Annual Report
2017/18

bancdatblygu.cymru
developmentbank.wales

BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

Annual report and financial statements 2018

Officers and professional advisers

Directors

Gareth Bullock	Chairman
Huw Morgan	Non-Executive Senior Independent Director
Giles Thorley	Chief Executive
Carol Bell	Non-Executive
Margaret Llewellyn OBE	Non-Executive
Iraj Amiri	Non-Executive
Roger Jeynes	Non-Executive
Kevin O'Leary	Director of Finance and Administration (resigned 31st March 2018)
David Staziker	Director of Finance and Administration (appointed 1st April 2018)

Company Secretary

Judi Oates

Registered Office

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Bankers

Barclays Bank Plc
PO Box 69
Queen Street
Cardiff

Auditor

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

Contents

Strategic report

Our journey so far...

2001
Finance Wales established to provide equity and loan capital to Welsh SMEs

2002
£45m secured from Objective 1 European Structural Funds

2003
£35.9m secured from Objective 2 European Structural Funds

2009
£150m Wales JEREMIE Fund launched, first of its kind in the UK

January 2013
Minister for Economy Science and Transport announces independent review into the availability of finance for SMEs in Wales

June 2013
June 2013 Access to Finance Stage 1 published

November 2013
Access to Finance Stage 2 published, recommends establishment of a development bank

2014
Help to Buy - Wales launched, administered by Finance Wales

March 2015
Development Bank for Wales feasibility study published, authored by an independent task and finish group

May 2015
National Assembly for Wales Finance Committee Inquiry into Finance Wales published

September 2015
Gareth Bullock joins as Chairman

April 2016
Giles Thorley joins as CEO

May 2016
First Minister Carwyn Jones includes plans for a development bank within 'Taking Wales Forward' The Programme for Government 2016 - 21

September 2016
£136m Wales Business Fund launches

July 2017
Cabinet Secretary for Economy and Transport Ken Skates formally approves launch of the bank

October 2017
Development Bank of Wales launches with the new £100m Wales Flexible Investment Fund

March 2018
Development Bank of Wales ends its first 6 months having raised £233m of additional funding and having invested a record £68m in 2017/18

Chairman's statement

Gareth Bullock - Chairman

Croeso, welcome - it is an honour to be able to present the first Annual Report and Accounts for the Development Bank of Wales plc which was formally created on 6th October 2017. We are therefore presenting in this report a roughly equal mix of the old Finance Wales results and those of the new development bank.

Our Chief Executive, Giles Thorley, has led his team once again to exceed our key targets. This last year we made £68 million of loans and investment within the Welsh economy and, in so doing, created or safeguarded 3,930 jobs. In his report, Giles provides his usual detailed picture of the bank's activities with real examples of companies we have been able to help. I am continually impressed and inspired by the sheer number of Welsh people, of all ages and backgrounds, who take the risk of starting a business or of leading one to its next stage of growth.

Wales is an economy of small businesses with over 99% of the roughly 250,000 registered companies falling into the micro-to-medium category. By far the vast majority of those companies are what are termed micro-businesses, employing fewer than nine people. If only 10% of those companies took on more risk capital to expand and each thereby added an additional employee, unemployment in Wales would disappear. Of course, it is always more complicated than that as one has to consider other factors such as the skills requirement, especially for the new digital industries, but a small business economy is full of promising potential. Our job is to help unlock that potential.

The transition to the development bank took place in response to independent reports recommending an intensification and expansion of the range of services available to the micro-to-medium business sector in Wales. I mention below how the Development Bank of Wales will be different but what remains the same is our principal focus on supporting the Welsh Government's economic management objectives. The bank has contributed to the Economic Action Plan and we look forward to aligning our policies and practices where appropriate.

The Development Bank of Wales is dedicated to micro-to medium enterprises, can deploy either loan or equity capital and can intervene in circumstances of market failure, that is when private sector capital is unable to provide some or any of a company's finance needs. We will therefore continue to operate in that narrow zone between business plans which are wholly acceptable to private sector players and those which have very little or no chance of commercial success. To be clear, the bank takes risks that other capital providers cannot or will not take. Consequently, we may well have to accept higher losses.

In my statement last year, I described the three-legged structure of the Development Bank of Wales and enumerated the benefits it can bring to the Welsh economy. I can now update more concretely on those elements. All development banks have at their core a financing engine and we are fortunate to be able to build upon the solid foundation of skills and experience in Finance Wales. The big difference will be the scale of our funding capacity. It is to the credit of Welsh Ministers that the creation of the Development Bank of Wales has gone hand-in-hand with their providing at inception significant additional funding, thereby matching ambition with means. They have put petrol in our tank.

In its launch year, the bank received from Welsh Government £233 million of new investment. This was allocated across a number of existing and new funds aimed at supporting Welsh businesses as the UK leaves the EU. It will also provide significant investment aimed at building new and affordable homes across Wales. The development bank now has over £446 million of live funds under management and manages a further £454 million on behalf of the Welsh Government for Help to Buy - Wales.

In the last three years, we have invested an annual average of £57 million into Wales and this year we achieved £68 million. Our five-year business plan sees the development bank achieving an annual investment rate of £80 million by 2022. This will mean investing about £400 million of our own funds alongside co-investment from the private sector, at least on a 1:1 basis. We want to partner with the private sector wherever possible so we set stretching targets for private sector leverage. That aggregate figure of £800 million is investment that the Welsh economy would not receive without the Development Bank of Wales' activities.

I spoke last year of planning to establish a business intelligence unit that could undertake focused research in and for Wales. I am delighted to report that we have now formed Economic Intelligence Wales - Dirnad Economi Cymru - in collaboration with Cardiff University and the Office for National Statistics in Newport. The intention is to produce quarterly reports on finance, business and economic issues from the perspective of small companies in Wales, and over time we aim to build a body of objective, expert analysis. The first was published to coincide with the launch event in June this year.

An editorial board has been formed to review and approve the outputs of Economic Intelligence Wales. In addition to quarterly reports, a number of bespoke reports will be produced annually on key topics. The first of these will focus on the challenges and opportunities in relation to exports. Mechanisms for suggesting bespoke report topics and suitable research partners were communicated at the launch event and will be shared on the dedicated Economic Intelligence Wales page on our website.

The best development banks also prioritise the provision of advice and support. Often businesses need advice and support before they need external funding or investment. Business Wales has for some years been active and innovative in providing a range of advisory services to Welsh companies tailored to size and stage of development. We have joined in a special partnership with Business Wales and senior personnel of each organisation have joined their respective boards. We have established common goals and look forward to sharpening our focus on growth companies in the future.

I am also pleased to confirm that the new registered office and headquarters of the Development Bank of Wales is in Wrexham where we have now acquired new offices. This is an important step as it gives more geographical balance to our pan-Wales business. We also have offices in Cardiff, Newtown and Llanelli. We are committed to spreading prosperity and jobs across Wales as a whole.

Our fund management activity outside Wales is conducted by FW Capital. Whilst relatively small compared to our Wales business it makes a valuable strategic contribution. Not only does it add to our overall size and scale, with consequential benefits in attracting talent, it also offers the opportunity to develop strong networks with the Northern Powerhouse and with strategic funders such as the British Business Bank which themselves can benefit Wales. FW Capital also makes a meaningful financial contribution from its profits to our Wales funds.

Self-improvement is a watchword with us. In readiness for our new challenge and scale, Giles and his team have been leading a number of work-streams aimed at improving our efficiency and agility. We have always listened to our varied stakeholders but we perhaps needed to be more responsive to criticism and suggestion. We have always valued good dialogue with our customers and we also now consult much more actively with advisers and intermediaries. Tangible outcomes include scrapping things businesses disliked, such as early repayment fees. We have also shortened the application process for micro-business loans so that we can approve up to £10,000 in just two business days. Our enquiry line and website have been upgraded. But there is more to do and work is going on apace.

We have also heeded external opinion in one other important respect - how to explain our financial results. I am afraid that the technical complexity of financial reporting standards sometimes militates against presenting a simple picture of the cost and performance of the organisation. This year we have included in our annual report a simplified profit and loss account which shows that our operating costs are fully covered by fees on the funds we manage and by grant-in-aid received. We also set out an account of our loans and investments which provides a better understanding of the annual movements in interest, fees, exits, valuation gains or losses and provisions. I hope our stakeholders will find this a welcome and illuminating innovation.

I must express my thanks to my board colleagues, all of whom have shown wholehearted commitment and enthusiasm in what we knew would be a very busy year. We have a body of experience and technical expertise which informs the development bank's policies and activities. At the end of this last financial year our Finance and Administration Director, Kevin O'Leary, retired from the company and I would like to extend both my and the Board's gratitude to him for his unfailing professionalism and dedication during his long career. I am delighted that we were able to appoint as Kevin's successor an internal candidate, David Staziker. At an important time for the nascent Development Bank of Wales, it is crucial to have both capability and continuity in the vital Finance Director role.

Leaving the best to last, I would like to thank all our staff for their support, hard work and professionalism during this very busy and important year. There are now even more of us - 172 - and increasingly balanced across all of our offices in Wales. They are part of the communities we serve and are imbued with the enthusiasm and commitment that the development bank's stakeholders will come to see as our hallmark.

Gareth Bullock
Chairman
27th June 2018

Chief Executive's report

Introduction

This has been an historic year of change for the organisation, evolving from Finance Wales into the Development Bank of Wales. We believe that by providing sustainable, effective finance we can help unlock potential in the Welsh economy and this belief remains central to everything that we do. We know that for Wales to prosper so must its businesses, and for that to happen they need appropriate levels of financial support. That's why I'm proud we have achieved a record year of investment. As the Development Bank of Wales we are now better placed than ever to meet the demands of the market with increased funds, more flexible terms, faster processes and improved accessibility. As a unique resource for Wales, we have been working closely with Welsh Government, banks, and other investors to improve the availability of financial support to businesses across Wales.

Giles Thorley - CEO

Fundraising

A key objective for us this year has been to secure funds for the future. Thanks to the continued support of the Welsh Government an additional £233 million has been raised and this money has widened our reach ensuring that businesses will continue to have access to the finance they need. The terms we can offer from the Wales Flexible Investment Fund means that we can now support businesses with investment terms of up to 10 years. The availability of more patient capital has long been seen as a barrier to business growth and we are pleased to be able to offer this for the first time. The maximum size of our investments has also been increased meaning that we can now provide up to £5 million of funding in a single round.

Equity investment

We have also been working hard to improve the take-up of equity finance by Welsh businesses. Research published by the analyst Beauhurst showed an 18% increase in equity finance deals in Wales for 2017, but there is still significant work to be done. In terms of our own activity we completed 74 equity deals in 2017/18. With a cluster of 32 deals in Cardiff, the region is showing signs of becoming an equity hotspot. In the British Business Bank's Small Business Equity Tracker released in July 2017 Cardiff ranks as number 18 in centres of equity finance in the UK. As our equity investments have grown by 23% since last year, we are confident of improving this standing in the coming year.

Customer experience

Part of our transformation has been an increased focus on the customer experience. I want to see the organisation move towards best in class operational efficiency while retaining the human, face to face approach our customers tell us they value. Enhancing our network of offices across Wales has been a key part of this approach as there is no substitute for being embedded within local communities. At the same time we have invested heavily in our website and digital service offering and further developments are planned for next year.

Values

Finally, our values of "Open, Responsible, Partnership" are embedded throughout our work. This year has seen us improve the information we publish about our operation and our performance. From the "Development Bank of Wales - Strategic Overview" document published in preparation for the October launch, to the Pan-Wales Location Strategy and now the Annual Report, we recognise the need for transparency and the interest of our customers and stakeholders in our performance and governance.

We have also acted on our ambition to be a responsible business and employer. As as a result we have renewed our membership of Business in the Community and in a year when gender equality was making headlines internationally we also signed up for the new Chwarae Teg FairPlay Employer Benchmark. Much like the companies we work with, our business is all about people which means that we must ensure that we are capable of attracting and developing a diverse talent base.

Close partnerships with our many stakeholders has been vital across the year. Together we have delivered business events with the CBI, ACCA, FSB, IOD and ICAEW and of course our partners in Business Wales. The British Business Angel Association have contributed to the development of our new Angels Invest Wales network. We have forged a new collaboration with Cardiff University and the ONS to create Economic Intelligence Wales, a unique panel tasked with sourcing research on the performance of the Welsh economy. The North Wales Economic Ambition Board helped with our search for a new office in Wrexham and our colleagues at Welsh Government supported our launch campaign. We are part of a vibrant business environment here in Wales. By working together we can achieve even more.

Performance highlights

During a year of what has been significant business change, we have been determined to continue to deliver for Wales. Despite a period of economic uncertainty, appetite and ambition has showed no signs of slowing. During 2017/18 we delivered:

- £68 million invested directly into 285 businesses in Wales, our highest on record and 113% of target.
- £71 million of private sector leverage for Welsh businesses at 108% of target.
- 3,930 jobs created or safeguarded by the companies we have supported at 120% of target.
- Including our subsidiaries, we invested £88 million, a 43% increase on the previous period.
- 1,937 properties were purchased through Help to Buy (Wales) totalling £73m.

Our financial year: High-level review

Shortly after the Group launched in October last year, senior management and members of the board attended the National Assembly for Wales Economy, Infrastructure and Skills Committee. This meeting enabled the committee to scrutinise our annual report and strategy. There were three subsequent recommendations from the committee, one of which related to our annual report, where the committee recommended the Group should;

> *'produce information alongside its annual accounts which would allow any interested member of the public to see whether the organisation has covered its costs in the preceding year'.*

We're pleased to present that high-level review here by;

- describing the two distinct activities of the Group and how they generate revenues and incur costs;
- summarising the revenues and costs at a group level and then showing how these break down between these two activities;
- comparing performance year-on-year for each activity;
- showing a reader of the accounts that the Group can cover its operating costs.

The activities of the Group

The Group structure can be simplified at a high level by segregating our activities between two distinct areas, the services business and the funds business.

	SERVICES BUSINESS	FUNDS BUSINESS
What does this part of the business do?	This includes fund management services such as investing and collecting repayments of the funds business and providing management information. It also includes fund holding services such as facilities, IT, finance, communications and HR. Finally, it includes the support activities of Angels Invest Wales and Economic Intelligence Wales.	The Group has several funds, which are used to provide loans or purchase shares in businesses in Wales and shared equity loans to new home buyers in Wales. These funds are in the main managed by the Services Business.
How does it generate revenues?	Revenues include fees received for fund management and fund holding services and Welsh Ministers Grant in Aid.	Revenues include fees, interest paid on loans, receipts when shares are sold or equity loans repaid.
What costs does it incur?	Costs include; staff, estates and bought in services (such as IT).	Costs include fees paid for fund management services, provisions for losses on investments and fund operating costs like audit fees.
Can business performance be assessed using an annual review?	An annual review will show whether this part of the group is covering its operational costs.	The duration of each of our funds is variable and can be more than ten years. The profitability and performance of a fund varies from year to year and is dependent on its maturity phase. An annual review of the aggregated position of all our funds is not an effective way of assessing an individual fund's performance.

Group performance analysis

TABLE A: High-level analysis of FY18 and FY17 Consolidated Income Statement

	FY18			FY17		
	Services £m	Funds £m	Group £m	Services £m	Funds £m	Group £m
Revenue	24.5	28.6	34.0*	18.1	34.3	38.4*
Costs	(19.8)	(28.8)	(29.5)*	(15.3)	(23.7)	(25.0)*
Surplus	4.7	(0.2)	4.5	2.8	10.6	13.4

*These Group figures are less than the total of the Services and Funds business figures due to the elimination of transactions between the two. A full reconciliation showing how the transactions between the two have been eliminated on consolidation and between the figures in Table A above and in Tables B and C below and the consolidated income statement is included at Appendix A to the annual report and financial statements.

The £4.5m (FY17 £13.4m) group surplus figure for FY18 includes the £4.7m (FY17 £2.8m) surplus from the services business set off against the £0.2m deficit (FY17 £10.6m surplus) from the funds business. The surplus and deficit for the services and funds businesses are explained in more detail in tables (B) and (C) respectively.

Performance of our service business

Our services business are where the operating costs are incurred.

TABLE B: Services FY18 and FY17 Income Statement analysis

	FY18 £m	FY17 £m	COMMENTARY
Fund management income	22.8	16.2	Increase is primarily a result of either new Funds under management or the full year effect of new funds that came under management during FY17.
Grant in Aid received	1.7	1.9	Grant in Aid is lower in line with Welsh Government budgets. There will be no further Grant in Aid given to the Group in future.
Total revenue	24.5	18.1	-
Staff costs	(9.2)	(8.1)	Increase is primarily a result of increased staffing levels to deliver increased level of funds. Number of staff at end of FY18 and FY17 was 172 and 150 respectively
Other costs	(10.6)	(7.2)	Increase is mainly a result of new FW Capital funds under management and consultancy and launch costs for the Group.
Total costs	(19.8)	(15.3)	-
Surplus of income over costs	**4.7**	**2.8**	-

Surplus and sustainability

It should be noted that the surplus shown in Table B is not available for distribution. It is already earmarked as part of the Group's build-up of operating cash reserves and £70m contribution requirement between 2020 and 2024 into the Wales Business Fund and Wales Flexible Investment Fund alongside the funds' legacy returns.

As shown in table B, the surplus generated by the service businesses rose by £1.9m (71%) from FY17. A surplus in FY18 of £2.8m was forecast in the Development Bank Plan and approved by Welsh Ministers to enable the group to build up operating cash reserves. These reserves will allow the group to operate without Grant in Aid from the Welsh Government and become self-funding, a key objective of the Development Bank of Wales and Welsh Ministers.

Table B also enables any interested member of the public to see that the organisation has covered its costs in the preceding year and built up an operating cash reserve to eliminate any future need for Grant in Aid, as intended by the Welsh Ministers.

The reported £4.7m surplus noted in Table B above is £1.9m higher than planned due to:

- **FW Capital** making a higher than forecast contribution of £1.2m by winning new fund management contracts
- **Budget profiling** – the transformation into the Development Bank of Wales is a three year

programme. Some costs (£0.7m) have been incurred later than originally planned including recruitment, investment in ICT Infrastructure and fit out of the new headquarters in Wrexham.

Performance of our funds business

The Group receives funds from investors (for example the Welsh Ministers). Our funds business invests these funds, collects repayments, and then either repays the investor or reinvests the repayments in existing or new funds.

The performance reflects the combined results of 16 investment funds the services business manages, the £50 million investment into the Wales Life Science Investment Fund (WLSIF) and the Help to Buy - Wales shared equity loan fund.

The year-on-year performance analysis for the funds business is presented in table C.

TABLE C: Funds FY18 and FY17 Income Statement analysis

	FY18 £m	FY17 £m	COMMENTARY
Fees received	3.0	2.4	Fee increase in line with investment activity
Dividends and interest income	8.0	6.7	Increase reflects the year on year increase in the loan book, set off by a lowering of average interest rates
ERDF Grant release	22.0	17.9	Increase reflects a full year of grant release for the Wales Business Fund (See below)
Equity realisations	0.7	3.3	Decrease reflects one exit in FY18 compared to six in FY17
Net Treasury	0.1	(0.1)	Increase reflects zero external debt servicing in current year and treasury income
Unrealised (Loss)/ Gain on HtBW loans	(5.2)	4.1	Decrease reflects the reversal of previous gains (see below)
Total Revenue	28.6	34.3	-
Provisions made	(14.4)	(12.1)	Increase in line with increased investment levels (see below)
Fund Management fees paid	(13.5)	(10.9)	Increase reflective of additional funds under management.
Other costs	(0.9)	(0.7)	Minimal change
Total Costs	(28.8)	(23.7)	-
(Deficit)/Surplus	**(0.2)**	**10.6**	**-**

Table C shows that the funds business generated a deficit of £0.2 million this year as compared to a surplus of £10.6 million in the prior year. The main reasons for the change in performance is the reversal of previously recognised gains in the Help to Buy Wales Fund, higher provisions and lower equity realisations set off against higher ERDF grant release.

The ERDF grant is released as revenue to the Group's income statement over the seven-year investing period of the Wales Business Fund in line with the level of investments made in a year.

Provisions

The provisions charge has increased by £2.3 million (19%) to £14.4 million, which mirrors the 20% increase in investment activity in Wales.

The movement in fair value gains and losses on our equity portfolio (called available-for-sale investments in the financial statements) during the year is included in the consolidated statement of changes in equity in FY17 and FY18 because it is unrealised. For example, the gain or loss reflects the change in the group's listed investments share price at 31 March 2018 compared to that at 31 March 2017. This gain or loss is unrealised, as we have not sold our shares. The gain shown in this statement for this year is £10.2 million (FY17 £7.3 million). The main reason for the large gain this year was the increase in value of the Group's shares in Diurnal plc and Creo Medical plc.

We have considered the valuation of the Group's £50 million investment in the Wales Life Science Investment Fund (WLSIF) and concluded no adjustment is needed.

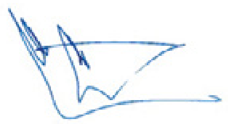
It should be noted that both provisions and fair value movements are estimates made by experienced investment managers of what may happen in the future. Performance of our investee companies can both improve and worsen which will impact on these estimates and leads to the classic warning that investments can go up and down in value and historic performance will not necessarily reflect future performance.

Help to Buy – Wales Shared Equity loan fund for new house buyers

During the year, Welsh Ministers agreed to make a change to the investment agreement, which has changed the accounting treatment of the fund.

