BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

Annual report and financial statements

2019/20

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019/20

Officer and professional advisers

Directors

Gareth Bullock
Chair

Giles Thorley
Chief Executive

Huw Morgan
Non-Executive
Senior Independent Director

Iraj Amiri
Non-Executive Director

Carol Bell
Non-Executive Director

Roger Jeynes
Non-Executive Director

Margaret Llewellyn OBE
Non-Executive Director

Rhys Jones
Non-Executive Director
(appointed 1 March 2020)

David Staziker
Chief Financial Officer

Judi Oates
Company Secretary

Registered office

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Bankers

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Auditors

Deloitte LLP
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Cardiff
CF10 5BT

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STRATEGIC REPORT

We believe that for Wales to prosper, our businesses need to prosper. When our businesses thrive, they create a higher number of better quality jobs. The people they employ strengthen our communities. When Welsh businesses are strong, Wales is strong. Our purpose is to make it easier for businesses to get the finance they need to start up, strengthen and grow.

CHAIR'S STATEMENT

Setting the foundations for an enduring institution

"We have expanded the range and reach of our activities and capabilities."

Gareth Bullock
Chair

Mission

To 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

Goals

Become the cornerstone organisation for delivery of public sector financial instruments, supporting micro to medium businesses in Wales and increasing the supply of finance.

Deliver key policy objectives by achieving performance targets and providing investment management and support services across the whole of Welsh Government.

Promote economic development through an adaptable delivery model that is responsive to market needs whilst providing value for money for public funds.

It is an extraordinary time to be writing to our stakeholders. Under normal circumstances I would have been writing on behalf of the Board to describe another year of good progress by the Development Bank and highlighting some of the initiatives being undertaken by the management team to continue to build a solid foundation for the future. Although I will do that, in somewhat briefer form than usual, I must also explain how the Development Bank has responded to the challenges of the Covid-19 pandemic. This has been, and still is a challenge of unprecedented scale that has affected not just our customers but required substantial adaptations by our own workforce and in our operations.

From my previous Chair's statements, stakeholders will know that the Development Bank's role is to fill the finance gap faced by micro-to-medium Welsh businesses. We do this by structuring and deploying investment funds, informed by the priorities of the Welsh Government's Economic Action Plan as well as by intelligence from our stakeholders and colleagues in business and government. We take those higher risks that the private sector cannot normally assume alone, while operating a risk model to minimise taxpayer funding and maximise private sector involvement.

Once again I'd like to thank our Chief Executive, Giles Thorley, and our senior management for the leadership they have shown in meeting our key operational targets agreed with the Welsh Government. In extending finance of over £103 million, over 4,000 jobs were created or safeguarded across 457 financings.

The Welsh Government has continued its powerful commitment to funding the Development Bank with another £71 million in the financial year, taking their total since Development Bank's inception to £501m. This was another record year for the Development Bank.

Private sector involvement in our financings reached £75.9 million and thus over £179m in total was deployed into the Welsh micro-to-medium sector from our activities. In the last five years this has totalled over £750 million, a very significant contribution to the success of Welsh enterprises.

Outside our core financing activity, Economic Intelligence Wales continued its development into an authoritative source of research and data on aspects of the Welsh economy with a particular focus on improving the relevance, quality and accessibility of its outputs. In addition, our partnership with Business Wales continued to intensify with an increase in mutual business referral volume by over a third. FW Capital, our operation in the North of England, reached a number of key investment milestones in the year including £50 million invested from the Northern Powerhouse Investment Fund across 170 businesses.

The Development Bank itself has now grown to 239 employees, a 70% increase over five years, as we have expanded the range and reach of our activities and capabilities. We aim to be a centre of excellence through recruiting experienced and new talent, developing and training our workforce, building modern enterprise systems and introducing smart-working. These investments, along with those in our digital infrastructure, have further enhanced our organisational flexibility and will help to ensure our cost base grows at a lower rate than our investment funds in the future.

Turning now to the Covid-19 crisis, the scale of its likely economic impact and the steps required to respond effectively only became apparent as we were finishing our financial year end in March. We, immediately in the first two weeks of that month, accelerated business continuity planning and remote telephony networking. In the third week the workforce moved to working from home and, as a first and immediate step, we agreed with Welsh Government to offer all portfolio customers a three month capital repayment holiday to relieve the pressure on company finances that had already become apparent.

In collaboration with the Welsh Government we then created a new fund, the Covid-19 Wales Business Loan Scheme (CWBLS) which was aimed at providing financial support to Welsh businesses to underpin the measures introduced by the UK government. The Welsh proverb, adfyd a ddaw â dysg yn ei law seems apt as adversity certainly did bring 'in its hand' considerable learning to the Development Bank. In the first week following its announcement by the First Minister, we received four times the number of applications than we would usually complete in a year. Workforce members, all working from home, day and night, in newly structured operational 'pods' and connected by recently implemented MS Teams, processed those applications with dedication and efficiency. As I write, our CWBLS scheme is substantially disbursed and has provided crucial financial support to a vulnerable sector of the Welsh economy. We now know our systems work in adversity, our people can rise to complex challenges, and our work can be carried out remotely in flexible configurations.

Looking to the future, there is now much to do as Welsh businesses contemplate how they recover. The Development Bank, with a new customer base which has doubled in a few short weeks, is ready to play its part. We are already in active discussions with Welsh Government and other stakeholders to identify the most effective interventions to ensure recovery takes strong root.

As ever, but especially this year, I would like to thank all our workforce for their exceptional hard work during this extraordinary time. Their remarkable resilience and performance under pressure give the Board confidence that we are ready and able to meet the challenges ahead as all of us involved in the Welsh economy strive to help it "build back better."

Gareth Bullock
Chair
29 July 2020

CHIEF EXECUTIVE'S REPORT

Making progress on our key objectives

The Development Bank of Wales is making good progress. In our third year we grew activity to over £100m of direct investment into the Welsh Economy and have continued to work with the Welsh Government and our other stakeholders to increase our effectiveness.

"My ambition is to deliver best in class digital service with a human face."

Giles Thorley
Chief Executive

Performance

Overall investment levels increased to £103m, an improvement of nearly 30% year on year. Investment numbers also increased to 457, taking our average deal size across all markets to £226,039. Further private sector capital of £75.9m was invested alongside our funds for a ratio of 1:0.73.

Total equity investment in the year reached £16m. Of this, £11.44m went to 51 early stage technology ventures, and we retained our status in the Beauhurst equity report as a top five technology investor in the UK.

Two successful exits were achieved with a combined value of £2.8m split equally between debt and equity.

Property investment has been the fastest growing market segment for us in recent years and 19/20 continued that trend increasing by 47% year on year to £34.1m. We supported almost 80 SME property developers across 112 projects delivering 263 market housing units and 70 affordable units. The year also saw the first investment from the Wales Commercial Property Fund, funding the development of 100,000 square feet of new commercial space in Aberystwyth. The new and market leading Self Build Wales scheme launched in March. This £210m fund provides supported routes into self-build for prospective homeowners and opportunities for SME developers to build quality, custom homes across the country.

At the smaller end of the scale, micro loans continue to see a strong demand for amounts up to £50,000 with an average deal size of £23,500. 265 businesses received finance with 73 of these using the fast track process for companies trading over two years, newly expanded to loans up to £25,000 and receiving a decision in just two business days. We have increased our focus on ensuring that investment reaches all parts of Wales and this continues to improve year on year.

In the period investment was distributed well across the three regions, with £38.7m invested in South Wales, £34.3m in Mid and West Wales and £30.4m in North Wales. Finally, our credentials as an investor valuing long-term relationships with our customers continue to develop with 42% of annual investment going to existing customers.

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Growing for the future

We have continued to grow to meet the challenges of our expanded remit and funds. Total headcount has grown by 18% and we have maintained a focus on developing and shaping the business. As a result, 28 people received a promotion and over 1,170 days of training and development were completed demonstrating our commitment to invest in the development of skills and capabilities across our team.

Attracting and retaining a diverse workforce with the right mix of skills and experience remains a key consideration if we are to meet our stretching objectives. In the year we created a refreshed employer brand and updated our recruitment practices to better reflect the opportunity that joining the team presents.

We have made good progress on our journey to transform to a digital first delivery model whilst remaining committed to the face to face approach our customers value. It is our responsibility to be as efficient with public funds as possible, which is reflected in my ambition to deliver best in class digital service with a human face. Investing in our systems and processes is a critical part of ensuring that our business is agile and able to move quickly to respond to opportunities or challenges in the market.

Covid-19 response

The crisis that engulfed our daily lives unfolded in the last quarter of this financial year. As the economic challenges provoked by the crisis developed, it threw a spotlight on the vital role of the Development Bank in providing some resilience to the Welsh economy. The strength of the organisation has always been in our ability to mobilise and deliver quickly and effectively and never has this been more tested than as 2019/20 drew to a close.

As trade faltered, our initial action was to provide some cash flow relief to over 1,300 of our debt customers in the form of an immediate three month repayment holiday. The First Minister announced the Covid-19 Wales Business Loan Scheme on the 30 of March with the first applications arriving within the hour. We share the determination of the Welsh Government to ensure that as many small businesses as possible, survive the lockdown and can trade as soon as restrictions allow.

As we look forward to an uncertain 2020/21, we are clear that our role is to ensure liquidity in the Welsh economy and for small businesses in particular. We understand that this will be needed more than ever before as we recover. As we face these challenges, we will maintain an ongoing dialog with our stakeholders, including customers and colleagues and remain true to our values of "Open, Responsible, Partnership".

Giles Thorley
Chief Executive
29 July 2020

Performance highlights

	Change	18/19	19/20
Annual investment	+30%	£80m	£103.3m
Number of investments	+8.8%	420	457
Private sector investment	-39.8%	£126m	£75.9m
PSL Ratio		1:1.58	1:0.73
Jobs created or safeguarded	+7.3%	3,748	4,022

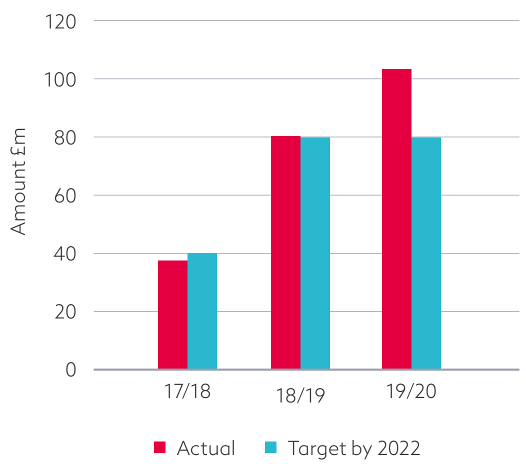
PERFORMANCE HIGHLIGHTS

Five year targets

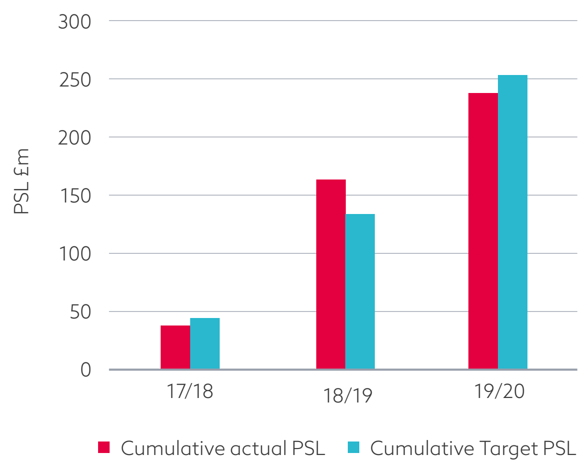
The Development Bank of Wales launched in October 2017 with the aim of having a £1bn overall impact on the Welsh economy by 2022. The graphs below show progress against each of our five year targets, from October 2017 to March 2020.

- Annual investment to reach £80m by 2022
- Deliver private sector investment at a ratio of 1:1.15
- Support the creation or safeguarding of 20,000 jobs
- Support 1,400 businesses

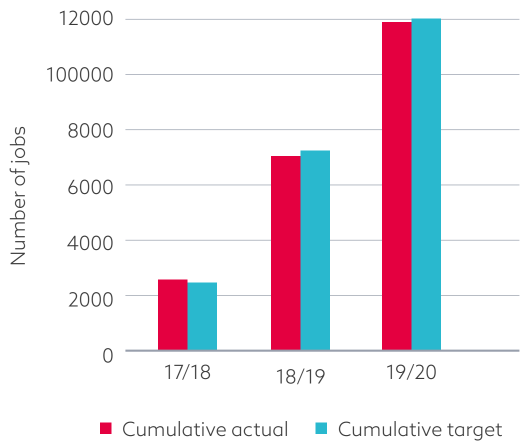
Investment



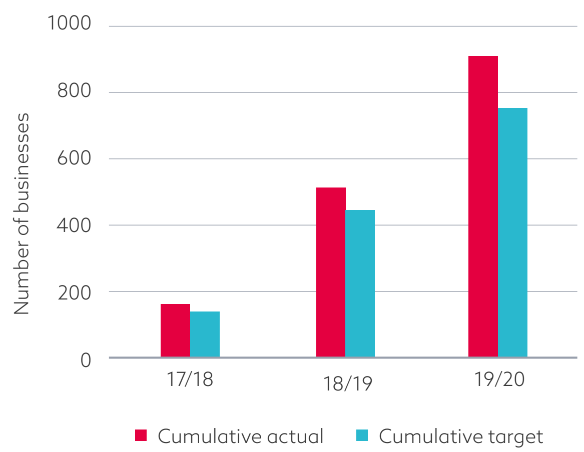
Private sector investment



Jobs



Businesses



Investment performance 19/20

Long-term investor

40% of all investments were made into existing customers

Investments over £1m increased

30 businesses received investment above £1m

Equity investments

£16m equity overall

£11.44m invested in

51 tech ventures

Micro Loans up to £50k

£23k Average deal size

73 of the 265 micro loans were fast track loans

58% of all investments were micro loans

265 micro loans were fast track loans

FW Capital

-6.5%

£28m | £26m
18/19 | 19/20
Annual investment

-43%

£55m | £38m
18/19 | 19/20
Private sector investment

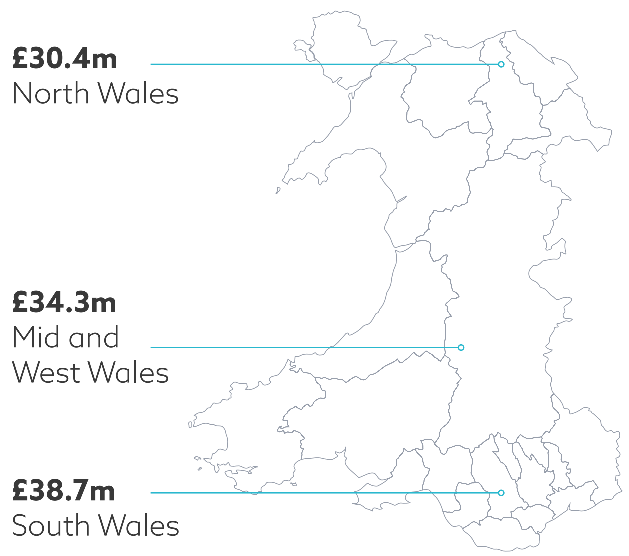
-6.5%

99 | 93
18/19 | 19/20
Businesses supported

27%

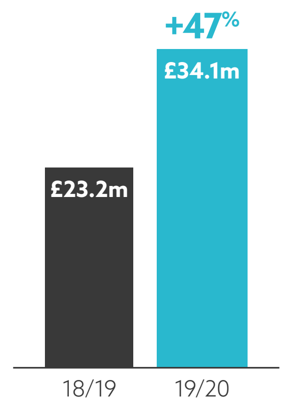
421 | 577
18/19 | 19/20
Jobs created or safeguarded

Regional breakdown



Property development

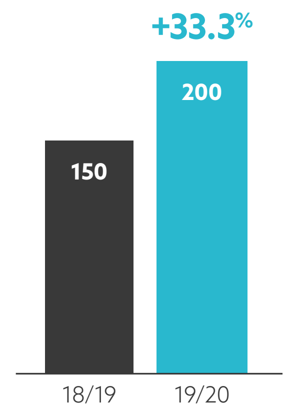
2,694 sq M of commercial space



Increase in property projects

Angels Invest Wales

Investment facilitated



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BUSINESS MODEL

We create long-term financial and social value by using the capital we raise, the people we employ and our relationships with stakeholders and the business community. We manage these resources in line with our core values which drive our behaviour when delivering against our objectives and towards fulfilling our vision and mission.

Our investment activity and related services, benefit individual businesses by providing the finance they need, and the Welsh economy by encouraging businesses to start up and grow. Welsh society benefits when those businesses create higher numbers of jobs in local communities.

Welsh taxpayers benefit when returns on investment are recycled to support more business or returned to the public purse.

We measure this value through direct investment, private sector money invested alongside us, job creation and safeguarding, houses built and commercial premises developed. We are working to further understand and measure the social and macro-economic impacts of our activity.

Individual fund performance is measured by funds invested and capital returned through loan repayments or equity investments exited.

Resources

Funds

We have £550m of capital available to deploy to support business and property development activity. See page 13.

People

We employ 239 people at 11 locations across the business. Our team are vital to delivering the face-to-face approach we know small business owners value. See page 51-52.

Relationships

Building and nurturing relationships with customers and stakeholders is critical to understanding the market and meeting its needs. See page 48-50.

Processes

Investment activity

Our investment activity covers fund management services such as investing and collecting repayments along with support functions such as finance, marketing and HR.

Business loans and investments

Other services

These services include our research arm, business angel network, management services to Welsh Government of Help to Buy – Wales, Self Build Wales and our commercial fund management business, FW Capital.

EIW | **AIW** | **HTB-W** | **FW Capital** | **Self Build Wales**

Impact

Capital returned or reinvested

Jobs

Private sector investment

Houses built

Sq M commercial property built

FUNDS

The Development Bank of Wales manages a range of funds that are primarily focused at providing investment to micro to medium businesses across the business lifecycle. The Development Bank has worked closely with the Welsh Government to create a suite of products that directly meets market needs through accessibility and flexibility within the prevailing market conditions.

In addition, it provides the administrative service solution for the Help to Buy – Wales Scheme. In 2019/20 £71m of new funding was committed to the Development Bank's business focused funds across five product areas, as well as a further £36m to the Help to Buy – Wales Scheme.

Funds as at 31 March 2020	Funding Amount (£m)	Investment End Date
Covid-19 Wales Business Loan Fund	100	2020
TVI Interim Fund	9.5	2020
Help to Buy – Wales	487	2021
Wales Capital Growth Fund	25	2021
Wales Angel Co-investment Fund	8	2023
Wales Business Fund	180.9	2023
Wales Management Succession Fund	25	2024
Wales Flexible Investment Fund	100	2025
Wales Technology Seed Fund II	20	2025
Wales Micro Loan Fund	30	2026
Wales Commercial Property Fund	55	2029
Rescue and Restructuring Fund	25	2030
Wales Stalled Sites Fund	40	2032
Wales Property Development Fund II	32	2033
Self Build Wales	40	2034
Wales Tourism Investment Fund	10	2041
Local Energy Fund	12.5	Ongoing
FW Capital as at 31 March 2020	**Funding Amount (£m)**	**Investment End Date**
Northern Powerhouse Investment Fund (NPIF) Debt Finance – North West*	51	2022
Northern Powerhouse Investment Fund (NPIF) Debt Finance Tees Valley and Cumbria*	51	2022
North East Property Fund	10	2020
Tees Valley Catalyst Fund	10	2023

*Subsequent to the 31 March FW Capital Ltd agreed to manage a further £40.6m of funding for the NPIF funds, £30.6m for the North West area and £10m for the Tees Valley and Cumbria areas.

INVESTMENT DIRECTOR'S REPORT

Mike Owen
Group Investment Director

Investment performance

Our team of investment professionals delivered a performance in 19/20 that brought growth across the business, exceeding £100m for the first time with £103m of funding invested into 399 businesses helping to create and safeguard over 4000 jobs. In England our subsidiary FW Capital invested £26m into North East and West of England SMEs.

I am pleased that once again we have grown transaction volumes with micro loans making up 58% of these numbers. We also completed our largest ever volume of large deals with 30 companies receiving investment above £1 million across a wide range of sectors with 40% of these going into the property sector and 60% to trading SMEs, a clear sign of growing confidence across the economy prior to the impact of the Covid-19 pandemic.

Property development

Our fastest growing sector in recent years has been property development, both to fundraise and in lending. 19/20 was another record year for our Property Team with £34m in property transactions, including our first investment from the new Wales Commercial Property Fund.

The construction sector entered something of a purple patch pre the Covid-19 pandemic showing signs of market improvements and gross development values increasing through the period. However March saw the sharpest fall in construction output for 11 years, which was primarily supply rather than demand led, with sites closed at the start of lockdown. A gradual reopening incorporating social distancing measures have however hit productivity along with challenges within supply chains.

We have recently seen evidence of funders edging away from the property development space.

This retrenchment seems similar to what we saw during the 2009/10 recession, where lenders retreated from perceived "higher risk" sectors as a matter of policy. We anticipate this will leave a funding gap in the Welsh market, larger than we've seen over the last five years. There remains strong demand for family housing and a shortfall in supply against the Government's target.

A particularly exciting new initiative is Self Build Wales, which launched in March and is managed by the Development Bank on behalf of the Welsh Government. Research has shown that at 10% of new home build, Wales and the UK as a whole, lags behind the rest of Europe in terms of self-build projects. This innovative scheme is designed to remove the barriers associated with custom and self-build projects and offers opportunities for bespoke house designs, pulling together planning, funding and construction into one package.

Equity investment

A more challenging area remains our long-term aspiration to increase the amount of equity investment in Wales. In 19/20 we delivered £16 million into 49 companies and retained our top 5 UK investor status by volume of transactions in research carried out by Beauhurst. The link between equity finance and economic growth has been long established and while early stage technology businesses will naturally look to equity as they build revenues, the bigger challenge is to encourage more established companies to consider how patient capital can boost growth and provide resilience. One area of concern going forward is the amount of debt taken on by businesses as a result of the Covid-19 pandemic which may affect growth prospects through being over leveraged.

Decarbonisation

An interesting fund to highlight is our Local Energy Fund. One of our smaller funds in terms of capital but one of our biggest in terms of impact. This had its best year of direct investment with £5m going into small scale community based renewable energy projects such as single site wind and solar, with the profits from energy generated invested back into the local community. The decarbonisation agenda is one we are keen to further explore, either through dedicated funds or in influencing our customers to consider how a decarbonisation project could make good business sense.

Customer relationships

Not all our support takes the form of investment, and adding value for customers remains the primary focus of our portfolio colleagues. In 19/20 we reviewed and strengthened this proposition to build stronger businesses for the future. Here, our focus is on quality over quantity and areas include encouraging businesses to strengthen the quality of their board or improve business critical areas such as cashflow management, budgeting or marketing. These initiatives are supported by a wide range of networking and knowledge sharing events such as our CXO forum launched in the year, targeted at technology businesses.

Market conditions

The first half of the year brought Brexit uncertainty which affected business confidence and we saw a marked slowdown pre-Christmas resulting in projects cancelled or shelved. This sentiment was improving in the first quarter of 2020, however the onset of the Covid-19 pandemic took hold and confidence no doubt will be a significant challenge for the year ahead.

I was delighted with the way our team responded to mobilise quickly and support businesses following the Covid-19 pandemic. The volumes of enquiries handled would typically represent more than 3 years of transactions. In times of uncertainty we remain open for business with funding and support available through our team and our close relationship with our colleagues at Business Wales.

Throughout the year the number of alternative funders, particularly debt, continued to grow. While the increased diversity of funders in the market is positive, in some cases we are seeing instances of over-leveraging through inappropriate capital structures similar to those seen in 2009/10. Where a business is highly geared, a small change such as the loss of a key supplier or customer can push an otherwise healthy business to the edge and we have seen cases of businesses failing as a result. A key focus for the Development Bank of Wales together with the adviser network in Wales is to highlight the benefits of equity investment which can offer a business some resilience.

The future

In 19/20 we started on the journey to digitally transform our operations, and over the next couple of years we intend to further improve turnaround times and reduce paperwork in response to customer feedback. This programme of work will not only improve the customer experience, but will also mean more time available for our colleagues to undertake value add activities to help build stronger businesses.

The first half of 20/21 will be an important test of our ability to recover with a number of complex factors at play as a result of the Covid-19 pandemic. It is heartening to see businesses continue to approach us with growth plans and we are also seeing a number of start-up businesses apply for funding; an important driver for the economy in these uncertain times.

Mike Owen
Group Investment Director
29 July 2020

INVESTMENT AND OTHER SERVICES

We invest in businesses across Wales to help them to start up, strengthen and grow. Here are a selection of the businesses we have worked with this year.


Gaea

18 | Starting a business

Finance from £1,000 up to £5m to help Welsh businesses start up and support their early years.


Pembrokeshire Performance Sailing Academy

Decisions in just two working days for businesses trading for two years or more.

26 | Fast track micro loans

Loans between £1,000 and £25,000 for established Welsh businesses.

28 | Developing a tech venture

We make seed, early stage and follow-on equity investments into technology businesses with high growth potential.

Costcutter

20 | Growing a business

Through our investment and co-investment with others, we strengthen Welsh businesses and help them achieve their growth plans.


Health & Her

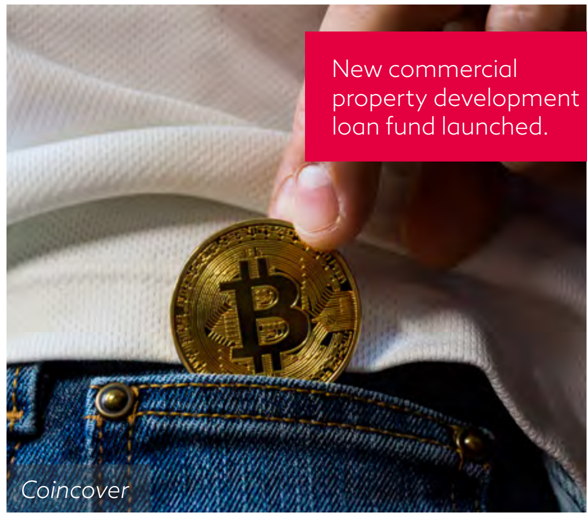
Snowdrop Independent Living Ltd

34 | Buying a business

We aim to support the next generation of business owners by providing funding for management teams to buy an existing business.

36 | Financing a property development

Residential, mixed – use, and commercial property loans from £150,000 – £5m to help small to medium-sized developers.


Coincover

New commercial property development loan fund launched.

40 | Angels Invest Wales

Angels Invest Wales connects investors with Welsh businesses and is developing the investor ecosystem in Wales.

42 | Economic Intelligence Wales

Economic Intelligence Wales collates and analyses data to deliver insight into the supply and demand for finance within the Welsh market and help provide a better understanding of the broader Welsh economy.

43 | Help to Buy – Wales

Help to Buy – Wales provides shared equity loans to buyers of new build homes in Wales.


Loorolls.com

44 | FW Capital

FW Capital delivers contracts in the North of England, extending our network and reputation across the UK. It manages funds for the British Business Bank, Tees Valley Combined Authority, the North East LEP and Santander.

Starting a business

Finance from £1,000 up to £5m to help Welsh businesses start up and support their early years.

GAEA

Cruelty-free bath product start-up Gaea opened their first shop in Caerphilly town centre at the end of February 2020, with the support of a £10,000 micro loan from the Development Bank of Wales.

The start-up is the brain child of local entrepreneur Bridget Lewis. She used the money to rent her shop space and to purchase materials to make her range of bath and beauty products as well as providing working capital for her first few months as a new business.

When the United Kingdom went into lockdown in March this year, Bridget's shop had been open for just three weeks. When she closed her doors that week, she did not know what to expect over the next few months. Just three months later, she launched an online shop delivering Gaea's products across the UK to meet demand, which has grown during the pandemic.

The move from physical store to online retailer happened after she was overwhelmed by support from customers.

"I really thought 2020 was going to be my year, and it has been, just not as I expected. I used my own money and a micro loan from the Development Bank to cover start-up costs, including purchasing items I need to make our signature Gaea products. I'm glad I had that backing, especially as so much changed for us as a business and the whole retail landscape in a very short time."

Caerphilly
£10,000
Wales Micro Loan Fund

THE OAKS

A £400,000 loan helped bridge the finance gap for new care home The Oaks in Newtown, Powys.

The care home was designed and is being run by the Sandstone Care Group. The group is owned by experienced care professionals, Ben Challinor, James Parkin and Richard Shore.

They appointed Jen Roberts as the home's registered manager. Jen has worked extensively in the care sector with a wealth of experience opening and successfully managing care homes in Wales.

The directors had secured private investment but needed additional funds for start-up costs and working capital.

There are 73 beds for pensioners available, with a focus on providing nursing and residential care in high quality surroundings. The new care home has created 100 full and part-time jobs as well as providing essential care facilities to the mid Wales area.

Accommodation includes a spacious lounge and dining room on each floor, plus a separate quiet lounge. On the ground floor there is also a café area for use by residents and their visitors.

There is an additional communal space on the second floor which has been furnished for use as a cinema.

The care home opened on 6 January 2020, welcoming its first residents on the same day.

During the lockdown caused by the Covid 19 pandemic in March this year, staff led by Jen stayed at the home to keep residents safe. This allowed The Oaks to continue to offer a high level of care for their community, whilst minimising risks of coronavirus transmission.

Newtown
£400,000
Wales Business Fund

JUST PLAY GOLF

Matthew Phythian grew up in Rhonnda Cynon Taff. A professional golfer he has extensive experience working with all levels of golfers after achieving his PGA qualification through a social enterprise. He's passionate about bringing that opportunity and social connection to others in his community.

