FINANCE WALES GROUP

ANNUAL REPORT & FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2016

Welcome to the Finance Wales Group

Investing for Long-term Impact

Finance Wales is a progressive and creative funder of SMEs and non-SMEs. Owned by the Welsh Government, our focus has evolved over the last 15 years to encompass not only funding options for Welsh business, but also the Help to Buy – Wales scheme, our operations in the North of England through FW Capital, and our business angel network xénos. Our chief aim is to support the Welsh economy and the policy priorities of the Welsh Government and to deliver funding to Welsh businesses in a cost effective way.

In the last year we have invested over £45m into Welsh SMEs, leveraging an additional £64.8m in private sector investment – that has created or safeguarded over 3,000 jobs. In addition to this, over 1,700 homes were bought last year through Help to Buy – Wales. We've also welcomed a new Chairman – Gareth Bullock, and a new CEO – Giles Thorley to our Finance Wales family.

This is an exciting time, with opportunities for growth – both in our own business and the wider economy.

Annual Report & Financial Statements 2016

Officers and Professional Advisers

Directors

Gareth Bullock	(Chairman, appointed 23 September 2015)
Huw Morgan	(non-executive, Senior Independent Director)
Giles Thorley	(Chief Executive, appointed 4 April 2016)
Carol Bell	(non-executive)
Ivar Grey	(non-executive)
Clive John	(non-executive)
Margaret Llewellyn OBE	(non-executive)
Kevin O'Leary	(Director of Finance and Administration)
Michael Owen	(Group Investment Director, appointed 1 October 2015, resigned 4 April 2016)
Ian Johnson	(former Chairman, resigned 30 September 2015)
Sian Lloyd Jones	(former Chief Executive, resigned 30 September 2015)

Company Secretary

Judi Oates

Registered Office

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Bankers

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

Auditor

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

Annual Report & Financial Statements 2016

Contents

Finance Wales at a Glance

Finance Wales is a unique financial institution. We invest on behalf of the Welsh Government and to the furtherment of their policy goals. Our funds are backed by the Welsh Government, the EU, and the private sector. We provide access to funding for SMEs – some of whom would have difficulty securing funding from traditional sources. We energise the SME market and encourage economic growth here in Wales.

Our Business Model

Creating Value

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

For Welsh Businesses
Our investments and expertise help our customers to achieve their growth ambitions

For Welsh Citizens and their Communities
Our investments help to create new jobs, safeguard existing jobs and support urban regeneration

Activities

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

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

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

Resources

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

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

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

Read more about our business model on page 11

Strategic Priorities

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

Expert Fund Delivery
To invest our funds under management in line with the economic development priorities of our stakeholders

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

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

Read more about our strategy on page 9

Finance Wales at a Glance

Key Performance Indicators 2016

Finance Wales

1,883
Jobs created

1,175
Jobs safeguarded

£45.6m
Invested in Welsh businesses

£64.8m
Additional private investment leveraged

Help to Buy - Wales

1,705
Homeowners assisted

£61.3m
Shared equity loans

Read more about our KPIs on page 23

Risk Management

Finance Wales has a strong

RISK MANAGEMENT CULTURE

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

Post control Finance Wales organisational risk map

Read more about our risks on page 34

Finance Wales at a Glance

We provide short-term project finance, longer-term growth finance as well as follow on investment and additional working capital as the business grows. We can invest £1,000 to £3 million at a time in SMEs and non-SMEs across Wales. Financing options can be drawn from a number of investment funds up to a total of £5 million in one business.

Our Funds

Fund	Size	Status	Investments
Wales JEREMIE Fund	£157.5m	Fully invested	Early Stage Technology Ventures Development Capital Acquisition
Wales Business Fund	£136m	Launching in FY17	Early Stage Technology Ventures Development Capital Acquisition
Wales SME Investment Fund	£40m	Investing	Development Capital Succession Acquisition
Wales Micro-business Loan Fund	£12m	Investing	Start-up Development Capital
Wales Property Development Fund	£10m	Investing	Short-term loans
Wales Capital Growth Fund	£25m	Investing	Short-term loans
Wales Technology Seed Fund	£7.5m	Investing	Early Stage
Wales Management Succession Fund	£25m	Launching in FY17	Management Buy-outs; Management Buy-ins; Ownership transfers
Help to Buy - Wales	£170m	Investing	Shared-equity loans
Help to Buy - Wales II	TBC	Launching in FY17	Shared-equity loans
Wales Technology Venture Investment Fund	£10m	Investing	Technology Ventures
The North West Fund for Loans Plus	£45m	Investing	Development Capital
North East Growth Plus Fund	£24.25m	Investing	Development Capital
Tees Valley Catalyst Fund	£10m	Investing	Short-term loans

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

Our funds have public and private backers including:

BARCLAYS

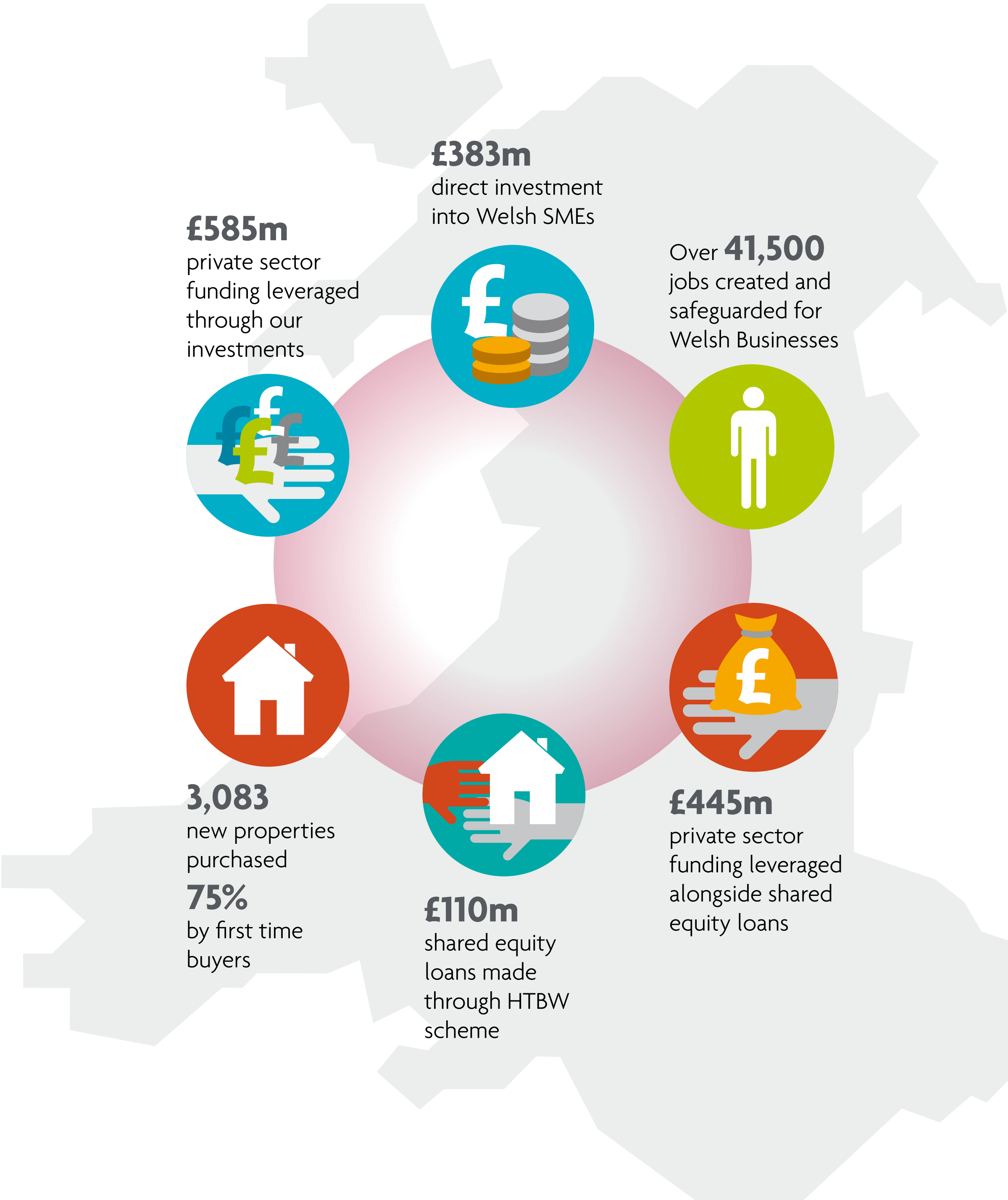
European Investment Bank

Cronfa Datblygu Rhanbarthol Ewrop European Regional Development Fund

Llywodraeth Cymru Welsh Government

Finance Wales at a Glance

Our impact since inception



Strategic Report

Chairman's Statement

Gareth Bullock
Chairman

I was honoured to be appointed Chairman of Finance Wales on October 1st last year. Prior to my appointment there had been a lengthy period of independent reviews into the ability of small businesses in Wales to access growth capital. It had also been a period of significant board and management change within Finance Wales. Whilst such reviews are intensive and time-consuming, they are nevertheless valuable in providing new insights and affording opportunities for self-appraisal. In particular, Finance Wales has, as a result, become more focused on its core purpose of supporting the Welsh Government's economic agenda as it relates to the micro to medium-sized business sector.

A key milestone has been the appointment in April 2016 of Giles Thorley as the new Chief Executive of Finance Wales. Giles is a well-regarded business leader, with long experience and an impressive track-record in the private equity industry. He brings an exceptional blend of relevant expertise to the company as we embark upon a new phase of growth.

Purpose

Finance Wales has evolved considerably since its inception in 2001 and, whilst our activities have grown in size and impact over the years, our purpose has remained constant. Wholly-owned by Welsh Ministers, Finance Wales plays a key role in ensuring the Welsh Government achieves its economic development goals. Our specific focus is to support Welsh micro to medium-sized businesses by making loans and equity investments from a range of dedicated Welsh Government and EU-backed funds. Our principal measure of success, beyond normal financial metrics, is the number of jobs created or safeguarded in Wales through our financing activities.

More specifically, Finance Wales' role is to fill the funding gap created when the conventional risk appetite of private sector funders cannot meet the needs of finance-seeking small businesses. We are at pains not to impede the proper functioning of private sector funding channels and thus we choose to work with early-stage business start-ups, where the market cannot assume the financing risk. This, of necessity, means Finance Wales operates at the higher end of the risk spectrum and thereby accepts higher default rates.

Strategic Report

Chairman's Statement

A key part of our mandate, however, is also to stimulate additional investment from private sector funders. The essence of our commercial approach is therefore to provide sufficient funding at those higher risk levels that enables private sector funders to participate on their normal terms. I am gratified by Finance Wales' growing reputation as a creative funder with an eye for constructive solutions. Any surpluses we receive on successful investments are always re-invested.

Since inception Welsh businesses have benefitted from £383m of investment from Finance Wales and a further £585m leveraged by us from the private sector. Write-offs in that period were £75.3m whilst 41,500 jobs were either created or safeguarded.

High-level review of 2015-16

Finance Wales
During the financial year loans and other investments from Finance Wales totalling £45.6m attracted £64.8m of additional investment in 185 Welsh micro to medium-sized businesses. This helped them to create 1,883 jobs and safeguard a further 1,175.

xénos, the Wales Business Angel Network
Our business angel network facilitated £2.3m of investment. This attracted additional funding of £1.4m, including xénos' largest investment to date of £900,000.

Help To Buy - Wales
Over 1,700 new homes were purchased in 2016 with £61.3m of shared-equity loans from Help To Buy – Wales, with 75% of these loans helping first-time buyers get on the property ladder. These investments leveraged additional investment totalling £244m.

FW Capital
FW Capital's annual investments in the North East and North West of England rose for the sixth year to £17.3m, attracting £96.8m of additional investment and helping to create or safeguard 1,349 jobs.

New funds
During the year we launched the £10m Wales Technology Venture Investment Fund, and secured a £6m boost to our Wales Micro-business Loan Fund. We also concluded the procurement for fund management of the EU-backed £135.9m Wales Business Fund which will be launched in September 2016.

Strategic Report

Chairman's Statement

A development bank for Wales

The most important recommendation arising from the independent reviews undertaken over the last two years is the creation of a development bank focused on the micro to medium-sized business sector in Wales. Finance Wales has been working with the Welsh Government to provide detailed shape to this concept. The key difference between a development bank and the current Finance Wales organization is the opportunity to combine under a single management structure all the elements small businesses require to start up, survive and prosper. The two most important are the provision of:

- debt and equity finance, which will require building on the substantial foundation of Finance Wales, increasing the scale and range of funds invested and services offered;
- business support, which includes a wide range of advice, education and support tools aimed at assisting business owners at every stage of their growth journey.

An important further element will be to create an intelligence and insight function which would support the main funding and advisory activities by continuously evaluating the nature and needs of our specific market segments. This intelligence would underpin the development bank's future policy and product development. We would aim to achieve this by collaborating with Welsh-based professional and academic institutions.

We welcome the cross-party support for the creation of such a development bank and we look forward to working with the new Cabinet Secretary for Economy and Infrastructure in shaping a solution which is appropriate to business owners' needs and to supporting the Welsh Government's economic development agenda.

Our stakeholders

I would like to record my thanks to the business owners who have chosen to work with Finance Wales. Our staff feel a genuine pride in helping ambitious and talented people build businesses and thereby add value to the overall Welsh economy. I believe our staff bring a high degree of professionalism, expertise and enthusiasm to their daily tasks. Our commitment to all external stakeholders - clients, government, staff, media, taxpayers - is to be clear about our purpose and role, to talk simply and straight, to be open and honest and to continuously develop our learning so that we can rightly be seen as a best practice funder.

Strategic Report

Chairman's Statement

Outlook

As we begin our new financial year Finance Wales is a professional financial services company of some 140 staff, with a strong sense of public purpose and a healthy performance culture. We are evolving into a government-wide delivery organisation with a number of departments now using us as a means of achieving cost-effective outcomes by deploying targeted investments.

We have a number of new funds to invest this financial year including the Wales Business Fund, the Wales Management Succession Fund and the Wales Local Energy Fund. In addition, Help to Buy Wales - Phase II will go live later in 2016, helping more Welsh people into home ownership. We know there is much to do and we know we need to work hard to develop our own skills, to modernize and to improve service levels. Much of what we seek to achieve depends on the continuation of the currently healthy economic cycle which not only helps existing businesses to prosper but encourages entrepreneurs to launch new ventures. The recent UK referendum decision to leave the EU has clearly created some immediate economic uncertainty and, whilst Finance Wales will strive within its sector to stimulate economic activity, it remains to be seen what the lasting effects will be on the wider economy.

As we contemplate an even busier future I would like to recognise a number of predecessors for helping build the business platform and reputation that has made Finance Wales the effective economic tool it is today. Specifically, I would like to thank Sian Lloyd Jones who stepped down last September after ten years as CEO. She did much to build the foundation and backbone of our current organisation. Grateful thanks also go to my predecessor, Ian Johnson, who as Chairman steered the company through the difficult years of the recession and the independent reviews, while ensuring we remained fit for purpose. My personal thanks go to Kevin O'Leary who as interim CEO for the last year kept the company on a even keel and helped me settle into my new role.

Last but not least, a big thank you to all our staff. You continue to deliver good service to our clients and I know I can count on you as we embark upon what promises to be a year filled with new challenges and innovation.

Gareth Bullock
Chairman

Strategic Report

Our Mission and Strategy

Finance Wales' core aim is to have a positive impact on the Welsh economy by delivering sustainable growth and jobs. Our key focus over the next year is to help Welsh Government (WG) with its plans for the establishment of a development bank for Wales. Until plans are finalised, we will continue with our current strategic priorities, many of which align closely with a development bank proposal.

Programme of Rolling Funds

Priority:

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

Progress FY16:

Continued development of the £136m Wales Business Fund (WBF) and £25m Management Succession Fund.

Commenced and concluded the procurement of the fund manager for WBF.

Sought opportunities to work with WG resulting in the development of the Local Energy Fund.

£10m Technology Venture Investments Fund and £6m Wales Wales Micro-business Loan Fund top-up secured.

Future Plans:

Launch the Wales Business Fund, Management Succession Fund and HTBW Phase II.

Raise funding for the Wales SME Fund II.

Explore opportunities to leverage private sector investment at fund level alongside public sector funds.

Commence work to assess the feasibility of the creation of an intelligence unit to provide a better understanding of the funding gap, and the funding market in Wales.

Target additional fund management opportunities outside Wales.

Support cross government working through the delivery of investment management services accross all WG departments.

Expert Fund Delivery

Priority:

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

Progress FY16:

Continued to successfully invest current funds under management. Total investment of £45.6m in Wales and £17.4m in England, resulting in the creation of 3,058 jobs in Wales. For more on our KPIs see pages 23 - 28.

Achieved 4 exits with a return on cash invested of 0.5x.

Continued to successfully implement the Help to Buy - Wales Scheme, investing £61.3m in the year.

Improved portfolio health - increased from 69.4% to 71.9%.

Future Plans:

Targeted SME investment of £40.3m in Wales and £12.75m in the North of England in 2016/17.

Fully commit HTBW Phase I by the end of the second quarter and commence investing Phase II.

Support portfolio company exits to maximise impact of fund investments. Target 4 exits in FY17.

Add value and provide further funding to opportunities in existing portfolio through continued portfolio mining.

Work closely with WG to deliver seamless support for Welsh Businesses and deliver KPIs across the whole of government.

Strategic Report

Our Mission and Strategy

Effective Communication

Priority:

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

Progress FY16:

Launched a multi-channel micro loan campaign using direct mail, online and print adverts as well as commercial radio adverts.

Publication of new format Annual Report and Financial Statements.

Continued use of social media with increased regional reach through Twitter and LinkedIn.

Regional seminars and workshops held, covering topics such as succession planning and board effectiveness.

Future Plans:

Keep key stakeholders informed of developments with regard to the development bank for Wales.

Explore new channels and tactics to engage with our market.

Work with WG to agree new KPI measures that capture the wider impact that FW investment creates in the market.

Develop a new website for FW Group.

Wider interaction with key industry bodies and business leaders.

Operational Excellence

Priority:

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

Progress FY16:

Initiated project to replace our existing portfolio management system.