Previously any realised or unrealised fair value changes were recognised in the Group's consolidated income statement. Historically these changes have been gains, most of which are unrealised as they are based on forecast increases in house prices rather than the actual sales of houses.

In FY17, the gain reported in the consolidated income statement of the Group was some £4.1 million. As a result of the changes in the accounting treatment any fair value changes at year end are now reflected in the loan balance due to Welsh Ministers.



Giles Thorley
Chief Executive
27th June 2018

Who we are

Mission

Unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the market.

Vision

To be a unique resource for Wales, creating long-term value and enhancing a dynamic, competitive Welsh economy.

Values

OPEN | RESPONSIBLE | PARTNERSHIP

By 2022 deliver

Minimum of **20,000** jobs

1,400 businesses supported

£1bn economic impact

By 2022 reach

1:1.15 Private Sector Leverage

£80m Direct Investment per annum

"We want a progressive and inclusive economy that works for everyone in Wales. That's why, working with the Development Bank we have committed an additional £233 million of Welsh Government capital this year to invest in the future of our economy. I'm keen to see the Bank develop its relationship with Business Wales over the next few years to support the ambitions we have set out in the Economic Action Plan."

Ken Skates,
Cabinet Secretary for Economy and Transport

"Having the right financial backing for our SMEs is critical. EU funds continue to assist Welsh businesses through the £170 million Wales Business Fund providing much-needed loans and equity investment of up to £2 million so businesses can grow and flourish."

Mark Drakeford,
Cabinet Secretary for Finance

"The specialist services provided by the Development Bank of Wales have played an essential part in delivering housing schemes such as Help to Buy - Wales and the Property Development Fund, recently quadrupled to £40m. This expansion will provide accessible, affordable development financing to SME home builders."

Rebecca Evans,
Minister for Housing and Regeneration

Working together

Wellbeing of Future Generations (Wales) Act 2015

Llywodraeth Cymru
Welsh Government

Prosperity For All - economic action plan

Comisiynydd y Gymraeg
Welsh Language Commissioner

Welsh Language (Wales) Measure 2011

Performance highlights

We have agreed a number of key performance indicators (KPIs) and metrics with our stakeholders, against which we measure our effectiveness.

Development Bank of Wales

	2017-18	2016-17	% OF TARGET	PAGE REFERENCE
Direct Investment into Welsh businesses (loan and equity)	£68m	£57m	113%	54
Private sector leverage (loan and equity)	£70m	£79m	108%	55
Jobs created or safeguarded	3930	3718	120%	55
Number of businesses supported	285	245	n/a	11
Average interest rate	7.3%	7.6%	n/a	54

Help to Buy-Wales (HtBW)

	2017-18	2016-17	PAGE REFERENCE
Houses sold through the HtBW scheme	1937	1870	49
Value of shared equity HtBW loans	£74m	£69m	49

FW Capital

	2017-18	2016-17	PAGE REFERENCE
Direct Investment into businesses (loans)	£21m	£6m	42
Private sector leverage (loans)	£39m	£16m	42
Number of businesses supported	75	21	42

Our year
2017-18

Giles Thorley, CEO

“This has been a historic year of change for the organisation, evolving from Finance Wales into the Development Bank of Wales”

April

The name ‘Development Bank of Wales’ is approved by the Financial Conduct Authority. Business Case and a five-year model for the Development Bank of Wales is submitted to Welsh Government for final approval. Suppliers are successfully procured to begin transition projects including a new brand, website and launch campaign.

July

Economy Secretary Ken Skates announces that the Development Bank of Wales will launch in October 2017. Transition projects enter their implementation stages. The iconic Exchange Hotel in Cardiff Bay is agreed for the Development Bank of Wales launch with the Welsh Government.

September

Over £130 million of new funds are secured in the lead up to launch. The £100 million Wales Flexible Investment Fund – is created as a direct response to Brexit to support Welsh businesses with continuity of funding. In addition, the Wales Property Fund is increased by £30 million to further support property projects in Wales.

October

The development bank is officially launched on 18th October by Economy Secretary Ken Skates, managing in excess of £1 billion in funds. A large scale marketing campaign follows the launch to raise awareness of the new Development Bank of Wales brand and its broader investment remit.

November

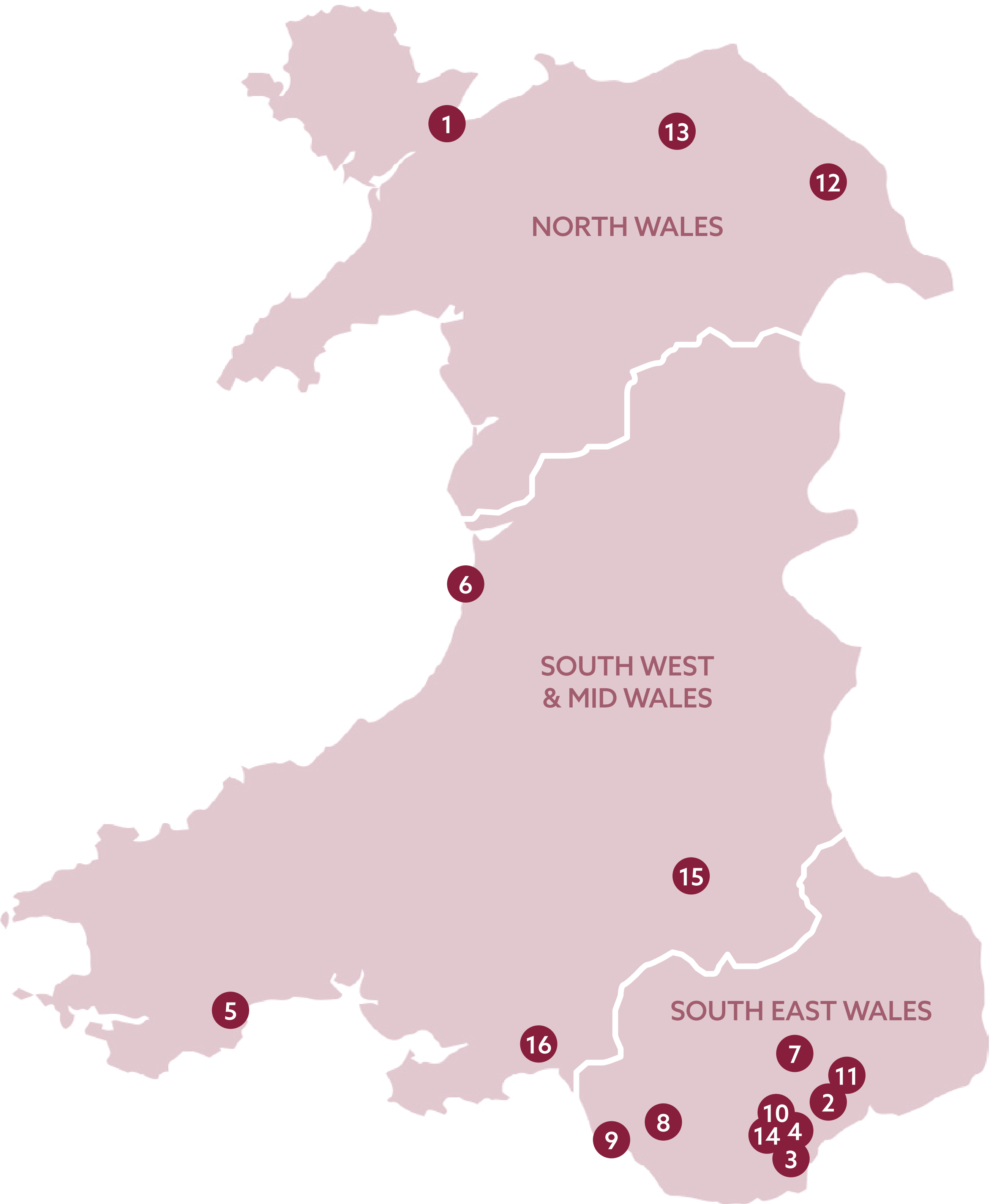
The first investment from the Wales Flexible Investment Fund is secured, a £1.5 million loan helping to bring Hotpack, a Dubai-based packaging company to Wrexham. A series of regional breakfasts launching the development bank are held around Wales at Bangor, Cardiff, Aberystwyth, Swansea, Newtown, Pembrokeshire and Wrexham.

February

The lease is signed for the new headquarters in Wrexham; staff will begin working from the offices later in 2018. North Wales celebrates a £15 million regional investment milestone for 2017; three times the amount invested in the same period in 2016. Our strategy and investment teams secure a number of new funds totalling £233 million for the year.

What we deliver:
SME investment in Wales

In 2017/18 we supported over 280 companies in Wales. Here is a selection of some of the businesses we helped.



No.	Business	Finance	Location	Page
1	Bangor Tyres	Loan	Bangor	33
2	Camtronics	Loan	Newport	33
3	Carapace	Equity	Penarth	41
4	ECR Concepts	Loan	Cardiff	27
5	Forest Care	Loan	Saundersfoot	28
6	George Borrow Hotel	Loan	Aberystwyth	28
7	Hudman	Equity	Cwmbran	35
8	Jehu Group	Loan	Bridgend	56
9	Jennings Building	Loan	Porthcawl	39
10	Jöttnar	Equity	Cardiff	30
11	Middletons	Equity	Newport	29
12	Natural Ambition	Loan	Wrexham	25
13	Off Road Engineering	Loan	Denbigh	25
14	Simply Do	Equity	Cardiff	36
15	The Hours	Loan	Brecon	27
16	We Predict	Equity	Swansea	35

Starting a business

We can help Welsh businesses start up and support the early years.

Performance highlights 2017/18:

- 34 start-ups supported with loans
- £3.3 million of start-up capital provided

"The number of micro businesses in Wales is growing so it's important start-up capital is made available. We invested over £3 million this year in helping 34 business owners fulfil their ambitions."

Nicola Edwards, Micro Loan Fund Manager,
Development Bank of Wales

Natural Ambition

Half marathon runner and keen sportsman Paul McLoughlin was diagnosed with Type 1 diabetes 20 years ago. A university student at the time, he began investigating ways to manage his condition and still keep active. He found that clean eating helped him to regulate his sugars but was surprised at the lack of organic sports nutrition drinks and supplements available. He decided to take that passion for natural sports nutrition and turn it into a business - starting Natural Ambition from his home in Wrexham in late 2017.

Paul has now developed a range of sports nutrition products from working with sports nutritionists and athletes after using a £14,000 loan to cover start-up costs. He plans to officially launch his products mid 2018.

"I wanted nutrition to help with my diabetes and enhance sport, which inspired me to have my own business. I researched different finance options online and came across the development bank. The process of getting the money was smooth and the investment executive who worked with me was incredibly professional."

Paul McLoughlin, Owner

Off Road Engineering

Sion Pierce was studying engineering at Harper Adams University when he heard about a disabled farmer who couldn't access all of his land safely.

With a £25,000 working capital micro loan, he has designed a revolutionary new wheelchair that brings together the functional attributes of a wheelchair and an all terrain vehicle (ATV). Manufactured by Off-Road Engineering Limited in Denbigh, the HexHog can endure mud, water, sandy beaches, snow or ice.

He has a UK and USA patent for a unique mobility vehicle and has already received orders from all over Europe. Users range from private individuals who enjoy an outdoor life, to farm workers who have lost their ability to continue working due to an accident.

Put simply, the Hexhog is a unique mobility vehicle that is changing lives.

"The help from the development bank has made a huge difference. We're so grateful that they have had the confidence to take a leap of faith needed to support our vision."

Sion Pierce, Owner

Growing a business

Through direct investment and co-investment we strengthen Welsh businesses and accelerate their growth.

Performance highlights 2017/18:

- 190 businesses used our finance for growth
- 65 business used our fast track loans for established businesses
- 148 co-investment deals completed

"It's really pleasing to see that Wales is increasingly recognised as a great place to do business by entrepreneurs from around the UK. We actively support growth through our network of universities, government backed support programmes, advisors and co-investors."

Chris Griffiths, Technical Director, Development Bank of Wales

"The process of applying for the fast track loan online was quick and simple; the application form is very easy to navigate. I received a decision really quickly and I'm already implementing my business growth plans."

Sean Hosking, Managing Director

ECR Concepts

Sean Hosking bought South Wales-based company ECR Concepts Software in 2004. The company specialises in touch screen point-of-sale payment services and stock control solutions.

ECR Concepts customers include Cardiff City Stadium, Newport Gwent Dragons, the Botanic Gardens of Wales and Welsh chains Buyology and Rabart.

Sean wanted to invest in marketing, staff training and new presentation software to help the company grow and attract even more customers. Over the next couple of years' he plans to hire more staff in technical and business development roles.

After researching his finance options, he applied for a £10,000 fast track loan from the development bank and received a decision within two business days.

"The building next door becoming available seemed like fate. We've had ambitions for a long time to expand and this support has helped make that a reality."

Nicola Bickerton, Managing Director

The Hours

Brecon tourism award winners, The Hours Cafe and Deli used a micro loan to expand their business. The company took over adjoining premises and opened a new deli in the premises next door - doubling the size of their business in one of the historic buildings in Brecon, a local landmark.

In the last few years the business has won 'Best Eating Out Experience' at the Brecon Beacons Tourism Awards and have been finalists at the Food Awards Wales.

Bookshop owner Leigh Hendra opened The Hours in 2010 along with partner and cafe owner Nicola Bickerton. The company has previously benefited from one of our loans which enabled it to make improvements to its second floor extending their book and gift offering.

Forest Care

Pen-Coed Care Home in Wooden near Saundersfoot is a residential care home offering facilities for 25 elderly residents.

Run by Forest Care Homes Limited, the popular care home was named winner of the 'My Home Life Cymru Award' for Best Care Home in 2015. Staff provide high-quality care and strive to promote independence where possible. Community engagement and family involvement is actively encouraged.

Our £250,000 loan through the Wales Business Fund helped finance a five-bedroom extension and the creation of a valuable new sunroom for residents. Ten jobs have been created as a result of the investment.

"The team at the development bank took the time to understand our business and developed a finance package that enabled the extension of services whilst maintaining continuity of care."

Mike Davies, Director

George Borrow Hotel

Perched on the edge of the Rheidol Gorge between Llangurig and Aberystwyth, George Borrow Hotel is a renowned 17th century family-run inn, offering traditional dining and accommodation.

With views of the stunning Cambrian mountains, the hotel is a popular destination for walkers, golfers, bird watchers and those who enjoy mountain biking. Accommodation is spread over the first and second floors and includes double, twin and family rooms.

A £25,000 micro loan from the Development Bank of Wales funded essential upgrades including a new clean water sewerage system for the hotel.

"As a family-run business, we really appreciate the support of the development bank. Their loan has enabled us to invest in our much-loved hotel in beautiful Ceredigion."

Karen Atkinson, Director

Middletons

Mobility specialists Middletons invested in the expansion of their retail business using an equity co-investment from the development bank and members of Bristol's Wealth Club.

The company supplies high quality accessible furniture and mobility scooters. Middletons focuses on a personalised service, allowing customers to try out and test mobility products in their stores.

The company was founded in 2013 by friends Ricky Towler and Tom Powell. Working in the mobility sector, Ricky saw there was an opportunity to improve the mobility product experience for customers. After speaking with long term friend Tom, they decided to go into business together traveling around the country showing stock to potential customers. They quickly moved to opening their first shop and have grown from there.

A co-investment package of £3.8 million supported the opening of new shops across South Wales. The company now has stores in Cardiff, Swansea and Newport as well parts of England.

Ricky and Tom were encouraged by the benefits of equity for rapid growth over a traditional loan. With an already successful business, raising a loan would have been easy. However, an equity investment has provided them with capital without loan repayments.

The structure of an equity investment means Ricky and I can focus on growing the business quickly over the next few years and really establishing ourselves as the leading retailer for mobility goods in Wales. We have support at board level from our investors and we don't have to worry about loan repayments while we expand. "

Ricky Towler, Co-founder

“Being able to focus on the growth of our company without the burden of a loan is brilliant. This investment is going to support our expansion as we grow our product range and promote the Jöttnar brand. We’re able to hire more staff and work on new designs and know we have the finance in place for our growth strategy over the next few years.”

Steve Howarth, Co-founder

Jöttnar

Based in Cardiff, Jöttnar was founded in 2013 by former Royal Marine commandos Steve Howarth and Tommy Kelly who specialised in mountain and extreme cold weather warfare.

They were serving together in the Norwegian mountains during a fierce Arctic winter when inspiration took hold: the development of technical outdoor clothing that would protect against the extreme weather.

After finishing their careers in the military, both continued to climb and ski, and decided that the best way of achieving real professional and personal satisfaction would be to build a business around the things that they loved.

Now a successful brand for technical outdoor clothing and mountain wear with an online store they secured an equity investment from the development bank to support their expansion plans including product development and recruitment.

Buying a business

We're there for the next generation of business owners in Wales.

Performance highlights 2017/18:

- £5.7 million provided to support buying a business
- 12 succession deals
- 10 acquisitions deals

"We actively encourage and support business succession in Wales. Buying a business is both a great opportunity and hard work so it's essential to have the right support. Having invested over £59m in over 180 transactions the development bank has the experience to help you on your journey into business ownership."

Bethan Cousins, New Business Director, Development Bank of Wales

Bangor Tyres

Bangor Tyre Services has been offering mechanic and tyre fitting services to customers in Bangor for over 30 years. Set up by friends Gwyn Thomas and Dewi Roberts, the company was sold to Gwyn's 32-year-old son Stuart.

Stuart, who started working for the business when he was 17, used a Development Bank of Wales loan of £350,000 alongside his own funds to allow him to buy out the existing partnership and continue the business. He now has ambitious plans for the future of the company

"Over the last 30 years, Dad and Dewi have developed a thriving business that provides employment for local people and is well respected by our loyal customer base. I was keen to take over from them but accessing the finances was not an easy task. The help and support from the team at the development bank was brilliant and I cannot thank them enough. I'm very proud to be taking over the business and hugely grateful to the development bank for their help."

Stuart Thomas, Owner

Camtronics

The senior management team of Camtronics successfully completed a management buyout (MBO) from its parent company PhotonStar with the help of a £400,000 loan from the development bank.

Managing Director, Paul Macleur and colleagues Linda Cooper and Chris Guilford banded together to buy the electronic-manufacturing business. Combined, they have more than 40 years' experience.

Based on the Tredegar Business Park in Newport, the company was first established in 1993 as Novaspec and acquired by PhotonStar in 2011. They offer automatic optical inspection, through-hole assembly, box build, programming and testing to a variety of industries including the scientific community, military and LED lighting companies. Twenty-nine people currently work for the business.

"When an opportunity arose for the management team to get together to buy out our parent company we leapt at it. The money from the development bank and the support of our advisers has allowed us to take control of the future of the company we love."

Paul Macleur, Managing Director

Finance for tech ventures

We invest in start-up, early stage and established companies looking to develop and exploit technology.

Performance highlights 2017/18:

- 66 equity investments into 48 tech ventures
- Hudman - First exit from the Wales Technology Seed Fund
- £28 million raised as Private Sector Leverage through 64 co-investments

"With Cardiff and Swansea being highlighted in various reports – like TechNation – as technology start-ups hubs, we're pleased to be supporting the ecosystem here in Wales with much-needed investment."

Steve Smith, Technology Investment Director, Development Bank of Wales

We Predict

We first invested in We Predict in 2015, with a £500,000 equity investment from the Wales JEREMIE Fund. We supported the company alongside existing investors Breed Reply in their latest funding round led by corporate investor Munich Re.

The company, founded by James Davies in 2009, has developed a software platform which analyses large volumes of data for some of the world's biggest automotive companies.

The funding will support We Predict's expansion in the UK and in the US, where it has recently established a sales team.

"We are constantly looking for new ways to enable our customers to benefit from the accuracy of our product failure predictions. This funding will allow us to expand our product applications further and increase our market share."

James Davies, Managing Director and Founder

Hudman

Cwmbran-based technology company Hudman was acquired by Advanced, the UK's third largest software and services company.

Hudman provides cloud based enterprise and accounting software for manufacturing, engineering and construction industries.

The 2017 deal was the first exit from the Wales Technology Seed Fund, less than a year after the Technology Venture Investments team made an equity investment in the company.

David James was introduced to the company as a business angel by Angels Invest Wales.

"This acquisition opens up an exciting new chapter for our software and is a result of the hard work by everyone at Hudman."

