulate and form cornerstones for future funds. Our Wales Management Succession Fund, launched in April 2016, has benefitted from £5m of funding from accumulated returns and fund management profits.





Fund intermediary activities

The results of our fund intermediary activities this year have been heavily influenced by provisioning levels, equity realisations and the release of grant income.

Provisions

Provisions for the year total £12.1m and are significantly higher than last year (2016: £2.8m). As a provider of gap funding we expect and accept a higher level of default against our loans and investments than private sector funders would be prepared to tolerate. The increase in provisions for bad and doubtful debts this year does not reflect a change in our attitude to risk. Rather, we attribute the increase to the particular challenges and circumstances of several individual businesses. We seek to recognise promptly those portfolio businesses exhibiting signs of stress and work closely with them to provide additional support wherever possible. We always review the circumstances that have given rise to portfolio losses in order to identify market or sectoral trends, learn from our experience and to develop our expertise.

ERDF grant income release

The Wales Business Fund, launched in July 2016, is funded by Financial Transaction Reserve funding from the Welsh Government, grant funding from the Wales European Funding Office (WEFO) and legacy funding from the Wales JEREMIE fund. The grant contributions made by WEFO, in line with applicable accounting policies, must be released to the profit and loss account as and when eligible investments into Welsh SMEs are made. During the year, the Wales Business Fund invested a total of £17.9m into the Welsh economy. In the prior year, the European backed Wales JEREMIE fund entered its final year of investment, and made 7 investments resulting in a deferred income release of £1.7m. None of our other investing funds have been funded by European Structural Funds.

Equity realisations

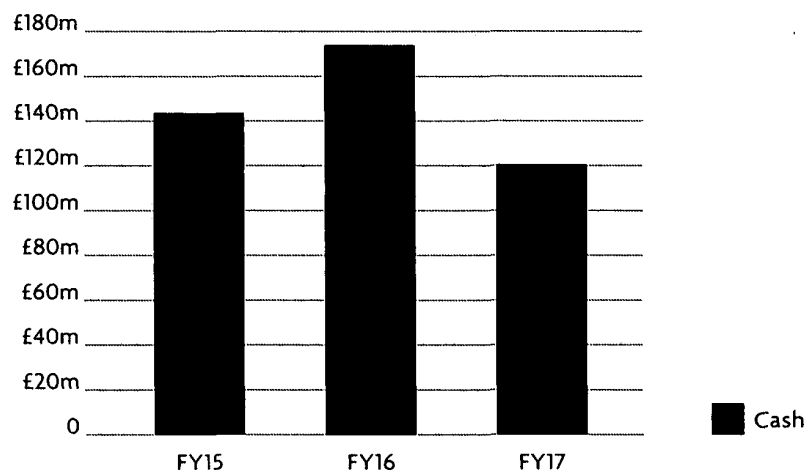
Equity realisations arise when we sell all or part of our equity stake in an investee company. FW will typically take a minority share in the shareholding of an entity, and therefore the decision to sell will ordinarily be driven by the investee company.

The Group achieved 6 profitable exits during the year, which resulted in a profit of £3.2m (2016: loss of £0.4m). Prior year exits related primarily to recovery situations, hence the resulting losses and low exit multiples. Our exit performance this year has enabled us to fully repay the European Investment Bank loan of £75m to the Wales JEREMIE fund on schedule.

Group cash balances – all segments

The Group's cash balance represents cash available for investment in Welsh businesses and HTBW shared equity loans, and also to service our external debt. The Group's cash balances have decreased by £53.2m since the last financial year. The main driver for this is the reduction in cash balances of the HTBW scheme, which has reduced from £62.4m in 2016 to £22.1m in 2017. This reduction is solely due to the drawdown profile of cash balances from the Welsh Government in relation to Phase 2 of the scheme.

Cash reserves are essential for the Group in order to ensure continuity of funding to fulfil our pipelines for both new investments and follow-on investments into our existing client portfolio.



Cash returns

Cash returns from our investments are key. Not only do they allow us to repay external providers of debt, but they help us build up cash reserves, or 'legacy' within our funds which may be used to contribute to future funds. We have committed £30m of our JEREMIE legacy to the Wales Business Fund.

Some of our more recently launched funds, e.g. the Wales Capital Growth Fund, the Wales Property Development Fund and Wales Micro-business Loan Fund are classed as "evergreen funds", which means that cash returns can be reinvested into new investments, effectively making our money go further and enhancing our impact on the Welsh economy. As at 31 March 2017, our £10m Wales Property Development Fund, launched in May 2013, had invested a total of £23m (2016: £15.8m), and is set to invest the original £10m three times over its lifetime.



Our people

This year we've said goodbye to a number of members of our board, and welcomed new non-executive directors to the fold to drive our company forward. We've also welcomed over 30 staff members to the Finance Wales Group this year. Our teams go from strength-to-strength, working for the benefit of micro to medium-sized businesses in Wales. We're proud of our reputation as a people company. It's our personal touch which sets us apart from other funders. Our small teams meet the owners behind the businesses we invest in. We value giving our customer the best possible service, building long term personal relationships with them. Perhaps that's why so many companies we work with choose us for follow-on funding.

Our staff have also been actively involved in their communities, taking part in Business in the Community's Give and Gain Day across Wales and the North of England as well as raising more than £35,000 for charities – including over £31,000 for our Charity of the Year the Juvenile Diabetes Research Fund (JDRF)

My team has worked tirelessly this year and I'm extremely proud of all that they have achieved. With the launch of the Development Bank of Wales, this year is likely to be even busier. We have an exciting year ahead of us.

Giles Thorley
Chief Executive

Our mission and strategy

Finance Wales' core aim is to have a positive impact on the Welsh economy by providing Welsh businesses with access to the finance they need to deliver sustainable growth and jobs. Our key focus over the next year will be transitioning to the Development Bank of Wales (DBW).

Development Bank of Wales



Priority:

In FY18 Finance Wales will fully embark on the transition process to become the Development Bank of Wales. With all key projects now initiated, the organisation will work to deliver these to time, cost and quality. We will focus on improving the overall customer experience and enhancing our technology to support this.

Progress FY17:

- Full business plan has been drafted and submitted to Welsh Government for approval.
- External PR and branding specialists were appointed and portfolio companies and staff were engaged to assist with the development of a new brand identity and mission statement.
- Developed the Group's location strategy with a view to enhancing our reach across Wales. Opportunities for home-working to support regional presence are being investigated.
- Identified core business process areas in need of enhancement for improved customer service.
- Initiated development of an Intelligence Unit to better understand the financing needs of Welsh businesses.
- Commenced a corporate governance project to determine the DBW's corporate structure, ensuring compliance with state aid.
- Held quarterly operational meetings with Business Wales (BW), increased our teams' awareness of BW's offerings and carried out training of BW advisors to enhance their understanding of our offering.

Future plans:

- Initiate the first phase of the DBW marketing and communications plan by launching the DBW brand and brand strategy by Q2 for roll out ahead of DBW launch.
- Implement the DBW location strategy.
- Implement improvements to core internal processes.
- Agree on a broader suite of KPI's with Welsh Government to effectively measure the impact of the DBW's investment in the Welsh market.
- Launch the Intelligence Unit alongside the DBW.
- Resolve structure, state aid and governance requirements for DBW.
- Determine what service level agreements are required between DBW business segments.
- Enhance alignment of joint working approaches with Business Wales.
- Engage and motivate staff through required change management techniques including a communications strategy for the transition to DBW.



Our mission and strategy

Alongside the DBW transitioning plan, Finance Wales will continue to pursue its current strategic priorities. We will continue to support the market by further increasing the availability of finance for growing businesses and contributing to the economic priorities of our stakeholders.



Programme of rolling funds

Priority:

To ensure the sustainability of the Group, we aim to have an ongoing pipeline of funds to invest. We continually assess funding gaps and develop business cases for new funds that will provide micro to medium sized enterprises with access to the finance they need.

Progress FY17:

- Launch of the £136m Wales Business Fund (WBF) and £25m Management Succession Fund.
- HTBW Phase II funding of £284m began investing in Oct 2016.
- FW Capital awarded two £51m Debt Fund Management contracts as part of the Northern Powerhouse Fund.
- Development and approval of the Wales Flexible Investment Fund.
- Commenced development of the Angel co-investment Fund.
- Launched £10m North East Property Fund.

Future plans:

- Launch £100m Wales Flexible Investment Fund and Angel Co-investment Fund and secure additional EU funding for Wales Business Fund.
- Launch FW Capital's Northern Powerhouse Funds and develop a proposal for an additional complimentary fund in the North of England.
- Raise £10m private sector funding for the Management Succession Fund.
- Develop 3 year fundraising plan including new product proposals.
- Increase reach of investment service support across WG departments.

Our mission and strategy

Expert fund delivery



Priority:

We aim to invest our funds under management in line with the economic development priorities of our stakeholders. We aim to make returns from our investments and fund management activities so that these can be reinvested into Welsh businesses.

Progress FY17:

- Total investment of £56.5m in Wales and £6.4m in England.
- 3,718 jobs created and safeguarded in Wales.
- Continued to successfully implement the HTBW scheme, investing £69.3m in the year.
- Achieved 6 exits with a return on cash invested of 2.1x.
- Maintained portfolio health of 71.9%
- Full repayment of EIB loan, having met all repayments ahead or on schedule for the duration of the loan.

Future plans:

- Increase total SME investment in Wales to £60m
- Achieve targets of 1:1.1 private sector leverage (PSL) and 3,300 jobs created and safeguarded.
- Deliver £74m of funding through the HTBW scheme.
- Achieve a minimum of two exits or £4m from exits across the portfolio.
- Maintain portfolio health of not less than 80% on loans and 75% on mezzanine.
- Increase regional coverage of investment delivery by a minimum of 10% in the bottom five under-invested Unitary Authorities

Effective communication



Priority:

We aim to improve communication with the business community in Wales to increase awareness and understanding of our offerings. We will explore new marketing channels to ensure strong and timely engagement with our stakeholders.

Progress FY17:

- Enhanced use of social media with the launch of the Finance Wales Facebook page in both English and Welsh and increased activity on Twitter.
- Held a number of joint events, with partners including ICAEW, Lloyds and Barclays Bank.
- Commenced development of a new website.

Future plans:

- Keep key stakeholders informed of developments with regard to the Development Bank of Wales (DBW).
- Launch new website alongside DBW launch. Roll out stakeholder management contact strategy in line with DBW launch campaign.
- Put processes and mechanisms in place to create awareness of the DBW and explore new channels and tactics to engage with our market.

Our mission and strategy



Operational excellence

**Priority:**

We aim to continuously monitor and improve our internal systems, and will invest in the recruitment and training of our staff to ensure that our systems, processes and people are operating as effectively as possible to support our business activities.

Progress FY17:

- Procurement of a new portfolio management system is underway.
- CRM upgrade was undertaken and rolled out across the Group.
- Achieved Cyber Essentials with IASME governance accreditation.
- Fast track applications for micro loans increased to £10k.
- Employee wellbeing strategy developed and ready for roll out in FY18.

Future plans:

- New portfolio management system to be implemented in FY18.
- Launch online application tool as part of new website.
- Implement a revised Business Continuity Plan and Disaster Recover arrangement.
- Roll out wellbeing strategy and new performance management process across the Group.

Business model

Our purpose is to support Welsh Government policy. We are committed to achieving economic development for Wales by providing businesses with access to the finance they need and supporting home ownership through the Help to Buy – Wales scheme.

Resources

Funding	Our funds are financed from a range of sources including the Welsh Government, the European Regional Development Fund, the European Investment Bank and Barclays Bank. We also re-invest the returns from our investment activities into new funds.
People	Our people are at the heart of what we do. The dedication, expertise and experience of our employees are instrumental to our success. We invest in our staff and have a strong culture of learning, development and performance management.
Infrastructure	Our support teams assist the whole business, ensuring consistency and quality of service to our stakeholders. They establish, manage and continue to develop systems and controls to support our investment activities.

Activities

SME investment	We invest in young as well as more established businesses operating in a variety of sectors. We offer a wide range of funding solutions including micro loans, loans, mezzanine and equity investments, which we tailor to suit individual businesses' growth plans.
Help to Buy – Wales	We manage the Welsh Government's £454m Help to Buy – Wales scheme. This scheme provides shared-equity loans to eligible home-buyers looking to purchase a new-build home in Wales.
Angel investment	We operate xénos, the Wales Business Angel network. xénos introduces high net-worth individuals (business angels) to start-up and early stage businesses in Wales seeking growth funding.



Business model

Creating value

For the Welsh Government

We create value for our shareholder, the Welsh Government, by making investments that positively impact economic development in Wales, delivering value to Welsh businesses and communities.

Profits from our fund management activities and returns from our investments are reinvested to further our economic impact in Wales.

For Welsh businesses



Addressing funding gaps

The Finance Wales Group provides financing solutions to address funding gaps and satisfy under-served areas of market demand.



Co-investment

We partner with private sector investors such as banks and business angels to maximise our impact by attracting additional investment to Wales.



Backing growth

We help our portfolio companies to plan for the future and can provide further investments and additional working capital as a business expands.

For Welsh citizens and their communities



Employment

The investments we make in SMEs help to create and safeguard jobs as well as creating opportunities for local suppliers.



Urban regeneration

Improving Welsh living by financing development projects in regeneration areas.



Housing

The Help to Buy – Wales scheme is helping to boost the housing sector by supporting home ownership and stimulating construction. This scheme is complemented by our Wales Property Development fund.

See our business model in action in our case studies on pages 20-27

Case studies



Case studies



Name	W2 Global Data
Sector	Technology and digital
Location	Cardiff
Total investment	£624,977
Jobs created or safeguarded (including planned)	18
Fund	Wales Business Fund, Wales Technology Seed Fund, TVI Interim Fund, Wales SME Investment Fund
Team	Technology Venture Investments

"W2 has grown from strength to strength in the last few years and the latest funding round will allow our business to establish its position as a key world player in the field."

Warren Russell
W2 Global Data

W2 offers customers the ability to perform real-time identity verification and anti-money laundering checks against consumers and corporates during the process of opening an account.

A longstanding portfolio company, it secured seed investment and recently follow-on co-investment from us and Mercia Fund Management.



Name	Vizolution
Sector	Communications
Location	Neath Port Talbot
Total investment	£1,850,000
Jobs created or safeguarded (including planned)	102
Fund	Wales Business Fund, Wales JEREMIE Fund
Team	Technology Venture Investments

"Finance Wales's investment has helped Vizolution grow at over an 80% annually compounded rate and expand internationally. At the same time Vizolution has tripled its technology headcount and footprint in Wales."

Bill Safran
Vizolution

Vizolution is a leading SaaS customer experience tech company based on the Port Talbot Enterprise Zone.

Finance Wales has backed the company's growth since 2012. In 2016 there was a £5 million follow-on co-investment from us and HSBC to support their product development and international growth.

Case studies



Name	The Hours
Sector	Retail
Location	Powys
Total investment	£2,000
Jobs created or safeguarded (including planned)	N/A
Fund	Wales Micro-business Loan Fund
Team	Micro Loans

"Gaynor and the Finance Wales team's expertise and advice has proved invaluable. Their support will enable us to evolve in a really organic way."

Leigh Hendra
The Hours

The Hours Bookshop in Brecon has used our 2-day fast track micro loan application process to expand.

The micro loan has helped this popular business make improvements to its second floor extending their book and gift offering.



Name	Peninsula Property Management
Sector	Cleaning and professional services
Location	Gwynedd
Total investment	£15,000
Jobs created or safeguarded (including planned)	1.5
Fund	Wales Micro-business Loan Fund
Team	Micro Loans

"I was amazed by the speed at which they were able to help. From first calling them it took only 16 days for the money to reach my account. This investment will support our expansion."

Susan Kelly
Peninsula Property Management

Holiday home cleaning company Peninsula Property Management has diversified into laundry services, helped by a £15,000 loan. The money has helped secure bigger facilities and industrial laundry equipment.

The company were introduced to Finance Wales by the FSB.



Case studies



Name	Chocci Cake Company
Sector	Food and drink
Location	Newport
Total investment	£20,000
Jobs created or safeguarded (including planned)	3
Fund	Wales Micro-business Loan Fund
Team	Micro Loans

"When I contacted Finance Wales they explained the micro loans scheme, how a loan could help and what the costs were. They really helped and showed me what I could do and how I could push forward."

Marilyn Anne Jones
Chocci Cake Company

Producers of handmade chocolate, our micro loan helped this start-up open their first shop in Tredegar House, Newport.

They've worked with a number of blue-chip clients, including GoCompare, and created original and innovative chocolates for birthdays and weddings.



Name	Hilltop Honey
Sector	Food manufacturing
Location	Powys
Total investment	£255,000
Jobs created or safeguarded (including planned)	24
Fund	Wales Business Fund, Wales Micro-business Loan Fund
Team	Portfolio

"We've been supported by Raymond and the Finance Wales team through a number of funding rounds. Thanks to them our company is growing and our products are on supermarket shelves."

Scott Davies
Hilltop Honey

Hilltop Honey manufactures honey and other bee products and is now a wellknown name in Mid Wales.

The business has grown successfully following a micro loan in 2014. The latest loan has helped them purchase larger premises alongside a bank facility from NatWest.

Case studies



Name	Nutrivend
Sector	Health and fitness
Location	Rhondda Cynon Taff
Total investment	£725,000
Jobs created or safeguarded (including planned)	27.5
Fund	Wales Business Fund, Wales SME Investment Fund
Team	Portfolio

"We want to continue our success and an equity package from Finance Wales means we get to benefit from the support and expertise of an experienced investor as well as its financial backing."

Scott Morgan
Nutrivend

Health and nutrition vending machine specialists, Nutrivend has received a £275,000 follow-on equity investment to grow their company.

Owned by former rugby internationals Scott Morgan and Barry Davies, the company started up in 2012 with a £50,000 microloan and xénos business angel investment.