When a site suitable for a range went up for sale in his home town of Penrhys he borrowed £50,000 from the Development Bank to support the land purchase and outfitting costs needed for the creation of a modern driving range and training centre. Just Play Golf opened to the public just before Christmas 2019.

Penrhys
£50,000
Wales Micro Loan Fund

"For me sport, especially golf, is a great way of engaging with others and learning new skills. I wanted others in my community to have the same opportunities I had to gain qualifications, while enjoying the social and health benefits the sport offers. I want to provide an opportunity for people to get to know each other and build a sporting community. I think we can achieve that thanks to support of the Development Bank of Wales."

The new community space has already received a great response from the Rhondda Valley and Penrhys community with hundreds of members signing up to learn and practice their swings, putts and drives.

Growing a business

Through our investment and co-investment with others, we strengthen Welsh businesses and help them achieve their growth plans.

"We have a direct contact we can speak to any time who is offering continued support, and that's really important as we try to expand the business."

Cardiff
£25,000
Wales Micro Loan Fund

GREEN & JENKS

Gilly Pollock started Green & Jenks in 2015 with her mother Shirley and daughter Harriet. This was a relaunch of their family dairy business, the Roath Park Dairy Company, which was founded in Cardiff in 1888 by Gilly's great-great-grandfather.

The company was relaunched in Monmouth, which is where they make their award-winning gelato. However, Gilly was keen to reopen in Cardiff where it all began, and she found a property near the business' original location, with Victorian frontage similar to the original shop.

They secured a micro loan from the Development Bank of Wales to help finance the opening of their store in 2019 to accelerate their expansion plans. This included the development of their wholesale business and opening the property to host more events.

"We help feed other stores and Knighton as a whole. It's more important than ever to keep our market town alive and thriving."

Knighton
£200,000
Wales Business Fund

COSTCUTTER

The Development Bank of Wales loaned £200,000 to John Ewens to support the leasehold purchase and refurbishment of the Costcutter store in Knighton, Powys.

Sixty-seven year old John saw the opportunity to buy the store as a way to return to his roots a decade after first managing the shop.

John believes the store will help retain and bring new people to the high street in the small mid-Wales town.

Convenience stores in Wales provide almost 23,000 jobs to local people. The investment from the Wales Business Fund helped to safeguard the jobs of 15 members of staff.

"This funding allows my plans to become a reality; the purchase of the store, a redecoration of the exterior, updating the branding, replace the dated equipment and undergo a full refit. Customers expect a satisfying experience when they go into a shop and it's important to stay on par with the supermarkets."

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Llanelli
£undisclosed
Wales Business Fund

"With the help of the Development Bank of Wales, we are safe in the knowledge that we have the working capital that we now need to further develop our product range and sales channels across the UK."

ICKLE BUBBA

Existing customer – baby travel and lifestyle company Ickle Bubba received a follow-on loan for growth after discussing their ambitions with their dedicated portfolio executive.

Established in 2013 by husband and wife team Fran and Veronica Vaughan, Ickle Bubba is based in Ponthenry, Llanelli. Their product range includes pushchairs, car seats and furniture sets.

With a global supply chain, their products are shipped directly to customer distribution centres as well as Ickle Bubba's warehouse in Ponthenry before being sold via a UK wide network of stockists including a number of blue chip and independent retailers.

They received a six-figure follow-on loan from the Development Bank of Wales in early 2020 to help with working capital as their brand grows. This follows an initial investment to help with start-up and marketing costs in 2018.

Lamphey
£50,000
Wales Micro Loan Fund

LAMPHEY HALL

A popular hotel in a Pembrokeshire beauty spot secured a bright new future after being bought by new owner Robert Jones.

The 10-room Lamphey Hall hotel in the village of Lamphey was put up for sale in autumn 2019. In addition to a £50,000 loan from the Development Bank of Wales, Rob invested his own money as well as securing a personal mortgage from NatWest. The micro loan from the Development Bank bridged the gap between the finance he had already secured and the hotel's asking price, allowing him to buy Lamphey Hall as a going concern. The deal safeguarded the jobs of 12 existing members of staff.

The former rectory is just two miles from Freshwater East beach and is popular with business guests and tourists.

"When the opportunity arose to buy Lamphey Hall I jumped at it. Being able to own and run my own business in such a beautiful part of the world is a dream come true. I just needed a small amount of extra capital to make that dream a reality, which is where the Development Bank came in."

Llandysul
£six-figure loan
Wales Business Fund

TREGROES WAFFLES

Tregroes Waffles has been making waffles in west Wales for over 30 years. Kees Huysmans moved to Llandysul from the Netherlands and began producing the popular sweet Dutch treat. As the company is becoming employee owned, they borrowed six-figures from the European Regional Development and Welsh Government backed Wales Business Fund, managed by the Development Bank of Wales, to buy new equipment in summer 2019.

The new machinery allowed the company to increase production going from making 4,000 waffles an hour to more than 10,000 waffles an hour by late 2020.

The investment helped secure the jobs of 18 existing staff as well as allowing Tregoes Waffles to meet demand for their products from a number of new supermarket customers.

"The market in the UK is growing fast for the taste of our waffles and we already supply many outlets all over the UK. To be able to add this production capacity to the bakery, is an exciting and proud moment which will create a great foundation for the future."

OXIS ENERGY

OXIS Energy received an equity investment from the Development Bank of Wales to establish the first ever manufacturing plant for the production of electrolyte and cathode active material, specifically for the mass production of lithium sulphur cells. The new manufacturing facility will be in Port Talbot.

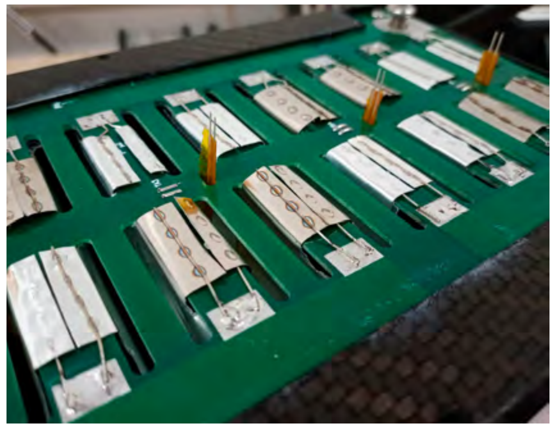
Lithium sulphur cells are critical for a number of clean energy uses, including the electric and hybrid car market. The company is working to mass produce electric batteries suitable for use in heavy vehicles like buses, heavy goods vehicles, boats, helicopters and light aircraft. Moving to clean energy is an important way of reducing global carbon footprints and ensuring sustainable on-going energy.

The company has in this time partnered with the state government of Minais Gerais in Brazil, where it has built a manufacturing plant to exploit naturally occurring lithium rock deposits in the region to produce the company's Li-S cells.

The western seaboard of the ports in Wales, Cardiff, Newport, Port Talbot and Swansea are ideally placed and accessible for exports to Brazil. In the next two years Oxis are looking to set up regular deliveries between Wales and Brazil as part of their growth plans.

"We want Wales, through our facility in Port Talbot, to become the World's Centre of Excellence leading the way in the commercial production of lithium sulphur cells for battery systems. We believe that it will create highly skilled jobs in Wales and help to promote Wales on the world stage."

Port Talbot
£undisclosed
Wales Business Fund



Fast track micro loans

Loans between £1,000 and £25,000 for established Welsh businesses.

Businesses trading for two years or more can get micro loans with minimal paperwork and a decision made in just two working days.

Loans up to £25,000 have been available without a formal business plan since January 2020.

Prior to this, micro loans up to £10,000 were available without a business plan with micro loans between £10,000 and £25,000 available with six months' of bank statements and a statement of assets and liabilities.

£1m fast track loans invested

93 businesses supported

43% increase on previous year

£25,000 Loans up to £25,000

PEMBROKESHIRE PERFORMANCE SAILING ACADEMY

As the leading Royal Yachting Association (RYA) sailing and powerboat training centre in south west Wales, the Pembrokeshire Performance Sailing Academy provides training for entry level enthusiasts and high performance sailing.

Based at Llanion Cove near Pembroke Dock it is run by ex-forces instructor Richard Owens. He established the business in 2013 having previously competed at European and National level as a Coach with the Army Sailing Association.

They received a £20,000 micro loan to purchase two new sailing boats and a powerboat for a second site at the Bourne Leisure Caravan Holiday Village in Lydstep.

Llanion Cove
£20,000
Wales Micro Loan Fund

MARIO TRUCKER

Business-to-business (B2B) logistics and transport firm Mario Trucker borrowed £15,000 to purchase a new truck and operator's licence.

Director Mariusz Wieszczecinski manages all aspects of the business from his home address in Merthyr Tydfil, but covers general haulage across the UK and Europe. Mariusz can provide any form of transport for businesses ranging from a small van to class 1 drive lorries.

Merthyr Tydfil
£15,000
Wales Micro Loan Fund

1ST FOR TRAVEL

1st For Travel is a minibus hire company based in Prestatyn, Denbighshire. They provide transport services for public and private hires travelling anywhere in the UK.

Owner Timothy Whittaker borrowed £10,000 to purchase a larger minibus in order to grow the business.

Prestatyn
£10,000
Wales Micro Loan Fund

TIR A CHOED

Tir a Choed is a vegetation management, woodland and forestry company. They are based in Gwynedd, employing local staff and sub-contractors. They provide woodland and conservation management, footpath maintenance, highways vegetation management as well as regular grass cutting and grounds maintenance services across north Wales.

Director Amais Taylor borrowed £10,000 to purchase new machinery to support bringing a number of services in-house to save business and customer costs as well as supporting the further development of the business and maintain local employment.

Gwynedd
£10,000
Wales Micro Loan Fund

THE SANDWICH BAR

Established by Michelle Williams, the Sandwich Bar is based at Maypole steps, Holyhead. They offer hot and cold take away food alongside freshly ground coffee.

Michelle borrowed £7,000 to install extraction fans in order to offer a wider menu of hot food to her customers. She also used some of the loan to help buy a car to provide a delivery service to local green businesses.

Anglesey
£7,000
Wales Micro Loan Fund

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Developing a tech venture

The Development Bank invests in start-up, early stage or established companies looking to develop and exploit technology.

"BookingLive has always had deep connections to Wales. I grew up in Capel Hendre outside Ammanford, and our CMO Sam Johnston, who is heading up our work in America, is from Ebbw Vale. I'm delighted to be moving the company headquarters to Cardiff as we grow our business."

Cardiff
£500,000
Wales Technology Seed Fund

BOOKINGLIVE

BookingLive received £500,000 as part of a £1.3 million co-investment round with Blackfinch Ventures. The deal saw them open a brand new headquarters in Cardiff.

Founded by Ammanford native CEO Vinnie Morgan in 2014, BookingLive provides online booking and reservation software to over 700 private and public sector customers. Its Enterprise system clients include Microsoft, National Trust, Dyson, BMW, Universal Music Group, Greene King, Transport for London and over 50 public sector authorities across the UK."

The company's customer base is expanding rapidly thanks to a new freemium Connect booking system, designed especially for small business owners and now in use across forty-five countries. BookingLive has also recently opened a satellite office in Charlotte, North Carolina to focus on expansion in the United States. Following the success of BookingLive's Enterprise product with local councils across the UK, America's 100,000 public sector agencies are seen as an especially important market for the company.

Following the announcement of the global pandemic of Covid-19 in March, the company adapted their booking software to support efforts to curb coronavirus. Appointment systems for local government and health boards included waste recycling centres bookings, green spaces capacity management and visitor management. They also took part in and won the Empowerment, Solidarity in Action category for their Coordinate-19 solution at the Global Hackathon to provide solutions to the Covid-19 pandemic in New York. They were the only British team in the Top 10 solutions globally.

LITELOK

Litelok designs, develops and manufactures high-security anti-theft products for bicycles using lightweight materials. Bicycle theft is a growing global problem and secure locks are cumbersome, heavy and impractical. The lighter weight Litelok products have become popular with the cycling community. All of their products are insurance rated.

The locks, which cost from £60 and include one for motorbikes which does away with heavy chains, are housed in tensile strength steel with marine grade rivets and straps made of Boaflexicore – a steel and polymer composite the company has developed and patented.

Following an initial investment alongside business angels in 2017, we took part in a larger follow-on funding round alongside Venrex in early 2020 to support their scale-up and extensions to the range.

Swansea
£undisclosed
Wales Business Fund

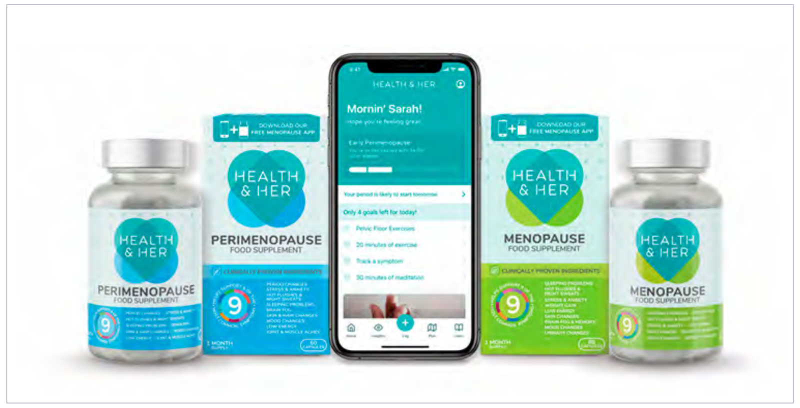
HEALTH & HER

Health & Her specialise in women's health, specifically targeting the menopause market. The company was founded in 2017, their e-commerce B2C platform launched in March 2019.

In autumn 2019 they secured a six-figure angel-led co-investment from The Development Bank's Wales Technology Seed Fund, backed by the Wales Angel Co-investment Fund. They also secured additional funding through complementary angel syndicates, Global Welsh and Inspire.

They're using equity funding to develop a range of new products and services in the women's healthcare market.

> **"We're seeing significant growth month-on-month which has been boosted by the equity funding we have received."**



Cardiff
£undisclosed
Wales Angels Co-investment Fund

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QUOTE ON SITE

Swansea-based technology start-up QuoteOnSite secured total investment of £350,000 in an initial seed funding round.

Angel co-investor Deri Green invested £200,000 with a further £149,500 of equity coming from the Wales Technology Seed Fund. Deri Green was introduced to the investment through Angels Invest Wales – the Development Bank of Wales' business angel network.

QuoteOnSite is a platform that streamlines the quote management process for businesses of all sizes from start-ups to established enterprises. For businesses that still rely on traditional methods of quoting QuoteOnSite provides a solution to the lack of visibility, traceability and analytics that form an integral part of a successful sales process. Customers can supply their data and choose from a menu of products directly on the business' website via an integrated contact form. This reduces time wasted on duplicating data-entry from traditional contact forms into downstream CRM systems.

The husband and wife team behind QuoteOnSite, TJ and Elaine Amas, identified the need for a quoting tool within the trade and construction industry. After two years of working on development and testing, QuoteOnSite officially launched in 2017.

Since then their tool has been adapted for use across multiple sectors and enables any business or sole trader to provide easily accessible quotes to customers. They sought equity funding through Angels Invest Wales and the Development Bank to take their vision to the next level.

The £350,000 seed round enabled the business hire new staff and also supported user experience research, and software development.

> **"The investment has enabled us to grow a team around us to make the product the best it can be."**

Swansea
£149,500
Angels Invest Wales and the Wales Technology Seed Fund

Buying a business

We aim to support the next generation of business owners by providing funding for management teams to buy an existing business.

NOLAN UPVC

A Carmarthen carpenter has helped his management team to complete a multi-million management buy-out (MBO) of the double glazing company that he set-up in 1989.

Funded by the Development Bank of Wales with a mix of loan and equity, the management team of award winning Nolan uPVC has bought the business from the founder, Nolan Nicholas.

The MBO team of Paul Murphy, Adrian Phillips and Jason James have over 80 years combined experience with Nolan.

"We are a close knit family run business that has Nolan's values and principles at the heart of all that we do. The funding from the Development Bank of Wales has made this deal possible and their ongoing support as a shareholder means that we are really looking forward to what the future holds."

Carmarthen
£undisclosed
Wales Management Succession Fund

SNOWDROP INDEPENDENT LIVING LTD

Mobility aids specialist Snowdrop Independent Living Ltd's new owners completed a management buy-out (MBO) following investment support from the Development Bank of Wales. This is on top of a six-figure investment from the Development Bank in 2018/19.

The business specialises as a retailer and distributor of mobility aids, including stair lifts and orthopaedic chairs, and was founded 20 years ago by Peter O'Shea.

It started as a single showroom in Haverfordwest before expanding further into south Wales with shops in Swansea and Penarth. Since the Development Bank supported MBO, the company has also opened a new shop in Cardiff and acquired three more branches in the Midlands.

The management buyout team was led by new Managing Director David Morgan.

"We met with senior managers and built the buy-out team. The Development Bank of Wales guided us on how to build a proposal that would work for us and the bank. The help and advice offered and gratefully accepted through this stage helped us get the MBO over the line."

Haverfordwest
£undisclosed
Wales Management Succession Fund

YARD

Digital data and marketing agency Yard has completed a £1.3 million management buy-in (MBI) with the help of the Development Bank of Wales. This is part of a long-term succession strategy put in place by the business.

Yard Associates was established in 2006 in Cardiff by founding Directors Stephan Briggs and Paul Newbury who first met when working together at Lloyds Bank.

Specialising in providing data driven analysis of consumer behaviour, Yard now employs 49 people. Customers include Sainsbury's Bank, Sage, Camelot, British Gas and Mazars. .

The Development Bank of Wales has taken equity as part of the £1.3 million investment part-funded by the Wales Management Succession Fund. This follows earlier investments totalling £570,000.

"With the financial backing of the Development Bank, we have focussed on structuring our business for the future to enable us achieve our vision."

Cardiff
£1.3 million
Wales Management Succession Fund

Financing a property development

Residential, mixed-use, and commercial property loans from £150,000 – £5m to help small to medium-sized developers.

THE GOODS SHED

An unused and dilapidated Victorian railway building has been given a new lease of life as an entertainment and business complex in Barry thanks to a £1.13 million deal from the Development Bank of Wales.

The 1880s goods shed on Hood Road, Barry is part of the Innovation Quarter at Barry Waterfront, a joint regeneration venture between the Vale of Glamorgan Council and the Welsh Government. The mixed-use scheme will include a shipping container village and apartment complex.

The project is the brainchild of Simon Baston, Managing Director of DS Properties (Goods Shed) Limited, trading as Loft Co. He has previously worked with the Development Bank on other renovation schemes including the Pumphouse.

Barry
£1.13million
Wales Stalled Sites Fund

"We're bringing sustainable regeneration to communities across Wales. Our developments aren't faceless out of town projects. We're not a cookie cutter developer. That's the great thing about working with the team at the Development Bank of Wales, they get what we're all about and are prepared to put their money where their mouth is to drive real change."

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Caernarfon
£undisclosed
Wales Property Fund

BEECH DEVELOPMENTS

A new residential scheme by Beech Developments in Caernarfon is providing 23 new affordable homes for housing association Adra as part of a 45 housing property development in the town.

The commercial side of the development was supported with a short-term loan from the Development Bank of Wales.

Seventy per cent of the houses available for sale had already been sold off-plan to members of the local community by September 2019.

Matthew Gilmartin, Managing Director of Beech Developments said the support for the commercial side of the development helped them fulfil the whole development, including meeting demand for local housing stock.

The first houses in the development of two, three and four bedroom homes were completed in early 2020.

"There is a clear local need for quality new homes in Caernarfon and we are pleased to be able to help to meet that demand with our development. We have found the team at the Development Bank to be extremely supportive of the business and look forward to working with them in the future."

HAYWOOD HOMES

Haywood Homes received a £0.9 million loan from our property development team to work on a residential property development in Carmarthenshire. This loan is part of a £3m facility.

The property development loan is supporting the construction of 17 new homes in Tycroes, Carmarthenshire. The site includes a mixture of four and five bedroom houses and bungalows. The Llys Tirnant development is set in a village location with easy access to the M4. With prices starting at £275,000, the new homes combine contemporary energy efficient design, low maintenance with a high specification finish.

"Just like the Development Bank of Wales, we pride ourselves in providing the highest level of customer service and making the process as easy as possible for our customers. The team at the Development Bank have certainly lived up to expectation and I hope that our customers would say the same about us."

Tycroes
£0.9 million
Wales Property Fund

ELLIS DEVELOPMENTS (WALES) LTD

Work on the third phase of Glan yr Afon Industrial Estate in Aberystwyth started in January 2020 after developer Ellis Developments secured the first investment from the Wales Commercial Property Fund.

Aberystwyth based Ellis Developments secured the loan to support the development of blocks five and six at Parc Melin, the third phase of the Glan yr Afon Industrial Estate in Aberystwyth. 12 units totalling 1,571 sq metres of speculative light industrial and commercial space will add to the existing 17 units; all of which have been sold or let with tenants including Greggs and Tool Station.

The Glan yr Afon development is the main trading estate in the area with a mix of modern, light industrial and warehouse occupiers and office users.

"The tailored and flexible funding from the Development Bank of Wales has enabled us to fully develop this site having successfully filled the first two phases. We have already made good progress on this speculative development and there will be an additional 12 units available to purchase or rent later in 2020."

Aberystwyth
£Undisclosed
Wales Commercial Property Fund

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Angels Invest Wales

Angels Invest Wales connects investors with Welsh businesses and is developing the investor ecosystem in Wales.

Angylion Buddsoddi Cymru
Angels Invest Wales

COINCOVER

Launched in 2018 by blockchain pioneer David Janczewski and technology security expert Adam Smith, Coincover provide specialist cryptocurrency services to a range of customers including high street banks like Lloyds.

The Development Bank of Wales and Angels Invest Wales have supported the company to raise over £500,000 through angel investment, matched funding from the Angels Co-investment Fund alongside £400,000 from the Wales Flexible Investment Fund.

They've used the money to grow their company and work on developing a range of digital security solutions for the cryptocurrency market.

In November the company launched the first ever Digital Will product for cryptocurrency wallets, online storage areas for bitcoin and other blockchain currencies often called hot wallets – allowing those who own cryptocurrency to safely pass their assets on to a loved one after they pass away.

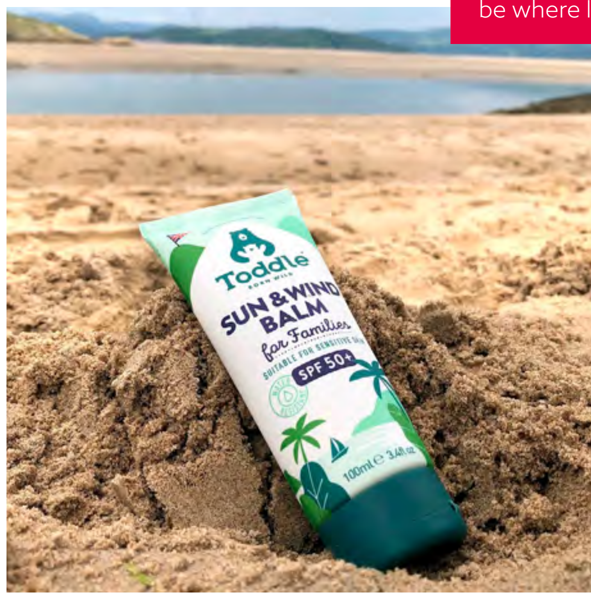
In March the company secured an extra boost with Lloyd's of London announcing their support through a new insurance liability cover for hot wallets. The first of its kind liability policy, with flexible limits from as little as £1,000, was created by Lloyd's syndicate Atrium in conjunction with Coincover to protect against losses arising from the theft of cryptocurrency held in online, hot wallets.

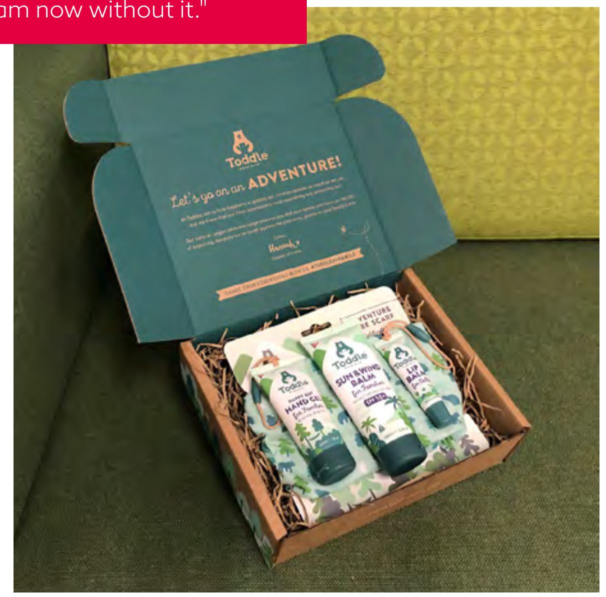
From its Cardiff HQ, Coincover is now rapidly expanding its partnership network around the world and establishing itself as the Number one brand in Crypto security.

Cardiff
£undisclosed
Angels Co-investment Fund

Wrexham
£150,000 of angel investment
Angels Invest Wales

"The help from Angels Invest Wales has been phenomenal and I wouldn't be where I am now without it."





TODDLE

Toddle, a start-up based in Wrexham, makes child-friendly and ethically sourced skincare products. These include a dribble-proof lip balm for babies, a sun and wind balm designed to protect infants' cheeks, and a probiotic hand gel.

Company founder, Hannah Saunders and her husband are both travel and adventure sports enthusiasts. But when they became parents, they found there were no skin care products they could take with them on their outings that were suitable for young children.

Spotting a gap in the market, Hannah left the RAF in 2017 and spent the next 18 months doing market research and developing the company's products.

After moving to North Wales Toddle worked with Angels Invest Wales to secure £50,000 from a syndicate through their platform. The business also received £200,000 investment in the previous year and £50,000 through winning a Pitch it Wales competition.

Funding supported the launch of their skincare range in summer 2019 and the creation of three new jobs. Toddle have enjoyed a successful year in business and in 2020 launched their new hand sanitizer range for NHS workers – 'Heroes'.

Economic Intelligence Wales

Economic Intelligence Wales collates and analyses data to deliver insight into the supply and demand for finance within the Welsh market and helps provide a better understanding of the broader Welsh economy.

Dirnad Economi Cymru
Economic Intelligence Wales

Economic Intelligence Wales (EIW) brings together economic statistics and SME level research. Its research provides insight into the supply and demand for finance in the Welsh market within the broader Welsh economic context.

Economic Intelligence Wales is a unique collaboration between the Development Bank of Wales, Cardiff Business School and the Office for National Statistics. Cardiff Business School leads on producing the research outputs, with the EIW steering group made up of representatives from the three organisations, as well as from StatsWales and the Welsh Government.

Office for National Statistics
Swyddfa Ystadegau Gwladol

Cardiff University / Prifysgol Caerdydd
Cardiff Business School
Ysgol Busnes Caerdydd

Banc
BANC DATBLYGU CYMRU
DEVELOPMENT BANK OF WALES

Performance highlights

Economic Intelligence Wales published its first Annual Report.

EIW Annual Report, August 2019

£1m ····· £2.3m GVA

Every £1m of Development Bank of Wales's investment generates £2.3m Welsh GVA.

Although there was uncertainty in the market, Welsh SME confidence was consistently the highest in the UK with more having plans to grow until a significant downturn in Q3 2019.

Economic Intelligence Wales' Quarterly Reports have continued to collate and analyse economic and SME level data. The recent report captured key data before the pandemic struck Wales:

- 22.5% of Welsh SMEs were planning to scale back activity and reduce staff, the highest of UK SMEs, before the Covid-19 pandemic.
- Wales had the second lowest business death rate and second highest three-year survival rate in the UK prior to the pandemic.

EIW Quarterly Report, October 2019
EIW Quarterly Report, February 2020
EIW Quarterly Report, April 2020

Bespoke Reports produced this year include:

- 'Medium-sized businesses and Welsh business structure'. International comparisons show there is no optimal business structure but Wales lags behind in the growth and productivity of medium-sized firms across all industries other than production.
- 'Briefing: Business Succession in Wales'. This short report is the initiation of a wider project on business succession and reported that 11% of SME directors are close to 'retirement age'.
- Economic Intelligence Wales also assisted the Welsh Government with research on community banking in Wales on specific themes of Equality, Access and Trust.

Briefing bespoke report – Business Succession in Wales, May 2020

Bespoke report – Medium-sized firms and Welsh business structure, November 2019

Help to Buy – Wales

Help to Buy – Wales provides shared equity loans to buyers of new build homes in Wales.

Cymorth i Brynu-Cymru
Help to Buy-Wales

Now in its sixth year the scheme supports the purchase of new build homes up to £300,000 bought through a registered Help to Buy – Wales (HTB-W) builder. The scheme makes new build homes available to all home buyers (not just first time buyers) 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 HTB-W, while buyers are required to provide a deposit of a minimum of 5% of the purchase price.

In total almost £400m (£399.5m) has been lent supporting property sales of £2bn.

The total number of houses sold through the scheme reached 10,517 and 76.5% were sold to first time buyers.

£300,000
maximum purchase price

5%
Minimum deposit

20%
Support up to 20% of purchase price

Total impact since the scheme launched in 2014

£400m	10,517	£2bn	76.5%	179
of loans	houses sold	property sales	sold to first time buyers	builders registered

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FW Capital

FW Capital delivers contracts in the North of England, extending our network and reputation across the UK. It manages funds for the British Business Bank, Tees Valley Combined Authority, the North East LEP and Santander.

FWCapital

LOOROLLS.COM

Wholesaler and supplier of bulk paper items and janitorial products, loorolls.com borrowed £150,000 through the NPIF – FW Capital Debt Finance Fund in December 2019. They used the money to buy and move to a larger warehouse, with increased racking and storage.