David James, Managing Director

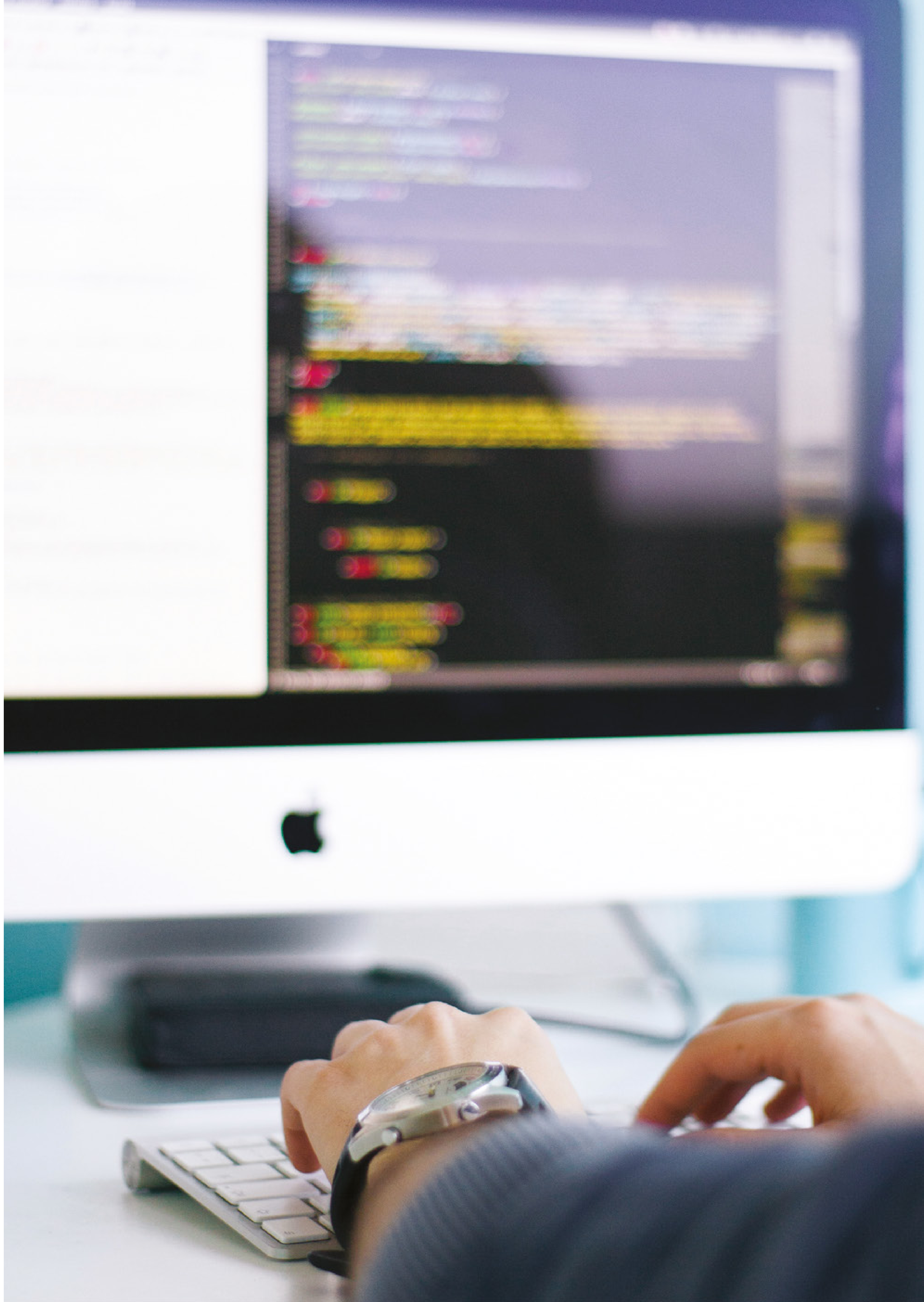
Simply Do

Founded in 2015 by Lee Sharma, Simply Do has created educational software that allows people to build and test their ideas. They have developed cloud-based, B2B software-as-a-service (SaaS) and BPaaS (Business Process as a Service) platforms which have been featured in the Huffington Post, Forbes and Business Insider.

We co-invested alongside a group of business angels – led by company chair Ashley Cooper. The syndicate was brought together with the support of Angels Invest Wales. Simply Do is using the investment to further develop their products and sell to a wider customer base. So far the company has already worked with more than 80 different companies.

With the support of these funds and the fantastic investor group behind us, we will continue to grow our market share and cement our position between industry and academia. Our plan is to become the de facto choice for organisations looking for a simpler way to support early-stage innovation.

Lee Sharma, Founder



Financing property developments

We can help small to medium-sized developers continue to make a big impact in Wales.

Performance highlights 2017/18:

- £15 million invested directly into 22 businesses
- £7.2 million private sector leverage
- 3 additional property staff recruited

"We've secured more funds and substantially increased our property team over the last year. It's great to be able to help kick-start so many projects, which create much needed homes and commercial premises as well as employing a substantial number of people across the construction industry."

Cenydd Rowlands, Property Director, Development Bank of Wales

"The very close collaboration with Bridgend Council, the development bank and the Heritage Fund saw this project complete seamlessly; bringing environmental and economic benefits to Porthcawl and the wider area."

Simon Baston, Property developer

Jennings building

Built in 1832, the Jennings building was originally constructed as the southern terminus of the Dyffryn Llynfi Porthcawl horse-drawn tram road, which was used to transport iron and coal from the Llynfi Valley.

The iconic Grade II listed dockside warehouse has now been transformed in to a landmark development containing three restaurants and 14 live-work units.

As a 200 year-old building made of stone and exposed to the maritime conditions, this was a complex regeneration project. Challenges included structural integrity and lack of drainage. As a key part of the regeneration plans for Porthcawl waterfront, the £2.5 million development was officially opened in September 2017 by ABA Holdings. Double Zero Pizzeria, Coffee Shop Coffi Co and Harbour Bar & Grill occupy 7,942 sq ft on the ground floor.

Benefiting from sea views and within walking distance of the town centre, the Jennings is already proving a popular destination enjoyed by tourists and locals alike. It created more than 30 jobs during the construction phase and has brought over 60 permanent jobs to the area.

The Development Bank of Wales invested £2.2 million towards the project with funding coming from the Wales Property Fund and the Wales Capital Growth Fund.

Angylion Buddsoddi Cymru
Angels Invest Wales

What we deliver: Angels Invest Wales

The biggest Angel network in Wales and part of the development bank, Angels Invest Wales connects investors with Welsh businesses.

Performance highlights 2017/18:

- Angels Invest Wales launched as part of the Development Bank of Wales
- New £8 million Wales Angel Co-investment Fund for syndicates
- 105 business angels recruited
- New digital platform for investors

"With 79% of the UK Angel investment that takes place part of a syndicate, having an Angel network in Wales which can support syndicates with funding and connect investors with businesses is of huge value to the Welsh Angel ecosystem."

Steve Holt, Director,
Angels Invest Wales

"The support from the development bank and Angels Invest Wales means that we now have the ultimate runway to catapult Carapace to commercial success both efficiently and sustainably."

Martyn Lucas,
Managing Director
and Founder

Carapace

An initial loan of £65,000 in 2017 from the Development Bank of Wales and a grant of £133,000 from Innovate UK enabled Penarth-based Carapace Slate to develop a unique roofing tile system using recycled Welsh slate.

The slate tiles look, feel and perform exactly like quarried natural slate. Using a new bio-composite, any colour, grade or pattern can be replicated. Each slate self-aligns and interlocks without nails or screws, resulting in 90% quicker build times. This reduces labour and overall projects costs. The slates are also lightweight, reducing the energy needed for transportation.

Carapace has final stage patents in the UK, EU and USA and a further funding package of £300,000 from the Development Bank of Wales and Angels Invest Wales means that work is now continuing with the design, installation and calibrating of production processes and equipment. The first products are expected to be available in late 2018.

Angels Invest Wales also introduced the business to the former Nuaire Chief Executive Mark Huxtable who has since been confirmed as Carapace's Chair.

FW Capital

What we deliver: FW Capital

Our commercial fund management business delivers contracts in the North of England, extending our network and reputation across the UK and bringing money back to Wales.

Performance highlights 2017/18:

- £21 million invested in total
- 82 investments in 75 businesses in total
- £39 million external private investment
- £60 million growth capital injected into the North East and North West of England
- Launch of the £10m North East Property Fund
- £100 million investment milestone reached for FW Capital since 2010
- A new office opened in Cumbria

"We're delighted the British Business Bank have entrusted us to deliver the NPIF £102m debt finance fund covering the Northern Powerhouse region. We've made a real impact in the last 12 months supporting 68 companies with £12 million of loans and we're focused on helping even more businesses this coming year."

Gary Guest,
Fund Manger, FW Capital

FW Capital currently manages a total of £191 million funds on behalf of:

British Business Bank · Tees Valley Combined Authority · Santander Corporate & Commercial · North East Local Enterprise Partnership · European Investment Bank The EU bank · European Union European Regional Development Fund · Supported by the Regional Growth Fund · Department for Business, Energy & Industrial Strategy · Managers of The North West Fund 4 Loans Plus · Finance For Business North East Growth Plus Fund · Tees Valley Catalyst Fund · Northern Powerhouse Investment Fund Delivered by British Business Bank · North East Property Fund

"This year in the North East we have seen the successful launch of the North East Property Fund attracting the interest of regional property developers and helping them secure the finance they need to support regeneration in the North East over the next few years. In addition, the Tees Valley Catalyst Fund continues to help businesses across sectors win new contracts with over £160 million worth of contractual work supported since 2013."

Joanne Whitfield,
Fund Manager, FW Capital

AEV

AEV Ltd manufactures varnishes, resins, compounds and insulating products for the electrical and electronic sectors. From its Birkenhead site, they manufacture and distribute across the UK, also exporting to over 60 countries worldwide.

AEV came to FW Capital for help with their growth plans. The company are investing in new production facilities to be able to expand the quantity and range of products they offer.

Following the six-figure loan from NPIF – FW Capital Debt Finance, the company has hired an additional 13 members of staff – bringing the total head count up to 36.

"FW Capital gave unstinting support throughout the process, which was completed quickly and very smoothly"

Jonathan Kemp, Managing Director

Wilton Engineering Services

Middlesbrough-based engineering firm Wilton needed a warranty bond loan to help secure a major contract for the Hornsea One offshore wind farm project.

A six-figure loan from the Tees Valley Catalyst Fund helped them win an £11 million contract to supply transition pieces to German company Steelwind as part of this major renewables development – the largest of its type in the UK.

The contract is part of Wilton's diversification strategy as the company moves away from only servicing the oil and gas market and into the growing renewables engineering sector.

The company created 48 skilled jobs in the Teeside area after securing the contract.

"From our initial enquiry to completion the team at FW Capital were fully engaged, dedicating their expertise to our needs. The speed of response was great and I wish to thank the team for going beyond the call of duty to deliver a very successful outcome."

Bill Scott, Managing Director

Cenergist

North East energy consultancy, Cenergist created four new jobs following a £515,000 investment from NPIF – FW Capital Debt Finance.

Cenergist is a specialist energy and water efficiency company working across the UK and Europe with public and private clients that are looking to achieve energy and financial savings.

The business is aiming to grow its work with the major energy companies around the government's 'affordable warmth' obligation, which requires them to help vulnerable and low-income households to reduce their heating costs.

"We're expecting to create even more new Tees Valley jobs as we work towards building significant turnover from this new area of operation."

Mitesh Dhanak, Managing Director

Dirnad Economi Cymru
Economic Intelligence Wales

What we deliver: Economic Intelligence Wales

A new research arm of the Development Bank of Wales, Economic Intelligence Wales will deliver insight that will benefit all Welsh businesses through data collation and analysis.

Key objectives

- Track the supply of, and demand for, finance across Wales
- Improve understanding of SMEs and their role within the Welsh economy
- Create innovative ways of measuring, interpreting and tracking SME data
- Identify and address Welsh SME finance data gaps
- Improve understanding of the Development Bank of Wales' wider economic impact

"I see Economic Intelligence Wales as a strategic national asset and a key mechanism that can help shape future policy development within the arena of access to finance."

Ken Skates,
Cabinet Secretary for Economy and Transport

Stakeholders

Economic Intelligence Wales is a unique collaboration between the Development Bank of Wales, Cardiff Business School and the Office for National Statistics (ONS).

Cardiff Business School
Ysgol Busnes Caerdydd

Office for National Statistics
Swyddfa Ystadegau Gwladol

Banc
BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

Cardiff Business School will lead on producing the research outputs utilising data from the ONS, StatsWales, the Development Bank of Wales and other data sources. Representatives from the three organisations form the Economic Intelligence Wales Steering Group which reviews and approves research outputs for publication. Quarterly reports are set to start in 2018/19.

What we deliver: Help to Buy-Wales

Help to Buy Wales (HtBW) provides shared equity loans to buyers of new-build homes in Wales.

Performance highlights 2017/18:

- 1,937 houses sold thorough the Help to Buy-Wales scheme
- £74 million invested through shared equity loans
- 75% of all completed purchases where first time buyers

"In the last year we have introduced a number of new initiatives including a programme of workshops so it is really pleasing to have achieved a record number of houses sold. Next year will be our five year anniversary and we are looking to continue to build on what has been a highly successful scheme for Wales."

Catherine Lewis-Jones,
Fund Manager, Help to Buy Wales

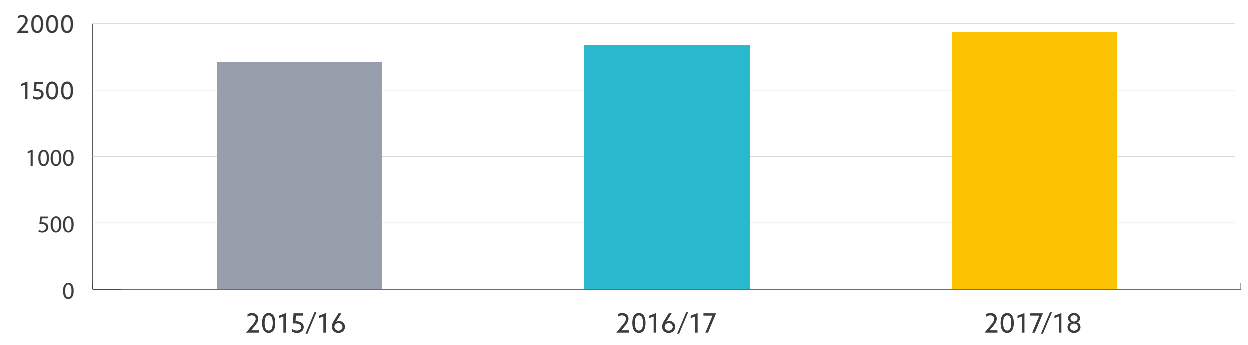
Launched in 2014 by the Welsh Government, the Help to Buy – Wales scheme supports the purchase of new build homes up to £300,000 bought through a registered Help to Buy – Wales builder.

The Help to Buy – Wales scheme makes new build homes available to all home buyers (not just first time buyers) who wish to buy a new home, but may be constrained in doing so. Support of up to a maximum of 20% of the purchase price is available to buyers through a shared equity loan funded by HtBW, while buyers are required to provide a deposit of a minimum of 5% of the purchase price.

Since 2014, 6,819 properties have been purchased under the scheme, 75% of which were sold to first time buyers. In total more than £253 million has been lent, supporting property sales of nearly £1.28 billion.

Financial Year	Registered Builders	Houses Sold	£ Invested
2015/16	139	1,705	£61m
2016/17	212	1,836	£69m
2017/18	169	1,937	£74m

Number of houses sold through HtBW



NAAMEC Ltd
Housing development at Carlton Road
Clydach, Swansea

Strategic priorities

Strategic priorities

The Development Bank of Wales (DBW) has a long-term strategy committed to deliver against three overarching objectives:

- To become the Welsh Government cornerstone organisation for delivery of public sector support to micro to medium businesses in Wales and increasing the supply of finance
- To promote economic development through an adaptable delivery model that is responsive to market needs whilst providing continued value for money for public funds
- Deliver key Welsh Government policy objectives by achieving performance targets and providing investment management and support services across the whole of Welsh Government

Annual business objectives are set in line with these commitments, utilising a Balanced Scorecard structure. This approach ensures a focus on both financial and non-financial data, translating the strategy into measurable operational objectives.

The headline business objectives set for the Group for 17/18 are shown in the table below against the four perspectives of the Scorecard. The Group's achievement against these objectives and the areas of focus for 18/19 are captured on the following pages.

Customers	• Increase and improve finance accessibility to Welsh businesses • Respond to our customer needs through improved process streamlining and increasing funding awareness
Internal	• Successfully transition Finance Wales to the Development Bank of Wales • Support Welsh Government Programme for Government aims
Financial	• Develop, raise and launch new funds across the Group • Ensure financial readiness for Group operations and future accounting needs
People	• Develop and support our people • Ensure full complement of skills are recruited and retained

Customers

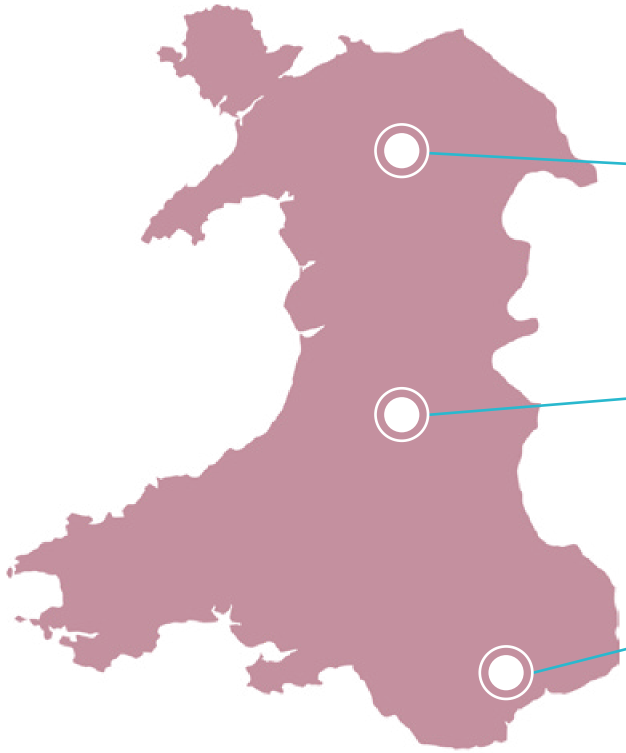
Achievements 17/18	Areas of focus 18/19
• Invested £68 million directly into businesses in Wales - 113% of target	• Delivering a minimum of £68 million of direct investment into Welsh businesses
• Leveraged £70 million of private sector investment into Welsh businesses - 108% of target	• Assist in the creation and safeguarding of a minimum of 3,700 jobs
• Created and safeguarded 3930 jobs in Wales - 120% of target	• Formally launch Angels Invest Wales through events in South Wales, North Wales and London
• Improved portfolio health to 72.9% from 71.9%, remaining above the 70% threshold*	• Enhance online application functionality to support portfolio customers follow on requirements
• Launched new mobile responsive website and online application process in October	• Increase support to the five underinvested Unitary Authorities by 10% from 17/18
• Launched a new online platform for Angels Invest Wales to link investors with business opportunities	• Ensure brand awareness of a minimum of 25% through targeted awareness campaign
• Initiated Pan-Wales Location strategy including new Wrexham headquarters	• Establish a DBW Customer Programme to identify and implement value add opportunities
• £74 million delivered through the HtBW priority programme	

*Portfolio health is an internal metric which gives the proportion of the DBW portfolio that has no indication of forbearance.

Investment and impact

£68m → 113% of target for direct investment into Welsh businesses

7.3% → average interest rate in 2017/18, 0.3% lower than the previous year (7.6%) and 0.66% lower than the market average (7.96%)*



DBW regional investment 2017/18

North Wales	£17m
Mid and South West Wales	£14m
South East Wales	£37m

DBW investment levels in Welsh businesses year on year

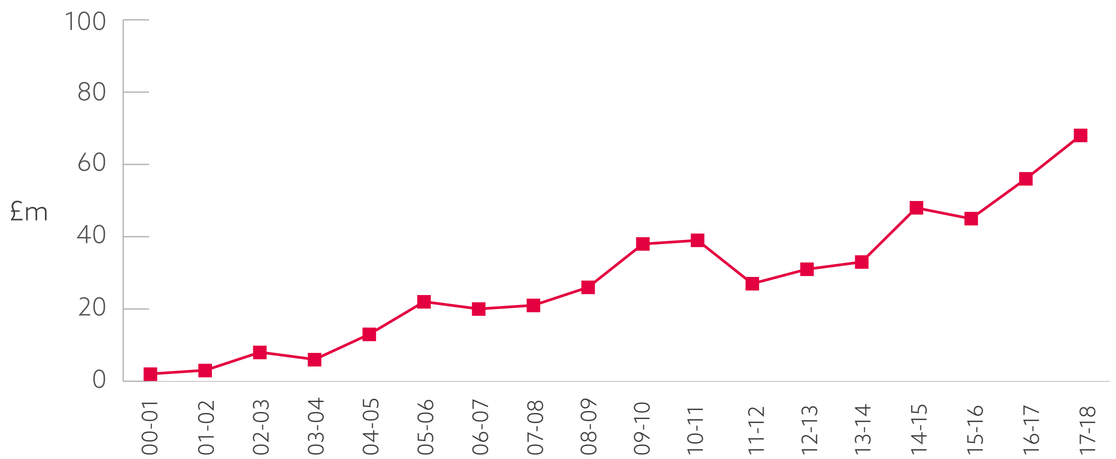


*Figure taken from an independent DBW Interest Rates Review - *developmentbank.wales/interest-rate-reviews*

£70m → 108% of target for private sector leverage into Welsh businesses

148 → co-investments deals and 74 equity deals into Welsh businesses

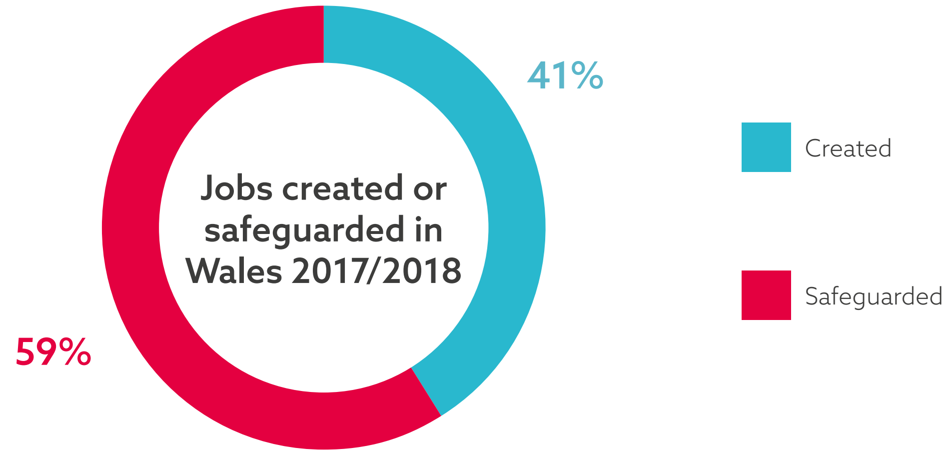
Beauhurst

A Beauhurst report released in Q3 2017 ranked the Development Bank of Wales as one the top

5

equity investors in the UK

3930 → jobs created or safeguarded, 120% of target



Stakeholders

The Development Bank of Wales delivers funding on behalf of the Welsh Government, the European Union and the Private Sector. We are a proactive co-investor and work closely with other lenders and investors to make sure Welsh businesses get the complete funding they need.