Name	Cargo Services Ltd
Sector	Import and export
Location	Newport
Total investment	£300,000
Jobs created or safeguarded (including planned)	75
Fund	Wales Capital Growth Fund
Team	New Investments

"We are delighted to have secured funding from Finance Wales to help towards our development and expansion plans at our port terminal business at Bird Port."

John Davey
Cargo Services

Cargo Services plans to expand services on their dock facility thanks to our short-term loan.

Bird Port is one of the smallest enclosed cargo handling dock systems in the UK. It handles nearly three-quarters of a million tonnes of cargo annually. They work closely with major employers in south Wales like Tata Steel.



Case studies


**Oaking
DEVELOPMENTS**


Name	Oaking Developments
Sector	Construction and property
Location	Conwy
Total investment	£1,742,609
Jobs created or safeguarded (including planned)	N/A
Fund	Wales Capital Growth Fund Wales Property Development Fund
Team	New Investments

"We could not have done this without the smooth business relationship we have enjoyed with Finance Wales, and in particular Rhodri Evans who has been excellent to deal with, and has understood our business model from day one."

Alan Forsyth
Oaking Developments

Oaking Developments are a residential property developer with focus on North Wales.

The recent completion of Forest Hills in Colwyn Bay in March 2017 – fully sold – has had excellent feedback.


**HYGROVE
HOLDINGS**


Name	Hygrove Homes (Swansea) Ltd
Sector	Residential house builders
Location	Swansea
Total investment	£4,386,118
Jobs created or safeguarded (including planned)	6
Fund	Wales Capital Growth Fund Wales Property Development Fund
Team	New Investments

"We're delighted with the support we've received from Finance Wales and the Wales Property Development Fund. They've helped make a number of projects a reality, we look forward to working with the team again in the future."

Ben Francis
Hygrove Homes

Hygrove Homes has developed the largest current city centre site in Swansea known as Brunel Woods at Upper Bank Pentrechwyth. We have lent and been repaid in full on four occasions on this development to construct 52 homes including 29 for Family Housing Associations.

Case studies



Tomlinson's
Dairies



Name	Tomlinson's Dairies
Sector	Food and drink
Location	Wrexham
Total investment	£2,000,000
Jobs created or safeguarded (including planned)	70
Fund	Wales Business Fund
Team	New Investments

"We're proud to be able to expand our operations in North Wales and create 70 new jobs for the local area following this investment. This is a great place to do business and we're excited for the future."

Philip and John Tomlinson
Tomlinson's Dairies

Tomlinson's has expanded its production and storage facilities after winning a major supermarket contract. Based near Wrexham, the dairy is one of the largest in Wales.

The growth of the business has been secured through a £22 million co-investment deal with HSBC, Welsh Government and Finance Wales.



GT



Name	Glamorgan Telecom
Sector	Communications
Location	Cardiff
Total investment	£1,150,000
Jobs created or safeguarded (including planned)	5
Fund	Wales Management Succession Fund
Team	New Investments

"We thank Finance Wales for their help and support during this process. With a full buyout in place, the management team has full control to guide Glamorgan Telecom into an exciting new chapter."

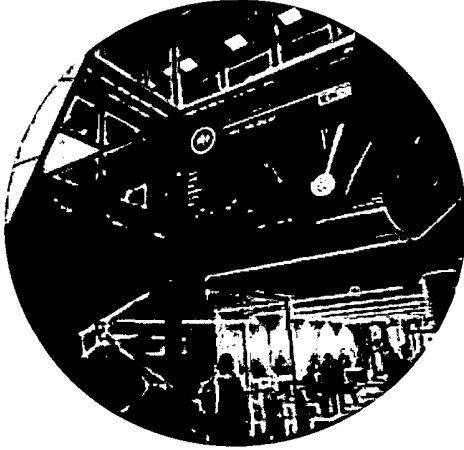
Kelly Bolderson
Glamorgan Telecom

Managing director and majority shareholder Kelly Bolderson, together with members of the senior management team, bought out founding director to bring the company under the full control of the current board.

Finance Wales' equity investment enabled the company to refinance its existing debt, complete a multi company MBO.



Case studies



Name	Creo Medical
Sector	MedTech
Location	Chepstow
Total investment	£5,009,980
Jobs created or safeguarded (including planned)	35.5
Fund	Wales Business Fund, TVI Interim fund, Wales JEREMIE Fund
Team	Technology Venture Investments

"We've been delighted by the support we've received from Finance Wales over multiple funding rounds. Richard and the team have really backed us and our product and continue to do so."

Craig Gulliford
Creo Medical

Creo Medical is developing a range of surgical devices that can dissect tissue while using special microwaves to staunch the blood flow.

They're our fourth portfolio company to list on AIM in the last four years. The company successfully raised over £20 million with their IPO.



Name	SIPHON Networks
Sector	Communications
Location	Torfaen
Total investment	£1,500,000
Jobs created or safeguarded (including planned)	14
Fund	Wales JEREMIE Fund
Team	Portfolio



"This is a great opportunity for SIPHON staff, vendor partners and customers. It enables us to accelerate our growth plans, as part of a much larger organisation, which shares our core beliefs and dedication to high service levels."

Steve Harris
SIPHON Networks

SIPHON specialises in unified communications and cloud-based telephony solutions for the B2B market. The company used our investment to recruit additional staff and expand in to international markets.

We exited SIPHON less than two years after investing in the company, achieving a significant multiple on our equity investment.

Case studies



Name	Eye Commercial
Sector	Commercial Vehicle Repair
Location	St Helen's
Total investment	£100,000
Jobs created or safeguarded (including planned)	23
Fund	The North West Fund for Loans Plus
Team	FW Capital – North West

"Investment in growth is key to our expansion plans, working in partnership with FW Capital North West will give us the financial support we need to move to the next level."

Bill Flanagan
Eye Commercial

Eye Commercial is a family run commercial vehicle repair business with over 30 years' experience. They are an approved Iveco commercial repair agent.

Thanks to FW Capital's support, Eye Commercial plans to expand their current operations through new contracts won.



ARCINOVA



Name	Arc Trinova Limited t/a ARCINOVA
Sector	Pharmaceuticals
Location	Northumberland
Total investment	£750,000
Jobs created or safeguarded (including planned)	97
Fund	North East Growth Plus Fund
Team	FW Capital – North East

"It's been a pleasure working with the FW Capital team on this deal. The process from our first meeting to a credit approved offer in less than eight weeks was very efficient."

Paul Ryan
Arcinova

ARCINOVA is a contract research and development organisation serving a range of international life science businesses.

They're set to grow thanks to a £750,000 loan from the North East Growth Plus Fund, managed by FW Capital.




Key performance indicators

We have agreed a number of key performance indicators (KPIs) with our stakeholders, against which we measure our effectiveness. These KPIs are summarised in the table below:

Fund management – stakeholder KPIs


Enterprises financially supported

The number of distinct Welsh SME's we have provided loan or equity funding to during the period.

Performance	Comment	Why we measure	Priority
2017 245	We are delighted to have supported the growth aspirations of 245 Welsh micro to medium enterprises during the year. This represents an increase of 32% on the previous year and 121% of our target.	We invest our funds under management in line with the economic development priorities of our stakeholders. We measure our performance by the number of enterprises assisted.	 Expert fund delivery
2016 185			

Value of SME investments

The total amount of funding provided to Welsh SME's in the year.


Performance	Comment	Why we measure	Priority
2017 £56.5m	We provided record levels of funding to our customers in the year. Total funding in the form of debt, mezzanine or equity investments amounted to £56.5m, representing 140% of the target investment level agreed with our stakeholder.	The value of SME investments quantifies our direct impact on the Welsh economy.	 Expert fund delivery
2016 £45.6m			

Key performance indicators

Fund management – stakeholder KPIs


SME private sector leverage

The value of additional private sector funding received by Welsh SMEs alongside and as a consequence of Finance Wales' funding.

Performance	Comment	Why we measure	Priority
2017 £79.1m	Our funding was the catalyst for record levels of co-investment from private sector funders, amounting to £79.1m. In aggregate, our activities generated a £135.6m impact on the Welsh economy, an increase of 22% on the previous year and 177% of target.	Private Sector Leverage enables us to consider the overall impact of our investments by quantifying any additional finance provided.	 Expert fund delivery
2016 £64.8m			

Gross jobs created & safeguarded

The total number of new jobs created in Wales and existing Welsh jobs which would have been at risk but have been preserved as a consequence of our investment.

Performance	Comment	Why we measure	Priority
2017 3,718	In supporting the creating or safeguarding of 3,718 jobs our activities in the year had a record impact on Welsh employment.	The number of jobs created and safeguarded measures the direct impact of our investments on employment in the regions we operate.	 Expert fund delivery
2016 3,058			




Key performance indicators

Fund management – internal KPIs


New Funds Launched

The number of new funds launched in the year.

Performance	Comment	Why we measure	Priority
2017 7	This was a critical year for Finance Wales where £167.3m of new funds were launched targeted at Welsh SMEs including the £136m EU co-financed Wales Business Fund, a £25m Management Succession Fund and the £6.3m Local Energy Fund. A further £284m for Help to Buy Wales is now helping people to buy a new home in Wales. In addition three new fund management contracts to deliver £112m of investment in the North West and North East of England were awarded to FW Capital.	We aim to address funding gaps in the Welsh SME market and develop an ongoing pipeline of funding to invest. The number of funds launched indicates whether we are achieving this objective.	 Programme of rolling funds
2016 2			

Number of exits

The number of equity realisations achieved in the year, usually via a sale of shares.


Performance	Comment	Why we measure	Priority
2017 6	We achieved a record number of profitable equity exits this year, with all 6 exits being profitable. One of the exits, Siphon, is featured in our case studies on page 26. In addition to creating legacy funds the equity realisations allowed us to fully repay our EIB loan.	In order to create legacy funds for re-investment, we aim to develop a programme of rolling exits. The number of exits measures our performance against this objective.	 Programme of rolling funds
2016 4			

Key performance indicators

Fund management – internal KPIs


Equity realisation multiple

The realisation multiple measures the return received on realisation of equity investments. It is found by dividing the cumulative distributions by the paid-in capital.

Performance	Comment	Why we measure	Priority
2017 2.1	We achieved a blended return of 2.1 times across all 6 equity exits. This positive return on our investments allows us to create legacy funds for re-investment into Welsh businesses.	We aim to generate returns on our investments so that these can be reinvested into new funds to further economic development in Wales. The equity realisation multiple measures the returns achieved on equity investment exits.	 Programme of rolling funds
2016 0.51			

Provisioning levels

The value of bad debts and write-offs incurred in the year.

Performance	Comment	Why we measure	Priority
2017 £12.1m	As a provider of gap funding we expect and accept a higher level of default against our loans and investments than private sector funders would be prepared to tolerate. The increase in provisions for bad and doubtful debts this year does not reflect a change in our attitude to risk. Rather, we attribute the increase to the particular challenges and circumstances of several individual businesses. We seek to recognise promptly those portfolio businesses exhibiting signs of stress and work closely with them to provide additional support wherever possible. We always review the circumstances that have given rise to portfolio losses in order to identify market or sectoral trends, learn from our experience and to develop our expertise.	The level of bad debts and write-offs incurred in the year impact the performance and returns of our funds. Provisioning levels within the portfolio are therefore an indicator of fund performance.	 Expert fund delivery
2016 £2.8m			


Key performance indicators

Help to Buy - Wales KPIs




Homeowners assisted

The number of shared-equity loans provided to homeowners under the Help to Buy – Wales scheme.

Performance	Comment	Why we measure	Priority
2017 1,870	The increase in the number of homeowners assisted is the result of increased house building in Wales and an increase in each new development's uptake of HTBW properties. 147 builders are currently registered with the scheme, 7 of which have been supported through our £10m Wales Property Development Fund.	Finance Wales aims to positively impact the Welsh Economy by supporting home ownership through the Help to Buy – Wales scheme. We measure our performance by the number of homeowners assisted.	 Expert fund delivery
2016 1,705			


Value of Help To Buy – Wales

The total value of shared-equity loans provided to homeowners in Wales under the Help to Buy – Wales scheme.

Performance	Comment	Why we measure	Priority
2017 £69.3m	The increase in the value of investments is due to the rise in the number of homeowners assisted and an increase in the average loan size provided.	The value of shared-equity loans made during the year quantifies HTBW's direct impact on the Welsh economy.	 Expert fund delivery
2016 £61.3m			

HTBW private sector leverage

The value of additional private sector funding received by homeowners alongside Help to Buy – Wales funds at the point of investment.

Performance	Comment	Why we measure	Priority
2017 £277.2m	Private sector leverage for our HTBW portfolio is calculated using a multiplier calculation and is a function of shared-equity loans made.	Private sector leverage enables us to consider the overall impact of our investments by quantifying any additional finance provided.	 Expert fund delivery
2016 £245.2m			

Key performance indicators

Angel investment KPIs

Number of investments facilitated

The number of investments made by business angels as a result of an introduction by xénos.

Performance	Comment	Why we measure	Priority
2017 14	The number of deals completed by xénos has remained relatively stable when compared to last year. This year was also a year of transition as we completed a strategic review of xénos.	By facilitating investments, xénos aims to retain private wealth in Wales and enable start-ups and early stage companies to access the finance they need to grow. We measure our success by the number of investments made as a result of an introduction by xénos.	
2016 15			

Value of investments facilitated

The value of investments made by business angels as a result of an introduction by xénos.

Performance	Comment	Why we measure	Priority
2017 £1.2m	The value of investments facilitated by xénos has decreased from the previous year, mainly due to prior year results being dominated by one unusually large deal of £900k.	The value of investments facilitated enables us to measure the direct impact of xénos' activities on the Welsh economy.	
2016 £2.3m			



Risk management

Key to the Group's performance to date and future success is a culture where risk is accepted in a measured, reasoned and informed fashion.

It is inherent that in performing its primary activity of providing gap funding to support the growth aspirations of micro to medium-sized business, the Finance Wales Group accepts a greater degree of investment risk than commercial providers of business finance are typically prepared to tolerate.

Poor management of risks and failure to identify emergent risks in a timely fashion could adversely impact the Group's performance, reputation and longevity.

The Group has robust systems in place for the identification and monitoring of risk, and for ensuring that risk mitigating controls are working effectively, in order to minimize the likelihood and impact of the risks we face.

The role of the Board

The Board has overall responsibility for risk management. Supported by the Audit and Risk Committee (ARC), the Board monitors and reviews the Group's internal controls and risk management systems including financial, operational and compliance controls.

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and plays a key role in influencing the culture of Risk Management within the Group.

Finance Wales is not required to comply with the UK Corporate Governance Code but has chosen to comply, on a voluntary basis, with the provisions of the Code in respect of principal risks and internal control reporting.

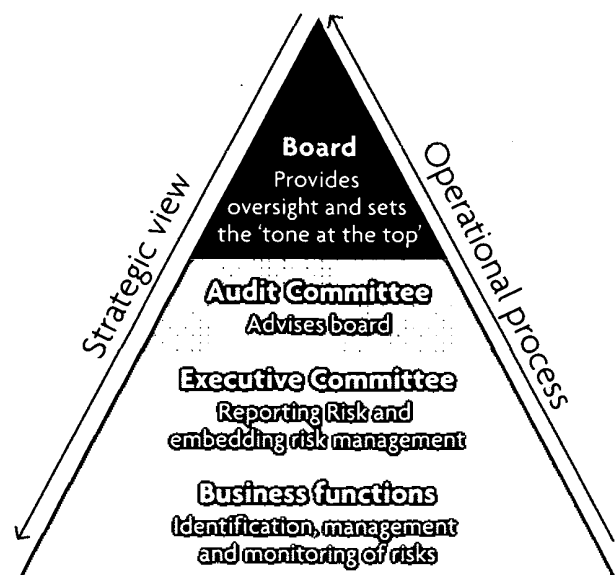
The Directors confirm they have carried out a robust assessment of the principal risks facing the company and that they undertake ongoing monitoring of the Group's risk management and internal control systems and, at least annually carry out a review of their effectiveness. The Group's principal risks are described in detail on pages 37-42.

The role of management and staff

The Executive Management Team (EMT) is responsible for alerting the Board to the emergence of, or any material change in the likelihood or impact of key risks, and for embedding effective risk management practice throughout the Group.

The EMT is responsible for the implementation of the Risk Management and Assurance Policy and for ensuring that effective procedures are in place and adhered to.

Each individual in the organisation takes personal responsibility for the identification, management and mitigation of risks in their operational area. This bottom-up review ensures that risk management controls are embedded throughout the operations of the business and that the Group is in a position to react appropriately to new risks as they arise.



Risk management

Risk management framework approved by the Board

The Group maintains risk registers at the departmental level. A register of principal risks is also maintained, detailing those risks that are considered by the Board to represent the most significant threat to Group activities.

Risk ratings are derived from a matrix against which likelihood and impact of risks are scored. Ratings are calculated on a pre and post control basis. Risk ratings and mitigating controls are summarized in the risk registers, which also identify risk owners by job title. A statement as to the Group's tolerance for different categories of risk is also included.

Risk registers are accompanied by assurance maps which provide a breakdown of how the Board may be satisfied that mitigating controls in respect of individual risks are operating effectively. Where the control environment is considered to be deficient, the remedial action required and the associated timescale are incorporated into the Assurance Maps.

The risk registers are updated on a quarterly basis, or more frequently should the need arise, and the Register of Principal Risks is presented to the ARC for review.

The Group manages risk in a variety of ways, including:

- A comprehensive induction programme for new employees;
- Detailed policies and procedures available to all staff via the intranet;
- Mandatory staff training in key risk areas such as data protection, information security and money laundering, bribery and corruption;
- Separate risk registers where the Group embarks on projects of particular strategic importance;
- Monthly management information reviewed at Board, management and other internal meetings to track performance against objectives.

Risk management



Assurance framework

The Assurance Framework is the means through which the ARC monitors and evaluates the effectiveness of internal control systems. Assurance is obtained in the following ways:

Direct assurance

Assurance from risk owners that the mitigating controls intended to manage the risks for which they have responsibility are adequate and are functioning effectively. This may be derived from the quarterly review of the risk register and in future, through the introduction of annual Assurance Statements by risk owners.