Procurement of outsourced ICT support.

Implemented a streamlined application process and online application for micro loans. (10 streamlined approved so far).

Launched the the line manager development programme.

First year of participation in the Welsh Financial Services Graduate Programme.

Introduction of online customer service surveys.

Future Plans:

Procure a replacement portfolio management system to support both SME investments and HTBW shared-equity loans.

Improvements to be implemented on current Client Relationship Management system.

Develop online capabilities for customers and roll-out online application facilities.

Development of a Wellbeing Strategy for employees.

Strategic Report

Our Business Model

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

Resources

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

Activities

SME Investment	We invest in young as well as more established businesses operating in a variety of sectors. We offer a wide range of funding solutions including micro loans, loans, mezzanine and equity investments, which we tailor to suit individual businesses' growth plans.
Help to Buy - Wales	We manage the Welsh Government's £170m Help to Buy - Wales scheme. This scheme provides shared-equity loans to eligible home-buyers looking to purchase a new-build home in Wales.
Angel Investment	We operate xénos, the Wales Business Angel network. xénos introduces high net-worth individuals (business angels) to start-up and early stage businesses in Wales seeking growth funding.

Strategic Report

Our Business Model

Creating Value

We create value for our shareholder, the Welsh Government, by making investments that positively impact economic development in Wales, delivering value to Welsh businesses and communities. Profits from our fund management activities and returns from our investments are reinvested to further our economic impact in Wales.

For Welsh Businesses

Addressing Funding Gaps

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

Co-investment

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

Backing Growth

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

For Welsh Citizens and their Communities

Employment

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

Urban Regeneration

Improving Welsh living by financing development projects in regeneration areas.

Housing

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

See our business model in action in our case studies on pages 13 - 20

Strategic Report

Case Studies

Diurnal

Name:	Diurnal
Sector:	Pharmaceuticals/Biopharma
Location:	Cardiff
Amount:	£2.569m
Jobs created	19
Jobs safeguarded	4
Funds:	Wales JEREMIE Fund and Wales Technology Venture Investment Fund
Team:	Technology Venture Investments

Business Model value:

Backing Growth

Coinvestment and Angel

Our TVI team have been supporting Cardiff-based pharmaceuticals company Diurnal. In December last year the company, who are developing a number of hormone-based therapeutic drugs to treat complex and rare hereditary conditions, successfully listed on the Alternative Investments Market (AIM). They are the third life science Finance Wales supported company to list on AIM in the last two years. Their initial public offering (IPO) raised £30 million.

The company's lead hydrocortisone product Chronocort is currently in Phase III European trials and the company recently reported positive headline data from the European Phase III pivotal study for Infacort, a formulation of hydrocortisone designed specifically for children. This follows the granting of orphan drug status to Chronocort by the US Food and Drug Administration last year.

Finance Wales was a cornerstone investor in Diurnal, making its first seed investment in 2009 and continuing to support the company through a number of investment rounds prior to the IPO. "It was our investment that first attracted this impressive company to Wales," says Melanie Goward, Technology Seed Fund Manager, "We have continued to support them as they grow."

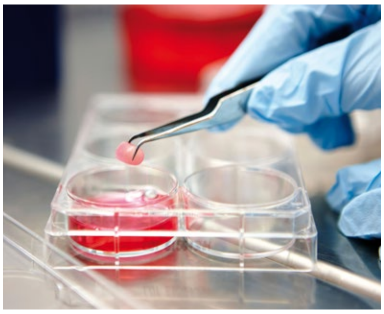
www.diurnal.co.uk

> "Finance Wales investment has been vital to our success. It has allowed us to fund research and move closer to getting our products licenced.
>
> **Martin Whitaker,**
> **Diurnal**

Strategic Report

Case Studies

Jellagen



Business Model value:

Backing Growth

Coinvestment and Angel

Name:	Jellagen
Sector:	Biotech
Location:	Pembrokeshire
Amount:	Six figure sum (including xénos angel investment)
Jobs created	9
Jobs safeguarded	4
Fund:	Wales JEREMIE Fund and Wales Technology Venture Investment Fund
Team:	Technology Venture Investments

We have been working with award-winning medical research start-up Jellagen since 2014. Since co-investing with angels via xénos and SWAIN, the company successfully secured additional grant funding from Innovate UK. In 2016 we were part of a £1.5 million equity investment deal alongside Angels in Medcity, London Business Angels and xénos.

Jellagen is pioneering the use of jellyfish-derived collagen in a range of different products. Collagen is used in the manufacture of biomaterials for use by doctors in wound care, soft tissue repair and bone grafts. The properties of Jellyfish-derived collagen could mean that it is safer and more versatile than collagen from mammals. The company has won a number of awards for its research, with interest from across the medical and scientific communities.

Finance Wales Technology Seed Fund Manager Melanie Goward said: "As a long term investor, we are pleased to be able to support Jellagen again through a new round of equity investment. With its products now beginning to have a positive impact on the market, Jellagen is able to invest in scaling up the production and promotion of its collagen biomaterial."

www.jellagen.co.uk

> " We are really pleased by the continued investment and support shown by Finance Wales which reflects the strong achievements made by the company to date.
>
> **Dr Andrew Mearns Spragg,**
> **Co-Founder and Chief Executive Officer**

Strategic Report
Case Studies

Name:	North Wales Engineering Solutions
Sector:	Engineering
Location:	Llandudno
Amount:	£50,000
Jobs created:	1
Jobs created or safeguarded:	3
Fund:	Wales Micro-Business Loan Fund
Team:	Micro loans team

Business Model value:

Employment

Business is going well for North Wales Engineering Solutions following a micro loan investment of £50,000 from Finance Wales.

David Thomas and his wife Toni of North Wales Engineering Solutions worked closely with local fabrication business David Williams Fabrication. After talking to company bosses it became clear the firm was in difficulty and needed a buyer to save the 100-year-old company. The Thomas's approached Finance Wales for a loan to allow them to acquire the company and bring the operation into North Wales Engineering Solutions' portfolio.

Today the company employs seven staff; it also runs a successful apprenticeship scheme.

North Wales Investment Executive Svetlana Goode structured the deal, "We're always keen to support local businesses. The Thomas's came to us with a good business plan and I'm glad we could help. We're really pleased the company is doing so well."

www.northwalesengineering.co.uk

"The face-to-face contact with Svetlana really helped us. That personal touch made the process of buying the business so much easier.

David Thomas,
North Wales Engineering Solutions

Strategic Report
Case Studies

Name:	Barry Pumphouse
Sector:	Property Development
Location:	Barry, Vale of Glamorgan
Amount:	£900,000
Jobs safeguarded:	3
Fund:	Wales Capital Growth Fund
Team:	New Investments

Business Model value:

Urban Regeneration

Thanks to short-term financing from Finance Wales one of Barry's most iconic buildings has been redeveloped.

Local developer, Simon Baston converted the building into an award-winning , mixed-use residential, commercial, and retail development.

A £400,000 loan in November 2014 funded the purchase of the building and initial site preparation.

Having repaid this loan in just over three months, Finance Wales then provided Simon with a further £500,000 enabling him to secure additional funding needed to complete the £1.8 million project. Both loans have now been fully repaid.

115 construction and other jobs were created by the prestigious redevelopment project and all materials were supplied by local suppliers including Robert Price, and Fenestration.

Senior Investment Executive, Cenydd Rowlands structured the funding package for Simon, "Simon has been breathing new life into old buildings throughout South Wales for many years and the Pumphouse is another significant and bold project for him. He's a respected local developer who's built up a multi-skilled team of local craftsmen as well as a reliable local supply chain, boosting the Welsh economy."

> "Finance Wales backed us at key stages of the project and their loans were pivotal in enabling us to secure the total funding package we needed to complete the development successfully.
>
> **Simon Baston,**
> **ABA Holdings**

Strategic Report
Case Study

Name:	Jistcourt
Sector:	Construction
Location:	Port Talbot
Amount:	£1.1m
Jobs safeguarded:	85
Fund:	Wales SME Investment Fund
Team:	New Investments

Business Model value:

Backing Growth

A management team from Port Talbot building contractor Jistcourt South Wales (Jistcourt) successfully completed a vendor initiated management buyout (VIMBO) thanks to a £1.1 million loan from Finance Wales.

Managing director Robert Norman started working for Jistcourt in 1986 before buying it in 1993 and turning it into a successful and diverse construction company employing 83 staff at its Baglan base. After attending a succession seminar, hosted by Finance Wales and PricewaterhouseCoopers, Mr Norman approached us to support him with the VIMBO.

Investment Executives, Steve Galvin and Alun Thomas, who worked closely with the team at Jistcourt to structure Finance Wales' investment, said: "Robert has built up a well-regarded business over the last two decades and he's now ready to enjoy some of the fruits of his labour. He's also been able to create a legacy for his children Emma and James who now have a stake in the business."

www.jistcourt.co.uk

> "Finance Wales' funding, expertise and support enabled the existing management team to buy a majority stake in Jistcourt and I've stepped away from the day-to-day running of the business. The business is now safe in the hands of a strong management team who work well together and will successfully drive the company forward.

Robert Norman,
Jistcourt South Wales

Strategic Report

Case Studies

The key to quality
Lewis Homes

Name:	Lewis Homes
Sector:	Property Development
Location:	Beddau, Rhondda Cynon Taf
Amount:	£1.4m
Jobs created:	75
Jobs safeguarded:	30
Fund:	Wales Property Development Fund
Team:	New Investments

Business Model value:

Housing

After repaying a £2 million property loan from 2013, Finance Wales invested an additional £1.4 million in local property firm Lewis Homes to build 74 new homes in Beddau near Llantrisant.

The deal in May last year created or safeguarded over 40 jobs. A number of the homes are eligible for help from the Help to Buy – Wales scheme.

Lewis Homes specialises in building high-quality homes for local people. Having built over 400 homes over the last 16 years, the family business is known for its high standards and high customer satisfaction levels. The company is also dedicated to employing skilled local tradespeople.

Finance Wales Senior Investment Executive Alun Thomas structured the deal, "The Wales Property Development Fund has provided Lewis Homes with the financial backing to make a success of this development and it's already having an impact on the local community. With phase one now complete and the second phase well under way, the development has secured three years' work for the company and its subcontractors."

www.lewishomeswales.co.uk

> Brynteg Green is an exciting development for us, so I'm pleased that sales are ahead of target. We'd had outline planning permission for some time, but couldn't find a financial backer until we spoke to Alun who could see that our proposals had potential.

Marc Lewis,
Lewis Homes

Strategic Report

Case Study

Business Model value:

Housing

Name:	Uzmaston Projects Ltd
Sector:	Property Development
Location:	Haverfordwest
Amount:	£1.45m
Jobs created:	15
Jobs safeguarded:	2.5
Fund:	Wales Property Development Fund
Team:	New Investments

Uzmaston Projects' scheme is an exciting development of 13 new homes in Haverfordwest. We supported Phase 1 of the development – the first three homes – with an initial investment of £400,000 in June 2015. These three houses were pre-sold, meaning Managing Director, Jamie Edwards, was able to realise those sales quickly without the need for a long marketing period. We subsequently agreed to fund Phase 2 for the remaining ten houses. A number of these will be registered with Help to Buy – Wales, to allow potential purchasers to benefit from the residential shared-equity loan scheme.

"This was an attractive scheme that had been planned in detail by Jamie, who is a highly experienced local developer," explained Finance Wales Senior Investment Executive Cenydd Rowlands. "These homes will provide much needed accommodation for families in Haverfordwest."

www.uzmastonprojects.co.uk

> Cenydd knew exactly what I needed. Finance Wales funding has allowed this project to progress smoothly and easily. It was great to work with such a knowledgeable and professional team.
>
> **Jamie Edwards,**
> **Uzmaston Projects Ltd**

Strategic Report

Case Studies

Tekmar

Name:	Tekmar
Sector:	Manufacture and supply of subsea cable protection systems
Location:	Newton Aycliffe
Amount:	£1.6m
Jobs safeguarded:	37
Fund:	Tees Valley Catalyst Fund
Team:	FW Capital North East

Business Model value:

Backing Growth

Undersea cable protection systems manufacturer, Tekmar, secured £15 million in contracts following a £1.6 million loan from the Tees Valley Catalyst Fund. Servicing the oil and gas sector, they recently moved to new 75,000 sq. ft. premises.

“The Tees Valley Catalyst Fund has provided essential support in our growth plans. The bond-security their loan gave us has enabled us to win more contracts.

Sue Hurst,
Tekmar

thecontactcompany

Name:	The Contact Company
Sector:	Call Centre
Location:	The Wirral, Merseyside
Amount:	Undisclosed – six-figure sum
Jobs created	146
Fund:	The North West Fund for Loans Plus
Team:	FW Capital North West

Business Model value:

Employment

Backing Growth

Our North West team structured a multi-million pound package for one of the Wirral’s largest employers –The Contact Company (TCC). Co-investees included Barclays, the North West Fund for Loans Plus, and the Regional Growth Fund.

“Thanks to this we can build a new base. Moving to new premises will increase our capacity, allow us to service new customers and introduce new services,

Asif Hamid,
The Contact Company

Strategic Report

Market Review

Giles Thorley
New Chief Executive of Finance Wales

"Since joining Finance Wales this April I have been impressed and excited by the diversity of opportunities available to businesses here in Wales. Despite economic and political uncertainty caused by the EU Referendum and a volatile global commodities market, Welsh SMEs are still ambitious to achieve in local and international markets. As we develop further, in line with Welsh Government policy, we'll be looking to analyse as well as invest in the business economy.

Fundraising market

The ability to raise funds is key to fulfilling our business priorities. During the financial year, we were appointed as the fund holder of the £136m Wales Business Fund (WBF). This is the successor to the £157.5m Wales JEREMIE Fund. A detailed procurement exercise led by the National Procurement Service and overseen by Welsh Government representatives was undertaken during the year, and we are pleased to announce that our in-house Fund Management team have been appointed as the preferred bidder.

We're launching a number of new funds this year. In April we welcomed the launch of the £25m Wales Management Succession Fund and we will be launching the £136m Wales Business Fund in September 2016. We actively seek new product ideas to serve our markets, and look forward to developing innovative products in the coming financial year.

SME investment market

Volatile stock prices and a decline in the value of commodities have impacted growth and investment opportunities across a number of sectors. Political uncertainty has also dissuaded some companies from instigating growth plans. SMEs have been understandably reluctant to borrow in such a climate.

However, there have been signs that confidence is starting to improve. Business confidence in Wales has rebounded since the last quarter but remains subdued compared to a year ago (ICAEW).

It is still unclear how confidence may translate into increased SME activity or investment, although the Bank of England is forecasting a continued increase in SME funding demand driven primarily by stock funding and merger and acquisition activity.

In the micro business sphere, personal lending and the Start-Up Loan scheme have provided additional sources to the market. In 2017 however the ability to undertake 10 year deals will open up further opportunities to more micro-businesses, which make up 94.7% of all active firms in Wales.

On the equity side we are not seeing as much private sector participation; particularly in Wales which presents the challenge going forward of sourcing new syndicate partners particularly for sub £5m deals.

Whilst alternative lenders are still a relatively small part of the market, crowd-funders such as Funding Circle and Crowdcube, together with challenger banks like Aldermore and Shawbrook are becoming an increasingly important source of funding. Funding circle for example are lending £80m a month.

Strategic Report

Market Review

"Overall, I am optimistic that Finance Wales can achieve its goals in both the investment and housing markets this year.

In Wales, these effects have been less marked to date, but we anticipate greater activity as the "South East Wave" brings more alternatives to the mainstream market, representing both a potential threat but also providing co-investment opportunities. Private Sector Leverage ('PSL') is a key delivery requirement for the Wales Business Fund and its success depends on this availability.

At an SME level there is a high proportion of 'happy non-seekers' of funding. Trying to raise our profile amongst this group will be a challenge but we will be taking additional measures this year to try to address this group.

In addition to raising awareness, we need to continue to develop our market share. We want to focus on the elements which differentiate us from other funders. This involves focussing on our 'money plus' approach, majoring on the personalised service we offer, the face to face contact and our understanding of the SME space.

Housing market

UK house prices grew at a rate of 7.9% in the 12 months to January 2016, stronger than the 6.7% rate in the year to December 2015, according to data from the ONS.

House prices have now been growing since early 2012 and in January 2016 were 25.1% higher than average levels seen in 2007 before the economic downturn.

The continuing upward price pressure in the housing market may be a result of shortage of supply and robust demand.

However in Wales it is a different story. There was a 0.3% decrease in the average house price in Wales in the year to January 2016, down from a 1% increase in the year to December 2015.

A 3% stamp-duty increase on buy-to-let property announced in the autumn statement saw a rise in property seekers and sales before it came into force at the start of the 2017 financial year.

Figures from the Council of Mortgage Lenders suggest the property market is still hot, despite growing concern that over-inflated values are pricing out first-time buyers.

There is a supply deficit in the housing market; however in Wales plans for 40,000 new homes in Cardiff over the next 10 years have been given the green light.

Phase II of the Help to Buy – Wales scheme will be going live later this year, providing low cost shared equity options for those looking to get on or progress up the housing ladder.