Llywodraeth Cymru
Welsh Government

BARCLAYS

Undeb Ewropeaidd / European Union
Llywodraeth Cymru / Welsh Government
Cronfa Datblygu Rhanbarthol Ewrop
European Regional Development Fund

"Complementing the private sector..."

Jehu Group

Complementing the private sector is a key strategy in helping Welsh businesses get the right level of funding they need. Working alongside Santander Bank we were able to provide property developers Waterstone Homes, part of the Jehu Group with a £5.5 million loan, with £4 million coming from the Development Bank of Wales.

The loan supports the construction of new homes in St Nicholas in the Vale of Glamorgan. The St. Nicholas Fields development, started in autumn 2017, includes 17 four and five-bedroom family homes and is supporting over 100 local jobs.

"It is encouraging to see that the development bank and Santander recognise our strengths and potential, and we are immensely thankful to both organisations for investing in Jehu and making our future ambitions for the company all the more possible."

Andrew Lycett, Financial Director of the Jehu Group

Collaboration

Key organisations we work with:

IoD

CBI

ICAEW

Business in the Community
The Prince's Responsible Business Network
Cymru

ACCA Think Ahead

fsb

Busnes Cymru | Business Wales

Being visible and active in the business community is a vital part of how we engage with our customers and deliver our funding.

Last year we worked closely with key business organisations and intermediaries across Wales to deliver events on business succession, equity for growth and property development funding. We also sponsored 10 events including 5 regional business awards.

On a more local level we ran a programme of deal clinics across every unitary authority in Wales working alongside local councils to help small business understand the finance available to them.

56

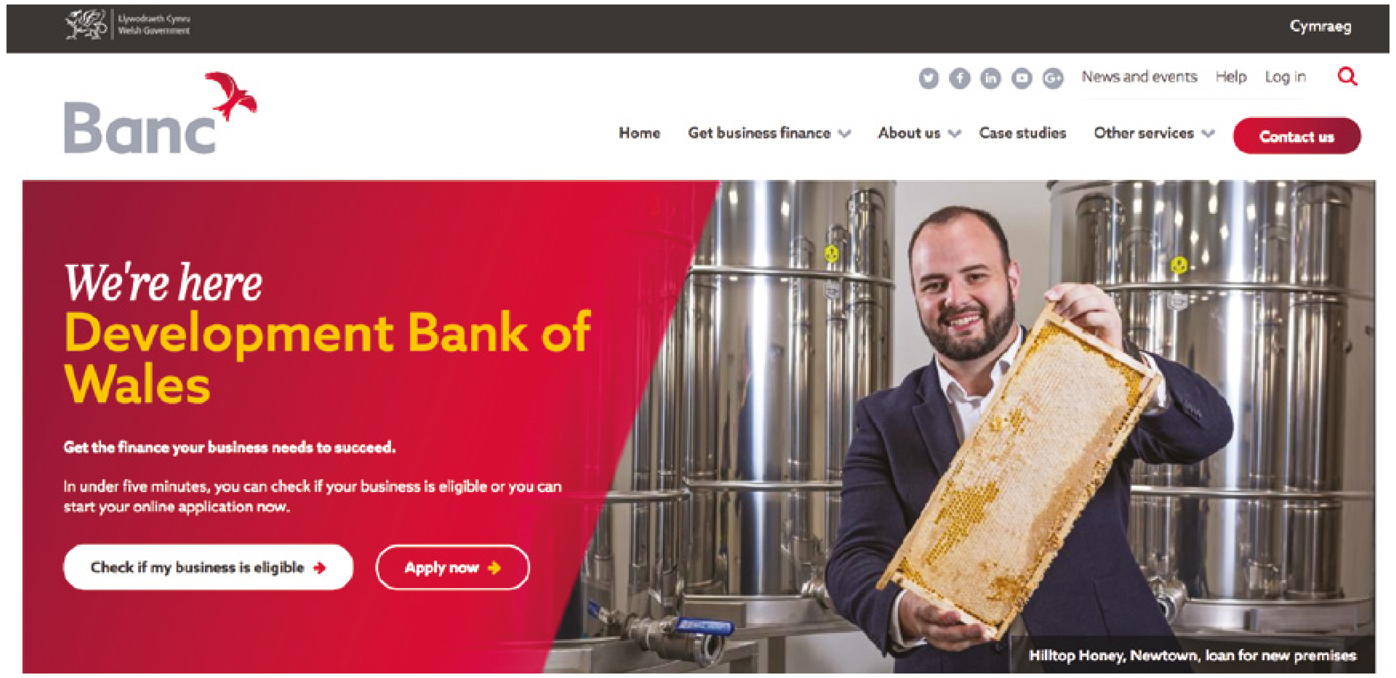
56 business events in Wales held or attended in 2017/18

22

Including 22 deal clinics for SMEs held across all the unitary authorities in Wales

Digital transformation

We undertook a number of digital projects in 2017/18 to ensure excellent customer experience is at the forefront of our services.



A new online application form

8/10 – the average score in customer feedback collected on our new online application process built to improve our customer experience.*

"very easy to follow application"
"an excellent online system"
"nice and clear"
"straight to the point and simple"

*based on a sample of 100 applications between October 2017 and February 2018.

Angylion Buddsoddi Cymru
Angels Invest Wales

Investor platform

To help match investors and businesses Angels Invest Wales have a new online investment platform. It allows businesses to upload deal information showcasing directly to registered high-net-worth individuals while also providing investors with an easy and accessible source of business opportunities to review at any time.

Customer satisfaction feedback

98% of our customers would recommend us**

**Based on a customer feedback survey sample of 100 businesses between April 2017 and March 2018.

Location strategy

We believe that our customers are best supported by teams who are embedded in local communities which is why we have people located across Wales.

In November last year we published our Pan-Wales Location Strategy, setting out how we intend to develop our network of offices. Our Wrexham headquarters was secured in February and will open for business in the autumn of 2018.

As staff numbers increase the distribution of the teams across offices in Wrexham, Cardiff and Llanelli will reflect the distribution of businesses across the three Welsh regions as shown in the table below.

Satellite offices in Llandudno and Newtown will be established and people will be further supported to work more flexibly through investment in the IT infrastructure.

DBW offices   Potential satellite offices

Region	Population	SMEs per region
North Wales	680,000	61,615
Mid and South West Wales	876,000	83,530
South East Wales	1,452,000	105,095

Source ONS LA Population 2010 & Stats Wales 2017

Internal

Achievements 17/18	Areas of focus 18/19
• DBW transition programme successfully completed meeting both internal and external needs	• Establish DBW Operations Programme to ensure continuous operational improvements including integration of new HR system and HtBW financial administration system
• IT Strategy Group established to consider enhancements to create end to end digitisation of internal processes	• Establish a Project Management Office to provide transparency and ensure consistency across all Group project work
• DBW Brand rolled out internally and externally through ongoing awareness campaigns following launch	• Ensure requirements for compliance with GDPR are established in Q1 including staff training
• Programme of initiatives to increase alignment between DBW and Business Wales established to enhance two-way referrals	• Implement equality objectives including gender lensing marketing activity and developing an Environmental Policy
• Equality Impact Assessment undertaken to ensure DBW has leading equality credentials	• Review and develop as appropriate internal delivery standards between Group functions
• DBW State Aid position and corporate structure requirements to support future strategy finalised	• Align DBW senior team responsibilities with the FCA Senior Managers Regime to ensure best practice

Development of a new brand

FINANCE WALES
CYLLID CYMRU

Banc
BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

Feedback from our Welsh SME workshops helped shape the new brand's development:

"It's natural. Fits in with Wales, doesn't it? Soaring. Freedom."

"Approaching your bank can be quite a daunting experience, especially trying to raise finance, so you want to see your bank as being open, friendly and approachable"

"It's just simple, I knew what it was trying to do"

Development Bank of Wales launch

Economy Secretary, Ken Skates officially launched the Development Bank of Wales on 18th October 2017 at the iconic Exchange Hotel in Cardiff Bay. The venue is famous for the first ever million pound cheque being signed there in 1909.

This event was then followed by seven smaller regional launches around Wales during November, with over 450 intermediaries and businesses attending in total. A large scale PR and digital campaign also supported the launch of the development bank and ran until the end of March 2018.

Financial

Achievements 17/18	Areas of focus 18/19
• £233 million of additional investment secured from Welsh Government including: - £168 million of new funds - £65 million of additional funding to existing funds	• Develop proposals for funding support for Welsh business of a minimum of £80 million including: - A dedicated export product to support businesses in the Brexit environment - Enhanced provision of Micro funding focusing on the £1,000 to £50,000 market
• £999.5 million total impact to be realised from new funding with capital recycle and private sector leverage targets	• Formally launch the DBW research function Economic Intelligence Wales in partnership with Cardiff University and Office of National Statistics
• Final core operating grant received from Welsh Government with organisation now fully self financing	• Invest £29 million through FW Capital in the North of England continuing to generate direct benefit for Wales
• New FW Capital Funds launched in the north of England and over £21 million delivered	• Work with Welsh Government and Regional Economic Boards to develop collaborative investment services where required.

Fund raising

£233m

£233 of funds secured in 2017/18

4

4 new funds launched

2

2 funds increased

Increase in funds over 2017/18

Fund	Funding committed to DBW
Wales Business Fund (increased)	£35m (total size £170.9m)
Wales Flexible Investment Fund* (new)	£100m (total size £130m)
Wales Property Fund (increased)	£30m (total size £40m)
Wales Technology Seed Fund II (new)	£20m
Wales Angel Co-investment Fund (new)	£8m
Wales Stalled Sites Fund (new)	£40m
Total	**£233m**

*total fund size of £130 million through recycled capital.

A great way to start...

In November 2017 the first investment was made from the Wales Investment Flexible investment Fund. Working with Welsh Government, Dubai-based packaging company Hotpack secured a £1.5 million loan from the development bank to set up a new base in Wrexham. The move is expected to create 250 jobs and bring £50 million inward investment into the area.

hotpack®
Celebrate Your Food

£1bn+

The amount of funds currently under management by the Development Bank of Wales.

People

Achievements 17/18	Areas of focus 18/19
• Programme of change management undertaken in support of employees including 'building resilience' and 'managing change' workshops	• Conduct a review of Gender Equality within the Development Bank of Wales to identify any areas of improvement in terms of fairness, inclusion and equal opportunity
• Line manager forums established to ensure best practice is shared across the organisation	• Develop training and coaching to empower a broader team of leaders across DBW Group
• Responsible business strategy finalised linking DBW operations with the requirements of the Well-being of Future Generations Act	• Commence operations from the DBW Wrexham Headquarters to establish a more regionally spread organisation
• Well-being strategy rolled out to support employee welfare and provide a more rounded package of support and guidance	• Establish touch down offices across mid and north Wales
• Streamlined online performance management tool established with a stronger focus on employee development	• Define and market the DBW Employee Brand to attract and retain high calibre employees

Recruitment

15%

15% increase in staff

42

42 new starters

23

23 recruited investment staff

Training

520

520 training days across the company

DBW Branding and GDPR workshops held for staff

Wellbeing programme rolled out for staff with guest speakers from

mind Cymru

for better mental health

o blaid gwell iechyd meddwl

Risk management

Risk management

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

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

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

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

The role of the Board

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

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

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

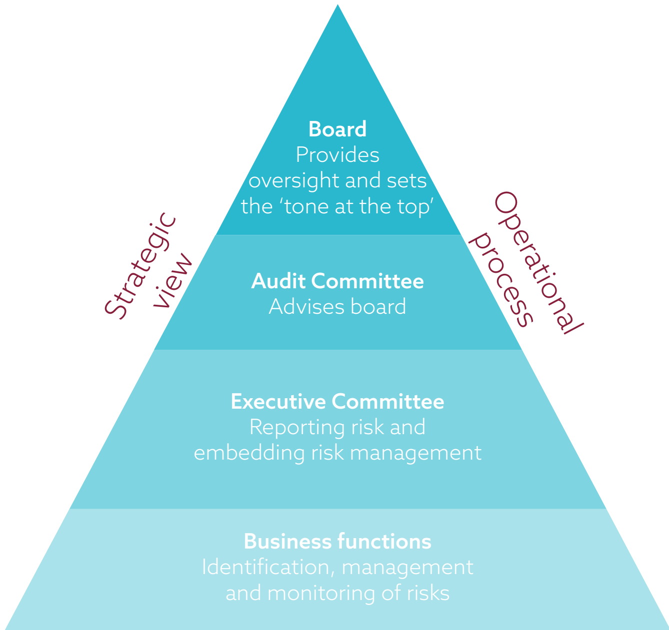
The Directors confirm they have carried out a robust assessment of the principal risks facing the company and that they undertake ongoing monitoring of the Group's risk management and internal control systems and, at least annually carry out a review of their effectiveness. The Group's principal risks are described in detail on pages 72-79.

The role of management and staff

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

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

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



Risk management framework approved by the Board

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

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

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

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

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

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

Assurance framework

The Assurance Framework is the means through which the ARC monitors and evaluates the effectiveness of internal control systems. Assurance is obtained using the "Three Lines of Defence" model:

The first line of defence

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

The second line of defence

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

The third line of defence

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

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

Recommendations arising from internal audit reviews are graded as advisory, low, medium, high or critical priority, dependent on the perceived risk, its likelihood and impact. Management provide responses to recommendations and a deadline for completion of the necessary work.

Each review concludes with a risk classification of low, medium, high or critical dependent on the number and priority of recommendations arising.

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

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

Group activities are also audited or tested by other independent external bodies, providing further assurance as part of the third line of defence. For example, the Group holds Cyber Essentials Plus accreditation and undergoes annual assessment via on-site penetration testing of the IT perimeter, server estate, computing devices and e-mail platform.

During the year, the Group's delivery of the Wales Business Fund was audited by the European Funds Audit Team (EFAT) following which EFAT commented, "We are pleased to note that a review of the Wales Business Fund operation by the European Funds Audit Team (Audit Authority for Wales – ERDF) resulted in an unqualified report on the overall management and operational arrangements in place, with no recommendations arising".

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

Decreased risk · No change to risk · Increased risk

Risk and potential issues	How we are addressing the issues	Current status
Delivery of the Development Bank of Wales (DBW) Business Plan We are committed to a doubling of investment levels in DBW's first five years, alongside successful execution of a variety of other initiatives. Notable amongst these are the relocation of our Head Office to Wrexham, an improved offering to the angel investor community in the form of Angels Invest Wales and the creation of Economic Intelligence Wales. These cornerstone commitments of DBW require careful planning and execution to ensure their successful delivery. At the same time, DBW is tasked with delivering record investment levels and is focused on enhanced efficiency through the rollout of a programme of operational improvements. **Area of risk:** OPERATIONAL **Pre-control rating:** HIGH	The delivery of individual initiatives is managed through the appointment of project teams, led by senior management, with clearly defined outputs and close monitoring of progress. Tracking of the Group's core business performance is supported by a comprehensive suite of management information. Board members receive regular performance updates in respect of both core business and project work. **Post-control rating:** SIGNIFICANT	Delivery of cornerstone projects is progressing satisfactorily against a backdrop of achievement of core business objectives. Angels Invest Wales was launched in May, followed by Economic Intelligence Wales in June. We expect our Wrexham Head Office to be open for business in the autumn of 2018. We continue to closely monitor the Group's day to day performance to ensure successful delivery of our core business activities. No change to risk
Lack of availability of future funding Exit from the EU creates uncertainty both as to the implications for existing funds and the availability of future funds. The longevity of DBW is contingent on the continued willingness of Welsh Government to provide DBW with funds to deploy. **Area of Risk:** LIQUIDITY **Pre-control rating:** HIGH	We liaise closely with colleagues in the Wales European Funding Office and Welsh Government and are well appraised of developments both in respect of existing funds and future fund management opportunities. We draw on our own experience and that of our customers to identify gaps in private sector funding provision and develop fund proposals to address market failure. Evidencing continued successful delivery of fund outputs is key to our credibility both as a professional and successful delivery channel for Welsh Government business support initiatives and fund management business. Accordingly, we track fund performance and delivery of the key performance indicators closely. **Post-control rating:** MODERATE	During the 2017/18 financial year funding from Welsh Government has enabled DBW to launch £233 million of extra funding to support the growth aspirations of Welsh businesses. These included the £100 million Wales Flexible Investment Fund and a £30 million increase to the Wales Property Fund. We continue to develop new fund opportunities where we identify there to be market failure as part of our strategy to deliver a rolling programme of funds. Decreased risk

Decreased risk | No change to risk | Increased risk

Risk and potential issues	How we are addressing the issues	Current status
Failure to meet fund performance objectives The Group has built a strong track record of successful fund delivery. It is critical to the future of the DBW that this record is enhanced through the continued achievement of fund objectives. **Area of risk: INVESTMENT** **Pre-control rating:** HIGH	Each fund we invest is developed in response to a particular area of market failure and has clearly defined target outputs from the outset. These KPIs are closely tracked through detailed management information, enabling new strategies to be developed or remedial action taken as appropriate. We raise awareness of the availability of funding through coordinated marketing and business development activity across a number of channels. **Post-control rating:** SIGNIFICANT	In the past year the Group exceeded all of its key performance indicator targets for Wales. We have further developed our social media presence and see this as key to our successful engagement with the micro business community. The launch of the DBW was supported by a coordinated marketing campaign including a variety of media. We have continued to engage proactively with our network of intermediaries, including accountancy practices and banks, who remain our largest introducers of investment and loan opportunities.
Failure to optimise operational efficiency Inefficient or ineffective processes and systems are likely to result in poor customer service standards and reputational damage to the Group's brand and track record. An inconsistent approach to core investment activity will impact Group performance in terms of increased impairments, reduced fund returns and increased possibility of the breach of funding agreements. **Area of risk: OPERATIONAL** **Pre-control rating:** HIGH	We have a comprehensive set of procedures available to all staff on our intranet. Our Quality Assurance (QA) team undertakes regular file reviews to ensure a consistent approach. Results are shared with senior management and staff have quality targets embedded in their annual performance objectives. We realise that to deliver our stretching targets cost-effectively we must constantly seek out better ways of working. To this end we have initiated an end-to-end review of the investment process to identify where operational efficiencies may be gained. **Post-control rating:** SIGNIFICANT	We have embarked on a major project to update our account management software to ensure suitability for the forecast growth in DBW activity in the coming years. Similarly we are building on previous improvements to our web presence to enable more of the application process is to be completed online.
Failure to engage and communicate effectively with our customers and stakeholders To remain a relevant and effective component of the economic development and business support landscape in Wales it is imperative that we listen to our customers and stakeholders to understand the challenges facing them and how best we can help them achieve their objectives. Just as important is to raise awareness of our activities and products to stimulate demand. **Area of Risk: INTERFACE** **Pre-control rating:** HIGH	We welcome any and all feedback on our performance. We undertake satisfaction surveys and host regular dinners across Wales with our customers and the wider business community to understand what we do well and where we must improve. This feedback has been the catalyst for a programme of operational improvements that we have already started to deliver and which will continue in the coming months. **Post-control rating:** SIGNIFICANT	We have built on the popularity of our streamlined application process in respect of micro finance loans of up to £10,000 for established businesses and have rolled out a simplified appraisal process for existing client businesses. We have also introduced an online application process, which is proving to be very popular. We continue to liaise closely with our colleagues in Welsh Government. Launch of the DBW was supported by a number of briefings to Assembly Members, our Chairman and CEO are in regular contact with the Cabinet Secretary for Economy and Infrastructure and in October members of the board and senior management team appeared before the Economy, Infrastructure and Skills Committee.