Validated assurance

Assurance derived from the review of the operation, suitability and effectiveness of controls by a Group employee other than the risk owner and outside the risk owners department. These reviews may take a variety of forms including; risk reviews, file sampling, deep dives and scenario analysis.

Independent assurance

Assurance derived from the findings of reviews undertaken by the Group's independent internal and external auditors.

At the start of each year a scope of work is agreed with the internal auditors, detailing the business areas to be reviewed and the proposed timing and duration of each review. The output of each review is a report to the ARC detailing the scope of work undertaken, examples where controls are operating reliably and areas for improvement and recommendations to address them.

Areas for improvement are graded as Low, Medium or High priority, dependent on the perceived risk. Management provide responses to recommendations and a deadline for completion of the necessary work.

Each review provides an opinion as to the level of assurance in respect of both:

- The adequacy of the control environment, and
- The effectiveness of internal controls

Assurance levels range from Limited to Adequate to Substantial and are a function of the number of recommendations arising from the review in questions and their respective priorities.

Independent assurance is also derived through an annual follow up review of the recommendations arising from previous internal audit reports, to identify progress towards implementation of the recommendations.

The Group's external auditors provide robust challenge of the key judgements taken in the preparation of the financial statements, and review the internal control and risk management systems for the purposes of the financial statements. Recommendations to address areas of concern are made to the ARC and are followed up in subsequent audits.

Risk management

Following consultation with the Audit and Risk Committee and senior management, the Board has identified the following principal risks to Group activities:

Risk and potential issues	How we are addressing the issues
<p>Transition to the Development Bank of Wales (DBW)</p> <p>The transition to the DBW represents a step change in the scale and breadth of support and supply of finance to Welsh micro to medium sized enterprises. It is imperative that the transition is well planned and executed to ensure that the DBW and the enhanced contribution to the economic well-being of Wales that it promises are delivered on time and to budget.</p> <p>Area of risk: OPERATIONAL</p> <p>Pre-control rating: HIGH</p>	<p>Overall delivery responsibility sits with the DBW Programme Board, which is accountable to Finance Wales' Board.</p> <p>Detailed programme management arrangements are in place to facilitate a smooth transition through the delivery of a range of clearly defined projects, led by members of the Senior Management Team.</p> <p>Progress of the plan is monitored to provide early warning of any delivery issues and enable corrective action to be taken.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>Lack of availability of future funding arising from the UK's exit from the European Union</p> <p>Exit from the EU creates uncertainty both as to the implications for existing funds and the availability, quantum and conditions attached to future funds.</p> <p>Area of Risk: LIQUIDITY</p> <p>Pre-control rating: HIGH</p>	<p>We liaise closely with colleagues in the Wales European Funding Office and Welsh Government in order to stay well appraised of developments both in respect of existing funds and arrangements for future funds.</p> <p>Evidencing continued successful delivery of fund KPI's ensures we are well placed to bid for any future funds post the EU exit. Accordingly, we continue to monitor fund performance and delivery of the targeted outputs closely.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>Failure to meet fund performance objectives</p> <p>The Group has built a strong track record of successful fund delivery. It is critical to the future success of the DBW that this record is enhanced through the continued achievement of fund objectives.</p> <p>Area of risk: INVESTMENT</p> <p>Pre-control rating: HIGH</p>	<p>Each fund we invest is developed in response to a particular area of market failure and has clearly defined targets at the outset. These KPI's are closely tracked through a comprehensive suite of monthly management information, enabling new strategies to be developed or remedial action taken.</p> <p>We raise awareness of the availability of funding through coordinated marketing and business development activity.</p> <p>Post-control rating: SIGNIFICANT</p>

Risk management

 Decreased risk
  No change to risk
  Increased risk



Current status

Link to strategy

We are undertaking active project management of all our DBW work streams to ensure key delivery milestones are met. In addition, we continue to closely monitor the Group's day to day performance to ensure "business as usual" despite the ongoing DBW programme.



**Development
Bank of Wales**

In August 2016, the Chancellor of the Exchequer announced that all structural and investment fund commitments in place prior to the 2016 Autumn Statement will be fully funded, even if they continue beyond the UK's expected departure from the EU in March 2019. This welcome development notwithstanding, the Group's strategy is to maximise investment of EU funds in order to minimise the impact of exiting the EU on our ability to deliver existing funds.



**Programme of
rolling funds**

In the past year, marketing activities have included press releases and a concerted effort to improve engagement with the micro business community through increased use of social media platforms and radio advertising.

We have continued to engage proactively with our network of intermediaries, including accountancy practices and banks, who remain our largest introducers of investment and loan opportunities.



Expert Fund Delivery

Risk management

Risk and potential issues	How we are addressing the issues
<p>Failure to deliver funds operationally</p> <p>Inefficient or ineffective processes and systems are likely to result in poor customer service standards and reputational damage to the Group's brand and track record. An inconsistent approach to core investment activity will impact Group performance in terms of increased impairments, reduced fund returns and increased possibility of the breach of funding agreements.</p> <p>Area of risk: OPERATIONAL</p> <p>Pre-control rating: HIGH</p>	<p>We have a comprehensive set of procedures available to all staff on our intranet. Our Quality Assurance (QA) team undertakes regular file reviews to ensure a consistent approach and often this work is the catalyst for revisions to our processes in order to drive efficiency. The results of file sampling are shared with senior management and staff have quality targets embedded in their annual performance objectives.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>Failure to engage and communicate effectively with our customers and stakeholders</p> <p>To remain a relevant and effective component of the economic development and business support landscape in Wales it is imperative that we listen to our customers and stakeholders to understand the challenges facing them and how best we can help them achieve their objectives. Just as important is to raise awareness of our activities and products to stimulate demand.</p> <p>Area of Risk: INTERFACE</p> <p>Pre-control rating: HIGH</p>	<p>We welcome any and all feedback on our performance. We undertake satisfaction surveys and host regular dinners across Wales with our customers and the wider business community to understand what we do well and where we must improve. This interaction has been the catalyst for a series of new product initiatives that our staff have identified and are in development.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>Failure to comply with legal and regulatory requirements</p> <p>The Group and its activities are subject to a variety of laws and regulations. Examples of these include; the Financial Conduct Authority in respect of consumer credit and the activities of FW Capital, the procurement of products and services, State Aid and geographical constraints regarding investment and loan activity.</p> <p>Breach of these regulations would damage the Groups' brand and reputation and could result in fines or other sanctions, including legal action, which could impede the Groups' ability to operate or raise further funds.</p> <p>Area of risk: COMPLIANCE</p> <p>Pre-control rating: HIGH</p>	<p>We maintain detailed policies and procedures on our intranet and our in-house QA team undertakes file sampling activity, the results of which are reported to senior management.</p> <p>Our independent internal auditors provide assurance on the adequacy of the control environment and the effectiveness of internal controls across the Group and recommend areas for improvement to quarterly Audit and Risk Committee meetings.</p> <p>Our external auditors keep us abreast of latest developments in the regulatory environment and test the control environment and report their findings to the Audit and Risk Committee as part of their annual report.</p> <p>Staff are required to undertake regular mandatory training in respect of a number of regulatory areas.</p> <p>Post-control rating: SIGNIFICANT</p>

Risk management



Decreased risk



No change to risk



Increased risk



Current status

We continue to invest in our IT estate and the functionality of the software we operate to ensure both resilience and efficiency. We are currently improving our web presence with the objective of simplifying the fund application process for our customers and are committed to continuous improvement in how we undertake our day to day activities.



Link to strategy

Operational
excellence

In response to customer feedback we have introduced a streamlined application process in respect of micro finance loans of up to £10,000 for established businesses. This has enabled us to dramatically increase the number of micro loans we have made in the last year.

As regards the Welsh Government, close liaison with officials continues and our Chairman and CEO have held meetings with the Cabinet Secretary for Economy and Infrastructure and also have appeared before the Economy, Infrastructure and Skills Committee.

Effective
communication

We continue to monitor our compliance with the legal and regulatory landscape through our internal systems and procedures. In the past year staff have undertaken a range of mandatory training including in respect of FCA Approved Persons, Equality & Diversity, Data Protection & Information Security, Countering Bribery & Corruption and Risk Management.

In addition, our independent internal auditors have delivered a comprehensive internal audit plan in the past year and have concluded that Finance Wales has an adequate and effective framework of risk management, governance and internal control.



Expert fund delivery

Risk management

Risk and potential issues	How we are addressing the issues
<p>Vulnerability to cyber-attack, data security breaches and the threat of denial of IT service</p> <p>The Group's IT estate must be operationally durable and reliable, resilient to external attack and, in a worst case scenario, configured to overcome denial of service attacks in a timely fashion. It is important that IT users act in accordance with best practice so as to minimise the likelihood of data security breaches and the reputational, operational and financial implications that may otherwise arise.</p> <p>Area of risk: OPERATIONAL</p> <p>Pre-control rating: HIGH</p>	<p>Our IT estate is protected by a range of measures including firewalls, encryption and antivirus software, internet content filtering and backups. Specialist third party advice is sought where appropriate.</p> <p>IT support is outsourced to a third party provider and is subject to contractually enforceable Service Level Agreements.</p> <p>IT procedures are detailed in our Information Security Policy. Annual online security training is mandatory across the Group. There are robust breach containment and investigation processes.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>Failure to recruit and retain appropriately skilled and experienced employees</p> <p>As a subsidiary of the Welsh Government, the Group is required to operate a pay and reward system that is aligned to public sector pay constraints, despite undertaking activities that are aligned with private sector activities in the financial services sector. The inability to recruit and retain staff or the loss of key personnel would result in the loss of valuable experience and knowledge.</p> <p>Area of Risk: OPERATIONAL</p> <p>Pre-control rating: HIGH</p>	<p>A succession plan is in place for key posts. The Group operates a performance appraisal process to ensure that strong performance is recognized and to ensure employees are motivated and competent in their roles.</p> <p>The Group encourages staff development and a range of training options are available.</p> <p>Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year.</p> <p>Post-control rating: SIGNIFICANT</p>
<p>The risk to the Group's reputation and longevity arising from failure to deliver our strategic objectives.</p> <p>The reputational damage arising from a failure to deliver our strategic objectives could result in an inability to raise new funds and the loss of key staff.</p> <p>Welsh Government support for the Group may be lost if we do not provide an effective means of delivering Economic Development policy in Wales. If existing funds under management are curtailed, the breadth and range of Group activities diminish, placing the long-term future of the Group in doubt.</p> <p>Area of risk: INTERFACE</p> <p>Pre-control rating: HIGH</p>	<p>The in-house Strategy Team is responsible for developing an annual business plan and strategic objectives in concert with the Senior Management Team (SMT). These objectives are informed by regular dialogue with stakeholders and are approved by the Board and Welsh Government as principal stakeholder.</p> <p>Departmental, team and individual staff objectives are cascaded from and directly support the achievement of the strategic objectives.</p> <p>Performance against objectives is monitored monthly at all levels from Board to individual, facilitated by a comprehensive suite of management information.</p> <p>Post-control rating: SIGNIFICANT</p>

Risk management



Decreased risk



No change to risk



Increased risk



Current status

Link to strategy

In the event of denial of service we are working towards an improved disaster recovery solution capable of restoring service within two days.

Cyber Essentials with IASME governance accreditation was achieved in February 2017. This is a government backed, industry supported scheme that enables organisations to demonstrate that essential precautions to mitigate against risks from common cyber-attacks have been taken and that customer and supplier information is being protected.



Operational excellence

A Steering Group was set up during the year to gather feedback on the current Performance Management (PMR) process and look at the key areas where improvement was required. This led to a proposal for a new PMR process which has now been approved by the Senior Management team.

The new process aims to address the concerns raised to the steering group and will spread the process throughout the year, providing real-time feedback, a more simplified ratings system and more emphasis on objective setting and rewarding success.



Operational excellence

Performance towards delivering our strategic objectives for the 2016-17 financial year has been monitored closely throughout the year by the SMT and Board. All strategic objectives have been achieved or exceeded.

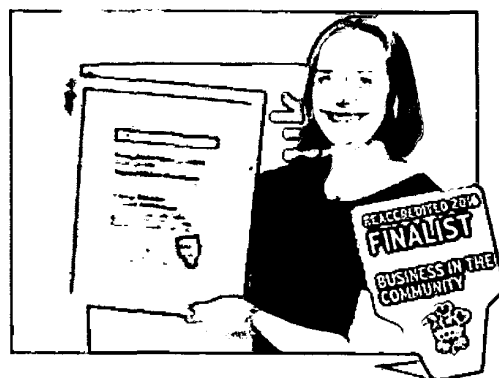


Programme of rolling funds

Responsible business

The Group continues to create an impact across our six key elements of responsible business. As we develop, the Group is committed to embedding the principles of the Well-being of Future Generations (Wales) Act 2015 to guide our actions as a responsible and sustainable business, aiding the Welsh Ministers to achieve their well-being objectives.

Our customers



Finance Wales supports its portfolio businesses through responsible customer relations as our primary driver for impacting on the goals of the Well-being of Future Generations (Wales) Act 2015.

We proactively work with investees to enhance their long term sustainability, encouraging them to grow and innovate. This has led to some of our portfolio companies achieving third party recognition for their success.

We attended the 2016 Wales Responsible Business Awards, where we were reaccruited for the impact of the fully invested Wales JEREMIE Fund, and hosted the judging for the 2017 Awards for the second consecutive year.

Our environment



The Group, while also investing in companies seeking innovative solutions to environmental issues, is dedicated to reducing our environmental impact in order to preserve the world we live in. We ensure that energy-efficient measures are implemented throughout our offices so that energy consumption is minimal within our operations.

Our Cardiff HQ office is listed as BREEAM very good for its energy and waste efficiency, using LG3 and LG7 lighting for efficient lighting of our office space. We recycle our office waste where possible and we encourage our staff to recycle general and food waste.



Responsible business

Our suppliers



Responsible selection and management of suppliers allows us to build good relationships and support our suppliers. The Wales-based operations have successfully utilised the Welsh Government procurement portal Sell2Wales throughout the year to source suppliers, which included the full and open procurement of fund management services for the Wales Business Fund.

We also utilise government framework contracts including contracts established by the National Procurement Service to source both services and supplies.

Our employees



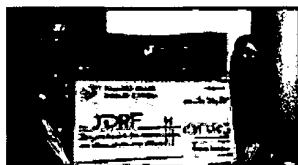
The promotion of an equal and diverse workforce is instrumental to our success and has resulted in 55% of our employees being women, and 45% of our senior management team. By offering the right balance of enriching and challenging work, development opportunities and competitive remuneration, we are able to attract and retain the highest calibre of people.

We link employees' performance and development to the achievement of our operational and strategic goals and objectives. To demonstrate our commitment to continuous improvement, we provided 367 business days of training and development during the year.

A new "Learning Welsh" language initiative was launched, providing a space for those learning Welsh to practice with Welsh speakers at all levels, increasing conversational skills.

We have continued to provide full access to our CareFirst scheme which provides employees and their immediate family with support on issues such as emotional and physical well-being, legal and financial advice and support in work related issues.

Responsible business

Our communities

We directly contribute towards economic development in the regions in which we operate. Our investments create and safeguard jobs, as well as creating opportunities for local suppliers. The Help to Buy-Wales scheme is boosting the housing sector by supporting home ownership and stimulating construction.

Our employees' charitable activities reached dizzying heights once again, all in aid of the Juvenile Diabetes Research Foundation (JDRE). We held events including the Alice in Wonderland Ball and a Six Nations Quiz night, and took part in a number of sporting events and other fundraising events. In total we raised over £31,000 for JDRE, which combined with other charitable work across our offices, brings our fundraising total for the year to over £35,000.

We seek to establish partnerships that allow our staff to support the communities in which we work. A key part of this is our ongoing membership to Business in the Community (BITC). In May 2016, volunteers took part in three separate Give & Gain Day events for the fourth year running. One team spent the day renovating the Maerdy & Ferndale Community base; another group paved a path at Swansea's Down to Earth project and the other renovated the Walton Lea Partnership site in Warrington.

Our stakeholders

Maintaining and strengthening relationships with key stakeholders is essential for delivering our objectives and supporting sustainable growth. Our key stakeholders include Welsh Government, Welsh European Funding Office, European Investment Bank, Barclays Bank, Federation of Small Businesses and the Institute of Directors. As part of our engagement with stakeholders, we hosted multiple launch events across Wales for the new ERDF funded Wales Business Fund. We also facilitated three Business Wales adviser training sessions to enhance understanding of Finance Wales, enabling more effective collaboration.

Governance

Our Board

Our Board provides us with leadership and strategic vision. It helps develop a clear strategy consistent with our purpose, monitors the operational and financial performance of the Group against our business plan, and ensures that we have appropriate controls in place to manage risk.

The Board meets six times a year and ensures strategic, operational, financial, HR and corporate governance items are discussed at appropriate intervals during the year. An annual strategy day is also held.

Our Board consists of a non-executive Chairman, the Chief Executive, the Director of Finance and Administration and five non-executive directors. The non-executive directors bring a wide range of skills and experience to the Group, and each are leading professionals in their own fields. They provide independent judgement on issues of strategy, performance and risk and are well placed to constructively challenge and scrutinise the performance of management.

During the year, there were some changes to the Board as follows:

- Ivar Grey resigned as Non-Executive Director, with effect from 30 September 2016
- Clive John resigned as Non-Executive Director, with effect from 30 November 2016
- Iraj Amiri was appointed Non-Executive Director, with effect from 1 September 2016
- Roger Jeynes was appointed Non-Executive Director, with effect from 1 November 2016



Board members

A Audit & Risk Committee **N** Nominations Committee **R** Remunerations Committee



Gareth Bullock

Chairman

Appointment:

Appointed Chairman of the Board in October 2015.

