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DEVELOPMENT BANK OF WALES

Annual report and financial statements

20/21

OFFICERS 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

David Staziker
Chief Financial Officer

Judi Oates
Company Secretary

Kate Methuen-Ley
Non-Executive Director
(appointed 6 April 2021)

Robert Lamb
Non-Executive Director
(appointed 6 April 2021)

Registered office

Unit J
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Wrexham
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Bankers

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Cardiff

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

An exceptional year with unexpected challenges.

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.

Gareth Bullock
Chair

"I am proud that the entire workforce has risen to the unprecedented challenges posed by the pandemic."

It seems strange to describe the annus horribilis we have just experienced as a 'success' but I am proud to report that the Development Bank has had an exceptional year in meeting its formal objectives as well as the unexpected challenges thrown at it by the Covid-19 pandemic.

The biggest single event for the Development Bank was the Welsh Government's Covid-19 Wales Business Loan scheme which was in process at the time of my last Chair's statement. Within a matter of days last Spring we received a deluge of applications that reflected the widespread uncertainty amongst Welsh businesses about the economic outlook and the wider availability and sustainability of private sector finance. The Herculean effort of processing those applications was completed by the Summer, enabling us to disburse over £92 million in 1,335 investments, thereby safeguarding 16,055 jobs. This scheme alone doubled our existing customer base and required us to radically adapt our customer service model, processes and systems.

Throughout my career I have learned repeatedly that success always comes down to people and this year has reinforced that learning even more. I cannot sufficiently express the gratitude and admiration the Board has for the way the senior management team, led from the front by our chief executive, Giles Thorley, and the entire workforce, has risen to the unprecedented challenges posed by the pandemic. From March 2020 our team has worked from home and, even now as the rules are significantly relaxed, most continue to do so. Not only has each and every one adapted their work patterns and practices to meet the changing needs of the business, they have all done so in a spirit of collaboration and partnership reflective of the Development Bank's values. Of course, we must remember that individual personal circumstances have meant that working from home was not an easy or untroubled experience for everyone. Management took great pains to find innovative ways to engage colleagues to improve motivation and wellbeing.

As far as our 'business as usual' activities are concerned, it was gratifying, possibly even surprising in this time of crisis, to witness very healthy demand alongside that arising from the Welsh and UK governments' business loan support schemes. Compared to last year we slightly increased our loans and equity investments to Welsh enterprises (£105.6 million vs £103.3 million) on a smaller number of financings (402 vs 457). We thereby created or safeguarded 3,291 jobs (vs 4,022). Welsh entrepreneurs who have the courage and foresight to seize growth opportunities in the midst of a systemic economic shock signify that entrepreneurship in Wales is alive and well.

We also use 'private sector leverage', which is the additional lending from private sector banks attracted into deals we finance, to measure our impact on the Welsh economy.

At £59.9 million (compared to £75.9 million), this figure was lower than in previous years, most likely due to the banks' understandable focus on government loan support programmes. That said, we have noticed a trend amongst banks over the last few years of declining support for certain sectors, such as housebuilding, and their preference for higher minimum deal sizes. This is a gap we increasingly fill.

Overall, therefore, in the 20/21 financial year the Development Bank deployed over £197.6 million into the Welsh economy creating or safeguarding over 19,300 jobs.

Looking back over the last five years in aggregate we have been able through a mix of our own financing and private sector leverage to deploy an enormous £823 million into Welsh micro-to-medium enterprises which constitute the lifeblood of our economy.

Our English subsidiary, FW Capital, also had a highly successful year. It experienced a very busy period when it qualified as a lender under the UK government's Coronavirus Business Interruption Loan Scheme, and across all funds loaned £43.4m to businesses in the North of England.

The Board is grateful for the Welsh Government's continuing commitment to building the Development Bank into an enduring Welsh economic institution. Since our foundation in October 2017 the Welsh Government has supported the strategic objective of creating a development bank of scale for Wales by providing almost £1 billion of investable capital.

By far the most significant commitment this last year was the £270 million injected into the Wales Flexible Investment Fund to bring it up to a total of £500 million.

This fund's objectives allow it to deploy investment, either as loans or equity, into virtually any sector and region of Wales and thus will be a powerful tool in responding to the demands of the economy as recovery from the pandemic accelerates.

Equally significant is that this capital was deliberately aimed at ensuring the long term sustainability of the Development Bank. The Board's duty is to steward the creation of an effective and capable financial institution which can fulfil its remit consistently over the long term. This new capital will enable us to meet annual demand of about £60 million within a few years without having to rely on the uncertainty of piecemeal capital injections. Any surplus we achieve through repayments and realisations will be recycled into new funds supporting our remit to fill the finance gap faced by Welsh micro to medium enterprises. The fee income derived from managing those funds means we will, as now, not require any grant-in-aid from Welsh Government and it will allow us to invest in people, products and systems necessary to assure capability, efficiency and value for money.

The Development Bank's management team has also been as active on internal priorities as it has been on the external imperatives. We need as an institution to be 'fit' for the growth and ambition we aim for. Thus, there has been an intensive programme of work-streams re-engineering processes and practices in order to achieve both efficiency and effectiveness. There also continues to be significant investment in the finance and people and development functions as well as in information technology security and infrastructure.

The Board has made some important changes as we seek to match experience with the needs of the Development Bank's core customer base. We increased the size of the Board through three new non-executive appointments.

In March 2020 we appointed Rhys Jones and in April 2021 added Kate Methuen-Ley and Rob Lamb. All three represent a younger cohort who live and work in Wales and run their own businesses. They have experienced the challenges of any small business – having the idea, crafting a customer proposition, raising finance and driving growth.

Their counsel will be highly pertinent in ensuring that, as the Development Bank gets bigger, it does not lose sight of its customers' needs.

The July 2021 Board meeting was the last for Margaret Llewellyn who in August finished her third and last term as a non-executive director. Well known and respected throughout Wales, Margaret's deep business experience has provided valuable advice and insight into the challenges and opportunities faced by the Development Bank. The Board and management express their warmest thanks and appreciation for her passion and commitment to her role.

I must finish as I started by once again expressing my gratitude to all our colleagues who rose to the exceptional challenges of this past year. They ensured we were able to play a meaningful role in helping many Welsh companies weather the economic uncertainty and others to seize new opportunities. We are now looking forward to deploying the substantial financial resources entrusted to us in supporting the vital process of economic recovery.

Gareth Bullock
Chair
22 September 2021

CHIEF EXECUTIVE'S REPORT

Our performance.

Giles Thorley
Chief Executive

"Our focus will remain on delivering for our customers and playing our part in supporting recovery in the Welsh economy."

In a year dominated by the twin challenges of Covid-19 and Brexit, our role to support the Welsh economy has never felt more important or more visible. Our total investment for the year reached £197.6m across business as usual (BAU) and the Covid-19 Wales Business Loan Scheme (CWBLS).

On the 31 of March 2020, the First Minister of Wales announced the £100m Covid-19 Wales Business Loan Scheme as a rapid response during the early days of the pandemic, to support existing businesses affected during the first lockdown. We received our first application within the hour, sent the first funds four days later and under unprecedented demand, closed to applications in less than a week. Ultimately, over 1,300 businesses benefitted from over £92m of funding safeguarding 16,055 jobs.

During the financial year there was a small increase of £2 million in business as usual funding across 402 investments compared to 457 investments in 19/20. 237 of these were micro loans, which made up 59% of the Development Bank's investment volumes, (19/20 265 micro loans). The amount leveraged from the private sector reduced to £59.9 million from £75.9 million in the previous year, with the increase in property development loans, which attract a lower level of private sector investment a contributing factor.

Average deal size for micro loans decreased, moving from £23,500 to £22,000.

Property development continued to be a strong growth area for the Development Bank. The property team completed £48.8 million of loans across 36 property development investments, compared to £34.1 million across 30 investments in 19/20. This represented an increase of 43% supporting 402 new homes and 70,892 sq ft of commercial space.

Equity investment had a strong first quarter with the technology ventures team completing 10 deals in 10 weeks. The impact of Covid-19 was felt later in the year with a drop in new funding enquiries and the natural lag in drawn funding resulting in an overall decrease in equity investment from £16.0 million in 19/20 to £13.8 million in 20/21.

Economic Intelligence Wales, our research collaboration with Cardiff Business School and the ONS, continued to bring together and interpret statistical data on the Welsh economy. The outputs have been a valuable source of market intelligence as we navigated the most turbulent economic period in over a decade and will continue to inform our policy in future. Bespoke research in the year focussed on the impacts of Covid-19 and the mitigation of the Welsh and UK Government interventions to protect as many businesses and jobs as possible. Looking forward to 2022, we will be implementing the recommendations from a review of the service and expanding the range of topics and research partners with whom we engage.

Changing the way we work

In the early days of the pandemic, business as usual was largely suspended as we moved almost the entire team to support delivery of the Covid-19 Wales Business Loan Scheme. Our usual approach to customer service is that all customers have a dedicated, named executive through the investment process. This was also paused as we reorganised into processing units, each small team focussed on a particular step in the process. This method allowed us to respond to the volume of applications at pace and meant that people lifted from any part of the business could be trained quickly. It also sparked some creative and fresh thinking about the way we manage risk which has brought benefits beyond delivery of the fund. Many of these improvements, triggered through the urgency of the situation, have been absorbed into our daily work as we returned to some form of normality.

I am extremely proud of the way the team responded to the crisis, putting customers first and working exceptionally long hours in difficult personal circumstances and in common with the rest of the country. The strengths of the business have always been its team spirit, focus on delivery and desire to do the best for the Welsh economy and these qualities supported those early months.

