

HELP TO BUY (WALES) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2019

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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
MARCH 2019**

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Staziker
E Jones
G Thorley
M Owen

COMPANY SECRETARY

J Oates

REGISTERED OFFICE

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Yale Business Village
Ellice Way
Wrexham
LL13 7YL

BANKERS

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 2019.

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 Company provides shared equity loans of up to 20% of the purchase price, to individuals wishing to purchase a property under a Welsh Government initiative similar to those operating in England and Scotland. Help to Buy (Wales) launched in November 2013, with builder registration, and home buyers were able to apply to the scheme from 2 January 2014.

Originally a £170 million scheme, its aim was to assist in the purchase of 5,000 homes over a two and a half year period. Following the success of the scheme the Welsh Government launched Phase 2 of the scheme in July 2016, enhancing the fund by a further £280 million. The directors expect the general level of activity to be maintained in the forthcoming year.

During the year, the Company made 1,851 (2018: 1,938) investments totalling £73.9m (2018: £73.6m).

GOING CONCERN

The directors reviewed the Company's working capital requirements and funds available for investment in the 24 month period ending 31 March 2021. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 31 March 2021.

The directors concluded that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 18 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS

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

DIRECTORS' INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of all directors. These were in force during the financial year and remained in force at the date of approval of the financial statements.

POLITICAL DONATIONS

The company made no political donations during 2019 (2018: nil)

SUBSEQUENT EVENTS

There were no subsequent events to report.

DIRECTORS' REPORT

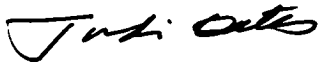
AUDITOR

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 HELP TO BUY
(WALES) LIMITED**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Help to Buy (Wales) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2019 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 15.

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 HELP TO BUY (WALES) 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:

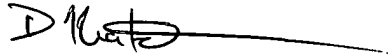
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law 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 HELP TO BUY
(WALES) 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.

A handwritten signature in black ink, appearing to read 'D Heaton', followed by a long horizontal line extending to the right.

David Heaton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

25 October 2019

HELP TO BUY (WALES) LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 March 2019

	Notes	2019 £	2018 £
Turnover	3	86,269	632,835
Administrative expenses	4	(1,715,150)	(1,539,880)
Other operating income:			
Fair value gain on shared equity assets	6	26,785,103	3,878,097
Realised gains from the disposal of equity investments		1,421,799	542,605
OPERATING PROFIT		<u>26,578,021</u>	<u>3,513,657</u>
Interest receivable and similar income	7	136,316	38,640
Fair value losses on amounts payable to parent company held at fair value	8	(28,206,902)	(9,159,229)
LOSS BEFORE TAXATION		<u>(1,492,565)</u>	<u>(5,606,932)</u>
Tax on loss	9	-	-
LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		<u><u>(1,492,565)</u></u>	<u><u>(5,606,932)</u></u>

All activities derive from continuing operations.

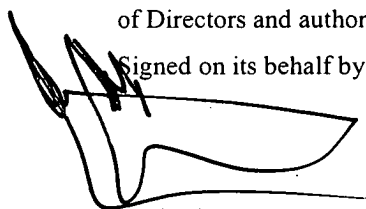
There have been no recognised gains and losses for the current or prior financial year other than as stated in the profit and loss account. Accordingly, no separate Statement of Comprehensive Income is presented.

BALANCE SHEET
As at 31 March 2019

	Note	2019 £	2018 £
NON CURRENT ASSETS			
Financial Assets at fair value	10	<u>333,802,413</u>	<u>250,527,108</u>
CURRENT ASSETS			
Trade and other receivables	11	17,152	346,459
Cash at bank and in hand		<u>69,540,234</u>	<u>38,564,380</u>
		<u>69,557,386</u>	<u>38,910,839</u>
CURRENT LIABILITIES	12	<u>(174,616)</u>	<u>(17,102)</u>
NET CURRENT ASSETS		<u>69,382,770</u>	<u>38,893,737</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>403,185,183</u>	<u>289,420,845</u>
NON CURRENT LIABILITIES	12	<u>(408,016,131)</u>	<u>(292,759,229)</u>
NET LIABILITIES		<u>(4,830,948)</u>	<u>(3,338,384)</u>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Profit and loss account		<u>(4,830,949)</u>	<u>(3,338,385)</u>
TOTAL SHAREHOLDERS' DEFICIT		<u>(4,830,948)</u>	<u>(3,338,384)</u>

The financial statements of Help to Buy (Wales) Limited, registered number 08708403, were approved by the Board of Directors and authorised for issue on 23 September 2019.

