

DBW INVESTMENTS (9) LIMITED

**Formerly Finance Wales Investments (9)
Limited**

Annual Report and Financial Statements

For the year ended 31 March 2018



ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley
M Owen
D Staziker (appointed 1 April 2018)
K O'Leary (resigned 31 March 2018)

SECRETARY

J Oates

REGISTERED OFFICE

Unit J,
Yale Business Village,
Ellice Way,
Wrexham,
LL13 7YL.

BANKERS

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

AUDITOR

Deloitte LLP
Statutory Auditor
Cardiff
United Kingdom

DIRECTORS' REPORT

The directors present their Annual Report and Financial Statements for the year ended 31 March 2018.

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the Company is the holding of a fund to provide investment into Life Sciences businesses.

The fund will eventually comprise £100 million consisting of a mixture of both public and private funding. Current funding in the sum of £50 million (2017 - £50 million) has been raised from the Welsh Government.

Following a competitive procurement exercise, Arthurian Life Sciences Limited was appointed as fund manager. A limited partnership, the Wales Life Sciences Investment Fund LP, was set up to house fund's investments. DBW Investments (9) Limited holds 80% of the share capital in the limited partnership. Further details can be seen in note 7.

During the year, the Fund Manager, Arthurian Life Sciences Limited, made no equity investments (2017 – no equity investments). These investments are shown within the financial statements of the limited partnership, the Wales Life Sciences Investment Fund LP, and not within this set of financial statements.

The directors expect the general level of activity to remain consistent with 2018 in the forthcoming year.

On 6th October 2017 the Company changed its registered name from Finance Wales Investments (9) Limited to DBW Investments (9) Limited.

GOING CONCERN

The Development Bank of Wales Group comprises Development Bank of Wales plc and its subsidiaries, which provide financial services to SMEs.

The directors reviewed the Group's working capital requirements and funds available for investment in the 18 months ending 30 September 2019. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2019 and that there were no performance issues with any of the Group's fund management contracts. The directors were also satisfied that there would be sufficient surplus generated by the services business and associated working capital to cover all operating expenses to 30 September 2019 after allowing for the cessation of Welsh Ministers revenue support from 31 March 2018. The directors also noted that discussions were taking place with the Welsh Ministers on additional funds to invest.

The directors concluded that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

DIRECTORS

The directors of the Company, who served throughout the financial year and to the date of this report, unless stated otherwise, are as shown on page 1.

DIRECTORS' REPORT

AUDITOR

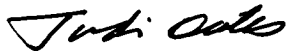
In the case of each of the persons who are directors of the Company at the date when this report is approved:

- 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 have 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 section 418 of the Companies Act 2006.

The Group has a policy of tendering the external audit every five years. The last time the audit was tendered was in 2016 when the incumbents Deloitte LLP were reappointed.

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



J Oates
Company Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (9) LIMITED**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of DBW Investments (9) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (9) LIMITED**

Other information (continued)

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:


- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (9) LIMITED**

Use of our report

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.



David Heaton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

18 September 2018

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2018

| | Note | 2018 £ | 2017 £ |
|--|------|------------------------|------------------------|
| Administrative Expenses: | | | |
| Other administrative expenses | 4 | (21,330) | (56,369) |
| LOSS BEFORE FINANCE INCOME | | <u>(21,330)</u> | <u>(56,369)</u> |
| Interest receivable and similar income | 3 | 636 | 43,201 |
| LOSS BEFORE TAXATION | | <u>(20,694)</u> | <u>(13,168)</u> |
| Tax on loss | 6 | - | - |
| LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY | | <u><u>(20,694)</u></u> | <u><u>(13,168)</u></u> |

All activities derive from continuing operations.

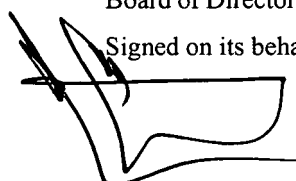
There have been no recognised gains and losses for the current or prior financial year other than as stated in the profit and loss account. Accordingly, no separate Statement of Comprehensive Income is presented.