The enforced changes to working arrangements undoubtedly brought challenges, particularly for those dealing with home schooling, caring responsibilities or in some cases, isolation. Whilst a return to the offices is proving welcome, we are nonetheless, determined to retain the best aspects of a more flexible approach to location, reducing our carbon footprint and operating costs.

We will also continue to build on the significant improvements in our internal communications and wellbeing programmes which colleagues tell us made a material contribution to the business maintaining a positive and healthy culture while dispersed.

These are measures that will contribute towards our continued aim to be an employer of choice in the financial services and economic development sectors as we face stiffer competition for talent during the recovery.

Looking forward

As restrictions ease and the effects of the vaccination programme are seen, there are reasons to be cautiously optimistic. The Office for National Statistics reported a higher rate of business births than deaths in Wales, in contrast to the wider UK picture where the reverse was true. This is reflected in our own data for the year where investments into start-up businesses increased by 32% from £5.7m to £7.5m and business volumes by 67% from 73 to 122.

This coming year we will be launching a national equity awareness campaign, to demystify the fundraising process and encourage business owners to consider the full range of finance options available to them. Equity investment will be an increasingly important option for growing businesses in an economy where companies have taken on higher levels of debt than usual. We will also continue to invest in our digital transformation programme to support our increased investment levels, aiming to reduce our cost of delivery and improve accessibility and transparency for customers.

Another strategic imperative will be the continued development of greater transparency and intent in our approach to ESG (Environmental, Social and Governance). As a development bank we exist to make a difference in the financial markets for small and medium-sized enterprises (SMEs) in Wales, improving access to a wider range of financial instruments, supporting communities through job creation and attracting a more diverse range of private sector investment. While our fund delivery model has long had demonstrable social benefits that makes the organisation one of the most pro-active impact investors in the UK, we are now turning our attention to a broader range of considerations in the way we work with customers and how we run our own business.

As we look forward to a more hopeful year, we remain aware of the challenges facing the economy and how these may impact individual sectors and businesses. Our focus will remain on delivering for our customers and playing our part in supporting recovery in the Welsh economy.

Giles Thorley
Chief Executive
22 September 2021

Performance highlights of business as usual investments

Measure	Change	19/20	20/21
Annual investment	+2%	£103.3m	£105.6m
Number of investments	-12%	457	402
Private sector investment	-21%	£75.9m	£60.0m
PSL Ratio		1:0.73	1:0.57
Jobs created or safeguarded	-18%	4,022	3,292

PERFORMANCE HIGHLIGHTS

Five year targets

- 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

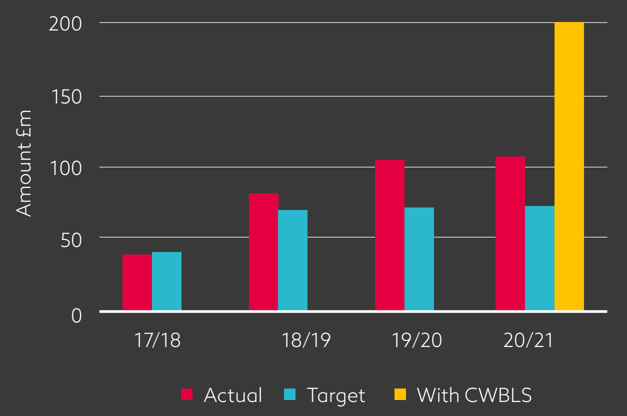
Performance against five year targets

At launch, the Development Bank committed to the achievement of ambitious delivery targets to create significant impact on the Welsh economy for the period 2017–2022. Progress against the four core areas of direct investment, private sector leverage, number of businesses and jobs is shown below:

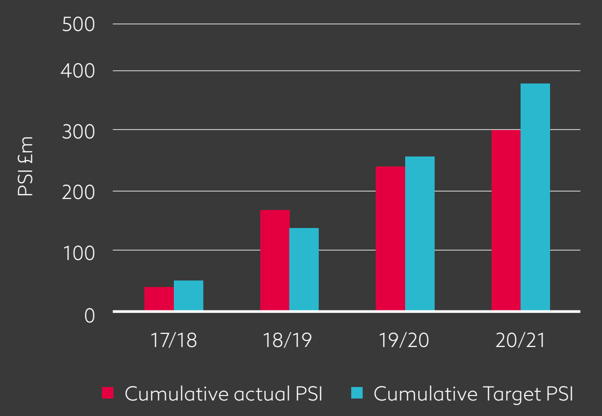
Total investment 20/21

	19/20	20/21
Business as usual (BAU)	£103.3m	£105.6m
Covid-19 Wales Business Loan Scheme (CWBLS)	£nil	£92m
Total	**£103.3m**	**£197.6m**

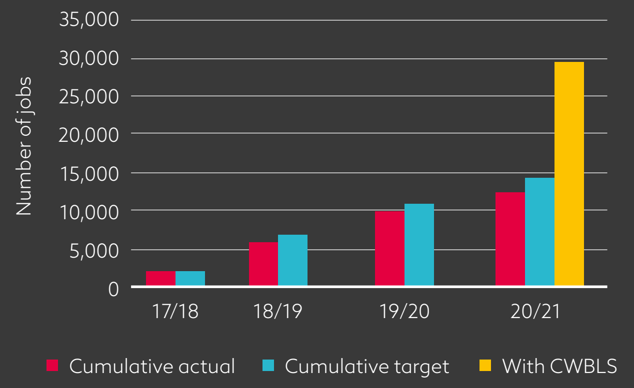
Investment



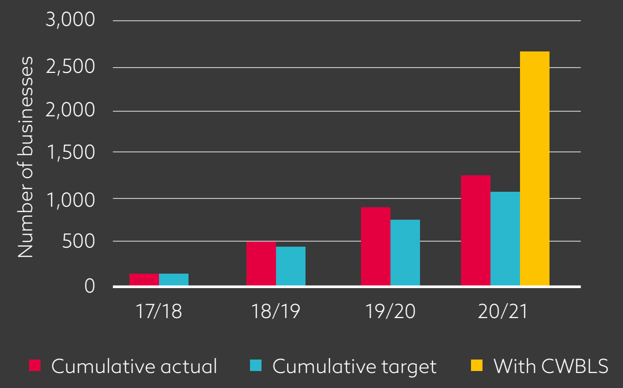
Private sector investment (PSI)



Jobs



Businesses



Investment performance 20/21

Long-term investor

47%
of all investments were made into existing customers

Investments over £1m increased

30
businesses received investment above £1m

Equity investments

£13.8m
equity overall

£9.4m
invested in

38
tech ventures

Start up investment

£7.5m +32%

Micro loans up to £50k

£22k
Average deal size

237
Number of loans

93
of the 237 micro loans were fast track loans

59%
of all investments were micro loans

FW Capital

+67%
£26m | £43.4m*
19/20 | 20/21
Annual investment

+139%
£38m | £90.7m*
19/20 | 20/21
Private sector investment

+48%
93 | 138*
19/20 | 20/21
Businesses supported

+62%
577 | 935*
19/20 | 20/21
Jobs created or safeguarded

*Including CBILS loan support

Regional breakdown

North Wales
£30.4m
19/20
£25m
20/21 (BAU)
£21.3m
20/21 (CWBLS)

Mid and West Wales
£34.4m
19/20
£31m
20/21 (BAU)
£27.2m
20/21 (CWBLS)

South Wales
£38.7m
19/20
£49.6m
20/21 (BAU)
£43.5m
20/21 (CWBLS)

Property development

70,892
sq ft of commercial space

£48.8m
Value of projects

420
Housing units

43%
£ increase in property investment

Angels Invest Wales

31
Number of investments

£2.6m
Value of investments

254
Investor base

9%
Female investors

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 more jobs and opportunities 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 £780m of capital available to deploy to support business and property development activity.
See page 13.

People

We employ 238 people at 11 locations across the business. Our team are vital to delivering the local knowledge we know small business owners value.
See page 57-61.

Relationships

Building and nurturing relationships with customers and stakeholders is critical to understanding the market and meeting its needs.
See page 56-59.

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 for Help to Buy – Wales, Self Build Wales and our commercial fund management.

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

Impact

Capital returned or reinvested | **Jobs** | **Private sector investment** | **Houses built** | **Sqft commerical 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 20/21 £425.6m of new funding was committed to the Development Bank's business focussed funds. In addition, it provides the administrative service solution for the Help to Buy - Wales scheme.

Funds as at 31 March 2021	Funding Amount (£m)	Investment End Date
Covid-19 Wales Business Loan Fund	92	2020
TVI Interim Fund	9.5	2020
Help to Buy – Wales	634.6	2023
Wales Capital Growth Fund	25	2021
Wales Angel Co-investment Fund	8	2023
Wales Business Fund	204	2023
Wales Management Succession Fund	25	2026
Wales Flexible Investment Fund	500	2031
Wales Technology Seed Fund II	20	2025
Wales Micro Loan Fund	32.5	2026
Wales Commercial Property Fund	55	2029
Rescue and Restructuring Fund II	25	2029
Wales Stalled Sites Fund	55	2033
Wales Property Development Fund II	47	2033
Self Build Wales	40	2036
Wales Tourism Investment Fund	50	2029
Local Energy Fund	12.5	Ongoing
FW Capital as at 31 March 2021	**Funding Amount (£m)**	**Investment End Date**
Northern Powerhouse Investment Fund (NPIF) Debt Finance – North West	81.9	2022
Northern Powerhouse Investment Fund (NPIF) Debt Finance Tees Valley and Cumbria	61.3	2022
North East Property Fund	10	2025
Tees Valley Catalyst Fund	10	2023

INVESTMENT DIRECTOR'S REPORT

Supporting our customers.

Mike Owen

Group Investment Director

"There are however early indications of recovery and we have seen this start to change as companies look towards the future."