Signed on its behalf by



G Thorley
Director

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2019

	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2017	1	2,268,547	2,268,548
Total comprehensive loss for the year	-	(5,606,932)	(5,606,932)
Balance at 31 March 2018	<u>1</u>	<u>(3,338,385)</u>	<u>(3,338,384)</u>
Total comprehensive loss for the year	-	(1,492,564)	(1,492,564)
Balance at 31 March 2019	<u>1</u>	<u>(4,830,949)</u>	<u>(4,830,948)</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2019****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

Help to Buy (Wales) 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, revenue disclosures, financial instruments 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 of Wales plc are available to the public and can be obtained as set out in note 15.

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 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 from 1 April 18 has resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. Previously, shared equity loans inception pre 31 March 2016 and for the period between 1 April 2017 and 31 March 2018 were designated as FVTPL under the fair value option and were measured at fair value as at the balance sheet date. Shared equity loans inception from 1 April 2016 to 31 March 2017 were being held at amortised cost. Following the adoption of IFRS 9 all shared equity loans are now held at fair value as at the balance sheet date. Further information regarding the measurement of fair value of shared equity loans can be found in note 13.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2019****1. ACCOUNTING POLICIES (continued)****Adoption of IFRS 9 Financial Instruments (continued)**

On transition to IFRS 9 management has assessed both the business models for managing financial assets and the cash flow characteristics of the assets. This has resulted in the following classifications and measurements for the group's financial assets:

As permitted by the transitional provisions of IFRS 9, comparative figures have not been restated and comparative period notes disclosures repeat those made in the prior year.

Financial Instrument	IAS 39 measurement basis	IFRS 9 measurement basis	IAS 39 carrying amount 31 March 2018 £	IFRS 9 carrying amount restated 31 March 2018 £
Shared equity loans to customers	FVTPL	FVTPL	250,527,108	250,527,108

Classification changes have no impact on the carrying amount.

There were no changes to the classification and measurement of financial liabilities.

Adoption of IFRS 15 Revenue from contracts with customers

The Company has assessed its sources of revenue and determined that with the exception of some changes in fees that do not have a material impact there was no change in how each revenue source is recognised compared to the previous treatment under IAS 18; therefore there has been no impact on the financial statements on the adoption of IFRS 15 from 1 April 18.

Going concern

The directors reviewed the Company's working capital requirements and funds available for investment in the 24 month period ending 31 March 2021. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 31 March 2021.

The directors concluded that they have a reasonable expectation that the Company have adequate resources to continue in operational existence for the next 18 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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.

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.

Turnover

Turnover represents administration fees and interest receivable on loans. Turnover is recognised over the period to which it relates. Interest does not become payable on the entity's portfolio of shared equity loans until five years following the anniversary of completion.

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is 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.

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

Shared Equity Loans

Shared equity loans are held at FVTPL and are measured at fair value as at the balance sheet date.

The fair value gain or loss in respect of shared equity loans and the realised gain or loss in respect of disposals are recognised in the profit and loss and account but are not retained by the Company. The total gain or loss is shown as an amount payable to the parent company and the amount is transferred to the balance outstanding with Welsh Government at each year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Shared Equity Loans (continued)

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 financial asset 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 ('FVTPL'), which are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets classified as FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- all equity investments are subsequently measured at FVTPL

More detail on the measurement of shared equity loans can be found in note 13, Financial Instruments.

Loans and advances to customers

The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Contractual cash flows that are SPPI are consistent with basic lending arrangements.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

Interest income is calculated by applying the effective interest rate to the gross cost of the asset. Interest recognised is taken as the calculated amount except for those assets for which specific provisions for impairment are recognised. In the case of these assets interest recognised is reduced to the amount which would be calculated by applying the effective interest rate to the amortised cost of the asset, the reduction being applied to the impairment account.

Embedded Derivatives

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

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.

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.

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.

Ultimate Parent Company liability

The amount owed to Welsh Government is held at FVTPL.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

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.