Key strengths and experience:

Gareth has over 35 years' experience in the financial services industry. He retired in 2010 from the Board of Standard Chartered plc where he was responsible for Africa, Middle East, Europe and the Americas as well as chairing Risk and Special Assets Management. He has both wide functional and international experience, having been Head of Corporate Banking in Hong Kong, CEO Africa, Group Chief Information Officer and Head of Strategy. He also has significant industrial and retail board experience both in the UK and China.

External appointments:

Gareth has held numerous board positions, including Tesco PLC, Tesco Personal Financial Group Ltd, Spirax-Sarco Engineering PLC, Fleming Family & Partners Ltd, British Bankers' Association. He is currently Senior Independent Director of Informa PLC and a Trustee of the British Council.



Huw Morgan

A **N** **R**

Non-Executive Director (Senior Independent Director)

Appointment:

Appointed to the Board in November 2013 and became Senior Independent Director in November 2014.

Key strengths and experience:

FCIB qualified banker with over 25 years' experience in the banking sector. A former Head of Business Banking for the UK for HSBC.

External appointments:

Currently a Non-Executive Director of ICICI Bank plc, where he chairs the Risk and Credit Risk Committees, an NED of Inspiretec and Chair of Help Me Compare Ltd. Huw sits on two Welsh Government Boards: The Financial Services Panel for Wales and the Central Cardiff Enterprise Zone. He also supports the Universities of Aberystwyth and Cardiff, the former as a member of the Development Advisory Board, the latter on the Industrial Advisory Board.

Board members



Giles Thorley

Chief Executive

Appointment:

Appointed Chief Executive of Finance Wales plc in April 2016.

Key strengths and experience:

Before joining Finance Wales, Giles was a partner at private equity firm TDR Capital LLP focusing on deal origination activities. Prior to this he spent 9 years with Punch Taverns plc – the first year as Chairman, under private equity and then as Chief Executive following its IPO.

External appointments:

He has held Non-Executive Director roles with Esporta, Ducati SpA, Tragus Holdings, TUI Travel plc and Matthew Clark Wholesale Ltd; is currently acting as consultant/angel investor on a number of business start-ups; and is a long-serving Trustee with the Rona Sailing Project.



Dr Carol Bell

Non-Executive Director

N

Appointment:

Appointed to the Board and Chair of Investment Committee in October 2014.

Key strengths and experience:

An experienced industrialist and financier, Carol started her career in the oil and gas industry before moving into banking where she held senior posts at Credit Suisse First Boston, JP Morgan and Chase Manhattan Bank.

External appointments:

Carol is currently a member of the governing authority of Welsh-language broadcaster S4C and also a board member of a number of companies and organisations. Since completing her doctorate in 2005, Carol has developed a range of business and charitable interests.

Board members



Governance

A N

**Iraj Amiri**

Non-Executive Director

Appointment:

Appointed to the Board in September 2016 and Chairman of the Audit and Risk Committee with effect from October 2016.

Key strengths and experience:

Iraj has over 20 years of experience in audit and assurance. He spent over a decade heading up FTSE 100 company Schroders plc's internal audit department. Iraj was also Head of the Wellcome Trust's internal audit team, overseeing the management of more than £18bn in investments. He developed the Enterprise Risk service line for Deloitte, where he was a partner for 22 years, taking the unit from its early beginnings, to a team of over 600 staff.

External appointments:

Iraj has extensive experience of working at board and trustee level. He is a Trustee of the National Employment Savings Trust (NEST) and chairs their Audit Committee. Iraj is a recognised global expert and authority on internal audit and assurance. He is a member of the Regulatory Decisions Committee of the FCA and has been a regular speaker at internal audit conferences.

N R

**Roger Jeynes**

Non-Executive Director

Appointment:

Appointed to the Board in November 2016.

Key strengths and experience:

Roger's early career included a number of senior technical, marketing and general management roles at IBM, EMC and Pyramid Technology in the UK, Italy and the USA. From 1997 to 2006 he was Chief Operating Officer of the technology merchant bank Interregnum plc. Roger has more than 16 years' experience as a non-executive director of LSE-listed Venture Capital Trusts (VCT's) and of AIM-listed and privately held companies.

External appointments:

Roger is an independent non-executive director of Downing Three VCT plc, chairman of AIM-listed software company Zoo Digital plc, and chairman of mxData Limited. He is also visiting Professor of Management Practice at Anglia Ruskin University.

Board members

**Margaret Llewellyn OBE****A N R**

Non-Executive Director

Appointment:

Appointed to the Board in September 2012 and became Chair of the Remuneration Committee in December 2016.

Key strengths and experience:

Margaret's 30 year career has seen her own, and operate a container shipping line, port terminals and road haulage fleet. For 9 years she was Deputy Chairman of the Port of Dover and Chairman of the Dover Harbour Board Pension Fund. She is a Director of SeaPort Development and the Ports of Jersey and has held a number of senior positions in shipping, transport and logistics. She is a fellow of the Chartered Institute of Logistics and Transport and former Welsh Woman of the Year.

External appointments:

A long-standing Welsh Government adviser, Margaret is currently Chair of its Tourism Advisory Board and was previously Vice Chair of the Welsh Development Agency. She is also a Board Member of Visit Britain. In 2004 she received an OBE for services to economic development in Wales. Margaret is currently a Non-Executive Director of Cardiff Airport and a member of Haven Enterprise Board.

**Kevin O'Leary****A N R**

Director of Finance and Administration

Appointment:

Appointed to the Board in November 2010.

Key strengths and experience:

Kevin leads Finance Wales' internal finance and administration teams. He joined the company in 2006 from his previous role as Head of Support Services for the former Welsh Development Agency. Prior to this he spent 24 years working in local government in Wales, ultimately as chief accountant for a South Wales unitary authority for 6 years.

Kevin also acts as the Group's Money Laundering Reporting Officer and has personal responsibility for the security of the company's client assets.

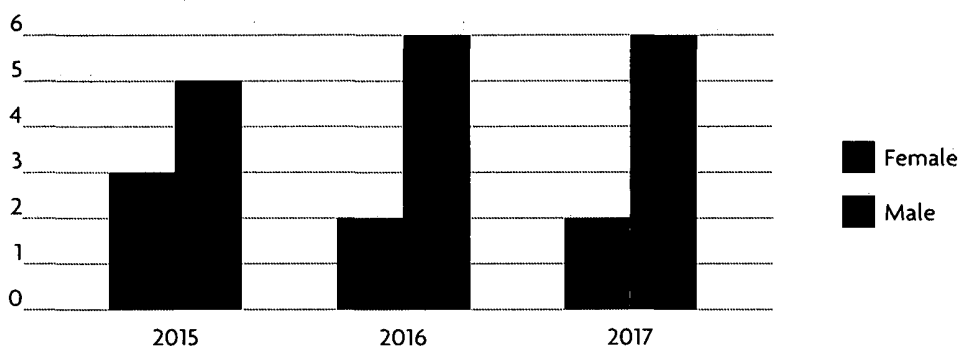


Board diversity

The Board is committed to attracting and retaining talented people, and with that in mind, diversity across a range of criteria is valued. The Board recognises that diversity, in all forms, is key to ensuring different perspectives are introduced into the decision-making processes within the boardroom.

The Board believes that gender is an important aspect in creating an optimal Board in terms of balance and composition. The table below shows the gender balance of the Board over the past 3 years (as at 31 March 2017).

Board gender diversity



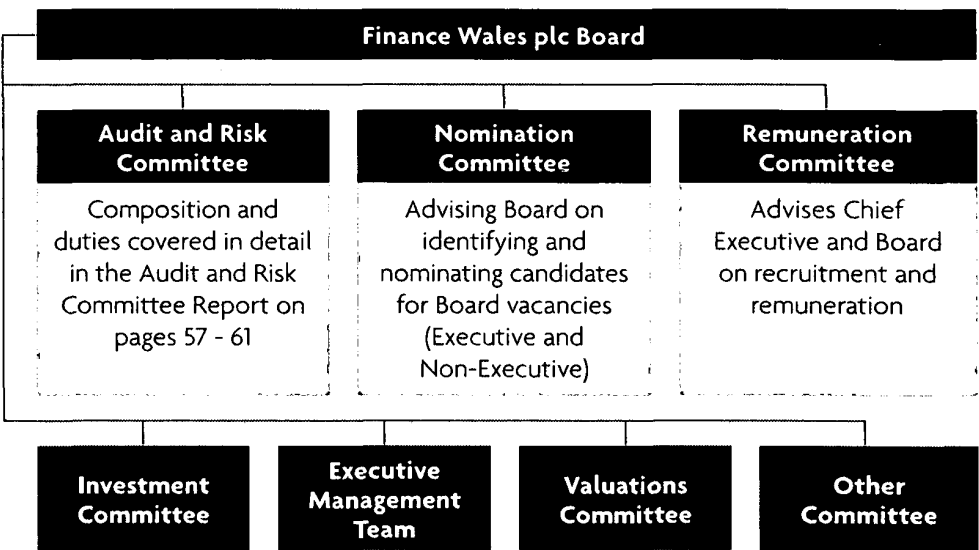
Corporate governance

The directors are committed to exercising a high standard of corporate governance. Whilst the Group is not required to comply with The UK Corporate Governance Code issued by the Financial Reporting Council, every effort is made to ensure that principles are applied where appropriate as detailed in the Risk Management section on page 34.

Governance framework and board committees

The Finance Wales Group has a clear governance framework, as set out in the diagram below.

The Board has three key committees that play an essential supporting role in assisting the Board in fulfilling its responsibilities and ensuring that high standards of corporate governance are maintained throughout the Group. Each committee has its own terms of reference, procedures, responsibilities and powers.



The principal Board committees comprise the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee. Each of the Board committees has delegated authority from the Board to carry out the duties defined in its terms of reference. The Board is satisfied that the terms of reference for each of these committees reflect current best practice.

Following each committee meeting, the chairman of the committee provides the Board with a brief summary of the work carried out by their committee and where appropriate makes recommendations to the Board for approval.

With the exception of a formal schedule of matters, which are reserved for the decision and approval of the Board, the day-to-day operational management of the Group is delegated by the Board to the chief executive officer, who in turn utilises a framework of delegations, discretions and consents.



Corporate governance

Board and board committee attendance

Number of meetings attended

Board member	Board meetings	Audit Committee	Remuneration Committee
Gareth Bullock	6/6	n/a	n/a
Huw Morgan*	6/6	5/5	1/1
Carol Bell	6/6	n/a	n/a
Margaret Llewellyn	6/6	5/5	2/2
Iraj Amiri**	3/4	3/3	n/a
Roger Jeynes***	2/3	n/a	n/a
Giles Thorley	6/6	n/a	n/a
Kevin O'Leary	5/6	n/a	n/a

* Appointed to the Remuneration Committee November 2016

** Appointed to the Board September 2016

*** Appointed to the Board November 2016

Board evaluation

The performance of the Board and its committees is evaluated each year to ensure that each forum continues to be effective. This year the Board's review of its effectiveness was facilitated by Independent Audit Limited, using their online assessment service Thinking Board®. Their facilitation helped ensure that the review was rigorous and covered the important influences on the Board's effectiveness. As independent advisors, they discussed the focus and coverage of the board and committee questionnaires, administered the questionnaires on a confidential basis, analysed the results independently from the Board and management, and presented the findings and their suggestions in a paper which was discussed with the chairman and provided to all directors. Independent Audit also met with the Board to share its views on the issues raised through the self-assessment process.

The results of the evaluation indicate that the Board and committees work well together, relations with management are good and there is a positive culture which encourages discussion and challenge.

In an effort to continue to improve, there were also areas identified which offer scope for further development. These include:

- Improved communication with stakeholders;
- Improved understanding of the risk strategy and how it is used; and
- Succession planning focussed on the skills the Board will need as it transitions towards the Development Bank of Wales.

Overall, it was concluded that the Board and its committees remain effective in fulfilling their responsibilities appropriately.

Judi Oates
Company Secretary

Remuneration Committee Report



Margaret Llewellyn OBE

Our Remuneration Committee adopts a fair and responsible approach to rewarding our employees, ensuring that the link between pay and performance encourages the right behaviours, whilst enabling us to attract and retain the right people.

Committee membership and attendance

The Finance Wales Group Remuneration Committee comprises two non-executive directors:

- Committee Chair: Margaret Llewellyn OBE
- Membership: Huw Morgan, appointed November 2016

The Committee is appointed by the Chairman of the Board and must consist of at least two non-executive Directors.

Our Chief Executive, Director of Finance and independent HR consultant are normally in attendance except when their own remuneration is being discussed.

Feedback is provided to the Board following each Remuneration Committee meeting.

Committee purpose and responsibilities

Key responsibilities include:

- Formulation and approval of policy for the remuneration of the Company's Directors and Senior Management team
- Ensuring the members of the Executive and Senior management teams are provided with appropriate incentives to encourage enhanced performance, rewarding them for individual contributions to the success of the organisation
- Approval of the structure of the annual incentive scheme and any payments under this scheme
- Overseeing major changes in employee benefit structures



Remuneration Committee Report

Committee membership and attendance

Finance Wales, whilst a government-owned entity, operates wholly in the private sector. In order to execute its business strategy the Company requires staff with specialist banking and investment skills and experience.

We therefore have to compete for such talent with private sector financial institutions. Over time as public sector and private sector compensation norms are governed by different factors, the Board recognises the continuing ability to provide competitive compensation as a potential business risk.

Key achievements and priorities for 2017

- 2017 sees the completion of the second annual pay review under the three year reward strategy agreed with Welsh Government.
- Significant recruitment has been undertaken in response to the successes of FW Capital with new contracts and additional funds in Wales centered on property and management succession. Recruitment has also focused on bolstering our presence in the Welsh regions.
- Investigations have commenced in relation to the Long Term Incentive arrangements of the group. Independent external advice was commissioned in relation to this. Key objectives of this exercise were to:
 - i) Create a scheme which assisted in both recruitment and retention of investment staff.
 - ii) Develop an appropriate reward strategy which is both equitable and affordable.

Key activities and priorities for 2018

The Committee will commission its triennial review of group remuneration, which will also take a wider view of the Group's benefits package.

We will also remain mindful of staff issues in connection with the transition to the Development Bank of Wales and will monitor these closely.

Approved by the Chairman of the Remuneration Committee

Margaret Llewellyn OBE

Chairman of the Remuneration Committee

Audit Committee report



Iraj Amiri

The Audit and Risk Committee has a vital role in ensuring the integrity of the Group's financial statements and the effectiveness of our risk management and internal controls. It also provides assurance to the shareholder of the Group, the Welsh Ministers, in respect of governance, risk management and control arrangements.

Membership composition, skills and meetings

The Finance Wales Group Audit and Risk Committee comprises three non-executive directors:

- Iraj Amiri (Chairman)
- Margaret Llewellyn OBE
- Huw Morgan

The experience of the Non-Executive members is key to the successful operation of the Committee. The Chair is a chartered accountant with relevant financial experience, one member has held a senior position in a major UK bank and the remaining member is a successful entrepreneur who has chaired a pension fund (see biographies on pages 48-51).

The Audit and Risk Committee meets quarterly. It is attended by Finance Wales plc's Chief Executive, the Director of Finance and Administration and Director of Risk, Compliance and Legal, together with the internal and external auditors, and an observer from the Welsh Government.

The internal and external auditors have direct access to the Chair of the Audit and Risk Committee and meet the Committee without management present at least twice a year.

Feedback on the business of the Finance Wales plc Audit and Risk Committee is given to the full Board and the minutes to the Corporate Governance Committee of the Welsh Government.

Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the Group's financial reporting arrangements, the effectiveness of its internal controls and risk management framework, the internal and external audit processes and the Group's whistle-blowing procedures. The Committee reports to the Board on its activities and makes recommendations to the Board, all of which have been accepted during the year.

The Committee provides an annual report to the Welsh Government on its work and confirmation as to the adequacy of the audit arrangements and assurance given by the principal accounting officer in respect of governance, risk management and control arrangements.

Audit Committee report

The key responsibilities of the Audit and Risk Committee are set out below:**Financial reporting**

Monitor integrity of the financial statements and review critical accounting policies.

Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements.

Review and monitor any significant adjustments arising from the external audit.

Review the annual report and accounts and other financial reporting and advise the Board on whether, taken as a whole, it is fair balanced and understandable.

Assess and challenge the going concern assessment prepared by management.

External audit

Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider the effectiveness, independence and objectivity.

Make recommendations to the Board concerning the reappointment and removal of the external auditor.

Agree the policy for the provision of non-audit services.

Approve the external audit timetable.

Review audit findings, considering management's responses to any finding or recommendations.

Internal controls and risk

Review the adequacy and effectiveness of internal controls, financial management reporting and risk management and management's approach to addressing control weaknesses.

Review and approve the internal control, risk management and other assurance statements in the annual report.

Whistle-blowing

Review the whistle-blowing arrangements and receive reports on instances of whistle-blowing.

Internal audit

Approve the selection and appointment of internal auditors.

Approve the annual work plan and receive reports on individual areas of work.

Monitor management's responses to findings and recommendations.

Monitor the effectiveness of the internal audit function.

Welsh Government

An observer from the Welsh Government attends all meetings and is kept fully informed on all aspects of the Committee's work.

An annual report is submitted to Welsh Government setting out details of the Committee's work and providing assurance as to the adequacy of the audit arrangements and also on the assurances provided by the principal accounting officer in respect of governance and control arrangements operated.

Audit Committee report

Significant financial statement reporting issues

In undertaking its role of monitoring the financial statements of the Group, the Committee reviewed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements. With support from the external auditor, the Committee considered a number of significant issues in relation to the financial statements for the year ended 31 March 2017, which are set out below. The majority of these issues are recurring and are therefore considered by the Audit and Risk Committee on an on-going basis.

Valuation of Help to Buy – Wales loan portfolio

The Committee considered and challenged the key assumptions applied by management in calculating the fair value of the Help to Buy – Wales loan portfolio and is satisfied that it is appropriate.