Fulfilling our remit

The first half of the year was dominated by the effort to support businesses being negatively impacted by the Covid-19 pandemic. Incredibly, we developed and deployed an emergency fund targeted explicitly to support affected businesses in eight weeks. Investing £92m into over 1,300 businesses required a massive effort from colleagues right across all divisions of the Development Bank.

As a development bank part of our role is to intervene and support businesses when systemic failure occurs, as in 2009/10, where we saw a retraction in funding support from traditional lenders. I am proud of the way my colleagues stepped up to ensure businesses received the vital funding they needed at speed until CBILS and Bounce Back Loans became fully operational.

Investment performance

We anticipated a slowdown in funding activity for the second half of the year but reality subverted expectation and we delivered our best business as usual investment performance, investing £149m across Wales and the north of England. This achievement was fuelled largely by a buoyant construction and property development sector and a doubling in the numbers of start-up business supported. Average deal sizes grew as demand moved our investment into the expanding funding gap created by shifts in the risk appetite from traditional lenders.

Another factor in our investment performance last year was a record performance of £43.4m by our commercial subsidiary FW Capital, supported by CBILS accreditation. FW Capital also succeeded in winning additional funds as part of the British Business Bank's Northern Powerhouse Investment Fund and hit a number of investment milestones including £10m from the North East Property Fund and over £30m facilitated into Tees Valley businesses from the Northern Powerhouse Investment Fund and the private sector.

Property and construction sectors were busy once sites reopened, boosted by the demand for new homes as well as the reductions in stamp duty rates. Challenges however arose in the form of scarcity of labour and supplies, with pricing of materials driven upwards impacted by the twin forces of Brexit and lockdowns triggered by Covid-19. Help to Buy – Wales had its busiest year to date and secured a third phase of funding to support first time buyers in Wales.

Working with customers

In addition to investing, we also have an important role to play in supporting our existing portfolio of businesses. We mobilised quickly; supporting customers to manage their cashflows through the year, offering repayment holidays to help conserve cash whilst heading into uncertain economic conditions. Introductions to other funding providers saw a 107% increase on the prior year.

A key feature of our portfolio support, and one of the ways we differentiate from many private sector providers, is in providing a dedicated, named portfolio executive to all businesses. This role is expected to help customers make best use of all available avenues of support. This year, priorities included ensuring customers accessed HMRC holidays, facilitating referrals to other lenders, investors and finance brokers, and ensuring customers utilised schemes such as R&D tax credits and the Futures Fund.

In addition, we ensured customers remained appraised of the other options available to them to manage cash flow, such as furlough, self-employed schemes, and approaches to other suppliers' payments such as for rates and to landlords.

Building better businesses

Despite the emphasis on cash flow, we have continued to support customers in building more resilient businesses through introductions to our network of advisers and training providers. This included referrals to experienced directors and advisory firms, management training courses, and the various training and support schemes run by Business Wales with customer introductions increased by 106% on the prior year. To supplement these, we ran a series of online sessions, with a focus on business resilience, exploring how to build better businesses through improving productivity, innovation, management capability and through expanding into new markets.

Equity and angel investment

Equity investment took something of a back seat with many established businesses prioritising short-term liquidity over growth.

Bucking the trend, Angels Invest Wales facilitated a record 31 funding rounds involving 70 individual angel investments and also growing the number of registered angel investors by 67, including 26 first time angels and nine female investors. Lead investors for angel syndicates increased by five to 12.

We continued to see some demand for investment from early-stage businesses where debt is usually not a viable option. Challenges around securing sufficient co-investment from the private sector persist and will remain a strategic priority for us in 21/22.

There are however early indications of recovery and we have seen this start to change as companies look towards the future. Owners that had put the sale of their businesses on hold are now looking for funding solutions and there is more interest in equity investment as a way to strengthen balance sheets and give businesses the patient capital they need to grow.

Building our team and expertise

Customer feedback tells us that SMEs above all, value working with people who understand the challenges and satisfaction of running a small business. We take account of this in our business model in having people rather than algorithms evaluating proposals and making lending and investment decisions. This expertise is particularly important in terms of supporting start-ups or making decisions on equity investments, which ultimately are decisions to back management teams.

In 2019, the Group piloted a career pathway for investment professionals, offering a structured professional development route to building a career across the Development Bank and FW Capital with the objectives of improving our offer to new recruits and competing for talent particularly at the junior levels. Other benefits include reducing risk in terms of succession planning and providing equality of opportunity across the Group by formalising the technical and competency-based skills needed to progress.

A review in 2020 formalised this pathway and this year, five individuals progressed from assistant investment executive to investment executive and three progressed from investment executive to senior.

Mike Owen
Group Investment Director
22 September 2021

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.

Anglesey Sea Food Ltd

18) Starting a business

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

Naissance

24) Growing a business

Loan and equity investments up to £10 million to support Welsh businesses and help them achieve their growth plans.

32) Fast track micro loans

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

Space Forge

34) Developing a tech venture

Seed, early stage and follow-on equity investments for technology ventures with high growth potential.

Just Love Foods

38) Buying a business

Funding to support the next generation of business owners, helping management teams buy an existing business.

Abbey Construction

40) Financing a property development

Residential, mixed – use, and commercial property loans to help small to medium-sized developers.

Atherton Bikes

44) Angels Invest Wales

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

46) Economic Intelligence Wales

Economic Intelligence Wales collates and analyses data on the Welsh finance market and enriches understanding of the Welsh economy.

48) Help to Buy – Wales

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

49) Self Build Wales

Self Build Wales helps to fund people in Wales wishing to build their own home.

Francis Brown Ltd

50) FW Capital

FW Capital delivers funds 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 to help Welsh businesses start up and support their early years.

CLEANY QUEENY

Business is looking shiny and bright for Newport-based cleaning business Cleany Queeny, after the cleaning company secured a £10,000 micro loan from the Development Bank.

The micro loan was used to cover costs of staff training and new equipment to help with Covid-19 deep cleaning. Decontamination and deep cleaning are part of the new, wider range of commercial and residential services offered by the business.

Following the £10,000 loan Cleany Queeny Managing Director Charmain Edwards also hired a finance manager, additional office assistant and eight more cleaners.

Charmain and her team cover Newport, Cardiff, Usk, Pontypool, Abercarn, Cwmbran – and are looking to expand across south Wales.

Newport, South Wales
£10,000
Wales Micro Loan Fund

"The Development Bank loan has helped us diversify to offer a wider range of in-demand services by enabling us to buy new equipment and pay for staff training."

Charmain Edwards, Managing Director, Cleany Queeny

ANGLESEY SEA FOOD LTD

Royal Navy veteran, Sion Riley's fish catches have been in high demand since he launched Anglesey Sea Food Ltd in July 2020. He took charge of fishing boat the Pan Arctic following a start up micro loan from the Development Bank.

Sion became aware that a boat, with full fishing rights, was due to go on sale. He approached the boat's owner about taking it over and then investigated what support was available for local start-ups on Anglesey. He spoke to local charity Môn CF who put him in touch with the Development Bank and Business Wales. He received support from Business Wales to create a business plan and then applied for a start-up loan to help purchase the fishing boat.

Anglesey, North Wales
£ Undisclosed
Wales Micro Loan Fund

"Working on the sea, fishing, and in my local community has always been a dream of mine. Nothing, not even a pandemic would stop me. I'm really thankful to the Development Bank for their support during this start-up phase of my business."

Sion Riley, Owner, Anglesey Sea Food Ltd

BRIGHTER MINDS CHILDCARE

Caerphilly, South Wales
£50,000
Wales Micro Loan Fund

"We believe in providing a nurturing environment where children can flourish and where curiosity, adventure and fun is the heart of learning. Thanks to the support of the Development Bank we're able to offer our services and learning-through-play ethos to local families."

Helen Morris, Founder, Brighter Minds Childcare

New Risca wraparound childcare service, Brighter Minds Childcare launched in the 20/21 financial year following a micro loan from the Development Bank.

Founded by Helen Morris, Brighter Minds Childcare encourage learning through play. They offer wraparound, breakfast, afterschool club and holiday club support is available to parents of children who attend local primary schools. They have provision for up to 45 children.

Following the investment, they converted a large garage at their base on Gwendoline Road into an additional room for their bright and friendly childcare facility.

LUXSTAR LTD

Newport entrepreneur Carl Harris launched private chauffer business Luxstar Ltd with the backing of a £24,000 micro loan from the Development Bank in November 2020. He also received support from Business Wales, Newport Council and USKE.

Faced with redundancy due to the Covid-19 pandemic, Carl seized the opportunity to turn his experience and passion into his own business. With eight year's professional driving experience, Carl had worked with the American Embassy providing services to Congress, NATO, the US Coastguard, presidents and former presidents.

Carl's first challenge was coming up with a robust business plan. He had a lot of knowledge of working in the transportation industry but no experience in running his own company. With the support of Business Wales he conducted market research and then included all his findings in a business plan before applying for a micro loan from the Development Bank.

To apply for a start-up loan from the Development Bank, businesses or sole-traders need to provide a business plan, a cash-flow forecast for your first year, and up-to-date management information. Business Wales can help you pull this information together for free.