BALANCE SHEET
As at 31 March 2018

| | Note | 2018 £ | 2017 £ |
|--|------|---------------------|---------------------|
| FIXED ASSETS | | | |
| Available-for-sale financial assets | 7 | 5,000 | 5,000 |
| | | <u>5,000</u> | <u>5,000</u> |
| CURRENT ASSETS | | | |
| Debtors | | | |
| - due within one year | 8 | - | 31,890 |
| - due after one year | 8 | 49,401,284 | 49,811,761 |
| Cash at bank and in hand | | 495,248 | 5,070,885 |
| | | <u>49,896,532</u> | <u>54,914,536</u> |
| CREDITORS: Amounts falling due within one year | 9 | <u>(5,750)</u> | <u>(5,003,060)</u> |
| NET CURRENT ASSETS | | <u>49,890,782</u> | <u>49,911,476</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>49,895,782</u> | <u>49,916,476</u> |
| CREDITORS: Amounts falling due after more than one year | 9 | <u>(42,400,000)</u> | <u>(42,400,000)</u> |
| NET ASSETS | | <u>7,495,782</u> | <u>7,516,476</u> |
| CAPITAL AND RESERVES | | | |
| Public equity | | 7,600,000 | 7,600,000 |
| Called up share capital | 11 | 1 | 1 |
| Profit and loss account | | <u>(104,219)</u> | <u>(83,525)</u> |
| TOTAL SHAREHOLDER'S FUNDS | | <u>7,495,782</u> | <u>7,516,476</u> |

The financial statements of DBW Investments (9) Limited, registered number 07986371, were approved by the Board of Directors and authorised for issue on 18 September 2018.

Signed on its behalf by



G Thorley
Director

STATEMENT OF CHANGES IN EQUITY
As at 31 March 2018

| | Public equity £ | Called up share capital £ | Profit and loss account £ | Total £ |
|---------------------------------------|-----------------------|------------------------------------|---------------------------------|------------------|
| Balance at 1 April 2016 | 7,600,000 | 1 | (70,357) | 7,529,644 |
| Total comprehensive loss for the year | - | - | (13,168) | (13,168) |
| Balance at 31 March 2017 | <u>7,600,000</u> | <u>1</u> | <u>(83,525)</u> | <u>7,516,476</u> |
| Total comprehensive loss for the year | - | - | (20,694) | (20,694) |
| Balance at 31 March 2018 | <u>7,600,000</u> | <u>1</u> | <u>(104,219)</u> | <u>7,495,782</u> |

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. ACCOUNTING POLICIES

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

Basis of accounting

DBW Investments (9) Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and is registered in England & Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 2.

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 financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis. In addition, for financial reporting purposes fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of a statement of cash flows, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Development Bank of Wales plc. The group financial statements of Development Bank Wales plc are available to the public and can be obtained as set out in note 12.

Amendments to IFRSs and the new interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. ACCOUNTING POLICIES (continued)

Amendments to IFRSs and the new interpretation that are mandatorily effective for the current year (continued)

| | |
|---|---|
| Annual improvements to IFRSs 2014 – 2016 cycle. | The Company has adopted the amendments to IFRSs included in the <i>Annual Improvements to IFRSs 2014-2016 Cycle</i> for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the company. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. |
|---|---|

Going concern

The Development Bank of Wales Group comprises Development Bank of Wales plc and its subsidiaries, which provide financial services to SMEs.

The directors reviewed the Group's working capital requirements and funds available for investment in the 18 months ending 30 September 2019. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2019 and that there were no performance issues with any of the Group's fund management contracts. The directors were also satisfied that there would be sufficient surplus generated by the services business and associated working capital to cover all operating expenses to 30 September 2019 after allowing for the cessation of Welsh Ministers revenue support from 31 March 2018. The directors also noted that discussions were taking place with the Welsh Ministers on additional funds to invest.

The directors concluded that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Taxation

Current tax

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 by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the relevant instrument.

