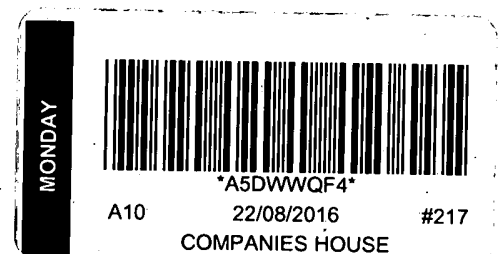


**FINANCE WALES INVESTMENTS (3)  
LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 March 2016**



# **FINANCE WALES INVESTMENTS (3) LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2016**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Directors' responsibilities statement</b>	<b>4</b>
<b>Independent auditor's report</b>	<b>5</b>
<b>Profit and loss account</b>	<b>6</b>
<b>Statement of other comprehensive income</b>	<b>7</b>
<b>Balance sheet</b>	<b>8</b>
<b>Statement of changes in equity</b>	<b>9</b>
<b>Notes to the financial statements</b>	<b>10</b>

# **FINANCE WALES INVESTMENTS (3) LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

G Thorley (appointed 4 April 2016)  
S Lloyd Jones (resigned 30 September 2015)  
K O'Leary  
M Owen  
D Staziker (appointed 1 October 2015)  
N Maguinness

### **SECRETARY**

J 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  
Cardiff

## FINANCE WALES INVESTMENTS (3) LIMITED

### DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2016.

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

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the Company is to facilitate the provision of financial services to Small and Medium Enterprises ("SMEs"). The Company manages investments both in companies requiring funding for rescue or restructuring, and in relation to the Technology and Commercialisation Centre programme - a legacy fund from the former Welsh Development Agency which is no longer investing. The £10m Wales Technology Venture Investment Fund was launched during the year. The £25m Wales Capital Growth Fund and the £7.5m Wales Technology Seed Fund were launched in the previous financial year. These have been funded by Financial Transaction Reserve ('FTR') funding received from the Welsh Government. The Company will continue with the remaining activities for the foreseeable future.

During the year the Company made the following investments across each of its funds.

	Value		Number of Companies	
	2016	2015	2016	2015
	£	£		
Rescue and Restructuring Fund	0.29m	3.05m	3	12
Wales Capital Growth Fund	6.84m	2.97m	14	8
Wales Technology Seed Fund	1.46m	0.63m	9	5
Wales Technology Venture Investment Fund	5.42m	-	13	-

Bad debts of £767,091 (2015 - £256,713) were written off during the year. These debts were fully provided prior to being written off.

The directors expect the general level of activity to increase in the forthcoming year. This is as a result of the launch of the £10m Wales Technology Venture Investment Fund. This entity will also host the £4.7m Wales Local Energy Fund, which will be launched in April 2016.

There have been no significant events since the balance sheet date.

#### *Going concern*

The Company is financed through grant funding and FTR funding provided by the Welsh Government.

The Finance Wales Group comprises Finance Wales plc acting as the holding company and its subsidiaries, which provide financial services to SMEs. 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 within the financial statements of Finance Wales plc. In addition, note 23 of the Finance Wales plc financial statements 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 relevant information for Finance Wales Investments (3) Limited is set out within the Strategic report of Finance Wales plc.

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 September 2017.

The Group's forecasts and projections, taking account of reasonably possible 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 signing the balance sheet. The Group's forecasts include a forecast in respect of this company.

**DIRECTORS' REPORT (continued)**

After making enquiries and taking account of the factors noted above, the directors have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**DIVIDENDS**

The directors cannot recommend the payment of a dividend (2015 - £nil).

**DIRECTORS**

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

**AUDITOR**

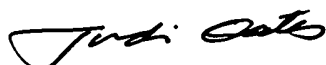
In the case of each of the persons who are directors of the Company at the date when this report is approved:

- 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 section 418 of the Companies Act 2006.

The Group has a policy of tendering the external audit every five years. The audit was tendered during the financial year and the incumbents Deloitte LLP were reappointed.