The larger property meant they were able to significantly increase key cleaning and other vital toilet product supplies during the Covid-19 pandemic in early 2020.

Following investment from FW Capital, the company were able to take on a number of additional staff to help them meet an increase in demand of 75% in Q1 2020.

"The cash injection from FW Capital has helped our business expand in new areas and helped with demand for our vast range of products, and the acquisition of new premises is part of this growth. From initial contact to the completion of the deal it has been a smooth process."

Heswall
£150,000
NPIF – FW Capital
Debt Finance

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

"This investment will help us develop our technical lead in protein engineering and further disrupt the market. We are grateful to FW Capital for recognising the opportunity and all its support."

Redcar
£undisclosed
NPIF – FW Capital
Debt Finance

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

ABSOLUTE ANTIBODY

Absolute Antibody specialises in the sequencing, engineering and recombinant production of antibodies and offers related protein engineering services.

Now based in the Tees Valley, Absolute Antibody initially operated from offices and labs in Oxfordshire, but as it expanded moved its UK labs to the Wilton Centre, Redcar. In 2018, the company doubled its lab space, increased its staff to 30 and expanded into the USA through a merger with Kerafast Inc, based in Boston, Massachusetts.

The management team, led by Nicholas Hutchings, has now added a third production line at their Wilton Centre laboratory to ensure capacity for growth. The six-figure investment from NPIF – FW Capital Debt Finance will also be used to upgrade its IT and lab management software and create five new jobs.

Manchester
£400,000
NPIF – FW Capital
Debt Finance

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

GENIUS GROUP

Manchester-based Genius Group has developed a state-of-the-art HR system for candidates and employers which streamlines the recruitment process via an app and backend portal. It takes only a few minutes for candidates to upload their information and be matched to suitable roles. Employers benefit from a backend solution with built in AI that selects suitable applicants. The system also offers a video interviewing facility and produces employment documentation and contracts.

They received a £400,000 loan from the NPIF – FW Capital Debt Finance Fund in early 2020 to hire five members of staff and to support marketing, advertising and ongoing product development.

"Our products significantly reduce recruitment costs and time. For example, we know from working with Leeds Teaching Hospital that we can significantly reduce the time it takes to recruit new staff from an average of 90 days to just 18. FW Capital were diligent in their approach before investing, showing real interest in us as a business. They believe in our vision."

CENERGIST

Cenergist is a specialist energy and water efficiency company working across the UK, Europe, India and Middle East to help public and private clients achieve energy, water and financial savings.

A long-time supporter of Cenergist, FW Capital first provided a £350,000 mezzanine loan through the North East Growth Plus Fund in 2015, which enabled it to become the exclusive distributor of a money – saving smart shower device.

In 2017 the expanding company then secured a £515,000 investment from NPIF – FW Capital Debt Finance, managed by FW Capital and part of the Northern Powerhouse Investment Fund, to set up a new office in the Tees Valley and create new jobs and revenues.

A further £235,000 loan from NPIF – FW Capital Debt Finance in 2018 was provided to support Cenergist's plans to expand its remit further into turnkey solutions of lighting upgrades to low-cost LED for commercial entities. As well as the development of a new revenue stream, the funding will enable the company to create additional jobs.

In 2019 Cenergist received its fourth FW Capital investment – £750,000 of growth capital – to launch new revenue streams, scale-up, deliver new contracts, create eight new roles and open a call centre in Billingham.

Cenergist operates from offices in Billingham, Teesside, Washington, Tyne and Wear, and London. It has three subsidiaries based in Spain, The Netherlands and India focussed on delivery to local markets, 31 staff in the UK and three divisions – Energy Infrastructure, Consulting and Water Services.

The investment brings the total amount of funding to £1.85 million.

"Our fantastic partnership with FW Capital has stood the test of time. From the first investment they made into Cenergist in 2015, to the most recent £750,000 funding, FW Capital have truly understood our business and helped us to reach our ambitions and generate significant turnover."

Tees Valley
£750,000
NPIF – FW Capital
Debt Finance

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

WILTON ENGINEERING

Wilton Engineering Services Ltd specialises in building large, often complex, structures and is successfully diversifying from oil and gas into the renewables market.

The company has benefited from £3.4 million in bond finance through the Tees Valley Catalyst Fund since 2014, helping them win contracts valued at over £55 million.

In 2014 a £33 million contract was awarded to Wilton by Conoco Phillips. They subsequently won an £17 million contract in 2017 to deliver 21 transition pieces for Ørsted, which will be installed as part of the Hornsea One Offshore Wind Farm.

The latest loan from the fund has allowed the company to take on additional employees to support the completion of a £2.5m contract.

"We are extremely pleased to secure capital bonding through FW Capital. 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."

Stockton on Tees
£250,000
Tees Valley Catalyst Fund

Tees Valley Catalyst Fund

BELL BLUE

County Durham property developer Bell Blue borrowed a six-figure sum from the North East Property Fund to support a small development of family homes in Bishop Auckland.

Matt Houghton, Director of Bell Blue Ltd said the loan helped turn their designs into a reality for locals.

With beautiful views across the open countryside, the four homes are being built to a high standard by local tradesman using stone from nearby quarries.

"We enjoyed designing and building these four, much needed family homes. Thanks to the support of FW Capital they were working to complete them with high-quality fixtures and fittings, ready for local families to move in."

With beautiful views across the open countryside, the four homes are being built to a high standard by local tradesman using stone from nearby quarries.

Bishop Auckland
£undisclosed
North East Property Fund

North East Property Fund

Barnard Castle
£690,000
North East Property Fund

North East Property Fund

ONE NORTH PROPERTY

One North is a North Yorkshire based residential development company, specialising in new build homes and barn conversions in rural locations.

The business secured a short-term loan of £690,000 from FW Capital's North East Property Fund to finance the construction of three homes in the rural village of Whorlton, near Barnard Castle, County Durham.

The four-bedroom barn-style homes are now complete and comprise of over 2,000 sq. ft. including single garages and spacious gardens. This was the first project the North East Property Fund had funded in Teesdale and highlighted how the fund can provide smaller construction firms with the investment to build vital new housing in rural areas.

"As a developer, we are committed to building quality homes in the finest locations in the North East. We're proud to be employing quality local contractors from local towns and villages and are grateful to the FW Capital and the North East Property Fund for supporting this project."

WORKING WITH THE WELSH GOVERNMENT

The Development Bank of Wales is here to enable the Welsh Government to deliver its policy objectives across Wales.

The Group enjoys a positive and productive relationship with representatives of its sole shareholder, the Welsh Government, at all levels. Led by the chair and chief executive, the Group works closely with elected representatives and senior officials, ensuring that Group activities are aligned with and in support of government priorities in respect of business and the economy, housing and tourism. Operationally, colleagues work closely with their counterparts in Business Wales, providing funding to support the growth aspirations of Welsh businesses in the context of the wider business support landscape.

Ken Skates

Minister for Economy, Transport and North Wales

"This year's record results demonstrate the crucial role the Development Bank of Wales has in supporting businesses across the country and I am delighted to see a near 30% increase in investments.

"These figures are a true testament to the value the Development Bank is adding to our economy and the vibrant business landscape we are fostering here in Wales.

"Our focus on developing a comprehensive and diverse package of business support through mechanisms like the Development Bank and Business Wales is absolutely vital to enhancing our economic resilience.

"And as we plan our recovery from the impact of Covid-19 and work to build back better, the Development Bank's work to provide the fast, flexible and responsive support Welsh business requires will be more important than ever in driving the inclusive growth we want and need."

Julie James

Minister for Housing and Local Government

"The Development Bank of Wales continues to help us to develop and deliver our innovative schemes to support the housing sector. These range from Help to Buy-Wales giving people access to new build homes and supporting jobs in the sector, to those targeted at small and medium Welsh housing construction companies.

"The in demand Property Development and Stalled Sites funds are helping small and medium businesses unlock sites and access affordable finance to build more homes across the country. Self Build Wales is enabling more people to overcome barriers to building their own homes as an affordable option and has been declared by the National Custom and Self Build Association (NaCSBA) as "the most comprehensive scheme in any of the four regions in the UK".

Rebecca Evans

Minister for Finance and Trefnydd

"At a time of national crisis, having access to the right financial help and support from an experienced investor has been essential for business across Wales.

"The Development Bank of Wales has played a critical role in helping us deliver the most generous package of support for businesses anywhere in the UK, providing much-needed financial help to thousands of SME's across Wales.

"As we beginto plan ahead the Development Bank of Wales will continue to play an instrumental role in our restart and recovery programme."

Llywodraeth Cymru
Welsh Government

S172 STATEMENT BY THE DIRECTORS

S172 Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

In discharging its s172 duties, the Board has regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. By considering the Group's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does, however, aim to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to Senior Management to set, approve and oversee execution of the Group's strategy and related policies. The Board, acting on its own account and through its committees, reviews matters relating to financial and operational performance; business strategy; principal risks; stakeholder-related matters; compliance; and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at Board meetings and regularly reviewing aspects of the Group's strategy.

The Board has made several key strategic decisions during the year ended 31 March 2020 where due consideration was given to the Group's key stakeholders, including:

Establishment of a Covid-19 response fund.
During March 2020, the Group worked with its shareholder to set up the £100m Covid-19 Wales Business Loan Scheme as part of the Welsh Government's £500m Economic Resilience Fund to provide funding support to Welsh businesses affected by the lock down in response to Covid-19.

The fund raising was completed pre year end and the fund was launched during April 2020.

During March, the Board considered potential demand and other funders' actions, whether existing funds could cover this need or if there was a requirement for a new fund and also how existing operational processes would need to change rapidly to a model whereby colleagues and many customers were working from home and secondly, in anticipation of a significant increase in the volume of applications for funding.

Implementation of the Group's digital transformation programme.
The Board is committed, through the increased use of technology solutions, to improving customer service and increasing accessibility to DBW by current and new customers. In turn, operational changes will remove duplication and increase efficiency.

Digital transformation is a significant rolling programme that will improve the overall experience of our customers by broadening the range of engagement options whilst facilitating increased flexible working for our colleagues. Digital transformation is central to the delivery of the Group's commitment to delivering its vision of "best in class operational efficiency with a human face".

The Board considered the programme requirements, timeframes for implementation, budgeting, procurement challenges and conflicts of interest with potential suppliers.

Investigation of new funds investing in decarbonisation projects.
At its strategy day, the Board considered new potential gaps in the funding market. A new market gap was identified relating to funding for decarbonisation projects across Wales. This is an important policy area for the Welsh Government under the Well-being of Future Generations (Wales) Act 2015 and Wales' target to cut carbon emissions by 95% by 2050. The Board agreed to allocate resource to investigate with its shareholder the potential to set up commercial funds in this area.

Engaging with stakeholders

The Group has a number of key stakeholder groups with whom it actively engages. Listening to, understanding and engaging with these stakeholder groups is an important role for the Board in setting strategy and decision-making. The Group recognises its obligations and requirements to be a well-controlled financial services business, compliant with regulation and delivering good customer outcomes.

Our customers

As a subsidiary of the Welsh Government, it's important that, through our customer interactions, we take a lead and seek to address the biggest challenges facing Wales and the wider world.

Our approach to this is framed within the Well-being of Future Generations (Wales) Act 2015. We provide sustainable and effective finance, complementary to the private sector with strong governance and oversight.

Building on our responsible investment track record, this year we broadened the measurement of our impact across four impact themes:

- Prosperity and global opportunity;
- Innovation and digitalisation;
- Decarbonisation and environment; and
- Communities, health and social inclusion.

Within these themes are metrics mapped to the UN's Sustainable Development Goals and the Well-being of Future Generations (Wales) Act 2015. Data collected this year will provide baselines and enable us to track long-term trends. It will enable us to demonstrate the impact of our activity more widely than before, helping to highlight how our funding can be the catalyst for customers to deliver their growth aspirations whilst creating diverse positive impacts in Wales.

Our stakeholders

Working in partnership with stakeholders is a core brand value.

An example of working with our stakeholders to bring about real, lasting change is Economic Intelligence Wales' work on understanding the Welsh economy. This has included quarterly reports which act as a health monitor for the Welsh economy and bespoke reports that look at specific Welsh economic, business and finance-related issues.

The Development Bank sponsored the Business Award at Womenspire 2019, demonstrating our support for women entrepreneurs. We have also continued our contribution to the Supporting Entrepreneurial Women Advisory Panel, by hosting all meetings of the panel as well as through identifying and implementing actions from the Good Practice Guide.

Our environment

The Board recognises the financial risk from climate change arising from both the physical risks of, for example, extreme weather events and the transitional risks associated with the adjustment towards a low carbon economy, such as the emergence of disruptive technology and the shift in societal preferences. Moreover, the Group must consider its own environmental impact.

The Group's strategy in this critical area is developing along a number of paths. Investment and portfolio procedures are evolving to take suitable account of climate change risk and we are considering how new funds might better support the transition to low carbon by Welsh businesses. We are broadening the range of impact data we collect and are seeking to quantify the Group's carbon footprint and implement strategies to reduce it where practicable.

This year we started the process of reassessing our use of office space. By reducing paper usage, changing working behaviours and working with Collecteco, we donated 97 items of office furniture to the YMCA in Cardiff. Donations diverted 4,967kg from landfill and amounted to £26,000 of in-kind funding donated into the local community. The CO2 emissions averted by reusing these items was 23,946KG CO2e.

In reassessing our use of office space we implemented systems to enable higher quality remote working capabilities. The introduction of software such as Microsoft Teams and updating processes for remote working have reduced the travel needs of our colleagues across Wales, reduced paper usage by 252KG per month and enabled us to keep working during the global pandemic.

We remain committed to minimising our energy consumption throughout our offices. Our Cardiff office is listed as BREEAM very good for its energy and waste efficiency, and our headquarters in Wrexham has a C rating for energy performance. We also use LG3 and LG7 lighting for efficient lighting of our office space.

Our communities

'Responsible' is a core value of the Development Bank of Wales and it will continue to influence our operating model as we address a number of global challenges outlined by the UN's sustainable development goals. We play our part in addressing the global challenges facing Wales by ensuring the principles of the Well-being of Future Generations (Wales) Act 2015 are embedded throughout the Development Bank.

We are long-term members of Business in the Community (BITC) Cymru and proactively draw on their support to improve our credentials as a responsible business.

The Group continues to create an impact across its six key pillars of responsible business: delivering impact not only to customers and stakeholders, but also to suppliers and colleagues, as well as in support of the environment and our community.

Our funding supports directly the economic development of the regions we operate in, creating and safeguarding jobs and stimulating local supply chains.

We have raised over £39,000 for our charity of the year, Alzheimer's Research UK. This has been achieved through a variety of fundraising initiatives, including:

- Cardiff charity ball
- Newcastle charity ball
- Cardiff quiz
- Cyclone24
- 24-hour Ergo row challenge

We have a long running community outreach programme. During the year, a team from the Cardiff office facilitated an Enterprise Workshop with pupils at Herbert Thompson Primary School in Ely, Cardiff. The workshop helped improve pupils' awareness, aspirations and attitude towards the world of work.

For the fifth year running, Development Bank colleagues donated Christmas presents and food hampers to over 110 children and young adults through the charities NSPCC and Barnardo's.

Our suppliers

Responsible selection and management of suppliers allows us to build strong, beneficial relationships. 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 our own growth and our ongoing digitalisation programme.

During the year, we commissioned the Wales Co-operative Centre, under its Social Business Connect consultancy service, to undertake a review of the social business supply chain opportunities for the Development Bank.

Our shareholder

The Group enjoys a positive and productive relationship with representatives of its sole shareholder, the Welsh Government, at all levels. Led by the chair and chief executive, the Group works closely with elected representatives and senior officials, ensuring that Group activities are aligned with and in support of government priorities in respect of business and the economy, housing and tourism. Operationally, colleagues work closely with their counterparts in Business Wales, providing funding to support the growth aspirations of Welsh businesses in the context of the wider business support landscape.

Our colleagues

Our people are our greatest strength and work hard to deliver our funds and services for the benefit of Wales. As an employer we offer a proactive training and development strategy alongside a robust wellbeing focus. The Development Bank of Wales Group encourages and supports employees to develop their career with 15% of people achieving a promotion in 2018/19. In 2019/20 a structured career development path for colleagues within investment teams has been implemented which will be a key driver in attracting and retaining the right people to deliver the future growth of the organisation.

Our commitment to developing our colleagues has seen a significant uplift in external and internal training this year including company-wide training such as Dignity and Respect at Work sessions, Microsoft Teams and Power BI training.

Overall, training days have almost doubled from 671 in 2018/2019 to 1,170 in 2019/20. Taking into account our increased headcount this year, this equates to an average of 5 days training per colleague (3.5 in 2018/2019).

The Development Bank of Wales is committed to ensuring a planned approach to provide a healthy, happy work environment. This supports colleagues in maintaining and enhancing their personal health and wellbeing in work and includes financial awareness, mental health and physical health. The Group works with colleagues, including those with disabilities, to adapt work practices in order to help them work effectively within the business.

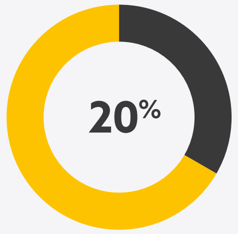
Our colleagues (continued)

The following wellbeing initiatives took place during the year:

- Introduced a wellbeing calendar
- Offered free blood pressure checks: 82 colleagues used this service
- 104 flu jabs were provided, leading to a 74% reduction in days lost to flu compared to the previous year
- 130 back massages were provided during "back care awareness week"
- A trial of yoga in the office
- Introduction of a mental wellbeing policy
- Trained 10 volunteers to be mental health first aiders
- Provided free fruit to all offices
- Dignity and respect at work training for all colleagues
- Seminars from Carefirst and BUPA to raise awareness of their services
- Resilience workshop for senior managers

Last year we joined Chwarae Teg's FairPlay Employer programme as part of our drive to be an employer of choice, and we achieved bronze level award. The feedback was that we needed to work on internal communication, reward and recognition and training and development. We have worked hard to improve in all of these areas and are delighted that our efforts have been recognised this year through a silver level award.

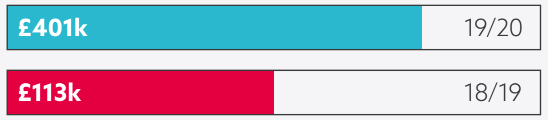
We have continued our contribution to the Supporting Entrepreneurial Women Advisory Panel and Finance and Professional Services sub-group.



Over 20% of our External Recruitment was to the Wrexham HQ which, at 40 staff, is fully on track to meet the Pan Wales Strategy to reach 50 by 2021.

New HR and finance initiatives rolled out aimed at improving colleagues experience, removing administrative burden in the production of reports and form filling and reducing the amount of paper used across the Group.

A dedicated programme aimed at supporting employees.



Total training costs increased by 75% to £401k (an additional cost of £228k on the previous year) reflecting a focus of new recruits and people in new roles, as well as our ongoing commitment to develop our workforce.

73

28

Record recruitment to meet business growth with **73 new recruits and 28 internal moves**.

Team development and management well-being training was carried out with a specific focus each month.

Succession training for senior management was delivered.

Strategic report
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IMPACT INVESTMENT

The Global Impact Investing Network defines impact investing as:

"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

The Development Bank of Wales invests for impact. As a long-term provider of loans and equity investments to the micro to medium business community, we believe that small businesses and entrepreneurs rooted in the community can be part of the solution to local and global issues. Our funds are targeted at businesses not wholly supported by commercial or mainstream financial service providers. As we continue to deliver European and other public sector funds, our fundraising and investment strategies have at their core, a focus on supporting businesses who will have a positive role in tackling the economic, social and environmental challenges facing Wales.

Historically, we have measured the impact of our investments through volumes of direct investment, private sector investment and job creation and safeguarding. In 2019 we developed and implemented a revised impact framework, broadening our mechanisms for evaluating and measuring impact, aligned to the UN Sustainable Development Goals, Well-being of Future Generations (Wales) Act 2015 and the Calls to Action in the Welsh Government's Economic Action Plan.

To enable an initial understanding and benchmarking of the impact delivered by businesses receiving funding from the Development Bank, customers were asked to complete an impact questionnaire requesting information on a broad range of topics related to our four impact themes. This data has improved our understanding and helped us develop future initiatives to increase our impact.

Developing our model to measure and manage impact is a long-term project which we are committed to further develop and refine in future years.

Prosperity and Global Opportunity

Communities, Health and Social Inclusion

Decarbonisation and Environment

Innovation and Digital Inclusion

IMPACT INVESTMENT (CONTINUED)

Prosperity and Global Opportunity

This theme helps us measure how our customers and our loans and investments impact economic growth, and the distribution of this growth, for a more prosperous Wales with a vibrant culture.

LSN Diffusion

On-going support helps high-tech metal business grow exports.

LSN Diffusion (LSN), a metallurgical business uses cutting-edge technology to manufacture high alloy atomised powders used in high-tech industrial applications including automotive, oil and gas exploration, heat recovery, hollow-ware glass production, defence and aerospace.

In 2012, LSN benefitted from £350,000 in start-up funding from the Development Bank of Wales, this was followed by a £1.25 million loan in 2019.

They now export more than 90% of production to markets in North America, the Far East – particularly Japan and Korea – and throughout the European Union.

12%

of respondents export, contributing £135,800,000 to Welsh exports.

50%

of Full Time Equivalents (FTEs) in businesses we support are in median to high pay brackets.

58%

of annual loans and equity investment by value and 60.6% by volume were provided to businesses in the West Wales and the Valleys area.

79%

of FTEs of businesses receiving equity are in median to high pay brackets compared to 48% for those receiving loans.

Our commitments:

1. We will encourage more customers to consider the growth opportunities available to their business through exporting by offering an exporting masterclass.
2. We will raise awareness of the benefits of equity investment by developing and implementing a campaign, targeting businesses with growth potential and their advisors.
3. We will continue our focus on investment into West Wales and the Valleys (ERDF definition).

IMPACT INVESTMENT (CONTINUED)

Communities, Health and Social Inclusion

We want to improve financial inclusion and make investments that address societal issues and so metrics captured under this theme are aimed at measuring our impact on creating a more equal and healthier Wales of cohesive communities.

Modest Trends

Micro loan helps female entrepreneur open Muslim modest fashion outlet.

Cardiff-based retail company Modest Trends specialises in importing and selling high-end abayas and hijabs from the Middle East. The company was founded by 42-year-old Rifhat Qureshi and caters to Muslim women looking for fashionable, modest clothes.

Their ranges are targeted at young Muslim women aged 16-35. These women are more likely to be in work and have disposable income compared to their mothers or grandmothers and want to wear clothes that represent their spiritual values and cultural identity, whilst also being fashionable.

Rifhat borrowed £12,000 to help with the costs of opening a physical store, allowing her customers to try on a variety of styles before buying. Before her shop opened in Cardiff, the closest physical shops for Welsh Muslim women to visit were in London and Birmingham.

Our investment helped a business woman turn her ambition into reality, whilst offering a new and in-demand service to Welsh Muslim women.

29%

of owners/directors/shareholders in the businesses we supported are female.

3%

of owners/directors/shareholders in the businesses we supported are BAME.

1%

considered themselves to have a long-term disability.

70

Development Bank of Wales property loans supported the build of 70 affordable housing units. (19/20)

Our commitments:

1. We will support female entrepreneurs by working in partnership with organisations like the Female Entrepreneur Network and Chwarae Teg.
2. We will review barriers to entrepreneurship for people under 25, including graduates and develop initiatives.
3. We will work with representative groups from BAME communities to create business networking and development opportunities.

IMPACT INVESTMENT (CONTINUED)

Decarbonisation and Environment

The climate emergency requires action, and the metrics captured under this theme inform our impact on decarbonisation of the economy for a more globally responsible Wales.

Community Energy in Pembrokeshire

Pembrokeshire community moves to zero carbon energy following Local Energy Fund loan.

Community Energy in Pembrokeshire received a £1.47 million loan from the Local Energy Fund in 2020 to help complete a community wind turbine project at Prouts Park, East Williamston. The project had obtained a feed-in tariff rate, but needed to complete within a short time frame in order to secure it.

The community turbine's 900 KWh feed-in to the National Grid should generate enough power to supply the equivalent of 665 households, and save roughly 18,000 tonnes of CO_2 from entering the atmosphere in the first 20 years of its operation.

As well as producing renewable energy for local communities, Community Energy in Pembrokeshire will invest any surpluses arising from the turbine generation in activities to generate social benefit in the surrounding area

Since the annual report was written a community benefit society was set up – Renewable Power Pembrokeshire – to deliver a community share offer with a 4% return in September 2020. This will enable the public to buy shares in the turbine and join the society as members. More details here: communityenergypembrokeshire.org

70%

of our customers who reported energy data were able to choose their energy supplier.

44%

of that energy came from renewable sources.

7%

of those businesses sourced all their energy from renewable sources.

33%

The UK average for renewable energy in the supply is 33%.

Our commitments:

1. To understand how SME's value and make investment decisions relating to decarbonisation, Economic Intelligence Wales will commission primary research, consulting with and surveying owner/founders. The research will explore areas such as the extent to which climate change influences investment decisions, barriers to this and green finance vehicles.
2. We will mobilise an internal review group to develop products or services aligned to the decarbonisation agenda.
3. We will identify areas in which we can improve in our operations by reviewing our practices in relation to decarbonisation.

IMPACT INVESTMENT (CONTINUED)

Innovation and Digital Inclusion

The metrics under this theme will help us measure how our businesses are innovating, adapting and growing for a more resilient Wales.

Pinpoint Scientific

Microbiological monitoring business is creating new patented technology.

Bridgend-based Pinpoint Scientific provides microbiological environmental monitoring products. These technologies are vital for continual monitoring of cleanrooms for the reduced contamination. Their products and services include constant air monitoring, standardized ISO-14698, compliant monitoring and products for contamination control.

Pinpoint Scientific received nearly £250,000 in equity investment from the Wales Technology Seed Fund. Pinpoint Scientific has created new to market and new to firm products and has recently announced a new distributor for the Nordic Regions as it continues to export. Pinpoint Scientific, with help of our investment, is creating an impact across our Innovation and Digital Inclusion and Prosperity and Global Opportunity themes.

Our investment provided cash flow for continued development and meeting orders during the period of transition from the European Union.

41%

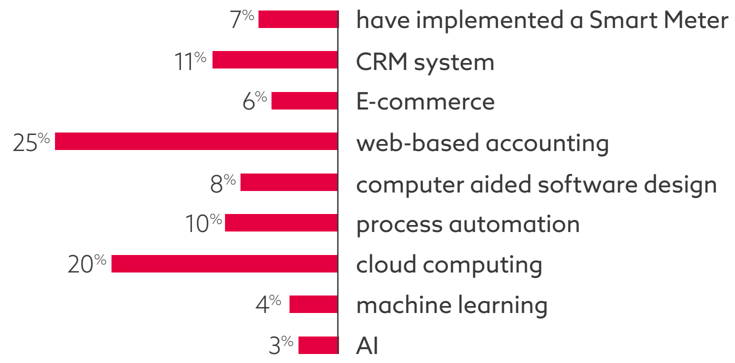
of respondents were actively digitalising their business.

31%

were actively innovating

4%

of businesses have registered patents.



Our commitments:

1. We will encourage our customers to improve their efficiency and opportunities for innovation by offering a masterclass, "Investing in your business model"

Data disclosure

We rely on self-reporting for a number of measures, this means some of our datasets are incomplete or may have errors. In the period starting 7 July 2019 to 31 March 2020, 728 businesses returned impact of investment forms. A number of these were removed from the sample due to poor quality data.

The end result is a sample of 705 businesses which reported data to us. Metrics are derived from a range of sources recognised by the impact investment market. For more information about our performance and impact metrics please visit developmentbank.wales/about-us/performance-and-impact

CFO STATEMENT

Our financial year: High-level review

In the last two years' annual reports we presented a new analysis of the Group's financial performance following a request for a more transparent presentation of financial information from the National Assembly for Wales Economy, Infrastructure and Skills Committee.

David Staziker
Chief Financial Officer

In order to provide clarity on, what is an increasingly complex organisation we have formatted the report by;

- describing the two primary and distinct activities of the Group and how they generate revenues and incur costs;
- summarising the revenues and costs at a combined level and then showing how these break down between these two activities;
- comparing performance year-on-year for each activity; and
- comparing the Group's operating costs with its revenue

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.

What does this part of the business do?

Services

This includes fund management services such as investing and collecting repayments of the funds business and providing management information for both our own Funds (opposite column) and external party funds. 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.

Funds

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 income?

Services

Revenues include fees received for fund management and fund holding services.

Funds

Revenues include fees, interest received on loans, receipts when shares are sold and gains or losses on investments which are revalued at the year end to their current (fair) value.

What costs does it incur?

Services

Costs include: staff, estates and bought in services (such as IT).

Funds

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?

Services

An annual review will show whether this part of the group is covering its operational costs.

Funds

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. Fund results include volatility caused by year on year movements in assets held at fair value which are estimates and unrealised. An annual review of the aggregated position of all our funds is not an effective way of assessing an individual fund's performance.

Segmental Group performance analysis

Table A: High-level analysis of FY20 and FY19 Consolidated Income Statement

	FY20			FY19		
	Services	Funds	Group	Services	Funds	Group
	£m	£m	£m	£m	£m	£m
Revenue	30.9	45.7	49.1*	25.9	37.1	40.4*
Operating Costs	-26.7	-22.5	-21.7*	-23.0	-18.1	-18.5*
Provisions made	0	-10.8	-10.8	0	-2.3	-2.3
Changes in fair value	0	-32.8	-32.8	0	-29.7	-29.7
Surplus/(deficit)	4.2	-20.4	-16.2	2.9	-13.0	-10.1

*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 £16.2m Group deficit (FY19 £10.1m deficit) figure for FY20 includes the £4.2m (FY18 £2.9m) surplus from the services business and a £20.4m deficit (FY19 £13.0m deficit) from the funds business.