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 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 Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Shared Equity Loans

Shared equity loans drawn since inception of the fund are held as FVTPL. 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 and a discount rate based on a comparable housing bond. These judgements have a significant impact on the fair value of the book. See note 13 Financial Instruments for more detail.

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.

Fair value of financial Instruments

As described in note 13 the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted on an active market. Valuation techniques commonly used by market practitioners are applied.

Brexit

The principal activity of the Group is the provision of financial support to Welsh businesses and as such, the Group is exposed to the uncertainties that may be attached to the United Kingdom Brexit process. The Group has worked with Welsh Government and a range of stakeholders during the year in making preparations for any economic disruption that an unplanned departure from the EU might occasion. This work is ongoing and the potential consequences of a disorderly Brexit on different industry sectors are many and varied. The Group has identified financial resources, policy adjustments and process changes that will enable it to continue providing support through this uncertainty.

3. TURNOVER

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

	2019 £	2018 £
Fees	86,269	66,205
Loan interest	-	566,630
Turnover	86,269	632,835

Loan interest in the prior year related to the effective interest charged on the embedded derivative for the element of the shared equity loan balance held at amortised cost. All of the shared equity loans are now held at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

4. OPERATING PROFIT

Operating profit has been arrived at after charging:

	2019 £	2018 £
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	13,130	12,500
	<u>13,130</u>	<u>12,500</u>
Tax compliance	1,339	1,300
	<u>1,339</u>	<u>1,300</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. FAIR VALUE GAINS

	2019 £	2018 £
Fair value gain on assets held at fair value	26,785,103	3,878,097
	<u>26,785,103</u>	<u>3,878,097</u>

Information regarding the measurement of fair value is contained in note 13.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £	2018 £
Interest receivable:		
- Bank deposits	136,316	38,640
	<u>136,316</u>	<u>38,640</u>

8. FAIR VALUE LOSS ON AMOUNTS PAYABLE TO PARENT COMPANY HELD AT FAIR VALUE

	2019 £	2018 £
Fair value loss on amounts payable to parent company held at fair value	(28,206,902)	(9,159,229)
	<u>(28,206,902)</u>	<u>(9,159,229)</u>

The fair value gain or loss in respect of shared equity loans and the realised gain or loss in respect of disposals are recognised in the profit and loss and account but are not retained by the Company. The total gain or loss is shown as an amount payable to the parent company and the amount is transferred to the balance outstanding with Welsh Government at each year end.

In the current year the fair value gain on assets held at fair value £26,785,103 and the realised gains from the disposal of equity investments £1,421,799 are shown as the amount payable to parent company. In the prior year the £9,159,229 was a cumulative to date figure as a result of the change in contractual agreement with Welsh Government.

Information regarding the measurement of fair value is contained in note 13.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

9. TAX

	2019 £	2018 £
Current taxation		
Total tax charge for the year	-	-
The charge for the year can be reconciled to the loss in the profit and loss account as follows:		
	£	£
Loss before tax	(1,492,565)	(5,606,932)
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	(283,587)	(1,065,317)
Effects of:		
Deferred tax not recognised	283,587	1,065,317
Total taxation charge	-	-

A net deferred tax asset of £253,736 (2018: £953,178) has not been recognised in respect of deductible temporary differences and unused tax losses.

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.

10. FINANCIAL ASSETS AT FAIR VALUE

	2019 £	2018 £
Shared equity assets	333,802,413	250,527,108

The Company enters into agreements to shared-equity loan agreements with buyers of new build homes in Wales. The average term of loans entered into is twenty five years. Interest is charged from the sixth anniversary of the date the loan is drawn. Interest in year 6 is charged at 1.75%, and rises by RPI + 1% in subsequent years.

Information regarding the measurement of fair value is contained in note 13.

Before accepting any new customer, the Company follows its investment operating guidelines to assess the affordability of the shared equity loan to the customer.

11. OTHER FINANCIAL ASSETS

	2019 £	2018 £
Trade and other receivables		
Current Assets:		
Other debtors	17,152	346,459

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

12. FINANCIAL LIABILITIES

Trade and other payables	2019	2018
	£	£
Current liabilities:		
Trade creditors	3,751	3,302
Accruals	170,865	13,800
	<u>174,616</u>	<u>17,102</u>
Non Current Liabilities:		
Amounts owed to ultimate parent company	408,016,131	292,759,229
	<u>408,016,131</u>	<u>292,759,229</u>

The Company's current liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors and accruals approximates their fair value.