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



J Oates  
Company Secretary

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 these financial statements, the directors are required to:

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF FINANCE WALES INVESTMENTS (3) LIMITED**

We have audited the financial statements of Finance Wales Investments (3) Limited for the year ended 31 March 2016 which comprise the Profit and Loss Account, the Statement of other comprehensive income, the Balance Sheet, Statement of changes in equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101, "the Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

### **Respective responsibilities of directors and 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **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 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.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

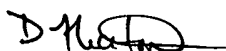
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from preparing a strategic report or in preparing the directors' 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 INVESTMENTS (6) LIMITED

## PROFIT AND LOSS ACCOUNT For the year ended 31 March 2016

	Notes	2016 £	2015 £
<b>Turnover</b>	3	793,461	518,054
Administrative Expenses:			
Impairments released/(impairments) against loans receivable	5	208,451	(2,530,815)
Impairments against financial assets classified as available-for-sale	5	(1,444,615)	(249,035)
Impairments released against financial assets classified as fair value through profit or loss	5	-	56,643
Other administrative expenses		(1,067,371)	(700,484)
<b>Total Administrative expenses</b>		<u>(2,303,535)</u>	<u>(3,423,691)</u>
<b>OPERATING LOSS</b>		<u>(1,510,074)</u>	<u>(2,905,637)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES</b>		<u>(1,510,074)</u>	<u>(2,905,637)</u>
Interest receivable and similar income	4	<u>27,358</u>	<u>7,670</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(1,482,716)</u>	<u>(2,897,967)</u>
Tax on loss on ordinary activities	8	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u><u>(1,482,716)</u></u>	<u><u>(2,897,967)</u></u>

All activities in both the current and preceding period derive from continuing operations.



# FINANCE WALES INVESTMENTS (3) LIMITED

## STATEMENT OF OTHER COMPREHENSIVE INCOME For the year ended 31 March 2016

	2016 £	2015 £
Loss for the financial year	<u>(1,482,716)</u>	<u>(2,897,967)</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Available-for-sale financial assets		
- Gains arising during the year	<u>234,276</u>	<u>-</u>
<b>Total comprehensive income for the period</b>	<u><u>(1,248,440)</u></u>	<u><u>(2,897,967)</u></u>

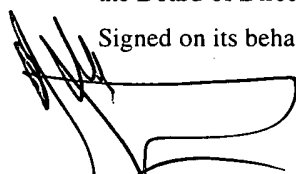
# FINANCE WALES INVESTMENTS (3) LIMITED

## BALANCE SHEET At 31 March 2016

	Note	2016 £	2015 £
<b>FIXED ASSETS</b>			
Available-for-sale financial assets	10	4,177,480	212,734
		<u>4,177,480</u>	<u>212,734</u>
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	11	5,457,017	1,220,539
- due after one year	11	4,253,514	744,075
Cash at bank and in hand		29,219,006	14,067,034
		<u>38,929,537</u>	<u>16,031,648</u>
<b>CREDITORS: Amounts falling due within one year</b>	12	<u>(109,419)</u>	<u>(43,063)</u>
<b>NET CURRENT ASSETS</b>		<u>38,820,118</u>	<u>15,988,585</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>42,997,598</u>	<u>16,201,319</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	11	<u>(44,579,657)</u>	<u>(16,534,938)</u>
<b>NET LIABILITIES</b>		<u>(1,582,059)</u>	<u>(333,619)</u>
<b>CAPITAL AND RESERVES</b>			
Public equity		4,154,250	4,154,250
Called-up share capital	14	1	1
Profit and loss account		<u>(5,736,310)</u>	<u>(4,487,870)</u>
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<u>(1,582,059)</u>	<u>(333,619)</u>

The financial statements of Finance Wales Investments (3) Limited, registered number 5210122, were approved by the Board of Directors and authorised for issue on 26 July 2016.

Signed on its behalf by

  
Giles Thorley  
Director

# FINANCE WALES INVESTMENTS (3) LIMITED

## STATEMENT OF CHANGES IN EQUITY

At 31 March 2016

	Public equity £	Share capital £	Profit and loss account £	Total £
<b>Balance at 31 March 2014 as previously stated</b>	4,154,250	1	(1,419,992)	2,734,259
Effect of change in accounting framework :				
- Portfolio Provision	-	-	(169,911)	(169,911)
<b>Restated balance at 1 April 2014</b>	4,154,250	1	(1,589,903)	2,564,348
Loss for the year	-	-	(2,897,967)	(2,897,967)
<b>Balance at 31 March 2015</b>	4,154,250	1	(4,487,870)	(333,619)
Loss for the year	-	-	(1,482,716)	(1,482,716)
Other comprehensive income for the year	-	-	234,276	234,276
<b>Balance at 31 March 2016</b>	4,154,250	1	(5,736,310)	(1,582,059)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. ACCOUNTING POLICIES

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

#### **Basis of accounting**

Finance Wales Investments (3) Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors Report on page 2.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2016 the Company has changed its accounting framework from UK GAAP to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) '*Reduced Disclosure Framework*' as issued by the Financial Reporting Council. The prior year financial statements were re-stated for material adjustments on adoption of FRS 101 in the current year. For more information see note 16.