The surpluses and deficits for the services and funds businesses are explained in more detail in tables (B) and (C) respectively.

In the consolidated income statement, the Group's surplus is analysed between a £16.3m deficit (FY19 £10.5m deficit) attributable to equity shareholders, the Welsh Ministers, and a £0.1m (FY19 £0.4m) surplus attributable to Non-controlling interest. This represents the share of the funds business's surplus that is due to Clwyd Pension fund as a result of their equity investment this year into the Wales Management Succession Fund. See Table C and associated note for details.

Performance of our service businesses

Our services businesses are where the operating costs are incurred.

Table B: Services FY20 and FY19 Income Statement analysis

	FY20	FY19	Commentary
	£m	£m	
Fund management income	30.9	25.9	Increase is primarily a result of either new Funds under management or the full year effect of new funds that came under management during FY19.
Total revenue	**30.9**	**25.9**	
Staff costs	-13.0	-10.5	Increase is primarily a result of increased workforce levels to deliver increased level of funds. The average number of staff employed during FY20 and FY19 was 218 and 183 respectively
Other costs	-13.7	-12.5	Increase in line with additional infrastructure and operating costs arising from the growth in funds under management
Total costs	**-26.7**	**-23.0**	
Surplus of income over costs	4.2	2.9	

Surplus and sustainability

It should be recognised that the surplus noted above is not available for distribution. It is already earmarked as part of the Development Bank of Wales Group's build-up of operating cash reserves and £52m contribution requirement between 2020 and 2024 into the Wales Business Fund and Wales Flexible Investment Fund alongside the legacy returns from these funds and other funds in realisation mode such as the Wales JEREMIE fund and the Wales SME fund. These legacy returns from the Wales JEREMIE Fund and Wales SME Fund amount to c. £19m as at 31 March 2019 (£14m as at 31 March 2019).

As shown in table B, the surplus generated by the service businesses increased by £1.3m (45%) from FY19. A surplus in FY20 of £3.0m was forecast in the Development Bank Annual Business Plan and approved by Welsh Ministers to enable the group to continue to build up operating cash reserves. These reserves will allow the group to operate without Grant in Aid from the Welsh Government and remain self-funding, a key objective of the Development Bank of Wales and Welsh Ministers. We can forecast the services business income and expenditure with reasonable certainty for the next 3 years which show the services business remains in a cumulative surplus position and so in the Directors' Report we are able to make our long-term viability statement over the next 3 years irrespective of whether our funds business is in surplus or deficit.

The reported £4.2m surplus noted in Table B above is £1.2m higher than planned due to expenditure profiling. The transformation into the Development Bank of Wales is a three year programme. These associated transformation costs have been incurred later than originally planned including recruitment and investment in ICT Infrastructure.

All of the surplus noted in Table B on the previous page is due to the Group's equity shareholder, the Welsh Ministers.

Performance of our funds business

The Development Bank of Wales Group receives funds from investors (mainly 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 17 investment funds that the services business manages, the £50m investment into the Wales Life Science Investment Fund (WLSIF) and the Help to Buy – Wales shared equity loan fund ("HTB-W").

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

Table C: Funds FY20 and FY19 Income Statement analysis

	FY20 £m	FY19 £m	Commentary
Fees received	4.2	3.5	Increase is in line with the increased size of the debt and equity investment book.
Dividends and interest income	8.4	6.9	Increase is in line with the year on year increase in the debt book.
ERDF Grant release	29.5	25.4	Increase reflects a higher level of investment, particularly in the West Wales and the Valleys regions for the Wales Business Fund (see note below).
Equity realisations	0.7	0.6	This increase reflects fewer better quality exits in FY20 compared to FY19 with the 3 exits (FY19 7 exits) representing a blended cash on cash return of 2.1 times in FY20 (FY19 1.2 times).
Net Treasury	2.9	0.7	Increase principally reflects the higher average cash balances held over FY20 together with improved treasury interest rates achieved.
HTB-W Fair value changes:			
• Realised gain on disposal	3.2	1.4	Increase reflects growing size and maturity of HTB-W book
• Unrealised fair value (loss)/gain in year	-27.7	26.8	See comment below
• Decrease/(increase) in amount owed to principal shareholder	24.5	-28.2	This is the sum of the above realised and unrealised gains/losses which is subtracted from/(added to) the amount owed to the Group's principal shareholder.
• **Net HTB-W fair value change recorded in income statement**	**0**	**0**	
Total Net Income	**45.7**	**37.1**	
Provisions made	-10.8	-2.3	See comment below.
Non consolidated fund fair value losses	-5.4	-14.8	This loss represents the movement in the fair value of the original £50m investment into the Wales Life Science Investment Fund. See comment below.
Other fair value losses	-27.4	-14.9	See comment below.
Fund Management fees paid	-20.7	-17.0	Increase reflective of additional funds under management.
Other costs	-1.8	-1.1	Increase in line with for the growth in funds managed.
Total Costs	**-66.1**	**-50.1**	
Deficit	-20.4	-13.0	
Deficit attributable to equity shareholder	-20.5	-13.4	This represents the share of the funds business's deficit due to the shareholder, the Welsh Ministers.
Surplus attributable to non-controlling interest	0.1	0.4	This represents the share of the funds business's deficit that is attributable to Clwyd Pension fund as a result of their equity investment this year into the Wales Management Succession Fund (see note below).

Table C shows that the funds business generated a deficit of £20.4m this year as compared to a deficit of £13.0m in the prior year. The main reasons for the change in performance is the impact of Covid-19 resulting in an increase in provisioning and fair values losses in FY20 set off against the higher EDRF grant release and interest/treasury income.

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, which started investing during August 2016, in line with the level of investments made in a year.

Provisions – impact of Covid-19

The FY20 number reflects the impact of Covid-19 from March 2020 on the calculations for impairments on loans. Under IFRS 9 loan loss provisions are based on expectations for future losses, not just on losses which occurred during the year. As disclosed in Note 3 to the Financial Statements, the FY20 provision of £10.8m includes significant adjustments for the impact of Covid-19. These adjustments amount to an increase in loss allowance provisions of £9.7m. Excluding the impact of Covid-19 the loss provision is less than the prior year provision of £2.3m, despite the year on year growth in the debt book, as a result of improved default performance until the Covid-19 lockdown.

Other fair value losses/ gains – impact of IFRS 9

Under IFRS 9 changes in the fair value of equity investments are shown in the income statement. The main reason for this £27.4m (27% decrease in fair value) charge this year is the impact of Covid-19 on equity valuations during March 2020. The FY19 charge of £14.9m was principally a result of a one off £20m reduction in value of DBW's investment in Diurnal following the publishing of poor clinical trial results offsetting an otherwise net fair value gain across the equity portfolio.

An important consequence arising from the inclusion of the fair value of equity investments into the consolidated income statement since the implementation of IFRS 9 from FY19 is the Group surplus or deficit will inevitably be much more volatile year on year than seen historically depending on how the valuations of these equity assets changes.

Wales Life Science Investment Fund ("WLSIF")

Under IFRS 9, the investment in the WLSIF is now held in the financial statements at fair value. Of the £50m investment in this fund, £20.4m had been repaid as at 31 March 2020 (FY19 £20.4m). The fair value of the outstanding investment as at 31 March 2019 was £16.6m. At 31 March 2020, this fair value decreased by £5.4m to £11.2m principally as a result of the impact of Covid-19 on the fund's underlying equity valuations.

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

From Table C, you will note that there are significant movements in the unrealised fair value of these assets which are very sensitive to changes in the house price index and the discount rate used in the calculation. The net £24.5m unrealised loss transferred to Welsh Minsters in FY20 as opposed to a £28.2m unrealised gain transferred in FY19 is a result of the impact of Covid-19 on the future house price index assumptions in the valuation model. We expect these gains (or losses) will remain volatile moving forward as a small change in either the index or discount rate can cause a significant change in the fair value gain or loss. See notes 3 and 19 to the financial statement for further details of this valuation.

Non-controlling interest

The £10m investment into the Wales Management Succession Fund by Clwyd Pension Fund (of which £3.1m has been drawn down and invested and £0.7m repaid by the fund as at 31 March 2020 (FY19 £2.6m invested with £nil repaid) is the first external equity investment made into one of the Group's Funds. It matches £10m of funding from Welsh Ministers and £5m of funding from the Group itself. Under accounting rules, this fund is deemed to be controlled by the Group and so must be included in the Group financial statements. Since the fund is not fully funded by the Group, accounting rules require us to disclose the portion of the fund attributable to the external investor in the Consolidated Balance Sheet under the heading "Non-Controlling Interest" within the Equity section. Similarly, we also disclose the profit attributable to the external investor separately in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income.

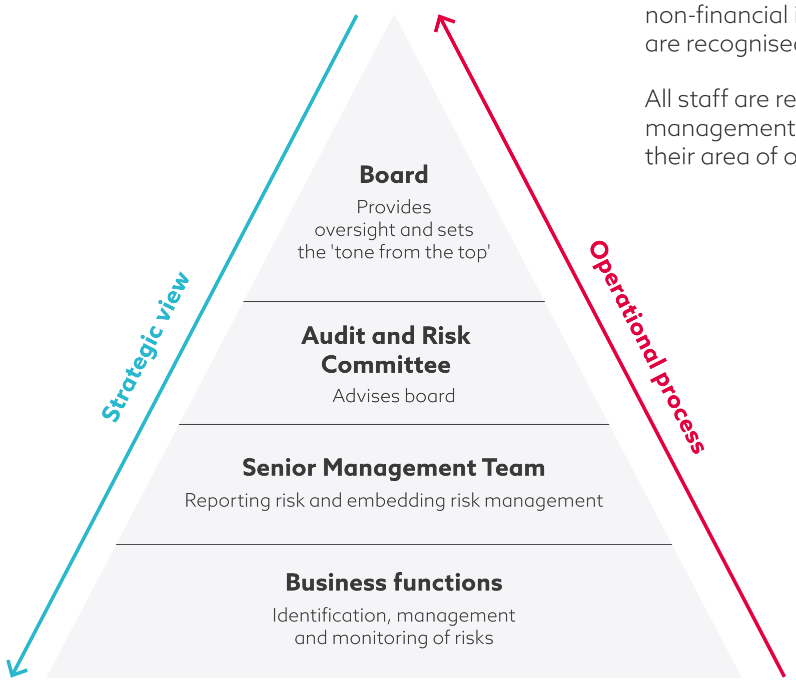
RISK MANAGEMENT AND INTERNAL CONTROL

The Development Bank of Wales Group (the Group) operates a relatively straightforward business model, delivering generally simple products and services. It operates within the UK retail and commercial financial services market. As a gap funder to support the growth aspirations of micro to medium-sized businesses and homeowners, the Group accepts a greater degree of financing risk than commercial providers of finance are typically prepared to tolerate.

The Group Risk Management and Assurance Policy sets out the Group's approach to this important area of governance, key responsibilities, the risk management framework and the assurance framework through which the Board ensures effective design and operational effectiveness of the Group's internal control system.

Due to the nature of its activities the Development Bank of Wales plc is not authorised or regulated by the Financial Conduct Authority (FCA) or the Prudential Regulatory Authority, although three of its subsidiaries with assets representing less than 2% of the portfolio are regulated by the FCA. The rest of the Group is exempt from regulatory supervision.

The Development Bank of Wales plc is however subject to other applicable laws and regulations and has a suite of policies and procedures in place to ensure compliance with the regulatory environment, including Financial Crime, Anti-Bribery and Corruption, Anti-Fraud, Whistleblowing, General Data Protection Regulation ("GDPR") and the Freedom of Information Act.



Role of the Board

The Board's role is to ensure the Group has a medium term strategy consistent with the remit set by the Welsh Government and that there exists effective and entrepreneurial leadership within a framework of prudent and effective control which enables risk to be assessed and managed. The Board has overall responsibility for risk management and is supported by the Audit and Risk Committee in performing this role (see the Audit and Risk Committee Report for details of this committee's purpose and responsibilities with respect to risk management and internal control).

The Board is responsible for ensuring that there is an appropriate mix, both on the Board and within the wider Group, of expertise, knowledge of the business, financial experience, technical knowledge and external perspectives.

The Board sets the Group's risk tolerances to identify and define the types and levels of risks it is willing to accept in pursuit of the Group's strategic objectives and to ensure that there is an appropriate framework for decision making. The Board holds regular strategy days with members of the Senior Management Team as a means to identify emerging risks.

Role of management and staff

The Senior Management Team (SMT) is responsible for implementing the Group's Risk Management and Assurance Policy and for alerting the Board to the emergence of and any material change in the likelihood or impact of principal risks and for embedding effective risk management practice throughout the Group. It is also responsible for ensuring that the financial and non-financial implications of risk on Group performance are recognised in a prudent and timely manner.

All staff are responsible for the identification, management and mitigation of risks within their area of operation and responsibility.

RISK FRAMEWORK

The Development Bank of Wales Group is exposed to a diverse range of risks in the execution of its strategy and in undertaking day-to-day business. Key to its performance to date and future success is a culture where risk is accepted in a measured, reasoned and informed fashion. Moreover, Group performance is not solely measured against investment parameters and it is important that other areas of risk are acknowledged and managed effectively. The Board considers that the Group is exposed to the following areas of risk: Investment Mandate, Operational, Funding, Compliance, Reputational, Strategic and Interface (risks arising from the Group's interaction with stakeholders, suppliers and other third parties).

The Group actively manages the principal risks relating to its activities through a variety of means, including:

- Annual Board assessment of the principal risks to the successful delivery of the Group's strategic plan and review of the Risk Management and Assurance Policy;
- Operating a risk management framework designed to identify and mitigate risk and aligned to the recognised "three lines of defence" model;
- The use of mitigating controls to reduce the probability and/or impact of identified risks;
- Managing risk within risk tolerances as defined by the Board;
- A comprehensive induction programme for new employees and mandatory training for colleagues in key risk areas such as Data Protection, Information Security and combatting money laundering, bribery and corruption;
- The availability of guidance to colleagues via a comprehensive suite of policies available on the Group intranet;
- Horizon scanning to identify forthcoming regulatory, legislative and accounting changes and emergent risks that will have a bearing on Group activities.

To ensure robust effective and consistent investment decision-making within the Group, the Investment Committee operates to Terms of Reference which are regularly reviewed. The Investment Committee is responsible for making larger investment decisions. Authority is delegated to directors and other senior staff in respect of other investment decisions.

These arrangements comprise the Groups Risk Management Framework (RMF) that supports the Board's approach to identifying, assessing, monitoring and controlling the risks the Group faces. The RMF:

- Demonstrates a clear link to the overall strategy and business plan of the Development Bank;
- Is owned by the Risk, Compliance and Legal Director and approved by the Development Bank of Wales plc Board. Any changes to the RMF are recommended by the Audit and Risk Committee to the Board for approval;
- Outlines the risk management vision and objectives, and the approach for evolving the risk management capability of the Group;
- Is reviewed on an annual basis and, if required, more frequently to reflect any material changes to the business, economic or regulatory outlook.

A discussion of how the Group handles its risks in relation to financial instruments is set out in note 19 of the financial statements.

Key elements of the RMF include risk culture, risk tolerance and risk assurance.

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RISK CULTURE

Risk culture supports the Development Bank of Wales Group in achieving its stated purpose and objectives at acceptable risk. It is reflected in behaviours exhibited by the Board and colleagues with regard to risk awareness, risk taking and risk management. The "three lines of defence" model is key to ensuring that risk management is embedded across the Group. Colleagues are encouraged to take ownership of the identification and management of risk falling within their respective business areas.

The "tone from the top" is an essential part of this culture. The Board and senior management act and expect colleagues to act with openness and integrity and to escalate observed non-compliance with policy and procedure.

Colleagues are encouraged to report risk incidents and "near misses".

Against this backdrop the Group is well placed to meet its conduct risk responsibilities and ensure the fair treatment of its customers. Conduct risk (the risk of bad customer outcomes) is managed through a variety of means, including:

1. All colleagues undertake mandatory training relevant to their role;
2. A Group pricing policy ensures consistency of approach in terms of interest rates, further details of which are available on our website;
3. Affordability is a key consideration of all loan applications we appraise;
4. Segregation of duties ensures that lending decisions are always subject to review by a "second pair of eyes";
5. Customer complaint numbers are monitored closely and all complaints are responded to by senior management;
6. File reviews by the Compliance team;
7. Review of the design and operational effectiveness of our control environment by our independent internal auditors.

RISK TOLERANCE

The Group has identified the following enterprise risk categories pertinent to its strategy and operations and in its annual review of risk management arrangements in January 2020 the Board ascribed a tolerance to each category as follows:

Enterprise Risk Category	Risk Tolerance
Compliance	Negligible
Interface	Low
Investment mandate	Low
Funding	Negligible
Operational	Low
Reputational	Low
Strategic	Low

The Board has determined the following principal risks to the achievement of the Group's strategic objectives.

Decreased risk | No change to risk | Increased risk

PRINCIPAL RISKS

During the year the Board reviewed and approved the Group Risk Management and Assurance Policy. The Board also considered the principal risks to the successful delivery of the Group's strategic plan, concluding that subject to some relatively minor refinements the previously agreed principal risks remained appropriate.

Failure to understand and adapt to the needs of our customers.

Risk and potential issues	How we are addressing the issues	Current status
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 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 Risk tolerance: Low Pre-control rating: High	We welcome any and all feedback on our performance. We undertake satisfaction surveys and engage extensively with our customers and the wider business community to understand what we do well and where we must improve. This feedback is considered when scoping our ongoing programme of operational improvements. Post-control rating: Moderate	Established business may now access micro finance loans of up to £25,000 under our popular streamlined application process and we have recently rolled out an online identification and verification option to further improve our efficiency.

Failure to deliver the Group's Business Case and commitments and/or poor alignment/engagement with our stakeholder.

Risk and potential issues	How we are addressing the issues	Current status
Delivery of the business case requires continued strong "business as usual" performance whilst improving operational efficiency and growing the business to deliver our challenging targets. Failure to deliver the business case commitments would cause reputational damage. Area of risk: STRATEGIC Risk tolerance: Low 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 by our Project Management Office. Tracking of the Group's core business performance is supported by a comprehensive suite of management information. Board members and our shareholder receive regular performance updates in respect of both core business and project work. Post-control rating: Significant	Our extensive digital transformation project, designed to deliver productivity gains and improve our customer interface, has transitioned from design to implementation phase. The progress to date has been central to the successful delivery of the unprecedented demand for funding that we have seen due to the Covid-19 outbreak.

Failure to optimise operational effectiveness and managing change.

Risk and potential issues	How we are addressing the issues	Current status
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 Risk tolerance: Low Pre-control rating: High	We have a comprehensive set of procedures available to all colleagues on our intranet. Our Compliance 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. Our ICT Steering Group is populated with colleagues from across the business and is charged with the successful delivery of our digital transformation project to improve the customer experience, facilitate improved flexible working and drive operational efficiency. Post-control rating: Significant	The digitalisation project has already brought efficiency and flexibility gains in the form, for example, of enabling greater home working. This has been central to the operational and procedural changes that have enabled the Development Bank to deploy the equivalent of almost a year's worth of loans and investments in less than three months. The experience gained in responding to the challenges of Covid-19 will help inform changes to our processes and systems as the digital transformation project continues.

Failure to ensure the continued availability of funding in terms of type and/or sufficiency.

Risk and potential issues	How we are addressing the issues	Current status
The long-term continuity of the Development Bank is dependent on the continued willingness of Welsh Government to provide funds to invest. There is uncertainty as to the availability of future funds from UK Government following Brexit. Covid-19 has resulted in much higher demand for funding from the business community. Area of risk: FUNDING Risk tolerance: Negligible Pre-control rating: Significant	We draw on our own experience and that of our customers to identify gaps in private sector funding provision and work closely with colleagues in the Welsh Government to 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 a fund management business. Accordingly, we track fund performance and delivery of the key performance indicators associated with them. Post-control rating: Moderate	In the 2019/20 financial year the Bank raised £71m of extra funding to support Welsh micro to medium businesses, taking the amount raised in the past three years to £501m. 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. Discussions are ongoing with Welsh Government regarding the raising of further funds.

Vulnerability to cyber-attack, data security breaches and the threat of denial of IT service.

Risk and potential issues	How we are addressing the issues	Current status
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 Risk tolerance: Low Pre-control rating: High	Our IT estate is protected by a range of measures including an industry leading managed cyber security platform that provides automated vulnerability management, cloud and local firewalls, data encryption, multiple layers of anti-virus protection, internet content filtering and backups. Penetration Tests are carried out annually or at any point of significant change. Specialist third party advice is sought where appropriate. IT support is outsourced to a range of specialist third party suppliers, all of whom are subject to contractually enforceable Service Level Agreements. IT procedures are detailed in our Information Security Policy. Online security and cyber awareness training is delivered on a continuing basis and is mandatory across the Group. There are robust breach containment and investigation processes. Post-control rating: Significant	Collaboration tools such as email and telephony are now hosted in the Microsoft Azure cloud, further enhancing performance, security and availability. Our business continuity and disaster recovery arrangements have been redesigned to align with ISO-22301, resulting in no disruption to BAU during the Covid-19 crisis. The IT department is appropriately resourced to support the various digitalisation initiatives. Cyber Essentials Plus governance accreditation was successfully renewed again. This is a government backed industry supported scheme that enables organisations to demonstrate that essential precautions to mitigate against the risks from common cyber-attacks have been taken and that customer and supplier information is being protected.

Failure to comply with legal and regulatory requirements.

Risk and potential issues	How we are addressing the issues	Current status
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 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 Risk tolerance: Negligible Pre-control rating: High	We maintain detailed policies and procedures on our intranet and our in-house Compliance 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. Colleagues are required to undertake regular mandatory training in respect of a number of regulatory areas Post-control rating: Significant	Colleagues undertake a range of mandatory training in respect of dignity and respect in the workplace, cyber-security, information security, GDPR compliance, countering bribery and corruption, anti-money laundering and risk management. We have extended the use of our artificial intelligence training tool in providing ongoing compliance and regulatory training. The requirements of the Senior Managers' and Certification Regime were implemented in line with the deadlines set by the FCA. We have identified instances where certain requirements of the Consumer Credit Act were not fully complied with. We have considered the legal and regulatory position and sought legal advice and are undertaking a redress programme which includes the review of our procedures and systems with respect to CCA activity. Our independent internal auditors have delivered the internal audit plan and have categorised the Group's risk management and control processes as "Generally satisfactory with some improvements required."

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Failure to meet fund performance objectives.

Risk and potential issues	How we are addressing the issues	Current status
The Group has built a strong track record of successful fund delivery. It is critical to the future of the Development Bank that this record is enhanced through the continued achievement of fund objectives. The impact of Covid-19 on default rates for existing funds and the CWBLS Fund will become apparent in the coming months as other forms of support to business, such as furloughing, wind down. The recession triggered by Covid-19 will have implications for business and consumer confidence. Economic outputs from the Development Bank's activities in the form of job creation and the leverage of co-investment from the private sector are expected to suffer accordingly. Area of risk: INVESTMENT MANDATE Risk tolerance: Low Pre-control rating: High	We have taken decisive action to anticipate and recognise the adverse impact of Covid-19 on our loan and equity portfolios and continue to monitor developments on a case by case basis as part of our portfolio monitoring activity. This will inform overall performance against fund targets, which will be kept under review and re-modelled as appropriate. We understand that in these uncertain times the availability of funding from the Development Bank is more important than ever. Accordingly, we continue to raise awareness of the availability of funding to Welsh businesses. Post-control rating: Significant	In the past year the Development Bank met or exceeded most of its key performance indicator targets for Wales. However, the amount of private sector co-investment alongside our activity was lower than in recent years, meaning that this target was missed. The launch of a Fund to support businesses impacted by Covid-19 has been well received. Applications saw the available funding (equivalent to a year's investment activity in normal circumstances) fully subscribed in little over a week. Over 1,300 loans have been made, safeguarding over 14,000 jobs. Demand for our non-Covid-19 funds has remained strong although, as businesses take an understandably cautious approach to the future, we have seen a sharp reduction in the number of jobs that are expected to be safeguarded or created as a result of this funding.

Managing cultural change and failure to recruit, develop, motivate and retain appropriately skilled and experienced colleagues.

Risk and potential issues	How we are addressing the issues	Current status
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 the private sector financial services industry. The number of colleagues based in our Wrexham Head Office continues to grow and makes for a more geographically diverse workforce. The inability to recruit and retain colleagues 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 Risk tolerance: Low 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	The digitalisation project has facilitated, and the Covid-19 outbreak has demanded, levels of flexible working not previously seen at the Development Bank. Many see home working as an attractive alternative to the daily commute to the office, providing improved work: life balance and maximum opportunities to work flexibly. However, we are alert to the feelings of isolation, low morale and adverse impact on mental wellbeing that the lack of social interaction can cause. Accordingly, whilst supporting increased home and flexible working, we have sought to safeguard against the potential issues by providing guidance to line managers on regular engagement with their colleagues and through daily briefings providing a mixture of business and social content as well as promoting the steps that colleagues can take to look after their wellbeing. There has also been more frequent engagement from the senior team via videocall and email.

Failure to manage the contribution of third party providers to the successful delivery of the strategic plan.

Risk and potential issues	How we are addressing the issues	Current status
When purchasing goods and services the Group is required to comply with the provisions of the Public Contracts Regulations 2015 and, more generally, to be satisfied that suppliers are operating in accordance with other relevant regulations, such as GDPR. Failure to do so could result in reputational damage, unbudgeted costs, fines and the need to repeat procurement exercises. Lack of internal knowledge to specify required products and services properly could result in the appointment of unsuitable providers, inadequate project management and anticipated benefits not being delivered Area of risk: INTERFACE Risk tolerance: Low Pre-control rating: High	The Group 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 accreditation has been renewed successfully. Internal policies and procedures have been reviewed and updated to ensure that regulatory requirements are satisfied. Project teams are created when undertaking large procurements and are supported by specialist legal advice as necessary. This approach ensures that the input of all relevant colleagues are obtained and that detailed consideration is given to the nature of the goods and services being purchased, the contractual terms applicable and the ability of suppliers to meet their obligations. Where appropriate, colleagues are appointed specifically to work alongside external contractors to assist in the management of projects and to ensure suitable knowledge transfer for internal training purposes following project completion.

Evolving risks

As UK society exits lockdown over the summer months and UK and Welsh Government initiatives to support the economy in recent months run their course, the full economic impact of Covid-19 will start to become clearer. The extent and speed of recovery from recession will be key to the survival of many businesses and will inevitably have implications for the health of the Development Bank's loan portfolio, the levels of provisioning for bad and doubtful debts and the fair value of equity investments.

This risk is mitigated by our proactive approach to portfolio management, which itself is evolving following the successful delivery of the Covid-19 Wales Business Loan Scheme and the resultant rapid growth in customer numbers.

It has been widely reported that business support measures in response to the Covid-19 outbreak have led to an increase in fraudulent activity. We consider our processes to be effective and fit for purpose, but we are not complacent. Our systems are continually reviewed and we act to address any areas for improvement. If we identify any instances of fraud our response will be suitably robust.

We recognise that as our digitalisation project proceeds there is the potential for increased cybersecurity risk. Accordingly, we continue to evolve our capability and security arrangements to ensure that this risk is mitigated appropriately.

We have for some time recognised that the economic impact of the exit of the UK from the European Union presents significant risk to the ongoing achievement of fund performance objectives. Brexit resilience planning was undertaken in 2019, as exit negotiations came to a head, to ensure that targeted funds were available to provide support to businesses in the event of no deal being agreed. These arrangements remain available as the transition period runs its course and the UK embarks on a new relationship with the European Union in 2021.

Sensitivity testing

The Development Bank holds cash reserves sufficient to cover anticipated levels of investment to businesses in Wales for the coming 3 years based on current annual investment rates and forecast investment activity. There is sufficient funding to cover anticipated commitments in respect of the Help to Buy – Wales scheme until 2021 and discussions are ongoing with our shareholder concerning a further extension of the scheme.

The Development Bank's funding is in the form of long-term loans at zero interest rate or public equity from the Welsh Government or grant from the European Regional Development Fund. Accordingly, the Board considers that there is sufficient capital and liquidity at its disposal to meet the demand placed up on it whilst continuing to operate within its risk tolerance.

Assurance framework

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

LINES OF DEFENCE MODEL

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.

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; regular review of a comprehensive suite of management information, risk reviews, file sampling, deep dives and scenario analysis.

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 Audit and Risk Committee 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.