Strategic Report

Key Performance Indicators

Our fund management activity is centred on the provision of finance to micro to medium businesses. We have agreed a number of Key Performance Indicators (KPIs) with our stakeholders, against which we measure our effectiveness. These KPIs are summarised in the table below:

	KPI Definition	Performance	
Fund Management - Stakeholder KPIs	**Enterprises Financially Supported** The number of new and distinct Welsh SME's we have invested in during the period. This excludes any follow-on investments.	2016: **185**	2015: 164
	Value of SME Investments The total amount invested in Welsh SME's in the year.	2016: **£45.6m**	2015: £48.2m
	SME Private Sector Leverage The value of additional private sector funding received by Welsh SMEs alongside Finance Wales' funds at the point of investment.	2016: **£64.8m**	2015: £56.2m
	Gross Jobs Created & Safeguarded The number of new jobs created in Wales and the number of existing jobs in Wales which would have been at risk but have been preserved as a consequence of our investment.	2016: **3,058**	2015: 2,897

Strategic Report

Key Performance Indicators

Comment	Why we measure	
Drawing on our extensive experience of providing flexible, creative solutions to the funding needs of our customers, we supported the growth aspirations of 185 Welsh micro to medium enterprises during the year. This represents an increase of 13% on our performance against this measure last year, and 107% of target.	We invest our funds under management in line with the economic development priorities of our stakeholders. We measure our performance by the number of enterprises assisted.	**Strategic Priority: Expert Fund Delivery**
We provided total investments of £45.6m in the form of debt, mezzanine or equity funding, representing 110% of the target investment level agreed with our stakeholder. Whilst it appears that investment levels have decreased year on year, the 2015 figure includes £2.3m of rescue and restructure deals, whereas the current year only includes £0.1m deals of this nature.	The value of SME investments quantifies our direct impact on the Welsh economy.	**Strategic Priority: Expert Fund Delivery**
Our investment was the catalyst for record levels of co-investment from private sector funders, amounting to £64.8m. Overall, our activity generated a combined £110.5m impact on the Welsh economy, an increase of 6% compared to last year and some 148% of target.	Private Sector Leverage enables us to consider the overall impact of our investments by quantifying any additional finance provided.	**Strategic Priority: Expert Fund Delivery**
In terms of employment, our investments this year have supported the creation or safeguarding of 3,058 jobs, a 5.6% increase on last year.	The number of jobs created and safeguarded measures the direct impact of our investments on employment in the regions we operate.	**Strategic Priority: Expert Fund Delivery**

Strategic Report

Key Performance Indicators

	KPI Definition	Performance	
Fund Management - Internal KPIs	**New Funds Launched** The number of new funds targeted to be launched in the year.	2016: **2**	2015: 2
	Number of Exits The number of equity realisations achieved in the year, usually via a sale of shares.	2016: **4**	2015: 6
	Equity Realisation Multiple The realization multiple measures the return received on realisation of equity investments. It is found by dividing the cumulative distributions by the paid-in capital.	2016: **0.51**	2015: 1.58
	Provisioning Levels The value of bad debts and write-offs incurred in the year.	2016: **£2.8m**	2015: £12.5m

Strategic Report

Key Performance Indicators

Comment	Why we measure	
We launched the £10m Wales Technology Venture Investment Fund and secured a £6m boost to the Wales Micro Business Fund during the year.	We aim to address funding gaps in the Welsh SME market and develop an ongoing pipeline of funding to invest. The number of funds launched indicates whether we are achieving this objective.	**Strategic Priority:** **Programme of rolling funds**
No material equity realisations were forecast, however 4 equity investments were exited during the year.	In order to create legacy funds for re-investment, we aim to develop a programme of rolling exits. The number of exits measures our performance against this objective.	**Strategic Priority:** **Programme of rolling funds**
The four exits resulted in a loss of £455k.	We aim to generate returns on our investments so that these can be reinvested into new funds to further economic development in Wales. The equity realisation multiple measures the returns achieved on equity investment exits.	**Strategic Priority:** **Programme of rolling funds**
Provisions against bad and doubtful debts have been comparatively modest, representing just under half of both the annual budget and last year's performance. As a provider of gap funding we accept and expect a higher level of default against our investments than private sector funders would be prepared to tolerate and our attitude to risk has not changed. We believe that the improved performance is a function of the cautious optimism associated with the current economic outlook. Moreover, we continue to learn as our experience grows and our expertise develops. We are better equipped both to identify businesses showing signs of stress and to work closely with those requiring additional support.	The level of bad debts and write-offs incurred in the year impact the performance and returns of our funds. Provisioning levels within the portfolio are therefore an indicator of fund performance.	**Strategic Priority:** **Expert Fund Delivery**

Strategic Report

Key Performance Indicators

	KPI Definition	Performance	
Help to Buy - Wales	**Homeowners Assisted** The number of shared-equity loans provided to homeowners under the Help to Buy - Wales scheme.	2016: **1,705**	2015: 1,306
	Value of Help To Buy - Wales Investments The total value of shared-equity loans provided to homeowners in Wales under the Help to Buy - Wales scheme.	2016: **£61.3m**	2015: £46.3m
	HTBW Private Sector Leverage The value of additional private sector funding received by homeowners alongside Help to Buy - Wales funds at the point of investment.	2016: **£224.4m**	2015: £187.2m
Angel Investment	**Number of Investments Facilitated** The number of investments made by business angels as a result of an introduction by xénos.	2016: **15**	2015: 25
	Value of Investments Facilitated The value of investments made by business angels as a result of an introduction by xénos.	2016: **£2.3m**	2015: £2.2m

Strategic Report

Key Performance Indicators

Comment	Why we measure	
The increase in the number of homeowners assisted is the result of increased house building in Wales and an increase in each new development's uptake of HTBW properties. 107 builders are currently registered with the scheme, 5 of which have been supported through the Wales Property Development Fund.	Finance Wales aims to positively impact the Welsh Economy by supporting home ownership through the Help to Buy - Wales scheme. We measure our performance by the number of homeowners assisted.	**Strategic Priority: Expert Fund Delivery**
The increase in the value of investments is proportional to the rise in the number of homeowners assisted. This increase is a result of increased house building and uptake of the HTBW scheme.	The value of shared-equity loans made during the year quantifies HTBW's direct impact on the Welsh economy.	**Strategic Priority: Expert Fund Delivery**
Private sector leverage for our HTBW portfolio is calculated using a multiplier calculation and is a function of shared-equity loans made.	Private Sector Leverage enables us to consider the overall impact of our investments by quantifying any additional finance provided.	**Strategic Priority: Expert Fund Delivery**
The number of deals facilitated by xénos in the year has fallen compared to the previous year. However, the average size of completed deals was much larger. The challenge is to deliver high quality deals to meet investor standards, a key issue raised by independent research commissioned by xénos on angel investing in Wales.	By facilitating investments, xénos aims to retain private wealth in Wales and enable start-ups and early stage companies to access the finance they need to grow. We measure our success by the number of investments made as a result of an introduction by xénos.	
The value of investments facilitated by xénos has increased from the previous year. This year saw a significant increase in the average size of completed deals. This included the largest deal by a single xénos investor of £0.9m.	The value of investments facilitated enables us to measure the direct impact of xénos' activities on the Welsh economy.	

Strategic Report

Performance Review

Segmental analysis

The Finance Wales Group has grown substantially since it was set-up in 2001. The Group now has eighteen subsidiary entities consolidating into the Group accounts, the majority of which have been set up to operate the wide range of funds we offer. The activities of the Group can be segregated into three distinct segments:

Finance Wales plc Holding Fund Activity

As a Fund Holder, Finance Wales plc has a number of obligations to fulfill, notably: stakeholder communications and engagement; monitoring and reporting fund performance; securing a rolling programme of funds to fulfil the changing finance requirements of Welsh micro and SMEs; ensuring compliance with state aid guidelines; marketing the various funds we have on offer; providing 'back-office' functions such as Finance, HR and IT, and providing a network of offices across Wales.

Fund Management Activity

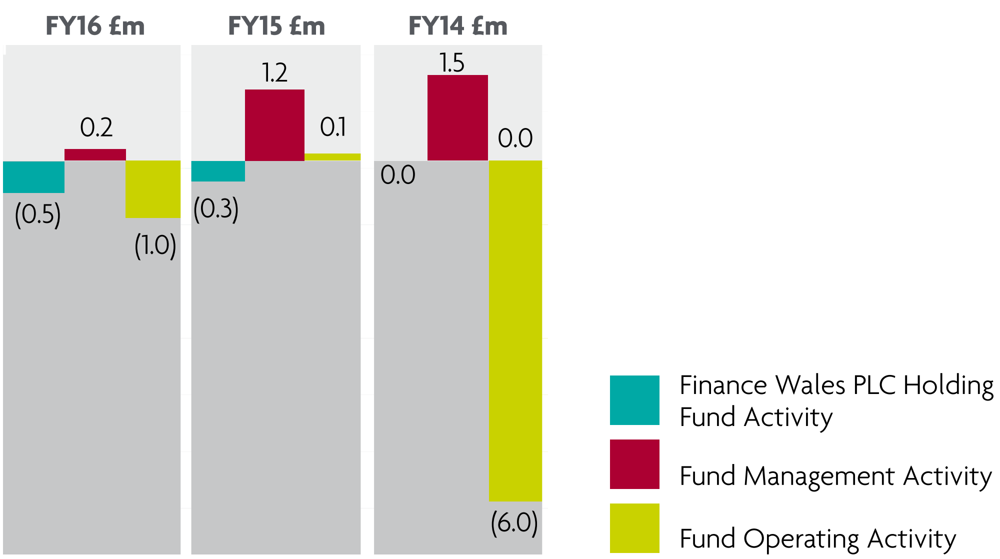
Two Fund Management businesses operate within the group:

1) Finance Wales Investments Ltd (FWIL) - this is our Welsh Fund Management business which sources and manages commercial investments in Welsh SMEs, and administers the Help To Buy- Wales scheme. Funds managed by FWIL are primarily held by Finance Wales plc.

2) FW Capital Limited - this entity is authorised and regulated by the Financial Conduct Authority (FCA). In contrast to FWIL, the funds managed by FW Capital are sourced from third parties. Based on our strong track record and reputation we have successfully tendered and won four fund management contracts in the North of England.

Fund Operating Activity

All fund related activity is undertaken through various subsidiary entities. Activities include making and managing investments, realising investments, and providing against losses on investments. Numerous subsidiaries have been set up as the group has evolved. The performance of the fund operators is highly dependent on provisioning levels and equity realisations.



Strategic Report

Performance Review

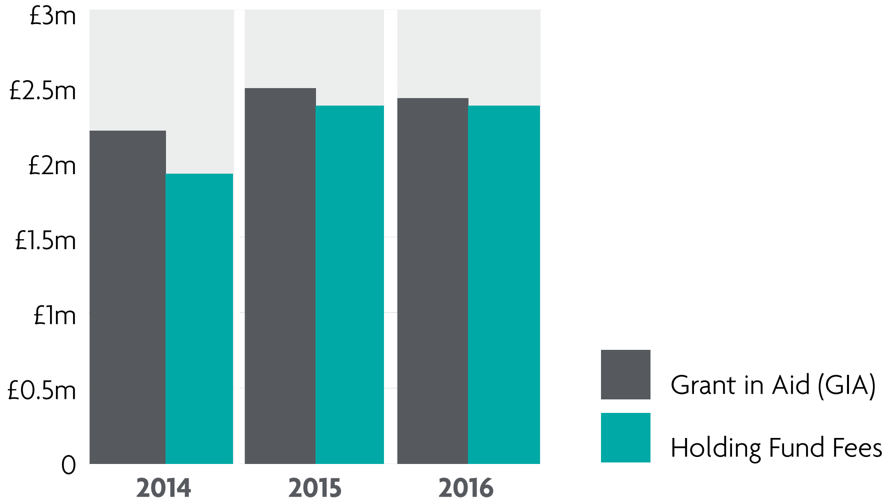
Finance Wales plc Holding Fund Activity

How we are funded

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

GIA refers to the grant funding the Finance Wales Group receives from the Welsh Government to support its holding fund activities. The level of GIA we receive has more than halved in the last seven years. Each year we submit an annual business plan to the Welsh Government setting out our proposed GIA requirement for approval. The GIA contribution received from the Welsh Government in 2016 was £2.4m (2015: £2.5m). We have made commitments to the Welsh Government that we will continue to reduce GIA levels on an annual basis.

The graph below shows the level of GIA and holding fund fees generated over the past three financial years. The Group's long-term strategy is to reduce its reliance on GIA as much as possible, replacing it with holding fund fee income.



Finance Wales plc's cost base comprises staff costs in respect of the Strategy, IT, Marketing, Finance, Compliance and Human Resources departments; the cost of our network of offices across Wales; and the cost of our IT infrastructure. Holding fund fees vary from year to year and are a function of the amount and the cyclical nature of the funds in operation. The launch of the Wales Business Fund in September 2016 will increase our holding fund fee income and restore a break-even position.

Strategic Report

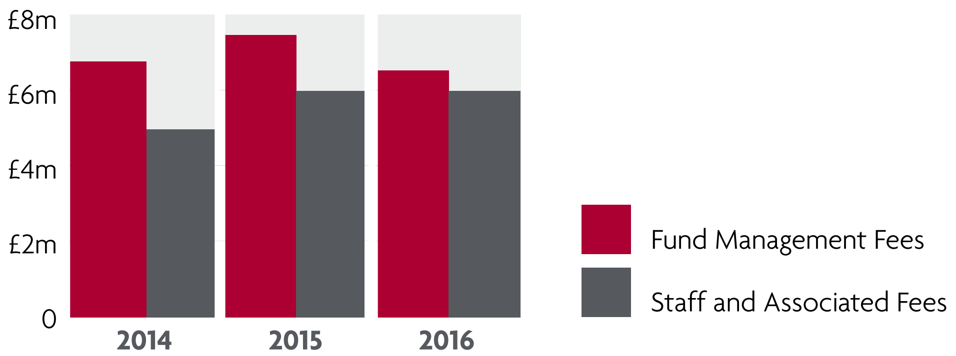
Performance Review

Fund Management Activity

Our client facing investment and portfolio staff are employed by Finance Wales Investments Limited (FWIL). They are involved in sourcing, structuring, monitoring and realising our investments. Their salary and on-costs and any associated training and recruitment costs are funded via recharges to our fund operating companies in the form of a Fund Management fee. The relationship between FWIL and our fund operating entities is enshrined in Fund Management Agreements, which set out detailed Investment Operating Guidelines to ensure that the objectives of the fund are met.

The performance of our Fund Management activities during this financial year has been heavily impacted by the fees earned on our largest fund, the £157.5m Wales JEREMIE Fund. This fund was launched in 2009 and entered its realisation period on 1 October 2015. Typically when a fund enters realisation period, the Fund Management fee is reduced substantially. In 2016 this resulted in a decrease of £1.1m in fees on this fund.

The reduction in current year fund management profits is effectively the result of the cyclical impact of our operations and highlights the importance of a programme of rolling funds (see our Strategy section on page 9-10). The successor to the JEREMIE fund, the Wales Business Fund, is due to be launched in September 2016, and the Fund Management business is set to return to profitability as a result.



The profits earned by our Fund Management business are not distributed to shareholders but are set aside to accumulate and form cornerstones for future funds. Our Management Succession Fund, launched in April 2016, has benefitted from £5m of funding from accumulated returns and fund management profits. During the 2015 financial year, we were able to top-up the Wales JEREMIE fund by £3m from the same source.

Strategic Report

Performance Review

Fund Operating Activity

Turnover

The majority of our turnover is generated by our fund operating entities (2016 = 77.5%; 2015 = 76.9%), and comprises arrangement fees and professional fees recovered from investments made, monitoring fees in respect of our ongoing involvement in portfolio companies, loan interest and dividends received.

The Group's remaining turnover is generated by FW Capital and primarily relates to fund management fees charged to our four Limited Partnerships operating in the North of England, the results of which are not consolidated into the Finance Wales Group accounts.

Provisions

Provisions for the year are substantially lower than the previous two financial years. As a gap funder we accept and expect a higher level of default against our investments than private sector funders would be prepared to tolerate. The reduction in this year's provisions levels do not reflect a change in our attitude to risk, rather, we believe it to be a function of the improved economic outlook, and the breadth of experience and expertise that we have gained as we have developed. We have refined our business processes to ensure that we are proactive in identifying those businesses showing signs of stress, and work closely with those requiring additional support.

ERDF Grant income release

The Wales JEREMIE Fund was funded by contributions from Finance Wales plc, the Wales European Funding Office (WEFO), and external debt from the European Investment Bank. The contributions from WEFO were made via grant funding and, in line with applicable accounting policies, this income was released to the profit and loss account as and when eligible investments into Welsh SMEs were made. The Wales JEREMIE fund was fully invested on 30 September 2015, with just 7 investments totalling £3.5m being made during this financial year. The impact on the 2016 profit and loss account has been a substantial decrease of £11.3m in the release of deferred grant income. None of our other investing funds have been funded by European Structural Funds, however, as the £136m Wales Business Fund, due to be launched in September 2016 is partially funded by WEFO, the Group profit and loss account will be further impacted by the release of deferred grant income over the 6 year investing period.

Equity Realisations

The fund operating entities' results benefitted substantially from two successful equity realisations in 2015, which contributed towards a total profit on disposal of £4.6m. No material equity realisations had been forecast for 2016, however four equity investments were exited during the year, resulting in a loss of £455k.

We have also started seeing a small number of repayments on the Help to Buy – Wales (HTBW) scheme, as buyers have started to move on from their HTBW home, or have the ability to repay their loans in full. Such repayments have resulted in profits of £9k in 2016 (2015: £NIL).

Strategic Report

Performance Review

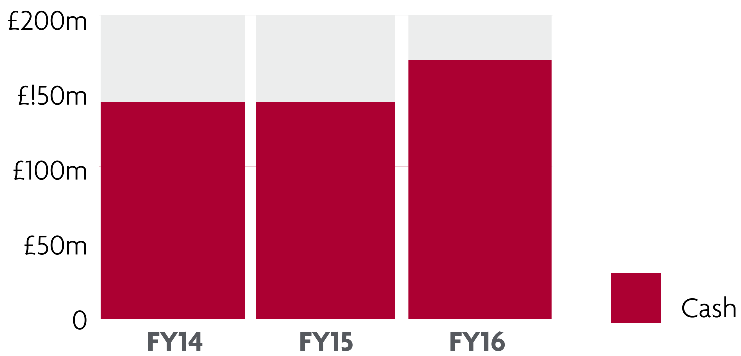
Group Cash Balances – All Segments

The Group's cash balance represents cash available for investment in Welsh Businesses and HTBW shared equity loans, and also to service our external debt.

The Group's cash balances have increased by £30m since the last financial year.

£62.4m (2015: £53.3m) of this cash balance relates to the first phase of the HTBW scheme, which is due to be fully committed by the end of August 2016.

Our cash reserves are essential for the Group in order to ensure continuity of funding to fulfil our pipelines for both new investments and follow-on investments into our existing client portfolio. Based on forecast investment levels, the remaining £111.4m of cash represents around 18 months of cash available for investment into Welsh SMEs.