Provisions for impairment of the loan book

The Committee considered and challenged the provisioning methodology applied by management including the results of statistical loan losses to support the impairment provision and was satisfied that the estimation methods were appropriate. The disclosure relating to the impairment provision is set out in note 15 to the financial statements.

Valuation of equity investments

The Committee considered and challenged the provisioning methodology applied by management including the results of historical trends and was satisfied that the provisioning methodology was appropriate.

Where a fair value can be reliably estimated accounting standards require financial assets to be valued at fair value. The Committee considered and challenged how management had applied the BVCA guidelines and was satisfied that they had been applied appropriately. The Committee was also satisfied that where equity investments are pre-revenue or where no new third party investors were involved that there was no reliable information on which to base a valuation, accordingly no fair value adjustment should be made. The disclosures relating to the impairment provision and fair value adjustment are set out in notes 13 and 14 to the financial statements.

Regularity

The Committee is satisfied that there are appropriate controls in place to ensure that the Group's expenditure complies with the requirements of the Management Arrangement as set out by the Welsh Government.

Revenue recognition

The Committee is satisfied that the recognition of revenues in relation to equity realisations is appropriate and is supported by the necessary documentation.

Audit Committee report



Going concern

The Committee considered and challenged the assumptions set out in a paper prepared by management on working capital requirements and funds available for investment in the 18 months ending 30 September 2018. The Committee was satisfied that there would be sufficient working capital to cover operating expenses and also that discussions were taking place with the Welsh Government on the need for additional funds to invest. Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide both revenue support until 31 March 2018 and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 31 March 2021. The revenue funding historically provided by Welsh Government will be replaced from April 2018 by fees in respect of additional funds under management.

The Committee was satisfied that it was appropriate to prepare the financial statements on a going concern basis.

FCA rules

There are three subsidiaries in the Finance Wales Group that are authorized and regulated by the Financial Conduct Authority. These are FW Capital Limited, Finance Wales Investments (10) Limited and Help to Buy (Wales) Limited.

The Committee sought assurance from management that there were controls in place to ensure the regulations were complied with and that staff received the appropriate training. The Committee was satisfied that the appropriate controls were in place and training provided.

European funding rules

The largest fund operated by the Group is partly funded by EU agencies and has specific criteria for eligibility of investments. The Committee sought assurance from management that all investments made meet the criteria. The Committee was satisfied that the appropriate controls were in place to ensure that funds were invested in eligible businesses.

Review of the annual report and financial statements

The Audit and Risk Committee met on 12 June 2017 to carry out a detailed review of a draft of the Annual Report and Financial Statements, prior to the final draft being presented to the Board on 28 June. Following these discussions, the Committee advised the Board that the Annual Report and Financial Statements, taken as a whole are fair, balanced and understandable.

Audit Committee report

Audit and risk committee's performance

The performance of the Audit and Risk Committee is reviewed annually by means of a questionnaire sent to all directors, senior management, the external auditor and internal auditor. The results are reviewed by the full Board and where necessary an action plan is agreed to address any matters raised.

External audit

The external auditor and the Group both have safeguards to ensure the independence and objectivity of the external audit. The Group has a policy, which was refreshed in 2014, to regulate the use of the external auditor for non-audit services. The policy sets out the nature of work the external auditor may undertake with any work with fees above a defined limit requiring prior approval from the Audit and Risk Committee. The total amount paid to the external auditor in 2017 is set in note 5 to the financial statements.

The independent members of the Audit and Risk Committee meet privately at least once annually with the external auditor to review their performance. In 2017 no significant issues were raised and their performance was considered to be satisfactory.

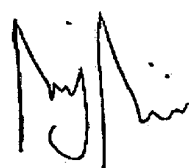
The Group has a policy of tendering the external audit every five years. A detailed procurement exercise was undertaken during the 2016 financial year, and the incumbents, Deloitte, were reappointed.

Internal audit

We engage Mazars, an independent third party audit firm, to conduct our internal audit function. The Audit and Risk Committee reviews the internal audit plan and ensures that the auditors have appropriate access to information to enable them to perform their audit activities effectively and in accordance with the relevant professional standards. All findings are reviewed promptly and management's responsiveness to the findings and recommendations is regularly monitored. The Audit and Risk Committee meets with the internal auditors at least twice a year without management being present to discuss their remit and any issues arising from the internal audit reviews carried out.

In their Annual Report to the Audit and Risk Committee on 12th June 2017 our Internal Auditors concluded that in their opinion, based on the audit work undertaken during the financial year, Finance Wales has an adequate and effective framework of risk management, governance and internal control which provides satisfactory assurance regarding the effective and efficient achievement of its objectives.

Approved by the Chairman of the Audit and Risk Committee



Iraj Amiri



Directors' report

The directors present their annual report together with the audited consolidated financial statements for Finance Wales plc for the year ended 31 March 2017.

Directors

The directors, who served throughout the year, unless stated otherwise, are shown in the Officers and Professional Advisors section at the start of this report.

Results and dividends

During the period, the Group made an overall profit after taxation of £13.3m (2016: loss of £1.3m). The directors do not recommend the payment of a dividend (2016: £nil).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic Report. In addition, note 21, Financial Instruments, includes the Group's objectives and policies and process around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk. The Group is financed through external bank borrowings and grant funding, provided by the Welsh Government and European Structural Funds.

The Group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of the Group's loan facilities in place at 31 March 2017 are given in note 17.

At the year-end, the Group met all the covenant requirements associated with the loans. Covenants are calculated on a monthly basis and tested quarterly in accordance with the loan agreements. The Group forecasts demonstrate that the Group will meet all covenants over the foreseeable future.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide both revenue support until 31 March 2018 and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 31 March 2021. The revenue funding historically provided by Welsh Government will be replaced from April 2018 by fees in respect of additional funds under management.

The Group's forecasts and projections, taking account of likely changes in trading performance and the financial support of the Welsh Government, show that the Group will be able to operate within the level of its current facility over the next 12 months from the signing of this report.

Directors' report

After making enquiries and having reviewed the forecasts for the Group, the directors believe there are no material uncertainties that lead to a significant doubt on the Group's ability to continue in business over the next 12 months. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

Political donations

The Group made no political donations during 2017 (2016: £nil).

Corporate and social responsibility

Details of the Group's policies, activities and aims with regard to its corporate and social responsibilities can be found in our Responsible Business report on pages 43-45.

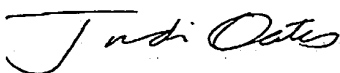
Auditor

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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



Judi Oates
Company Secretary

30 June 2017



Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company 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 Financial Reporting Standard 101 Reduced Disclosure Framework have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the company's ability to continue as a going concern

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 28 June 2017 and is signed on its behalf by

A handwritten signature in black ink, appearing to read 'Giles Thorley', written over a horizontal line.

Giles Thorley
Chief Executive



Independent auditor's report to the members of Finance Wales PLC

Opinion on financial statements of Finance Wales plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101 "Reduced Disclosure Framework", and as applied in accordance with the provisions of the Companies Act 2006;
- in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and conform to the authorities which govern them; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.



The financial statements that we have audited comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Cash Flow Statement;
- the Group and Parent Company Statements of Changes in Equity; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Independent auditor's report

Summary of our audit approach

Key risk	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> • Loan Loss Provisions • Fair Value of Equity Investments • Fair value of the Help to Buy loan portfolio • Regularity of funding received from the Welsh Government • Revenue Recognition <p>Within this report, any new risks are identified with  and any risks which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used in the current year was £4.2m which was determined on the basis of 1% of total assets.</p>
Scoping	<p>As in the prior year, our group audit scope involved performing full audits on the Group's parent and main subsidiaries which accounted for more than 99% (2015: 99%) of the Group's net assets and profits before tax.</p>
Significant changes in our approach	<p>One new risk has been included in the current year audit report in relation to revenue recognition. Please refer to the details of this risk below. There have been no other significant changes to the scope of our audit procedures.</p>

Independent auditor's report



Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 34 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 109 to 115 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Independent auditor's report

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Loan loss provisions »**Risk description**

The Group holds £30.3m of loan loss provisions at year-end (2016: £22.3m) against total loans receivable of £145.7m (2016: £128.7m).

Determining impairment provisions against loans receivable is a judgemental area requiring an estimate to be made of the incurred loss within the lending portfolios. This requires the estimation of customer default rates, losses given defaults, and potential impairment indicators all of which may be sensitive to changes in the economic environment. We identify an enhanced risk in relation to funds with varying risk profiles, such as the risk and restructuring and technology funds.

This risk is included in the significant issues section of the Audit Committee Report on page 57. Management's associated accounting policies are detailed in the "Impairment of financial assets" section in Note 2, while the "key sources of estimation uncertainty" are detailed in Note 3.

How the scope of our audit responded to the risk

We challenged the appropriateness of management's key assumptions used in the impairment calculations for loans receivable, including the impairment trigger point, the likelihood of default, and the loss given default.

We also challenged the appropriateness of management's model and assumptions for funds with varying risk profiles. This was achieved through: benchmarking against internal data, assessment of historical portfolio behaviour, undertaking sensitivity analysis, and review of investment committee minutes and a sample of case files.

We independently re-calculated the provision in accordance with the approved provisioning policy and at the same time assessed the completeness and accuracy of data used by the models.

We tested the operating effectiveness of the controls designed to identify and estimate required loan loss provisions.

Independent auditor's report


Fair value of equity investments »
Risk description

The Group has made adjustments of £22.8m (2016: £15.4m) to the carrying value of total equity investments held as available-for-sale financial assets to state equity investments at fair value in accordance with IFRS.

Determining the fair value of equity investments is a judgemental area requiring identification of market observable data to determine a fair value for each investment. The credit risk of each investment is quantified on an individual or portfolio basis which is also a judgemental area. This requires review of recent transaction data and market activity including valuations through funding rounds, third party offers together with historical analysis of credit risk performance and an estimation of future performance all of which may be sensitive to changes in the economic environment.

This risk is included in the significant issues section of the Audit Committee Report on page 57. Management's associated accounting policies are detailed in notes 2 and 21.

How the scope of our audit responded to the risk

We challenged the appropriateness of management's key assumptions used in the fair value calculations for equity investments, including the reliability of observable market data such as third party offers and the effect of credit risk. This was achieved through inspection of supporting board minutes, share allotment forms and financial statements.

We independently re-calculated the fair value of a sample of investments in accordance with the approved fair value policy, including an assessment of the valuation indicators. We also challenged the valuation of a sample of investments held without adjustment, to ensure no adjustment was required. This was achieved through consideration of reasonable alternative valuation methods in line with company policy.

We also assessed the completeness and accuracy of data used in the calculations through independent review of investment performance information.

We tested the design and implementation of the relevant controls implemented by management to mitigate this risk.

Independent auditor's report

Fair value of the Help to Buy loan portfolio »**Risk description**

The Group holds £176.2 million (2016: £110.0m) of loans originated to customers as part of the Welsh Government's help to buy shared equity loan scheme for first time buyers. A total of £69.2m (2016: £62.0m) of shared equity loans have been made during the year.

The loans inception before 1st April 2016 are held at fair value with an uplift of £4.1m (2016: £nil) on the amortised cost value at the year-end. The estimation of the fair value of the loan portfolio requires judgement, with the model including a mix of observable and unobservable inputs, such as estimation of future house prices, retail price index inflation, customer default rates and selection of an appropriate discount factor, all of which may be sensitive to changes in the economic environment.

More disclosure is required about the valuation of the portfolio because of the significance of unobservable inputs into the fair value calculation.

This risk is included in the significant issues section of the Audit Committee Report on page 57. Management's associated accounting policies are detailed in the "Financial Assets at FVTPL" section in Note 2, while the "key sources of estimation uncertainty" are detailed in Note 3. Detail of the inputs to the model can be seen in Note 21.

How the scope of our audit responded to the risk

We challenged the appropriateness of management's key assumptions used in the fair value calculation for the loan portfolio, including an assessment of the house price inflation and retail price index inflation forecast data applied, the estimation of customer default rates and the discount rate applied. This was achieved through: benchmarking against internal and external data, and undertaking sensitivity analysis.

We independently re-calculated the fair value of the portfolio in accordance with the approved fair value policy and at the same time assessed the completeness and accuracy of data used in the calculations.

We also reviewed and challenged the completeness and appropriateness of the disclosure in Note 21. This was achieved through comparison to IFRS 13 disclosure requirements.

We tested the design and implementation of the relevant controls implemented by management to mitigate this risk.

Independent auditor's report


Regularity of funding received from the Welsh Government »

Risk description The Group is required to comply with the regulatory requirements as set out by the Welsh Government and European State Aid rules. The Chief Executive (as Accounting Officer) is required to demonstrate compliance with responsibilities set out in the Management Arrangement. As the Group is dependent on the Welsh Government for core funding and support non-compliance could have significant going concern implications.

This risk is included in the significant issues section of the Audit Committee Report on page 57. Details of the contribution received from the Welsh Government are disclosed in Note 10.

How the scope of our audit responded to the risk

We tested on a sample basis, the Group's compliance with the Management Arrangement and European State Aid rules. This was achieved through gaining an understanding of such requirements and using this understanding to assess transactions and review source documentation in accordance with the requirements. We particularly focused on the eligibility of customers to receive investment from the Group in accordance with the European State Aid eligibility rules as well as the validity of expenditure and purchases undertaken by the Group.

We tested the design and implementation of the relevant controls implemented by management to mitigate this risk.

Revenue recognition ⚙

Risk description ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The Group recognise a net profit of £3.3m (2016: £0.4m net loss) in relation to the realisation of equity investments. We identified an enhanced risk of inaccurate recognition of profit or loss on disposal and inappropriate disclosure or recognition of associated contingent assets or liabilities. This is due to the infrequency of realisations and the judgments involved in assessing whether contingent asset or liability exists due to contingent sales agreements being in place.

This risk is included in the significant issues section of the Audit Committee Report on page 57. Details of the profit on disposal of equity investments are disclosed in Note 4.

How the scope of our audit responded to the risk

We tested on a sample basis, that revenue from realisations has been recognised in the correct period and at the correct amount, alongside consideration of contingent assets or liabilities. This was achieved by inspection of investment agreements and sale and purchase agreements, alongside inspection of bank statements.

We tested the design and implementation of the relevant controls implemented by management to mitigate this risk.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

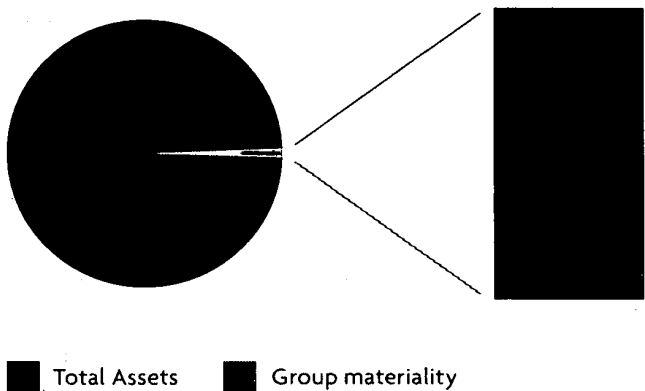
Independent auditor’s report

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£4.2 million (2016: £4.3 million)
Basis for determining materiality	1% of total assets (2016: 1%)
Rationale for the benchmark applied	The value of loan and equity investments is critical to the long term success of the Group as it generates income through interest income and equity realisations, while the company uses cash to make such investments. We have therefore selected total assets as the benchmark for determining materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £200k (2016: £215k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report

**An overview of the scope of our audit**

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. As in the prior year, our group audit scope involved performing full audits on the Group's parent and main subsidiaries which accounted for more than 99% (2016: 99%) of the Group's net asset, revenue and profits before tax. These audits were performed directly by the group audit team and executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £nil to £3,810,600 (2016: £nil to £3,300,000).

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining subsidiaries not subject to audit or audit of specified account balances.

We also report to you our opinion as to whether in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and conform to the authorities which govern them.

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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Independent auditor's report

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Independent auditor's report

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Heaton (Senior statutory auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff
30 June 2017

Financial statements



Consolidated income statement

Year ended 31 March 2017

	Note	2017 (£)	2016 (£)
Revenue	4	11,230,315	10,403,905
Administrative expenses:			
Impairments against loans receivable	5	(7,516,073)	(2,180,809)
Impairments against financial assets classified as available-for-sale	5	(4,745,661)	(702,611)
Impairments released against financial assets classified as fair value through profit or loss	5	142,532	116,004
Other administrative expenses		(12,889,883)	(12,480,317)
Total administrative expenses		(25,009,085)	(15,247,733)
Other operating income:			
Release of ERDF grant income	4	17,941,130	1,728,918
Contribution towards administrative expenses from ultimate parent undertaking	4, 10	1,931,605	2,399,950
Gains/(losses) from the disposal of equity investments	4	3,294,627	(445,517)
Total other operating income		23,167,362	3,683,351
Operating profit/(loss)	5	9,388,592	(1,160,477)
Investment revenue	7	437,074	668,026
Finance costs	8	(564,488)	(850,234)
Fair value gains on shared equity loans		4,113,800	-
Other gains	9	-	6,619
Profit/(loss) before taxation		13,374,978	(1,336,066)
Tax	11	-	-
Profit/(loss) for the financial year		13,374,978	(1,366,066)

All activities derive from continuing operations.