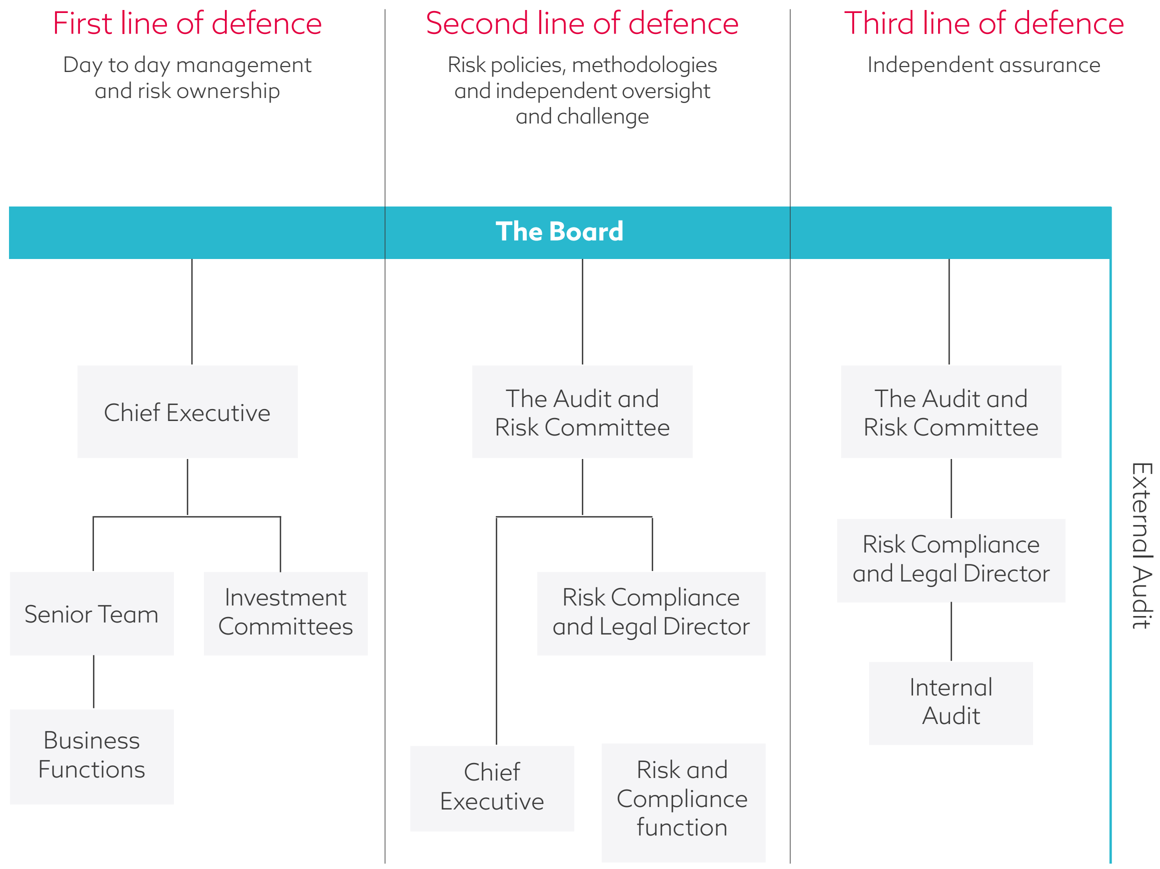
Our independent internal auditors have delivered the internal audit plan and have categorised the Bank's risk management and control processes as "Generally satisfactory with some improvements required."

The Group's external auditors provide robust challenge of the key judgements made 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 Audit and Risk Committee 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) resulting in an unqualified opinion in respect of the overall management and operational arrangements in place for the Wales Business Fund.



The key principles of this model, as demonstrated by the diagram above, are:

1. The Board has overall accountability and responsibility for the management of risk within the Bank.

2. The Board delegates specific risk management roles and responsibilities to the Board Audit and Risk Committee, CEO and the Risk, Compliance and Legal Director.

3. The CEO and Risk, Compliance and Legal Director are supported in delivery of these responsibilities through direct reports from the senior team, with the latter also being supported by the Risk and Compliance function in the delivery of their responsibilities.

Approved by the Risk, Compliance and Legal Director

Neil Maguinness
Risk, Compliance and Legal Director
29 July 2020

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GOVERNANCE

We are committed to good corporate governance, which promotes the interests of our stakeholders, strengthens accountability and facilitates organisational performance.

GOVERNANCE SECTION

In this section of the annual report, we explain how the governance and risk management framework supports the achievement of the Group's objectives.

In particular we disclose how the Development Bank is managed in the interests of its shareholder and other stakeholders, the role and constitution of the Board and its various committees and the risks the Group is exposed to and how they are managed. These governance processes also ensure that the annual report and financial statements of the Development Bank, when taken as a whole, is fair, balanced, understandable, and provides the information necessary to stakeholders to assess the Group's business model, strategy and performance.

This section includes or refers to the following reports and statements:

Report/Statement	Purpose
Directors' report	Profiles Board members and their experience and includes various statutory performance disclosures required by S417 Companies Act 2006. It also lists the responsibilities of the Directors in the preparation of the annual report and financial statements.
Corporate Governance Statement	Discloses the Group's governance framework, the role and responsibility of the Board of Directors and includes annual reports of the Board's three committees – Nominations, Audit and Risk and Remuneration. It also records Board/ Committee attendance and other operational information.
Risk Management and Internal Control Statement (included in the Strategic Report)	This section details the risks the Development Bank is exposed to and how they are mitigated. It describes the roles of the Board, management and staff, the risk management framework, risk culture and tolerance, principal risks, and the risk assurance framework.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements and independent auditor's report for the Development Bank of Wales plc for the year ended 31 March 2020.

- The following information required by the Companies Act 2006 can be found in the following sections of the annual report; the principal activity of the Group is carried out in Wales and the North East and North West of England.
- Details of the Group's objectives, future developments and significant events since the balance sheet date are included in the Strategic report;
- The Group's risk management disclosures are set out in the Strategic Report on pages 64-73.
- Information about the use of financial instruments by the Group is given in note 19 to the financial statements.
- The Group's capital structure is discussed in note 20 to the financial statements.

Dividends

The Directors do not recommend payment of a dividend (2019: £nil)

Directors

During the year the following individuals served as Directors. The rules for the appointment and removal of Directors are set out in the Corporate Governance Statement found on page 86.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Gareth Bullock	Chair	Oct 2015	Sept 2018	Oct 2018	Sept 2021
Giles Thorley	Chief Executive Officer	4 Apr 2016	n/a	n/a	n/a
Huw Morgan	Senior Non – executive director	Nov 2013	Nov 2016	Nov 2019	Nov 2022
Iraj Amiri	Non-executive director	Sep 2016	Aug 2019	Sept 2019	Aug 2022
Carol Bell	Non-executive director	Oct 2014	Sep 2017	Oct 2017	Sep 2020
Rhys Jones	Non-executive director	Mar 2020	Feb 2023	n/a	n/a
Roger Jeynes	Non-executive director	Nov 2016	Oct 2019	Nov 2019	Oct 2022
Margaret Llewellyn	Non-executive director	Sep 2012	Aug 2015	Sep 2018	Aug 2021
David Staziker	Chief Financial Officer	1 Apr 2018	n/a	n/a	n/a

DIRECTORS BIOGRAPHIES

GARETH BULLOCK

Chair

As well as being chair of the Development Bank of Wales Board, Gareth currently holds a number of non-executive directorships and senior advisory roles.

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.

He has also held numerous board positions, inter alia, Tesco PLC, Tesco Personal Financial Group Ltd, Spirax – Sarco Engineering PLC, Fleming Family & Partners Ltd, British Bankers' Association and Global Market Group Ltd (China). He was also a Trustee of the British Council from 2012 to 2018. He is currently Senior Independent Director of Informa PLC.

IRAJ AMIRI

Non-Executive Director and Chair of the Audit and Risk Committee

Iraj Amiri is a pioneer in the governance and assurance field, combining detailed and authoritative knowledge of the subject with its practical application.

With over 20 years of experience in audit and assurance Iraj heads up the Development Bank of Wales' Audit and Risk Committee.

Throughout his career he has worked closely with major British and European banking institutions and investment companies. 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 investments. He developed the enterprise risk service line for Deloitte, where he was a partner, taking the unit from its early beginnings to a team of over 600 workforce. Iraj has extensive experience of working at board and trustee level.

He is a trustee of the National Employment Savings Trust (NEST). Iraj is a recognised global expert and authority on internal audit and assurance functions, and a regular speaker at internal audit conferences. He is a NED at Coventry Building Society, chairs their Audit Committee and is a member of their Risk Committee.

GILES THORLEY

Chief Executive

Before joining the 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 nine years with Punch Taverns plc – the first year as chair, and then as chief executive following the IPO of the business.

Previously he served as the chief executive of Unique Pub Company. Giles was also a founding member of the Principal Finance Group at Nomura International plc.

He has held non-executive director roles with Esporta, Ducati SpA, Tragus Holdings, TUI Travel plc and Matthew Clark Wholesale Ltd; Giles is currently Chair of D&D London Ltd and ZipWorld plc. He is a non-executive director of Incopro Ltd. He also acts as consultant/angel investor on a number of business start-ups; and is a long – serving trustee with the Rona Sailing Project.

Giles holds a law degree from the University of London and qualified as a barrister in 1990. He is a member of the Bar Council of England and Wales.

HUW MORGAN

Non-Executive Director (Senior Independent Director)

Huw is an FCIB qualified banker with over 25 years' experience in the banking sector.

A former head of business banking for the UK for HSBC, he is currently a non-executive director of ICICI bank UK plc, where he chairs the risk and credit committees. He chairs Oxbury FS plc, an agricultural bank based in Chester. He also chairs two Cardiff based businesses in ActiveQuote Ltd and Inspiretec Ltd.

He has previously sat on the Welsh Government Boards: The Financial Services Panel for Wales and the Central Cardiff Enterprise Zone.

Huw 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.

DIRECTORS BIOGRAPHIES

ROGER JEYNES

Non-Executive Director

Roger Jeynes is an independent non-executive director for the Development Bank of Wales and is a member of its investment committee. He also currently serves on the boards of Downing Three VCT plc, Mapway Limited and Charborough Capital Limited, and is a trustee of the Lloyd Reason Foundation charity.

His 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 Interregnum plc, a technology merchant bank. In this role he managed the deployment of substantial investment capital into a wide range of early-stage and AIM-listed companies, and served on the boards of more than a dozen investee companies and several venture capital trusts (VCTs).

A mathematics graduate of Sheffield University and Fellow of the RSA, Roger holds a certificate in investment management from IIMR, and was Professor of Management Practice at Anglia Ruskin University from 2008 to 2017.

DAVID STAZIKER

Chief Financial Officer

David leads the Development Bank of Wales' internal finance and ICT teams.

He joined the company in 2002 and held a number of management roles in the investments side of the business before being appointed Chief Financial Officer in 2018.

Prior to the Development Bank, 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.

David also sits on our investment committee and externally is a Non-Executive Director of the Pobl Group and Chair of their Investment Committee.

RHYS JONES

Non-Executive Director

Rhys Jones is an independent non-executive director for the Development Bank of Wales, joining the board in March 2020.

Rhys is the co-founder and Chief Commercial Officer of SportPursuit, a member only, sports focused online retailer with 6 million members across the UK and Europe.

Prior to starting SportPursuit in 2011, Rhys worked at OC&C Strategy Consultants and the US growth equity investor, Summit Partners.

Rhys has a 1st class Engineering Masters degree from Oxford University.

MARGARET LLEWELLYN OBE

Non-Executive Director and Chair of the Remuneration Committee

Margaret is a non-executive director and Chair of the Remuneration Committee.

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 Chair of the Port of Dover and Chair of the Dover Harbour Board Pension Fund. She is a Director of SeaPort Development 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.

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. In 2004 she received an OBE for services to economic development in Wales.

Margaret is currently a Board member for the Haven Waterway Enterprise Zone, and a Panel Member of the Williams Rail Review on behalf of the Department for Transport.

CAROL BELL

Non-Executive Director and Chair of the Investment Committee

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.

Carol is the Vice President of National Museum Wales and is the first woman to serve on the board of the Football Association of Wales. She divides her time between serving on corporate and charity boards both in Wales and internationally and academic research.

Since completing her doctorate in 2005, Carol has developed a range of business and charitable interests.

During 2019, she became a founder director of Chapter Zero, a network to enable non-executive directors to engage with climate risk and the delivery of targets for net zero carbon emissions

Responsibilities of the Directors

The following should be read in conjunction with the responsibilities of the auditor set out in their report on page 104. 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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards ("IAS") and have also chosen to prepare the parent company financial statement 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 Group and the Company and of the profit or loss of the Group for that year.

In preparing the Group's financial statements, the Directors are required to:

- 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; and
- Make an assessment of the Group's ability to continue as a going concern.

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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' responsibilities in respect of accounting records and internal control

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 the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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.

Each of the Directors, whose names are listed on page 2 of the annual report and financial statements, confirms that to the best of their knowledge:

- The financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company;
- The Strategic Report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties it faces; and
- The annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Company's shareholders to assess the Group and Company's position, performance, business model and strategy.

Going concern

The Directors who served during the year have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, which considered the impact of the Covid-19 pandemic and the ongoing Brexit process, using the information available up to the date of issue of these financial statements.

As part of this assessment the Board considered:

- The liquidity of the various funds the Group manages to support existing and new customers through a period of prolonged stress
- Other funding being made available to businesses in Wales and the North East/West of England through the public and private sectors;
- Ongoing funding discussions with the Welsh Government for future funds;
- Forecast financial models for the various funds the Group manages and the repayment requirements of the Group's funders;
- The forecast surplus and accumulated reserves for its services business;
- The operational resilience of the Group's critical functions including its IT systems and the ability for the business to operate as usual on a "work from home" basis;
- An assessment of the Group's supplier base, considering any single points of failure and focusing on suppliers experiencing financial stress. This included consideration of contingency plans should suppliers be deemed at risk;
- The regulatory and legal environment and any potential conduct risks which could arise;
- As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Long-term viability statement

The Development Bank of Wales plc is owned by the Welsh Ministers and its continuation as an entity is ultimately at the discretion of the Welsh Government that is in power. The Board assumes that the Group has and will continue to have Welsh Government support and that its funding arrangements, which represents 100% of the Group's repayable funding, will remain in place.

The Directors have based their assessment of viability on the Group's long-term corporate plan, which is updated and approved annually by the Board. To be a viable business, there should be a high level of confidence that both solvency and liquidity risks can be managed effectively, meaning that the Group must successfully fund its balance sheet and hold adequate capital and liquidity over the entire period covered by its viability statement.

The Directors have reassessed the long-term viability period and determined that a three-year period of assessment is an appropriate period over which to provide its viability statement as opposed to the five years used previously. The three year period is considered to be most appropriate as it is the longest period over which the Board considers that it can form a reasonable view of the likely political and macroeconomic environment and associated key drivers of business performance and is in line with market practice.

The Group's liquidity and capital positions are described in notes 19 and 20 respectively. The Group produces a 5 year corporate plan which incorporates a five-year financial forecast for the services business. This forecast is updated annually and is based on income and expenses for existing funds only. The same assessment process as noted above for going concern, but for the longer three-year long-term viability period, was carried out, which considered the impact of the Covid-19 pandemic and the ongoing Brexit process. The key considerations made for the long-term viability of the Group related to the likelihood of continued provision of investment funds from the Welsh Government, the risk of the loss of existing investment funds as well as the operational challenges, such as working from home, created as a result of Covid-19. As a result of this assessment, the Directors are satisfied that the Group has sufficient liquidity to continue to make investments for a minimum of three year and that its services business remains in cumulative surplus throughout this period.

Based on these scenarios, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period considered.

Corporate and social responsibility

Details of the Group's policies, activities and aims in this area can be found in our S172 statement on page 49.

Political donations

The Group made no political donations during 2020 (2019: £nil).

Gifts and hospitality

No gifts were made by the Group. The cumulative value of gifts and hospitality received by staff was less than £20,000 during 2020 (2019 less than £20,000).

Severance payments

The cumulative severance payments made in the year by the Group was less than £300,000 (2019: less than £300,000).

Loan losses/losses disposal of equity disclosure

There were £10,021,820 of loan and equity write offs made by the Group and approved by the Shareholder during the year (2019 £2,056,000).

Director's remuneration

Details of the Directors' remuneration are disclosed in note 7 of the financial statements.

Directors' indemnities

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

Statement of disclosure of information to the auditor

So far as each Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. All of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution concerning the appointment of the auditor will be proposed at the forthcoming Annual General Meeting.

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

Judi Oates
Company Secretary
29 July 2020

CORPORATE GOVERNANCE STATEMENT

The constitution of the Development Bank of Wales plc consists of its Articles of Association and a Framework Document between the Development Bank of Wales plc and Welsh Ministers.

The Directors recognise the importance of sound corporate governance. During 19/20, the Board specifically asked for and received a detailed report relating to the extent of the Development Bank of Wales plc's compliance with the provisions of the UK Corporate Governance Code 2018. It was found that the Group complies with all aspects of the code applicable to it. It was also noted that the Group complied with a majority of the remaining full requirements of the 2018 Code applicable to large and/or listed entities. Where there was non-compliance, the Directors considered it appropriate either because the Group's circumstances are different to a large or listed entity or significant time and costs would be necessary.

The UK Corporate Governance Code is available from the Financial Reporting Council. The UK Corporate Governance Code provides guidance on a range of issues to ensure effective Board practice.

Apart from those set out in this annual report, the Board is not aware of any deviations from the relevant aspects of the Code in the period since 1 April 2019 insofar as it applies to the Development Bank of Wales plc.

For the Development Bank of Wales, good corporate governance is about ensuring that the Group is aligned with its shareholder's objectives and that the execution of the strategy adopted will ensure the Group is sustainable and is able to reinvest the returns from its funds, which alongside other new funds and investors, will enable the Group to continue investing in the long-term.

Role and responsibility of the Board of Directors of the Company

The Development Bank of Wales plc is led by the Board of Directors which, collectively, is responsible for the long-term sustainability of the Group and, in consultation with Welsh Ministers, the remit and strategy of the Group.

The Board is comprised of nine Directors including seven who are independent non-executive directors.

Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. The Board considers that the Chair was independent on appointment and that all non-executive directors are independent for the purposes of the Code. The Welsh Ministers have the right to appoint an Observer to attend Board meetings as their representative.

The Board reviewed the schedule of matters reserved for the Board in November 2018 as part of agreeing a new framework document with the Welsh Ministers. These will be reviewed again in 2020 when the next Remit Letter is received from Welsh Government. The matters reserved for the Board include strategy, company structure and capital, financial reporting and controls, risk management and internal controls, Board membership and other appointments, remuneration, delegation of authority, corporate governance, appointment of professional advisors, litigation and insurance.

Our non-executive directors scrutinise the performance of management in meeting agreed objectives. The Remuneration Committee is responsible for setting appropriate levels of remuneration for executive directors and staff in consultation with Welsh Ministers. This is further explained in the Remuneration Committee Report on page 91.

The Chair is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive leads the Senior Management Team in the day to day running of the business and the implementation of strategy.

As an organisation funded by public finances the Bank is required to comply with the principles set out in Managing Welsh Public Money: gov.wales/managing-welsh-public-money.

The Chief Executive is the Accounting Officer. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances.

The Senior Independent Director ("SID") is Huw Morgan. The SID's responsibilities are to work closely with the Chair, act as an intermediary for other Directors as and when necessary and meet with other Non-executive Directors to review the Chair's performance.

The exercise to appraise the performance of the Chair was conducted by a questionnaire. The results were discussed among the non-executive directors led by the SID and communicated to the Chair.

Appointment and removal of Directors of the Company

The Framework Document provides that the appointment of the Chair and Chief Executive require written confirmation of the Director General of the Group's sponsor department, currently Economy.

Skills and natural resources

During the period Iraj Amiri and Roger Jeynes were re-appointed for a term of three years commencing in September and November 2019 respectively. Huw Morgan was also re-appointed for a term of three years commencing in November 2019 on the understanding that this will be the final term.

Following a recruitment exercise conducted by an independent search consultant, Rhys Jones was appointed to the Board on 1 March 2020 for a term of three years.

The full biographies of all Board members can be found at: developmentbank.wales/about-us/people-and-teams.

All appointments to the Board, the Board Committees and the Executive Committees are based on the diversity of contribution, experience and required skills, irrespective of gender, race or any other criteria.

Annual Director election and re-election

At the 2019 Annual General Meeting Iraj Amiri, Roger Jeynes and Huw Morgan were re-electedin accordance with the requirements of the Articles of Association.

Board information

All Directors are provided with updates on corporate governance developments, legislative and regulatory changes, and relevant industry and technical information. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further information is readily available to all Directors. The Board receives board papers and information electronically to increase efficiency, confidentiality and sustainability.

Board Committees

The Board has established three Board committees to ensure robust and effective decision making within the Group structure, notably Audit and Risk, Remuneration and Nomination committees. The Board has approved terms of reference for each committee.

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee has primary responsibility for 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 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 three non-executive directors:

- Iraj Amiri (Chair)
- 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 78-81 which give more detail of theirs skills and background.

The Audit and Risk Committee met 5 times during 19/20. It is attended by Development Bank of Wales plc's Chief Executive, Chief Financial Officer 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.

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 probity and whistle-blowing policies. The Chair of the Committee acts as the contact point if the whistle-blowing concern relates to the Senior Management Team. 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:

Report/Statement	Purpose
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. • Consider and challenge the going concern and long-term viability assessment prepared by management. • Review and monitor any significant adjustments arising from the external audit. • Review the annual report and financial statements and other financial reporting. Advise the Board on whether, taken as a whole, it is fair, balanced and understandable.
External audit	• Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider the effectiveness, independence and objectivity. • Agree the policy for the provision of non-audit services. Challenge and agree to the external audit plan. • Make recommendations to the Board concerning the reappointment and removal of the external auditor. • Review audit findings and consider 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.

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 accounting estimates and judgements. Taking into account the observations of the external auditor, the Committee considered a number of significant issues in relation to the financial statements for the year ended 31 March 2020, 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 with the impact of the Covid-19 pandemic being another factor to consider for each issue.

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. This included the assumptions of future house price index ("HPI") trends, following the impact of Covid-19 on HPI forecasts, and the discount factor used. The Committee is satisfied that the fair value is appropriate.

Provisions for impairment of the loan book (Expected credit loss provision) under IFRS 9

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 Committee considered and challenged the impairment provision which has been recognised in the financial statements and the basis for calculating expected credit losses under IFRS 9. This included the method for determining a significant increase in credit risk and the application of management judgement relating to specific provisions. The Committee also reviewed the appropriateness of a non-modelled overlay concerning the impact of the Covid-19 pandemic which had been applied to the expected credit loss provision. The sensitivity of the provision calculation to various assumptions was considered, including the impact of alternative forward looking economic scenarios. The Committee was satisfied with the adequacy of the provisions recorded within the financial statements and that the assumptions and judgements applied by Management were appropriate. The disclosure relating to the impairment provision is set out in note 16 to the financial statements.

Going concern

The Audit and Risk Committee considered Management's approach to, and the conclusions of, the assessment of the Group's ability to continue as a going concern.

The going concern assessment period covers the period to 30 September 2021, 12 months subsequent to signing the Annual report and financial statements for the year ended 31 March 2020. The assessment considered the current capital position of the Group and liquidity requirements covering the going concern assessment period, including consideration of the impact of the Covid-19 pandemic and Brexit. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on page 83 in the Directors report. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2021 and that there are no 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 2021. The Audit and Risk Committee recommended that the Board supported the conclusion that it remained appropriate to prepare the financial statements on a going concern basis.

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 necessary documentation.

European funding rules

The largest fund operated by the Group is partly funded by the European Regional Development Fund 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 appropriate controls were in place to ensure that funds were invested in eligible businesses.

Valuation of equity investments

IFRS 9 requires all equity investments to be held at fair value in accordance with IFRS 13. The Committee considered and challenged how management had applied the International Private Equity and Venture Capital (IPEV) Guidelines and was satisfied that they had been applied appropriately. The disclosures relating to the fair value adjustment are set out in notes 13 and 19 to the financial statements.

Implementation of IFRS 16

The Committee was updated on the impact of the adoption of IFRS 16 Leases accounting standard, which is applicable for reporting periods beginning on or after 1 January 2019. The Committee was satisfied that the new reporting standard has been implemented appropriately.

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

The Committee reviewed the roll forward of the WLSIF fair value from its year end audited position at 31 December 2019 to 31 March 2020. The Committee reviewed and challenged how Management had applied the International Private Equity and Venture Capital (IPEV) Guidelines and was satisfied that they had been applied appropriately.

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 are reviewed and where necessary an action plan is agreed to address any matters raised. The assessment concluded that the Committee had been effective during the year.

Review of the annual report and financial statements

The Audit and Risk Committee met on 8 July 2020 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 on 29 July 2020. Following these discussions, the Committee advised the Board that the annual report and financial statements, taken as a whole are fair, balanced and understandable and recommended their approval to the Board.

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 that 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 assignments with fees above a defined limit requiring prior approval from the Audit and Risk Committee.

The total amount paid to the external auditor in 2020 is set in note 6 to the financial statements.

The members of the Audit and Risk Committee meet at least once a year without management being present, with the external auditor. The Committee also carries out a formal assessment of the external auditors' performance each year. In 2020 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. A new procurement exercise will be undertaken during the 2021 financial year.

Internal audit

During 2018, 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 response 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 8 July 2020 our Internal Auditors' gave a "Generally satisfactory with some improvements required" 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.**
>
> **Based on the risk appetite and the internal audit plan agreed with you, we have completed our programme of work 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 Chair of the Audit and Risk Committee.

Iraj Amiri
Chair of the Audit and Risk Committee

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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 Group Remuneration Committee comprises two non-executive directors:

Committee Chair: Margaret Llewellyn OBE

Membership: Huw Morgan

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

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

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

Recruitment and compensation

To meet the increased workload of the organisation the company recruited 73 new entrants and undertook 28 internal moves. The average time for the successful recruitment of a new member of staff was 2.8 months. Over 20% of total recruitment in Wales was to the Wrexham HQ which, at 40 staff, is fully on track to meet the Pan Wales Strategy to reach 51 by 2021.

The final year of job evaluations will be carried out by Mercer which means every position in the Bank will have been evaluated over the 3 years. This ensures the pay across the Group is transparent and fair and reflects the industry within the limitations agreed within our pay protocol.

The second phase of the pay benchmarking exercise was completed this year and provided a benchmarking report for 32 roles which will be used to inform the pay policy and to ensure roles are competitive to the market.

Committee purpose and responsibilities

Key responsibilities include:

- Formulation and approval of the strategy and policy for the remuneration of the Group's Directors, Executive
- Management team and staff in accordance with the Framework Document.
- Ensuring the members of the Executive Management team 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.
- Oversight of the pension schemes offered by the organisation.
- Overseeing major changes in employee benefit structures.

Development Bank of Wales, whilst owned by the Welsh ministers as a wholly owned subsidiary, operates in the financial services sector. In order to execute its business strategy the Company requires some staff with specialist banking and investment skills and experience. We therefore have to compete for such talent with other financial institutions. As public sector and private sector compensation norms are governed by different factors, the Board recognises that to retain the highly skilled staff in the competitive investment sector compensation is a key business risk.

Training

Training increased by 50% to £400k mainly reflecting the training for the new recruits and the development of people in their new roles. The organisation has also developed a career pathway to support the internal development of staff. A series of specific team development and management succession training aimed at the senior management team also took place.

Wellbeing

A dedicated programme aimed at supporting employee wellbeing has been carried out over the year including flu jabs and blood pressure checks. A number of mental health first aiders have also been trained. Sickness absence has reduced from 4.7 days per annum per employee to 1.9 days – well below the UK average of 5.8 days.

Work towards fairness, inclusion and equal opportunity throughout the organisation, working closely with Chwarae Teg to support gender equality.

Developing the business

A People Strategy and employer brand has been developed to help with recruitment and retention of talent. 2019/20 also saw a number of HR initiatives rolled out aimed at improving staff experience, removing administrative burden in the production of reports and form filling and reducing the amount of paper used. These included the introduction of a more streamlined payroll system, training and recruitment system via the online 'Cascade' system.

Covid-19

Lockdown began in the final weeks of the financial year but has had a profound impact on the business. The transition to home working as a result of Covid-19 has been a significant change for the business. The £100m CBWLS fund was delivered by the bank during the early months of lockdown and involved redeploying many colleagues from across the business to administer the fund. The fact that the business could deliver so much through remote working pays testament to everyone at the bank but it also raises potential challenges and opportunities as we discover what the alternative ways of working in the future will be as we transition out of lockdown.

Approved by the Chair of the Remuneration Committee

Margaret Llewellyn OBE
Chair of the Remuneration Committee

NOMINATION COMMITTEE REPORT

The Nomination Committee is chaired by Gareth Bullock. Attendance can be found on the following page.

Committee purpose and responsibilities

The purpose of the Nomination Committee is to consider succession planning, review the leadership needs of the organisation and identify and nominate Board members.

During the financial year 2019/20, the Committee discussed and considered succession planning for members of the Senior Leadership Team, the re-appointment of an existing Non-executive director, membership of the Board's Committees, and a review of the Committee's Terms of Reference.

The Board is committed to ensuring the diversity of its membership. The Nomination Committee's duties include regularly reviewing the structure, size and composition (including diversity) of the Board and making recommendations to the Board with regard to any changes.

Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board.

OTHER COMMITTEES

The Bank has a number of Executive Committees including an Investment Committee, a Risk Committee and an IT strategy steering group.

The Board, the Board Committees, and the Executive Committees have been structured to provide robust governance. The Board Committees and Executive Committees have Terms of Reference which set out respective duties and responsibilities.

Board and committee attendance

The table below sets out the attendance of Directors since 1 April 2019 who attended each Board and Committee. Rhys Jones was appointed to the Board on 1 March 2020 and there were no Board or relevant Committee meeting for him to attend during March 2020.

Conflicts of interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Board believes that outside interests can be beneficial for the Executive and has authorised the outside interests of the Chief Executive Officer and the Chief Financial Officer as listed in their biographies in the Directors' report.

Board evaluation

In accordance with the requirements of the UK Corporate Governance code, the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year and the evaluation is facilitated externally every third year. An externally facilitated review was carried out and presented during the year, with facilitation provided by Almond & Co.

The review concluded that the performance of the Board, its Committees and each of the Directors continues to be effective. The evaluation highlighted a number of strengths as well as areas for continual development including managing relations with stakeholders, division of responsibilities, remuneration policy and an increased focus on culture. These areas will be prioritised as part of the ongoing Board Evaluation process during the coming year.