Cash returns

Cash returns from our investments are key. Not only do they allow us to repay external providers of debt, but they also allow us to create legacy (i.e. cash reserves) to act as cornerstones for future funds. In addition, some of our more recently launched funds, e.g. the Wales Capital Growth Fund, the Wales Property Fund and Wales Micro Fund are classed as "evergreen funds", which means that cash returns can be reinvested into new investments, effectively making our money go further and enhancing our impact on the Welsh economy.

As at 31 March 2016, our £10m Wales Property Fund, launched in May 2013, had invested a total of £15.8m, and is set to invest the original £10m three times over its lifetime.

Strategic Report

Managing Risk to Deliver Strategy

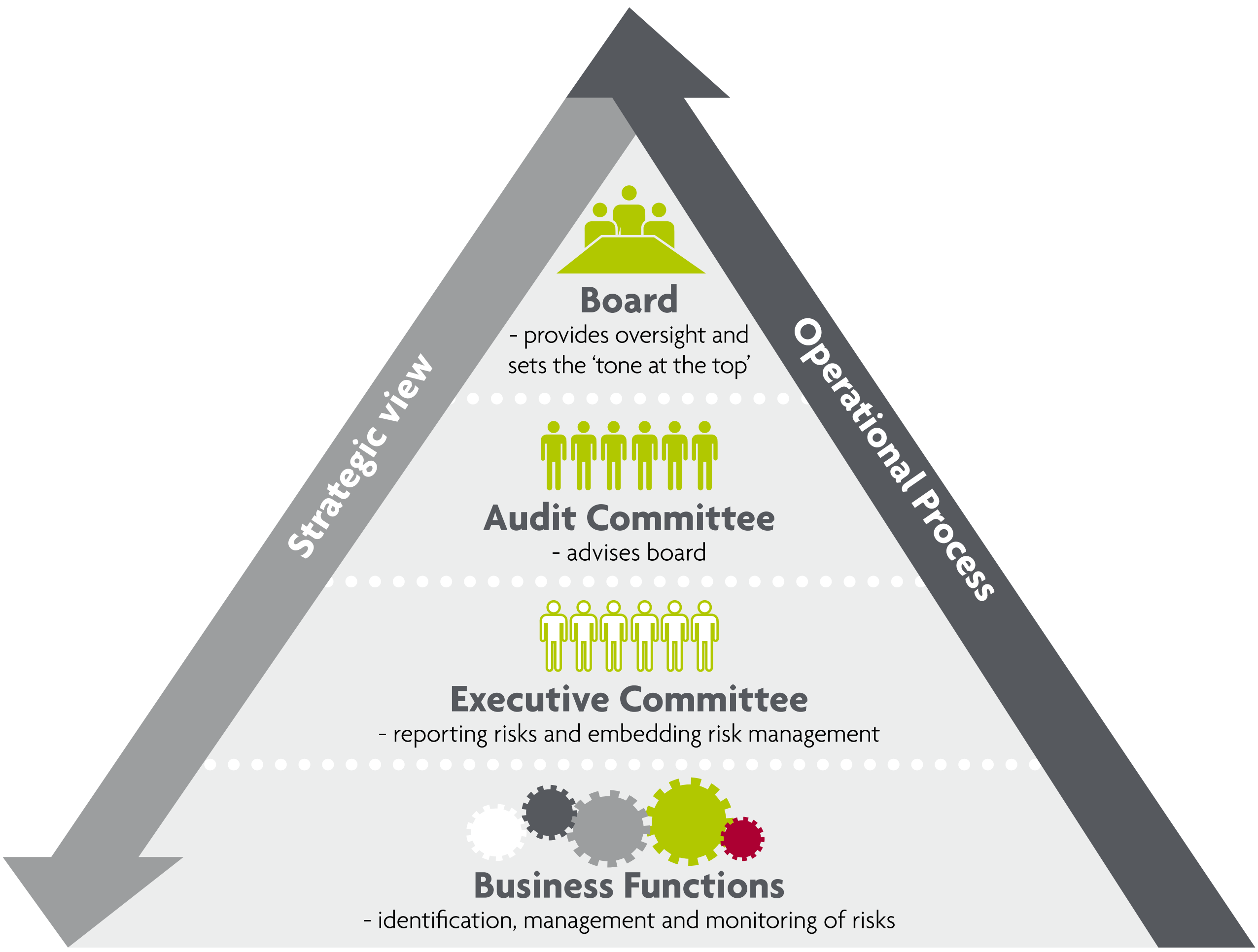
The Board has overall responsibility for risk management. They maintain a sound system of internal control that supports the achievement of the policies, objectives and long-term strategy of the Finance Wales Group.

Supported by the Audit Committee, the Board leads a top-down review of risk management; determining the risk appetite of the Group and evaluating material risks with specific reference to strategy.

The Board plays a key role in influencing the culture of Risk Management within the Group. It holds regular dialogue with the Executive Management Team who ensure the appropriate mechanisms for identifying and reporting risks are in place and functioning properly.

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

There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group that has been in place throughout the financial year and up to the date of the approval of our Annual Report and Financial Statements.



Strategic Report

Managing Risk to Deliver Strategy

Risk Appetite

The Board is responsible for determining the nature and extent of the risks it is willing to take in achieving the strategic objectives of the Group. They do this whilst also being mindful of the ownership structure of the Group and policies of our parent, the Welsh Government. This appetite for risk is considered not only during risk review meetings, but also during Board discussions over the course of the year.

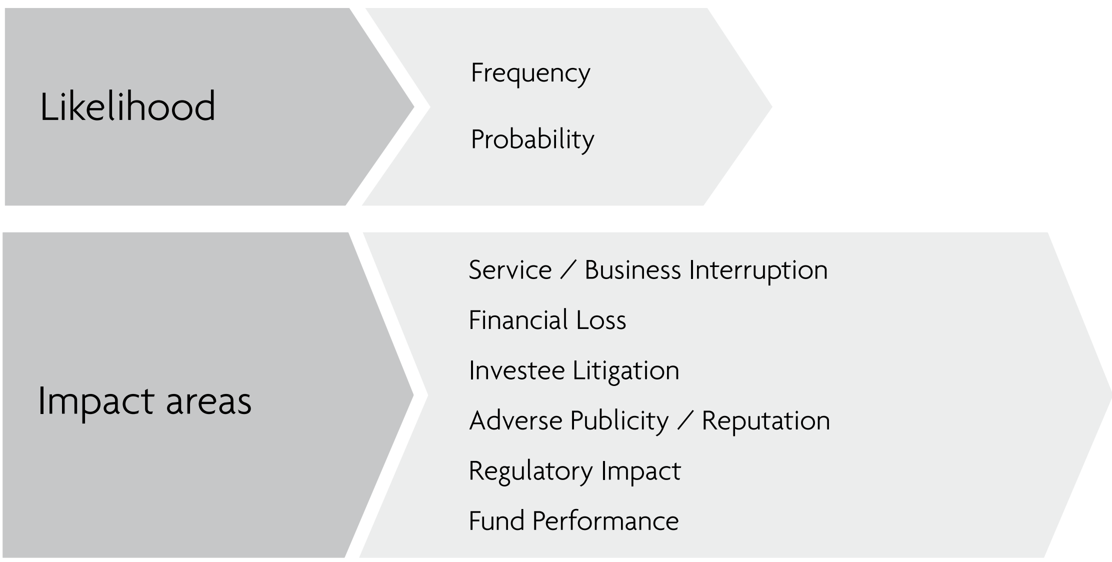
Risk Identification

A full risk and control assessment is undertaken regularly by the Executive Management Team to identify financial and non-financial risks impacting the Group. As part of the regular management reporting cycle, key risks are assessed against corporate objectives. Action plans are formulated where necessary.

We have a robust whistle-blowing policy and investigate any allegations of misconduct and irregularity and consider the implications for our control environment in accordance with the policy.

Risk Register

Finance Wales Group maintains a detailed risk register whereby risks are categorised according to likelihood and potential impact. There is a matrix and associated risk map in place to help with classifying risks within these two categories. The matrix considers the likely frequency and probability of risks along with sub-sections to identify key potential impact areas. The categorisations are supported by a traffic light system to assist with understanding the overall risk landscape.



Risk Management

Each individual risk is analysed and a pre-control risk rating assigned to identify perceived impact with no mitigating controls in place. Mitigating actions are then clearly documented and a post-control risk rating is assigned. Ownership for each individual risk is given to appropriate individuals or teams within the Group.

Strategic Report

Managing Risk to Deliver Strategy

Risk Monitoring

The risk register is reviewed and updated by the Audit Committee on a quarterly basis, and discussed at the subsequent Board meeting.

Internal Control Framework

The Group operates a well-established internal control framework which is applied to the process for preparing the Group's consolidated accounts.

This framework comprises:

- clearly defined structures which delegate appropriate levels of authority, responsibility and accountability. This includes responsibility for internal financial control across the organisation
- a comprehensive Business Plan and associated annual budget approved by the Board, which also monitors the financial reporting process, monthly results and updated forecasts for the year against budget
- documented financial control procedures. Compliance with procedures is reviewed and tested by independent internal auditors
- an investment appraisal process for evaluating proposals for all funding provided to SMEs or individuals, with defined levels of approval and a system for monitoring their ability to repay
- a post-investment evaluation process to assess the performance of our funds and identify any lessons to be applied to the development of future funding initiatives
- a dedicated Risk team that monitors investments with a poor health grading, undertakes file sampling, and keeps investment operating guidelines up to date

Internal Control Review

An evaluation of the effectiveness of the Group's overall internal control environment is undertaken each financial year (and subsequently up to the date of this report) to assist the Audit Committee in considering the Group internal audit plan for the new financial year.

The Audit Committee regularly reviews the operation and effectiveness of the internal control framework and annually reviews the scope of work of the internal auditors of the Group. The Committee reports and makes recommendations to the Board. For 2016 and up to the date of the approval of the Annual Report and Financial Statements, both the Audit Committee and the Board were satisfied with the effectiveness of the Group risk management policy and the internal control framework.

Strategic Report

Managing Risk to Deliver Strategy

Following consultation with the Audit Committee and senior management, the Board has selected the following principal risks and uncertainties for presentation in this year's Group accounts:

Risk and Potential Impact	Existing Controls
EU Exit The decision for the UK to leave the European Union creates a lack of visibility as to the implications of any transitional arrangements regarding existing funds and the availability and quantum of future funds.	We continue to monitor ongoing developments and ensure proactive engagement with Welsh Government and Wales European Funding Office (WEFO).
Lack of Available Funds to Invest FW Group may cease investing if it does not develop funds on time and stimulate demand for investment among its target market. This may damage the Group's brand and reputation as a credible fund manager and result in staff leaving.	Our strategy team manages internal and external stakeholders' expectations. The team develops fundraising plans based on thorough economic analysis. They measure and report fund achievements, develop scalable financial products and identify contingency plans.
Reputational damage Damage to the Group's brand or reputation could result from internal factors such as failure to deliver funds, or from external factors such as inaccurate reporting. The Group's ability to raise new funds could be impaired as a result of reputational damage.	The communications team devises targeted marketing campaigns to build the Group's reputation and influence external perceptions. The team aims to minimise reputational damage by clarifying issues, correcting inaccuracy and providing targeted external responses.
Failure to perform/to deliver fund as set out in the original model A failure to deliver existing funds may limit our ability to raise new funds in the future. It could also result in a loss of fund management fees and possibly cause reputational damage.	To ensure our funds are performing to plan, we have a defined process of performance management and undertake regular monitoring and reporting of the performance of the portfolio.
Breach of bank covenants Breach of bank covenants could lead to the withdrawal of the bank facility and freezing of charged accounts.	Covenants are monitored on a constant basis and reported monthly as a minimum. Changes in forecast are always considered with a view to the impact on covenants.
Loss of key personnel and/or inability to recruit and retain appropriately skilled and experienced employees The resignation of key personnel would result in the loss of valuable experience and knowledge. An inability to recruit and retain high-quality staff could reduce the Group's ability to deliver services.	A succession plan is in place for key posts. The Group has a performance appraisal process to ensure that employees remain motivated and are competent in their roles. We encourage staff development and undertake regular skills audits to identify skill gaps and training needs.
Failure to meet Stakeholder KPIs Each fund has a set of KPIs attached to it. The targets associated with these KPIs are agreed with the fund providers. Failure to achieve these targets could result in loss of reputation as a credible funder and damage to the relationship with the fund provider.	Clear targets are communicated and cascaded through the performance management system. KPI performance is subject to monthly validation and reporting to the Board.

For link to KPIs see page 23-28

Strategic Report

Managing Risk to Deliver Strategy

Increased risk ↑

No change to risk ↔

Decreased risk ↓

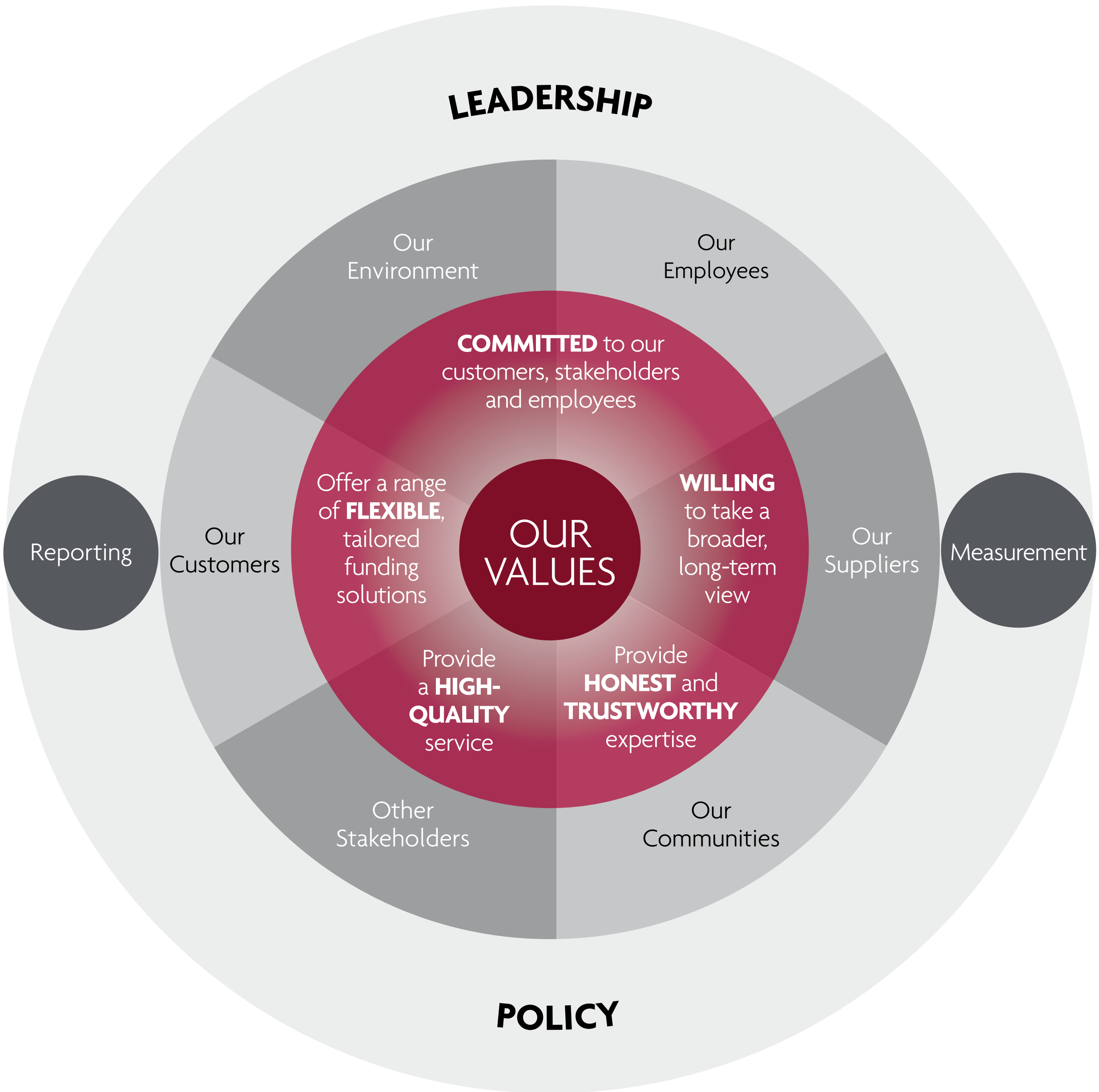
Current Status		Link to Strategy (page 9)	
Existing funds are not anticipated to be under immediate threat. Early discussions with WEFO indicate that the Wales Business Fund will be launched as planned in September 2016. Future funds are likely to be a function of revised settlement between UK and Welsh Governments.	↑	Programme of rolling funds	
Fundraising activity is ongoing. We will be launching the Wales Business Fund and the Management Succession Fund in 2017. We also broadened the Investment Operating Guidelines of the Capital Growth Fund in 2016 to expand its reach.	↓	Programme of rolling funds	
External strategic consultants were procured in the year. We also ensure regular engagement with key stakeholders including the Cabinet Secretary and WG Committees.	↔	Programme of rolling funds	Effective Communication
The performance of all active funds are within forecast parameters and continue to be actively monitored.	↔	Expert fund delivery	Programme of rolling funds
No breaches have been recorded in the year.	↔	Expert fund delivery	Programme of rolling funds.
Recruitment of a new Chairman and CEO was undertaken during the year. Our staff retention rate has increased slightly from the prior year to 87% (2015: 84%).	↔	Expert fund delivery	Operational Excellence
All KPIs for 2016 have achieved or exceeded target. We continue to closely monitor performance on a monthly basis.	↔	Expert fund delivery	Programme of rolling funds

Strategic Report

Responsible Business

Responsible business can positively impact current and future success. It can influence key drivers such as brand value and reputation, new business opportunities, financial performance, and operational effectiveness. It can also foster organisational and employee development.

With our values at its core, our Responsible Business Strategy focusses on six key pillars:



Strategic Report

Responsible Business

Our Employees

Our employees are instrumental to our success. By offering the right balance of enriching and challenging work, development opportunities and competitive remuneration we are able to attract and retain the highest calibre of people. The motivation and engagement of our staff is demonstrated by our retention rate of 87%.

During the year we launched our Employee Assistance Programme. This service offers a number of online resources and provides access to qualified counsellors to help our staff deal with all kinds of work, family and personal issues.