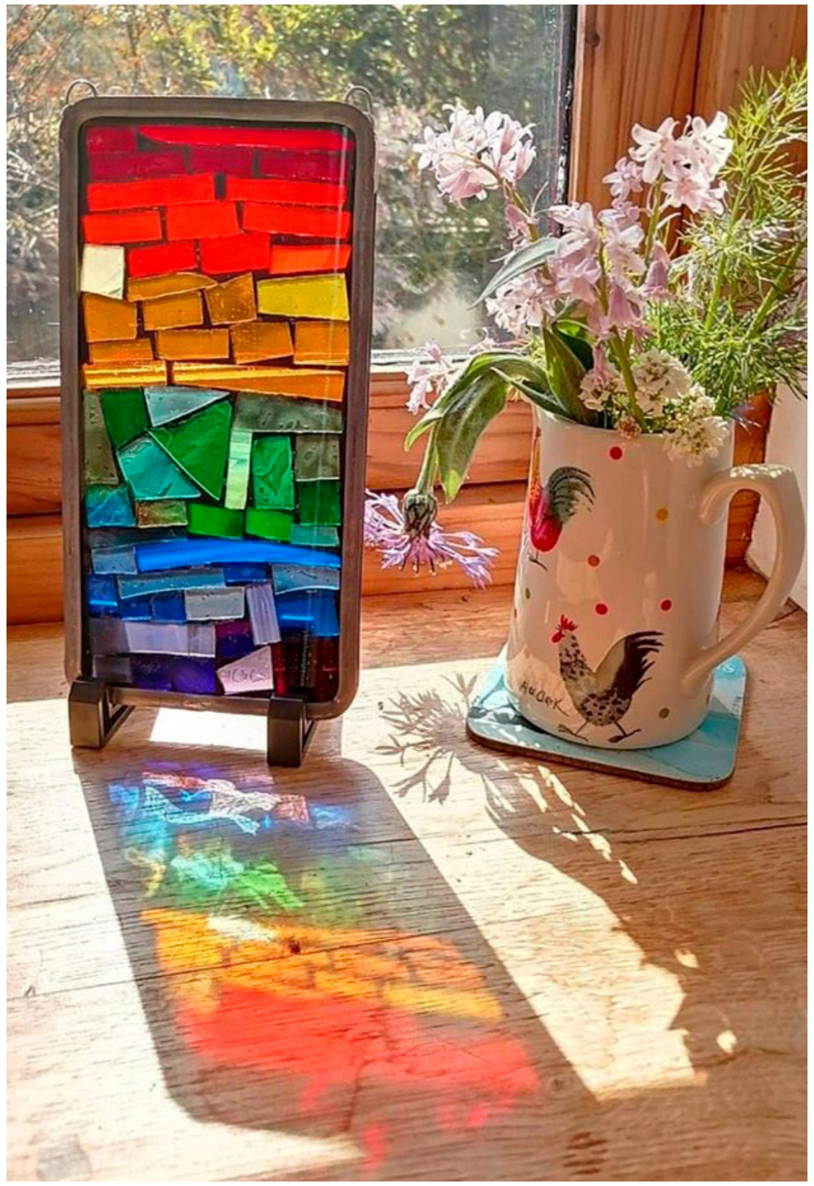
With a business plan in place, Carl was able to secure start-up finance and buy a suitable high-end chauffeur vehicle.

Newport, South Wales
£24,000
Wales Micro Loan Fund

"I've been researching setting up my own business for a number of years. The rapports I had gained with people over the years, the knowledge taken from the clients I had driven, and the trust I was given led me on to explore opportunities to start my own chauffeur business. Faced with redundancy because of the Covid-19 pandemic, I decided now was the time to take the plunge and become my own boss."

Carl Harris, Founder, Luxstar Ltd

CARIAD GLASS



Stained Glass artists Cariad Glass saw a boost in online sales during lockdown after developing a fun make at home glass mosaic kit to give crafty customers a creative fix. They received a micro loan to support working capital and growth in April 2020.

Husband and wife team Justine and Chris Dodd use traditional methods and techniques to create bespoke art and glass pieces, specialising in commission and restoration work. They also offer face-to-face courses at their studio for those who wish to learn more about glass crafts.

Keen to diversify and offer something to do at home for customers missing out on face-to-face courses, the pair came up with the idea of a small hanging glass mosaic panel that you can make at home. They filmed the process of putting together a glass mosaic using domestic equipment and put the video on their Facebook page. They were soon inundated with requests to buy the £25 kits.

Since then they have moved to a new premises on the high street in Llandysul and opened a gallery space called the Cariad Creative Emporium.

Llandysul, Mid Wales
£ Undisclosed
Wales Micro Loan Fund

"Our sales usually come through galleries and exhibitions which were all on hold. Our website shop, the Stained Glass Emporium has been invaluable to us, as was the support we received from the Development Bank."

Justine Dodd, Co-owner, Cariad Glass

Growing a business

Loan and equity investments up to £10 million to support Welsh businesses and help them achieve their growth plans.

THE SHED BY JAMES SOMMERIN

Based in the Goods Shed in Barry with a 15 year lease, 'The Shed by James Sommerin' is a 30 cover restaurant owned and managed by Head in the Shed Limited; a newly formed business set-up by Michelin Star Chef James Sommerin and his wife Louise.

James received a £50,000 micro loan from the Development Bank and a £60,000 grant from Visit Wales.

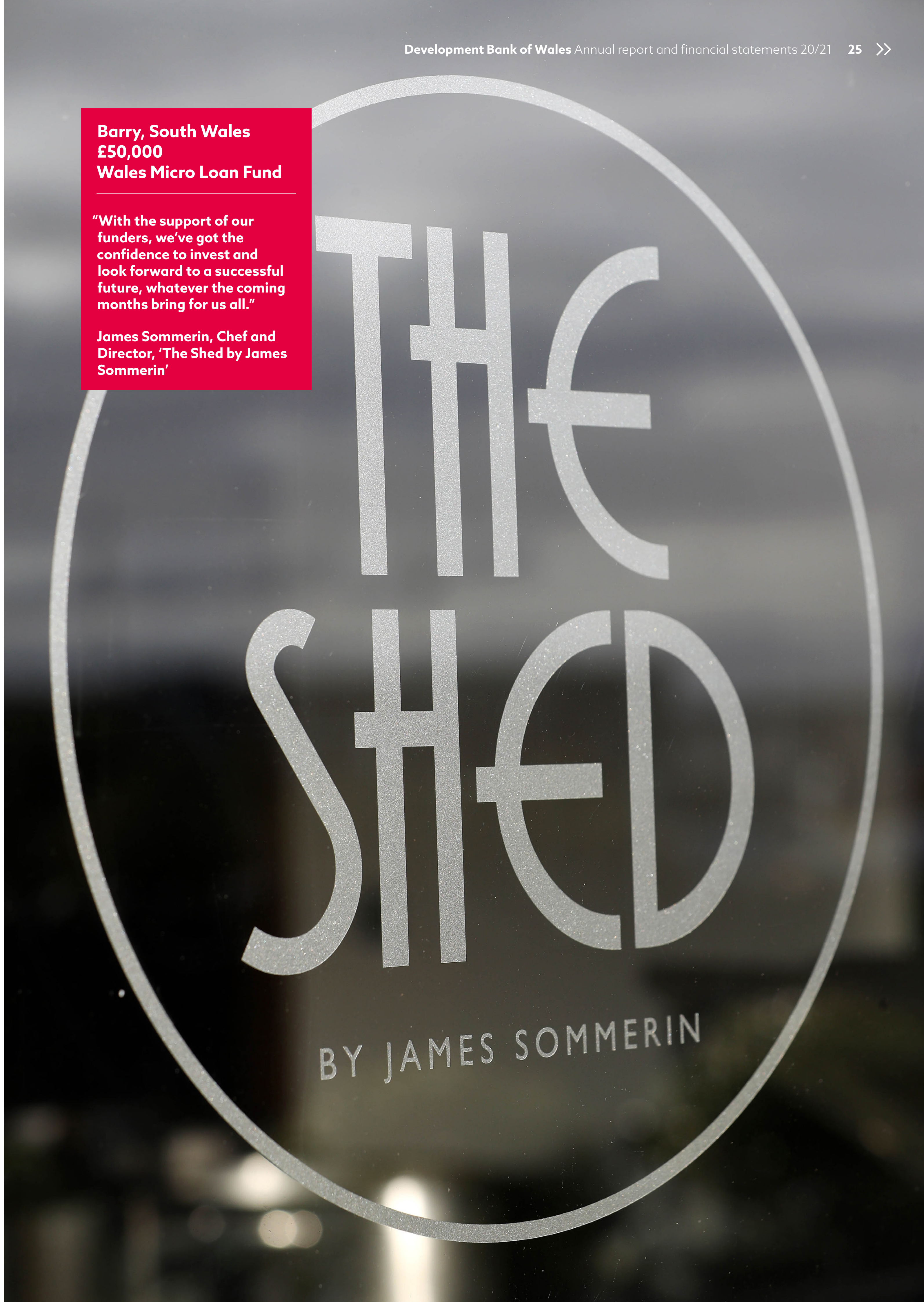
James Sommerin started his career at the age of 12 working on a Saturday morning in an Italian Restaurant in Newport. After leaving school, he took his first full time cooking position at the Cwrt Bleddyn Hotel near Usk.

It was from there, at the age of 16, that he decided to move to Scotland and worked at Farleyer House Hotel under the guidance of Head Chef, Richard Lythe. Richard taught him the understanding of seasonality, quality and the essence of flavour. Whilst in Scotland, James cooked for the opening of the Scottish Parliament and was also short listed as 'Young Scottish Chef of the Year'.

James then met his wife Louise and after marrying and having their first daughter, they decided to make the move back to Wales. He started working at the Crown at Whitebrook in August 2000 as Sous Chef and became Head Chef in late 2003. James obtained his first Michelin Star in 2007.

He then achieved a Michelin star in 2016 at his own restaurant, which opened in 2014. He also has three AA Rosettes and was the winner of the Great British Menu for Wales in 2009, 2010 and 2012 before being named Welsh chef of the year in 2017 at the Welsh Food Awards.