Board member	Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Gareth Bullock	5/5	n/a	n/a	1/1
Giles Thorley	5/5	n/a	n/a	n/a
Huw Morgan	5/5	5/5	3/3	1/1
Iraj Amiri	5/5	5/5	n/a	0/1
Carol Bell	5/5	n/a	n/a	1/1
Roger Jeynes	5/5	n/a	n/a	1/1
Margaret Llewellyn	5/5	5/5	3/3	1/1
David Staziker	5/5	n/a	n/a	n/a

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FINANCIAL STATEMENTS

Independent Auditor's report to the members of Development Bank of Wales plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Development Bank of Wales plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and conform to the authorities which govern them.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement; and
- the related notes 1 to 31.

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).

2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's report to the members of Development Bank of Wales plc

3. Summary of our audit approach

Key audit matters	**The key audit matters that we identified in the current year were:** • Valuation of the Help to Buy – Wales portfolio • Valuation of equity investments • Loan loss provisions • Audit of regularity – Welsh Government funding **Within this report, key audit matters are identified as follows:** Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £10.9m which was determined on the basis of 1% of total assets.
Scoping	Group audit scope accounted for more than 99% (2019: 99%) of the Group's net assets, revenue and profits before tax.
Significant changes in our approach	There have been no fundamental changes in our audit approach in the current year, except for the changes in key audit matters in the current period. We determined that the following key audit matters included in the previous period are no longer key audit matters on the basis of levels of judgment, estimation uncertainty and materiality to the financial statements: • Accounting for the Management Succession Fund LP • Valuation of the Wales Life Sciences Investment Fund

4. Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

5. 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.

Independent Auditor's report to the members of Development Bank of Wales plc

5. Key audit matters

5.1. Valuation of the Help to Buy – Wales portfolio

Key audit matter description	The Help to Buy portfolio, shown as shared equity assets within financial assets at fair value, was valued at £346m as at 31 March 2020 (2019: £334m). Help to Buy – Wales shared equity loans are held at fair value under the recognition and measurement provisions of IFRS 9. Management applies significant judgement in determining assumptions influencing the fair value 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 have identified that the valuation of the Help to Buy – Wales portfolio is most sensitive to changes in forecast House Price Index ("HPI"), discount rates and forecast repayment profile of the loans. These inputs are not market observable and estimation is increasingly difficult following the Covid-19 pandemic. Therefore we focus our key audit matter and direct our audit efforts towards these three 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 Committee report on page 88. 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 financial impact of these loans is included in financial assets at fair value and financial instruments, notes 13 and 19, 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 obtained an understanding of review controls for key assumptions used in the valuation model. We have checked that the methodology is compliant with the requirements of the accounting standards. We have performed a sensitivity analysis on the HPI growth forecast, discount rate and repayment profile inputs. We have agreed management's estimates to relevant supporting data where possible. We have benchmarked the forecast HPI and discount rate assumptions used against comparable assumptions used within the industry and other available third party sources. We have independently derived an estimate of the discount rate. In performing these procedures, we assessed whether industry peers and third parties considered the effects of Covid-19. We have independently derived an estimate of the repayment profile utilising historic repayment information. We have reviewed the financial instruments disclosures within note 19 of the financial statements for appropriate disclosure in respect of these significant inputs.
Key observations	From our testing performed, we conclude that the valuation of the Help to Buy – Wales portfolio is appropriately stated. We identified that judgements and estimates applied were towards the optimistic end of the acceptable range.

Independent Auditor's report to the members of Development Bank of Wales plc

5. Key audit matters

5.2. Valuation of equity investments

Key audit matter description	As at 31 March 2020, the Group held total equity investments of £71m (2019: £81m). Equity investments are held at fair value under IFRS 9. Given the Development Bank of Wales invests largely in early stage companies there is limited observable data available to support the estimation of the fair value. The key judgement in relation to equity investments relates to the selection of appropriate benchmark entities and final multiple to be applied in valuations of investments under the multiples approach. Given the impact of the Covid-19 pandemic on equity markets in March 2020, there is further judgment to determine the level of Covid-19 adjustments made to account for changes in individual multiples following the significant economic disruption. 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 Committee Report on page 89. Management's associated accounting policies are detailed in notes 2 and 19. The financial impact of these loans is included in financial instruments, note 19, 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 obtained an understanding 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 relevant accounting standards. For a sample of valuations under the multiples approach, we have tested the mechanical calculation and completeness and accuracy of information used in the calculation. We have challenged the appropriateness of multiples selected by management and utilised independent sources to identify whether there was any contradictory evidence in respect of the multiples that have been selected by management. We have tested the Covid-19 adjustment by evaluating the industry which sampled investments have been placed and recalculating the adjustment in line with management's process.
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 middle of an acceptable range.

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5. Key audit matters

5.3. Loan loss provisions

Key audit matter description

Development Bank of Wales applies IFRS 9 in determining loan loss provisions against financial assets. Total loan loss provisions recognised as at 31 March 2020 were £37.6m (2019: £32.3m).

Management estimated the effect of Covid-19 on the loan loss provisions, increasing the provision by £9.7m as a result. Judgement has been applied to determine the estimated effect. When determining the effect management has considered: the sectors that are likely to be adversely affected ('at-risk sectors'), how probabilities of default may increase including the effect of government support schemes, and how underlying collateral values may change. Increased provisions have been applied to loans within at-risk sectors; management used judgement to determine the required provision for each loan.

The most significant increase to the provision was driven by management's review of adversely affected sectors and it is this increase that is considered to be a key audit matter.

Loan loss provisions are calculated using a model based on the loss rate approach of IFRS 9. The appropriateness of the model's results is predicated on the accuracy of the data input, most notably the correct allocation of loans into each IFRS 9 stage. The stage allocations are driven by the internal risk grades used by management. Judgement is required by management to determine such risk grades and it is this judgement that we consider to also be a key audit matter.

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.

This key audit matter is referred to in the significant issues section of the Audit Committee Report on page 89. 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 financial effect of loan loss provisioning and credit risk is included in note 4 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 loan loss provisions, specifically in respect of the review of the effect of Covid-19, the monitoring of investments and recognition of loan loss provisions. We have obtained an understanding of and tested controls surrounding the investment monitoring and provisioning cycle.

We benchmarked the at-risk sectors identified by management to our own understanding of those most affected by Covid-19. We also engaged our internal economics and credit risk specialists challenge management's approach and sources of data on which they undertook their sector review. Sample testing was undertaken to challenge whether loans in at-risk sectors were appropriately valued.

We have reviewed the methodology of the loans loss provisioning methodology in accordance with IFRS 9.

We have challenged management on the trigger events considered in classifying an investment at the relevant grades. We have performed a detailed analysis on a sample of grade 'C-E' loans and challenged management on whether the risk grade classification is appropriate (and in the case of stage 3 loans, whether the valuation of the provision is appropriate).

We have performed tests of details on a sample of the 'good book' grade 'A-B' loans by verifying the level of arrears and assessing the recoverability by considering post year-end payments.

We have inspected the logic of each calculation to evaluate whether this was in line with management's policy and recalculated each provision, testing the completeness and accuracy of the input data.

Key observations

From our testing performed, we conclude that loan loss provisions were appropriately stated.

Independent Auditor's report to the members of Development Bank of Wales plc

5. Key audit matters

5.4. Audit of regularity – Welsh Government funding

Key audit matter description

Development Bank of Wales obtains a significant proportion of its funds for investment from the Welsh Assembly Government.

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 Committee Report on page 89.

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

We have performed a walkthrough of the process surrounding new drawdowns and obtained an understanding 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 characteristics of the investment for compliance with the IOGs, such as the industry and geographical location of the company.

We have performed an analysis of the investment operating guidelines applicable to each fund and evaluated whether, for the sample of investments made in the year, these were in line with the criteria set out the applicable guidelines.

Key observations

From our testing performed, we did not identify any instances of non-compliance with the investment operating guidelines in the current period.

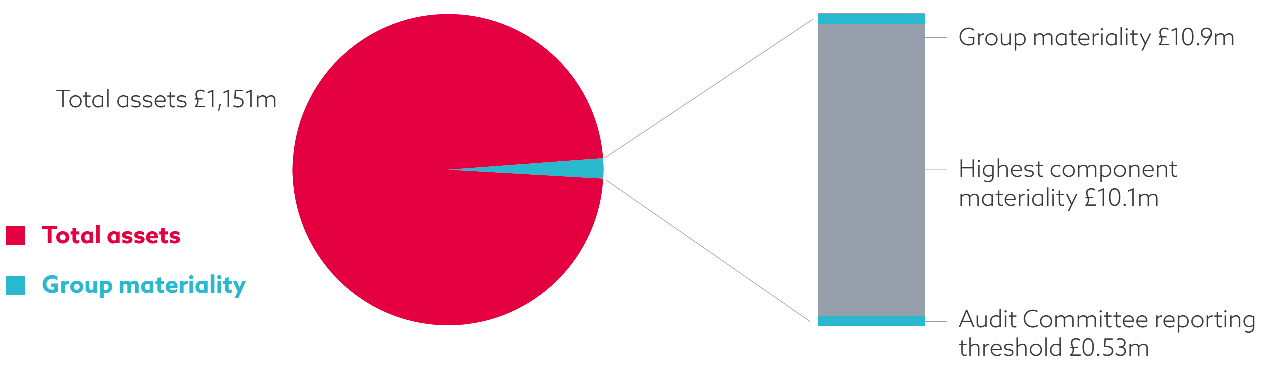
Independent Auditor's report to the members of Development Bank of Wales plc

6. Our application of materiality

6.1. 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	£10.9m (2019: £11.5m)	£414k (2019: £368k)
Basis for determining materiality	1% of total assets (2019: 1%)	5% of expenses (2019: 5%)
Rationale for the benchmark applied	We determined materiality based upon the value of total assets, at the interim date (January 2020). 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. Following the emergence of Covid-19 we considered the level of materiality remains appropriate at year end and we have not increased materiality in line with the increase in group total assets between January and March 2020.	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.



Independent Auditor's report to the members of Development Bank of Wales plc

6. Our application of materiality

6.2. Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 80% of group materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

a. our risk assessment, including our assessment of the Group's overall control environment;

b. our past experience of the audit, which has indicated a low number of uncorrected misstatements in prior periods;

c. the fact that there have not been any significant changes in the business; and

d. the consistency of management and key accounting personnel.

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £533k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. As in the prior year, our Group audit scope involved performing full audits on the Group's parent and main subsidiaries which accounted for more than 99% (2019: 99%) of the Group's net assets, revenue and profits before tax. We note that there were no new subsidiaries incorporated in the period. These audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £10.1m.

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

8. 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.

9. 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.

Independent Auditor's report to the members of Development Bank of Wales plc

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11. 1 Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including credit risk, valuations and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- Valuation of the Help to Buy – Wales portfolio
- Valuation of equity investments
- Loan loss provisions

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation and UK pensions legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence and compliance with key laws and regulations set by the Financial Conduct Authority.

11.2. Audit response to risks identified
As a result of performing the above, we identified key audit matters related to the potential risk of fraud in respect of:

- Valuation of the Help to Buy – Wales portfolio
- Valuation of equity investments
- Loan loss provisions

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to each key audit matter.

Independent Auditor's report to the members of Development Bank of Wales plc

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with the financial conduct authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 directors' 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 the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

14. Use of our report

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

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
3 August 2020

Consolidated income statement
For the year ended 31 March 2020

	Note	2020	2019
		£	£
Revenue	5	16,007,044	13,746,045
Operating expenses:			
Impairment	6	(10,869,783)	(2,464,580)
Other administrative expenses		(21,673,758)	(18,326,889)
Total operating expenses		(32,543,541)	(20,791,469)
Other operating income:			
Release of ERDF grant income	5	29,545,664	25,388,761
Fair value (loss)/gain on shared equity assets		(27,682,924)	26,785,103
Fair value (loss) on non-consolidated funds		(5,374,676)	(14,785,538)
Fair value (loss) on financial assets		(27,460,351)	(14,966,475)
Realised gains from the disposal of shared equity assets	5	3,143,998	1,421,799
Realised gain from the disposal of financial assets		749,335	571,670
Total other operating (expenditure)/income		(27,078,954)	24,415,320
Operating (loss)/profit	6	(43,615,451)	17,369,896
Interest receivable	8	2,925,494	713,299
Finance costs	9	(78,416)	(30,000)
Gain/(loss) on amounts owed to principal shareholder held at fair value	19	24,538,926	(28,206,902)
Loss before taxation		(16,229,447)	(10,153,707)
Tax	10	-	-
Loss for the financial year		(16,229,447)	(10,153,707)
Loss attributable to equity shareholders		(16,272,892)	(10,518,282)
Profit attributable to non-controlling interest	20	43,445	364,575
Loss for the financial year		**(16,229,447)**	**(10,153,707)**

Consolidated statement of comprehensive income
For the year ended 31 March 2020

	Note	2020	2019
		£	£
Loss for the financial year		(16,229,447)	(10,153,707)
Actuarial (loss)/gain on defined benefit pension schemes	17	(670,000)	1,380,000
Other comprehensive (expenditure)/ income for the year net of tax		(670,000)	1,380,000
Total comprehensive expenditure for the year		**(16,899,447)**	**(8,773,707)**
Total comprehensive expenditure attributable to equity shareholder		(16,942,892)	(9,138,282)
Total comprehensive income attributable to non-controlling interest	20	43,445	364,575
Total comprehensive expenditure for the year		**(16,899,447)**	**(8,773,707)**

Consolidated statement of changes in equity
For the year ended 31 March 2020

	Note	Public equity	Share capital	Capital reserve	Retained Profit	Non-Controlling Interest	Total
		£	£	£	£	£	£
Balance at 1 April 2018		**112,180,780**	**12,500**	**10,100**	**31,682,107**	**-**	**143,885,487**
(Loss)/gain for the financial year		-	-	-	(10,518,282)	364,575	(10,153,707)
Actuarial gain on defined benefit pension schemes	17	-	-	-	1,380,000	-	1,380,000
Increase in public equity		4,970,237	-	-	-	-	4,970,237
Non-controlling interest capital contribution	20	-	-	-	-	2,608,408	2,608,408
Sub Total		4,970,237	-	-	(9,138,282)	2,972,983	(1,195,062)
Balance at 31 March 2019		**117,151,017**	**12,500**	**10,100**	**22,543,825**	**2,972,983**	**142,690,425**
IFRS 16 Transitional adjustments	1	-	-	-	661,253	-	661,253
Balance at 1 April 2019		**117,151,017**	**12,500**	**10,100**	**23,205,078**	**2,972,983**	**143,351,678**
(Loss)/gain for the financial year		-	-	-	(16,272,892)	43,445	(16,229,447)
Actuarial loss on defined benefit pension schemes	17	-	-	-	(670,000)	-	(670,000)
Non-controlling interest capital contribution	20	-	-	-	-	489,914	489,914
Non-controlling interest distribution	20	-	-	-	-	(720,000)	(720,000)
Sub Total		-	-	-	(16,942,892)	(186,641)	(17,129,533)
Balance at 31 March 2020		**117,151,017**	**12,500**	**10,100**	**6,262,186**	**2,786,342**	**126,222,145**

Consolidated balance sheet
As at 31 March 2020

	Note	2020	2019
		£	£
Non-current assets:			
Intangibles	11	363,781	173,660
Property, plant and equipment	12	4,182,132	517,086
Financial Assets at fair value	13	432,268,380	436,492,837
Trade and other receivables	14	102,636,250	73,624,779
		539,450,543	510,808,362
Current assets:			
Trade and other receivables	14	22,892,001	23,702,952
Cash and cash equivalents	15	589,130,541	477,641,068
		612,022,542	501,344,020
Total assets		**1,151,473,085**	**1,012,152,382**
Current liabilities:			
Trade and other payables	16	(42,358,092)	(39,343,623)
Deferred income	18	(15,304,196)	(8,867,203)
Lease liabilities	21	(417,532)	-
		(58,079,820)	(48,210,826)
Net current assets		**553,942,722**	**453,133,194**
Non current liabilities:			
Trade and other payables	16	(963,075,231)	(821,201,131)
Retirement benefit obligations	17	(840,000)	(50,000)
Lease liabilities	21	(3,255,889)	-
		(967,171,120)	(821,251,131)
Total liabilities		**(1,025,250,940)**	**(869,461,957)**
Net assets		**126,222,145**	**142,690,425**
Equity:			
Public equity		117,151,017	117,151,017
Share capital	20	12,500	12,500
Capital reserve		10,100	10,100
Retained profit		6,262,186	22,543,825
Non-controlling interest	20	2,786,342	2,972,983
Total equity		**126,222,145**	**142,690,425**

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 29 July 2020.

Signed on its behalf by:

Giles Thorley
Director

Consolidated cash flow statement
For the year ended 31 March 2020

	Note	2020	2019
		£	£
Net cash outflow from operating activities	**22**	**(100,355,195)**	**(78,724,586)**
Investing activities:			
Interest received		2,925,494	713,299
Purchases of fixed assets and investments		(410,848)	(531,583)
Net cash received from investing activities		**2,514,646**	**181,716**
Financing activities:			
Interest paid on lease liabilities		(78,416)	(10,000)
Capital paid on lease liabilities		(409,124)	-
Public equity received		-	4,970,237
Non-controlling interest capital contribution		489,914	2,608,408
Non-controlling interest distribution		(720,000)	-
Cash received in relation to Deferred Income		35,982,657	29,573,840
FTR Funding received		174,064,991	259,798,000
Net cash received from financing activities		**209,330,022**	**296,940,485**
Net increase in cash and cash equivalents		111,489,473	218,397,615
Cash and cash equivalents at beginning of year		477,641,068	259,243,453
Cash and cash equivalents at end of year		**589,130,541**	**477,641,068**

Notes to the consolidated financial statements
For the year ended 31 March 2020

1. General information

Development Bank of 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.

Basis of Preparation

The financial statements for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee as adopted by the European Union and applied in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments at fair value and on a going concern basis as discussed in the Director's Report on page 83. 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.

Adoption of New and Revised Standards

Adoption of IFRS 16 Leases
The adoption of IFRS 16 from 1 April 2019 has resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of IFRS 16, the comparative figures have not been restated and comparative period notes disclosures repeat those made in the prior year.

IFRS 16 Leases – Impact of Adoption
IFRS 16 has replaced IAS 17 entirely, it effectively removes the distinction between operating leases and finance leases for lessee accounting. The table below shows the amount of adjustment for each financial statement line item affected by the application of IFRS 16.

Financial Statement Caption	IAS 17 – 31 March 2019	IFRS 16 – 31 March 2019
	£	£
Lease Liabilities – Non Current	-	(3,673,421)
Lease liabilities – Current	-	(409,123)
Right of Use (ROU) Asset	-	4,198,413
Lease incentive (liability)	(661,253)	-
Prepayments	115,869	-

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. The definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16 the Group recognises right of use (ROU) assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments. Depreciation of ROU assets and interest on lease liabilities is then recognised on the Consolidated Income Statement.

Lease incentives are recognised as part of the measurement of the ROU assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight line basis.

For short-term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS 16. This expense is presented within other operating expenses in the Consolidated Income Statement.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies

Basis of Consolidation

The consolidated financial statements comprise Development Bank of Wales plc (the Company) and its subsidiary undertakings, as listed in note 28 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.

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 Consolidated Income Statement as incurred.

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

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

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

Intangibles

Intangible assets are shown in the balance sheet at their historical cost less amortisation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of computer software. The asset is determined to have a finite useful life and will be amortised on a straight line basis over its estimated useful life of up to 7 years. Amortisation commences when the software is fully implemented.

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 'Investments in 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.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Investments in Associates (continued)

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

Revenue 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.

Dividends

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

European Regional Development Fund ("ERDF") Grant Income

Grant income receivable in support of revenue expenditure is recognised in the Consolidated 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 Consolidated 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 in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Financial Instruments (continued)

Financial Assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL'), which are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets classified as FVTPL are recognised immediately in profit or loss.

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

Specifically:

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

Loans and advances to customers
The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

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

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

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

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

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

Loan Commitments
The Group has no loan commitments as at the balance sheet date. Initial loans and follow-on loans are granted based on conditions at the point of drawdown. The Group will always reserve the right not to invest if agreed conditions are not met.

Effective Interest Method
Interest income in relation to customer loans and advances is calculated using the effective interest rate method (EIR). 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, to the net carrying amount of the financial asset. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

For purchased or originated credit impaired assets (POCI), the EIR reflects the ECLs in determining future cash flows expected to be received from the financial asset.

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

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Financial Instruments (continued)

Financial Assets at FVTPL
Financial assets at FVTPL are:

- assets with contractual cash flows that are not solely payments of principal and interest;
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated as FVTPL using the fair value option.

These assets are measured at fair value, with any gains / losses arising on re-measurement recognised in the Consolidated Income Statement. Fair value is determined in the manner described in Note 19, Financial Instruments.

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

More detail on the measurement of shared equity loans can be found in Note 19, Financial Instruments.

Reclassifications
If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

Impairment
The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL;

- Loans and advances to customers.

No impairment loss is recognised on equity investments.

IFRS 9 outlines a three stage model for impairment based on changes in credit quality since initial recognition. Each stage represents a change in the credit risk of a financial instrument since origination. Credit risk is measured using probability of default (PD), exposure at default (EAD) and loss given default (LGD). If a significant increase in credit risk (SICR) since initial recognition is identified but the asset is not yet deemed to be credit impaired, the financial instrument is moved from Stage 1 to Stage 2. Financial instruments that are deemed to be credit impaired are moved to Stage 3.

With the exception of Originated Credit Impaired assets, ECL's are measured through a loss allowance at an amount equal to:

1. 12 months Expected Credit Losses for Stage 1;
2. Full lifetime Expected Credit Losses for assets categorised as Stage 2 or 3.

ECL's are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from, discounting the cash flows at the asset's EIR.

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information is provided in Note 4, including details on how instruments are grouped when they are assessed on a collective basis.

Credit impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the performance of the borrower. The Group uses its portfolio risk grading system to identify credit-impaired financial assets. Indicators of credit-impairment used by the Group are presented in the portfolio grade descriptors on page 126. Assets classified within grade D and E are considered to be credit-impaired.

It may not be possible to identify a single discreet event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date.

A loan is considered credit-impaired when forbearance of more than 30 days is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the forbearance the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where forbearance is contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. See page 116 for the Group's definition of default.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Financial Instruments (continued)

Purchased or originated credit-impaired (POCI) financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Originated credit impaired (OCI)
The IFRS 9 definition of credit-impaired acknowledges that a financial asset may be credit-impaired at initial recognition when the purchase or origination of a financial asset is at a deep discount that reflects the incurred credit losses.

Without a deep discount reflecting incurred credit losses at origination, it would not be appropriate to account for a new (modified) financial asset as an originated credit-impaired (OCI) financial asset. This is because OCI financial assets are an exception from the general model for impairment that requires a loss allowance to be recognised at initial recognition in accordance with IFRS 9:5.5.1. In contrast to this, no loss allowance is recognised for OCI financial assets at initial recognition in accordance with IFRS 9:5.5.13, because the deep discount already reflects the incurred credit losses.

There are two circumstances where the Group needs to consider whether an investment is OCI or not. These are, firstly, where the Group invests through the Rescue and Restructure Fund, and secondly, where the Group has a follow-on investment in a company in which the existing investments are already credit impaired. In both cases the Group is investing in a company which is in financial difficulty and events may have already occurred which would normally be considered objective evidence of impairment.

However, under all the Group's funds' Investment Guidelines, the Investment Committee is obliged to consider all the risks of the investment and only to sanction investments where there is a reasonable prospect of a return given the risk profile and investment parameters of the fund making the investment. As such, the Group does not consider any of its investments made under these circumstances to be originated credit impaired.

This may well lead to situations where the Group has some older investments in a client which are credit impaired whereas a new investment in the same client is not credit impaired. This is considered consistent with IFRS 9.

Definition of default
Critical to the determination of Expected Credit Loss ('ECL') is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month lifetime ECL, as default is a component of the probability of default ('PD') which affects both the measurement of ECLs and the identification of a significant increase in credit risk, see note 3.

The Group considers the following as constituting an event of default:

- The borrower is unlikely to pay its credit obligations to the Group in full;
- The borrower has incurred unauthorised arrears;

Significant increase in credit risk
The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12 month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See note 3 for more details about forward looking information.

Modification and De-recognition of a Financial Asset
Modification of a financial asset is considered to have occurred under IFRS 9 if the contractual cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of a financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The change to the original contractual terms must be legally binding and enforceable by law.

Additionally, an assessment needs to be made at the time of modification as to whether the modification warrants the financial asset being de-recognised and a new financial asset originated.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Financial Instruments (continued)

Modification and De-recognition of a Financial Asset (continued)

The Group makes this assessment either on the basis of:

- The extinguishing of the contractual rights to the cash flows from the assets, or
- By a substantial change to the contractual terms of the assets.

In practice, the Group deems a financial asset to have been modified if the net present value (NPV) of the rescheduled asset has changed by more than 10%. The NPV of the modified loan is calculated using the EIR of the pre-modified loan. However, because, under normal circumstances, when rescheduling the interest rate remains unchanged and interest continues to accrue on a daily basis, the NPV of the asset will be substantially unchanged and so not deemed to have been modified under IFRS 9.

Where the movement in NPV is >10% it will be deemed to have been modified and in such cases a gain or loss will be recognised in profit and loss.

Modification
The Group renegotiates and reschedules loans to customers for a number of reasons. The most common reason is to assist customers in financial difficulty in order to maximise our collections and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most cases include an extension of the maturity of the loan or changes to the timing of the cash flows of the loan (principal and interest repayment).

De-recognition
The Group would de-recognise a financial asset where the modification of that financial asset would lead to any of the following scenarios:

- the extinguishing of the contractual rights to the cash flows from the assets, or
- the transfer of the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, or
- a substantial change to the contractual terms of the assets

A change is deemed to be substantial if the movement in NPV due to modification is >10%. In these cases the original financial asset will be de-recognised and, where appropriate, a new financial asset originated at the date of modification. The assessment of the credit risk of the new financial asset will start again and the ECL will initially be calculated on a 12 month basis.

Where a loan is de-recognised and a new loan originated, a gain or loss being the difference between the fair value of the new loan recognised and the carrying amount of the original loan de-recognised (including the cumulative loss allowance) will be recognised in profit and loss.

Write-off
Loans and equity investments are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of payment that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

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.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

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.

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 I and II, Wales Capital Fund, TVI Interim Fund, Tech Seed Funds I and II, Wales Angel Co-Invest Fund, Wales Flexible Investment Fund and Local Energy Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund and Wales Tourism Investment Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Wales Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund, Wales Micro Loan Fund and the Covid-19 Wales Business Loan Fund), DBW Investments (11) Limited (the Wales Property Fund, Wales Stalled Sites Fund, Wales Commercial Property Fund and Wales Self Build 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

The Group assesses whether a contract is, or contains a lease at inception of the contract. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a ROU assets and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For those leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is presented as a separate line in the consolidated statement of financial position.

The ROU asset is measured at the same value as the lease liability at the date of initial application adjusted for any prepayments and are depreciated over the period of the lease term. The ROU is included in Property, Plant and Equipment, see note 12.

Operating Profit

Operating profit is stated before net finance costs.

Notes to the consolidated financial statements
For the year ended 31 March 2020

2. Accounting policies (continued)

Taxation

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

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

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

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

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

Tax is recognised in the Consolidated Income Statement, except where it relates to items recognised through OCI, in which case it is recognised through OCI.

Retirement Benefits

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

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

The scheme assets are an estimate of the Group's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The Group's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes.

The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the statement of comprehensive income.

The Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough scheme. Employer contributions in relation to this scheme are accounted for within other administrative expenses in the period in which they are due.

Notes to the consolidated financial statements
For the year ended 31 March 2020

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical Judgements in Applying the Group's Accounting Policies

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

The Wales Management Succession Fund Limited Partnership (WMSF LP) is also managed by FW Capital Limited. Following a detailed review of the relationship the directors decided that the control tests under IFRS 10 were met and therefore the results for the WMSF LP have been consolidated into the Group financial statements.

Deferred Tax
The Group has tax losses of £110.6m available for offset against future taxable profits. A deferred tax asset as not been recognised on the basis that there is insufficient certainty over the evidence of the recovery of these tax losses in future.

If deferred tax assets were recognised in full this would amount to an asset of £21.1m being recognised before any potential liabilities are taken into account.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2020

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

Key Sources of Estimation Uncertainty (continued)

Allowance for impairment losses on credit exposures
In accordance with the accounting policy on impairment of financial assets the Group recognises loss allowances for ECLs. Management identifies the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

In light of the emergence of the Covid-19 pandemic, management have carefully considered the assessment of the staging of assets with a particular focus on higher risk sectors and assets in segments of the portfolio which are more likely to be affected; principally those in the Retail and Hospitality industries. A number of assets have been assessed as credit-impaired as a result of the impact of the pandemic resulting in additional allowances of £8.0m being recognised, the remaining exposure on these loans amounts to £6.2m.

As noted in the Strategic Report capital repayment holidays ("CRHs") have been granted to support portfolio companies during the pandemic. Repayment Holidays have been granted to over 35% of the portfolio as follows:

	Stage 1	Stage 2	Stage 3	Total
	£000s	£000s	£000s	£000s
Total outstanding balances	78,612	25,792	50,896	155,300
Outstanding balances with CRHs	23,419	15,895	15,186	54,500
Percentage of total outstanding balances with CRHs	30%	62%	30%	35%
Impairment provision on total outstanding balances	740	3,576	33,333	37,649
Impairment provision on outstanding balances with CRHs	408	2,190	6,380	9,428

The percentage of Stage 3 assets with CRHs is impacted by the inclusion of legacy assets which are 100% provided but have yet to be formally written off; excluding these loans the percentage of Stage 3 outstanding balances with CRHs is 52%. There are also a number of Stage 3 assets which are in recovery which would reduce this figure further.