Consolidated statement of comprehensive income

Year ended 31 March 2017

	2017	2016
	(£)	(£)
Profit/(loss) for the financial year	13,374,978	(1,336,066)
Available-for-sale financial assets		
Gains arising during the year	7,308,218	7,946,401
Actuarial (loss)/gain on defined benefit pension schemes	(2,176,000)	876,000
Other comprehensive income for the year net of tax	5,132,218	8,822,401
Total comprehensive income for the year	18,507,196	7,486,335

Consolidated statement of changes in equity

Year ended 31 March 2017

	Public equity	Share capital	Capital reserve	Profit & loss account	Total
	(£)	(£)	(£)	(£)	(£)
Balance at 31 March 2015	117,666,334	12,500	10,100	(12,695,463)	104,993,471
Loss for the financial year	-	-	-	(1,336,066)	(1,336,066)
Gain on revaluation of available-for-sale investments taken to equity	-	-	-	7,946,401	7,946,401
Actuarial gain on defined benefit pension schemes	-	-	-	876,000	876,000
Reduction in public equity	(6,914,000)	-	-	-	(6,914,000)
Balance at 31 March 2016	110,752,334	12,500	10,100	(5,209,128)	105,565,806
Profit for the financial year	-	-	-	13,374,978	13,374,978
Gain on revaluation of available-for-sale investments taken to equity	-	-	-	7,308,218	7,308,218
Actuarial loss on defined benefit pension schemes	-	-	-	(2,176,000)	(2,176,000)
Addition in public equity	1,488,446	-	-	-	1,488,446
Balance at 31 March 2017	112,240,780	12,500	10,100	13,298,067	125,561,447



Consolidated balance sheet

As at 31 March 2017

	Note	2017 (£)	2016 (£)
Non-current assets			
Property, plant and equipment	12	403,489	782,703
Investments in associates	13	386,014	3,051,375
Available-for-sale financial assets	14	60,318,903	46,908,724
Trade and other receivables	15	274,258,175	199,255,916
		335,366,581	249,998,718
Current assets			
Trade and other receivables	15	23,683,923	18,558,403
Cash and cash equivalents	16	120,638,535	173,813,388
		144,322,458	192,371,791
Total assets		479,689,039	442,370,509
Current liabilities			
Trade and other payables	18	(3,484,869)	(14,321,231)
Borrowings	17	(3,600,000)	(14,600,000)
		(7,084,869)	(28,921,231)
Net current assets		137,237,589	163,450,560
Non-current liabilities			
Borrowings	17	-	(9,700,000)
Trade and other payables	18	(337,971,672)	(297,669,472)
Retirement benefit obligations	19	(2,130,000)	(14,000)
Deferred income	20	(6,941,051)	(500,000)
		(347,042,723)	(307,883,472)
Total liabilities		(354,127,592)	(336,804,703)
Net assets		125,561,447	105,565,806

Consolidated balance sheet (continued)

As at 31 March 2017

	Note	2017	2016
		(£)	(£)
EQUITY			
Public equity		112,240,780	110,752,334
Share capital	22	12,500	12,500
Capital reserve		10,100	10,100
Retained profit /(deficit)		13,298,067	(5,209,128)
Total equity		125,561,447	105,565,806

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 28 June 2017.

Signed on its behalf by



G Thorley
Director



Consolidated cash flow statement

Year ended 31 March 2017

	Note	2017 (£)	2016 (£)
Net cash (outflow) / inflow from operating activities	24	(57,710,672)	46,371,033
Investing activities			
Interest received		437,074	668,026
Purchases of equipment		(219,000)	(11,015)
Net cash received from investing activities		218,074	657,011
Financing activities			
Interest paid		(624,488)	(870,234)
Repayments of borrowings		(20,700,000)	(20,400,000)
Public equity received		1,488,447	(6,414,000)
New bank loans raised		-	11,000,000
Cash received in relation to deferred income		24,153,786	-
Net cash received from / (used in) financing activities		4,317,745	(16,684,234)
Net (decrease) / increase in cash and cash equivalents		(53,174,853)	30,343,810
Cash and cash equivalents at beginning of year		173,813,388	143,469,578
Cash and cash equivalents at end of year		120,638,535	173,813,388

Notes to the consolidated financial statements year ended 31 March 2017

01. General information

Finance Wales plc is a company incorporated in the United Kingdom under the Companies Act 2006. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

Adoption of new and revised standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements of the Group for the year ended 31 March 2017 and applied in accordance with the Companies Act 2006.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective:

IFRS 9	Financial Instruments – Classification and Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 7 (amendments)*	Financial Instruments – Disclosures
IFRIC 14 (amendment)*	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 11	Joint Ventures
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19	Post-employment Benefits

The directors anticipate that the adoption of these standards and interpretations in future periods, with the exception of IFRS 9, will not have a material impact on the financial statements of the Group. The impact of IFRS 9 is being considered but any impact cannot be quantified at this stage.

* IFRIC – International Financial Reporting Interpretations Committee

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies

Basis of preparation

These accounting policies are based on the IFRSs, IASs and IFRIC interpretations as adopted by the EU (collectively "IFRS").

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, are outlined below.

These financial activities are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

Basis of consolidation

The consolidated financial statements comprise Finance Wales plc (the Company) and its subsidiary undertakings, as listed in note 30 of the company financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the Group's share of the fair value of the net identifiable assets of the subsidiary acquired is recorded as goodwill. Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic Report on pages 1-45. In addition, note 21, Financial Instruments, includes the Group's objectives and policies and processes around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk.

The Group is financed through external bank borrowings and grant funding, provided by the Welsh Government and European Structural Funds.

The Group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of Group loan facilities in place at 31 March 2017 are given in note 17, Borrowings.

At the year-end, the Group has met all the covenant requirements associated with the loans. Covenants are calculated on a monthly basis and tested quarterly in accordance with the loan agreements. The Group forecasts demonstrate that the Group will meet all covenants over the foreseeable future.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide revenue support until 31 March 2018 and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until 31 March 2021.

The revenue funding historically provided by Welsh Government will be replaced from April 2018 by fees in respect of additional funds under management.

The Group's forecasts and projections, taking account of likely changes in trading performance and the financial support of the Welsh Government, show that the Group will be able to operate within the level of its current facility over the next 12 months from the date of signing this report.

After making enquiries and having reviewed the forecasts for the Group, the directors believe there are no material uncertainties that lead to a significant doubt on the Group's ability to continue in business over the next 12 months. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.



Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at their historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items. Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement as incurred.

Depreciation is provided so as to write off the initial cost of each asset to its residual value on a straight-line basis over its estimated useful life as follows:

Fixtures and fittings 3 to 4 years

Computer equipment 3 to 5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Management regularly reviews a range of factors to determine whether significant influence over an investee exists. Amongst others, key factors include: reliance on funding from the Group by the investee; exchange of key management personnel or provision of technical expertise; and the ability to significantly influence investee Board decisions through presence of executive or non-executive Group management at the investee Board.

The Group has taken a scope exemption available in *IAS 28 Associates* for accounting for associates held by venture capital organisations, mutual funds, unit trusts and similar entities if the associate is measured at fair value through profit and loss. The Group's risks arising from investments in associates are similar to investments in other equity investments that have not been classified as associates where significant deterioration in the value of the investment reduces Group net assets. No financial guarantees are given or borrowing restrictions established with investee companies.

The Group looks for capital growth rather than income return from its investments. The 'venture capital' investments are held as part of an investment portfolio where their value is through their marketable value rather than as a medium through which Finance Wales carries out its business. Finance Wales aims to generate a growth in the value of its investments in the medium term and usually identifies an exit strategy or strategies when the investment is made. The investments are in businesses unrelated to Finance Wales's business. The investments are managed on a fair value basis.

Investments in associates are designated as at fair value through profit and loss.

Measurement of associates at fair value through profit and loss is consistent with the Group's documented Risk Management and Investment Strategy.

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)



Revenue recognition

Turnover represents interest receivable on loans, and fund management fees which are each recognised in the period in which they arise.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income and loan arrangement fees are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Fund management fees are recognised over the lifetime of the fund in the period in which they arise.

European Regional Development Fund ("ERDF") grant income

Grant income receivable in support of revenue expenditure is recognised in the income statement as utilised in accordance with the conditions applicable in the offer documentation.

Where grants for the partial funding of investments are received in advance of defrayal, a liability to repay the grants is recognised until such time as the cash is utilised in accordance with the terms of the offer documentation.

Grants for the partial funding of investments which are received in advance of defrayal are treated as deferred income. Such deferred income is amortised to the income statement when investments are made and the conditions set out in the offer documentation have been met. Income taken is equal to the level of grant utilised supporting investments.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

The Group transacts derivative financial instruments to manage the underlying exposure to interest rate risks. The Group does not transact derivative financial instruments for trading purposes. However, as the Group has decided not to hedge account for its derivative financial instruments as permitted under IAS 39 Financial Instruments: Recognition and Measurement, they are carried at fair value through profit and loss (FVTPL). Derivative financial assets and liabilities are stated at fair value, which includes accrued interest receivable and payable where relevant. Changes in fair values are recognised in the income statement in the period in which they arise.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)

Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is designated as FVTPL under the scope exemption for measuring associates as noted above.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 21, Financial Instruments.

Shared Equity Loans

Shared equity loans incepted pre 31 March 2016 have been designated as FVTPL under the fair value option and are measured at fair value as at the balance sheet date. Shared equity loans incepted from 1 April 2016 onwards are being held at amortised cost.

More detail on the measurement of shared equity loans can be found in note 21, Financial Instruments.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Available-for-sale financial assets

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets. Fair value is determined in the manner described in note 21, Financial Instruments. Gains and losses arising from changes in fair value are recognised directly in equity. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment's revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)

Financial instruments (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For financial assets classified as AFS, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as loans receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of financial assets could include the Group's past experience of recovery, and the levels and trends of specific impairments made as well as observable changes in national or local economic conditions that correlate with default.

The impact of forbearance is also considered. Forbearance has not materially impacted impairment provision requirements during the year; the collective provision is deemed to provide sufficient provision for impairment.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS equity instrument is considered to be impaired, cumulative gains previously recognised in equity are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity instruments securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Impairment of financial assets – shared equity loans

The shared equity portfolio is not interest bearing at present and there are no contractual repayments of principal. Impairment of the shared equity book is not directly considered, however it is indirectly considered as part of the overall valuation of the shared equity book. A number of indicators of impairment are considered and used in the fair value model, notably a level of anticipated forced sales, along with a percentage discount on those forced sales.



Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity instruments according to the substance of the contractual arrangements.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL or other financial liabilities.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)



Derivative financial instruments

The Group enters into interest rate swaps to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within Finance Wales Investments Limited (Small Loans Fund), Finance Wales Investments (3) Limited (Rescue and Restructuring Finance), Finance Wales Investments (4) Limited (the Creative Industries Fund), Finance Wales Investments (5) Limited (the Interim Fund), Finance Wales Investments (6) Limited (the JEREMIE Fund), Finance Wales Investments (8) Limited (The Wales SME Investment Fund), Finance Wales Investments (9) Limited (the Welsh Life Sciences Fund), Finance Wales Investments (10) Limited (the Wales Micro-business Loan Fund), and Finance Wales Investments (11) Limited (the Wales Property Fund). Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

The funding is to invest in the long-term sustainability of Finance Wales and within the Welsh Government's own accounting arrangements the funds are regarded as being an investment.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the consolidated financial statements year ended 31 March 2017.

02. Accounting policies (continued)

Operating profit / (loss)

Operating profit or loss is stated after charging restructuring costs, but before investment income, finance costs and foreign exchange.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

The Group has taken advantage of the transitional provision included within IAS23 *Borrowing Costs* and elected not to capitalise interest on qualifying assets that arose prior to the date of transition to IFRS on 1 April 2008.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements, and the tax base. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date, and is expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement, except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Retirement benefits

The Group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taf County Borough Council. The Group accounts for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the Group's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The Group's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the statement of comprehensive income.

The Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council scheme. Employer contributions in relation to this scheme are accounted for within other administrative expenses.

Notes to the consolidated financial statements year ended 31 March 2017.

03. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, Accounting Policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Going concern

In preparing the financial statements, the directors have concluded that the Group is a going concern and have assumed that it will be able to continue to trade in line with its business plan, realising the value of assets and liabilities in the normal course of business.

This judgement has significant impact on the valuation and presentation of the balance sheet as, if the Group were no longer a going concern, the carrying value would need to be restated to market value for assets and settlement values for liabilities. Significant items affected would include non-current assets, loans, and deferred income.

Basis of consolidation

The directors use their judgement to make an assessment of whether the Group controls an enterprise by considering the Group's power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. They also consider the Group's ability to use its power to direct the relevant activities of an enterprise and the Group's exposure to the variability of returns. The judgement has a significant impact on the Group's consolidated balance sheet, income statement and cash flow: any enterprise that is controlled requires the financial statements of the enterprise to be included in the Group consolidated financial statements and, where an entity is not controlled, consolidation is not required.

Help to Buy Wales Shared Equity Loans

Shared equity loans drawn since inception of the fund to 31 March 2016 have been designated as FVTPL under the fair value option. The fair value model used to calculate the fair value of the portfolio uses a number of judgemental assumptions, notably a forecast for future House Price Index. This judgement has a significant impact on the fair value of the book. See note 21, Financial Instruments for more detail.

Defined Benefit Pension Scheme

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.



Notes to the consolidated financial statements year ended 31 March 2017.

03. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of financial assets

Finance Wales operates a prudent approach to the provisioning against financial assets primarily investments. Where uncertainty exists, either about the viability of an investee business, or an inability to meet commitments as and when they fall due, a provision will be recognised. Each provision case is proactively managed to identify the causes for concern and to work with investee businesses to effect repayment or recovery of the at-risk investment.

In accordance with the accounting policy on impairment of financial assets, a provision is made only when there is objective evidence that a loss has been incurred for which a collective assessment of a Group of assets may be undertaken. Such a collective assessment requires input of management judgement and estimation. Management judgement is supported by consideration of underlying trends of historical data regarding the probability of default or failure of the investee business.

Fair value of financial instruments

As described in note 21, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

Deferred tax

The Group has tax losses of £66m available for offset against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate likely future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the balance sheet date, no deferred tax asset has been recorded.

Notes to the consolidated financial statements year ended 31 March 2017.

04. Revenue and other operating income

An analysis of the Group's revenue, all of which arises in the UK, is as follows:

Revenue	2017	2016
	(£)	(£)
Fees	4,538,546	5,419,094
Dividends	89,889	161,989
Loan interest	6,601,880	4,822,822
	11,230,315	10,403,905
Other operating income		
ERDF grant income	17,941,130	1,728,918
Contribution from the parent undertaking	1,931,605	2,399,950
Gains/(losses) from the disposal of equity investments	3,294,627	(445,517)
Total revenue and other operating income	34,397,677	14,087,256

05. Operating profit/(loss)

Operating profit/(loss) has been arrived at after charging/(crediting)	2017	2016
	(£)	(£)
Depreciation of property, plant and equipment	513,794	299,071
Staff costs (see note 6)	7,714,439	7,072,844
Impairment loss recognised on financial assets classified as available-for-sale	4,745,661	702,611
Impairment gain recognised on financial assets classified as fair value through profit or loss	(142,532)	(116,004)
Impairment loss recognised on loans receivable carried at amortised cost	7,516,073	2,180,809

Auditor's remuneration	2017	2016
	(£)	(£)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25,500	25,000
Fees payable to the Company's auditor for other services to the Group: Audit of the Company's subsidiaries	83,970	64,000
Total audit fees	109,470	89,000

Other services	2017	2016
	(£)	(£)
Tax compliance	50,000	46,000
Other services	19,513	61,889
Total non-audit fees	69,513	107,899



Notes to the consolidated financial statements year ended 31 March 2017.

06. Information regarding directors and employees

Directors' emoluments	2017	2016
	(£)	(£)
Wages and salaries	417,494	347,748
Pension costs	25,285	351,824
	442,779	699,572

	2017 (£)	2016 (£)
	(£)	(£)
Remuneration of highest paid director	159,109	403,827

Two directors (2016: three) of the Company and four directors (2016: three) of subsidiary companies were members of the defined benefit pension scheme.

Aggregate payroll costs (excluding directors)	2017	2016
	(£)	(£)
Wages and salaries	6,201,803	5,973,437
Social security costs	697,057	586,845
Pension costs	815,579	512,562
	7,714,439	7,072,844

	2017	2016
	(No.)	(No.)
Average number of persons employed (excluding directors and agency temps) – administration	138	134

Notes to the consolidated financial statements year ended 31 March 2017.

07. Investment revenue

	2017	2016
	(£)	(£)
Bank interest	407,074	668,026
Net return on pension scheme assets	30,000	-
	437,074	668,026

08. Finance costs

	2017	2016
	(£)	(£)
Interest on bank loans and overdrafts	554,488	830,234
Net cost of pension scheme	10,000	20,000
	564,488	850,234

09. Other gains/(losses)

	2017	2016
	(£)	(£)
Changes in the fair value of derivative financial instruments	-	6,619
	-	6,619

10. Contribution by ultimate parent undertaking

The Welsh Ministers, acting through the Welsh Government, the ultimate parent undertaking, have contributed £1,931,605 (2016: £2,399,950) towards the administrative expenses of Finance Wales plc (the Company). This contribution is treated as grant income and is released to the income statement as it is incurred. These amounts are non-interest bearing and are non-repayable.



Notes to the consolidated financial statements year ended 31 March 2017.

11. Tax

	2017	2016
	(£)	(£)
Current taxation		
UK corporation tax charge for the year	-	-

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

	2017	2016
	(£)	(£)
Profit/(loss) on ordinary activities before tax	13,374,978	(1,336,066)
Tax at 20% (2016: 21%) thereon	2,674,995	(267,213)
Factors affecting charge for the year		
Expenses not deductible	856,384	24,582
Deferred tax not recognised	(645,802)	-
Losses arising in the year not recognised	-	541,719
Partnership Share	392,835	389,499
Non-taxable income	(4,517,487)	(761,418)
Effects of gains (including rollover relief)	-	72,831
Chargeable gains	1,258,421	-
Items charged elsewhere (e.g. extraordinary reserves) Group relief	(19,346)	-
Total taxation charge	-	-

A deferred tax asset of £6,843,392 (2016: asset of £7,522,296) has not been recognised in respect of timing differences relating to non-trade financial losses, excess management expenses, accrued pension costs and impairments in respect of investments in associates. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

From 1 April 2016, the main rate of corporation tax reduced to 20%. In March 2016, the government announced further reductions in the main rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. These changes were substantively enacted in September 2016. The reduction in rate is not anticipated to materially affect the future tax charge of the Company.