'The Shed by James Sommerin' occupies the Victorian railway building developed by award winning DS Properties (Goods Shed) Limited. The entertainment and business complex is now nearing completion following a £2.9 million investment from the Development Bank. It forms part of the Innovation Quarter at Barry Waterfront, a joint regeneration venture between the Vale of Glamorgan Council and the Welsh Government.



Barry, South Wales
£50,000
Wales Micro Loan Fund

"With the support of our funders, we've got the confidence to invest and look forward to a successful future, whatever the coming months bring for us all."

James Sommerin, Chef and Director, 'The Shed by James Sommerin'

OLD OAK DENTAL PRACTICE

Successful dentist Dr Adam Llewellyn owns and manages three surgeries in Llandeilo, Llandovery and Carmarthen. His new, larger practice at Parc Pensarn will replace the existing surgery in Carmarthen town centre.

Old Oak Dental Practice received a total of £1.2 million loan from the Development Bank to purchase and fit-out a purpose built six-chair dental practice.

They also received grant funding from Carmarthenshire Council to help with overall project costs.

Carmarthen, West Wales
£1.2 million
Wales Business Fund

"The new surgery allows for more dentists to work safely together, as well as providing ample parking for both staff and patients. I'm delighted by the support I've received from the Development Bank, the process has been smooth despite operating during a global pandemic."

Dr Adam Llewellyn, Managing Partner, Old Oak Dental Practice

LIKEAFISH SWIM SCHOOL

Likeafish Swim School already delivers swimming lessons to just over 450 children. The company expanded with a £400,000 loan from the Development Bank for a new pool facility. Likeafish was also supported by Lloyds Bank through a commercial mortgage and Carmarthenshire Council to help with project costs. The company plans to include parent and baby classes as well as adult swimming on top of their existing learn to swim programme. The new pool is also located at Parc Pensarn.

Carmarthen, West Wales
£400,000
Wales Business Fund

"We've been helping children learn to swim across Carmarthenshire for over 10 years now, having our own pool was the next logical step to meet the demand for our highly popular classes. The loan from the Development Bank has made that next step achievable and we're looking forward to welcoming back old pupils as well as new customers."

Russell Sparks, Managing Director, Likeafish Swim School

THE GREEN GIRAFFE DAY NURSERY

The Green Giraffe Day Nursery Ltd in Cardiff doubled the number of nurseries it runs thanks to a £100,000 follow-on loan from the Development Bank to meet growing demand. The popular childcare company now has daycare settings at the Parade in Roath, Radnor Road in Canton, as well as the original nurseries in Cardiff Bay and Cathedral Road. Green Giraffe offers fully organic food to all children attending and uses a blend of Montessori methods combined with the Early Years Foundation Stage to support a learning-through-play environment. The nursery offers childcare services from three months to five years old.

Cardiff, South Wales
£100,000
Wales Business Fund

"We seek to provide all children in our care with a varied and balanced learning programme. Our approach has proved extremely popular and, after working closely with our portfolio executive at the Development Bank it became clear that 2020 was the year for us to expand our Green Giraffe family with the opening of two new nurseries."

Andrea McCormack, Nursery Director, The Green Giraffe Day Nursery

BANYAN CARE HOMES LTD

A specialist dementia and elderly mentally infirm (EMI) care provider has established Banyan Care Homes Ltd to purchase White Rose Care Home in New Tredegar.

White Rose is a purpose-built care home registered for 32 residents over the age of 65, including those with dementia. It was built in 1990 and occupancy rates are typically over 95%, with the majority of residents being publicly funded by local authorities including Caerphilly, Blaenau Gwent and Vale of Glamorgan. Our loan has enabled the business to safeguard the jobs of the 42 staff including the care home manager who had been integral to the successful running of the care home previously and to ensure continuity of the 24/7 care for residents within the local community.

New Tredegar, South Wales
£750,000
Wales Flexible Investment Fund

"An open and transparent approach made the process seamless; they listened and took real interest in our aspirations for White Rose and future plans for Banyan Care. Their support means that we've been able to safeguard services for residents and protect 42 jobs."

Shah Seehootoorah, Director, Banyan Care Home Ltd

NAISSANCE

Naissance, the ethically-sourced vegan healthy living company, is expanding with a new mid Wales HQ after a seven-figure loan from the Development Bank.

Founded in 2005, the company creates cruelty-free and fair trade essential oils, carrier oils, soaps, salts and clays, as well as massage products. Underpinning their do-good, feel-good values, Naissance uses only natural ingredients and concentrate on sourcing responsibly with Fairtrade and other cooperatives across the globe.

The company, which employs over 100 people at their manufacturing and warehouse space in Neath, has purchased a new corporate headquarters in Powys. Marketing, strategy and other management functions will be based at their new corporate offices at Glansevern Hall in Powys. The availability of capital through the Development Bank secured Wales as the corporate home of Naissance.

Glansevern Hall is a Grade II Regency Greek Revival style house that was built between 1801 and 1806.

With sustainability being a priority for Naissance, the new HQ will see goods grown onsite used in their café and the creation of products, as well as establishing sustainable energy to provide power onsite. Customers will be able to visit Glansevern to experience Naissance and learn about the sustainable sourcing and manufacturing process of products and ingredients.

Berriew, Mid Wales
£ Seven-figure
Wales Flexible Investment Fund

"Plants and people are at the heart of everything we do. This fantastic location will not only be a source of some of our natural ingredients but also a place for you to get hands-on and experience what makes Naissance different."

Jem Skelding, Managing Director and Founder, Naissance

VINDICO

A six-figure loan from our Wales Business Fund is helping Llanelli-based tech and environmental specialists Vindico to develop pioneering air quality innovations that are leading the way for a more sustainable future.

The company launched their Think Air network in June 2021 and it is already the largest non-governmental background rural and urban air quality monitoring and measuring network in the UK. The initiative has been developed by Vindico and Swansea University and represents an important step towards understanding air pollution – and the impact of PM2.5 (small air particles), carbon dioxide, and other air pollutants – on our health and wellbeing.

Vindico's latest Think Air product "TASK" (Think Air Schools Kit) has been developed alongside head teachers and aligned with the current Welsh and English curricula. TASK is designed for children of all ages to build, code, and measure the environment around them – at school, at home, and on the daily commute.

Llanelli, West Wales
£ Six-figure
Wales Business Fund

"Tackling environmental issues is a responsibility that we all share and, with the support of the Development Bank, our work is changing the way we understand and measure the impact of toxic air at a local level."

Jo Polson, Managing Director, Vindico

SHEARWATER ECO LTD

A £35,000 micro-loan from the Development Bank of Wales helped entrepreneur Paaristha 'Paris' Oomadath to launch her eco-friendly luxury household product business.

Specialising in plant-based alternatives to household plastic use, Cardiff-based Shearwater Eco Limited uses natural plant fibres such as hemp, sisal, bamboo, rattan, coco husk and seaweed to create household products that are chemical and BP free. Natural fibre products offered for sale include Tŷ Môr (House of Sea in Welsh) is the range of tree-free and zero waste eco-friendly toilet paper, kitchen roll and tissues. All packaging is re-useable, recyclable, refillable and home compostable. The company also boasts a plastic free supply chain.

With over 20 years' experience in plant fibre manufacture and design, Paris was first introduced to the Development Bank of Wales by Business Wales. Future plans for the business include the development of a green manufacturing plant that will use local waste materials and create green jobs.

Cardiff, South Wales
£35,000
Wales Micro Loan Fund

"It's my ambition to see a cleaner, greener world where our plant-based, plastic free and zero waste products replace FMCG plastics in the home. We can make a real difference to the future of our planet by using natural fibres. The continued support I've received from the Development Bank has been invaluable in boosting our company profile."

Paris Oomadath, Founder and CEO, ShearWater Eco Ltd

AERFIN

Caerphilly-based AerFin is expanding its fast growing aerospace and defence business in the United States following a seven figure investment by the Development Bank.

AerFin is a leading global specialist in providing aftermarket support solutions to the aviation industry. Services range from whole aircraft and engine sale or lease through to engine disassembly, storage and distribution of aviation inventory.

Over 200 different airline operators use AerFin for aftermarket support.

The loan from the Development Bank will provide short-term working capital to fund expansion of end of life programs for both aircraft and engines in the United States where over 75% of the world's Ejet airline operators are based, one of the key product lines on which AerFin is focussed.

Caerphilly, South Wales
£ Undisclosed
Wales Flexible Investment Fund

"Demand from our customers has seen AerFin create a range of innovative and flexible programs to maximise our in-house engine disassembly, storage and distribution of aviation inventory. The continued expansion of our services will enable us to further grow our aftermarket service solutions as the global economy prepares to bounce back from Covid-19."

Robert James, CEO, AerFin

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

43% increase on previous year

93 businesses supported

+ loans up to £25,000

RAW PLANT SERVICES

Carmarthenshire-based RAW Plant Services offer mobile, independent plant machinery repair and maintenance services. This includes fault diagnosis, inspection, repairing and servicing.

They received a £20,000 fast track micro loan to help purchase more equipment and a second mobile repair vehicle.

Carmarthen, West Wales
£20,000
Wales Micro Loan Fund

SARAH CHADDA COLONIC HYDROTHERAPY

Sarah Chadda Colonic Hydrotherapy have relocated to a larger premises in Abergele, Conwy thanks to a £15,000 fast-track micro loan from the Development Bank. The company provide colonic hydrotherapy services to people with chronic illnesses like Parkinson's, multiple sclerosis and those receiving some cancer treatments.