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Notes to the consolidated financial statements
For the year ended 31 March 2020

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

Key Sources of Estimation Uncertainty (continued)

Allowance for impairment losses on credit exposures (continued)
Stage 1 assets are spread over a number of sectors:

	Balances with CRHs	Balances without CRHs	Total
	£000s	£000s	£000s
Manufacturing	2,622	3,266	5,888
Construction	1,960	37,847	39,807
Wholesale and retail trade	3,568	703	4,272
Information and communication	4,248	3,015	7,263
Professional, scientific and technical activities	1,769	1,808	3,577
Administrative and support service activities	2,621	505	3,126
Real estate activities	997	3,376	4,373
Accommodation and food service activities	1,093	230	1,323
Human health and social work activities	1,196	2,143	3,339
Other	3,346	2,299	5,645
	23,419	**55,192**	**78,612**

Repayment holidays are considered alongside other key observable data such as business performance and operating cash flow forecasts when assessing Significant Increase in Credit Risk ("SICR") with other factors such as support received via the Government's CBILs Loan Scheme and Covid-19 Job Retention Scheme. This assessment of SICR makes use of internal risk gradings as discussed more fully in Note 4.

In the absence of other credit risk indicators the granting of a Covid-19 related repayment holiday or other government support is not taken to be a sole indicator of SICR. Eligibility criteria for this holiday and other support schemes is broad and borrowers may request a repayment holiday in order to manage liquidity due to short-term cash-flow disruption.

There is a risk that loans that form part of the Stage 1 book deteriorate as a result of the on-going economic challenges created by Covid-19 and uncertainty surrounding the availability of Government and other support schemes. Management have used all reasonable and supportable information to estimate the required provisions against such a population for the purposes of reporting in the 31 March 2020 financial statements however there remains uncertainty about the future performance of such loans and resultant increases to loss allowances. If all Stage 1 loans with CRHs were to be reclassified as Stage 2 the loan loss provision would increase by £2.8m.

Probability of Default and Loss Given Default are key inputs in measuring ECL the calculation of which includes historical data, assumptions and expectations of future conditions. Whilst these measures have been adjusted to include the expected impact of Covid-19, realistic sensitivities applied to the ECL calculation do not materially impact the provision held.

See note 4 for more details on ECL including forbearance levels.

Notes to the consolidated financial statements
For the year ended 31 March 2020

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

Key Sources of Estimation Uncertainty (continued)

Fair value measurement and valuation process
In estimating the fair value of a financial asset or liability, the Group uses market-observable data to the extent that it is available. Where such Level 1 inputs are not available the Group uses valuation models including discounted cash flow analysis and valuation models to determine the fair value of its financial instruments. The valuation techniques for level 3 financial instruments involve management assessment and estimates the extent of which depends on the complexity of the instrument.

Where relevant, multiple valuation approaches may be used in arriving at an estimate of fair value for an individual asset. Such inputs are typically portfolio-company specific and therefore cannot be aggregated for the purposes of portfolio-level sensitivity analysis.

Further details of the Group's level 3 financial instruments and the valuation techniques used are set out in note 19.

Brexit
On the 31st January 2020 the UK ceased to be a member of the EU and entered into an 11 month transition period with the EU while the future trading relationship is negotiated. As a result there remains uncertainty in the UK and Europe in relation to Brexit.

The most significant impact arises in respect of credit risk relating to the performance of the Group's portfolio of loans to customers. Assessment of the ECL allowance under IFRS 9 has taken into account uncertainty surrounding the inputs to the calculation as noted above, see note 4 for more details on ECL allowances. Brexit may also have a significant impact on House Price Index (HPI) and the value of the Help to Buy – Wales (HTB-W) shared equity loan book, See below for more details on HPI assumptions and sensitivity to this input.

Management will continue to monitor the wider economic environment, particularly to assess the impact on credit risk to the Group and HPI fluctuations.

Help to Buy – Wales Shared Equity Loans
The fair value of the shared equity loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate rate which results in a £27.7m loss (2019: £26.8m gain) on the fair value of the shared equity loan book. This calculation uses a number of assumptions, notably a forecast for future HPI, a discount rate based on a comparable housing bond and the profile of loan redemptions.

There is no observable data for the HPI for the 25 year duration of the model. The model uses the Welsh HPI as published by the Office of National Statistics (ONS), as a key input to estimate movements in house prices between the origination of the loan and the measurement date. HPI forecast data provided by market analysts has then been used to establish the long-term average HPI rate in Wales.

The directors have adjusted HPI forecasts to include the expected impact of Covid-19 on house prices. Where downward pressure has been observed in the market this results in a reduction in HPI in year 1 of the model with a recovery in years 2 and 3. Sensitivity analysis on this input indicates a range of possible outcomes, and highlights the sensitivity of this particular input on the result. The three following scenarios reflect the sensitivity of this input and specifically the impact of Covid-19 on HPI.

Base case scenario
This is the base case used by the Group for IFRS 9 modelling and arriving at the fair value calculation within the 2020 financial statements. It reflects downward pressure on the HPI in the first year followed by a recovery to pre-Covid-19 levels after 3 years.

Upside scenario
This scenario is based on a "v-shaped" economic recovery and shows house prices recovering to their pre-Covid-19 levels after 2 years.

Downside scenario
This scenario shows a deeper fall in the HPI with house prices reducing over 2 consecutive years before 2 years of recovery.

Notes to the consolidated financial statements
For the year ended 31 March 2020

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

Key Sources of Estimation Uncertainty (continued)

Help to Buy – Wales Shared Equity Loans (continued)
The impact of each of these scenarios is as follows:

HPI scenario	Maximum HPI reduction	Recovery to Pre – Covid-19 HPI	Annualised HPI growth (25 yrs)	Fair Value movement
Base case	-5%	3 years	2.79%	-£27.7m
Upside scenario	-5%	2 years	2.92%	-£18.4m
Downside scenario	-10%	4 years	2.66%	-£38.7m

The maximum HPI reduction above reflects the cumulative predicted reduction in HPI as a result of the Covid-19 pandemic.

The discount rate used of 3.7% (2019: 3.0%) based on a comparable housing bond is also a key input to the valuation model. 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 £27.5m or an increase in value of £31.1m. A movement of 1% equates to approximately 25% of the discount rate used in the model, this is considered by the directors to be a reasonable range of possible outcomes on which to base the sensitivity analysis.

The profile of loan redemptions has been based on management's best estimate given the information available. It is possible to extrapolate an alternative profile using data from redemptions on the existing portfolio which would shorten the profile and result in a decrease in value of £17.3m. This profile is based on very limited data and does not factor in the impact of Covid-19 on customer behaviour, as a result management do not feel it would be appropriate to use this profile in place of the existing expectations. A reasonable increase in the length of the redemption profile would not have a material impact on the valuation of the shared equity book.

All other inputs have been tested for sensitivity and do not have a material impact on the valuation of the shared equity book.

4. Credit risk

Credit risk is the risk that a customer will default on their contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk arises from loans and advances to customers.

Credit risk management
The Group's Risk and Compliance team is responsible for managing the Group's credit risk by:

- Ensuring the Group has appropriate credit risk practices, including an effective system of control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, and IFRS.
- Identifying assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method to measure ECL.
- Ensure that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Notes to the consolidated financial statements
For the year ended 31 March 2020

4. Credit risk (continued)

Credit risk management (continued)

- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal auditors perform regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk
As explained in note 2, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings
In order to minimise credit risk, the Group operates a portfolio grading system that categorises asset exposure according to the degree of risk of default. The Group's grading framework comprises 5 categories and allocates an appropriate grade to each asset which realistically reflects the change in credit risk over the life of the investment.

This approach was implemented as part of the portfolio controls in order to ensure appropriate strategies are deployed on assets given their particular circumstances, and in order to ensure those assets requiring a specific provision are identified.

Assets are classified as grade A to E, with grades A to C representing 'healthy' assets (albeit with grade C showing signs of underperformance and a significant increase in credit risk). Grade D being 'sick' with a significant increase in credit risk, and grade E carrying a specific provision.

Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as the Group does not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.

The portfolio grading approach is now well embedded in the various portfolio teams, with several controls in place to ensure grading is appropriate.

The table below shows a summary of the descriptors for each asset class. The list is not exhaustive, but indicative of the characteristics that "typical" assets in a particular asset class might be expected to display.

We consider that grade A, B and MICRO assets are low risk and healthy and remain with the portfolio team. Together, in IFRS 9 terms, they are regarded as Stage 1.

We would normally expect mainstream investments to start life as a grade B and typically those investments which are exceeding expectations at the point of drawdown would be graded A. Management has undertaken analysis and determined that grades A and B are categorised as Stage 1, with modelling input analysis based on a combination of both grades.

Grade C assets, whilst still considered healthy, do show a significant increase in credit risk and are normally managed within the risk team. They are regarded as Stage 2 assets.

Assets in grades D and E show a further increase in credit risk with objective evidence of impairment and are, therefore, regarded for IFRS 9 as Stage 3 assets.

The table on the next page shows a summary of the descriptors for each portfolio grade. The list is not exhaustive, but indicative of the characteristics that "typical" assets in a particular asset class might be expected to display.

Notes to the consolidated financial statements
For the year ended 31 March 2020

4. Credit risk (continued)

Asset Class	Typical Descriptors		
	Calculation of ECL	**12 month**	**Lifetime**
A–Healthy	Good quality financial information submitted on time. Performance exceeding or more or less in line with business plan. Risk position not increased since investment made. Payments made in a timely manner. No negative credit alerts.	Arrears <30 days: **Stage 1**	Arrears >30 days: **Stage 2**
B–Healthy	Irregular financial information. Performance is broadly in line with business plan. Performance is within covenants. Payments made in a timely manner. No negative credit alerts.	Arrears <30 days: **Stage 1**	Arrears >30 days: **Stage 2**
Micro	Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as we do not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'Micro'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.	Arrears <30 days: **Stage 1**	Arrears >30 days: **Stage 2**
C–Early Warning	Financial Information difficult to obtain or not available. Business still appears to be viable but difficult to assess the risk. Unauthorised arrears capitalised. Request for authorised repayment holiday. Satisfactory explanation to negative credit alert. Evidence of creditor payments being stretched. Breach of covenant for two consecutive months.		**Stage 2**
D–Sick	Material underperformance. Business changed direction or strategy. Unauthorised arrears. Breach of covenant for more than two consecutive months. No formal Time to pay agreement in place with HMRC. Payment plans with creditors breached.		**Stage 3**
E-Terminal	No recovery from D. Objective evidence of risk of loss identified warranting a specific provision.		**Stage 3**

Overdue accounts
The Group measures investments in arrears in two ways;

- Net Arrears – amounts which are past due and unauthorised.
- Gross Arrears – amounts which are past due compared to the original loan schedule whether authorised or not.

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days or 90 days past due.

Assets in Stage 1 (grades A & B) which are over 30 days past due are flagged and automatically included in Stage 2. This is in line with the requirements of IFRS 9.

Within IFRS 9 there is a rebuttable trigger for assets which are over 90 days past due to be moved to Stage 3. Assets in Stages 1 and 2 (grades A, B, C and Micro) which are over 90 days past due will already have been reviewed and assessed within our grading procedures. The asset may have been modified and rescheduled and payments may now be in line with the revised schedule, but the grading will also have been reviewed and if it is appropriate and there is objective evidence of impairment will have been moved to either a grade D or E and therefore be in Stage 3. However, there will also be assets where the review process indicates that there is not objective evidence of impairment despite the gross arrears in excess of 90 days and that a grade D or E is not appropriate. Such assets will remain in Stage 2 and the 90 day trigger considered to have been rebutted.

Notes to the consolidated financial statements
For the year ended 31 March 2020

4. Credit risk (continued)

Incorporation of forward looking information
The Group uses forward looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as its measurement of ECL. This assessment and its effect on the loss rates used in the Group's ECL calculations is made by the quarterly Risk Committee.

An initial assessment was made to discover if there is a correlation between any of the principal macroeconomic indicators and the Group's default rate which drives the ECL calculation. The principal macroeconomic indicators considered were the Bank of England base rate, the unemployment rate (aged 16 and over, seasonally adjusted), CPIH annual rate, GDP quarter on quarter growth, and the annual house price rates of change for all UK dwellings.

It was considered that whilst all these indicators might have an influence, there is no direct correlation between them and the Group's default rate which could be established. Additionally, there are other ad hoc factors which can influence the credit risk of DBW's investment portfolio which need to be taken into account. For example, the failure of a major employer could have a significant impact on business in the local area and beyond. Such events are not necessarily identifiable in the macroeconomic indicators but must always be included in the Risk Committee's assessment of the forward looking macroeconomic conditions.

The historic loss rates calculated for each category of the Group's portfolio with shared credit risks will be reviewed by the quarterly Risk Committee in the light of both the principal macroeconomic indicators and any other factors likely to affect the Welsh economy, such as sector or region specific information, and will be flexed to reflect this forward looking view. These flexed loss rates will then be used in all the ECL calculations.

Measurement of expected credit loss (ECL)
The portfolio of loans and advances to customers held at amortised cost has been disaggregated into categories of loans with shared credit risks. The Group then uses a loss rate model to calculate the 12-month and lifetime ECL for each category. Four categories of loan with a different risk profiles have been identified; micro loans, property loans, rescue and restructure loans and mainstream loans.

Different approaches have been considered in the disaggregation of the portfolio including investment type, industry sector and geographical region, and investment type with four categories of risk profile is considered the most appropriate at this time. The disaggregation will be reconsidered from time to time and amended to fit the risk profiles apparent at that time.

Historical loss rates have then been calculated for each portfolio grade within each category which shows the 12-month and lifetime percentage loss rates for each grade. These loss rates are updated each year to incorporate the most up to date data.

At the point of ECL measurement loans are summarised by portfolio grade and the loss rates for each portfolio grade (either 12-month or lifetime, as appropriate) within each of the four categories is applied and the ECL calculated. The calculation is on a discounted cash flow basis where the cash flows are discounted by the original EIR of the loan. The ECLs are then amended and finalised by incorporating the findings of the Quarterly Risk Committee in their review of forward looking information, regional or sectoral information as described above.

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.

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.

Groupings based on shared characteristics
When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, specifically:

- Portfolio grade; and
- Investment type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

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4. Credit risk (continued)

Credit quality

Class of financial instrument
The Group monitors credit risk per class of financial instrument. An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables:

Loans and advances to customers at amortised cost		
Concentration by category	**2020**	**2019**
	£	£
Rescue and restructure fund	1,392,274	1,002,227
Property Fund	35,464,226	20,288,404
Micro loan fund	8,308,937	7,747,815
Mainstream loans	72,485,349	59,792,527
	117,650,786	**88,830,973**

Loans and advances to customers at FVTPL		
Concentration by category	**2020**	**2019**
	£	£
Help to Buy – Wales shared equity loans	345,995,504	333,802,414
	345,995,504	**333,802,414**

Exposure by class, internal rating and stage
An analysis of the Group's 'credit risk exposure per class of financial asset, internal rating and 'stage' is provided below:

Loans and advances to customers at amortised cost				
				2020 (£)
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	71,014,695	-	-	71,014,695
Grade Micro: Low to fair risk	7,704,932	-	-	7,704,932
Grade A-B: Low to fair risk – in arrears	-	2,034,498	-	2,034,498
Grade Micro: Low to fair risk – in arrears	-	448,192	-	448,192
Grade C: Early warning	-	22,474,427	-	22,474,427
Grade C: Early warning – in arrears	-	876,694	-	876,694
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	10,427,546	10,427,546
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	3,302,382	3,302,382
Grade E: Objective evidence of impairment	-	-	37,016,643	37,016,643
Total Gross carrying amount	**78,719,627**	**25,833,811**	**50,746,571**	**155,300,009**
Loss allowance	(740,284)	(3,575,659)	(33,333,280)	(37,649,223)
Net Carrying amount	**77,979,343**	**22,258,152**	**17,413,291**	**117,650,786**
Provision coverage ratio	0.9%	13.8%	65.7%	24.2%

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4. Credit risk (continued)

Exposure by class, internal rating and stage (continued)

Loans and advances to customers at amortised cost				
				2019 (£)
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	59,169,784	-	-	59,169,784
Grade Micro: Low to fair risk	9,244,876	-	-	9,244,876
Grade A-B: Low to fair risk – in arrears	-	1,692,644	-	1,692,644
Grade Micro: Low to fair risk – in arrears		175,694		175,694
Grade C: Early warning	-	12,818,044	-	12,818,044
Grade C: Early warning – in arrears	-	952,237	-	952,237
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	3,874,017	3,874,017
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	4,074,579	4,074,579
Grade E: Objective evidence of impairment	-	-	29,109,430	29,109,430
Total Gross carrying amount	**68,414,660**	**15,638,619**	**37,058,026**	**121,111,305**
Loss allowance	(1,180,099)	(1,911,389)	(29,188,844)	(32,280,332)
Net Carrying amount	**67,234,564**	**13,727,230**	**7,869,182**	**88,830,973**
Provision coverage ratio	1.7%	12.2%	78.8%	26.7%

Movement of loss allowance during year
The table below analyses the movement of the loss allowance during the year per class of asset:

Loans and advances to customers at amortised cost				
				(£)
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 April 2019	**1,180,099**	**1,911,389**	**29,188,844**	**32,280,332**
Changes in the loss allowance:				
New financial assets originated	643,580	–	–	643,580
Transfers to Stage 1	178,190	(135,662)	(42,528)	-
Transfers to Stage 2	(318,212)	318,212	–	-
Transfers to Stage 3	(399,247)	(1,066,772)	1,466,019	-
Increase due to Covid-19	134,616	1,024,998	8,554,074	9,713,688
(Decrease)/increase due to other changes in credit risk	(674,713)	1,597,648	956,049	1,878,984
Financial assets derecognised in the year	(4,029)	(74,154)	(9,039)	(87,222)
Write offs	-	-	(6,780,139)	(6,780,139)
Loss allowance as at 31 March 2020	**740,284**	**3,575,659**	**33,333,280**	**37,649,223**

Excluding the impact of Covid-19, loan provisions have reduced from the prior year as a proportion of outstanding loan balances as a result of improved default performance prior to the Covid-19 lockdown and reductions in historic losses in recent years which are used to estimate future expected losses. If expected loss rates as at 31 March 2019 were used in the calculation of the loss provision as at 31 March 2020 the provision would increase by £3.8m.

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4. Credit risk (continued)

Movement of the gross carrying amount during year
More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance is provided in the table below:

Loans and advances to customers at amortised cost				(£)
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 April 2019	**68,414,660**	**15,638,619**	**37,058,026**	**121,111,305**
Changes in the gross carrying amount:				
New financial assets originated	69,402,349	–	–	69,402,349
Transfers to stage 1	1,143,011	(1,023,008)	(120,003)	-
Transfers to stage 2	(24,703,495)	24,703,495	–	–
Transfers to stage 3	(21,130,337)	(8,600,388)	29,730,725	–
Financial assets derecognised in the year	(174,893)	(603,799)	(24,134)	(802,826)
Write offs	–	–	(6,780,139)	(6,780,139)
Other changes	(14,231,669)	(4,281,107)	(9,117,904)	(27,630,680)
Gross carrying amount as at 31 March 2020	**78,719,626**	**25,833,812**	**50,746,571**	**155,300,009**

Other changes in the table above predominantly relates to repayments received during the year that have reduced outstanding balances on assets that remain held at the year end.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil (2019: £nil).

Modified financial assets
As a result of the Group's forbearance activities financial assets might be modified. There are no net modification gains or losses from financial assets where modification does not result in derecognition.

Notes to the consolidated financial statements
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5. Revenue and other operating income

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

	2020	2019
	£	£
Revenue:		
Fees	7,534,558	6,815,308
Dividends	65,603	94,422
Loan interest	8,406,883	6,836,315
	16,007,044	**13,746,045**
Other Operating Income:		
European Regional Development Fund ("ERDF") grant income	29,545,664	25,388,761
Fair value (loss)/gain on shared equity assets	(27,682,924)	26,785,103
Fair value loss on non-consolidated funds	(5,374,676)	(14,785,538)
Fair value loss on other financial assets	(27,460,351)	(14,966,475)
Realised gains from the disposal of shared equity assets	3,143,998	1,421,799
Realised gains from the disposal of other financial assets	749,335	571,670
Total revenue and other operating (expenditure)/income	**(11,071,910)**	**38,161,365**

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6. Operating profit

	2020	2019
	£	£
Operating profit has been arrived at after charging:		
Depreciation of intangibles	48,048	-
Depreciation of property, plant and equipment	259,063	196,669
Depreciation of right of use assets	446,983	-
Directors emoluments and staff costs (see note 7)	12,991,709	10,518,990
Impairment of loans	10,869,786	2,464,580

	2020	2019
	£	£
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's financial statements	63,930	66,490
Fees payable to the Company's auditor for other services to the Group: Audit of the Company's subsidiaries	168,860	129,190
Total audit fees for the Group	**232,790**	**195,680**
Tax compliance	76,817	72,049
Other taxation advisory services	14,322	49,378
Other assurance services	16,540	15,750
Total non-audit fees for the Group	**107,679**	**137,177**

7. Information regarding directors and employees

	2020	2019
	£	£
Directors' emoluments:		
Wages and salaries	479,173	527,306
Pension costs	33,577	29,916
	512,750	**557,222**
Remuneration of highest paid director	**208,235**	**200,349**

One director (2019: one) of the Company and three directors (2019: three) of subsidiary companies were members of the defined benefit pension scheme.

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7. Information regarding directors and employees (continued)

	2020	2019
	£	£
Aggregate payroll costs (excluding directors):		
Wages and salaries	10,161,405	8,081,445
Social security costs	1,120,658	901,142
Pension costs	1,196,896	979,180
	12,478,959	**9,961,767**
Directors Emoluments and Staff Costs	**12,991,709**	**10,518,990**
	No.	No.
The monthly average number of persons employed (excluding directors and agency temps):		
Administration	57	51
Funds Management	161	132
	218	**183**

8. Interest receivable

	2020	2019
	£	£
Bank interest	**2,925,494**	**713,299**

9. Finance costs

	2020	2019
	£	£
Interest on lease liabilities	78,416	-
Net finance cost of pension scheme	-	30,000
	78,416	**30,000**

Notes to the consolidated financial statements
For the year ended 31 March 2020

10. Tax

	2020	2019
	£	£
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 before tax is as follows:

	2020	2019
	£	£
Loss on ordinary activities before tax	**(16,229,447)**	**(10,153,707)**
Tax at 19% (2019: 19%) thereon	(3,083,595)	(1,929,203)
Factors affecting charge for the year:		
Expenses not deductible	1,323,806	7,986,398
Deferred tax not recognised	8,604,254	1,288,217
Partnership Share	212,492	260,527
Non-taxable income	(7,204,076)	(7,605,939)
Chargeable gains	147,119	-
Total taxation charge	**-**	**-**

A deferred tax asset of £14,748,918 (2019: asset of £5,379,227) 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. This reduction was reversed, and the reversal substantively enacted in March of 2020 such that the main rate of corporation tax remains at 19%.

The Group has made an overall loss of £16,229,447 during the period (2019: loss £10,153,707).

Notes to the consolidated financial statements
For the year ended 31 March 2020

11. Intangibles

Group

	2020	2019
	£	£
Software:		
Cost		
At 1 April	173,660	-
Additions	238,169	173,660
At 31 March	**411,829**	**173,660**
Accumulated depreciation:		
At 1 April	-	-
Charge for the year	48,048	-
At 31 March	**48,048**	**-**
Net book value:		
At the end of the financial year	**363,781**	**173,660**
At the beginning of the financial year	173,660	-

12. Property, plant and equipment

Group and company

	Land & Buildings		Fixture & Fittings		Total	
	2020	2019	2020	2019	2020	2019
	£	£	£	£	£	£
Cost:						
At 31 March	-	-	1,965,259	1,647,037	1,965,259	1,647,037
IFRS 16 Transitional Adjustment	4,198,413	-	-	-	4,198,413	-
At 1 April	**4,198,413**	**-**	**1,965,259**	**1,647,037**	**6,163,672**	**1,647,037**
Additions	-	-	172,679	357,923	172,679	357,923
Disposals	-	-	(169,879)	(39,701)	(169,879)	(39,701)
At 31 March	**4,198,413**	**-**	**1,968,059**	**1,965,259**	**6,166,472**	**1,965,259**
Accumulated depreciation:						
At 1 April	-	-	1,448,173	1,291,175	1,448,173	1,291,175
Charge for the year	446,983	-	259,063	196,699	706,046	196,699
Disposals	-	-	(169,879)	(39,701)	(169,879)	(39,701)
At 31 March	**446,983**	**-**	**1,537,357**	**1,448,173**	**1,984,340**	**1,448,173**
Net book value:						
At the end of the financial year	**3,751,430**	**-**	**430,702**	**517,086**	**4,182,132**	**517,086**
At the beginning of the financial year	-	-	517,086	355,862	517,086	355,862

Included within Land and buildings are £3,751,430 of assets recognised under IFRS 16. Further details of these leases are disclosed in Note 21.

Notes to the consolidated financial statements
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13. Financial assets at fair value

	2020	2019
	£	£
Shared equity assets	345,995,504	333,802,414
Equity investments	71,345,476	81,096,672
Investments in non-consolidated funds	11,511,304	16,885,968
Convertible loan notes	3,416,096	4,707,783
	432,268,380	**436,492,837**

Shared equity loans relate to those agreements entered into under the Help to Buy – Wales ("HTB-W") scheme and further information in respect of the carrying value can be found in Note 19. The maximum exposure to credit risk of shared equity loans for the current and prior period is the carrying amount.

Investments in non-consolidated Funds includes the Group's investment in the Wales Life Science Investment Fund held at fair value of £11,211,003 (2019: £16,585,679).

14. Other financial assets

Trade and other receivables	2020	2019
	£	£
Current assets:		
Trade debtors	142,011	32,814
	142,011	32,814
Loans receivable carried at amortised cost	23,571,667	27,914,879
Impairment	(8,317,964)	(12,708,685)
	15,253,703	15,206,194
Amounts owed by principal shareholder	-	1,548,000
Other debtors	7,404,930	6,508,538
Prepayments	91,357	407,406
	22,892,001	**23,702,952**
Non-current assets:		
Loans receivable carried at amortised cost	131,728,342	101,733,428
Impairment	(29,331,259)	(28,108,649)
	102,397,083	73,624,779
Other debtors	239,167	-
	102,636,250	**73,624,779**

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is five years (2019: 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 7.3% per annum (2019: 7.3%).

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

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

Loans receivable disclosed above include amounts 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.

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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.

	2020	2019
	£	£
Cash and cash equivalents	**589,130,541**	**477,641,068**

Cash and cash equivalents comprise cash, short-term bank deposits with an original maturity of 3 months or less and fixed-term deposits redeemable within the next 3 months. 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, NatWest plc, Handelsbanken 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.

16. Other financial liabilities

Trade and other payables	2020	2019
	£	£
Current liabilities:		
Trade payables and accruals	(3,924,875)	(3,954,352)
Taxation and social security	(298,536)	(362,200)
Other creditors	(3,639,569)	(1,448,265)
Amounts owed to principal shareholder held at amortised cost	(33,281,210)	(33,578,806)
Amounts owed to principal shareholder held at fair value	(1,213,902)	-
	(42,358,092)	**(39,343,623)**
Non-current liabilities:		
Amounts owed to principal shareholder held at amortised cost	(483,994,928)	(413,185,000)
Amounts owed to principal shareholder held at fair value	(479,080,303)	(408,016,131)
	(963,075,231)	**(821,201,131)**

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 2043. These borrowings are non-secured and are non-interest bearing.

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16. Other financial liabilities (continued)

Reconciliation of changes in liabilities arising from financing activities:

	2020	2019
	£	£
Balance at the beginning of the year	821,210,131	558,196,229
Cashflows	167,617,928	234,798,000
Non Cash changes:		
Fair Value changes	(24,538,926)	28,206,902
Balance at the end of the year	**964,289,133**	**821,201,131**

17. 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 £649,676 (2019: £479,970) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2020, contributions of £56,436 (2019: £41,529) 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 Taf County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis.

The Group is not aware of any specific risks to which the scheme is exposed, details of asset allocation are set out below.

In the event of the withdrawal of the Group from the scheme the resulting surplus or deficit would be allocated to the Group.

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 on the following pages.