We are committed to enhancing the knowledge and skills of our employees; we identify and provide appropriate training and support to enable them to develop in their careers. During the year we launched our new line management development scheme, introducing a line management induction programme and offering numerous training workshops.

We recognise the benefits of diversity in terms of the breadth of skill, knowledge and experience it brings to our organisation. Of our permanent employees 74 are women and 58 are men (as at 31 March 2016). During the year we initiated an SME Board Diversity Project, sponsoring and hosting a number of events focussed at encouraging enhanced board diversity amongst SMEs.

Our Customers

Finance Wales supports its portfolio businesses through responsible customer relations. We proactively work with them to identify ways in which they can also be responsible businesses. This has led to some of our portfolio companies achieving third party recognition for their business actions.

During the year we sponsored and attended the Wales Responsible Business Awards 2015 and hosted the judging for the 2016 awards. We also held a breakfast event for portfolio companies during Responsible Business Week 2015.

Our Environment

The Group is dedicated to reducing our environmental impact in order to preserve the world we live in. We ensure that energy-efficient measures are implemented throughout our offices so that energy consumption is minimal within our operations.

Our new Cardiff office is listed as BREEAM ‘Very Good’ for its energy and waste efficiency. We recycle our office waste where possible and we encourage our staff to recycle general and food waste.

Strategic Report

Responsible Business

Our Suppliers

The Group emphasises the importance of responsible procurement. Responsible selection and management of suppliers allows for good relationships to be built and support to be given to our suppliers in their own responsible business activities.

Our Communities

We are committed to contributing towards economic development in the regions we operate.

Our SME investments help to create and safeguard jobs, as well as creating opportunities for local suppliers. The Help to Buy - Wales scheme is boosting the housing sector by supporting home ownership and stimulating construction.

We seek to establish partnerships that allow our staff to support the communities in which we work. A key part of this is our membership to Business In The Community (BITC).

In May 2015, Finance Wales volunteers took part in BITC's Give & Gain Day for the third year running. One team spent the day undertaking a playground make-over at Baden Powell Primary School and another freshened up the Long Lane Garden Centre in Warrington.

Our employees' charitable activities increased significantly during the year. We held events including a Wonka Ball and a Six Nations Quiz night, and took part in a number of sporting events including marathons, half-marathons and a North to South Wales bike ride. In total we raised £27,000 for our chosen charity, Cancer Research Wales.

Our Stakeholders

Maintaining and strengthening relationships with key stakeholders is essential for delivering our objectives and supporting sustainable growth. Our key stakeholders include Welsh Government, Welsh European Funding Office, European Investment Bank, Barclays, Federation of Small Businesses and the Institute of Directors. We continuously engage with our stakeholders to ensure we understand their needs and are able to meet their requirements.

Strategic Report

Responsible Business

Some of what we've acheived

Reaccreditation for the impact of Finance Wales' investments from the Wales JEREMIE Fund

Give & Gain DAY 2015

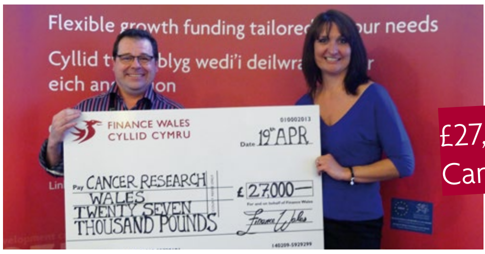
The Christie
TOWARDS A FUTURE WITHOUT CANCER

North West team's Great Manchester Run 10k for 'The Christie'

FW donated Christmas gifts to 37 children as part of Barnardo's Christmas Gift appeal

Credwch mewn plant
Believe in children
Barnardo's
Cymru

CANCER**RESEARCH**WALES
YMCHWILCANSER**CYMRU**



£27,000 raised for Cancer Research Wales

North South Bike Ride

In six months #Thisis4Sue has raised over £17,000 for Cancer Research Wales

Fundraising Willy Wonka Charity Ball

FINANCE WALES GROUP

GOVERNANCE

Governance

Our Board

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

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

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

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

- Ian Johnson resigned as Chairman of the Board, with effect from 30 September 2015
- Sian Lloyd Jones resigned as Chief Executive, with effect from 30 September 2015

Board Members

Key to Committee membership

A Audit Committee   N Nominations Committee   R Remuneration Committee

Gareth Bullock, Chairman

Appointment:
Appointed Chairman of the Board in October 2015.

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

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

Governance

Our Board

Huw Morgan, Non-Executive Director (Senior Independent Director)

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

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

External appointments:
Currently a Non-Executive Director of ICICI Bank plc, where he chairs the Risk and Conduct Committees and an NED of Comtec Ltd. He sits on two Welsh Assembly Government Boards: The Financial Services Panel for Wales and the Central Cardiff Enterprise Zone. He also supports the Prince's Trust in Wales and the Universities of Aberystwyth and Cardiff, the former as a member of the Development Advisory Board, the latter on the Industrial Advisory Board.

A N

Giles Thorley, Chief Executive

Appointment:
Appointed Chief Executive of Finance Wales plc in April 2016

Key strengths and experience:
Before joining Finance Wales, Giles was a partner at private equity firm TDR Capital LLP focusing on deal origination activities. Prior to this he spent 9 years with Punch Taverns plc - the first year as Chairman, under private equity and then as Chief Executive following its IPO. Previously he served as the Chief Executive of Unique Pub Company plc. Giles was also a founding member of the Principal Finance Group at Nomura International plc.

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

Governance

Our Board

Dr Carol Bell, Non-Executive Director

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

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

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

N

Ivar Grey, Non-Executive Director

Appointment:
Appointed to the Board in 2006 and became Chairman of the Audit Committee in 2008.

Key strengths and experience:
Ivar is a Chartered Accountant and was a partner in KPMG for over 20 years and a member of the Competition Commission from 2005 until 2014.

External appointments:
Ivar is an independent member on the board of the Cardiff and Vale University Health Board, where he chairs the Audit Committee. He is a governor of Port Regis School and is a Trustee of Kids in the Middle. Ivar also advises on audit, finance and corporate governance matters, and acts as a forensic accountant.

A N

Governance

Our Board

Clive John, Non-Executive Director

Appointment:
Appointed to the Board in 2006 and became Chairman of the Remuneration Committee in 2008.

Key strengths and experience:
Clive has over 30 years' experience in the private equity industry, a significant part of this as a senior director of Lloyds TSB Development Capital (LDC) in London. He has considerable experience of investing in and growing private companies as well as acting as an executive coach to senior management. Clive originally qualified as a chartered accountant before completing his MBA at London Business School.

External appointments:
Clive is currently the Chairman of Radiology Reporting Online LLP, a fast-growing tele radiology business, as well as working with the BVCA in training private equity executives. Previous roles include Chairman of the diagnostics business, Lodestone Patient Care Ltd, and as an advisor to a major hedge fund. He is currently a trustee of the charity, PACE.

N R

Margaret Llewellyn OBE, Non-Executive Director

Appointment:
Appointed to the Board in September 2012.

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

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

A N R

Governance

Our Board

Kevin O'Leary, Director of Finance and Administration

Appointment:

Appointed to the Board in November 2010.

Key strengths and experience:

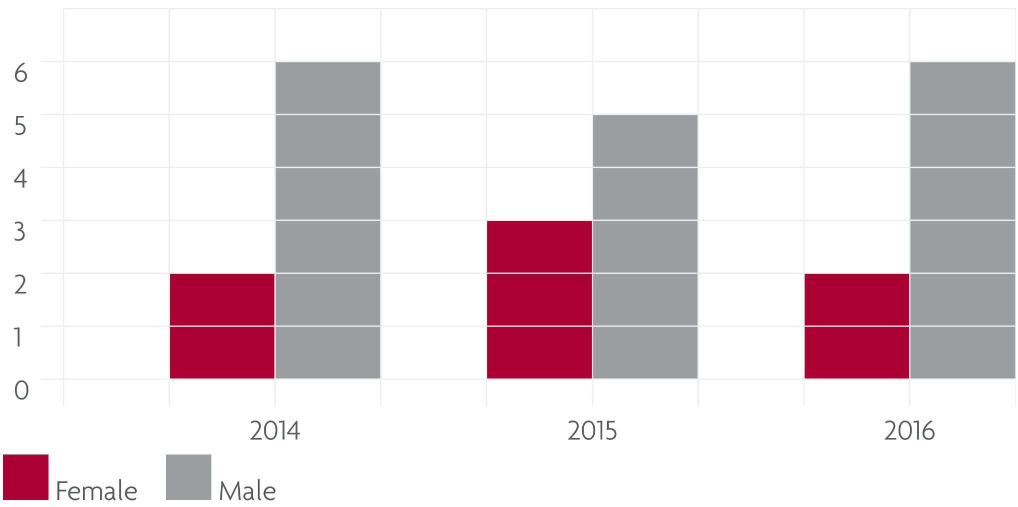
Kevin leads Finance Wales' internal finance and administration teams. He joined the company in 2006 from his previous role as Head of Support Services for the former Welsh Development Agency. Prior to this he spent 24 years working in local government in Wales, ultimately as chief accountant for a South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

Kevin acted as interim Chief Executive Officer during the year, ensuring the smooth continuation of operations whilst recruitment was underway for our new Chief Executive.

Board Diversity

The Board is committed to attracting and retaining talented people, and with that in mind, diversity across a range of criteria is valued. The Board recognises that diversity, in all forms, is key to ensuring different perspectives are introduced into the decision-making processes within the boardroom.
The Board believes that gender is an important aspect in creating an optimal Board in terms of balance and composition. The table below shows the gender balance of the Board over the past 3 years (as at 31 March 2016).

Board Gender Diversity



Governance

Corporate Governance

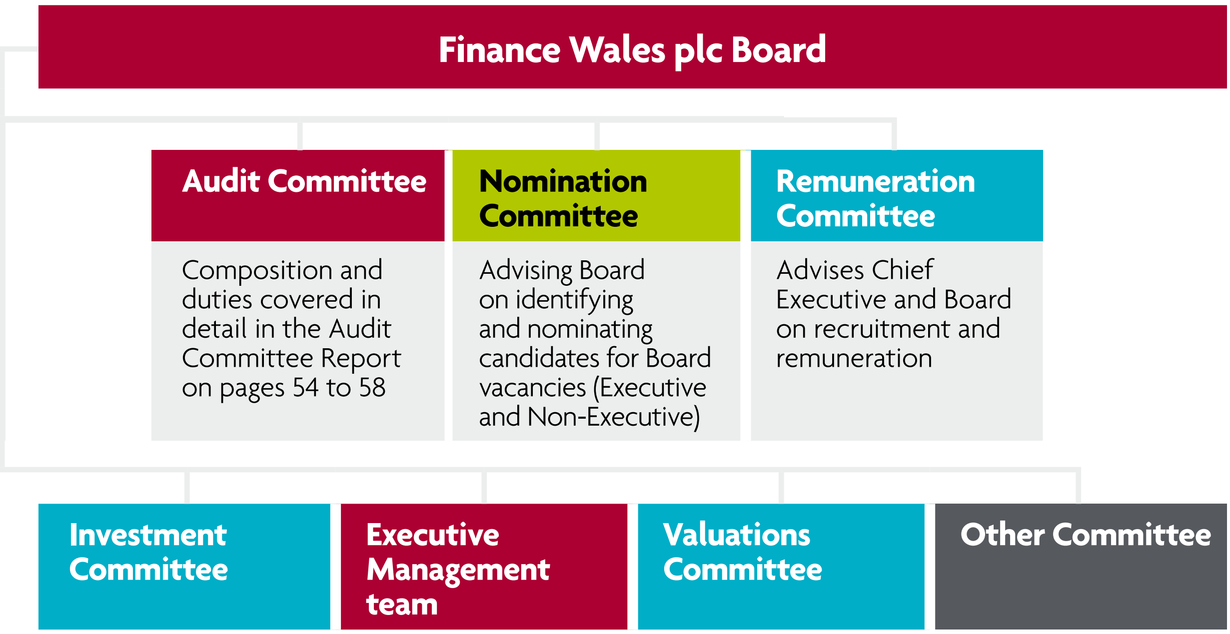
The Directors are committed to exercising a high standard of corporate governance. Whilst the Group is not required to comply with The UK Corporate Governance Code issued by the Financial Reporting Council, every effort is made to ensure that principles are applied where considered relevant.

Board Committees

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

Governance Framework and Board Committees

The FW Group has a clear governance framework, as set out in the diagram below, which explains how authority is delegated from the Board.



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

At each Board meeting, the Chairman of each Committee provides the Board with a brief summary of the work carried out by their Committee, and makes recommendations to the Board for approval.

With the exception of a formal schedule of matters, which are reserved for the decision and approval of the Board, the day-to-day operational management of the Group is delegated by the Board to the Chief Executive Officer, who utilises a number of Committees to assist him in this task.

Governance

Corporate Governance

Board and Board Committee Attendance

Number of meetings attended

Board Member	Board Meetings	Audit Committee	Remuneration Committee
Gareth Bullock *	4/4	N/A	N/A
Huw Morgan	5/6	4/4	N/A
Carol Bell	4/6	N/A	N/A
Ivar Grey	6/6	4/4	N/A
Clive John	6/6	N/A	3/3
Margaret Llewellyn	6/6	4/4	3/3

*Appointed September 2015

Board Evaluation

The performance of the Board and its committees is evaluated each year to ensure that each forum continues to be effective and that each of the Directors demonstrates commitment to his or her respective role and has sufficient time to meet their commitments to the Board. This is an internal exercise based on an evaluation questionnaire which is conducted by the Chairman and Senior Independent Director in accordance with the UK Corporate Governance Code.

The review concluded that overall the Board and its committees remain effective in fulfilling their responsibilities appropriately.

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

Judi Oates

Judi Oates
Company Secretary

15 July 2015

Governance

Remuneration Committee Report

Clive John

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

Committee Membership & Attendance

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

- Committee Chair: Clive John
- Membership: Margaret Llewellyn

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

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

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

Committee Purpose and Responsibilities

Key responsibilities include:

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

Committee Membership and Attendance

Finance Wales, whilst a government-owned entity, operates wholly in the private sector. In order to execute its business strategy the Company requires staff with specialist banking and investment skills and experience. We therefore have to compete for such talent with private sector financial institutions. Over time as public sector and private sector compensation norms are governed by different factors, the Board recognizes that the continuing ability to provide competitive compensation as a potential business risk.

Governance

Remuneration Committee Report

Key achievements and priorities for 2016

2016 saw the conclusion of a detailed independent review of the Group's remuneration policy, conducted by Hay Group. Historically, the Finance Wales Group has undertaken an annual independent salary benchmarking exercise, however, it was felt that a more in-depth evaluation should be undertaken to assess the appropriateness of the overall benefits package.

Key objectives of this exercise were to:

- Assess current pay practice relevant to the market
- Develop an appropriate reward strategy and associated policies to enable the Group to attract and retain the required talent

A number of recommendations have been implemented following the review, including the introduction of new pay bands fully aligned to role profiles and rigorously benchmarked against comparable organisations, and a simplified incentive scheme for employees attaining a prescribed level of performance. The Group operates a robust performance appraisal process, moderated by the Executive Management team.

Key activities and priorities for 2017

The Committee is pleased to report that a three year reward strategy put forward to our Shareholder, the Welsh Ministers, has been approved during the first quarter of the new financial year. This will allow the Group to reward employees appropriately in line with performance.

Approved by the Chairman of the Remuneration Committee

Clive John
Chairman of the Remuneration Committee

Governance

Audit Committee Report

Ivar Grey

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

Membership Composition, Skills and Meetings

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

- Ivar Grey (Chairman)
- Margaret Llewellyn OBE
- Huw Morgan

The experience of the independent members is key to the successful operation of the Committee. The Chair is a chartered accountant with relevant financial experience, one member has held a senior position in a major UK bank and the remaining member is a successful entrepreneur who has previously chaired a pension fund (see biographies on pages 45 - 49).

The Audit Committee meets quarterly. It is attended by Finance Wales plc's Chief Executive, the Director of Finance and Administration and Director of Risk, Compliance and Legal, together with the internal and external auditors, the Welsh Government Department for Economy and Infrastructure Group Finance Director and the Welsh Government's Senior Corporate Governance Manager.

The internal and external auditors also meet the Audit Committee without management present.

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

Committee Purpose and Responsibilities

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

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

Governance

Audit Committee Report

The key responsibilities of the Audit Committee are set out below:

Financial Reporting	Monitor integrity of the financial statements and review critical accounting policies. Review and monitor any significant adjustments arising from the external audit. Assess and challenge where necessary the estimates and judgements by management in preparing the financial statements. Review the annual report and accounts and other financial reporting and advise the Board on whether, taken as a whole, it is fair balanced and understandable. Assess and challenge the going concern assessment prepared by management.
External Audit	Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider the effectiveness, independence and objectivity. Make recommendations to the Board concerning the reappointment and removal of the external auditor. Agree the policy for the provision of non-audit services. Approve the external audit timetable. Review audit findings, considering management's responsiveness to any finding or recommendations.
Internal Controls and Risk	Review the adequacy and effectiveness of internal controls, financial management reporting and risk management and management's responsiveness in addressing control weaknesses. Review and approve the internal control and risk management statements in the annual report.
Whistle-blowing	Review the whistle-blowing arrangements and receive reports on instances of whistle-blowing.
Internal Audit	Approve the selection and appointment of internal auditors. Approve the annual work plan and receive reports on individual areas of work. Monitor management's responses to the findings and recommendations. Monitor the effectiveness of the internal audit function.
Welsh Government	An observer from the Welsh Government attends all meetings and is kept fully informed on all aspects of the Committee's work. An annual report is submitted to Welsh Government setting out details of the Committee's work and providing assurance as to the adequacy of the audit arrangements and also on the assurances provided by the principal accounting officer in respect of governance and control arrangements operated.

Governance

Audit Committee Report

Significant Financial Statement Reporting Issues

In undertaking its role of monitoring the financial statements of the Group, the Committee reviewed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements. With support from the external auditor, the Committee considered a number of significant issues in relation to the financial statements for the year ended 31 March 2016, which are set out below. The majority of these issues are recurring and are therefore considered by the Audit Committee on an on-going basis. The adoption of FRS101 in the Group's subsidiary entities is a new issue which is being considered in detail for the first time this financial year. The Audit Committee is satisfied that the new standards have been successfully adopted in the subsidiary accounts.