Decreased risk No change to risk Increased risk

Risk and potential issues	How we are addressing the issues	Current status
Failure to comply with legal and regulatory requirements The Group and its activities are subject to a variety of laws and regulations. Examples of these include; the Financial Conduct Authority in respect of consumer credit and the activities of FW Capital, the procurement of products and services, State Aid and geographical constraints regarding investment and loan activity and the recent General Data Protection Regulation. Breach of these regulations would damage the Groups' brand and reputation and could result in fines or other sanctions, including legal action, which could impede the Groups' ability to operate or raise further funds. **Area of risk:** COMPLIANCE **Pre-control rating:** HIGH	We maintain detailed policies and procedures on our intranet and our in-house QA team undertakes file sampling activity, the results of which are reported to senior management. Our independent internal auditors provide assurance on the design and effectiveness of internal controls across the Group and recommend areas for improvement to quarterly Audit and Risk Committee meetings. Our external auditors keep us abreast of latest developments in the regulatory environment and test the control environment and report their findings to the Audit and Risk Committee as part of their annual report. Staff are required to undertake regular mandatory training in respect of a number of regulatory areas. **Post-control rating:** SIGNIFICANT	We monitor our compliance with the legal and regulatory landscape through our internal systems and procedures. In the past year staff have undertaken a range of mandatory training including in respect of FCA Approved Persons, Equality & Diversity, Information Security, Countering Bribery & Corruption and Risk Management. A working group was convened to ensure that DBW was prepared for the advent of GDPR and staff training has been delivered to highlight the changes to previous data protection regulations now in force. Our independent internal auditors have delivered the internal audit plan and have categorised DBW's risk management and control processes as Satisfactory.
Vulnerability to cyber-attack, data security breaches and the threat of denial of IT service The Group's IT estate must be operationally durable and reliable, resilient to external attack and, in a worst case scenario, configured to overcome denial of service attacks in a timely fashion. It is important that IT users act in accordance with best practice so as to minimise the likelihood of data security breaches and the reputational, operational and financial implications that may otherwise arise. **Area of risk:** OPERATIONAL **Pre-control rating:** HIGH	Our IT estate is protected by a range of measures including firewalls, encryption and antivirus software, internet content filtering and backups. Specialist third party advice is sought where appropriate. IT support is outsourced to a third party provider and is subject to contractually enforceable Service Level Agreements. IT procedures are detailed in our Information Security Policy. Annual online security training is mandatory across the Group. There are robust breach containment and investigation processes. **Post-control rating:** SIGNIFICANT	In the event of denial of service we are working towards an improved disaster recovery solution capable of restoring access to core business systems for key users within two days. Cyber Essentials Plus with IASME governance accreditation was successfully renewed. This is a government backed, industry supported scheme that enables organisations to demonstrate that essential precautions to mitigate against risks from common cyber-attacks have been taken and that customer and supplier information is being protected.

Decreased risk · No change to risk · Increased risk

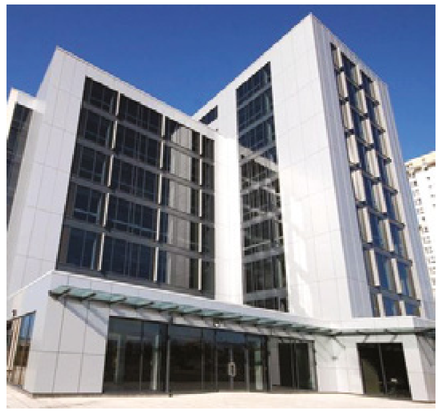
Risk and potential issues	How we are addressing the issues	Current status
Managing cultural change and failure to recruit and retain appropriately skilled and experienced colleagues The Group is required to operate a pay and reward system that is aligned to public sector pay constraints, despite undertaking activities that are aligned with private sector activities in the financial services sector. The relocation of the Head Office to Wrexham will result in a more geographically diverse workforce. In turn, this may impact on DBW culture and lead to higher staff turnover. The inability to recruit and retain staff or the loss of key personnel would result in the loss of valuable experience and knowledge, could adversely impact customer service and our ability to deliver funds effectively. **Area of Risk:** OPERATIONAL **Pre-control rating:** HIGH	A succession plan is in place for key posts. The Group operates a performance appraisal process to ensure that strong performance is recognised and that employees are motivated and competent in their roles. The Group encourages staff development and a range of training options are available. Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year. **Post-control rating:** SIGNIFICANT	There has been close engagement with those colleagues directly impacted by the relocation of the Head Office to Wrexham in the hope of minimising staff turnover. The senior investments team has recently been restructured in order to accommodate the required growth in DBW activity in the coming years. This has provided strong performing colleagues with career progression opportunities.
Failure to manage the contribution of third party providers to the successful delivery of the DBW strategic plan The Group is required to obtain external products and services in accordance with the Public Contract Regulations 2015. Failure to do so could result in reputational damage, unbudgeted costs, or the need to repeat procurement exercises. Lack of internal knowledge when scoping required products and services could result in appointment of unsuitable providers, inadequate project management and anticipated benefits not being delivered. **Area of risk:** INTERFACE **Pre-control rating:** HIGH	DBW has in-house specialist procurement and IT Services staff, with access to external legal advice and consultancy as required. PRINCE 2 Project management techniques and the ITIL best practice IT service management framework are operated and suitable training is available for relevant staff. **Post-control rating:** SIGNIFICANT	Cyber Essentials Plus with IASME accreditation was successfully renewed and a dedicated IT Project Manager has recently been recruited. Where appropriate, staff are appointed specifically to work alongside external contractors to assist in the management of individual projects and to ensure suitable knowledge transfer for internal training purposes following project completion. **New risk**

Responsible business

The Group continues to create an impact across its six key elements of responsible business

Our customers

A primary driver for impacting on the goals of the Well-being of Future Generations (Wales) Act 2015, we provide responsible customer relations to businesses. We proactively promote long-term sustainability and encourage growth and innovation. We support Female entrepreneurship and have hosted several Female entrepreneurship events in our office this year.



Our environment

Not only do we invest in companies seeking solutions to environmental issues, we also ensure that we implement measures throughout our offices so that our energy consumption is minimised. Our current HQ office is listed as BREEAM very good for its energy and waste efficiency, and we use LG3 and LG7 lighting for efficient lighting of our office space.

Our communities

Our investments directly contribute towards economic development in the regions we operate in, creating and safeguarding jobs and stimulating local supply chains. Our charity of the year scheme raised £33,440 for 2 Wish Upon A Star and our staff volunteered as part of BITC's annual Action Days.

Our stakeholders

Maintaining and strengthening relationships with key stakeholders is essential for delivering our objectives. Our key stakeholders include Welsh Government, Welsh European Funding Office, British Business Bank and Barclays Bank. The launch of the Development Bank of Wales was a key economic objective for the Welsh Government.

Our suppliers

Responsible selection and management of suppliers allows us to build good relationships and support our suppliers. In Wales we have successfully utilised the Welsh Government procurement portal Sell2Wales throughout the year to source suppliers. We have also utilised government framework contracts to support the development bank's launch.

Our employees

We take investing in our people seriously with over 520 days of training and development days provided to staff over the year. We continue to provide access to CareFirst through our wellbeing scheme. We have also invested in the growth of the company with a 15% increase in staff over the year.

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:

- Kevin O'Leary resigned as Director of Finance and Administration, with effect from 31 March 2018
- David Staziker was appointed Director of Finance and Administration, with effect from 1 April 2018

Board members

A Audit and Risk 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 40 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-Sacro Engineering, Fleming Family & Partners Ltd and the British Banker's Association. He is currently Senior Independent Director of Informa and a Trustee of the British Council.

Huw Morgan, Non-Executive 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 UK plc, where he chairs the Risk and Credit Risk Committees, Chair of Inspiretec and Chair of Help Me Compare Ltd. Huw also sits on the Welsh Government, Central Cardiff Enterprise Zone Board. He also supports the Universities of Aberystwyth and Cardiff, the former as a member of the Development Advisory Board, the latter on the Industrial Advisory Board.

A N R

Giles Thorley, Chief Executive

Appointment:
Appointed Chief Exective of Development Bank of Wales plc in April 2016.

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

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

Dr Carol Bell, Non-Executive Director

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 has recently retired from chairing the commercial subsidiary of Welsh-language broadcaster S4C and currently is a board member of a number of companies and organisations both in Wales and internationally. Since completing her doctorate in 2005, Carol has developed a range of business and charitable interests.

N

Iraj Amiri, Non-Executive Director

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

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

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

A N

Roger Jeynes, Non-Executive Director

Appointment:
Appointed to the Board in November 2016.

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

External appointments:
Roger is an independent non-executive director of Downing Three VCT plc, Chairman of AIM-listed technology company, Zoo Digital plc, and Chairman of mxData Limited. He is also a trustee of the Lloyd-Reason Foundation charity.

N R

Margaret Llewellyn OBE, Non-Executive Director

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

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

External appointments:
A long-standing Welsh Government adviser, Margaret is currently Chair of the Network Rail Supervisory Board and was previously Chair of the Tourism Advisory Board for Wales and 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 for the Haven Enterprise Board.

A N R

Dr David Staziker, Director of Finance and Administration

Appointment:
Appointed to the board in April 2018.

Key strengths and experience:
David leads Development Bank of Wales' internal finance and administration teams. He joined the company in 2002 and held a number of management roles in the investments side of the business before being appointed Director of Finance and Administration in 2018. Prior to Development Bank of Wales, David worked at PricewaterhouseCoopers and Gambit Corporate Finance. David has a degree and PhD in applied mathematics, is a fellow of the Institute of Chartered Accountants in England and Wales and also holds their corporate finance qualification. In his free time, David is a keen triathlete.

External appointments:
Non-Executive Director of the Pobl Group and Vice Chair of their Treasury and Investment Committee.

Board diversity

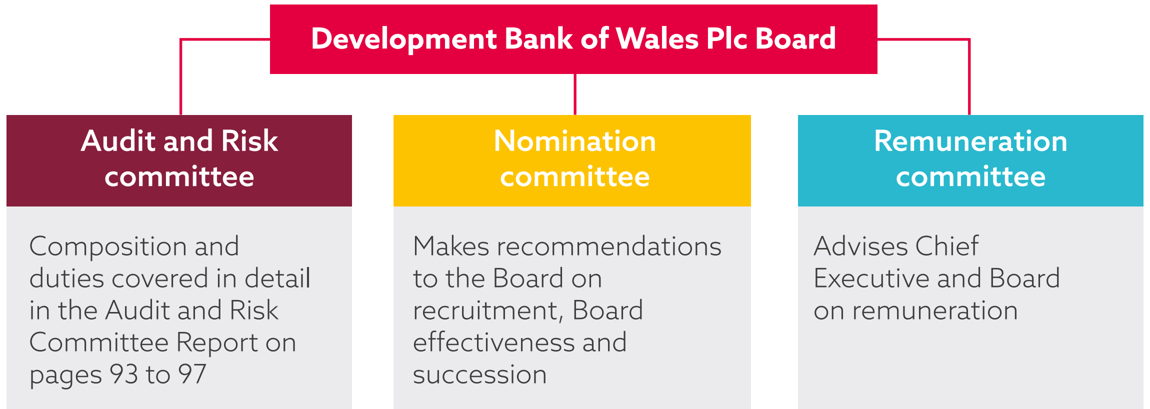
The Board is committed to attracting and retaining talented people, and with that in mind, diversity across a range of criteria is valued. The Board recognises that diversity, in all forms, is key to ensuring different perspectives are introduced into the decision-making processes within the boardroom.
The Board believes that gender is an important aspect in creating an optimal Board in terms of balance and composition. For the last three years running the Board has had the following gender split of 2 female : 6 male.

Corporate governance

The directors are committed to exercising a high standard of corporate governance. Whilst the Group is not required to comply with The UK Corporate Governance Code issued by the Financial Reporting Council, every effort is made to ensure that principles are applied where appropriate as detailed in the Risk Management section on page 69.

Governance framework and board committees

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



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

The principal Board committees comprise the audit and risk committee, the nomination committee and the remuneration committee. Each of the Board committees has delegated authority from the Board to carry out the duties defined in its terms of reference. The Board is satisfied that the terms of reference for each of these committees reflect current best practice.

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

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

Board and board committee attendance

Number of meetings attended

Board member	Board meetings	Audit & Risk committee	Remuneration committee
Gareth Bullock	6/6	n/a	n/a
Huw Morgan	6/6	4/4	2/2
Carol Bell	6/6	n/a	n/a
Margaret Llewellyn	6/6	4/4	2/2
Iraj Amiri	6/6	4/4	n/a
Roger Jeynes	6/6	n/a	n/a
Giles Thorley	6/6	n/a	n/a
Kevin O'Leary	6/6	n/a	n/a

Board evaluation

The Chairman leads the annual review of the Board's effectiveness and its Committees with the support of the Nominations Committee. Performance evaluation of the Chairman's effectiveness is carried out by the Non-Executive Directors, led by the Senior Independent Director. This year the Board used the online assessment service provided by Independent Audit Limited to enable comparison with the findings from the previous year.

Overall the findings were positive for both the Board and its Committees with the majority of areas deemed to be working well. There were also areas identified which offered scope for further development including improved communications with stakeholders, increased understanding of the risk strategy and how it applies to the operation of the organisation. In March the Board set time aside dedicated to the long-term strategy where the collective experience was used to good effect in scrutinising future plans and ensuring that further transformation brings sustainable value to our stakeholders.

Judi Oates

Judi Oates
Company Secretary
27th June 2018

Remuneration committee report

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

Committee membership and attendance

The Development Bank of Wales Group Remuneration Committee comprises two non-executive directors:

- Committee Chair: Margaret Llewellyn OBE
- Membership: Huw Morgan

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 the independent HR consultant are normally in attendance except when their own remuneration and administration 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 the strategy and policy for the remuneration of the Group's Directors, Senior Management team and staff
- Ensuring the members of the Executive and Senior management teams are provided with appropriate incentives to encourage enhanced performance and 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

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

Key achievements and priorities for 2017/18

- Recruitment and induction of employees in the Wrexham Headquarters in order to fulfil the Pan Wales Location Strategy
- Working to support and retain employees transitioning from our current regional offices to the new Headquarters
- Embedding and promoting the enhanced Flexible working policy
- Supporting line managers in the management of teams who work remotely and/or flexibly
- Developing the well-being programme in order to support employee well-being
- Providing support for all employees following a period of significant change .i.e. FW to DBW
- Continuing to support and benefit from the Welsh Financial Services Graduate Scheme, hosting 4 placements during the year
- Ensuring the Group's operational structure continues to remain fit for purpose and supports the needs of the business

Key activities and priorities for 2018/19

- Finalise and roll out of new long-term incentive programme to support the recruitment and retention of investment specialists
- Work towards fairness, inclusion and equal opportunity throughout the organisation, and in particular this year, work with Chwarae Teg to support gender equality
- Develop a programme of support in order to empower a broader group of leaders in the organisation
- Enhance the "employee voice" via the employee consultation group in order to preserve the organisational culture as we expand and develop new ways of working
- Create an employer brand in order to attract new talent

Approved by the Chairman of the Remuneration Committee

Margaret Llewellyn OBE
Chairman of the Remuneration Committee
27th June 2018

Audit and risk committee report

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

Membership composition, skills and meetings

The Development Bank of Wales Group Audit and Risk Committee comprises solely of three independent non-executive directors:

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

The Board considers that the Chair is the Committee's financial expert and has recent and relevant financial services sector experience necessary for the role. He is a professionally qualified accountant. The Board also considers that the other members of the Committee are competent in financial matters and have knowledge and experience relevant to the sectors in which the Development Bank of Wales Group operates. Biographies of the Committee members can be found on pages 85 to 88 which give more detail of their skills and background.

The Audit and Risk Committee meets quarterly. It is attended by Development Bank of Wales plc's Chief Executive, the Director of Finance and Administration and Director of Risk, Compliance and Legal, together with the internal and external auditors, and an observer from the Welsh Government. The internal and external auditors have direct access to the Chair of the Audit and Risk Committee and meet the Committee without management present at least once a year.

A full report on the business of the Development Bank of Wales Group Audit and Risk Committee is given to the full Board and the minutes are sent 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 Welsh Government Corporate Governance Committee on its work and confirms the adequacy of the audit arrangements and assurance given by the CEO in respect of governance, risk management and control arrangements.

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

Financial reporting	Monitor integrity of the financial statements and review critical accounting policies. Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements. Review and monitor any significant adjustments arising from the external audit. Review the annual report and accounts and other financial reporting and advise the Board on whether, taken as a whole, it is fair, balanced and understandable. Consider 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 their 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 plan. Review audit findings, considering management's responses to any finding or recommendations.
Internal controls and risk	Oversee management's arrangements for ensuring the adequacy and effectiveness of internal controls, financial management reporting and risk management and management's approach to addressing control weaknesses. Review and approve the internal control, risk management and other assurance statements in the annual report.
Probity including whistle-blowing	Review the whistle-blowing arrangements and receive reports on instances of whistle-blowing. Review the Gifts and Hospitality register and arrangements.
Internal audit	Approve the selection and appointment of internal auditors. Approve the annual work plan and receive reports on individual areas of work. Monitor management's responses to findings and recommendations. Monitor the effectiveness of the internal audit function.
Welsh Government	An observer from the Welsh Government attends all meetings and is kept fully informed on all aspects of the Committee's work. An annual report is submitted to Welsh Government Corporate Governance Committee 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 CEO and the senior management team in respect of governance and control arrangements operated.

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 2018, which are set out below. The majority of these issues are recurring and are therefore considered by the Audit and Risk Committee on an on-going basis.

Valuation of Help to Buy – Wales loan portfolio

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

Provisions for impairment of the loan book

The Committee considered and challenged the provisioning methodology applied by management including the results of statistical loan losses to support the impairment provision and was satisfied that the estimation methods were appropriate. The disclosure relating to the impairment provision is set out in note 14 to the financial statements.

Valuation of equity investments

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

Where a fair value can be reliably estimated accounting standards require financial assets to be valued at fair value. The Committee considered and challenged how management had applied the BVCA guidelines and was satisfied that they had been applied appropriately. The Committee was also satisfied that where equity investments are pre-revenue or where no new third party investors were involved so there was no reliable information on which to base a valuation, no fair value adjustment should be made. The disclosures relating to the impairment provision and fair value adjustment are set out in notes 12 and 13 to the financial statements.

Investment in the Wales Life Science Investment Fund ("WLSIF")

The Committee noted that the fund manager appointed an independent valuation specialist to determine the valuation of the fund's unquoted investments at 31 December 2017. In the fund manager's group accounts for the year ended 31 December 2017, its auditor confirmed that the fair value used for the WLSIF was supported by the audit evidence obtained. The Committee reviewed and considered the key fair value assumptions, the roll forward of the fair values to 31 March 2018 and further valuation sensitivities and concluded that the fair value and associated disclosures were appropriate.

Regularity

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

Revenue recognition

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

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

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

FCA rules

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

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

European funding rules

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

Review of the annual report and financial statements

The Audit and Risk Committee met on 11 June 2018 to carry out a detailed review of a draft of the Annual Report and Financial Statements, prior to the final draft being presented to the Board of 27 June 2018. 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 and risk committee's performance

The performance of the Audit and Risk Committee is reviewed annually by means of a questionnaire sent to all directors and senior management. The results, which concluded that the Committee was effective, were reviewed by the full Board and where necessary an action plan agreed to address any matters raised.

External audit

The external auditor and the Group both have safeguards to ensure the independence and objectivity of the external audit. The Group has a policy to ensure the non-audit services provided by the external auditors are appropriate. The policy sets out the nature of work the external auditor may undertake with any work with fees above a defined limit requiring prior approval from the Audit and Risk Committee. The total amount paid to the external auditor in 2018 is set in note 5 to the financial statements.

The members of the Audit and Risk Committee meet privately at least once a year with the external auditor to review their performance. In 2018 no significant issues were raised and their performance was considered to be satisfactory.

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

Internal audit

During the year, following a successful procurement exercise, PricewaterhouseCoopers were appointed as our independent internal auditors to conduct our internal audit function. The appointment is until the end of June 2022, with an option to break at the third anniversary. The Audit and Risk Committee reviews the internal audit plan and ensures that the auditors have appropriate access to information to enable them to perform their audit activities effectively and in accordance with the relevant professional standards. All findings are reviewed promptly and management's responsiveness to the findings and recommendations is regularly monitored. The Audit and Risk Committee meet privately at least once a year with the internal auditors without management being present to discuss their remit and any issues arising from the internal audit reviews carried out.

In their Annual Report to the Audit and Risk Committee on 11 June 2018 our Internal Auditors' gave a Satisfactory opinion as to our governance, risk management and control arrangements, stating:

"We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

We have completed our programme of work agreed with you and we believe that there are adequate and effective governance, risk management and control processes to enable the related risks to be managed and objectives to be met."

Approved by the Chairman of the Audit and Risk Committee

Iraj Amiri
Chairman of the Audit and Risk Committee
27th June 2018

Directors' report

The directors present their annual report together with the audited consolidated financial statements for Development Bank of Wales plc for the year ended 31 March 2018.

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 surplus after taxation of £4.5 million (2017: surplus of £13.3m). The directors do not recommend the payment of a dividend (2017: £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 20, 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 Ministers and European Structural Funds.

The Group's bank borrowings are secured by charges on accounts containing uninvested cash and security over the investments. Further details of the Group's loan facilities in place at 31 March 2018 are given in note 17, which shows all bank borrowing were repaid as at 31 March 2018.

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

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

Political donations

The Group made no political donations during 2018 (2017: £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 80-81.

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

Judi Oates
Company Secretary
27th June 2018

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

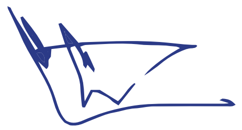
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 27th June 2018 and is signed on its behalf by



Giles Thorley
Chief Executive
27th June 2018

Financial statements

Independent Auditors report to the members of Development Bank of Wales Plc

Report on the audit of the financial statements

Opinion

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework";
- in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and the financial transactions conform to the authorities which govern them; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Development Bank of Wales plc (the 'parent company') which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 32.