Conwy, North Wales
£15,000
Wales Micro Loan Fund

EMILY MAY INTERIORS & CO

Narberth, West Wales
£25,000
Wales Micro Loan Fund

"When space in the unit next to our existing one became available it seemed like the perfect time for us to expand our studios. The loan application to secure the new unit was simple and quick, taking just a few days for the money to be with us. It's honestly the easiest experience I have had raising funds for the business since I launched Emily May Interiors & Co in 2014."

Emily Black, Managing Director, Emily May Interiors & Co

Narberth's Emily May Interiors & Co are now showcasing a range of high-end kitchen designs at their expanded showroom following a £25,000 fast-track micro loan from the Development Bank.

Owner of Emily May Interiors & Co, Emily Black studied Contemporary Textile Practice at Cardiff University and has over a decade's experience as an interior designer. She wanted to act quickly when a neighbouring unit at her Narberth base became available. The fast-track process meant she had a decision on her loan within just two business days.

She began construction on the new showroom space shortly before Christmas to showcase a new range of high-end and bespoke in-frame kitchens alongside her existing living area design business.

Developing a tech venture

Seed, early stage and follow-on equity investments for technology ventures with high growth potential.

SPACE FORGE

Space Forge's vision is to harness the power of space by manufacturing high-performance products impossible to produce on Earth, which work to decrease energy consumption and carbon dioxide emissions. The permanent microgravity only found in space enables billions of new alloys to be made that were previously out of reach for humanity. By bringing them back to Earth these alloys could revolutionise renewable energy, transport and computing industries.

They received a £600,000 funding package in the 20/21 financial year with the Development Bank investing alongside Bristol Private Equity Club and Innovate UK.

Space Forge will be working with European and International partners, but is focussed on doing as much as possible in the UK to reduce carbon footprints, with the future hope of launch, refurbishment and return of satellites all inside the UK.

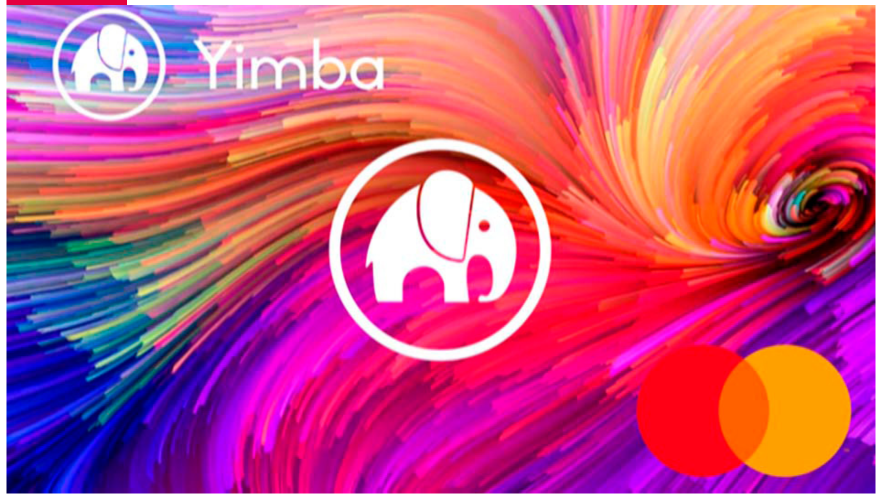
Following the co-investment the company has now opened its headquarters in Cardiff where their team of currently 18 experts are building their first ForgeStar ready to deploy in 2022.

Cardiff, South Wales
£250,000
Wales Technology Seed Fund 11

"It is amazing to receive this funding at such a critical time for our company. This funding will help us accelerate the development of critical technologies and carry out key testing and hire new staff."

Joshua Western, Co-Founder, Space Forge

YIMBA



Wrexham, North Wales
£ Undisclosed
Wales Technology Seed Fund 11

"The Development Bank of Wales has been with us from the beginning and their continued support as a partner and equity investor is not only an endorsement of our business model but also for the strategic direction of the company."

Robert Dowd, CEO, Yimba

Yimba helps users engage with digital banking products by improving the customer experience of any digital wallet, one component at a time. The company's products and services including CRM, CMS and marketing services are unique in that they are delivered via a cloud-based system and integrated directly across the proprietary payment network.

The north Wales-based start-up secured a follow-on equity funding round led by the Development Bank of Wales and a group of private investors.

The new funding supported Yimba's immediate network and bank integrations as well as accelerating the development of next-generation features to its core platform.

FINBOOT

Cardiff, South Wales
£1 million
Wales Flexible Investment Fund

"Securing this equity investment means that we can invest in our research and development and our world-class technology as well as the best talent and our sales and marketing. These funds will support us on our ambitious journey to becoming a world-leading provider of enterprise blockchain software globally."

Nish Kotecha, Chairman and Co-Founder, Finboot

Blockchain technology company Finboot has opened a new headquarters in Cardiff following a Development Bank of Wales led £2.4 million equity funding round.

With demand for enterprise blockchain solutions increasing globally, Finboot identified Wales as being the most attractive place from which to capitalise on the growing number of business opportunities, including those in the fintech space.

Finboot is a technology company that gives its world class customers a competitive edge through accelerating their digital transformation, realising value and building trust through blockchain.

Finboot has developed MARCO, an ecosystem which brings together blockchain technologies in one place, connecting multiple ledgers simultaneously.

It enables companies to incorporate blockchain within their value and supply chains, bring traceability, transparency and compliance which, in turn, helps them meet sustainability and ESG requirements while also increasing operational efficiency.

Finboot has recently announced partnerships with Repsol, global chemistry supplier Stahl, leading international fashion brand Desigual, Spanish agritech business Fidesterra, the London Chamber of Arbitration and Mediation, and Minexx, which traces and secures the mineral supply chain in Rwanda and the Democratic Republic of the Congo.

Their office in Cardiff having opened in June 2021 is rapidly growing with five Welsh-based members and further open positions.

LOOPSTER

Loopster, the online platform which closes the loop between the use and reuse of second-hand clothes, secured a six-figure seed equity funding round led by the Development Bank in the 20/21 financial year.

Investing alongside the Development Bank were business angel Jim Lewcock, who owns the internet-focused venture capital Blue14, and experienced angel investor Kate Methuen-Ley who joined the Development Bank Board in April 2021.

With 300 tonnes of our clothes ending up in landfill or incinerated every year, Loopster's aim is to extend the life of fashion and make shopping for second-hand or past season clothes easy and accessible to all. Extending the life of one garment through second-hand use by just nine months reduces its carbon and water footprint by 20 to 30%.

Starting with children's wear, Loopster offers customers a quick and convenient way to buy and sell quality second-hand clothes.

To sell to Loopster, customers order the Loopster Clear Out Bag and fill it up with unwanted clothes. Loopster then hand-checks every item to ensure they are good quality. Parents are paid for items which make the grade which are then sold on at a fraction of new high street prices. Clothes which do not pass the hand-check are returned to the seller, or if they agree, donated to the charity Traid. Following the success of their children's clothing service Loopster have scaled up to include womenswear on their platform.

The funding helped Loopster to further develop and commercialise their technology, enabling their platform to catalogue second-hand clothes faster. The Newport-based company used the funding to also recruit more staff.

Cardiff, South Wales
£250,000
Wales Technology Seed Fund 11

"With consumers waking up to the destructive effects fast fashion has on the environment, it is crucial that sustainable sources of clothing are available at attractive price points. We are thrilled to have the support of the Development Bank as our lead investor. Their equity finance is helping us grow our team and our platform further."

Jane Fellner, CEO, Loopster

Buying a business

Funding to support the next generation of business owners, helping management teams buy an existing business.

JUST LOVE FOODS

Father of three Mike Woods has completed the management buy-out of the company that he started in 2009 after struggling to find shop-bought nut free birthday cakes for his two children who have nut allergies.

The Just Love Food Company is based in Caerphilly and now provides nut-free, vegan, gluten and milk free cakes to Tesco, Asda, Sainsbury's, and Morrisons. With a turnover of £3.8 million, the company employs 70 people.

A £750,000 loan and equity funding package provided by the Development Bank has enabled family members Brian Roberts and Phillip Roberts as majority shareholders to exit The Just Love Food Company with the Bank taking a 30% equity stake in the business.

Three new private investors with a combined equity stake of 22% have also joined Mike Woods as Managing Director. George Adams, Chris Smith and Tom Carroll met when Chris and George were Managing Director and Chairman respectively of Marshfield Bakery. Marshfield was a key supplier to Graze, the healthy snacks business now owned by Unilever. Tom Carroll was Chief Operating Officer of Graze before Unilever took over.

Mike Woods was introduced to the Development Bank by Frank Holmes at Gambit Corporate Finance.

Caerphilly, South Wales
£750,000
Wales Management Succession Fund

"The combined support of Gambit and the Development Bank has been instrumental as we focus on restructuring the business to allow Brian and Phillip to exit. I'm extremely grateful for all that they have both done; helping to build an award winning business that we are all incredibly proud of."

Mike Woods, Managing Director, Just Love Foods

Financing a property development

Residential, mixed – use, and commercial property loans to help small to medium-sized developers.

NEXTCOLOUR DEVELOPMENTS LTD

Construction has started on a new 16-bedroom boutique hotel at Oyster Wharf, Swansea thanks to a seven-figure loan from the Development Bank.

This is part of a £2 million pound investment alongside Visit Wales.

Nextcolour Developments Ltd is behind the latest development at the Mumbles site. The 16 bedroom hotel has been designed by Lawray Architects and Holly Keeling Interiors, who previously worked on The Watergate Hotel in Cornwall. South Wales-based Bridgeport 360 are the appointed contractors.

Positioned as part of the successful Oyster Wharf development that opened in 2016, the new hotel is expected to create 30 new jobs and has been pre-let for 25 years to the City Pub Group. The Group currently has a portfolio of 47 pubs across England and Wales including Chapel 1887 and the Pontcanna Inn in Cardiff.