Provisions for Impairment of the Loan Book

The Committee considered and challenged the provisioning methodology applied by management including the results of statistical loan losses to support the impairment provision and was satisfied that the provisions were appropriate. The disclosure relating to the impairment provision is set out in note 16 to the financial statements.

Valuation of Equity Investments

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

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

Valuation of Help to Buy – Wales Loan Portfolio

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

Going Concern

The Committee considered and challenged the assumptions set out in a paper prepared by management on working capital requirements and funds available for investment in the 18 months ending 30 September 2017. The Committee was satisfied that there would be sufficient working capital to cover operating expenses and also that discussions were taking place with the Welsh Government on the need for additional funds to invest. The Welsh Government confirmed in a letter dated 14 April 2016 that it would continue to provide financial support until at least 30 September 2017.

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

Governance

Audit Committee Report

FCA Rules

A subsidiary company, FW Capital, is regulated by the Financial Conduct Authority. The Committee sought assurance from management that there were controls in place to ensure the regulations were complied with and that staff received the appropriate training. The Committee was satisfied that the appropriate controls were in place and training provided.

There are a number of subsidiaries within the Group that currently hold interim permission from the FCA for regulated consumer credit activities as a result of the transfer of responsibility from the Office of Fair Trading in April 2014. Going forward, it is proposed that one entity will apply for full FCA authorisation for these activities.

Regularity

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

European Funding Rules

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

Review of the Annual Report and Financial Statements

The non-executive members met with the executives on 8 June 2016 to carry out a detailed review of an early draft of the Annual Report and Financial Statements. The final draft, together with the annual reports from both internal and external auditors, was reviewed at the Audit Committee meeting on 20 June 2016 prior to it being presented to the Board. Following these discussions, the Committee advised the Board that the Annual Report and Financial Statements, taken as a whole are fair, balanced and understandable.

Audit Committee's Performance

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

Governance

Audit Committee Report

External Audit

The external auditor and the Group both have safeguards to ensure the independence and objectivity of the external audit. The Group has a comprehensive policy, which was refreshed in 2014, to regulate the use of the external auditor for non-audit services. The policy sets out the nature of work the external auditor may undertake with a value above a defined limit requiring prior approval from the Audit Committee. The total amount paid to the external auditor in 2016 is set in note 5 to the financial statements.

The independent members of the Audit Committee meet privately at least once annually with the external auditor to review their performance. In 2016 no significant issues were raised and their performance was considered to be good.

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

Internal Audit

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

In their Annual Report to the Audit Committee on 20th June 2016 our Internal Auditors concluded that in their opinion, based on the audit work undertaken during the financial year, Finance Wales has an adequate and effective framework of risk management, governance and internal control which provides satisfactory assurance regarding the effective and efficient achievement of its objectives.

Approved by the Chairman of the Audit Committee

Ivar

Ivar Grey
Chairman of the Audit Committee

Governance

Directors' Report

The directors present their annual report together with the audited consolidated financial statements for Finance Wales plc for the year ended 31 March 2016.

Directors

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

Results and Dividends

During the period, the Group made an overall loss after taxation of £1.3m (2015: profit of £1m). The directors do not recommend the payment of a dividend (2015: £nil).

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic Report. In addition, note 23, Financial Instruments, includes the Group's objectives and policies and process around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk. The Group is financed through external bank borrowings and grant funding, provided by the Welsh Government and European Structural Funds.

The Group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of the Group's loan facilities in place at 31 March 2016 are given in note 19.

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

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government has indicated in a letter of support that it will continue to provide both revenue and capital support at a level sufficient to enable Finance Wales plc to continue as a going concern, until at least September 2017.

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

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

Governance

Directors' Report

Political Donations

The Group made no political donations during 2016 (2015: £nil).

Corporate and Social Responsibility

Details of the Group's policies, activities and aims with regard to its corporate and social responsibilities can be found in our Responsible Business report on pages 39 to 43.

Auditor

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

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

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

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

Judi Oates
Company Secretary

26 July 2016

Governance

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

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

Governance

Independent Auditor's Report to the Members of Finance Wales plc

Opinion on Financial Statements of Finance Wales plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity and the related notes 1 to 38. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Opinion on Regularity

In our opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Welsh Government and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Going Concern

We have reviewed the directors' statement, contained within the Directors' Report, that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our Assessment of Risks of Material Misstatement

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

For all assessed risks described below, we tested the design and implementation of the associated key controls identified.

Governance

Independent Auditor's Report to the Members of Finance Wales plc

Risk

Loan Loss Provisions

The Group holds £32.2 million of loan loss provisions at year-end (2015: £37.3 million) against total loans receivable of £195.9 million (2015: £152.0 million).

Determining impairment provisions against loans receivable is a judgemental area requiring an estimate to be made of the incurred loss within the lending portfolios. This requires the estimation of customer default rates, losses given defaults, and potential impairment indicators all of which may be sensitive to changes in the economic environment.

Loan loss provision balances are detailed within Note 5. Management's associated accounting policies are detailed in Note 2.

Fair Value of Equity Investments

The Group has made adjustments of £15.3 million (2015: £7.2 million) to the carrying value of total equity investments held as available-for-sale financial assets to state equity investments at fair value in accordance with IFRS.

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

Equity investment fair value balances are detailed within Note 23. Management's associated accounting policies are detailed in Note 2.

Fair Value of the Help to Buy-Wales Loan Portfolio

The Group holds £110.0 million (2015: £48.7 million) of loans originated to customers as part of the Welsh Governments help to buy shared equity loan scheme for first time buyers. The loans are held at fair value with no adjustment (2015: £0.4 million) to the amortised cost value at the year-end. The estimation of the fair value of the loan portfolio requires judgement, with the model including a mix of observable and unobservable inputs, such as estimation of future house prices, inflation, customer default rates and a selection of an appropriate discount factor all of which may be sensitive to changes in the economic environment. Further detail on the inputs can be seen in Note 23.

Regularity of Funding Received from the Welsh Government

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

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee.

Governance

Independent Auditor's Report to the Members of Finance Wales plc

How the scope of our audit responded to the risk

Our Response

We challenged the appropriateness of management's key assumptions used in the impairment calculations for loans receivable, including the impairment trigger point, the likelihood of default, and the loss given default. This was achieved through: benchmarking against internal data, assessment of historical portfolio behaviour, undertaking sensitivity analysis, and review of investment committee minutes and a sample of case files.

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

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

Our Response

We challenged the appropriateness of management's key assumptions used in the fair value calculations for equity investments, including the reliability of observable market data including third party offers, the liquidity of quoted prices used, and the effect of credit risk. In addition we also challenged the use of discounts against listed provisions. This was achieved through: benchmarking against internal data, undertaking sensitivity analysis, review of investment committee minutes and a sample of case files.

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

Our Response

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

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

Our Response

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

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

Governance

Independent Auditor's Report to the Members of Finance Wales plc

Our Application of Materiality

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

The value of loan and equity investments is critical to the long term success of
the Group as it generates income through interest income and equity realisations, while the company uses cash to make such investments. We have therefore selected total assets as the benchmark for determining materiality. We have determined materiality by applying 1.0% of this benchmark (2015: 3.0% of current assets less cash).

We determined materiality for the group to be £4.3 million (2015: £3.8 million).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £215k (2015: £190k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An Overview of the Scope of our Audit

As in the prior year, our group audit scope involved performing full audits on the Group's parent and main subsidiaries which accounted for more than 99% (2015: 99%) of the Group's net assets and profits before tax. These audits were performed directly by the group audit team and executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £3,200 to £3,300,000 (2015: £3,500 to £1,461,000).

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

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Governance

Independent Auditor's Report to the Members of Finance Wales plc

Matters on which we are required to report by exception

Adequacy of Explanations Received and Accounting Records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' Remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made. We have nothing to report arising from this matter.

Our Duty to Read Other Information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Governance

Independent Auditor’s Report to the Members of Finance Wales plc

Matters on which we are required to report by exception (continued)

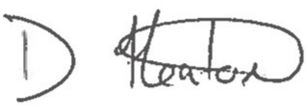
Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors’ Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report auditor’s report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the Audit of the Financial Statements

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



David Heaton
(Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

26 July 2016

FINANCE WALES GROUP

FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2016

Financial Statements

As at 31 March 2016

Consolidated Income Statement

	Note	2016 £	2015 £
Revenue	4	10,403,905	10,046,729
Administrative expenses:			
Impairments against loans receivable	5	(2,180,809)	(7,600,974)
Impairments against financial assets classified as available-for-sale	5	(702,611)	(8,207,864)
Impairments released against financial assets classified as fair value through profit or loss	5	116,004	3,445,379
Other administrative expenses		(12,480,317)	(15,513,704)
Total administrative expenses		(15,247,733)	(27,877,163)
Other operating income:			
Release of ERDF grant income	4	1,728,918	12,992,051
Contribution towards administrative expenses from ultimate parent undertaking	4, 10	2,399,950	2,499,850
(Losses)/Gains from the disposal of equity investments	4	(445,517)	4,616,120
Total other operating income		3,683,351	20,108,021
OPERATING (LOSS)/PROFIT	5	(1,160,477)	2,277,587
Investment revenue	7	668,026	842,605
Finance costs	8	(850,234)	(1,022,416)
Other Gains/(Losses)	9	6,619	(1,097,839)
(LOSS)/PROFIT BEFORE TAXATION		(1,336,066)	999,937
Tax	11	-	-
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(1,336,066)	999,937

All activities derive from continuing operations.

Financial Statements

As at 31 March 2016

Consolidated Statement Of Comprehensive Income

	2016 £	2015 £
(Loss)/Profit for the financial year	(1,336,066)	999,937
Available-for-sale financial assets		
Gains arising during the year	7,946,401	1,478,759
Actuarial gain/(loss) on defined benefit pension schemes	876,000	(1,190,000)
Other comprehensive income for the year	8,822,401	288,759
Total comprehensive income for the year	7,486,335	1,288,696

The £7,946,401 (2015: 1,478,759) gains arising during the year on available for sale assets relate to the movement in unrealised gains on non-associate equity investments. The overall uplift in fair value of these investments was £15,377,915 (2015: 6,949,852) as at the year end.

Consolidated Statement Of Changes In Equity

	Public equity £	Share capital £	Capital reserve £	Profit and loss account £	Total £
Balance at 1 April 2015	117,666,334	12,500	10,100	(12,695,463)	104,993,471
Loss for the financial year	-	-	-	(1,336,066)	(1,336,066)
Gain on revaluation of available-for-sale investments taken to equity	-	-	-	7,946,401	7,946,401
Actuarial gain on defined benefit pension schemes	-	-	-	876,000	876,000
Reduction in public equity	(6,914,999)	-	-	-	(6,914,999)
Balance at 31 March 2016	110,752,334	12,500	10,100	(5,209,128)	105,565,806

Financial Statements

As at 31 March 2016

Consolidated Balance Sheet

	Note	2016 £	2015 £	2014 £
NON-CURRENT ASSETS				
Property, plant and equipment	12	782,703	1,036,356	189,261
Investments in associates	13	3,051,375	2,935,261	3,666,849
Available-for-sale financial assets	14	46,908,724	29,356,182	23,545,548
Trade and other receivables	16	199,255,916	82,197,339	53,563,750
		249,998,718	115,525,138	80,965,408
CURRENT ASSETS				
Trade and other receivables	16	18,558,403	43,464,677	17,142,074
Cash and cash equivalents	17	173,813,388	143,469,578	144,374,064
		192,371,791	186,934,255	161,516,138
TOTAL ASSETS		442,370,509	302,459,393	242,481,546
CURRENT LIABILITIES				
Trade and other payables	20	(14,321,231)	(7,425,367)	(3,708,008)
Borrowings	19	(14,600,000)	(14,100,000)	(8,500,000)
Derivative financial instruments	18	-	(6,619)	(101,088)
Deferred income	22	-	(1,728,918)	(9,470,339)
		(28,921,231)	(23,260,904)	(21,779,435)
NET CURRENT ASSETS		163,450,560	163,673,351	139,736,703
NON-CURRENT LIABILITIES				
Borrowings	19	(9,700,000)	(19,600,000)	(34,500,000)
Trade and other payables	20	(297,669,472)	(153,195,018)	(67,132,685)
Retirement benefit obligations	21	(14,000)	(910,000)	(160,000)
Deferred income	22	(500,000)	(500,000)	(6,014,649)
		(307,883,472)	(174,205,018)	(107,807,334)
TOTAL LIABILITIES		(336,804,703)	(197,465,922)	(129,586,769)
NET ASSETS		105,565,806	104,993,471	112,894,777

Financial Statements

As at 31 March 2016

Consolidated Balance Sheet (continued)

	Note	2016 £	2015 £	2014 £
EQUITY				
Public equity		110,752,334	117,666,334	126,856,334
Share capital	24	12,500	12,500	12,500
Capital reserve		10,100	10,100	10,100
Retained deficit		(5,209,128)	(12,695,463)	(13,984,157)
TOTAL EQUITY		105,565,806	104,993,471	112,894,777

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 26 July 2016.

Signed on its behalf by

G Thorley

Director

Financial Statements
Year ended 31 March 2016

Consolidated Cash Flow Statement

	Note	2016 £	2015 £
Net cash inflow from operating activities	26	46,371,033	19,189,106
Investing activities			
Interest received		668,026	842,605
Purchases of equipment		(11,015)	(983,781)
Net cash received from/(used in) investing activities		657,011	(141,176)
Financing activities			
Interest paid		(870,234)	(1,462,416)
Repayments of borrowings		(20,400,000)	(18,300,000)
Public equity received or reclassified		(6,414,000)	(9,190,000)
New bank loans raised		11,000,000	9,000,000
Net cash used in financing activities		(16,684,234)	(19,952,416)
Net increase/(decrease) in cash and cash equivalents		30,343,810	(904,486)
Cash and cash equivalents at beginning of year		143,469,578	144,374,064
Cash and cash equivalents at end of year		173,813,388	143,469,578

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

01 General Information

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

Adoption of New and Revised Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements of the Group for the year ended 31 March 2016 and applied in accordance with the Companies Act 2006.

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

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

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

02 Accounting Policies

Basis of Preparation

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

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

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements comprise Finance Wales plc (the Company) and its subsidiary undertakings, as listed in note 32 of the company financial statements.

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic Report on pages 5 - 33. In addition, note 23, Financial Instruments, includes the Group's objectives and policies and processes around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk.

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

The Group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of Group loan facilities in place at 31 March 2016 are given in note 19.

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

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide both revenue and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 30 September 2017.

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

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

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

Investments in Associates

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

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

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

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

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies (continued)

Revenue Recognition

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

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

European Regional Development Fund ("ERDF") Grant Income

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

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

Financial Instruments

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

Non-derivative financial assets are classified as either receivables or cash and cash equivalents. They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, their carrying value includes accrued interest receivable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments. Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as any unamortised issue costs.

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

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

02 Accounting Policies | **Financial Instruments** (continued)

Financial Assets

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

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

Effective Interest Method

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

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

Financial Assets at FVTPL

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

Available-For-Sale Financial Assets

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets. Fair value is determined in the manner described in note 23. Gains and losses arising from changes in fair value are recognised directly in equity. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment's revaluation reserve is included in profit or loss for the period.

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

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.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies | **Financial Instruments** (continued)

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Derecognition of Financial Assets

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies (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 the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial Liabilities

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

Provisions

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

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

Other Financial Liabilities

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

Derecognition of Financial Liabilities

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

Derivative Financial Instruments

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

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

02 Accounting Policies (continued)

Embedded Derivatives

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

Public Equity

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

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

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

Related Party Transactions

The Company has taken advantage of the exemption conferred by paragraph 17 of Financial Reporting Standard Number 8 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries.

Leasing

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

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

Operating (Loss)/Profit

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

Borrowing Costs

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

02 Accounting Policies (continued)

Taxation

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

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

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

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

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

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

Retirement Benefits

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

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

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

The Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council. Contributions to this scheme are accounted for as a revenue cost.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

03 Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

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

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

Critical Judgements in Applying the Group's Accounting Policies

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

Going Concern

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

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

Basis of Consolidation

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

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

03 Critical Accounting Judgements And Key Sources Of Estimation Uncertainty (continued)

Key Sources of Estimation Uncertainty

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

Impairment of Financial Assets

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

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

Fair Value of Derivatives and Other Financial Instruments

As described in note 23, 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. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates. The fair value of derivatives at the balance sheet date was £nil (2015: £6,619 net liability).

Deferred Tax

The Group has tax losses of £16 million available for offset against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate likely future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the balance sheet date, no deferred tax asset has been recorded.

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

04 Revenue

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

	2016 £	2015 £
Fees	5,419,094	4,986,431
Dividends	161,989	30,968
Loan interest	4,822,822	5,029,330
Revenue	10,403,905	10,046,729
ERDF grant income	1,728,918	12,992,051
Contribution from the parent undertaking	2,399,950	2,499,850
(Losses)/Gains from the disposal of equity investments	(445,517)	4,616,120
Total revenue	14,087,256	30,154,750

05 Operating (Loss)/Profit

	2016 £	2015 £
Operating (loss)/profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	299,071	136,682
Staff costs (see note 6)	7,072,844	6,807,891
Impairment loss recognised on financial assets classified as available-for-sale	702,611	8,207,864
Impairment gain recognised on financial assets classified as fair value through profit or loss	(116,004)	(3,445,379)
Impairment loss recognised on loans receivable carried at amortised cost	2,180,809	7,600,974

Auditor's remuneration:

	£	£
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25,000	26,595
Fees payable to the Company's auditor for other services to the Group:		
Audit of the Company's subsidiaries pursuant to legislation	64,000	64,208
Total audit fees	89,000	90,803

	£	£
Other services:		
Tax compliance	46,000	45,690
Other services	61,899	54,799
Total non-audit fees	107,899	100,489

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

06 Information Regarding Directors and Employees

	2016	2015
	£	£
Directors' emoluments		
Emoluments	347,748	442,259
Pension costs	351,824	59,999
	699,572	502,258

	£	£
Remuneration of highest paid director	403,827	216,600

Three directors (2015: two) of the Company and three directors (2015: four) of subsidiary companies were members of the defined benefit pension scheme.