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Key audit matters	The key audit matters we identified in the current year were: • Valuation of Help to Buy Wales portfolio • Valuation of equity investments • Loan loss provisions • Audit of regularity – Welsh Government funding These key audit matters were also identified in the previous audit year. We have not identified any additional key audit matters during our 2018 audit however we note that we no longer recognise revenue as a key audit matter. The quantitative value of equity realisations in the current year has led to this no longer featuring as a focus of the Group audit.
External Audit	The materiality that we used for the group financial statements was £6.8m which was determined on the basis of 1% of total assets.
Internal Controls and Risk	There have been no fundamental changes in our audit approach in the current year. We note that seven new subsidiary entities have been created in the year thus increasing the scope of the Group audit. Each of these entities has been included within our Group scope.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

We note that revenue recognition is no longer considered a key audit matter. The revenue streams of the Group are relatively simple in nature and therefore are not a key focus for the Group audit. In the previous year, we identified a key audit matter in relation to equity realisations, however given the quantitative value of these in the current year, this was no longer a key focus of the Group audit.

Valuation of Help to Buy Wales portfolio

Key audit matter description

The Help to Buy portfolio, shown as shared equity loans within trade and other receivables, was valued at £251m as at 31 March 2018 (2017: £181m).

Help to Buy Wales shared equity loans are held at Fair Value ("FV") under the FV Option. Management applies significant judgement in determining assumptions influencing the FV of the portfolio, building a model to incorporate the underlying variable inputs present in the valuation of these shared equity loans.

These inputs are subject to significant estimation uncertainty and require judgments to be made by management. We recognise that the valuation of the Help to Buy Wales portfolio is most sensitive to changes in forecast HPI and discount rates, noting these are not market observable and therefore we focus our key audit matter and direct our audit efforts towards these two key inputs. Given the level of management judgement applied to determining these assumptions, we also consider there to be an inherent risk of potential fraud in financial reporting through manipulation of this balance.

This key audit matter is included in the Audit and Risk Committee report on page 93. The relevant accounting policy relating to shared equity loans is shown in note 2 to the accounts, while critical accounting estimates and key sources of estimation uncertainty are discussed in note 3. The key note giving the financial impact of these loans is note 20 to the Group accounts.

How the scope of our audit responded to the key audit matter

We have performed a walkthrough of management's process for determining the value of the Help to Buy portfolio. We evaluated the design and determined the implementation of review controls for key assumptions used in the valuation model.

We have reviewed the methodology for compliance with IAS 39.

We have reviewed management's model and ensured formulaic accuracy, recalculating the key outputs where applicable.

We have corroborated key assumptions to supporting data where possible and benchmarked the assumptions used against comparable assumptions used within the industry and other available third party sources. We have also performed a sensitivity analysis on the HPI growth forecast and discount rate inputs.

We have tested the completeness and accuracy of the data used within the model.

Key observations

We did not identify any misstatements in relation to the fair value of the Help to Buy Wales portfolio, therefore we can conclude that the balance is appropriately stated.

We identified that judgements and estimates applied were towards the conservative end of the reasonable range.

Valuation of equity investments

Key audit matter description

As at 31 March 2018, the Group held total equity investments of £81m (2017: £65.5m).

Equity investments are held at fair value under IAS 39. Given Development Bank of Wales invests largely in early stage companies there is limited observable data available to support the estimation of the fair value and therefore management could incorrectly apply uplifts to the valuation or fail to identify or apply relevant market data indicative of a fair value.

The key judgement in relation to equity investments relates to whether, on an individual investment basis, an active market exists or a valuation technique can be applied to determine a reliable estimate of the fair value. The identification of an appropriate fair value, leading to an uplift in the valuation of the equity investment represents the focus areas of our audit testing. Given the level of management judgement applied to the calculation of the fair values, we also consider there to be an inherent risk of potential fraud in financial reporting through manipulation of this balance

This key audit matter is included in the significant issues section of the Audit and Risk Committee Report on page 95. Management's associated accounting policies are detailed in notes 2 and 3. The key note giving the financial impact of these loans is note 20 to the Group accounts.

How the scope of our audit responded to the key audit matter

We have performed a walkthrough of management's process for determining fair values of equity investments. We evaluated the design and determined the implementation of controls surrounding the review of the fair value of investments.

We have reviewed the internal policy related to the determination of fair values for equity investments to ensure this is compliant with IAS 39 and IFRS 13. We have also reviewed the uplifts applied in the current year against internal policy to ensure the application of uplifts are appropriate.

We have corroborated the accuracy of the uplifts applied by management in the period; using information available such as funding rounds and recent financial information, while also evaluating any contradictory evidence identified.

We have reviewed uplifts raised in previous periods to ensure these are not inappropriately reversed in future periods.

We assessed the completeness of the fair value uplifts by performing tests of details on a sample of investments for which no uplift has been applied and considering the appropriateness of this.

We performed tests of details on the underlying data for completeness and accuracy.

Key observations

From our testing performed, we conclude that the valuation of equity investments is appropriately stated.

We concluded that the judgements taken in respect of applying uplifts to equity investments are typically towards the conservative end of a reasonable range.

Loan loss provisions

Key audit matter description

Development Bank of Wales applies similar processes to the determination of their specific and incurred but not reported provisions on the loan book and impairments to equity investments. Total provisions/ impairments recognised as at 31 March 2018 were £35.3m (2017: £30.3m).

The loan and equity investments are classified into internal gradings (A-E) by assessing the overall 'health' of the entity to which the loan/ investment is made. This assessment involves judgement from management and the investment executives and therefore we consider this judgement area to be a key focus of our audit.

Following the classification, for investments classified as 'E' rated – a specific provision/ FV adjustment of either 50% or 100% is held against cost. The determination of this percentage is based on judgements relating to the estimation of security values and expected future cash flows. The security values and expected future cashflows are a key area of uncertainty and therefore we consider this to be complex and involve a high degree of judgement thus we give significant audit focus to this area. Given the level of management judgement applied to the calculation of provisions, we also consider there to be an inherent risk of potential fraud in financial reporting.

In addition to specific provisions, management calculate an incurred but not reported provision using the Group's historical provision and write off information, or "loss curves".

This key audit matter is referred to in the significant issues section of the Audit and Risk Committee Report on page 95. The key accounting policies relating to loan loss provisions are included in note 2 and key areas of critical accounting estimate and estimation uncertainty are disclosed in note 3. The key note giving the financial impact of these loans is note 14 to the Group accounts.

Loan loss provisions

How the scope of our audit responded to the key audit matter

We have performed a walkthrough of the key business cycle relating specifically to the monitoring of investments and recognition of loan loss provisions. We have evaluated the design, determined the implementation and tested the operating effectiveness of controls surrounding the investment monitoring and provisioning cycle.

We have performed a detailed analysis on a sample of investments and challenged management on whether the level of provision held is appropriate, by auditing cash receipts on loans and a consideration of a variety of impairment triggers using underlying management information.

We have reviewed the methodology of the loans and equity portfolio provisions in accordance with IAS 39 and IFRS 13 and corroborated the logic of each calculation.

We have qualitatively assessed the applicability of the methodology for all funds, challenging the appropriateness of each historic loss curve based on the results of our specific provisioning testing and cumulative audit knowledge gained in previous periods. We have analysed the risk levels (using investment grades) of the loan and equity portfolios, comparing these to the portfolio provision levels.

We have analysed the coverage of the portfolio provisions for both loans and equity on each individual fund, reviewing movements in coverage in the context of the underlying characteristics of the fund.

We have corroborated the logic of each calculation and recalculated each provision, testing the completeness and accuracy of the input data.

Key observations

We did not identify any misstatements in relation to the provisions held against loan and equity investments, therefore we can conclude that the balance is appropriately stated.

We identified that judgements and estimates applied were towards the conservative end of the reasonable range.

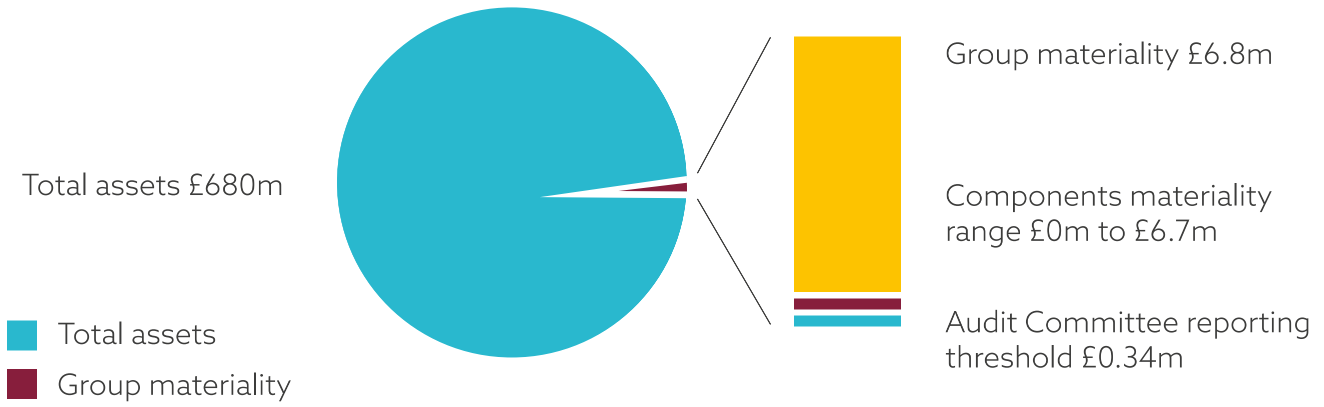
Audit of regularity – Welsh Government Funding	
Key audit matter description	Development Bank of Wales obtains a significant proportion of its funding from the Welsh Assembly Government. Total funding as at 31 March 2018 was £566m (2017: £338m). Development Bank of Wales PLC is required to comply with the regulatory requirements set out by the Welsh Government as part of their funding arrangements. Non-compliance with these requirements could result in withdrawal of such funding which will subsequently have significant going concern implications for the Group, and therefore we consider this to be a key area of audit focus. Compliance with these funding requirements means the Group is required to invest in companies that meet the investment operating guidelines (IOGs) of each fund as set by the relevant public sector body. We consider there to be some element of judgement involved in determining whether an investee company meets the requirements of the IOGs and thus our key audit matter focusses specifically on this aspect of the requirements. This key audit matter is included in the significant issues section of the Audit and Risk Committee Report on page 95. Details of the contribution received from the Welsh Government are disclosed in note 9.
How the scope of our audit responded to the key audit matter	We have performed a walkthrough of the process surrounding new drawdowns and evaluated the design and determined the implementation of key controls, specifically in relation to the provision of new investments. We have reviewed a sample of investments made in the year, independently verifying the industry and geographical location of the company. We have performed an analysis of the investment operating guidelines applicable to each fund and verified that, for the sample of investments made in the year, these were in line with the criteria set out the applicable guidelines. We have reviewed the over-spend and gifts and hospitality register to ensure the expenditure in the current year is compliant with the articles and agreements set out by the Welsh Government.
Key observations	From the work performed, we did not identify any instances of non-compliance with the investment operating guidelines in the current period. Furthermore, no issues were noted in respect of expenditure.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£6.8m (2017: £4.2m)	£136k (2017: £295k)
Basis for determining materiality	1% of interim total assets (2017: 1%)	5% expenses (2017: 5%)
Rationale for the benchmark applied	We determined materiality based upon the value of total assets as at an interim date. We reconsidered whether this remained appropriate in the context of the final year end total asset value and concluded that no revision was necessary. The final year end net assets are greater than the interim value on which we based our materiality. 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. Furthermore, the equity and loan investment portfolios represent key performance indicators to the Group.	Development Bank of Wales PLC as a parent company covers the administrative expenses for the Group which it recovers through recharges. It does not have any external operation of its own and as such, we consider this to be the most appropriate basis for materiality.



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £340k (2017: £200k) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Other information

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the director's report (included within the governance report) for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and or the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

We have nothing to report in respect of these matters.

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.

Directors' remuneration

We have nothing to report in respect of these matters.

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

For and on behalf of Deloitte LLP

David Heaton

David Heaton (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, UK
1st August 2018

Consolidated income statement

For the year ended 31 March 2018

	Note	2018	2017
		£	£
Revenue	**4**	**14,693,592**	**11,230,315**
Administrative expenses:			
Impairments against loans receivable	5	(4,863,904)	(7,516,073)
Impairments against financial assets classified as available-for-sale	5	(8,928,740)	(4,745,661)
Impairments (incurred)/released against financial assets classified as fair value through profit or loss	5	(504,374)	142,532
Other administrative expenses		(15,068,498)	(12,889,883)
Total administrative expenses		**(29,365,516)**	**(25,009,085)**
Other operating income:			
Release of ERDF grant income	4	21,980,230	17,941,130
Contribution towards administrative expenses from principal shareholder	4, 9	1,740,000	1,931,605
Gains from the disposal of available for sale equity investments	4	695,298	3,294,627
Total other operating income		**24,415,528**	**23,167,362**
Operating profit	**5**	**9,743,604**	**9,388,592**
Investment revenue	7	294,911	437,074
Finance costs	8	(207,229)	(564,488)
Fair value gains on assets held at fair value	20	3,878,097	4,113,800
(Loss) on amounts owed to principal shareholder held at fair value	20	(9,159,229)	-
Profit before taxation		**4,550,154**	**13,374,978**
Tax	10	-	-
Profit for the financial year		**4,550,154**	**13,374,978**

All activities derive from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	2018	2017
	£	£
Profit for the financial year	4,550,154	13,374,978
Available-for-sale financial assets - Gains arising during the year	10,258,310	7,308,218
Acturial gain/(loss) on defined benefit pension schemes	800,000	(2,176,000)
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-
Other comprehensive income for the year net of tax	11,058,310	5,132,218
Total comprehensive income for the year	**15,608,464**	**18,507,196**

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Public equity	Share capital	Capital reserve	Retained Profit	Total
	£	£	£	£	£
Balance at 31 March 2016	**110,752,334**	**12,500**	**10,100**	**(5,209,128)**	**105,565,806**
Profit for the financial year	-	-	-	13,374,978	13,374,978
Grain on revaluation of available-for-sale investments taken to equity	-	-	-	7,308,218	7,308,218
Actuarial loss on defined benefit pension schemes	-	-	-	(2,176,000)	(2,176,000)
Addition in public equity	1,488,446	-	-	-	1,488,446
Sub Total	1,488,446	-	-	18,507,196	19,995,642
Balance at 31 March 2017	**112,240,780**	**12,500**	**10,100**	**13,298,067**	**125,561,447**
Profit for the financial year	-	-	-	4,550,154	4,550,154
Grain on revaluation of available-for-sale investments taken to equity	-	-	-	10,258,310	10,258,310
Actuarial gain on defined benefit pension schemes	-	-	-	800,000	800,000
Reduction in public equity	(60,000)	-	-	-	(60,000)
Sub Total	(60,000)	-	-	15,608,464	15,548,464
Balance at 31 March 2018	**112,180,780**	**12,500**	**10,100**	**28,906,531**	**141,109,911**

Consolidated balance sheet

As at 31 March 2018

	Note	2018	2017
		£	£
Non-current assets			
Property, plant and equipment	11	355,862	403,489
Investments in associates	12	-	386,014
Available-for-sale financial assets	13	80,350,941	60,318,903
Trade and other receivables	14	359,192,542	274,258,175
		439,899,345	335,366,581
Current assets			
Trade and other receivables	14	19,795,454	23,683,923
Cash and cash equivalents	15	259,243,453	120,638,535
		279,038,907	144,322,458
Total assets		**718,938,252**	**479,689,039**
Current liabilities			
Borrowings	16	-	(3,600,000)
Trade and other payables	17	(5,374,902)	(3,484,869)
Deferred income	19	(4,682,629)	-
		(10,057,531)	(7,084,869)
Net current assets		**268,981,376**	**137,237,589**
Non-current liabilities			
Trade and other payables	17	(566,360,810)	(337,971,672)
Retirement benefit obligations	18	(1,410,000)	(2,130,000)
Deferred income	19	-	(6,941,051)
		(567,770,810)	(347,042,723)
Total liabilities		**(577,828,341)**	**(354,127,592)**
Net assets		**141,109,911**	**125,561,447**

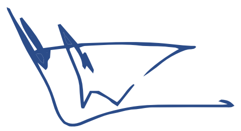
Consolidated balance sheet (continued)

As at 31 March 2018

	Note	2018	2017
		£	£
Equity			
Public equity		112,180,780	112,240,780
Share capital	21	12,500	12,500
Capital reserve		10,100	10,100
Retained profit		28,906,531	13,298,067
Total equity		**141,109,911**	**125,561,447**

The financial statements of Development Bank of Wales plc, registered number 4055414, were approved by the Board of Directors on 27th June 2018.

Signed on its behalf by



G Thorley
Director
27th June 2018

Consolidated cash flow statement

For the year ended 31 March 2018

	Note	2018	2017
		£	£
Net cash inflow/(outflow) from operating activities	**23**	**121,011,838**	**(57,710,672)**
Investing activities			
Interest received		294,911	437,074
Purchases of fixed assets and investments		(376,406)	(219,000)
Net cash received from investing activities		**(81,495)**	**218,074**
Financing activities			
Interest paid		(127,233)	(624,488)
Repayments of borrowings		(3,600,000)	(20,700,000)
Public equity (repaid)/received		(60,000)	1,488,447
Cash received in relation to Deferred Income		21,461,808	24,153,786
Net cash received from / (used in) financing activities		**17,674,575**	**4,317,745**
Net increase / (decrease) in cash and cash equivalents		138,604,918	(53,174,853)
Cash and cash equivalents at beginning of year		120,638,535	173,813,388
Cash and cash equivalents at end of year		**259,243,453**	**120,638,535**

Notes to the consolidated financial statements

For the year ended 31 March 2018

1. General information

Development Bank of Wales plc (formerly 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 2018 and applied in accordance with the Companies Act 2006.

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

IFRS 9	Financial Instruments – Classification and Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

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 directors expect that IFRS 9 will impact both the measurement and disclosures of financial instruments. During the year, the directors have determined that the Group will adopt IFRS 9 for the year ending 31 March 2019 whilst internally calculating first comparatives at 31 March 2018 and are in the process of undertaking a detailed review of the impact of IFRS 9. Until this detailed review is completed, it is not possible to provide a reasonable estimate of the impact on the Group's financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2018

2. 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 at fair value. The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, are outlined below.

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

Basis of Consolidation

The consolidated financial statements comprise Development Bank of Wales plc (the Company) and its subsidiary undertakings, as listed in note 29 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 directors reviewed the Group's working capital requirements and funds available for investment in the 18 months ending 30 September 2019. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2019 and that there were no performance issues with any of the Group's fund management contracts. The directors were also satisfied that there would be sufficient surplus generated by the services business and associated working capital to cover all operating expenses to 30 September 2019 after allowing for the cessation of Welsh Ministers revenue support from 31 March 2018. The directors also noted that discussions were taking place with the Welsh Ministers on additional funds to invest.

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. 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	3-4 years
Computer equipment	3-5 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.

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

Investments in associates

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

The Group has taken a scope exemption available in *IAS 28 Associates* for accounting for associates held by venture capital organisations, mutual funds, unit trusts and similar entities for the associate to be 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 could reduce 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 Development Bank of Wales carries out its business. Development Bank of 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 Development Bank of 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.

Revenue recognition

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

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

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

European Regional Development Fund ("ERDF") grant income

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

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

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

Financial instruments

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

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

Financial assets

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

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

Financial instruments (continued)

Effective interest method

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

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

Financial assets at FVTPL

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 20.

Shared equity loans

Shared equity loans incepted pre 31 March 2016 and for the period between 1 April 2017 and 31 March 2018 have been designated as FVTPL under the fair value option and are measured at fair value as at the balance sheet date. Shared equity loans incepted from 1 April 2016 to 31 March 2017 are being held at amortised cost.

More detail on the measurement of shared equity loans can be found in Note 20, Financial Instruments.

Embedded derivatives

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

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial assets (AFS)

Quoted 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 unquoted 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 20. Gains and losses arising from changes in fair value are recognised directly in equity, through Other Comprehensive Income (OCI). 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.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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 OCI 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 through OCI.

Impairment of financial assets – shared equity loans

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and are subject to an insignificant risk of changes in value.

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

Derecognition of financial assets

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Provisions

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

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

2. Accounting policies (continued)

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.

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 DBW FM Limited (Small Loans Fund), DBW Investments (3) Limited (Rescue and Restructuring Fund, Capital Growth Fund, TVI Interim Fund, Tech Seed Funds I & II, Wales Co-Invest Fund and Wales Flexible Investment Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Welsh Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund), DBW Investments (11) Limited (the Wales Property Fund and Wales Stalled Sites Fund), DBW Investments (12) Limited (Wales Management Succession Fund) and DBW Investments (14) Limited (Wales Business 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 Development Bank of Wales and within the Welsh Minister's own accounting arrangements the funds are regarded as being an investment.

Related party transactions

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group is a lessor under operating leases only.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the consolidated financial statements

For the year ended 31 March 2018

2. Accounting policies (continued)

Operating profit

Operating profit is stated before investment income and finance costs.

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 through OCI, in which case it is recognised through OCI.

Notes to the consolidated financial statements

For the year ended 31 March 2018

2. Accounting policies (continued)

Retirement benefits

The Group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taff 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 Taff County Borough Council. Employer contributions in relation to this scheme are accounted for within other administrative expenses in the period in which they are due.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, 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.

Notes to the consolidated financial statements
For the year ended 31 March 2018

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

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 the financial statements.

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.