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

Amounts owed to ultimate parent company is in relation to Financial Transaction Reserve money received from the Welsh Government and is held at fair value. 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. This amount is not interest bearing.

13. 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, reserves and retained earnings as disclosed in the statement of changes in equity.

Categories of financial instruments

The Company's financial instruments comprise shared equity loans to individuals on behalf of the Welsh Government under the Help to Buy Wales scheme and trade receivables and payables arising from its operations.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

13. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2019 £	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities at FVTPL	Total
Assets				
Cash and cash equivalents		69,540,234	-	69,540,234
Shared equity loans	i	-	333,802,413	333,802,413
Other receivables	ii	17,152	-	17,152
Total financial assets		69,557,386	333,802,413	403,359,799
Non-financial assets				-
Total assets				403,359,799
Liabilities				
Amounts due to ultimate parent at fair value	iii	-	408,016,131	408,016,131
Trade and other payables	iii	174,616	-	174,616
Total financial liabilities		174,616	408,016,131	408,190,747
Reserves				(4,830,948)
Total reserves and liabilities				403,359,799

Carrying value as at 31 March 2018 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets and liabilities at FVTPL	Total
Assets					
Cash and cash equivalents		38,564,380	-	-	38,564,380
Shared equity loans	i	-	70,262,631	179,463,136	249,725,767
Derivative financial assets	i	-	-	801,341	801,341
Other receivables	ii	-	346,459	-	346,459
Total financial assets		38,564,380	70,609,090	180,264,477	289,437,947
Non-financial assets					-
Total assets					289,437,947
Liabilities					
Amounts due to intermediate parent at fair value	iii	-	-	292,759,229	292,759,229
Trade and other payables	iii	17,102	-	-	17,102
Total financial liabilities		17,102	-	292,759,229	292,776,331
Reserves					(3,338,384)
Total reserves and liabilities					289,437,947

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 method of valuation of each financial instrument is described overleaf. The following methods and assumptions have been applied in determining fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

13. FINANCIAL INSTRUMENTS (continued)

Note:

- i) 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 £26,785,103 gain (2018: £3,878,097 gain) on the fair value of the shared equity loan book. The model does however, use the Welsh House Price Index (HPI) as published by the Office of National Statistics (ONS), adjusted for the post codes of the loan book 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 movement of 1% above or below the HPI rate used could result in an increase in value of £22.429m or a decrease in value of £20.168m. The 1% would equate to approximately 33% of the HPI rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity calculation. The discount factor used is based on a comparable housing bond and sensitivity analysis on this input also indicates a range of possible outcomes, and highlights the sensitivity of this input. A movement of 1% above or below the discount rate used could result in a decrease in value of £20.827m or an increase in value of £23.598m. The 1% would equate to approximately 33% of the discount rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity analysis.
- ii) Other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IFRS 9.
- iii) The fair value of amounts owed to our ultimate parent, other third parties and share capital are assumed to approximate to their carrying amount at the balance sheet date. During the year, following a contractual change, the loan from the intermediate parent company (DBW PLC) was derecognised and a new loan entered into with the ultimate parent company (Welsh Ministers). See note 12 for further information.

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.

Reconciliation of level 3 measurements of financial assets

	FVTPL Shared-equity loan book	
	2019	2018
	£	£
Balance 1 April	180,264,477	111,159,332
Additions	73,934,788	73,527,927
Disposals	(17,444,585)	(8,300,879)
Revaluations	26,785,103	3,878,097
Transfers into level 3	70,262,631	-
Balance 31 March	<u>333,802,414</u>	<u>180,264,477</u>

The transfers into Level 3 relate to the cohort of loans held at amortised cost in the prior year that are now held at fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

13. 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 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.

The deterioration in the Company's result is not seen as a risk but as part of the normal pattern for businesses involved in making long-term investments.

No analysis of ageing has been provided as the capital element of the shared equity loans is not due for repayment until 25 years from inception.

14. CALLED UP SHARE CAPITAL

	2019 £	2018 £
Authorised and allotted		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

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

15. 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 parent Company and the ultimate controlling party.