Financial assets

Available-for-sale financial assets

The Company has investments in unlisted shares that are not traded in an active market but are classified as AFS financial assets and stated at fair value because the directors consider that fair value can be reliably measured. Fair value is determined in the manner described in note 10. 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 Company's right to receive the dividends is established.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 Company'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.

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised 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.

Other financial liabilities

Other financial liabilities 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. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Related party transactions

In accordance with the exemption conferred by paragraph 8 (j) of FRS 101 "Reduced Disclosure Framework" the Company has not disclosed transactions with other Group companies, where 100% of the voting rights are controlled by the Group.

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. 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 Development Bank of 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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1 above, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 Company's accounting policies

The directors do not consider there to be any critical accounting judgements that could cause a material difference compared to the figures as disclosed in the Annual Report and Financial Statements.

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

Development Bank of Wales operates a prudent approach to the provisioning against financial assets primarily including 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 the investment in the Wales Life Science Investment Fund ("WLSIF")

In February 2013, the Group invested, as a limited partner, £50m of funds received from the Welsh Ministers into the WLSIF. The investment is held at amortised cost and in accordance with its accounting policy in respect of the valuation of financial assets, the Group considers the value of its £50m investment as at the balance sheet date and will adjust its holding value if there is objective evidence of an impairment.

Arthurian Life Sciences Limited ("ALS") are the procured fund manager for the WLSIF. During 2016, ALS was acquired by Arix Bioscience plc ("Arix"). During 2017, Arix made a £5.3m investment into the WLSIF. The fund has a total of nine portfolio companies, three of which are quoted with the remainder unquoted and therefore the WLSIF does not have a readily determinable value. This portfolio comprises of companies that are at an early stage of their lives and their valuations can change rapidly as they reach or miss milestones.

In Arix's financial statements for the year ended 31 December 2017, Arix also disclose their judgements, estimates and assumptions in assessing the fair value of their £5.3m investment, which notes these were subject to an external expert review, which focused on the unquoted investments. Arix's auditor identified the £5.3m investment as a key audit matter in its independent auditors' report, disclosing the work they performed to address it.

As described in note 10, the directors use their judgement in reviewing ALS's valuation of the WLSIF at 31 March 2018. This involves reviewing the external expert's valuation report of the WLSIF's unquoted assets as at 31 December 2017, the disclosures in Arix's financial statements from the directors, audit committee and independent auditors' report, the valuation roll forward assumptions from 31 December 2017 to 31 March 2018 and any other publicly available information.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

3. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2018 £ | 2017 £ |
|----------------------|------------|---------------|
| Interest receivable: | | |
| - Bank deposits | 636 | 11,311 |
| - Other interest | - | 31,890 |
| | <u>636</u> | <u>43,201</u> |

Other interest relates to a short term loan made to the Fund Manager. The loan was repaid during the year.

4. AUDITOR'S REMUNERATION

| | 2018 £ | 2017 £ |
|--|--------------|--------------|
| Other administrative expenses include: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual financial statements | <u>3,150</u> | <u>3,060</u> |
| Other services | | |
| Tax compliance | <u>2,600</u> | <u>2,500</u> |

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any emoluments from the Company in the current or the prior financial year. It is not practicable to allocate their remuneration between their services as directors of this Company and other group companies. Further details of directors' remuneration are presented in the financial statements of Development Bank of Wales Plc and DBW FM Limited.

The directors were the only employees of the Company during the current and the prior financial year.

6. TAX ON LOSS

| | 2018 £ | 2017 £ |
|--|-----------------|-----------------|
| Current taxation | | |
| UK corporation tax charge for the year | <u>-</u> | <u>-</u> |
| The charge for the year can be reconciled to the loss in the profit and loss account as follows: | | |
| | £ | £ |
| Loss before tax | <u>(20,694)</u> | <u>(13,168)</u> |
| Tax on loss at standard UK corporation tax rate of 19% (2017: 20%) | (3,932) | (2,634) |
| Effects of: | | |
| Deferred tax not recognised | <u>3,932</u> | <u>2,634</u> |
| Tax charge for the period | <u>-</u> | <u>-</u> |

A net deferred tax asset of £18,030 (2017: £16,600) has not been recognised in respect of unused tax losses and potential gains on available for sale assets.