In preparing these financial statements, the directors have considered the relationship the Group has with the Wales Life Science Investment Fund ("WLSIF") and the six funds managed by FW Capital Limited and specifically as to whether the Group controls those funds. As the Group is a limited partner investor in the WLSIF and does not take part in the management of the WLSIF, this does not meet the definition of control and the WLSIF has therefore not been consolidated into these financial statements. With regard to the FW Capital Limited managed funds, the directors note that while FW Capital in its role as fund manager and NE Growth 500 LP Limited, TVUPB Limited, FW Development Capital (North West) GP Limited, TVC Loans NPIF GP Limited, North West Loans NPIF GP Limited and North East Property GP Limited in their roles as general partner to their respective funds all exercise power over the activities of the respective funds they do not have sufficient exposure to the variability of returns from the funds to meet the definition of control and therefore act as agents rather than principals of the funds. Accordingly the funds have not been consolidated into these financial statements.

Notes to the consolidated financial statements
For the year ended 31 March 2018

3. 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.

Help to Buy-Wales shared equity loans

Shared equity loans drawn since inception of the fund to 31 March 2016 and for the period between 1 April 2017 and 31 March 2018 have been designated as FVTPL under the fair value option. The fair value model used to calculate the fair value of the portfolio uses a number of judgemental assumptions, notably a forecast for future House Price Index and a discount rate based on a comparable housing bond. These judgements have a significant impact on the fair value of the book. See note 20 Financial Instruments for more detail.

Defined benefit pension scheme

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

Impairment of financial assets

Development Bank of 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. Directors' 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 20, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

Notes to the consolidated financial statements
For the year ended 31 March 2018

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

Key sources of estimation uncertainty (continued)

Fair Value of the investment in the Wales Life Science Investment Fund ("WLSIF")

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

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

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

As described in note 20, the directors use their judgement in reviewing ALS's valuation of the WLSIF at 31 March 2018. This involves reviewing the external expert's valuation report of the WLSIF's unquoted assets as at 31 December 2017, the disclosures in Arix's financial statements from the directors, audit committee and independent auditors' report, the valuation roll forward assumptions from 31 December 2017 to 31 March 2018 and any other publicly available information.

Deferred Tax

The Group has tax losses of £87 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
For the year ended 31 March 2018

4. Revenue and other operating Income

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

	2018	2017
	£	£
Revenue		
Fees	6,673,583	4,538,546
Dividends	124,075	89,889
Loan interest	7,895,934	6,601,880
	14,693,592	**11,230,315**
Other Operating Income		
European Regional Development Fund (ERDF) grant income	21,980,230	17,941,130
Contribution from the principal shareholder	1,740,000	1,931,605
Gains from the disposal of AFS equity investments	695,298	3,294,627
Total revenue and other operating income	**39,109,121**	**34,397,677**

Notes to the consolidated financial statements
For the year ended 31 March 2018

5. Operating profit

	2018	2017
	£	£
Operating profit has been arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	303,060	513,795
Directors emoluments and staff costs (see note 6)	9,200,742	8,157,218
Impairment loss recognised on loans receivable carried at amortised cost	4,863,904	7,516,073
Impairment loss recognised on financial assets classified as available-for-sale	8,928,740	4,745,661
Impairment gain/(loss) recognised on financial assets classified as fair value through profit or loss	504,374	(142,532)
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's financial statements	49,550	25,500
Fees payable to the Company's auditor for other services to the Group: Audit of the Company's subsidiaries	109,690	83,970
Total audit fees	**159,240**	**109,470**
Other services		
Tax compliance	67,410	50,000
Other services including VAT and tax advice	35,795	19,513
Total non-audit fees	**103,205**	**69,513**

Notes to the consolidated financial statements
For the year ended 31 March 2018

6. Information regarding directors and employees

	2018	2017
	£	£
Directors' emoluments		
Wages and Salaries	424,797	417,494
Pension costs	5,721	25,285
	430,518	**442,779**
Remuneration of highest paid director	193,333	159,109

The movement on remuneration for the highest paid director is because he was not eligible for the performance bonus scheme in 2017.

One director (2017: two) of the Company and four directors (2017: four) of subsidiary companies were members of the defined benefit pension scheme.

	2018	2017
	£	£
Aggregate payroll costs (excluding directors)		
Wages and Salaries	7,066,492	6,201,803
Social security costs	788,227	697,057
Pension costs	915,505	815,579
	8,770,224	**7,714,439**
Directors emoluments & staff costs	**9,200,742**	**8,157,218**

	No.	No.
Average number of persons employed (excluding directors and agency temps)	165	138

Notes to the consolidated financial statements
For the year ended 31 March 2018

7. Investment revenue

	2018	2017
	£	£
Bank interest	294,911	407,074
Net return on pension scheme assets	-	30,000
	294,911	**437,074**

8. Finance costs

	2018	2017
	£	£
Interest on bank loans and overdrafts	167,229	554,488
Net cost of pension scheme	40,000	10,000
	207,229	**564,488**

9. Contribition by principal shareholder

The Welsh Ministers (principal shareholder and ultimate parent undertaking) acting through the Welsh Government, have contributed £1,740,000 (2017: £1,931,605) towards the administrative expenses of Development Bank of Wales plc (the Company). This contribution is treated as grant income and is released to the income statement as it is incurred. These amounts are non-interest bearing and are non-repayable.

Notes to the consolidated financial statements
For the year ended 31 March 2018

10. Tax

	2018	2017
	£	£
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:

	2018	2017
	£	£
Profit on ordinary activities before tax	4,550,154	13,374,978
Tax at 19% (2017 : 20%) thereon	864,530	2,674,995
Factors affecting charge for the year		
Expenses not deductible	1,854,658	856,384
Deferred tax not recognised	2,030,143	(645,802)
Partnership Share	15,289	392,835
Non-taxable income	(4,792,720)	(4,517,487)
Chargeable gains	28,100	1,258,421
Items charged elsewhere (e.g. extraordinary reserves) Group relief	-	(19,346)
Total taxation charge	-	-

Notes to the consolidated financial statements
For the year ended 31 March 2018

10. Tax (continued)

A deferred tax asset of £6,791,823 (2017: asset of £6,843,392) 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 2017, the main rate of corporation tax reduced to 19%. In March 2016, the government announced further reductions in the main rate of corporation tax to 17% from 1 April 2020. These changes were substantively enacted in September 2016. The reduction in rate is not anticipated to materially affect the future tax charge of the Group.

The Group has made an overall profit of £4,550,154 during the period (2017: profit of £13,374,978).

11. Property, Plant and Equipment

Group and Company	2018	2017
	£	£
Fixtures and fittings		
Costs		
At 1 April	1,471,179	1,336,598
Additions	255,433	134,581
Disposals	(79,575)	-
At 31 March	**1,647,037**	**1,471,179**
Accumulated depreciation		
At 1 April	1,067,690	553,895
Charge for the years	303,060	513,795
Disposals	(79,575)	-
At 31 March	**1,291,175**	**1,067,690**
Net book value		
At the end of the financial year	355,862	403,489
At the beginning of the financial year	403,489	782,703

Notes to the consolidated financial statements
For the year ended 31 March 2018

12. Investments in Associates

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 for the associate to be measured at fair value through profit and loss rather than the equity method.

	2018	2017
	£	£
Investments carried at fair value through profit or loss		
Balance at the beginning of the year	386,014	3,051,375
Reclassified from associates to available for sale assets	(510,000)	(3,509,866)
Reclassified to associates from available for sale assets	628,360	-
Impairment (losses)/reversals	(504,374)	844,505
Balance at the end of the year	**-**	**386,014**

Movement in impairment recognised to date

	2018	2017
	£	£
Balance at the beginning of the year	123,986	968,491
Reclassifications	(123,986)	(701,973)
Impairment losses/(gains) recognised	628,360	(142,532)
Balance at the end of the year	**628,360**	**123,986**

Notes to the consolidated financial statements
For the year ended 31 March 2018

13. Available-for-sale financial assets
(a) Available-for-sale investments carried at fair value

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

	2018	2017
	£	£
Available-for-sale investments carried at fair value		
Equity investments	75,515,631	51,350,055
Creative IP fund investment	8,601,053	8,706,270
Less impairment	(17,681,899)	(13,785,892)
	66,434,785	**46,270,433**

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

	2018	2017
	£	£
Available-for-sale investments		
Balance at the beginning of the year	13,785,892	12,222,918
Impairment losses recognised	3,896,007	1,562,974
Balance at the end of the year	**17,681,899**	**13,785,892**

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

Available-for-sale investments carried at cost

	2018	2017
	£	£
Equity investments	39,804,973	34,978,753
Less impairment	(25,888,817)	(20,930,283)
	13,916,156	**14,048,470**

Total available-for-sale investments	**80,350,941**	**60,318,903**

Notes to the consolidated financial statements
For the year ended 31 March 2018

13. Available-For-Sale Financial Assets (continued)
(b) Available-for-sale investments carried at cost (continued)

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

	2018	2017
	£	£
Available-for-sale investments		
Balance at the beginning of the year	20,930,283	20,600,551
Impairment losses recognised	4,958,534	4,201,249
Amounts written off as uncollectable	-	(3,871,517)
Balance at the end of the year	**25,888,817**	**20,930,283**

14. Other financial assets

Trade and other receivables

	2018	2017
	£	£
Current assets		
Trade debtors	133,015	39,593
	133,015	**39,593**
Loans receivable carried at amortised cost	21,081,058	27,465,431
Impairment	(3,224,403)	(5,116,696)
	17,856,655	**22,348,735**
Other debtors	1,372,754	865,359
Prepayments	433,030	430,236
	19,795,454	**23,683,923**
Non-current assets		
Loans receivable carried at amortised cost	140,361,275	118,234,870
Shared equity loans carried at fair value	250,527,108	180,960,332
Impairment	(32,044,323)	(25,153,338)
	358,844,060	**274,041,864**
Other debtors	348,482	216,311
	359,192,542	**274,258,175**

Notes to the consolidated financial statements
For the year ended 31 March 2018

14. Other financial assets (continued)

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is five years (2017: 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 8.23% per annum (2017: 8.42%).

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.

Shared equity loans relate to those agreements entered into under the Help to Buy Wales ("HTBW") scheme and further information in respect of the carrying value can be found in Note 20.

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

	2018	2017
	£	£
30-60 days	96,642	12,425
60-90 days	41,711	9,952
90-120 days	30,766	18,363
120+ days	65,877	3,681
	234,996	**44,421**

Movement in the provision for impairment

	2018	2017
	£	£
Loans receivable		
Balance at the beginning of the year	30,270,034	22,221,360
Impairment losses recognised	4,863,904	9,355,826
Amounts written back/(written off) as uncollectable	134,788	(1,307,152)
Balance at the end of the year	**35,268,726**	**30,270,034**

Notes to the consolidated financial statements
For the year ended 31 March 2018

14. Other financial assets (continued)

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

Ageing of past due but not impaired loan receivables

	2018	2017
	£	£
Receivables with <100% impairment		
30-60 days	56,687	(40,861)
60-90 days	57,400	14,898
90-120 days	54,204	11,692
120+ days	162,235	23,313
	330,526	**9,042**

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

15. 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.

	2018	2017
	£	£
Cash and cash equivalents	**259,243,453**	**120,638,535**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 3 months 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 UK plc (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.

Notes to the consolidated financial statements

For the year ended 31 March 2018

16. Borrowings

	2018	2017
	£	£
Bank loans at amortised cost		
Secured	-	3,600,000
Total borrowings	**-**	**3,600,000**
Amount due for settlement within 12 months	-	3,600,000
Amount due for settlement after 12 months	-	-

All borrowings are in sterling, with interest paid annually based on the outstanding daily capital balance at 3.75% above LIBOR rate

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

The Group had one principal bank loan during the year.

	Original value	Drawn in	March 2018 outstanding value	March 2017 outstanding value
DBW Investments (8) Limited	£9,000,000	Jun 14	-	£3,600,000

Repayments on this loan of £3,600,000 (2017: £6,100,000) were made in the year.

Notes to the consolidated financial statements

For the year ended 31 March 2018

17. Other Financial Liabilities

Trade and other payables

	2018	2017
	£	£
Current liabilities		
Trade payables and accruals	(3,012,967)	(2,171,525)
Taxation and social security	(201,680)	(165,877)
Other creditors	(881,493)	(688,843)
Amounts owed to principal shareholder	(1,278,762)	(458,624)
	(5,374,902)	**(3,484,869)**
Non-current liabilities		
Amounts owed to principal shareholder held at amortised cost	(273,437,000)	(337,700,000)
Amounts owed to principal shareholder held at fair value	(292,759,229)	-
Other creditors	(164,581)	(271,672)
	(566,360,810)	**(337,971,672)**

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 the principal shareholder relate to Financial Transaction Reserve funding. The current balances in respect of Financial Transaction Reserve funding are repayable by 31 March 2040. These borrowings are non-secured and are non-interest bearing.

The significant increase in amounts due to the principal shareholder reflect the increase in funds under management during the year in respect of the Wales Business Fund (£35m), Wales Flexible Investment Fund (£100m), Wales Property Fund (£30m), Wales Technology Seed Fund (£20m), Wales Angel Co-Investment Fund (£8m) and the Wales Stalled Sites Fund (£40m).

Notes to the consolidated financial statements
For the year ended 31 March 2018

18. Retirement benefit schemes

Group and Company

Development Bank of Wales Group operates both a defined contribution and a defined benefit pension plan.

Defined contribution plan

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

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

The total cost charged to income of £385,613 (2017: £298,961) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2018, contributions of £Nil (2017: £23,112) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit plan

A defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent on factors such as age, length of service and pensionable pay. It is not just dependent upon actual contributions made by the Group 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 Group and are administered by Rhondda Cynon Taff County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis.

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

Notes to the consolidated financial statements
For the year ended 31 March 2018

18. Retirement benefit schemes (continued)

Development Bank of Wales Group consolidated pension scheme (deficit):

	2018	2017
	£'000	£'000
Development Bank of Wales plc	(480)	(650)
DBW FM Limited	(930)	(1,480)
Net deficit	**(1,410)**	**(2,130)**

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

Key Assumptions	2018 Development Bank of Wales plc	DBW FM Ltd	2017 Development Bank of Wales plc	DBW FM Ltd
Rate of increases in salaries	3.25%	3.25%	3.25%	3.25%
Rate of increases in pensions in payment	2.00%	2.00%	2.00%	2.00%
Rate of increase to deferred pensions	2.00%	2.00%	2.00%	2.00%
Discount rate	2.60%	2.60%	2.60%	2.50%
Inflation assumption RPI	3.10%	3.10%	3.10%	3.10%
Inflation assumption CPI	2.00%	2.00%	2.00%	2.00%

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 2018	31 March 2017	31 March 2018	31 March 2017
Member aged 65 at accounting date	22.9	22.8	25.0	24.9
Member aged 45 at accounting date	25.1	25.0	27.3	27.2

Notes to the consolidated financial statements

For the year ended 31 March 2018

18. 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 2018 %	Asset split 2017 %
Equities	74.8	72.6
Property	5.4	5.9
Government bonds	8.5	9.4
Corporate bonds	9.4	10.0
Cash	1.9	2.1
Total market value	**100.0**	**100.0**

	Development Bank of Wales plc		DBW FM Limited	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Reconciliation of Funded Status to Balance Sheet				
Fair value of assets	8,550	7,950	13,100	12,110
Present value of funded defined benefit obligation	(9,030)	(8,600)	(14,030)	(13,590)
Deficit recognised on the balance sheet	**(480)**	**(650)**	**(930)**	**(1,480)**
Deferred tax liability	-	-	-	-
Net deficit	**(480)**	**(650)**	**(930)**	**(1,480)**

Notes to the consolidated financial statements

For the year ended 31 March 2018

18. Retirement benefit schemes (continued)

Amounts Recognised in Income Statement	Development Bank of Wales plc		DBW FM Limited	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Operating costs				
Current service cost	200	210	540	390
Past service cost	-	-	-	-
Total operating charge	**200**	**210**	**540**	**390**
Financing Cost				
Interest on net defined benefit liability / (asset)	10	10	30	(30)
Pension expense recognised in profit and loss	**210**	**220**	**570**	**360**

Amounts Recognised in Other Comprehensive Income	Development Bank of Wales plc		DBW FM Limited	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Asset gains arising during the period	200	1,050	300	1,570
Liability (losses) / gains arising during the period	(40)	(1,330)	340	(3,560)
Total actuarial gain / (loss) before deferred tax	**160**	**(280)**	**640**	**(1,990)**
Deferred tax	-	-	-	94
Total actuarial gain / (loss)	**160**	**(280)**	**640**	**(1,896)**

Notes to the consolidated financial statements

For the year ended 31 March 2018

18. Retirement benefit schemes (continued)

Changes to the present value of the defined benefit obligation	Development Bank of Wales plc		DBW FM Limited	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Opening defined benefit obligation	8,600	6,830	13,590	9,304
Current service cost	200	210	540	390
Interest expense on defined benefit obligation	220	240	340	320
Contribution by participants	60	70	170	170
Actuarial losses/(gains) on liabilities	40	1,330	(340)	3,560
Net benefits paid out	(90)	(80)	(270)	(60)
Past service cost	-	-	-	-
Closing defined benefit obligation	**9,030**	**8,600**	**14,030**	**13,684**
Deferred tax liability	-	-	-	(94)
Closing defined benefit obligation net of deferred tax	**9,030**	**8,600**	**14,030**	**13,590**

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Limited	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Opening fair value of assets	7,950	6,440	12,110	9,680
Interest income on assets	210	230	310	350
Re-measurement gains on assets	200	1,050	300	1,570
Contributions by employers	220	240	480	400
Contributions by participants	60	70	170	170
Net benefits paid out	(90)	(80)	(270)	(60)
Closing fair value of assets	**8,550**	**7,950**	**13,100**	**12,110**
Net deficit	**(480)**	**(650)**	**(930)**	**(1,480)**

Notes to the consolidated financial statements

For the year ended 31 March 2018

19. Deferred income

	2018 £	2017 £
Balance at 1 April	6,941,051	500,000
Grant received in the year	21,461,808	26,313,786
Grant released to income statement in the year	(23,720,230)	(19,872,735)
Balance at 31 March	**4,682,629**	**6,941,051**

	Current		Non-current	
	2018 £	2018 £	2018 £	2018 £
Deferred income	4,682,629	-	-	6,941,051

The deferred revenue above relates to grants received by Development Bank of Wales plc from the ERDF and the Welsh Ministers which Development Bank of Wales plc has passed onto its subsidiaries - DBW Investments (3) Limited and DBW Investments (14) Limited - to invest within the criteria of the grants. The creditors recognise Development Bank of Wales plc's liability to repay to the ERDF and the Welsh Ministers any grant received not properly invested within the prescribed time limit. The creditors are matched by corresponding debtors due from DBW Investments (3) Limited and DBW Investments (14) Limited (see note 30) for the uninvested grant income. Both the creditors and debtors are reduced when DBW Investments (3) Limited or DBW Investments (14) Limited make a qualifying investment.

20. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2018

20. Financial instruments (continued)

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, 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:

	2018 £	2017 £
Debt	-	3,600,000
Cash and cash equivalents	(259,243,453)	(120,638,535)
Net funds	(259,243,453)	(117,038,535)
Equity	141,109,911	125,561,447
Net debt to equity ratio	**(1.84)**	**(0.93)**

Debt is defined as long-term and short-term borrowings as detailed in note 16. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Categories of financial instruments

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2018

20. Financial instruments (continued)

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

Carrying value as at 31 March 2018 £	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		259,243,453	-	-	-	259,243,453
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	-	-
Other investments						
Measured at market price	i	-	-	38,783,281	-	38,783,281
Measured at fair value using other methods	ii	-	-	27,651,144	-	27,651,144
Measured at cost less credit risk adjustment	iii	-	-	13,916,516	-	13,916,516
Loans to customers	iv	-	126,173,607	-	-	126,173,607
Shared-equity loans	vi	-	70,262,631	-	179,463,136	249,725,767
Other receivables	iv	-	2,287,281	-	-	2,287,281
Derivative financial assets	vi	-	-	-	801,341	801,341
Total financial assets		**259,243,453**	**198,723,519**	**80,350,941**	**180,264,477**	**718,582,390**
Non-financial assets						355,862
Total assets						**718,938,252**

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

Carrying value as at 31 March 2018 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
Liabilities						
Amounts due to principal shareholder at amortised cost	v	273,437,000	-	-	-	273,437,000
Amounts owed to principal shareholder at fair value	vi	-	-	-	292,759,229	292,759,229
Trade and other payables	v	5,539,483	-	-	-	5,539,483
Retirement benefit obligations	v	1,410,000	-	-	-	1,410,000
Total financial liabilities		**280,386,483**	**-**	**-**	**292,759,229**	**573,145,712**
Non-financial liabilities						4,682,629
Reserves						141,109,911
Total reserves and liabilities						**718,938,252**

a) During the current year, no assets were within Level 2 of the fair value. In the prior year, assets with a fair value of £2,407,984 as at 31 March 2016 were transferred from Level 2 of the fair value hierarchy to Level 1 of the fair value hierarchy due to becoming quoted on AIM. These assets were fair valued at £10,835,149 as at 31 March 2017 based on their market value at the balance sheet date.

b) During the current year, equity investments with a cost of £510,000 and accumulated impairment of £123,986 were reclassified from associates to non-associates. In the prior year, equity investments with a cost of £3,509,866 and accumulated impairment of £3,509,866 were reclassified from associates to non-associates. During the current year, equity investments with a cost of £628,360 and accumulated impairment of £628,360 were reclassified from non-associates to associates. In the prior year, no equity investments were reclassified from non-associates to associates.