Swansea, West Wales
£ Seven-figure
Wales Tourism Investment Fund

"Now might not be an obvious time to invest in a new hotel but we are confident that there is strong market demand for a high quality boutique hotel in the area given the strength of the tourist industry in South West Wales."

James Morse, Director, Nextcolour Developments Ltd

PROPCO DEVELOPMENTS LTD

Propco Developments Ltd completed the second phase of Waterside Business Park with all eight units on the Lamby Way site in Rumney, Cardiff now fully let or sold.

Part-funded by a six-figure loan from the Development Bank, phase two is a £1.5 million site that includes eight industrial units. Six have been sold to occupiers that include Richard Kemble Ceilings, Puma Floors and Absolute Performance with two units having been let on ten year leases.

Propco first developed phase one of Waterside Business Park in 2007 which consists of 18 similar sized flexible use units. For this second phase BECT Building Contractors were engaged to build out the one acre site. The total development now features 26 units ranging from 1,200 to 3,500 square feet. Offering excellent road links, the high specification units include separate pedestrian and roller shutter door access. Cushman and Wakefield and Jenkins Best were engaged as joint agents for the site.

Cardiff, South Wales
£ Six-figure
Wales Commercial Property Fund

"The funding has made a huge difference to us; giving us the comfort and certainty to continue with the development this year at a time when the property and construction sectors have been so heavily impacted by Covid-19. What's more, the speed of turnaround was hugely helpful meaning that we could proceed with work on site without delay."

James Coombs, Managing Director, Propco Development Ltd

ABBEY CONSTRUCTION

Abbey Construction secured a property development loan to help build 10 three-bedroom semi-detached homes in Churchstoke, Powys. It is the first phase in a planned 30 home development in the mid Wales village.

As well as using all local suppliers and sub-contractors, the company want to provide homes for families and first time buyers in the community.

Phase 1 of the Ridgeway View development was registered with Help to Buy - Wales, with nine of the 10 homes being sold with support from the shared equity scheme.

Abbey Construction is currently looking to develop phase 2 of the site.

Churchstoke, Mid Wales
£ Seven-figure
Wales Property Fund

"The loan from the Development Bank property team helped kick start our high-quality Ridgeway View development. We're delighted to have already secured buyers for all of the homes – including a majority through the Help to Buy - Wales scheme. We're passionate about providing much needed accommodation, built to our exacting standards, in the area and look forward to an on-going partnership with the Development Bank."

Jason Price, Director, Abbey Construction

DAWAN DEVELOPMENTS

The commercial site known as Spider Camp, near Atlantic Trading Estate in Sully is being developed by Dawan Developments Ltd. The project has been supported by a seven-figure commercial property loan from the Development Bank.

Spider Camp is comprised of six light industrial buildings, made up of 42 individual units. They are designed as starter units for growing businesses and start-ups who need smaller commercial spaces. Demand is high for this type of space, with all but two units from phase 1 sold before completion.

Planning permission has been granted for the site, with the total proposed accommodation making up 59,484sqft to be built in three phases. With construction work on phase 1 well underway the site will provide much sought after, modern business space.

- **Phase 1:** Two buildings (Building 1 and 2) comprising 13 units totalling 18,418sqft;
- **Phase 2:** Two buildings (Building 4 and 5) comprising 13 units totalling 18,418sqft and;
- **Phase 3:** Two buildings (Building 3 and 6) comprising 16 units totalling 22,648sqft

Barry, South Wales
£ Seven-figure
Wales Commercial Property Fund

"The support given from start to finish the Development Bank has been superb. With their help, the additional funding has allowed us to progress the project to the next stage with two more buildings going under construction ahead of schedule, meaning the whole project will complete six months early!"

Andy Ismail, Managing Director, Dawan Developments

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

ELEN FINANCIAL

Software as a service (SaaS) company Elen Financial secured a £300,000 funding round from angel investors and the Development Bank. A syndicate of seven business angels invested £150,000 and were supported by the Development Bank who matched the syndicate funding through its Angels Co-investment Fund.

Elen Financial's main product Elen is a simple, modern and affordable back office software system designed specifically for financial advisers. The Cardiff-based company used their funding to take Elen from minimal viable product (MVP) stage to further production. Elen now offers fees and commission management functionality, support for mobiles and tablets, as well as integration with CashCalc and Transact, E-signatures, and business and MI reporting.

Cardiff, South Wales
£300,000
Wales Angel Co-investment Fund

"Angels Invest Wales has helped us secure long-term working partnerships with our syndicate of angel investors. The equity funding we received has allowed us to accelerate development work on Elen with a group of people who are as passionate about our company and products as we are."

Gweirydd ap Gwyndaf, CEO and Co-founder, Elen Financial

ATHERTON BIKES

Passionate about cycling, the Atherton family – Dan, Gee and Rachel – founded Atherton Bikes in 2019. The brand builds on their success as the Atherton Racing team.

Between them the siblings hold 49 World Cups, eight World Championships, seven World Cup overalls and 19 national titles.

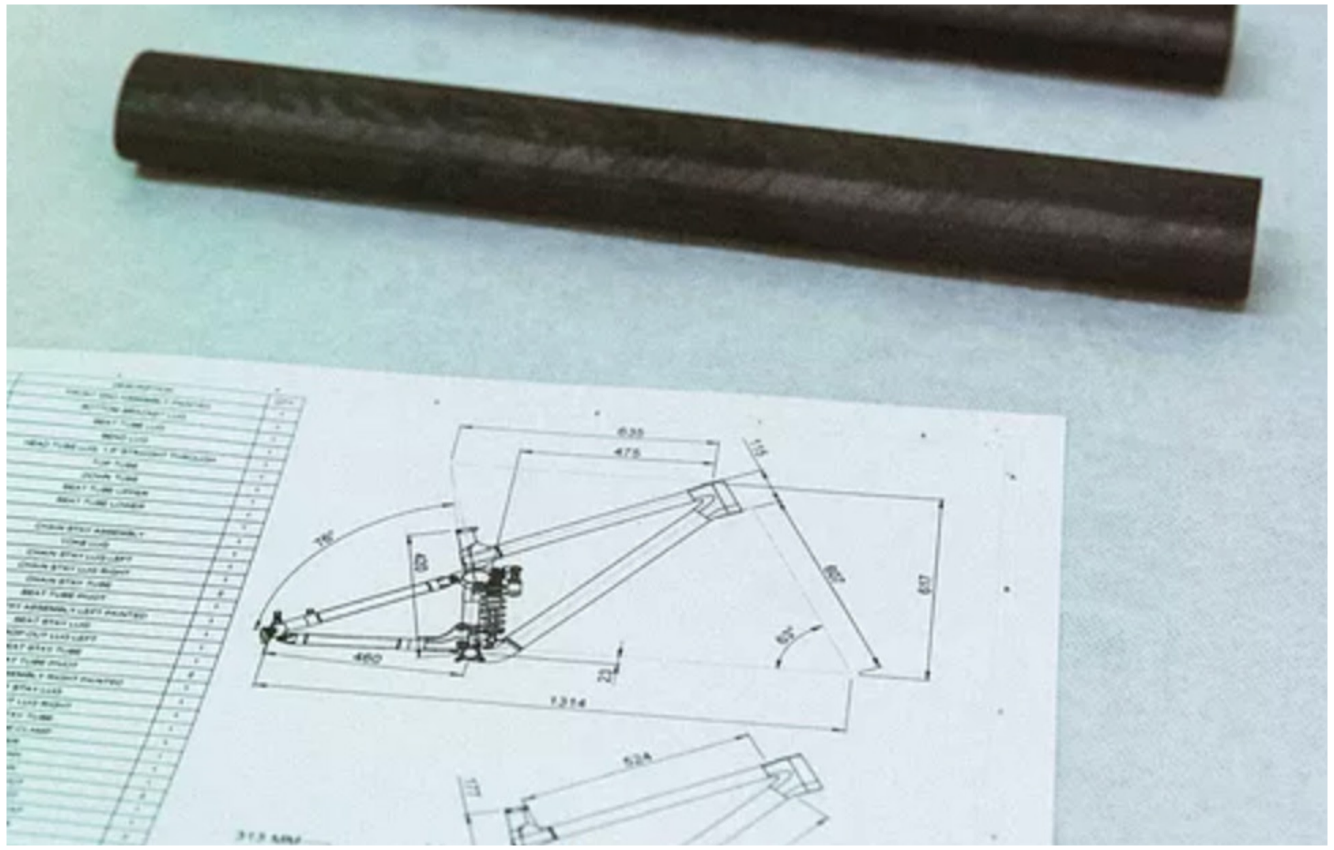
They have partnered with leading aerospace engineers, product designers and experienced entrepreneurs to disrupt the mountain bike industry. Lead investor Rhys Owen led a syndicate of eight angel investors from North Wales raising over £76,000 with a further £76,000 from the Wales Angel Co-investment Fund.

The first bikes are on sale and are already being shipped to customers around the world.

Machynlleth, Mid Wales
£76,000
Wales Angel Co-investment Fund

"We've spent our lives developing and racing, now is the time to bring Atherton Bikes to the trails. The support we've had from Angels Invest Wales and the investors we've met through them has been amazing and will support us as we bring our first bikes to market."

Dan, Gee and Rachel Atherton, Co-owners, Atherton Bikes



Economic Intelligence Wales

Economic Intelligence Wales collates and analyses data on the Welsh finance market and enriches understanding of the Welsh economy.

Economic Intelligence Wales (EIW) brings together economic statistics and SME level research. Its research provides insight into the supply of, 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.

Performance highlights

Economic Intelligence Wales published the first in a series of Bespoke Reports on Covid-19 Welsh Government financial interventions.