A number of changes to the management team took place during the year which were subject to contemporaneous announcements. As a consequence of this, included in the amount for highest paid director, is a payment to the Rhondda Cynon Taff Pension Fund relating to the additional cost of accessing an unreduced accrued pension at the date of leaving, but before the due payment date. This payment was contractually required under the employee's contract of employment and was not subject to any discretionary decision by the Company.

A payment of £30,000 was made in the prior year to one director of the company in relation to compensation for loss of office.

	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	5,973,437	5,511,362
Social security costs	586,845	543,768
Pension costs	512,562	752,761
	7,072,844	6,807,891

	No.	No.
Average number of persons employed (excluding directors and agency temps) – administration	134	128

07 Investment Revenue

	2016	2015
	£	£
Bank interest	668,026	602,605
Net return on pension scheme assets	-	240,000
	668,026	842,605

08 Finance Costs

	2016	2015
	£	£
Interest on bank loans and overdrafts	830,234	1,022,416
Net cost of pension scheme	20,000	-
	850,234	1,022,416

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

09 Other Gains/(Losses)

	2016 £	2015 £
Changes in the fair value of investments in associates	-	(1,192,308)
Changes in the fair value of derivative financial instruments	6,619	94,469
	6,619	(1,097,839)

10 Contribution by Ultimate Parent Undertaking

The Welsh Ministers, acting through the Welsh Government, the ultimate parent undertaking, have contributed £2,399,950 (2015: £2,499,850) towards the administrative expenses of Finance Wales plc (the Company).

11 Tax

	2016 £	2015 £
Current taxation		
UK corporation tax charge for the year	-	-

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

	£	£
(Loss)/Profit on ordinary activities before tax	(1,782,732)	999,937
Tax at 20% (2015: 21%) thereon	(267,213)	209,987
Factors affecting charge for the year		
Non-deductible items	24,582	1,806,822
Deferred tax not provided	-	359,589
Losses arising in the year not recognised	541,719	499,098
Partnership share	389,499	-
Fair value adjustments	-	(19,838)
Non-taxable income	(761,418)	(4,770,634)
Effects of gains (including rollover relief)	72,831	1,914,492
Goodwill	-	250,385
Items charged elsewhere (e.g. extraordinary reserves)	-	(249,901)
Total taxation charge	-	-

A deferred tax asset of £7,522,296 (2015: £14,736,686) has not been recognised in respect of timing differences relating to non-trade financial losses, excess management expenses, accrued pension costs and impairments in respect of investments in associates. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

From 1 April 2015, the main rate of corporation tax reduced to 20%. In July 2015, the government announced further reductions in the main rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020. These changes were substantively enacted in October 2015. The reduction in rate is not anticipated to materially affect the future tax charge of the Company.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

12 Property, Plant and Equipment

Group and Company

	2016 £	2015 £	2014 £
Fixtures and fittings			
Cost			
At 1 April	1,359,990	707,681	1,078,917
Additions	45,418	983,777	140,967
Disposals	(34,405)	(331,468)	(512,203)
At 31 March	1,371,003	1,359,990	707,681
Accumulated depreciation			
At 1 April	323,634	518,420	976,694
Charge for the year	299,071	136,682	53,928
Disposals	(34,405)	(331,468)	(512,202)
At 31 March	588,300	323,634	518,420
Net book value			
At the end of the financial year	782,703	1,036,356	189,261
At the beginning of the financial year	1,036,356	189,261	102,223

13 Investments In Associates

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

	2016 £	2015 £	2014 £
Investments carried at fair value through profit or loss			
Beginning of year	2,935,261	3,666,849	4,773,311
As restated reclassifications as associates	-	(3,446,044)	-
Additions in year	111	2,311,009	500
Disposals	-	(638,308)	(1,836,454)
Changes in fair value carrying amounts	-	(1,192,307)	798,501
Impairment losses/(gains)	116,003	2,234,062	(69,009)
End of year	3,051,375	2,935,261	3,666,849

Movement in impairment recognised to date

	2016 £	2015 £
Balance at the beginning of the year	1,439,192	4,884,571
Reclassifications	-	(2,863,103)
Impairment (gains)/losses recognised	(116,003)	629,041
Disposals in the year	-	(1,211,317)
Balance at the end of the year	1,323,189	1,439,192

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

14 Available-For-Sale Financial Assets

A Available-for-sale investments carried at fair value

There are no available-for-sale assets classified as current.

	Non-current		
	2016	2015	2014
	£	£	£
Available-for-sale investments carried at fair value			
Equity investments	37,582,037	18,155,162	18,920,242
Creative IP fund investment	8,813,827	8,961,614	9,038,866
Less impairment	(12,222,918)	(12,346,323)	(14,190,171)
	34,172,946	14,770,453	13,768,937

Movement in impairment of available-for-sale investments carried at fair value

	2016	2015
	£	£
Available-for-sale investments		
Balance at the beginning of the year	12,346,323	14,190,171
Impairment losses recognised	(123,405)	(1,843,848)
Balance at the end of the year	12,222,918	12,346,323

B Available-for-sale investments carried at cost

	2016	2015	2014
	£	£	£
Available-for-sale investments carried at cost			
Equity investments	33,336,486	37,479,033	25,235,505
HSBC Enterprise Fund	-	383,333	383,333
Less impairment	(20,600,551)	(23,276,637)	(15,842,227)
	12,735,778	14,585,729	9,776,611
Total investments	46,908,724	29,356,182	23,545,548

Movement in impairment of available-for-sale investments carried at cost

	2016	2015
	£	£
Available-for-sale investments		
Balance at the beginning of the year	23,276,637	15,842,227
Impairment losses recognised	1,030,638	9,629,120
Amounts written off as uncollectable	(3,706,724)	(2,194,710)
Balance at the end of the year	20,600,551	23,276,637

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

Financial Statements

15 Interest in Joint Venture

The joint venture noted below relates entirely to The Wales Innovation Fund Limited. Finance Wales plc was entitled to 50% of any distributions or surplus of assets on return of capital of the joint venture under the terms of the share capital owned by Finance Wales plc. The investment was consolidated into these accounts using the equity method under IAS 31. This entity was dissolved on 10 March 2015.

	2016	2015	2014
	£	£	£
Share of net liabilities	-	-	(1,668,840)
Loans to joint venture	-	-	1,668,840
End of year	-	-	-

16 Other Financial Assets

Trade and other receivables

	2016	2015	2014
	£	£	£
Current assets			
Trade debtors	114,194	263,573	169,680
	114,194	263,573	169,680
Loans receivable carried at amortised cost	20,994,833	45,301,621	17,578,076
Impairment	(3,750,780)	(3,728,548)	(2,405,408)
	17,244,053	41,573,073	15,172,668
Other debtors	815,323	1,341,593	1,598,660
Prepayments	384,833	286,438	201,066
	18,558,403	43,464,677	17,142,074
Non-current assets			
Loans receivable carried at amortised cost	217,726,476	107,097,522	81,176,141
Impairment	(18,470,580)	(24,900,203)	(27,619,605)
	199,255,896	82,197,319	53,556,536
Other debtors	20	20	7,214
	199,255,916	82,197,339	53,563,750

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

16 Other Financial Assets (continued)

The Group enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is five years. The interest rate inherent in the loans is fixed at the contract date for all of the loan term. The average effective interest rate contracted is approximately 8.35% per annum (2015: 8.1%).

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

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

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

Ageing of past due but not impaired loan receivables

	2016	2015
	£	£
30-60 days	101,379	96,480
60-90 days	31,680	61,002
90-120 days	(12,147)	50,816
120+ days	58,258	1,203,038
	179,170	1,411,336

Movement in the provision for impairment

	2016	2015	2014
	£	£	£
Loans receivable			
Balance at the beginning of the year	28,628,751	30,025,013	30,400,563
Impairment losses recognised	877,812	5,747,663	4,865,188
Amounts written off as uncollectable	(7,285,203)	(7,143,925)	(5,240,738)
Balance at the end of the year	22,221,360	28,628,751	30,025,013

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

Financial Statements

16 Other Financial Assets (continued)

Ageing of past due and impaired loans receivable

	2016 £	2015 £
Receivables with <100% impairment		
30-60 days	6,875	508
60-90 days	3,002	223
90-120 days	2,202	(11,837)
120+ days	988,351	14,170
	1,000,430	3,064
Receivables with 100% impairment	37,484,213	30,645,587
Total	38,484,643	30,648,651

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

17 Cash and Cash Equivalents

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

	2016 £	2015 £	2014 £
Cash and cash equivalents	173,813,388	143,469,578	144,374,064

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 367 days or less. The carrying amount of these assets is approximately equal to their fair value.

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

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

18 Derivative Financial Instruments

	2016 £	2015 £	2014 £
Financial assets and liabilities carried at fair value through profit or loss (FVTPL)			
Interest rate swap liability	-	6,619	101,088

Further detail of financial instruments is provided in note 23.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

19 Borrowings

	2016	2015	2014
	£	£	£
Bank loans at amortised cost			
Unsecured	-	-	1,800,000
Secured	24,300,000	33,700,000	41,200,000
Total borrowings	24,300,000	33,700,000	43,000,000
Amount due for settlement within 12 months	14,600,000	14,100,000	8,500,000
Amount due for settlement after 12 months	9,700,000	19,600,000	34,500,000

All borrowings are in sterling.

The bank borrowings are secured by charges on accounts containing uninvested cash and security over the investments.

The Group had two principal bank loans during the year

		Original value	Drawn in	March 2016 outstanding value
Finance Wales Investments (6) Limited	i	75,000,000	Apr 09	14,600,000
Finance Wales Investments (8) Limited		9,000,000	Jun 14	9,700,000

i - Repayments in line with a schedule to repay the loan over a period of eight years from inception.

Repayments of £20,400,000 (2015: £18,300,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at rates between 0.85% and 2.55% above LIBOR rate. See note 23 for further detail on the Group's interest rate swaps. The weighted average interest rates paid during the year were 4.00% (2015: 3.14%).

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

20 Other Financial Liabilities

Trade and other payables

	2016 £	2015 £	2014 £
Current liabilities			
Trade payables and accruals	(2,032,839)	(2,155,796)	(1,756,471)
Other creditors	(1,138,392)	(3,752,561)	(501,667)
Amounts owed to parent company	(11,150,000)	(1,517,010)	(1,449,870)
	(14,321,231)	(7,425,367)	(3,708,008)
Non-current liabilities			
Amounts owed to parent company	(297,400,000)	(152,900,000)	(66,900,000)
Other creditors	(269,472)	(295,018)	(232,685)
	(297,669,472)	(153,195,018)	(67,132,685)

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

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

Amounts owed to parent company relates to amounts due to the Welsh Government in relation to Financial Transaction Reserve funding. The current balances in respect of Financial Transaction Reserves funding are repayable by 31 March 2040

21 Retirement Benefit Schemes

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

Defined contribution plan

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

Contributions are paid into an independently administered fund. We employ the services of an independent third party to report to us on an annual basis as to the performance of the fund and also as to whether the default investment fund continues to be fit for purpose. There are no financial disclosure requirements associated with a defined contribution plan.

Defined benefit plan

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

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

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

21 Retirement Benefit Schemes (continued)

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

FW Group consolidated pension scheme surplus/(deficit):

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Finance Wales plc	(390)	(780)	(480)	(1,520)	(1,750)
Finance Wales Investments Limited	376	(130)	320	(420)	(940)
Net deficit	(14)	(910)	(160)	(1,940)	(2,690)

The last actuarial valuation was carried out at 31 March 2013 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. These assumptions have been updated to 31 March 2016. The major assumptions used for the actuarial valuation of both the Finance Wales plc and Finance Wales Investments Limited pension schemes were:

Key Assumptions	2016	2015	2014
Rate of increases in salaries	3.4%	3.4%	3.9%
Rate of increases in pensions in payment	1.9%	1.9%	2.4%
Rate of increase to deferred pensions	1.9%	1.9%	2.4%
Discount rate	3.5%	3.3%	4.4%
Inflation assumption RPI	3.0%	3.0%	3.4%
Inflation assumption CPI	1.9%	1.9%	2.4%

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

Mortality Assumptions	Males		Females	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
Member aged 65 at accounting date	23.1	23.0	26.0	25.9
Member aged 45 at accounting date	25.3	25.2	28.4	28.3

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

21 Retirement Benefit Schemes (continued)

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

Asset Allocation	**Asset split 2016**	**Asset split 2015**	**Asset split 2014**
	%	%	%
Equities	70.1	69.0	70.8
Property	6.4	5.6	5.8
Government bonds	9.2	9.7	9.5
Corporate bonds	10.6	11.7	10.8
Cash	3.7	4.0	3.1
Total market value	100.0	100.0	100.00

	Finance Wales plc			**Finance Wales Investments Limited**		
Reconciliation of Funded	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Status to Balance Sheet	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fair value of assets	6,440	5,850	4,800	9,680	8,840	7,290
Present value of funded defined benefit obligation	(6,830)	(6,630)	(5,280)	(9,210)	(8,970)	(6,970)
Surplus/(deficit) recognised on the balance sheet	(390)	(780)	(480)	470	(130)	320
Deferred tax liability	-	-	-	(94)	-	(64)
Net surplus/(deficit)	(390)	(780)	(480)	376	(130)	256

Amounts recognised in income statement

	Finance Wales plc		**Finance Wales Investments Limited**	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Operating costs				
Current service cost	240	210	400	320
Past service cost	310	-	-	-
Total operating charge	550	210	400	320
Financing Cost				
Interest on net defined benefit liability/(asset)	20	10	-	(20)
Pension expense recognised in profit and loss	570	220	400	300

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

21 Retirement Benefit Schemes (continued)

Amounts recognised in other comprehensive income

	Finance Wales plc		Finance Wales Investments Limited	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Asset gains arising during the period	10	500	20	770
Liability gains/(losses) arising during the period	370	(870)	570	(1,330)
Total actuarial gain/(loss)	380	(370)	590	(560)

Changes to the present value of the defined benefit obligation

	Finance Wales plc		Finance Wales Investments Limited	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Opening defined benefit obligation	6,630	5,280	8,970	6,970
Current service cost	240	210	400	320
Interest expense on defined benefit obligation	220	230	300	310
Contribution by participants	100	110	170	170
Actuarial (gains)/losses on liabilities	(370)	870	(570)	1,330
Net benefits paid out	(300)	(70)	(60)	(130)
Past service cost	310	-	-	-
Closing defined benefit obligation	6,830	6,630	9,210	8,970
Deferred tax liability	-	-	94	-
Closing defined benefit obligation net of deferred tax	6,830	6,630	9,304	8,970

Changes to the fair value of assets

	Finance Wales plc		Finance Wales Investments Limited	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Opening fair value of assets	5,850	4,800	8,840	7,290
Interest income on assets	200	220	300	330
Re-measurement gains on assets	10	500	20	770
Contributions by employers	580	290	410	410
Contributions by participants	100	110	170	170
Net benefits paid out	(300)	(70)	(60)	(130)
Closing fair value of assets	6,440	5,850	9,680	8,840
Net surplus /(deficit)	(390)	(780)	376	(130)

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

22 Deferred Income

	2016 £	2015 £	2014 £
Balance at 1 April	2,228,918	15,484,988	12,818,157
Grant received in the year	2,399,950	2,235,831	12,898,969
Grant released to income statement in the year	(4,128,868)	(15,491,901)	(10,232,138)
Balance at 31 March	500,000	2,228,918	15,489,988

	Current			Non-current		
	2016 £	2015 £	2014 £	2016 £	2015 £	2014 £
Deferred income	-	1,728,918	9,470,339	500,000	500,000	6,014,649

The deferred revenue above relates to grants received by Finance Wales plc from the ERDF and the Welsh Government which Finance Wales plc has passed onto its subsidiaries - Finance Wales Investments Limited and Finance Wales Investments (6) Limited - to invest within the criteria of the grants. The creditors recognise Finance Wales plc's liability to repay to the ERDF and the Welsh Government any grant received not properly invested within the prescribed time limit. The creditors are matched by corresponding debtors due from Finance Wales Investments Limited and Finance Wales Investments (6) Limited (see note 33) for the uninvested grant income. Both the creditors and debtors are reduced when Finance Wales Investments Limited or Finance Wales Investments (6) Limited make a qualifying investment.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

23 Financial Instruments

Significant Accounting Policies

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

Capital Risk Management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

Gearing Ratio

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

	2016 £	2015 £	2014 £
Debt	24,300,000	33,700,000	43,000,000
Cash and cash equivalents	(173,813,388)	(143,469,578)	(144,374,064)
Net funds	(149,513,388)	(109,769,578)	(101,374,064)
Equity	105,565,806	104,993,471	112,894,777
Net debt to equity ratio	(1.42)	(1.04)	(0.90)

Debt is defined as long-term and short-term borrowings as detailed in note 19. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Categories of Financial Instruments

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

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

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 Consolidated Financial Statements

Year ended 31 March 2016

23 Financial Instruments (continued)

Carrying value as at 31 March 2016	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
		£	£	£		£
Assets						
Cash and cash equivalents		173,813,388	-	-	-	173,813,388
Investments in associates		-	-	-	-	-
Measured at fair value using other methods	ii	-	-	-	3,051,375	3,051,375
Other investments		-	-	-	-	-
Measured at market price	i	-	-	21,435,944	-	21,435,944
Measured at fair value using other methods	ii	-	-	12,737,002	-	12,737,002
Measured at cost less credit risk adjustment	iii	-	-	12,735,778	-	12,735,778
Loans to customers	iv	-	106,468,177	-	-	106,468,177
Shared-equity loans	vii	-	-	-	110,031,772	110,031,772
Other receivables	iv	-	1,314,370	-	-	1,314,370
Total financial assets		173,813,388	107,782,547	46,908,724	113,083,147	441,587,806
Non-financial assets						782,703
Total assets						442,370,509
Liabilities						
Interest-bearing loans and borrowings	v	24,300,000	-	-	-	24,300,000
Amounts due to ultimate parent	v	297,400,000	-	-	-	297,400,000
Trade and other payables	v	14,590,703	-	-	-	14,590,703
Retirement benefit obligations	v	14,000	-	-	-	14,000
Total financial liabilities		336,304,703	-	-	-	336,304,703
Reserves						106,065,806
Total reserves and liabilities						442,370,509

a) During the year, assets with a fair value of £2,804,826 as at 31 March 2015 were transferred from Level 2 of the fair value hierarchy to Level 1 of the fair value hierarchy due to becoming quoted on AIM. These assets have been fair valued at £16,956,285 as at 31 March 2016 based on their market value at the balance sheet date.

b) During the year, equity investments with a cost of £354,698 and accumulated depreciation of £354,698 were reclassified from associates to non-associates.