Notes to the consolidated financial statements
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17. Retirement benefit schemes (continued)

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

	2020	2019
	£	£
Development Bank of Wales plc	(110,000)	130,000
DBW FM Limited	(730,000)	(180,000)
Net deficit	**(840,000)**	**(50,000)**

The last tri annual actuarial valuation was carried out at 31 March 2019 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	2020		2019	
	Development Bank of Wales plc	DBW FM Ltd	Development Bank of Wales plc	DBW FM Ltd
Rate of increases in salaries	3.15%	3.15%	3.35%	3.35%
Rate of increases in pensions in payment	1.9%	1.9%	2.10%	2.10%
Rate of increase to deferred pensions	1.9%	1.9%	2.10%	2.10%
Discount rate	2.3%	2.3%	2.50%	2.50%
Inflation assumption CPI	1.9%	1.9%	2.10%	2.10%

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 2020	31 March 2019	31 March 2020	31 March 2019
Member aged 65 at accounting date	21.7	22.2	24	24.1
Member aged 45 at accounting date	22.7	23.9	25.5	25.9

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17. 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 2020	Asset split 2019
	%	%
Equities	63.7	64.5
Property	8.6	6.9
Government bonds	13.8	13.5
Corporate bonds	13.0	11.6
Cash	0.9	3.5
Total market value	**100.0**	**100.0**

Reconciliation of Funded Status to Balance Sheet	Development Bank of Wales plc		DBW FM Limited	
	2020 £	2019 £	2020 £	2019 £
Fair value of assets	9,000,000	9,520,000	15,160,000	15,060,000
Present value of funded defined benefit obligation	(9,110,000)	(9,390,000)	(15,890,000)	(15,240,000)
Net (deficit)/surplus	**(110,000)**	**130,000**	**(730,000)**	**(180,000)**

Amounts recognised in income statement	Development Bank of Wales plc		DBW FM Limited	
	2020 £	2019 £	2020 £	2019 £
Operating costs:				
Current service cost	180,000	170,000	620,000	540,000
Past service cost	70,000	-	-	-
Total operating charge	250,000	170,000	620,000	540,000
Financing Cost:				
Interest on net defined benefit liability	-	10,000	-	20,000
Pension expense recognised in profit and loss	**250,000**	**180,000**	**620,000**	**560,000**

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17. Retirement benefit schemes (continued)

Amounts recognised in other comprehensive income	Development Bank of Wales plc		DBW FM Limited	
	2020 £	2019 £	2020 £	2019 £
Asset (loss)/gains arising during the period	(480,000)	630,000	(790,000)	980,000
Liability gains/(losses) arising during the period	290,000	(500,000)	310,000	(190,000)
Total actuarial (loss)/gain	**(190,000)**	**130,000**	**(480,000)**	**790,000**

Changes to the present value of the defined benefit obligation	Development Bank of Wales plc		DBW FM Limited	
	2020 £	2019 £	2020 £	2019 £
Opening defined benefit obligation	9,390,000	9,030,000	15,240,000	14,030,000
Current service cost	180,000	170,000	620,000	540,000
Interest expense on defined benefit obligation	230,000	230,000	380,000	370,000
Contribution by participants	40,000	50,000	170,000	170,000
Actuarial (gains)/ losses on liabilities	(290,000)	40,000	(580,000)	190,000
Net benefits paid out	(510,000)	(130,000)	(210,000)	(60,000)
Past service cost	70,000	-	270,000	-
Closing defined benefit obligation	**9,110,000**	**9,390,000**	**15,890,000**	**15,240,000**

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Limited	
	2020 £	2019 £	2020 £	2019 £
Opening fair value of assets	9,520,000	8,550,000	15,060,000	13,100,000
Interest income on assets	230,000	220,000	380,000	350,000
Re-measurement gains on assets	(480,000)	630,000	(790,000)	980,000
Contributions by employers	200,000	200,000	550,000	520,000
Contributions by participants	40,000	50,000	170,000	170,000
Net benefits paid out	(510,000)	(130,000)	(210,000)	(60,000)
Closing fair value of assets	**9,000,000**	**9,520,000**	**15,160,000**	**15,060,000**
Net (deficit)/surplus	**(110,000)**	**130,000**	**(730,000)**	**(180,000)**

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18. Deferred income

Group and Company

	2020	2019
	£	£
Balance at 1 April	8,867,203	4,682,629
Grant received in the year	35,982,657	29,573,335
Grant released to income statement in the year	(29,545,664)	(25,388,761)
Balance at 31 March	**15,304,196**	**8,867,203**

	Current		Non-current	
	2020 £	2019 £	2020 £	2019 £
Deferred income	**15,304,196**	**8,867,203**	**-**	**-**

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 subsidiary – 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 (14) Limited for the uninvested grant income. Both the creditors and debtors are reduced when DBW Investments (14) Limited makes a qualifying investment.

19. Financial instruments

Significant accounting policies

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

Capital risk management

The capital structure of the Group consists of debt, 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.

Categories of financial instruments

The Group's financial instruments comprise investments in SMEs in the form of either loans or equity, derivative financial instruments, 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 does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

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19. Financial instruments (continued)

Carrying value as at 31 March 2020 (£)	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
Assets:				
Cash and cash equivalents		589,130,541	-	589,130,541
Financial assets:				
Measured at market price	i	-	18,877,763	18,877,763
Measured at fair value using other methods	ii	-	67,395,113	67,395,113
Loans to customers	iii	117,650,786	-	117,650,786
Shared-equity loans	v	-	345,995,504	345,995,504
Other receivables	iii	7,877,465	-	7,877,465
Total financial assets		**714,658,792**	**432,268,380**	**1,146,927,172**
Non-financial assets				4,545,913
Total assets				**1,151,473,085**
Liabilities:				
Amounts due to principal shareholder at amortised cost	iv	517,276,138	-	517,276,138
Amounts owed to principal shareholder at fair value	v	-	480,294,205	480,294,205
Trade and other payables	iv	11,536,401	-	11,536,401
Retirement benefit obligations	iv	840,000	-	840,000
Total financial liabilities		**529,652,539**	**480,294,205**	**1,009,946,744**
Non-financial liabilities				15,304,196
Reserves				126,222,145
Total reserves and liabilities				**1,151,473,085**

During the current year, no assets were within Level 2 of the fair value hierarchy (2019 – £nil).

Notes to the consolidated financial statements
For the year ended 31 March 2020

19. Financial instruments (continued)

Carrying value as at 31 March 2019 (£)	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
Assets:				
Cash and cash equivalents		477,641,068	-	477,641,068
Financial assets:				
Measured at market price	i	-	27,841,024	27,841,024
Measured at fair value using other methods	ii	-	74,849,399	74,849,399
Loans to customers	iii	88,830,973	-	88,830,973
Shared-equity loans	v	-	333,802,414	333,802,414
Other receivables	iii	8,496,758	-	8,496,758
Total financial assets		**574,968,799**	**436,492,837**	**1,011,461,636**
Non-financial assets				690,746
Total assets				**1,012,152,382**
Liabilities:				
Amounts due to principal shareholder at amortised cost	iv	446,763,806	-	446,763,806
Amounts owed to principal shareholder at fair value	v	-	408,016,131	408,016,131
Trade and other payables	iv	5,764,817	-	5,764,817
Retirement benefit obligations	iv	50,000	-	50,000
Total financial liabilities		**452,578,623**	**408,016,131**	**860,594,754**
Non-financial liabilities				8,867,203
Reserves				142,690,425
Total reserves and liabilities				**1,012,152,382**

Notes to the consolidated financial statements
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19. Financial instruments (continued)

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

Note:

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

ii. Non-consolidated funds

Included within the balance of investments in non-consolidated funds is the Group's investment in the WLSIF held at fair value. This fair value is derived from the amounts entitled to the Group from the WLSIF as at 31 March 2020 based on its Net Asset Value (level 3 hierarchy as defined below).

A valuation of the WLSIF's underlying portfolio companies has been provided by ACM, WLSIF's fund manager, within the WLSIF financial statements showing a fair value at 31 December 2019 of £15.0m (31 March 2019: £17.5m). The year on year movement has resulted from reductions in the fair value of the underlying portfolio companies. These companies are at an early stage of their lives and their valuation generally changes as milestones are reached. This makes the valuation sensitive to performance against milestone targets as illustrated by the change in fair value noted above.

The WLSIF Limited Partnership financial statements note that the portfolio valuation was calculated by ACM as follows:

- updating the share price for the three listed securities
- reflecting anticipated deferred proceeds relating to the disposal made in the prior year
- all the remaining investments are unlisted shares. The fair value of investments have been valued using the mid point from a range of values per an expert's valuation report.

The independent auditors' report to the partners of the Wales Life Science Investment Fund Limited Partnership confirmed that they had audited the financial statements and concluded that in their opinion the financial statements give a true and fair view of the statement of the qualifying partnership's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended.

Adjustments have been made to the 31 December 2019 valuations as follows:

- updating the share price for the three listed securities
- adjusting the valuation of unlisted shares in line with observable valuation movements in an appropriate sector.

As result of the review of the disclosures made in the WLSIF Limited Partnership's annual report and audited financial statements, the review of the expert's valuation report and the review of subsequent amendments the directors conclude that the fair value of the Group's investment in the WLSIF as at 31 March 2020 is £11.2m (2019: £16.6m) The directors note that the fair value of the WLSIF can change rapidly as its portfolio of early stage companies reach or miss milestone deadlines.

ii. Equity Investments

Unlisted equity investments are valued using different techniques in accordance with the Group's valuation policy and International Private Equity and Venture Capital Guidelines. Depending on the circumstances of the investment, unlisted equity valuations are based on multiples, discounted cash flows, net asset values or price of recent investment, which can be either the price of recent funding round or cost in the case of a new direct investment.

- a number multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to current market-based multiple, (level 3 hierarchy as defined below).
- discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, discounted using rates appropriate to the specific investment, (level 3 hierarchy as defined below).
- net asset values are adjusted to take into account differences in the fair value of underlying net assets to their carrying values, (level 3 hierarchy as defined below).
- the price of recent funding round or cost of investment provide observable inputs into the valuation of an individual investment. However, subsequent to the funding round or initial investment, the Directors are required to reassess the carrying value of investments at each year end, which result in unobservable inputs into the valuation methodology, (level 3 hierarchy as defined below).

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19. Financial instruments (continued)

The table below summarises the fair value measurements:

	2020	2019
	£	£
Multiples	12,225,660	10,716,572
Discounted Cash flows	3,492,978	670,326
Net asset Value	3,621,098	204,673
Price of recent investment	33,127,977	41,664,072
Balance at 31 March	**52,467,713**	**53,255,643**

iii. Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IFRS 9.

iv. 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).

v. The fair value of the HTB-W loan book has been calculated by setting out anticipated future cashflows and discounting these at an appropriate funding rate. See note 3 for further information.

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. Investments in non-quoted securities are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser.

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19. Financial instruments (continued)

Reconciliation of Level 3 measurements of financial assets

	FVTPL Shared-equity loan book		FVTPL Other Financial Assets	
	2020 £	**2019** £	**2020** £	**2019** £
Balance 1 April	333,802,414	180,264,477	74,849,399	41,567,660
Additions	72,218,944	73,934,788	16,961,493	17,491,639
Disposals	(32,342,930)	(17,444,585)	(1,499,542)	(2,899,913)
Revaluations	(27,682,924)	26,785,103	(22,916,237)	(16,403,743)
Transfers into Level 3	-	70,262,631	-	35,093,756
Balance 31 March	**345,995,504**	**333,802,414**	**67,395,113**	**74,849,399**

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.

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 majority of financial liabilities are amounts owed to the principal shareholder and relate to Financial Transaction Reserve Funding (FTR). The current balances in respect of FTR funding are repayable by 31 March 2043. These borrowings are non-secured and non interest bearing.

Market risk

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

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 an external borrowings rate of 3.75% (2019: 3.75%) it would be £344,363,282 (2019: £288,016,763) which represents a decrease of £139,631,706 (2019: decrease £125,168,237) in comparison to the carrying value.

Notes to the consolidated financial statements
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20. Capital and reserves

Called up Share Capital – Group and Company

	2020	2019
	£	£
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.

Non-Controlling Interest	2020	2019
	£	£
Movements during the year were:		
Balance at the beginning of the year	2,972,983	-
Non-Controlling Interest Capital Contribution	489,914	2,608,408
Distribution	(720,000)	-
Share of profit for the year	43,445	364,575
Balance at the end of the year	**2,786,342**	**2,972,983**

The non-controlling interest represents the investment made by Clwyd Pension Fund in the Management Succession (Wales) Limited Partnership and the profit attributable to them on that investment.

Notes to the consolidated financial statements
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21. Leases

Group and company

The incremental borrowing rate applied to leases on 1 April 2019 was 1.99%. The aggregate lease liability recognised in the balance sheet at 1 April 2019 and the Group's operating lease commitments as at 31 March 2019 can be reconciled as follows:

	£
Operating lease commitments at 31 March 2019	4,745,375
Effect of discounting those lease commitments at a rate of 1.99%	(433,879)
Effect of electing to account for short-term leases off balance sheet	(228,951)
Lease liability recognised in the balance sheet at 1 April 2019	**(4,082,545)**

Right of Use Assets	2020	2019
	£	£
Net carrying amount	3,751,429	-
Depreciation expense of the year	446,983	-
Amounts recognised in profit and Loss:	2020	2019
	£	£
Expenses relating to low value leases	74,382	-
Depreciation expense on ROU assets	446,983	-
Interest expense on lease liabilities	78,416	-
Expense relating to short-term leases	70,398	-
Lease Liabilities:	2020	2019
	£	£
Amounts due for settlement within 12 months (Current liabilities)	417,532	-
Amounts due for settlement after 12 months	3,255,889	-
	3,673,421	**-**
Maturity Analysis:	2020	2019
	£	£
Not later than 1 year	417,532	-
Later than 1 year and not later than 5 years	1,584,877	-
Later than 5 years	1,671,013	-
	3,673,421	**-**

The average lease term is 9.1 years (2019: 10.0 years)

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22. Notes to the consolidated cash flow statement

	2020	2019
	£	£
Loss for the year	(16,229,447)	(10,153,707)
Adjustments for:		
Defined benefit pension costs	120,000	-
Investment revenues	(2,925,494)	(713,299)
Finance costs	78,416	30,000
Depreciation of property, plant and equipment	754,094	196,699
Reversal of deferred income revenue	(29,545,664)	(25,388,761)
IFRS 9 Transitional adjustments	-	2,775,071
Operating cash flows before changes in net operating assets	(47,748,095)	(33,253,997)
(Increase)/decrease in receivables	(28,316,388)	31,133,157
(Decrease)/increase in payables	(28,515,169)	29,011,042
Decrease/(increase) in financial assets at fair value	4,224,457	(105,614,788)
Cash consumed during operations	**(100,355,195)**	**(78,724,586)**

Notes to the consolidated financial statements
For the year ended 31 March 2020

23. Related party transactions

Transactions between the Company and its Directors are disclosed in note 7, Information Regarding Directors and Employees.

Transactions between the Company and its principal shareholder are disclosed in note 16, Other Financial Liabilities.

Transactions with Subsidiaries

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 Group and its subsidiaries, which are not 100% owned, during the year are as follows:

During the prior year the investments held in the Management Succession fund were transferred into the newly created Management Succession (Wales) Limited Partnership. Assets with a carrying value of £5,272,023 were transferred for consideration of £4,281,000 giving rise to a loss on disposal in DBW Investments (12) Limited of £991,023 and a corresponding gain in Management Succession (Wales) Limited Partnership.

Since this transfer fund management fees have been charged totalling £375,000 (2019: £62,500), these fees are charged at the Group's usual prices.

Transactions with Associates

Transactions between the Group and its associates during the year are as follows:

Sale of services		Interest Charged		Loans to related parties		Equity investments in associates	
2020	2019	2020	2019	2020	2019	2020	2019
£	£	£	£	£	£	£	£
-	9,600	-	91,252	-	1,306,223	-	630,220

Sales of services and interest charged on loans to related parties were made at the Group's usual prices. The amounts outstanding were unsecured and to be settled in cash. No guarantees had been given or received.

The amounts owed above all related to one associate that ceased to be an associate in the prior year, at 31 March 2019 these balances were 100% provided due to impairment.

24. 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 Development Bank of Wales plc may be obtained from its registered address, Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL.

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

Company balance sheet
As at 31 March 2020

	Note	2020	2019
		£	£
Non current assets:			
Property, plant and equipment	12	4,182,132	517,086
Investments	28	575,106,485	545,875,204
		579,288,617	546,392,290
Current assets:			
Debtors: due within one year	29	1,658,036	2,669,527
Cash at bank and in hand		2,159,029	120,613,936
		3,817,065	123,283,463
Total assets		**583,105,682**	**669,675,753**
Current liabilities:			
Trade and other payables	30	(810,149)	(154,222,122)
Deferred income	18	(15,304,196)	(8,867,203)
Lease liabilities	21	(417,532)	-
		(16,531,877)	(163,089,325)
Net current liabilities		**(12,714,812)**	**(39,805,862)**
Non current liabilities:			
Trade and other payables	31	(487,155,000)	(416,074,000)
Lease liabilities	21	(3,255,889)	-
		(490,410,889)	(416,074,000)
Total liabilities		**(506,942,766)**	**(579,163,325)**
Net assets excluding pension obligations:		76,162,916	90,512,428
Pension (deficit)/surplus	17	(110,000)	130,000
Net assets		**76,052,916**	**90,642,428**
Capital and reserves:			
Public equity		117,151,017	117,151,017
Called up share capital	20	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(41,120,701)	(26,531,189)
Shareholders' funds		**76,052,916**	**90,642,428**

The Company reported a loss for the financial year ended 31 March 2020 of £15,060,765 (2019: profit of £161,341).

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 29 July 2020.

Signed on its behalf by

Giles Thorley
Director

Company statement of changes in equity
For the year ended 31 March 2020

	Note	Public equity	Share capital	Capital reserve	Retained Profit	Total
		£	£	£	£	£
Balance at 1 April 2018		**112,180,780**	**12,500**	**10,100**	**(27,282,530)**	**84,920,850**
Profit for the financial year		-	-	-	161,341	161,341
Actuarial gain on defined benefit pension schemes	17	-	-	-	590,000	590,000
Increase in public equity		4,970,237	-	-	-	4,970,237
Sub Total		4,970,237	-	-	751,341	5,721,578
Balance at 31 March 2019		**117,151,017**	**12,500**	**10,100**	**(26,531,189)**	**90,642,428**
IFRS 16 Transitional adjustments	1	-	-	-	661,253	661,253
Balance at 1 April 2019		**117,151,017**	**12,500**	**10,100**	**(25,869,936)**	**91,303,681**
Loss for the financial year		-	-	-	(15,060,765)	(15,060,765)
Actuarial loss on defined benefit pension schemes	17	-	-	-	(190,000)	(190,000)
Sub Total		-	-	-	(15,250,765)	(15,250,765)
Balance at 31 March 2020		**117,151,017**	**12,500**	**10,100**	**(41,120,701)**	**76,052,916**

Notes to the company financial statements
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25. 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 83.

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 2.

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.

Investments

Equity investments are treated as fixed assets and stated in the balance sheet at cost less any provision for impairment.

Loans to subsidiaries include FTR funding which is repayable by 31 March 2043. These borrowings are non-secured and non interest bearing. As required by IFRS 9, the Company has established an allowance for impairment losses for amounts due from its subsidiaries based on the probability of its subsidiaries defaulting on the amounts payable.

Revenue Recognition

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

Tangible fixed assets

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

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

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

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

Company statement of changes in equity
For the year ended 31 March 2020

25. Accounting policies (continued)

Public equity (continued)

for within DBW FM Limited (Small Loans Fund), DBW Investments (3) Limited (Rescue and Restructuring Fund I and II, Wales Capital Fund, TVI Interim Fund, Tech Seed Funds I and II, Wales Angel Co-Invest Fund, Wales Flexible Investment Fund and Local Energy Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund and Wales Tourism Investment Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Wales Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund, Wales Micro Loan Fund and the Covid-19 Wales Business Loan Fund), DBW Investments (11) Limited (the Wales Property Fund, Wales Stalled Sites Fund, Wales Commercial Property Fund and Wales Self Build 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.

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

Retirement Benefits

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

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

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

The Company offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council scheme. Employer contributions in relation to this scheme are accounted for within other administrative expenses.

Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Company's accounting policies

There are no critical accounting judgements in applying the Company's accounting policies.

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.

Allowance for impairment losses on intercompany credit exposures.
The Company recognises loss allowances for ECLs on intercompany loans. Management identifies the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

There is a risk that these loans deteriorate as a result of the on-going economic challenges created by Covid-19 and the impact this has on underlying investments in subsidiaries' funds. Management have used all reasonable and supportable information to estimate the required provisions against such a population for the purposes of reporting in the 31 March 2020 financial statements however there remains uncertainty about the future performance of such loans and resultant increases to loss allowances.

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Notes to the company financial statements
For the year ended 31 March 2020

26. Information regarding directors and employees

	2020	2019
	£	£
Directors' emoluments:		
Emoluments	479,173	527,306
Pension costs	33,577	29,917
	512,750	557,223
Remuneration of highest paid director	**208,235**	**200,349**

One director of the company and three directors of subsidiary companies were members of the defined benefit pension scheme (2019: one and three).

	2020	2019
	£	£
Aggregate payroll costs (excluding directors):		
Wages and salaries	2,127,215	1,774,201
Social security costs	267,142	233,045
Pension costs	263,212	215,460
	2,657,569	**2,222,706**
	No.	No.
The monthly average number of persons employed (excluding directors) – administration	57	51

27. Result for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £15,060,765 (2019: profit of £161,341). Auditor's remuneration for audit services for the Company was £63,930 (2019: £66,490) and for other taxation advisory services for the Company was £20,666 (2019: £12,257).

28. Investments

	Shares in subsidiary undertaking	Investments in and loans to subsidiary undertakings	Total 2020	Total 2019
	£	£	£	£
At 1 April	155,027	545,720,177	545,875,204	566,481,621
Additions	1	77,517,993	77,517,994	272,152,811
Disposals	-	(33,000,000)	(33,000,000)	(292,759,228)
Impairment	-	(15,286,713)	(15,286,713)	-
At 31 March	**155,028**	**574,951,457**	**575,106,485**	**545,875,204**

Notes to the company financial statements
For the year ended 31 March 2020

28. Investments (continued)

The Company's investments in group companies relate to:

	Principal place of Business	Holding
Direct Subsidiaries:		
DBW Holdings Limited	United Kingdom	£1 ordinary shares
DBW Services Limited	United Kingdom	£1 ordinary shares
DBW Managers Limited	United Kingdom	£1 ordinary shares
Indirect Subsidiaries:		
DBW FM Limited	United Kingdom	£1 ordinary shares
DBW Investments (2) Limited	United Kingdom	£1 ordinary shares
DBW Investments (3) Limited	United Kingdom	£1 ordinary shares
DBW Investments (4) Limited	United Kingdom	£1 ordinary shares
DBW Investments (5) Limited	United Kingdom	£1 ordinary shares
DBW Investments (6) Limited	United Kingdom	£1 ordinary shares
DBW Investments (8) Limited	United Kingdom	£1 ordinary shares
DBW Investments (9) Limited	United Kingdom	£1 ordinary shares
DBW Investments (10) Limited	United Kingdom	£1 ordinary shares
DBW Investments (11) Limited	United Kingdom	£1 ordinary shares
DBW Investments (12) Limited	United Kingdom	£1 ordinary shares
DBW Investments (14) Limited	United Kingdom	£1 ordinary shares
Management Succession Fund (GP) Limited	United Kingdom	£1 ordinary shares
Help To Buy (Wales) Limited	United Kingdom	£1 ordinary shares
Angels Invest Wales Limited	United Kingdom	£1 ordinary shares
Economic Intelligence Wales Limited	United Kingdom	£1 ordinary shares
FW Capital Limited	United Kingdom	£1 ordinary shares
TVUPB Limited	United Kingdom	£1 ordinary shares
FW Development Capital (North West) GP Limited	United Kingdom	£1 ordinary shares
NW Loans Limited	United Kingdom	£1 ordinary shares
North West Loans Limited	United Kingdom	£1 ordinary shares
TVC Loans NPIF GP Limited	United Kingdom	£1 0rdinary shares
North West Loans NPIF GP Limited	United Kingdom	£1 ordinary shares
FWC Loans (NW) Limited	United Kingdom	£1 ordinary shares
FWC Loans (TVC) Limited	United Kingdom	£1 ordinary shares
NE Growth 500 LP Limited	United Kingdom	£1 ordinary shares
North East Property GP Limited	United Kingdom	£2 ordinary shares
DBW Investments (MIMS) Limited	United Kingdom	£1 ordinary shares
Management Succession (Wales) Limited Partnership	United Kingdom	See below

Notes to the company financial statements
For the year ended 31 March 2020

28. Investments (continued)

The registered office of the subsidiaries noted above is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL.

The activities of the subsidiaries consist of the provision of financial services to businesses, fund management activities and provision of shared equity loans to individuals.

DBW Investments (MIMS) Limited (company number 12324765) is a dormant company and will take advantage of the exemption from preparing and filing individual accounts as set out within section 394A(1) and 448A of the Companies Act 2006 for the year ended 31 March 2020.

All of the investments in subsidiary companies are 100% owned with the exception of the holding in the Management Succession (Wales) Limited Partnership ("WMSF LP"). The non-controlling interest in WMSF LP contributed 40% of the capital invested in the fund with their effective interest being based on the performance of the fund and will vary between 32% and 40% with reference to the net assets of the fund.

Summarised financial information in relation to WMSF LP:

	2020	2019
	£	£
Turnover	497,413	126,632
Operating profit /(loss)	108,612	(79,652)
Profit for the period	108,612	911,438
Profit Attributable to non-controlling interest	43,445	364,575
Fixed Assets	1,654,000	910,324
Current Assets	5,400,291	7,064,250
Creditors: Amounts falling due within one year	(72,885)	(173,723)
Net Assets	6,967,888	7,800,851
Accumulated non-controlling interest	2,786,342	2,972,983

29. Other financial assets

	2020	2019
	£	£
Debtors due within one year:		
Trade debtors	8,284	8,873
Amount owed by group undertakings	1,015,180	745,632
Other debtors	367,724	-
Prepayments and accrued income	266,848	367,022
Amounts owed by principal shareholder	-	1,548,000
	1,658,036	**2,669,527**

Notes to the company financial statements
For the year ended 31 March 2020

30. Other current financial liabilities

Trade and other payables	2020	2019
	£	£
Amounts owed to group undertakings	1	119,748,000
Amounts owed to principal shareholder	-	33,000,000
Trade creditors	298,638	75,818
Other taxes and social security	74,871	91,155
Other creditors	35,196	23,058
Accruals	401,443	1,284,091
	810,149	**154,222,122**

31. Other non current financial liabilities

	2020	2019
	£	£
Amounts owed to group undertakings	2,889,000	2,889,000
Amount due to principal shareholder	484,266,000	413,185,000
	487,155,000	**416,074,000**

Amounts owed to the principal shareholder relate to Financial Transaction Reserve funding and is repayable by 31 March 2043. These borrowings are non-secured and are non-interest bearing.

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.

Appendix A to the annual report and financial statements

The following tables do not form part of the audited financial statements. For further explanation of the tables please refer to the CFO Statement on page 58.

Table A: High-level analysis of 2020 and 2019 Consolidated Income Statement

	Services	Funds	Consolidation adjustment	Group (per the financial statements)
	£m	£m	£m	£m
2020				
Revenue	30.9	45.7	(27.5)	49.1
Operating Costs	(26.7)	(22.5)	27.5	(21.7)
Provisions made	-	(10.8)	-	(10.8)
Changes in Fair Value	-	(32.8)	-	(32.8)
Surplus/(Deficit)	4.2	(20.4)	0	(16.2)
2019				
Revenue	25.9	37.1	(22.6)	40.4
Operating Costs	(23.0)	(18.1)	22.6	(18.5)
Provisions made	-	(2.3)	-	(2.3)
Changes in Fair Value	-	(29.7)	-	(29.7)
Surplus/(Deficit)	2.9	(13)	-	(10.1)

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 earlier in this report, but we have included it here to show how our services businesses interacts with our funds businesses. This adjustment removes £27.5 million (FY19: £22.6 million) from our services businesses revenue accounts and from our funds and services businesses costs accounts.

The revenue total in Column 4 of Table A reconcile back to the Consolidated Income Statement ("CIS") on page 106 as follows:

	2020	2019
All revenue items below are on the face of the CIS	£m	£m
Revenue	16	13.7
Release of ERDF Grant income	29.5	25.4
Realised gains from the disposal of equity investments	0.7	0.6
Investment revenue	2.9	0.7
Total revenue per Table A	**49.1**	**40.4**

The costs and surplus total in Column 4 of Table A ties back directly to the total administrative expenses and profit shown in the CIS on page 106.

Appendix A to the annual report and financial statements

Table B: Services 2020 and 2019 Income Statement analysis

	2020	2019	Statutory Accounts reference
	£m	£m	
Fund management income	30.9	25.9	Note (i) after Table C
Total revenue	**30.9**	**25.9**	**Table (A)**
Staff costs	(13.0)	(10.5)	Page 133 note 7
Other costs	(13.7)	(12.5)	Note (ii) after Table C
Total costs	**(26.7)**	**(23.0)**	**Table (A)**
Surplus	4.2	2.9	Table (A)

Table C: Funds 2020 and 2019 Income Statement analysis

	2020	2019	Accounts Reference
	£m	£m	
Fees received	4.2	3.5	Note (i) below
Dividends and interest income	8.4	6.9	Page 131 note 5
ERDF Grant release	29.5	25.4	Page 131 note 5
Equity realisations	0.7	0.6	Page 131 note 5
Net Treasury	2.9	0.7	Page 133 sum of amounts shown in note 8&9
HTB-W fair value changes:			Consolidated income statement page 106
• Realised gain on disposal	3.2	1.4	
• Unrealised (loss)/gain in year	(27.7)	26.8	
• Decrease/(increase) in amount owed to principal shareholder	24.5	(28.2)	
Net HTB-W FV change shown in CIS	0	0	
Total Revenue	**45.7**	**37.1**	**Table (A)**
Provisions made	(10.8)	(2.3)	Page 132 note 6
Other fair value (losses)	(27.4)	(14.9)	
Non consolidated fund fair value (losses)	(5.4)	(14.8)	
Fund Management fees paid	(20.7)	(17.0)	Note (ii) below
Other costs	(1.8)	(1.1)	Note (ii) below
Total Costs	**(66.1)**	**(50.1)**	**Table (A)**
(Deficit)	(20.4)	(13)	Table (A)

Note (i)
Fees shown in note 5 page 131 of the Development Bank of Wales 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 page 106 of the Development Bank of Wales 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.

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