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

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

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of a statement of cash flows, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group accounts of Finance Wales plc. The group accounts of Finance Wales plc are available to the public and can be obtained as set out in note 14.

#### **Going concern**

The Company'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 within the financial statements of Finance Wales plc. In addition, note 23 of the Finance Wales plc financial statements includes the Group's objectives, policies and processes around managing capital risk, its financial risk management objectives; and its exposure to market, credit and liquidity risk.

The Company is financed grant funding provided by the Welsh Government.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. ACCOUNTING POLICIES (continued)

#### Going concern (continued)

Finance Wales plc's ultimate controlling party, 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 September 2017.

The Group's forecasts and projections, taking account of reasonably possible 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 the balance sheet. The group's forecasts include a forecast in respect of this company.

After making enquiries and having reviewed the forecasts for the Company, the directors believe there are no material uncertainties that lead to a significant doubt on the Company's ability to continue in business over the next 12 months. The directors have a reasonable expectation that the Company has 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.

#### Investments in Associates

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Management regularly reviews a range of factors to determine whether significant influence over an investee exists. Amongst others, key factors include: reliance on funding from the Company 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 Company management at the investee Board.

The Company 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 Company'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 Company net assets. No financial guarantees are given or borrowing restrictions established with investee companies.

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

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

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

#### Taxation

##### Current tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**1. ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

Deferred tax

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

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

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

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

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

Current tax and deferred tax for the year

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

**Turnover**

Turnover represents interest receivable on loans, application and arrangement fees. All turnover relates to one class of business and arises in the UK on investments made in Welsh businesses.

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

**Foreign currency**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. ACCOUNTING POLICIES (continued)

#### **Financial instruments**

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

#### ***Financial assets***

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 debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 gains or losses arising on remeasurement 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 and is included in the 'other gains and losses' line item in the profit and loss account. Fair value is determined in the manner described in note 13.

#### **Available-for-sale financial assets**

Listed shares held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. The Company also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in note 13. Gains and losses arising from changes in fair value are recognised directly in equity. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment's revaluation reserve is included in profit or loss for the period.

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

#### **Loans and receivables**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### *Financial assets (continued)*

##### Impairment of financial assets

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

For financial assets classified as AFS, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

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

For certain categories of financial asset, such as loans receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of financial assets could include the Company's past experience of recovery, and the levels and trends of specific impairments made as well as observable changes in national or local economic conditions that correlate with default. The impact of forbearance is also considered. Forbearance has not materially impacted impairment provision requirements during the year; the collective provision is deemed to provide sufficient provision for impairment.

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

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

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

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

##### Cash and cash equivalents

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

##### Derecognition of financial assets

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. ACCOUNTING POLICIES (continued)

#### **Financial instruments (continued)**

##### ***Financial liabilities and equity***

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

##### Equity instruments

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

##### Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

##### Derecognition of financial liabilities

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

#### **Provisions**

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

#### **Related party transactions**

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

#### **Public equity**

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

The funding is to invest in the long-term sustainability of 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### **Critical judgements in applying the Company's accounting policies**

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

#### *Going concern*

In preparing the financial statements, the directors have concluded that the Company 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 Company 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.

#### **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 including investments. Where uncertainty exists, either about the viability of an investee business, or an inability to meet commitments as and when they fall due, a provision will be recognised. Each provision case is proactively managed to identify the causes for concern and to work with investee businesses to effect repayment or recovery of the at-risk investment.

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

#### *Fair value of financial instruments*

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

# FINANCE WALES INVESTMENTS (3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 3. TURNOVER

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

	2016 £	2015 £
Fees	355,460	164,461
Loan interest	438,001	353,593
Turnover	<u>793,461</u>	<u>518,054</u>
Interest receivable and similar income (note 4)	<u>27,358</u>	<u>7,670</u>
	<u>820,819</u>	<u>525,724</u>

### 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £	2015 £
Interest receivable:		
- Bank deposits	<u>27,358</u>	<u>7,670</u>

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2016 £	2015 £
<b>Profit on ordinary activities before taxation in stated after charging/(crediting):</b>		
Impairment losses recognised on financial assets classified as available-for-sale	1,444,615	249,035
Impairment gains recognised on financial assets classified as fair value through profit or loss	-	(56,643)
Impairment (gains)/losses recognised on loans receivable carried at amortised cost	<u>(208,451)</u>	<u>2,530,815</u>

### 6. AUDITOR'S REMUNERATION

	2016 £	2015 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>3,000</u>	<u>3,111</u>

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent Company are required to disclose such fees on a consolidated basis.