From 1 April 2017, the main rate of corporation tax reduced to 19%. In March 2016, the government announced further reductions in the main rate of corporation tax to 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| Available-for-sale investments carried at cost | 2018 | 2017 |
|--|-------|-------|
| | £ | £ |
| Equity investments | 5,000 | 5,000 |

The investments included within available for sale investments represent shares in unlisted limited companies or partnerships. The accounting policy on the valuation of these investments is detailed in note 1.

20% or more of the capital is held in the following investment:

| Name | Place of incorporation (or registration) and operation | Proportion of ownership interest % | Proportion of voting power held % |
|--|--|------------------------------------|-----------------------------------|
| Wales Life Sciences Investment Fund LP | UK | 80 | 80 |

The registered office of Wales Life Sciences Investment Fund LP is Life Sciences Hub Wales, 3 Assembly Square, Britannia Quay, Cardiff, CF10 4PL.

Although the Company may hold more than 20% of the equity of the company, the directors consider that, in view of the current investment objectives of the company and Development Bank of Wales having no significant influence over the day-to-day operations of the company, it would not be appropriate to treat the holdings as an investment in an associated undertaking.

8. DEBTORS

| | 2018 | 2017 |
|--|------------|------------|
| | £ | £ |
| Amounts falling due within one year: | | |
| Other debtors | - | 31,890 |
| | - | 31,890 |
| Amounts falling due after more than one year: | | |
| Loans receivable carried at amortised cost | 49,401,284 | 49,811,761 |
| | 49,401,284 | 49,811,761 |

Loans receivable are due from The Wales Life Sciences Investment Fund Limited Partnership, a partnership in which DBW Investments (9) Limited is a Limited Partner. The loans have been made in accordance with the terms of the Limited Partnership Agreement. The loan is interest free, secured on the assets of the partnership and will be repaid using the cash proceeds of the sale of investments held by the partnership.

9. CREDITORS

| | 2018 | 2017 |
|--|------------|------------|
| | £ | £ |
| Amounts falling due within one year: | | |
| Amounts owed to group undertakings | - | 5,000,000 |
| Accruals | 5,750 | 3,060 |
| | 5,750 | 5,003,060 |
| Amounts falling due after more than one year: | | |
| Amounts owed to parent company | 42,400,000 | 42,400,000 |
| | 42,400,000 | 42,400,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

9. CREDITORS (continued)

The Company's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors approximates their fair value. There are no trade creditors past due and the trade creditors and other creditors will be settled within the credit period offered by the counterparty.

Amounts owed to Group undertakings in the prior year related to Financial Transaction Reserve funding previously granted to the Wales Life Sciences Investment Fund being reallocated in March 2017 to the Wales Micro-business Loan Fund, a separate group subsidiary. The funds were transferred during the year.

Amounts owed to parent company relates to amounts due to Development Bank of Wales plc in relation to Financial Transaction Reserve money received from the Welsh Government. No formal repayment terms are in place with the Welsh Government at present however there is no expectation that this will be repaid within the next 25 years. These amounts are not interest bearing.

10. 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 1 to the financial statements.

Capital risk management

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

Categories of financial instruments

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

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 2018 £ | Note | Financial assets and liabilities at amortised cost | Loans and receivables | Financial assets available- for-sale | Total |
|--|------|--|--------------------------|---|-------------------|
| Assets | | | | | |
| Cash and cash equivalents | | 495,248 | - | - | 495,248 |
| Other investments measured at cost less provision | i | - | - | 5,000 | 5,000 |
| Loans to customers | ii | - | 49,401,284 | - | 49,401,284 |
| Other receivables | ii | - | - | - | - |
| Total financial assets | | <u>495,248</u> | <u>49,401,284</u> | <u>5,000</u> | <u>49,901,532</u> |
| Non-financial assets | | | | | - |
| Total assets | | | | | <u>49,901,532</u> |
| Liabilities | | | | | |
| Amounts due to parent | iii | 42,400,000 | - | - | 42,400,000 |
| Amounts due to other group Companies | | - | - | - | - |
| Trade and other payables | iii | 5,750 | - | - | 5,750 |
| Total financial liabilities | | <u>42,405,750</u> | <u>-</u> | <u>-</u> | <u>42,405,750</u> |
| Reserves | | | | | 7,495,782 |
| Total reserves and liabilities | | | | | <u>49,901,532</u> |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