The Group has made an overall profit of £13,374,978 during the period (2016: loss of £1,336,066). The release of ERDF grant income of £17,941,130 (2016: £1,728,918) has been a significant contributing factor. This income is non-taxable, and hence the Group has incurred no corporation tax charge during the period.

Notes to the consolidated financial statements year ended 31 March 2017.



12. Property, plant and equipment

Group and company

	2017	2016
	(£)	(£)
Fixtures and fittings		
Cost		
At 1 April	1,336,598	1,359,990
Additions	134,581	11,013
Disposals	-	(34,405)
At 31 March	1,471,179	1,336,598
Accumulated depreciation		
At 1 April	553,895	323,634
Charge for the year	513,795	264,666
Disposals	-	(34,405)
At 31 March	1,067,690	553,895
Net book value		
At the end of the financial year	403,489	782,703
At the beginning of the financial year	782,703	1,036,356

13. Investments in associates

Investments in associates are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* rather than the equity method under the exemption given in IAS 28 to venture capital organisations.

	2017	2016
	(£)	(£)
Investments carried at fair value through profit or loss		
Beginning of year	3,051,375	2,935,261
Reclassified from associates to available for sale assets	(3,509,866)	(354,698)
Additions in year	-	111
Impairment losses	844,505	470,701
End of year	386,014	3,051,375
Movement in impairment recognised to date		
Balance at the beginning of the year	968,491	1,439,192
Reclassifications	(701,973)	(354,698)
Impairment (gains) recognised	(142,532)	(116,003)
Balance at the end of the year	123,986	968,491

Notes to the consolidated financial statements year ended 31 March 2017.

14. Available-for-sale financial assets

(a) Available-for-sale investments carried at fair value	2017	2016
	(£)	(£)
There are no available-for-sale assets classified as current		
Available-for-sale investments carried at fair value		
Equity investments	51,350,055	37,582,037
Creative IP fund investment	8,706,270	8,813,827
Less impairment	(13,785,892)	(12,222,918)
	46,270,433	34,172,946

Movement in impairment of available-for-sale investments carried at fair value	2017	2016
	(£)	(£)
Available-for-sale investments		
Balance at the beginning of the year	12,222,918	12,346,323
Impairment losses/(gains) recognised	1,562,974	(123,405)
Balance at the end of the year	13,785,892	12,222,918

(b) Available-for-sale investments carried at cost	2017	2016
	(£)	(£)
Available-for-sale investments carried at cost		
Equity investments	34,978,753	33,336,329
Less impairment	(20,930,283)	(20,600,551)
	14,048,470	12,735,778
Total investments	60,318,903	46,908,724

Movement in impairment of available-for-sale investments carried at cost	2017	2016
	(£)	(£)
Available-for-sale investments		
Balance at the beginning of the year	20,600,551	23,276,637
Impairment losses recognised	4,201,249	1,030,638
Amounts written off as uncollectable	(3,871,517)	(3,706,724)
Balance at the end of the year	20,930,283	20,600,551

Notes to the consolidated financial statements year ended 31 March 2017.

15. Other financial assets

Trade and other receivables	2017	2016
	(£)	(£)
Current assets		
Trade debtors	39,593	114,194
	39,593	114,194
Loans receivable carried at amortised cost	27,465,431	20,994,833
Impairment	(5,116,696)	(3,750,780)
	22,348,735	17,244,053
Other debtors	865,359	815,323
Prepayments	430,236	384,833
	23,683,923	18,558,403
Non-current assets		
Loans receivable carried at amortised cost	118,234,870	107,694,704
Shared equity loans carried at fair value	180,960,332	110,031,772
Impairment	(25,153,338)	(18,470,580)
	274,041,864	199,255,896
Other debtors	216,311	20
	274,258,175	199,255,916

The Group enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is five years. The interest rate inherent in the loans is fixed at the contract date for all of the loan term. The average effective interest rate contracted is approximately 8.42% per annum (2016: 8.35%).

The loans advanced are a mixture of unsecured and secured loans. Security is over counterparty assets. The maximum exposure to credit risk of loans receivable for the current and prior period is the carrying amount.



Notes to the consolidated financial statements year ended 31 March 2017.

15. Other financial assets (continued)

Before accepting any new customer, the Group follows its investment operating guidelines to assess the potential customer's credit quality and define customer acceptance. Recoverability of loans advanced is reviewed monthly.

Loans receivable disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) continue to be considered recoverable.

Ageing of past due but not impaired loan receivables	2017	2016
	(£)	(£)
30-60 days	12,425	101,379
60-90 days	9,952	31,680
90-120 days	18,363	(12,147)
120+ days	3,681	58,258
	44,421	179,170

Movement in the provision for impairment	2017	2016
	(£)	(£)
Loans receivable		
Balance at the beginning of the year	22,221,360	28,628,751
Impairment losses recognised	9,355,826	877,812
Amounts written off as uncollectable	(1,307,152)	(7,285,203)
Balance at the end of the year	30,270,034	22,221,360

In determining the recoverability of loans receivable the Group considers any change in the credit quality of the loans receivable from the date credit was initially granted up to the reporting date. The concentration of loan receivable credit risk is limited due to the large number of customers who are unrelated.

Ageing of past due and impaired loans receivable	2017	2016
	(£)	(£)
Receivables with <100% impairment		
30-60 days	(40,861)	6,875
60-90 days	14,898	3,002
90-120 days	11,692	2,202
120+ days	23,313	988,351
	9,042	1,000,430
Receivables with 100% impairment	39,302,086	37,484,213
Total	39,311,128	38,484,643

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the consolidated financial statements year ended 31 March 2017.

16. Cash and cash equivalents

These comprise cash in hand and deposits held at call with banks. The carrying amount of these assets approximates their fair value.

	2017	2016
	(£)	(£)
Cash and cash equivalents	120,638,535	173,813,388

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 365 days or less. The carrying amount of these assets is approximately equal to their fair value.

Cash at bank and in hand is restricted to making investments in accordance with the Company's principal investing activities.

The credit risk on liquid funds is limited because, not only are the majority of liquid funds held with the Group's principal bankers – Barclays Bank plc, Lloyds Bank plc and Santander (all banks with high credit ratings assigned by international credit rating agencies) – care is taken to ensure that there is no significant concentration of credit risk with one particular entity.

17. Borrowings

These comprise cash in hand and deposits held at call with banks. The carrying amount of these assets approximates their fair value.

	2017	2016
	(£)	(£)
Bank loans at amortised cost		
Secured	3,600,000	24,300,000
Total borrowings	3,600,000	24,300,000
Amount due for settlement within 12 months	3,600,000	14,600,000
Amount due for settlement after 12 months	-	9,700,000

All borrowings are in sterling.

The bank borrowings are secured by charges on accounts containing uninvested cash and security over the investments of the entity named in the table below.

The Group had two principal bank loans during the year.

	Original value	Drawn in	March 2017 outstanding value
Finance Wales Investments (8) Limited	9,000,000	Jun 14	3,600,000

Repayments of £20,700,000 (2016: £20,400,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at 3.75% above LIBOR rate. The weighted average interest rates paid during the year were 4.06% (2016: 4.00%).

The Finance Wales Investments (6) Limited loan was fully repaid on 31 March 2017.



Notes to the consolidated financial statements year ended 31 March 2017.

18. Other financial liabilities

Trade and other payables	2017	2016
	(£)	(£)
Current liabilities		
Trade payables and accruals	(2,171,525)	(2,032,839)
Other creditors	(854,720)	(1,138,392)
Amounts owed to parent company	(458,624)	(11,150,000)
	(3,484,869)	(14,321,231)
Non-current liabilities		
Amounts owed to parent company	(337,700,000)	(297,400,000)
Other creditors	(271,672)	(269,472)
	(337,971,672)	(297,669,472)

The Group's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade payables approximates their fair value.

There are no trade payables past due and the trade payables and other creditors will be settled within the credit period offered by the counterparty.

Amounts owed to parent company relates to amounts due to the Welsh Government in relation to Financial Transaction Reserve funding. The current balances in respect of Financial Transaction Reserve funding are repayable by 31 March 2040. These borrowings are non-secured and are non-interest bearing.

Notes to the consolidated financial statements year ended 31 March 2017.

19. Retirement benefit schemes

The FW Group operates both a defined contribution and a defined benefit pension plan.

Defined contribution plan

A defined contribution plan is a pension arrangement under which the benefits are linked to the contributions made and the performance of each individual's chosen investments.

Contributions are paid into an independently administered fund. We employ the services of an independent third party to report to us on an annual basis as to the performance of the fund and also as to whether the default investment fund continues to be fit for purpose.

The total cost charged to income of £298,961 (2016: £277,812) represents contributions payable to this scheme by the group at rates specified in the rules of the schemes. As at 31 March 2017, contributions of £23,112 (2016: £21,027) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit plan

A defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent on factors such as age, length of service and pensionable pay. It is not dependent upon actual contributions made by the company or members.

The Group's defined benefit plan is part of the Local Government Pension Scheme, which is a multi-employer funded scheme providing pensions and related benefits on a final salary basis. This plan was closed to new entrants on 28 February 2010. The assets of the scheme are held separately from the assets of the Company and are administered by Rhondda Cynon Taf County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis.

The Company and subsidiary undertaking Finance Wales Investments Limited both participate in the Local Government Pension Scheme and disclosures regarding the Company's and Finance Wales Investments Limited's defined benefit pension schemes are required under the provisions of IAS 19 *Retirement Benefits*, and these are set out below.

FW Group consolidated pension scheme surplus/(deficit)	2017	2016
	(£'000)	(£'000)
Finance Wales plc	(650)	(390)
Finance Wales Investments Limited	(1,480)	376
Net deficit	(2,130)	(14)



Notes to the consolidated financial statements year ended 31 March 2017.

19. Retirement benefit schemes (continued)

The last actuarial valuation was carried out at 31 March 2016 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The major assumptions used for the actuarial valuation of both the Finance Wales plc and Finance Wales Investments Limited pension schemes were:

Key assumptions	2017		2016
	Finance Wales plc	Finance Wales Investments Ltd	
Rate of increases in salaries	3.25%	3.25%	3.40%
Rate of increases in pensions in payment	2.00%	2.00%	1.90%
Rate of increase to deferred pensions	2.00%	2.00%	1.90%
Discount rate	2.60%	2.50%	3.50%
Inflation assumption RPI	3.10%	3.10%	3.00%
Inflation assumption CPI	2.00%	2.00%	1.90%

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. Sample life expectancies at 65 resulting from these mortality assumptions are shown below:

Mortality assumptions	Males		Females	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
Member aged 65 at accounting date	22.8	23.1	24.9	26.0
Member aged 45 at accounting date	25.0	25.3	27.2	28.4

The market value of the assets in the schemes at the balance sheet date for the whole of the Rhondda Cynon Taf County Borough Council Pension Fund were as follows:

Asset allocation	Asset split 2017 %	Asset split 2016 %
Equities	72.6	70.1
Property	5.9	6.4
Government bonds	9.4	9.2
Corporate bonds	10.0	10.6
Cash	2.1	3.7
Total market value	100.0	100.0

Notes to the consolidated financial statements year ended 31 March 2017.

19. Retirement benefit schemes (continued)



Reconciliation of funded status to balance sheet	Finance Wales plc		Finance Wales investments limited	
	2017 (£'000)	2016 (£'000)	2017 (£'000)	2016 (£'000)
Fair value of assets	7,950	6,440	12,110	9,680
Present value of funded defined benefit obligation	(8,600)	(6,830)	(13,590)	(9,210)
(Deficit)/surplus recognised on the balance sheet	(650)	(390)	(1,480)	470
Deferred tax liability	-	-	-	(94)
Net (deficit)/surplus	(650)	(390)	(1,480)	376

Amounts recognised in income statement	Finance Wales plc		Finance Wales investments limited	
	2017 (£'000)	2016 (£'000)	2017 (£'000)	2016 (£'000)
Operating costs				
Current service cost	210	240	390	400
Past service cost	-	310	-	-
Total operating charge	210	550	390	400
Financing cost				
Interest on net defined benefit liability/(asset)	10	20	(30)	-
Pension expense recognised in profit and loss	220	570	360	400

Amounts recognised in other comprehensive income	Finance Wales plc		Finance Wales investments limited	
	2017 (£'000)	2016 (£'000)	2017 (£'000)	2016 (£'000)
Asset gains arising during the period	1,050	10	1,570	20
Liability (losses)/gains arising during the period	(1,330)	370	(3,560)	570
Total actuarial (loss)/gain before deferred tax	(280)	380	(1,990)	590
Deferred tax	-	-	94	(94)
Total actuarial (loss)/gain	(280)	380	(1,896)	496

Notes to the consolidated financial statements year ended 31 March 2017.

19. Retirement benefit schemes (continued)

Changes to the present value of the defined benefit obligation	Finance Wales plc		Finance Wales investments limited	
	2017 (£'000)	2016 (£'000)	2017 (£'000)	2016 (£'000)
Opening defined benefit obligation	6,830	6,630	9,304	8,970
Current service cost	210	240	390	400
Interest expense on defined benefit obligation	240	220	320	300
Contribution by participants	70	100	170	170
Actuarial losses/(gains) on liabilities	1,330	(370)	3,560	(570)
Net benefits paid out	(80)	(300)	(60)	(60)
Past service cost	-	310	-	-
Closing defined benefit obligation	8,600	6,830	13,684	9,210
Deferred tax liability	-	-	(94)	94
Closing defined benefit obligation net of deferred tax	8,600	6,830	13,590	9,304

Changes to the fair value of assets	Finance Wales plc		Finance Wales investments limited	
	2017 (£'000)	2016 (£'000)	2017 (£'000)	2016 (£'000)
Opening fair value of assets	6,440	5,850	9,680	8,840
Interest income on assets	230	200	350	300
Re-measurement gains on assets	1,050	10	1,570	20
Contributions by employers	240	580	400	410
Contributions by participants	70	100	170	170
Net benefits paid out	(80)	(300)	(60)	(60)
Closing fair value of assets	7,950	6,440	12,110	9,680
Net (deficit)/surplus	(650)	(390)	(1,480)	376

Notes to the consolidated financial statements year ended 31 March 2017.

20. Deferred income

	2017	2016
	(£)	(£)
Balance at 1 April	500,000	2,228,918
Grant received in the year	26,313,786	2,399,950
Grant released to income statement in the year	(19,872,735)	(4,128,868)
Balance at 31 March	6,941,051	500,000

	Current		Non-current	
	2017	2016	2017	2016
	(£)	(£)	(£)	(£)
Deferred income	-	-	6,941,051	500,000

The deferred revenue above relates to grants received by Finance Wales plc from the ERDF and the Welsh Government which Finance Wales plc has passed onto its subsidiaries – Finance Wales Investments (3) Limited and Finance Wales Investments (14) Limited – to invest within the criteria of the grants. The creditors recognise Finance Wales plc's liability to repay to the ERDF and the Welsh Government any grant received not properly invested within the prescribed time limit. The creditors are matched by corresponding debtors due from Finance Wales Investments (3) Limited and Finance Wales Investments (14) Limited (see note 31) for the uninvested grant income. Both the creditors and debtors are reduced when Finance Wales Investments (3) Limited or Finance Wales Investments (14) Limited make a qualifying investment.



Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2, Accounting Policies to the financial statements.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

Gearing ratio

The gearing ratio at the year-end is as follows:

	2017 (£)	2016 (£)
	(£)	(£)
Debt	3,600,000	24,300,000
Cash and cash equivalents	(120,638,535)	(173,813,388)
Net funds	(117,038,535)	(149,513,388)
Equity	125,561,449	105,565,806
Net debt to equity ratio	(0.93)	(1.42)

Debt is defined as long-term and short-term borrowings as detailed in note 17. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Categories of financial instruments

The Group's financial instruments comprise bank loans, investments in SMEs in the form of either loans or equity, derivative financial instruments, and trade receivables and payables arising from its operations. The purpose of the instruments is to raise finance for the Group, and to invest in SMEs in Wales.

The Group seeks to minimise the effects of financial risks by using derivative financial instruments to hedge known exposures. The interest rates on bank loans are managed through the use of interest rate swaps. The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

The accounting policy note describes how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by class of financial instrument to which they are assigned and by the measurement basis.

Carrying value as at 31 March 2017	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
		(£)	(£)	(£)	(£)	(£)
Assets						
Cash and cash equivalents		120,638,535	-	-	-	120,638,535
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	386,014	386,014
Other investments						
Measured at market price	i	-	-	27,837,975	-	27,837,975
Measured at fair value using other methods	ii	-	-	18,432,458	-	18,432,458
Measured at cost less credit risk adjustment	iii	-	-	14,048,470	-	14,048,470
Loans to customers	iv	-	115,430,267	-	-	115,430,267
Shared-equity loans	vii	-	69,800,999	-	111,159,333	180,960,332
Other receivables	iv	-	1,551,499	-	-	1,551,499
Total financial assets		120,638,535	186,782,765	60,318,903	111,545,347	479,285,550
Non-financial assets						403,489
Total assets						479,689,039
Liabilities						
Interest-bearing loans and borrowings	v	3,600,000	-	-	-	3,600,000
Amounts due to ultimate parent	v	337,700,000	-	-	-	337,700,000
Trade and other payables	v	3,756,541	-	-	-	3,756,541
Deferred income	v	6,941,051	-	-	-	6,941,051
Retirement benefit obligations	v	2,130,000	-	-	-	2,130,000
Total financial liabilities		354,127,592	-	-	-	354,127,592
Reserves						125,561,447
Total reserves and liabilities						479,689,039

- a) During the year, assets with a fair value of £2,407,984 as at 31 March 2016 were transferred from Level 2 of the fair value hierarchy to Level 1 of the fair value hierarchy due to becoming quoted on AIM. These assets have been fair valued at £10,835,149 as at 31 March 2017 based on their market value at the balance sheet date.
- b) During the year, equity investments with a cost of £3,509,866 and accumulated impairment of £3,509,866 were reclassified from associates to non-associates.



Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

Carrying value as at 31 March 2016	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
		(£)	(£)	(£)	(£)	(£)
Assets						
Cash and cash equivalents		173,813,388	-	-	-	173,813,388
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	3,051,375	3,051,375
Other investments						
Measured at market price	i	-	-	21,435,944	-	21,435,944
Measured at fair value using other methods	ii	-	-	12,737,002	-	12,737,002
Measured at cost less credit risk adjustment	iii	-	-	12,735,778	-	12,735,778
Loans to customers	iv	-	106,468,177	-	-	106,468,177
Shared-equity loans	vii	-	-	-	110,031,772	110,031,772
Other receivables	iv	-	1,314,370	-	-	1,314,370
Total financial assets		173,813,388	107,782,547	46,908,724	113,083,147	441,587,806
Non-financial assets						782,703
Total assets						442,370,509
Liabilities						
Interest-bearing loans and borrowings	v	24,300,000	-	-	-	24,300,000
Amounts due to ultimate parent	v	297,400,000	-	-	-	297,400,000
Trade and other payables	v	14,590,703	-	-	-	14,590,703
Deferred income	v	500,000	-	-	-	500,000
Retirement benefit obligations	v	14,000	-	-	-	14,000
Total financial liabilities		336,804,703	-	-	-	336,804,703
Reserves						105,565,806
Total reserves and liabilities						442,370,509

Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

The following methods and assumptions have been applied in determining fair values.

Note:

- i) The fair value of investments in quoted securities in an active market is the market price on the balance sheet date (level 1 hierarchy as defined below).
- ii) For investments in non-quoted securities, other methods are used to determine fair value, following a recent transactional event, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser, (level 3 hierarchy as defined below).
- iii) Where the fair value of a financial asset cannot be reliably estimated, the fair value of the financial asset is approximated at cost adjusted for credit risk (see note 2, Financial Instruments, Impairment of Financial Assets).
- iv) Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IAS 39.
- v) The fair value of amounts owed to our ultimate parent, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date. Financial Transaction Reserve (FTR) funding is not carried at fair value (see Liquidity Risk Management section for fair value consideration of FTR funding).
- vi) The fair value of the HTBW loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate funding rate. A number of observable inputs have been used in the calculation of the fair value which has resulted in a £4,113,800 gain (2016: £nil gain or loss) on the fair value of the shared equity loan book. The model does, however, use the House Price Index (HPI) as a key input. There is no observable data for the HPI for the 25 year duration of the model. Sensitivity analysis on this input indicates a range of possible outcomes, and highlights the sensitivity of this particular input on the result. A move of 1% above or below the HPI rate used could result in an increase in value of £10.1m or a decrease in value of £9.1m.

During the year, the Group has re-assessed the classification and disclosure of assets within each of the fair value hierarchies, and has determined that assets previously disclosed within Level 2 should now be shown within Level 3. A reconciliation of movements between Levels is provided.

The Group hierarchy for measuring at fair value disclosures is as follows:

- | Level | Hierarchy for fair value disclosures |
|-------|--|
| 1. | Quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| 2. | Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. |
| 3. | Inputs for the asset or liability that are not based on observable market data. For investments in non-quoted securities, the observable inputs are derived from recent transactional events, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser. |



Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

Reconciliation of Level 3 measurements of financial assets	FVTPL Shared-equity loan book		FVTPL AFS Assets	
	2017 (£)	2016 (£)	2017 (£)	2016 (£)
Balance 1 April	110,031,772	48,716,568	12,735,778	-
Additions	-	61,945,971	6,842,050	-
Disposals	(2,986,240)	(630,767)	(1,697,670)	-
Revaluations	4,113,800	-	(4,163,065)	-
Transfers into Level 3	-	-	19,149,849	-
Balance 31 March	111,159,332	110,031,772	32,866,942	-

Other price risks

The Group is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. Equity investments designated as available-for-sale are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates, and credit risks.

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts to fix the interest rate on the floating rate loans.

Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

Interest rate sensitivity analysis

The Group's interest rate risk arises due to commercial lending being made on fixed rate contracts, whereas borrowings are all at a variable rate. There is a natural hedge in so far as uninvested cash is invested in variable rate treasury deposits, but a risk arises, outside this natural hedge, when borrowings exceed the uninvested cash on treasury deposit. Where borrowings are to support our investments in equity instruments, the group is not protected against uncertain cash flows. At 31 March 2017 the cash on treasury deposit exceeded borrowings by £117,038,535 (2016: £149,513,388) and therefore there was no exposure (2016: net exposure £nil). The following table details the Group's sensitivity to a 1% increase in interest rates for the year to 31 March.

	2017	2016
	(£)	(£)
Increase in interest payable	(140,000)	(290,000)
Increase in interest receivable	1,472,000	1,586,000
Increase in profit / decrease in loss	1,332,000	1,296,000

Credit risk management

The Group's credit risk is primarily attributable to its loan receivables, and the valuation of its equity investments. As noted in the fair value of financial instrument section above, financial assets may be measured at cost less an allowance for impairment. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk as its exposure is spread over a large number of counterparties and companies.

The following table details the Group's sensitivity to a 1% reduction in the valuation of all financial assets, excluding cash and cash equivalents, at the year-end.

	2017	2016
	(£)	(£)
Reduction in profit / increase in loss	3,586,000	2,678,000



Notes to the consolidated financial statements year ended 31 March 2017.

21. Financial instruments (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financial Transaction Reserve Funding

Financial Transaction Reserve Funding (FTR) is provided by the Welsh Government on an interest free basis. The fair value of the borrowings as at the balance sheet date using a discount rate that is in line with current market rates of interest be £213,219,696, which represents a decrease of £124,480,304 in comparison to the carrying value.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 6 months	6 months – 1 year	1 – 2 years	2 – 5 years	5+ years	Total
		(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
2016							
Variable interest rate instruments	4.00%	385	15,019	2,124	8,239	-	25,767
		385	15,019	2,124	8,239	-	25,767
2017							
Variable interest rate instruments	4.06%	2,248	1,415	-	-	-	3,663
		2,248	1,415	-	-	-	3,663

With the exception of financial assets as disclosed in note 15, financial assets are current and are non-interest bearing.

Notes to the consolidated financial statements year ended 31 March 2017.

22. Called up share capital

	2017	2016
	(£)	(£)
Authorised and allotted		
50,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and part paid		
50,000 ordinary shares, 25p part paid	12,500	12,500

The Company has one class of £1 ordinary shares which carry no right to fixed income. All shares have equal rights in terms of voting and dividends.

23. Operating lease arrangements

	2017	2016
	(£)	(£)
Payments under operating leases recognised as an expense in the year	373,719	348,643

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of office properties which fall due as follows:

	2017	2016
	(£)	(£)
Within one year	287,356	286,198
In the second to fifth years inclusive	847,095	847,095
After five years	1,588,129	1,796,970
	2,722,580	2,930,263

The operating lease payments represent rentals payable by the Group for its office properties. None of the figures in the above table has been discounted to present value.



Notes to the consolidated financial statements year ended 31 March 2017.

24. Notes to the consolidated cash flow statement

	2017	2016
	(£)	(£)
Profit / (loss) for the year	13,374,978	(1,336,066)
Adjustments for:		
Investment revenues	(437,074)	(668,026)
Other gains and losses	(4,113,800)	(6,619)
Finance costs	564,488	850,234
Depreciation of property, plant and equipment	513,794	264,666
(Gain) / loss on sale of available-for-sale financial assets	(3,294,627)	445,517
Reversal of deferred income revenue	(17,941,130)	(1,728,918)
Impairments against loans receivable	8,456,304	2,180,809
Impairments against financial assets classified as available-for-sale	4,745,661	702,611
Impairments against financial assets classified as fair value through profit or loss	(142,532)	(116,004)
Operating cash flows before changes in net operating assets	1,726,062	588,204
Increase in receivables	(767,432)	550,201
Increase in payables	29,694,234	150,873,764
Proceeds on disposal of available-for-sale investments	6,404,616	3,946,698
Acquisition of investment in available-for-sale financial asset	(11,030,834)	(14,647,345)
Net loans made	(83,737,318)	(94,940,489)
Cash consumed during operations	(57,710,672)	46,371,033

Notes to the consolidated financial statements year ended 31 March 2017.

25. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions between the Company and its Directors are disclosed in note 6, Information Regarding Directors and Employees.

Transactions between the Company and its ultimate parent are disclosed in note 18, Other Financial Liabilities.

Trading transactions

Transactions between the Group and its associates, which are not members of the Group, during the year are as follows:

Sale of services		Loans to related parties		Equity investments in related parties	
2017	2016	2017	2016	2017	2016
(£)	(£)	(£)	(£)	(£)	(£)
14,640	27,540	270,289	245,936	510,000	4,374,407

Sales of services to related parties were made at the Group's usual prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

26. Ultimate controlling party

Finance Wales plc regards the Welsh Ministers, acting through the Welsh Government, as the ultimate controlling party. A management arrangement sets out the accountability and reporting arrangements between Finance Wales plc and its parent organisation.



Company balance sheet as at 31 March 2017

		2017	2016
		(£)	(£)
Fixed assets			
Tangible assets	12	403,489	782,703
Investments	30	430,325,417	362,188,305
		430,728,906	362,971,008
Current assets			
Debtors: due within one year	31	643,055	646,724
Cash at bank and in hand		2,428,970	47,262,404
		3,072,025	47,909,128
Creditors: amounts falling due within one year	32	(705,904)	(26,047,517)
Net current assets		2,366,121	21,861,611
Total assets less current liabilities		433,095,027	384,832,619
Creditors: amounts falling due after more than one year	33	(348,013,350)	(301,239,938)
Net assets excluding pension liability		85,081,677	83,592,681
Pension liability	19	(650,000)	(390,000)
Net assets including pension liability		84,431,677	83,202,681
Capital and reserves			
Public equity		112,240,780	110,752,334
Called up share capital	35	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(27,831,703)	(27,572,253)
Shareholders' funds		84,431,677	83,202,681

The Company reported a profit for the financial year ended 31 March 2017 of £20,550 (2016: loss of £540,310).

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 28 June 2017.

Signed on its behalf by



G Thorley
Director

Notes to the company financial statements year ended 31 March 2017



Statement of changes in equity for the year ended 31 March 2017

	Public equity	Share capital	Capital reserve	Profit & loss account	Total 2017	Total 2016
	(£)	(£)	(£)	(£)	(£)	(£)
Balance at 1 April	110,752,334	12,500	10,100	(27,572,253)	83,202,681	90,276,991
Profit / (loss) for the financial year	-	-	-	20,550	20,550	(540,310)
Actuarial (loss) / gain for the year	-	-	-	(280,000)	(280,000)	380,000
Increase / (decrease) in public equity	1,488,446	-	-	-	1,488,446	(6,914,000)
Balance at 31 March	112,240,780	12,500	10,100	(27,831,703)	84,431,677	83,202,681

27. Accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention and under the going concern assumption. Further details of the directors' considerations in relation to going concern are included in the Director's Report on page 62.

Finance Wales Investments plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and registered in Wales. The address of the registered office is given at the start of this report.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The principal accounting policies are summarised below. These have been applied consistently throughout the year and the preceding year.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Tangible fixed assets are depreciated on a straight-line basis over their expected useful economic lives. The rates of depreciation are as follows:

Fixtures and fittings	3 to 4 years
Computer Equipment	3 to 5 years

Notes to the company financial statements year ended 31 March 2017.

27. Accounting policies (continued)

Investments

Equity investments are treated as fixed assets and stated in the balance sheet at cost less any provision for impairment. Accounts identified as being in difficulty are specifically provided and a general provision is made on all other accounts.

Loans are held as current assets and are valued at the lower of cost and net realisable value.

Although the Company may hold more than 20% of the equity of certain companies, the directors consider that, in view of the current investment objectives of the Company and Finance Wales having no significant influence over the day-to-day operations of those companies, it would not be appropriate to treat these holdings as investments in associated undertakings.

Revenue Recognition

Turnover represents holding fund fees receivable from group companies. Such fees are recognised in the period in which they arise.

European Regional Development Fund ("ERDF") Grant Income

Grant income receivable in support of revenue expenditure is recognised in the income statement as utilised in accordance with the conditions applicable in the offer documentation.

Where grants for the partial funding of investments are received in advance of defrayal, a liability to repay the grants is recognised until such time as the cash is utilised in accordance with the terms of the offer documentation.

Grants for the partial funding of investments which are received in advance of defrayal are treated as deferred income. Such deferred income is amortised to the income statement when investments are made and the conditions set out in the offer documentation have been met. Income taken is equal to the level of grant utilised supporting investments.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the company financial statements year ended 31 March 2017.

27. Accounting policies (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within Finance Wales Investments Limited (Small Loans Fund), Finance Wales Investments (3) Limited (Rescue and Restructuring Finance), Finance Wales Investments (4) Limited (the Creative Industries Fund), Finance Wales Investments (5) Limited (the Interim Fund) and Finance Wales Investments (6) Limited (the JEREMIE Fund). Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder was classified as Grant in Aid or Core Funding for Investment purposes.

The funding was to invest in the long-term sustainability of Finance Wales and within the Welsh Government's own accounting arrangements the funds were regarded as being an investment. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Pensions

The Company operates a defined benefit pension scheme which is administered by Rhondda Cynon Taf County Borough Council. The Company accounts for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the Company's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The Company's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the statement of comprehensive income.



Notes to the company financial statements year ended 31 March 2017.

28. Information regarding directors and employees

	2017	2016
	(£)	(£)
Directors' emoluments		
Emoluments	417,494	347,748
Pension costs	25,285	351,824
	442,779	699,572
Remuneration of highest paid director	159,109	403,827

Two directors of the company and four directors of subsidiary companies were members of the defined benefit pension scheme (2016: three and three).

	2017	2016
	(£)	(£)
Aggregate payroll costs (excluding directors)		
Wages and salaries	1,755,320	1,584,917
Social security costs	217,235	145,451
Pension costs	231,512	232,222
	2,204,067	1,962,590

	2017	2016
	(No.)	(No.)
Average number of persons employed (excluding directors) – administration	46	44

29. Profit for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year amounted to £20,550 (2016: loss of £540,310). Auditor's remuneration for audit services for the Company was £25,550 (2016: £25,000) and for non-audit services for the Company was £25,500 (2016: £33,299).

Notes to the company financial statements year ended 31 March 2017.

30. Investments

	Shares in subsidiary undertaking	Investments in and loans to subsidiary undertakings and joint venture	Total 2017	Total 2016
	(£)	(£)	(£)	(£)
At 1 April	155,015	362,033,290	362,188,305	263,071,638
Additions	9	90,862,103	90,862,112	99,250,000
Disposals	-	(22,725,000)	(22,725,000)	(133,333)
At 31 March	155,024	430,170,393	430,325,417	362,188,305

The Company's investments in group companies relate to:

Subsidiaries			
Finance Wales Investments Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (2) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (3) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (4) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (5) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (6) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (8) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (9) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (10) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (11) Limited	United Kingdom	100%	£1 ordinary shares
Help to Buy (Wales) Limited	United Kingdom	100%	£1 ordinary shares
FW Capital Limited	United Kingdom	100%	£1 ordinary shares
NE Growth 500 LP Limited	United Kingdom	100%	£1 ordinary shares
FW Development Capital (North West) GP Ltd	United Kingdom	100%	£1 ordinary shares
TVUPB Limited	United Kingdom	100%	£1 ordinary shares
NW Loans Limited	United Kingdom	100%	£1 ordinary shares
xēnos – The Wales Business Angel Network Limited	United Kingdom	100%	£1 ordinary shares
North West Loans Limited	United Kingdom	100%	£1 ordinary shares
North East Property GP Ltd - General Partner	United Kingdom	100%	£2 ordinary shares
Finance Wales Investments (12) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (14) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (15) Limited	United Kingdom	100%	£1 ordinary shares
FWC Loans (NW) Limited	United Kingdom	100%	£1 ordinary shares
FWC Loans (TVC) Limited	United Kingdom	100%	£1 ordinary shares

The registered offices of the subsidiaries noted above is 1 Capital Quarter, Tyndall Street, Cardiff, CF10 4BZ.

The activities of the subsidiaries consist of the provision of financial services to small and medium sized enterprises and fund management activities.



Notes to the company financial statements year ended 31 March 2017.

31. Debtors

	2017	2016
	(£)	(£)
Debtors due within one year:		
Trade debtors	34,871	9,104
Amount owed by group undertakings	125,000	193,996
Other debtors	52,948	70,455
Prepayments and accrued income	430,236	373,169
	643,055	646,724

32. Creditors: amounts falling due within one year

	2017	2016
	(£)	(£)
Trade creditors	493,942	218,346
Bank loans	-	14,600,000
Other creditors	86,962	79,171
Amounts due to ultimate parent	125,000	11,150,000
	705,904	26,047,517

33. Creditors: amounts falling due after more than one year

	2017	2016
	(£)	(£)
Amounts owed to group undertakings	2,889,000	2,889,000
Amount due to ultimate parent	337,700,000	297,400,000
Accruals and deferred income	7,424,350	950,938
	348,013,350	301,239,938

Notes to the company financial statements year ended 31 March 2017.

34. Borrowings

	2017	2016
	(£)	(£)
Secured borrowings are repayable as follows:		
Within one year	-	14,600,000
	-	14,600,000
Total borrowings	-	14,600,000

The loan received for making investments in Finance Wales Investments (6) Limited is repayable in line with the original repayment schedule. Repayments of £14,600,000 (2016: £15,100,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at rates between 0.85% and 2.55% above LIBOR rate.

35. Called up share capital

	2017	2016
	(£)	(£)
Authorised and allotted		
50,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and part paid		
50,000 ordinary shares, 25p part paid	12,500	12,500

The Company has one class of £1 ordinary shares which carry no right to fixed income. All shares have equal rights in terms of voting and dividends.