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

Carrying value as at 31 March 2017 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
Assets						
Cash and cash equivalents		120,638,535	-	-	-	120,638,535
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	386,014	386,014
Other investments						
Measured at market price	i	-	-	27,837,975	-	27,837,975
Measured at fair value using other methods	ii	-	-	18,432,458	-	18,432,458
Measured at cost less credit risk adjustment	iii	-	-	14,048,470	-	14,048,470
Loans to customers	iv	-	115,430,267	-	-	115,430,267
Shared-equity loans	vi	-	69,800,999	-	111,159,333	180,960,332
Other receivables	iv	-	1,551,499	-	-	1,551,499
Total financial assets		**120,638,535**	**186,782,765**	**60,318,903**	**111,545,347**	**479,285,550**
Non-financial assets						403,489
Total assets						**479,689,039**

Notes to the consolidated financial statements

For the year ended 31 March 2018

20. Financial instruments (continued)

Carrying value as at 31 March 2017 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
Liabilities						
Interest-bearing loans and borrowings	v	3,600,000	-	-	-	3,600,000
Amounts due to ultimate parent	v	337,700,000	-	-	-	337,700,000
Trade and other payables	v	3,756,541	-	-	-	3,756,541
Retirement benefit obligations	v	2,130,000	-	-	-	2,130,000
Total financial liabilities		**347,186,541**	**-**	**-**	**-**	**347,186,541**
Non-financial liabilities						6,941,051
Reserves						125,561,447
Total reserves and liabilities						**479,689,039**

Notes to the consolidated financial statements

For the year ended 31 March 2018

20. 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 overleaf).

ii) For investments in non-quoted securities, other methods are used to determine fair value, following a recent transactional event, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser, (level 3 hierarchy as defined below).

iii) Where the fair value of a financial asset cannot be reliably estimated, the fair value of the financial asset is approximated at cost adjusted for credit risk (see note 2, Financial Instruments, Impairment of Financial Assets).

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

Included within this balance is the Group's investment in the WLSIF. A fair value of the WLSIF has been provided by ALS, WLSIF's fund manager, at 31 March 2018 of £62.4m (2017: £83.1m). The underlying companies within the fund are at an early stage of their lives and are generally held at a value equal to cost until a milestone is reached. This makes the valuation sensitive to performance against milestone targets as illustrated by the change in fair value noted above.

This fair value was calculated by ALS by rolling forward to 31 March 2018 the WLSIF fair value used in the 31 December 2017 Arix Bioscience plc annual report and accounts. This was done by updating the share price for the three quoted securities (per note 20 (i) above) and using the same fair values for the six unquoted securities. The fair value used for two of the unquoted securities was the most recent valuation from a funding round (per note 20(ii) above). For the remaining four unquoted securities where no recent funding round or recent offer is available, the Fund Manager appointed an external expert to determine their valuations. The Independent Auditors' report in the 2017 Arix accounts disclosed the work they performed on the valuation of Arix's interest in the WLSIF and concluding that the valuation was supported by the audit evidence obtained.

The directors have reviewed the expert's report. The expert's report gave low, medium and high scenarios in a valuation range for the unquoted assets, with Arix using the medium scenarios for its fair value. The directors have sensitised the expert's valuation using the low scenarios and applied a further sensitivity.

As a result of the review of the disclosures made by the directors, audit committee and independent auditors in the Arix 2017 annual report and accounts, the review of the expert's valuation report and the additional sensitivities run and the absence of any further portfolio company information, the directors conclude that the fair value of the Group's investment in the WLSIF is its original cost, as used in the previous year. The directors note that the fair value of the WLSIF can change rapidly as its portfolio of nine early stage companies reach or miss milestone deadlines.

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

v) The fair value of amounts owed to our principal shareholder, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date. Financial Transaction Reserve (FTR) funding is not carried at fair value (see Liquidity Risk Management section for fair value consideration of FTR funding).

vi) The fair value of the HTBW loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate funding rate. A number of observable inputs have been used in the calculation of the fair value which has resulted in a £3,878,097 gain (2017: £4,113,800 gain) 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 movement of 1% above or below the HPI rate used could result in an increase in value of £8.887m or a decrease in value of £8.010m. The 1% would equate to approximately 50% of the HPI rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity calculation. The discount factor used is based on a comparable housing bond and sensitivity analysis on this input also indicates a range of possible outcomes, and highlights the sensitivity of this input. A movement of 1% above or below the discount rate used could result in a decrease in value of £8.239m or an increase in value of £9.303m. The 1% would equate to approximately 33% of the discount rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity analysis. During the year the contract between the Welsh Government (WG) and DBW to deliver the HTBW scheme underwent a substantial modification resulting in derecognition and rerecognition of the liability with WG. Any fair value gains or losses in respect of the HTBW fund are now passed to the WG rather than retained in DBW and subject to corporation tax. The accumulated gain to date is £4,113,800 from the prior year, £3,878,097 in the current year as noted above, and a surplus to date of £1,167,332 in respect of disposals of shared equity properties. This gives a total amount of £9,159,229 to be transferred to the principal shareholder.

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

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

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

Reconciliation of level 3 measurements of financial assets

	FVTPL Shared-equity loan book		FVTPL AFS Assets	
	2018 £	2017 £	2018 £	2017 £
Balance 1 April	**111,159,332**	**110,031,772**	**32,866,942**	**12,735,778**
Additions	73,527,927	-	19,109,028	6,842,050
Disposals	(8,300,879)	(2,986,240)	(150,000)	(1,697,670)
Revaluations	3,878,097	4,113,800	(10,258,310)	(4,163,065)
Transfers into Level 3	-	-	-	19,149,849
Balance 31 March	**180,264,477**	**111,159,332**	**41,567,660**	**32,866,942**

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

Other price risks

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

Market risk

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

Interest rate sensitivity analysis

At 31 March 2018 there were no borrowings, (in the prior year cash on treasury deposit exceeded borrowings by £117,038,535) and therefore there was no exposure in either the current or prior year. The following table details the Group's sensitivity to a 1% increase in interest rates for the year to 31 March 2017.

	2018 £	2017 £
Increase in interest payable	-	(140,000)
Increase in interest receivable	-	1,472,000
Increase in profit / Decrease in loss	**-**	**1,332,000**

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

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.

	2018 £	2017 £
Reduction in profit / Increase in loss	4,593,000	3,586,000

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. 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.

Financial transaction reserve funding

Financial Transaction Reserve Funding (FTR) is provided by the Welsh Government on an interest free basis and is held at amortised cost in the balance sheet. If you were to fair value the borrowings using a discount rate equivalent to the external borrowings rate of 4.06% (2017:3.71 %) it would be £192,470,334 (2017: £213,219,696) which represents a decrease of £80,966,666 (2017 : decrease £124,480,304) in comparison to the carrying value.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its interest-bearing loans and borrowings. The tables have been drawn up based on the undiscounted cash flows of these 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.

Notes to the consolidated financial statements
For the year ended 31 March 2018

20. Financial instruments (continued)

	Weighted average effective interest rate	Less than 6 months	6 months - 1 year	1 - 2 years	2 - 5 years	5+ years	Total
		£'000	£'000	£'000	£'000	£'000	£'000
2017							
Variable interest rate instruments	4.06%	2,248	1,415	-	-	-	3,663
		2,248	**1,415**	-	-	-	**3,663**
2018							
Variable interest rate instruments	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

With the exception of financial assets as disclosed in note 14, financial assets are current and are non-interest bearing.

Notes to the consolidated financial statements

For the year ended 31 March 2018

21. Called up share capital

Group and company

	2018 £	2017 £
Authorised and allotted		
50,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and part paid		
50,000 ordinary shares, 25p part paid	12,500	12,500

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

22. Operating lease arrangements

	2018 £	2017 £
Payments under operating leases recognised as an expense in the year	415,820	373,719

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:

	2018 £	2017 £
Within one year	518,535	287,356
In the second to fifth years inclusive	1,984,728	847,095
After five years	2,749,759	1,588,129
	5,253,022	**2,722,580**

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

For the year ended 31 March 2018

23. Notes to the Consolidated Cash Flow Statement

	2018 £	2017 £
Profit for the year	4,550,154	13,374,978
Adjustments for:		
Investment revenues	(294,911)	(437,074)
Other gains and losses	5,281,132	(4,113,800)
Finance costs	207,229	564,488
Depreciation of property, plant and equipment	303,060	513,794
Gain on sale of available-for-sale financial assets	(615,724)	(3,294,627)
Reversal of deferred income revenue	(21,980,230)	(17,941,130)
Impairments against loans and receivables	4,724,905	8,456,304
Impairments against financial assets classified as available-for-sale	8,928,740	4,745,661
Impairments/(reversals) against financial assets classified as fair value through profit or loss	504,374	(142,532)
Operating cash flows before changes in net operating assets	**1,608,729**	**1,726,062**
Increase in receivables	(735,782)	(767,432)
Increase in payables	218,861,519	29,694,234
Proceeds on disposal of available-for-sale investments	845,299	6,404,616
Acquisition of investment in available-for-sale financial asset	(18,696,083)	(11,030,834)
Net loans made	(80,871,844)	(83,737,318)
Cash consumed during operations	**121,011,838**	**(57,710,672)**

Notes to the consolidated financial statements

For the year ended 31 March 2018

24. Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries. Transactions between the Company and its subsidiaries, have been eliminated on consolidation.

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

Transactions between the Company and its principal shareholder are disclosed in note 17, Other Financial Liabilities.

Trading transactions

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

Sale of services		Loans to related parties		Equity investments in related parties	
2018 £	2017 £	2018 £	2017 £	2018 £	2017 £
19,200	14,640	1,489,151	270,289	628,360	510,000

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.

25. Ultimate controlling party

The ultimate parent and controlling party and the smallest and largest group in which the results of Development Bank of Wales plc are included is Welsh Ministers. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays Park, Cardiff, CF10 3NQ. The consolidated financial statements of DBW plc may be obtained from its registered address, 1 Capital Quarter, Tyndall Street, Cardiff, CF10 4BZ.

Company balance sheet

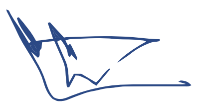
As at 31 March 2018

	Note	2018 £	2017 £
Fixed assets			
Tangible assets	11	355,862	403,489
Investments	29	566,481,621	430,325,417
		566,837,483	**430,728,906**
Current assets			
Debtors: due within one year	30	546,876	643,055
Cash at bank and in hand		92,818,582	2,428,970
		93,365,458	**3,072,025**
Creditors: amounts falling due within one year	**31**	**(189,085)**	**(705,904)**
Net current assets		**93,176,373**	**2,366,121**
Total assets less current liabilities		**660,013,856**	**433,095,027**
Creditors: amounts falling due after more than one year	**32**	**(574,613,006)**	**(348,013,350)**
Net assets excluding pension liability		**85,400,850**	**85,081,677**
Pension liability	18	(480,000)	(650,000)
Net assets including pension liability		**84,920,850**	**84,431,677**
Capital and reserves			
Public equity		112,180,780	112,240,780
Called up share capital	21	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(27,282,530)	(27,831,703)
Shareholders' funds		**84,920,850**	**84,431,677**

The Company reported a profit for the financial year ended 31 March 2018 of £389,173 (2017: profit of £20,550).

The financial statements of Development Bank of Wales plc, registered number 4055414, were approved by the Board of Directors on 27 June 2018.

Signed on its behalf by



G Thorley
Director

Company statement of changes in equity

For the year ended 31 March 2018

	Public equity £	Share capital £	Capital reserve £	Profit and loss account £	Total 2018 £	Total 2017 £
Balance at 1 April	112,240,780	12,500	10,100	(27,831,703)	84,431,677	83,202,681
Profit for the financial year	-	-	-	389,173	389,173	20,550
Actuarial gain for the year	-	-	-	160,000	160,000	(280,000)
Decrease in Public equity	(60,000)	-	-	-	(60,000)	1,488,446
Balance at 31 March	**112,180,780**	**12,500**	**10,100**	**(27,282,530)**	**84,920,850**	**84,431,677**

Notes to the company financial statements

Year ended 31 March 2018

26. 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 98.

Development Bank of Wales plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and registered in Wales. The address of the registered office is given on page 1.

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

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash-flow statement, standards not yet effective and certain related party transactions.

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	3-4 years
Computer Equipment	3-5 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.

Notes to the company financial statement

Year ended 31 March 2018

26. Accounting policies (continued)

Revenue recognition

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

European Regional Development Fund ("ERDF") grant income

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

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

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

Taxation

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

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

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

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 DBW FM Limited (Small Loans Fund), DBW Investments (3) Limited (Rescue and Restructuring Fund, Capital Growth Fund, TVI Interim Fund, Tech Seed Funds I & II, Wales Co-Invest Fund and Wales Flexible Investment Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Welsh Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund), DBW Investments (11) Limited (the Wales Property Fund and Wales Stalled Sites Fund), DBW Investments (12) Limited (Management Succession Fund) and DBW Investments (14) Limited (Wales Business Fund).

Notes to the company financial statements

Year ended 31 March 2018

26. Accounting policies (continued)

Public equity (continued)

Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

The funding is to invest in the long-term sustainability of Development Bank of Wales and within the Welsh Minister'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.

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 Taff County Borough Council. Employer contributions in relation to this scheme are accounted for within other administrative expenses.

Notes to the company financial statements

Year ended 31 March 2018

27. Information regarding directors and employees

	2018 £	2017 £
Directors' emoluments		
Emoluments	424,797	417,494
Pension costs	5,721	25,285
	430,518	**442,779**
Remuneration of highest paid director	193,333	159,109

The movement on remuneration for the highest paid director is because he was not eligible for the performance bonus scheme in 2017.

One director (2017: two) of the Company and four directors (2017: four) of subsidiary companies were members of the defined benefit pension scheme.

	2018 £	2017 £
Aggregate payroll costs (excluding directors)		
Wages and salaries	1,687,765	1,755,320
Social security costs	213,698	217,235
Pension costs	234,022	231,512
	2,135,485	**2,204,067**

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

Notes to the company financial statements

Year ended 31 March 2018

28. Profit for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year amounted to £389,173 (2017: profit of £20,550). Auditor's remuneration for audit services for the Company was £40,100 (2017: £25,550) and for non-audit services for the Company was £45,045 (2017: £25,550).

29. Investments

	Shares in subsidiary undertaking £	Investments in and loans to subsidiary undertakings and joint venture £	Total 2018 £	Total 2017 £
At 1 April	155,024	430,170,393	430,325,417	362,188,305
Additions	155,027	138,246,229	138,401,256	90,862,112
Disposals	(155,024)	(2,090,028)	(2,245,052)	(22,725,000)
At 31 March	**155,027**	**566,326,594**	**566,481,621**	**430,325,417**

Notes to the company financial statements

Year ended 31 March 2018

29. Investments (continued)

The Company's investments in group companies relate to:

Direct Subsidiaries			
DBW Holdings Limited	United Kingdom	100%	£1 ordinary shares
DBW Services Limited	United Kingdom	100%	£1 ordinary shares
DBW Managers Limited	United Kingdom	100%	£1 ordinary shares
Indirect Subsidiaries			
DBW FM Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (2) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (3) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (4) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (5) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (6) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (8) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (9) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (10) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (11) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (12) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (14) Limited	United Kingdom	100%	£1 ordinary shares
DBW Investments (15) Limited	United Kingdom	100%	£1 ordinary shares
Help To Buy (Wales) Limited	United Kingdom	100%	£1 ordinary shares
Angels Invest Wales Limited	United Kingdom	100%	£1 ordinary shares
Economic Intelligence Wales Limited	United Kingdom	100%	£1 ordinary shares
FW Capital Limited	United Kingdom	100%	£1 ordinary shares
TVUPB Limited	United Kingdom	100%	£1 ordinary shares
FW Development Capital (North West) GP Limited	United Kingdom	100%	£1 ordinary shares
NW Loans Limited	United Kingdom	100%	£1 ordinary shares
North West Loans Limited	United Kingdom	100%	£1 ordinary shares
TVC Loans NPIF GP Limited	United Kingdom	100%	£1 ordinary shares
North West Loans NPIF GP Limited	United Kingdom	100%	£1 ordinary shares
FWC Loans (NW) Limited	United Kingdom	100%	£1 ordinary shares
FWC Loans (TVC) Limited	United Kingdom	100%	£1 ordinary shares
NE Growth 500 LP Limited	United Kingdom	100%	£1 ordinary shares
North East Property GP Limited	United Kingdom	100%	£2 ordinary shares

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

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

Notes to the company financial statements

Year ended 31 March 2018

30. Debtors

	2018 £	2017 £
Debtors due within one year:		
Trade debtors	9,053	34,871
Amount owed by group undertakings	60,000	125,000
Other debtors	52,961	52,948
Prepayments and accrued income	424,862	430,236
	546,876	**643,055**

31. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	58,331	493,942
Other taxes and social security	55,640	56,055
Other creditors	75,114	30,907
Amounts due to principal shareholder	-	125,000
	189,085	**705,904**

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

	2018 £	2017 £
Amounts owed to group undertakings	2,889,000	2,889,000
Amount due to principal shareholder	566,196,229	337,700,000
Accruals and deferred income	5,527,777	7,424,350
	574,613,006	**348,013,350**

The amount due to the principal shareholder falls due after more than five years, (2017 more than five years).

Appendix A to the annual report and financial statements

TABLE A: High-level analysis of 2018 and 2017 Consolidated Income Statement

2018				
	Services £m	**Funds £m**	**Consolidation adjustment £m**	**Group (per the financial statements) £m**
Revenue	24.5	28.6	(19.1)	34.0
Costs	(19.8)	(28.8)	19.1	(29.5)
Surplus	**4.7**	**(0.2)**	**0**	**4.5**

2017				
	Services £m	**Funds £m**	**Consolidation adjustment £m**	**Group (per the financial statements) £m**
Revenue	18.1	34.3	(14.0)	38.4
Costs	(15.3)	(23.7)	14.0	(25.0)
Surplus	**2.8**	**10.6**	**0**	**13.4**

The third column in the above table shows the consolidation accounting adjustments made. When we present group accounts, we need to adjust to eliminate any trading between group subsidiaries. Eliminating figures due to trading between subsidiaries is a standard accounting practice. This adjustment is invisible in our group accounts presented in this report, but we have included it here to show how our services businesses interacts with our funds businesses. This adjustment removes £19 million (FY17 £14 million) from our services businesses revenue accounts and from our funds and services businesses costs accounts.

Appendix A to the annual report and financial statements

The revenue total in Column 4 of Table A reconcile back to the Consolidated Income Statement ("CIS") on page 116 as follows:

	2018 £m	**2017 £m**
All revenue items below are on the face of the CIS		
Revenue	14.7	11.2
Release of ERDF Grant income	22.0	18.0
Contribution from shareholder	1.7	1.9
Gains from the disposal of equity investments	0.7	3.3
Investment revenue	0.3	0.5
Finance costs	(0.2)	(0.6)
Fair value (losses)/gains	(5.2)	4.1
Total revenue per Table A	**34.0**	**38.4**

The costs and surplus total in Column 4 of Table 4 ties back directly to the Total administrative expenses and profit shown in the CIS on page 116.

Appendix A to the annual report and financial statements

TABLE B: Services 2018 and 2017 income statement analysis

	2018 £m	2017 £m	Accounts Reference
Fund management	22.8	16.2	Note (i) after Table C
Grant in Aid	1.7	1.9	Pg 137 note 4
Total revenue	**24.5**	**18.1**	**Table (A)**
Staff costs	(9.2)	(8.1)	Pg 139 note 6
Other costs	(10.6)	(7.2)	Note (ii) after Table C
Total costs	**(19.8)**	**(15.3)**	**Table (A)**
Surplus	**4.7**	**2.8**	**Table (A)**

TABLE C: Funds 2018 and 2017 income statement analysis

	2018 £m	2017 £m	Accounts Reference
Fees	3.0	2.4	Note (i) below
Dividends and interest income	8.0	6.7	Pg 137 note 4
ERDF Grant release	22.0	17.9	Pg 137 note 4
Equity realisations	0.7	3.3	Pg 137 note 4
Net Treasury	0.1	(0.1)	Pg 140 sum of amounts shown in note 7&8
(Loss)/gain on HtBW loans	(5.2)	4.1	Consolidated income statement Pg 116
Total Revenue	**28.6**	**34.3**	**Table (A)**
Provisions	(14.4)	(12.1)	Pg 138 note 5 – sum of the three impairment costs
Fund Management fees	(13.5)	(10.9)	Note (ii) below
Other costs	(0.9)	(0.7)	Note (ii) below
Total Costs	**(28.8)**	**(23.7)**	**Table (A)**
(Deficit)/Surplus	**(0.2)**	**10.6**	**Table (A)**

Note (i) – Fees shown in Note 4 Pg 137 of the DBW group accounts is the sum of the Fund Management income per Table B less the consolidation adjustment plus the funds' fees per Table C.

Note(ii) – Other administrative expenses shown in the consolidated income statement on Pg 116 of the DBW Group accounts is the sum of staff and other costs per Table B plus Fund Management Fees and Other Costs per Table C less the consolidation adjustment.

BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

UNDEB EWROPEAIDD
EUROPEAN UNION

Llywodraeth Cymru
Welsh Government

Cronfa Datblygu Rhanbarthol Ewrop
European Regional Development Fund

bancdatblygu.cymru
developmentbank.wales

Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales (Banc Datblygu Cymru ccc) has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc (Banc Datblygu Cymru ccc) nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at developmentbank.wales