10. FINANCIAL INSTRUMENTS (continued)

| Carrying value as at 31 March 2017 £ | Note | Financial assets and liabilities at amortised cost | Loans and receivables | Financial assets available- for-sale | Total |
|--|------|--|--------------------------|---|--------------------------|
| Assets | | | | | |
| Cash and cash equivalents | | 5,070,885 | - | - | 5,070,885 |
| Other investments | | - | - | - | - |
| Measured at cost less provision | i | - | - | 5,000 | 5,000 |
| Loans to customers | ii | - | 49,811,761 | - | 49,811,761 |
| Other receivables | ii | - | 31,890 | - | 31,890 |
| Total financial assets | | <u>5,070,885</u> | <u>49,843,651</u> | <u>5,000</u> | <u>54,919,536</u> |
| Non-financial assets | | | | | - |
| Total assets | | | | | <u><u>54,919,536</u></u> |
| Liabilities | | | | | |
| Amounts due to parent | iii | 42,400,000 | - | - | 42,400,000 |
| Amounts due to other group Companies | iii | 5,000,000 | - | - | 5,000,000 |
| Trade and other payables | | 3,060 | - | - | 3,060 |
| Total financial liabilities | | <u>47,403,060</u> | <u>-</u> | <u>-</u> | <u>47,403,060</u> |
| Reserves | | | | | <u>7,516,476</u> |
| Total reserves and liabilities | | | | | <u><u>54,919,536</u></u> |

The carrying value of the Company's financial instruments is considered to approximate fair value and hence a separate disclosure of carrying value versus fair value is not presented.

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

Note:

- i) 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 (the method for such an adjustment is described below).
- ii) 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.
- iii) 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.

The Company 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 FINANCIAL STATEMENTS

For the year ended 31 March 2018

10. FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 measurements of financial assets

| | 2018 | 2017 |
|------------------|--------------|--------------|
| | £ | £ |
| Balance 1 April | 5,000 | 5,000 |
| Additions | - | - |
| Disposals | - | - |
| Revaluations | - | - |
| Balance 31 March | <u>5,000</u> | <u>5,000</u> |

Other price risks

The Company is exposed to equity price risks arising from equity investments. Equity investments designated as available-for-sale are held for strategic rather than trading purposes. The Company does not actively trade these investments.

Market risk

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

Credit risk management

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

| | 2018 | 2017 |
|---------------------|----------------|----------------|
| | £ | £ |
| Reduction in profit | <u>494,000</u> | <u>498,000</u> |

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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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.

11. CALLED UP SHARE CAPITAL

| | 2018 | 2017 |
|---|--------------|--------------|
| | £ | £ |
| Authorised and allotted | | |
| 1,000 ordinary shares of £1 each | <u>1,000</u> | <u>1,000</u> |
| Allotted, called up and fully paid | | |
| 1 ordinary share of £1 | <u>1</u> | <u>1</u> |

The Company has one class of ordinary shares which carry no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate parent undertaking is DBW Holdings Limited, a company incorporated in the United Kingdom. Development Bank of Wales plc is the smallest group within which the Company is a member and for which consolidated financial statements are prepared. Welsh Ministers is the largest group within which the group results are consolidated. The registered office address of Development Bank of Wales plc is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL. Copies of the group financial statements of Development Bank of Wales plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays Park, Cardiff, CF10 3NQ.

Development Bank of Wales plc regards the Welsh Ministers, acting through the Welsh Government, as the ultimate controlling party.