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

23 Financial Instruments (continued)

Carrying value as at 31 March 2015	Note	**Financial assets and liabilities at amortised cost**	**Loans and receivables**	**Financial assets available-for-sale**	**Financial assets and liabilities designated at FVTPL**	**Total**
		£	**£**	**£**	**£**	**£**
Assets						
Cash and cash equivalents		143,469,578	-	-	-	143,469,578
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	2,935,261	2,935,261
Other investments						
Measured at market price	i	-	-	7,239,348	-	7,239,348
Measured at fair value using other methods	ii	-	-	7,531,105	-	7,531,105
Measured at cost less credit risk adjustment	iii	-	-	14,585,730	-	14,585,730
Loans to customers	iv	-	74,595,314	-	-	74,595,314
Shared-equity loans	vii	-	-	-	49,175,078	49,175,078
Other receivables	iv	-	1,891,623	-	-	1,891,623
Total financial assets		143,469,578	76,486,937	29,356,183	52,110,339	301,423,037
Non-financial assets						1,036,356
Total assets						302,459,393
Liabilities						
Interest-bearing loans and borrowings	v	33,700,000	-	-	-	33,700,000
Amounts due to ultimate parent	v	152,900,000	-	-	-	152,900,000
Trade and other payables	v	7,720,385	-	-	-	7,720,385
Deferred revenue	v	2,228,918	-	-	-	2,228,918
Retirement benefit obligations	v	910,000	-	-	-	910,000
Interest rates swaps	vi	-	-	-	6,619	6,619
Total financial liabilities		197,459,303	-	-	6,619	197,465,922
Reserves						104,993,471
Total reserves and liabilities						302,459,393

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

23 Financial Instruments (continued)

Carrying value as at 31 March 2014	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
		£	£	£	£	£
Assets						
Cash and cash equivalents		144,374,063	-	-	-	144,374,063
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	3,666,849	3,666,849
Other investments						
Measured at market price	i	-	-	136,881	-	136,881
Measured at fair value using other methods	ii	-	-	13,630,061	-	13,630,061
Measured at cost less credit risk adjustment	iii	-	-	9,778,605	-	9,778,605
Loans to customers	iv	-	66,353,154	-	-	68,729,204
Shared-equity loans	vii	-	-	-	2,376,050	2,376,050
Other receivables	iv	-	1,976,622	-	-	1,976,622
Total financial assets		144,374,063	68,329,776	23,545,547	6,042,899	242,292,285
Non-financial assets						189,261
Total assets						242,481,546
Liabilities						
Interest-bearing loans and borrowings	v	43,000,000	-	-	-	43,000,000
Amounts due to ultimate parent	v	66,900,000	-	-	-	66,900,000
Trade and other payables	v	3,940,694	-	-	-	3,940,694
Deferred revenue	v	15,484,988	-	-	-	15,484,988
Retirement benefit obligations	v	160,000	-	-	-	160,000
Interest rates swaps	vi	-	-	-	101,088	101,088
Total financial liabilities		129,485,682	-	-	101,088	129,586,770
Reserves						112,894,776
Total reserves and liabilities						242,481,546

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

23 Financial Instruments (continued)

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

Note:

i) The fair value of investments in quoted securities in an active market is the market price on the balance sheet date (level 1 hierarchy as defined below).

ii) For investments in non-quoted securities, other methods are used to determine fair value, following a recent transactional event, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, using a recent offer from a prospective purchaser, or using a discounted PE valuation (level 2 hierarchy as defined below).

iii) Where the fair value of a financial asset cannot be reliably estimated, the fair value of the financial asset is approximated at cost adjusted for credit risk (the method for such an adjustment is described below).

iv) Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IAS 39.

v) The fair value of amounts owed to our ultimate parent, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date.

vi) The fair value of interest rate swaps is calculated using discounted future cash flows and is obtained from external counterparties (level 2 hierarchy as defined below).

vii) 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 £nil gain or loss on the fair value of the shared equity loan book. The model does, however, use the House Price Index (HPI) as a key input. There is no observable data for the HPI for the 25 year duration of the model. Sensitivity analysis on this input indicates a range of possible outcomes, and highlights the sensitivity of this particular input on the result. A move of 1% above or below the HPI rate used could result in an increase in value of £6.6m or a decrease in value of £5.8m.

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

Level	Hierarchy for fair value disclosures
1.	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2.	Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. 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, using a recent offer from a prospective purchaser, or using a discounted PE valuation.
3.	Inputs for the asset or liability that are not based on observable market data.

Other Price Risks

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

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

23 Financial Instruments (continued)

Market Risk

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

Interest Rate Risk Management

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

Interest Rate Swap Contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of higher interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The Group has entered into interest rate swap agreements in respect of the bank loans. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Outstanding amounts receive floating pay fixed contracts	Average contract fixed interest rate			Notional principal amount			Fair value		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	%	%	%	£	£	£	£	£	£
Less than 1 year	-	3.64	-	-	3,750,000	-	-	(6,619)	-
1 to 2 years	-	-	3.64	-	-	3,750,000	-	-	(101,088)
				-	3,750,000	3,750,000	-	(6,619)	(101,088)

The Group's interest rate swap expired on 1 April 2016.

The fair value of the interest rate swaps at 31 March 2016 was £Nil (2015: liability of £6,619).

The interest rate swaps settled on a quarterly basis. The floating rate on the interest rate swaps is three months LIBOR. The Group settled the difference between the fixed and floating interest rate on a net basis.

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

23 Financial Instruments (continued)

Interest Rate Sensitivity Analysis

The Group's interest rate risk arises due to commercial lending being made on fixed rate contracts, whereas borrowings are all at a variable rate. There is a natural hedge in so far as uninvested cash is invested in variable rate treasury deposits, but a risk arises, outside this natural hedge, when borrowings exceed the uninvested cash on treasury deposit. This risk is covered by interest rate swaps. However, where borrowings are to support our investments in equity instruments, any exposure here is not covered by swaps due to the uncertain cash flows. At 31 March 2016 the cash on treasury deposit exceeded borrowings by £109,769,578 (2014: £101,374,064) and therefore there was no exposure (2014: net exposure £nil). The following table details the Group's sensitivity to a 1% increase in interest rates for the year to 31 March.

	2016	2015
	£	£
Increase in interest payable	(290,000)	(306,000)
Increase in interest receivable	1,586,000	1,439,000
Decrease in loss/increase in profit	1,296,000	1,133,000

Credit Risk Management

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

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

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

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

	2016	2015
	£	£
Increase in loss/Reduction in profit	2,678,000	764,000

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Financial Statements

23 Financial Instruments (continued)

Liquidity Risk Management

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

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

Liquidity and Interest Risk Tables

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

	Weighted average effective interest rate	Less than 6 months £'000	6 months - 1 year £'000	1 – 2 years £'000	2 – 5 years £'000	5+ years £'000	Total £'000
2015							
Variable interest rate instruments	3.14%	448	18,594	16,032	-	-	35,074
		448	18,594	16,032	-	-	35,074
2016							
Variable interest rate instruments	4.00%	385	15,019	2,124	8,239	-	25,767
		385	15,019	2,124	8,239	-	25,767

With the exception of financial assets as disclosed in note 16, financial assets are current and are non-interest bearing.

Notes to the Consolidated Financial Statements

Year ended 31 March 2016

24 Called Up Share Capital

	2016 £	2015 £	2014 £
Authorised and allotted			
50,000 ordinary shares of £1 each	50,000	50,000	50,000
Called up, allotted and part paid			
50,000 ordinary shares, 25p part paid	12,500	12,500	12,500

25 Operating Lease Arrangements

	2016 £	2015 £	2014 £
Payments under operating leases recognised as an expense in the year	348,643	344,575	350,251

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

	2016 £	2015 £	2014 £
Within one year	286,198	247,248	233,065
In the second to fifth years inclusive	847,095	884,637	90,509
After five years	1,796,970	1,973,144	-
	2,930,263	3,105,029	323,574

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

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

26 Notes to the Consolidated Cash Flow Statement

	2016 £	2015 £
Loss/(profit) for the year	(1,336,066)	999,939
Adjustments for:		
Investment revenues	(668,026)	(842,605)
Other gains and losses	(6,619)	1,097,839
Finance costs	850,234	1,022,416
Depreciation of property, plant and equipment	264,666	136,682
Loss/(gain) on sale of available-for-sale financial assets	445,517	(4,616,120)
Proceeds on disposal of available-for-sale investments	3,946,698	11,150,321
Acquisition of investment in available-for-sale financial asset	(14,647,345)	(17,305,698)
Net loans made	(94,940,489)	(61,425,742)
Release of deferred income	(1,728,918)	(12,992,051)
Impairments against loans receivable	2,180,809	7,600,974
Impairments against financial assets classified as available-for-sale	702,611	8,207,864
Impairments against financial assets classified as fair value through profit or loss	(116,004)	(3,445,379)
Operating cash flows before movements in working capital	(105,052,932)	(70,411,560)
Increase in receivables	550,201	84,993
Increase in payables	150,873,764	89,515,673
Cash consumed during operations	46,371,033	19,189,106

Notes to the Consolidated Financial Statements
Year ended 31 March 2016

27 Related Party Transactions

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

Trading Transactions

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

Sale of services			Loans to related parties			Equity investments in related parties		
2016	2015	2014	2016	2015	2014	2016	2015	2014
£	£	£	£	£	£	£	£	£
27,540	36,510	163,604	245,936	224,836	4,878,170	4,374,407	4,374,297	7,759,114

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

28 Ultimate Controlling Party

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

Company Balance Sheet
As at 31 March 2016

	Note	2016 £	2015 £
FIXED ASSETS			
Tangible assets	12	782,703	1,036,356
Investments	32	362,188,305	263,071,639
		362,971,008	264,107,995
CURRENT ASSETS			
Debtors: due within one year	33	646,724	2,290,716
Debtors: due after one year	33	-	-
Cash at bank and in hand		47,262,404	13,000,999
		47,909,128	15,291,715
CREDITORS: amounts falling due within one year	34	(26,047,517)	(14,761,064)
NET CURRENT ASSETS		21,861,611	530,651
TOTAL ASSETS LESS CURRENT LIABILITIES		384,832,619	264,638,646
CREDITORS: amounts falling due after more than one year	35	(300,289,000)	(171,389,000)
ACCRUALS AND DEFERRED INCOME		(950,938)	(2,192,655)
NET ASSETS EXCLUDING PENSION LIABILITY		84,592,681	91,056,991
Pension liability	21	(390,000)	(780,000)
NET ASSETS INCLUDING PENSION LIABILITY		83,202,681	90,276,991
CAPITAL AND RESERVES			
Public equity		111,752,334	117,666,334
Called up share capital	37	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(27,572,253)	(27,411,943)
SHAREHOLDERS' FUNDS		83,202,681	90,276,991

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 26 July 2016.

Signed on its behalf by

G Thorley

Director

Notes to the Company Financial Statements
Year ended 31 March 2016

29 Accounting Policies

Basis of Accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention and under the going concern assumption. Further details of the directors' considerations in relation to going concern are included in the Director's Report on page 59 - 60.

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

Tangible Fixed Assets

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

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

- Fixtures and fittings 3 to 4 years

Investments

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

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

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

Financial Instruments

The Company is exposed to interest rate risk arising from borrowing at a margin over London Inter Bank Offered Rate (LIBOR) and lending to SMEs at a fixed rate. The Group holds interest rate swap contracts to hedge its exposure to movements in LIBOR. Details of the interest rate swaps held are given in note 18.

The use of financial derivatives is governed by the Company's policies approved by the Board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Taxation

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

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

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

Notes to the Company Financial Statements

Year ended 31 March 2016

29 Accounting Policies (continued)

Public Equity

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

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

Pensions

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

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

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

Notes to the Company Financial Statements

Year ended 31 March 2016

30 Information Regarding Directors and Employees

	2016	2015
	£	£
Directors' emoluments		
Emoluments	347,748	442,259
Pension costs	351,824	59,999
	699,572	502,258

	£	£
Remuneration of highest paid director	403,827	216,600

Two directors of the company and four directors of subsidiary companies were members of the defined benefit pension scheme (2015: two and four).

A payment of £30,000 was made during the year to one director of the company in relation to compensation for loss of office

	2016	2015
	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	1,584,917	1,422,377
Social security costs	145,451	130,434
Pension costs	232,222	222,203
	1,962,590	1,775,014

	No.	No.
Average number of persons employed (excluding directors) – administration	44	40

31 Loss for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £540,310 (2015: loss of £293,699). Auditor's remuneration for audit services for the Company was £25,000 (2015: £26,595) and for non-audit services for the Company was £33,299 (2015: £10,176).

Notes to the Company Financial Statements

Year ended 31 March 2016

32 Investments

	Shares in subsidiary undertaking	Investments in and loans to subsidiary undertakings and joint venture	Investment in HSBC Enterprise Fund	Total 2016	Total 2015
	£	£	£	£	£
At 1 April	155,015	262,783,290	133,333	263,071,638	190,561,737
Additions	-	99,250,000	-	99,250,000	72,510,002
Disposals	-	-	(133,333)	(133,333)	(100)
At 31 March	155,015	362,033,290	-	362,188,305	263,071,639

The Company's investments in group companies relate to:

Subsidiaries			
Finance Wales Investments Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (2) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (3) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (4) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (5) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (6) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (8) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (9) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (10) Limited	United Kingdom	100%	£1 ordinary shares
Finance Wales Investments (11) Limited	United Kingdom	100%	£1 ordinary shares
Help to Buy (Wales) Limited	United Kingdom	100%	£1 ordinary shares
FW Capital Limited	United Kingdom	100%	£1 ordinary shares
NE Growth 500 LP Limited	United Kingdom	100%	£1 ordinary shares
FW Development Capital (North West) GP Ltd	United Kingdom	100%	£1 ordinary shares
TVUPB Limited	United Kingdom	100%	£1 ordinary shares
NW Loans Limited	United Kingdom	100%	£1 ordinary shares
xènos – The Wales Business Angel Network Limited	United Kingdom	100%	£1 ordinary shares
North West Loans Limited	United Kingdom	100%	£1 ordinary shares

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

Notes to the Company Financial Statements
Year ended 31 March 2016

33 Debtors

	2016	2015	2014
	£	£	£
Debtors due within one year:			
Loans receivable within one year	-	-	200
Trade debtors	9,104	8,308	8,169
Amount owed by group undertakings	193,996	1,918,918	800,000
Other debtors	70,455	101,454	150,916
Prepayments and accrued income	373,169	262,036	201,067
	646,724	2,290,716	1,160,352

	£	£	£
Debtors due after one year:			
Loans receivable after one year	-	-	3,208
Amount owed by group undertakings	-	-	14,720,969
	-	-	14,724,177

34 Creditors: Amounts Falling Due within One Year

	2016	2015	2014
	£	£	£
Trade creditors	218,346	328,564	150,724
Amounts owed to group undertakings	-	-	1,589,000
Bank loans	14,600,000	14,100,000	8,500,000
Other creditors	79,171	142,500	124,976
Amounts due to ultimate parent	11,150,000	190,000	800,000
	26,047,517	14,761,064	11,164,700

35 Creditors: Amounts Falling Due after more than One Year

	2016	2015	2014
	£	£	£
Bank loans	-	15,600,000	34,500,000
Amounts owed to group undertakings	2,889,000	2,889,000	-
Amount due to ultimate parent	297,400,000	152,900,000	66,900,000
	300,289,000	171,389,000	101,400,000

Notes to the Company Financial Statements

Year ended 31 March 2016

Financial Statements

36 Borrowings

	2016 £	2015 £	2014 £
Unsecured borrowings are repayable as follows:			
Within one year	-	-	-
In the second year	-	-	1,800,000
In the third year	-	-	-
In the fourth to fifth years inclusive	-	-	-
	-	-	1,800,000
Secured borrowings are repayable as follows:			
Within one year	14,600,000	14,100,000	8,500,000
In the second year	-	15,600,000	17,100,000
In the third year	-	-	15,600,000
In the fourth to fifth years inclusive	-	-	-
	14,600,000	29,700,000	41,200,000
Total borrowings	14,600,000	29,700,000	43,000,000

Loans received for making investments within Finance Wales Investments (5) Limited were repaid in full during 2014.

The loan received for making investments in Finance Wales Investments (6) Limited is repayable in line with the original repayment schedule. Repayments of £15,100,000 (2015: £11,500,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at rates between 0.85% and 2.55% above LIBOR rate.

The company's interest rate swap under which it paid a fixed rate of 3.64% per annum expired on 1 April 2015. The effective notional amount outstanding at 31 March 2016 was £Nil (2015: £3,750,000)

The fair value of the interest rate swap at 31 March 2016 was a liability of £Nil (2015: £6,619).

37 Called Up Share Capital

	2016 £	2015 £	2014 £
Authorised and allotted			
50,000 ordinary shares of £1 each	50,000	50,000	50,000
Called up, allotted and part paid			
50,000 ordinary shares, 25p part paid	12,500	12,500	12,500

Notes to the Company Financial Statements

Year ended 31 March 2016

38 Combined Reconciliation of Movement in Shareholders' Funds and Statement of Movements on Reserves

	Public equity £	Share capital £	Capital reserve £	Profit and loss account £	Total 2016 £	Total 2015 £
Balance at 1 April	117,666,334	12,500	10,100	(27,351,840)	90,337,094	100,290,793
Loss for the financial year	-	-	-	-	-	(293,699)
Actuarial gain/(loss) for the year	-	-	-	380,000	380,000	(470,000)
Reduction in Public equity	(6,914,000)	-	-	-	(6,914,000)	(9,190,000)
Balance at 31 March	110,752,334	12,500	10,100	(26,971,840)	83,803,094	90,337,094