### 7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**8. TAX ON LOSS ON ORDINARY ACTIVITIES**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Current taxation</b>		
UK corporation tax charge for the year	-	-
	<u>          </u>	<u>          </u>
The charge for the year can be reconciled to the loss in the profit and loss account as follows:		
	<b>£</b>	<b>£</b>
Loss on ordinary activities before tax	(1,482,716)	(2,897,967)
	<u>          </u>	<u>          </u>
Tax on loss on ordinary activities at standard UK corporation tax rate of 20% (2015: 21%)	(296,543)	(608,573)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	-	17,031
Amounts not recognised	296,543	591,542
	<u>          </u>	<u>          </u>
<b>Total taxation charge</b>	-	-
	<u>          </u>	<u>          </u>

A net deferred tax liability of £164,817 (2015: £65,154) has not been recognised as there are sufficient tax attributes in other group entities to offset this liability when it unwinds.

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.

**9. 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.

In the previous year, associates with a fair value of £nil (2015: £nil) were reclassified as non-associates. The impairment of £56,643 associated with this investment was released in the 2015 profit and loss account. No equity investments have been classified as associates in the current year.

# FINANCE WALES INVESTMENTS (3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

#### (a) Available-for-sale investments carried at fair value

	2016 £	2015 £
Available-for-sale investments carried at fair value		
Equity investments	3,534,376	-
Less impairment	(773,228)	-
	<u>2,761,148</u>	<u>-</u>

#### (b) Available-for-sale investments carried at cost

	2016 £	2015 £
Available-for-sale investments carried at cost		
Equity investments	2,336,665	461,680
Less impairment	(920,333)	(248,946)
	<u>1,416,332</u>	<u>212,734</u>
<b>Total investments</b>	<u>4,177,480</u>	<u>212,734</u>

The shares included within available-for-sale investments above comprise equity shares in limited companies.

# FINANCE WALES INVESTMENTS (3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 11. DEBTORS

	2016 £	2015 £
<b>Amounts falling due in less than one year:</b>		
Loans receivable carried at amortised cost	2,935,815	1,776,212
Impairment	(481,171)	(566,485)
	<hr/> 2,454,644	<hr/> 1,209,727
Other debtors	2,373	10,812
Amounts owed by group companies	3,000,000	-
	<hr/> 5,457,017	<hr/> 1,220,539
<b>Amounts falling due after more than one year:</b>		
Loans receivable carried at amortised cost	6,029,722	3,410,512
Impairment	(1,776,208)	(2,666,437)
	<hr/> 4,253,514	<hr/> 744,075

The Company 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 10.1% per annum (2014: 10.8%).

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 Company 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 which are past due at the reporting date but against which the Company 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.

Amounts owed by Group undertakings relate to a short term loan to Finance Wales Investments (9) Limited, repayable in August 2016

### 12. CREDITORS

	2016 £	2015 £
<b>Amounts falling due within one year:</b>		
Trade creditors	13,734	540
Amounts owed to parent company	72,162	-
Other creditors	5,523	30,662
Accruals	18,000	11,861
	<hr/> 109,419	<hr/> 43,063
<b>Amounts falling due after more than one year:</b>		
Amounts owed to group undertakings	2,000,000	2,000,000
Amounts owed to parent company	42,500,000	14,500,000
Other creditors	79,657	34,938
	<hr/> 44,579,657	<hr/> 16,534,938

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**12. CREDITORS (continued)**

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

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

Amounts owed to parent company relates to amounts due to Finance Wales plc in relation to Financial Transaction Reserve money received from the Welsh Government. No formal repayment terms are in place with the Welsh Government at present, however there is no expectation that this will be repaid within the next 25 years.

**13. FINANCIAL INSTRUMENTS**

**Significant accounting policies**

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

**Capital risk management**

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

**Categories of financial instruments**

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

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

# FINANCE WALES INVESTMENTS (3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 13. 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	Total
<b>Assets</b>					
Cash and cash equivalents		29,219,006	-	-	29,219,006
Other investments					
- Measured at market price	i	-	-	1,837,499	1,837,499
- Measured at fair value using other methods	ii	-	-	923,649	923,649
- Measured at cost less credit risk adjustment	iii	-	-	1,416,332	1,416,332
Loans to customers	iv	-	6,708,158	-	6,708,158
Other receivables	iv	-	3,002,373	-	3,002,373
<b>Total financial assets</b>		<u>29,219,006</u>	<u>9,710,531</u>	<u>4,177,480</u>	<u>43,107,017</u>
Non-financial assets					-
<b>Total assets</b>					<u>43,107,017</u>
<b>Liabilities</b>					
Amounts due to parent	v	42,572,162	-	-	42,572,162
Amounts due to other group companies	v	2,000,000	-	-	2,000,000
Trade and other payables	v	116,914	-	-	116,914
<b>Total financial liabilities</b>		<u>44,689,076</u>	<u>-</u>	<u>-</u>	<u>44,689,076</u>
Reserves					(1,582,059)
<b>Total reserves and liabilities</b>					<u>43,107,017</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

13. 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	Total
<b>Assets</b>					
Cash and cash equivalents		14,067,034	-	-	14,067,034
Other investments					
Measured at market price	i	-	-	-	-
Measured at fair value using other methods	ii	-	-	-	-
Measured at cost less credit risk adjustment	iii	-	-	212,734	212,734
Loans to customers	iv	-	1,953,802	-	1,953,802
Other receivables	iv	-	10,812	-	10,812
<b>Total financial assets</b>		<u>14,067,034</u>	<u>1,964,614</u>	<u>212,734</u>	<u>16,244,382</u>
Non-financial assets					-
<b>Total assets</b>					<u>16,244,382</u>
<b>Liabilities</b>					
Amounts due to parent	v	14,500,000	-	-	14,500,000
Amounts due to other group Companies	v	2,000,000	-	-	2,000,000
Trade and other payables	v	78,001	-	-	78,001
<b>Total financial liabilities</b>		<u>16,578,001</u>	<u>-</u>	<u>-</u>	<u>16,578,001</u>
Reserves					(333,619)
<b>Total reserves and liabilities</b>					<u>16,244,382</u>

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

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

Note:

- i) 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.

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

### **13. FINANCIAL INSTRUMENTS (continued)**

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

- |       |   |
|-------|---|
| Level | Hierarchy for fair value disclosures  |
| 1.    | Quoted prices (unadjusted) in active markets for identical assets or liabilities.   |
| 2.    | Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. 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 Company is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the Company 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 Company does not actively trade these investments.

#### **Market risk**

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

#### **Credit risk management**

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

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

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

	2016 £	2015 £
Reduction in profit	139,000	22,000

#### **Liquidity risk management**

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

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

# FINANCE WALES INVESTMENTS (3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2016

### 14. CALLED UP SHARE CAPITAL

	2016 £	2015 £
<b>Authorised and allotted</b>		
1,000 ordinary shares of £1 each	1,000	1,000
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1	1	1

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

### 15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate parent undertaking is Finance Wales plc, a company incorporated in England and Wales. Finance Wales plc is the parent of the smallest and largest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the Group financial statements of Finance Wales plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

Finance Wales plc regards the Welsh Ministers, acting through the Welsh Government (formerly the Welsh Assembly Government), as the ultimate controlling party.

### 16. EXPLANATION OF TRANSITION TO FRS 101

This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last statements under a previous GAAP (UK GAAP) were for the year ended 31 March 2015 and the date of transition to FRS 101 was therefore 1 April 2014.

#### Reconciliation of Equity

	At 1 April 2014 £	At 31 March 2015 £
Equity reported under UK GAAP	2,734,259	200,946
<b>Adjustments to equity of transition to FRS 101:</b>		
Portfolio provision	(169,911)	(534,565)
Equity reported under FRS 101	2,564,348	(333,619)

#### Reconciliation of total comprehensive income for the year ended 31 March 2015

	£
Total comprehensive income for the financial year under previous UK GAAP	(2,533,313)
Portfolio provision	(364,654)
Total comprehensive income for the financial year under FRS 101	(2,897,967)

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**16. EXPLANATION OF TRANSITION TO FRS 101 (continued)**

**Note to the reconciliation of equity at 1 April 2014 and total comprehensive income for the year ended 31 March 2015**

The impact of the adoption of FRS101 on the entity's opening equity position has been to reduce the equity balance by £169,911 as at 1 April 2014. The only adjustment required on transition was the application of a portfolio provision to the entity's loan book. Under FRS101, general provisions are not permitted, and so a portfolio approach is required. This approach assumes that, at a particular point in time, conditions may already exist which could lead to the failure of an investment, but that these conditions are not yet apparent. These pre-existing conditions are provided for in the portfolio provision calculation. Further detail regarding the provisioning policy can be found in note 1, Accounting Policies, *Financial Assets*.

The impact of the portfolio provision adjustment on total comprehensive income for the year ended 31 March 2015 was to increase the loss previously reported by £364,654.