[EIW bespoke report on Covid-19 Welsh Government financial interventions, December 2020]

The Economic Resilience Fund (ERF) and associated measures including the Non-Domestic Rates scheme has accounted for close to £1bn in grants to businesses in Wales, and over £90m in loans.

Economic Resilience Funds Phase 1 and 2 grants

12,000
businesses supported

125,000
jobs supported

Covid-19 Wales Business Loan Scheme (CWBLS)

Over 1,300
businesses supported

16,055
jobs supported

Non-Domestic Rates (NDR) grants

64,000
separate payments were made

£770m
worth of funds received

"The scale and speed of the interventions have been unprecedented and critical in stemming the effects of the pandemic.

"At this stage, our research focusses on administrative data for each intervention and with much work still needed to evaluate the impacts of support."

"Further analysis will be important to identify how far economic activity has been protected in businesses that trade internationally and to disentangle the complex issue of effects linked to Brexit and those linked to the economic downturn."

Max Munday from the Welsh Economy Research Unit at Cardiff Business School

Covid-19 Welsh Government financial interventions:
An analysis of Welsh beneficiaries, December 2020

Read more ▸

Economic Intelligence Wales' quarterly reports have continued to collate and analyse economic and SME level data. Key findings from the most recent report included:

- The UK economy recorded 1% quarterly growth in 2020Q4, although UK GDP declined by 7.8% in the year to 2020Q4. UK GDP fell by an estimated 9.9% over 2020 as a whole. This was the largest annual contraction on record.
- The Covid-19 impact in Wales was captured by quarterly (experimental) GDP estimates. The latest available figures, for 2020Q2 revealed a 15.1% quarterly contraction, capturing the effects of the four-months of lockdown beginning in March 2020. GDP in Wales is estimated to have fallen by 18.3% in the year to 2020Q2.
- The ONS quarterly experimental statistics on business demography show that the number of business births in Wales in 2020Q4 was higher than business deaths. This contrasts with the UK average where there were less business births than deaths during the final quarter of 2020. Nevertheless, the impact of the pandemic is evident in the data for both the UK and Wales. In the UK there was a 37% annual increase in business deaths in the year to 2020Q4, this compares to a 48% increase in Wales. However, in Wales, business births increased by 103% in the year to 2020Q4.

[EIW Annual Report, June 2020]
[EIW Quarterly Report, September 2020]
[EIW Quarterly Report, February 2021]
[EIW Quarterly Report, May 2021]
[Bespoke report – Covid-19 Welsh Government financial interventions: An analysis of Welsh beneficiaries, December 2020]

Future EIW Bespoke Reports
An evaluation of the impact of Welsh Government Covid-19 financial interventions is a longer-term research project for EIW which started in 21/22 and will continue into 21/22 and beyond. The second bespoke report on this topic, to be published during 21/22, will include analysis of the results from a large-scale survey of Economic Resilience Fund (ERF) beneficiaries. The survey of ERF beneficiaries will be undertaken over a number of waves to enable longitudinal analysis of the impacts of Welsh Government financial interventions.

Moving EIW to the next level
Following the completion of an external review of Economic Intelligence Wales (EIW) in 20/21, the focus in 21/22 will be on implementing the recommendations from the review and expanding the research collaboration to form an academic collaboration panel.

There will be a strong element of consistency in 21/22 with Cardiff Business School continuing to produce the Quarterly and Annual Reports on the state of the Welsh SME finance market, and the impact of the pandemic and Brexit on Welsh SMEs.

The Development Bank will also be seeking to implement other recommendations from the external review of EIW during 21/22 including:

- Developing a broad 3-year research agenda
- Developing further approaches to original research
- Widening the audience for EIW's research
- Better linking EIW's research to the wider range of economic and business research across Welsh Government

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

Cefnogir gan Lywodraeth Cymru
Supported by Welsh Government

Now in its seventh year the scheme supports the purchase of new build homes 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) that 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 £465m has been lent supporting property sales of £2.35bn.

The total number of houses sold through the scheme reached 11,983 and 76.7% were sold to first time buyers.

Total impact since the scheme launched in 2014

£465m of loans

12k houses sold

£2.35bn property sales

76.7% sold to first time buyers

294 builders registered

Phase 3

£250,000
maximum purchase price

5%
Minimum deposit

20%
Support up to 20% of purchase price

Self Build Wales

Self Build Wales helps to fund people in Wales wishing to build their own home.

Hunanadeiladu Cymru Self Build Wales

Self Build Wales is a £40m scheme established by the Welsh Government in 2019, to help remove barriers and uncertainty for people in Wales wishing to build their own home. Plots of land are entered into the scheme by Local Authorities, Housing Associations and more recently private landowners.

Plots are made available to applicants via an interactive map, with pre-approved designs to choose from and planning permission in place.

The Development Bank provides loans to cover 75% of the initial plot cost plus 100% of the build cost, with no repayments to make during the term of the loan (up to 2 years).

The scheme was due to launch in March 2020. However, due to the Covid-19 pandemic local authorities focused on maintaining only basic functions. In early 21/22 a decision was made to introduce private land in order to boost the volume of sites coming into the scheme.

Amount loaned

£300,000
One loan of £300,000 to develop a semi-detached bungalow in Cardiff

FW Capital

FW Capital delivers funds 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.

MATTWOOD DEVELOPMENTS LTD

North East Property Fund

Mattwood Developments Ltd secured a loan for the redevelopment of a historic farmhouse at 44 Walkergate, at the heart of Berwick's town centre. The farmhouse, which dates back to the 19th century, had fallen into disrepair in recent years.

But thanks to the FW Capital investment, the first in North Northumberland, a full renovation of the existing two bedroom farmhouse was carried out, alongside the construction of two new four bedroom homes.

The development is of the highest quality craftsmanship and uses traditional materials sympathetic to the building's past. Work was completed in early 2021.

Mattwood Developments Ltd was set up by local business partners John Matthewson and Richard Wood in 2013. First established as a general building and repairs firm, the company has gone from strength-to-strength, employing locally and growing to become a respected house builder, specialising in cross-border development schemes.

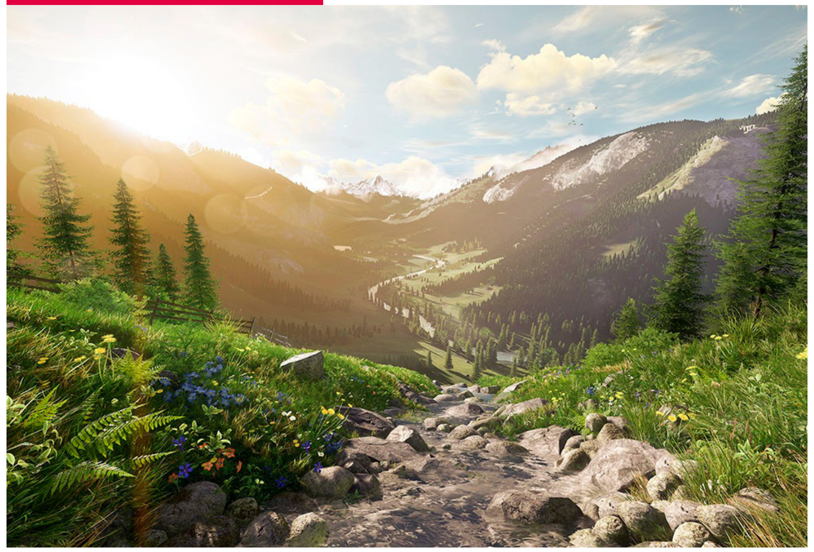
The project has been given the backing of Berwick-upon-Tweed Civic Society, which welcomed the plans to bring the site back into residential use. The development was also praised for its use of traditional materials.

Berwick-upon-Tweed, North East
£ Undisclosed
North East Property Fund

"FW Capital is a fantastic funding partner. The North East Property Fund team were supportive and helpful and it was a straightforward process to obtain the funding we required."

John Matthewson, Director, Mattwood Developments Ltd

AIRSHIP IMAGES LTD



NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

Lytham St. Anne's-based Airship Images Ltd offer end-to-end art services for the games industry. From full character creation to vehicles and props. Creations are used by some of the world's largest gaming companies including Disney, Microsoft, Ubisoft and Supermassive Games.

Airship Images was set up in 2008 by CEO Joseph Harford and during the last financial year relocated its two offices in the Blackpool area to one large office in Lytham. The company is at the forefront of research and development into new design and production techniques, which has cemented its reputation as one of the leading artwork studios for the games industry.

They received a £350,000 loan from the NPIF – FW Capital Debt Finance Fund to support the recruitment of 11 new staff – taking the total workforce headcount up to 26.

Lythan St Annes, North West
£350,000
NPIF – FW Capital Debt Finance

"Recruitment is vital to our growth strategy. We work with major global gaming companies for some of the highest profile projects. Increased demand for our services required substantial investment to ensure we can attract the best talent to join our team. It was important to us to find the right investor. FW Capital have a long track record of supporting businesses in the creative and digital sector and we felt the really understood our business and the industry we work in."

Joseph Harford, CEO, Airship Images Ltd

IMH

NORTHERN POWERHOUSE Investment Fund
Delivered by British Business Bank

Founded in 1983, IMH is a family-run business providing hydraulic engineering expertise and solutions across a range of sectors. IMH offers services across design, manufacturing, installation, commissioning, maintenance, and repairs, as well as component supplies and training.

In 2020 IMH secured a £250,000 loan from NPIF – FW Capital Debt Finance, backed by CBILS, to provide working capital amidst potential delays to projects caused by the Covid-19 pandemic, whilst also safeguarding jobs in the business.

This investment will also help the business deliver its long-term growth strategy.

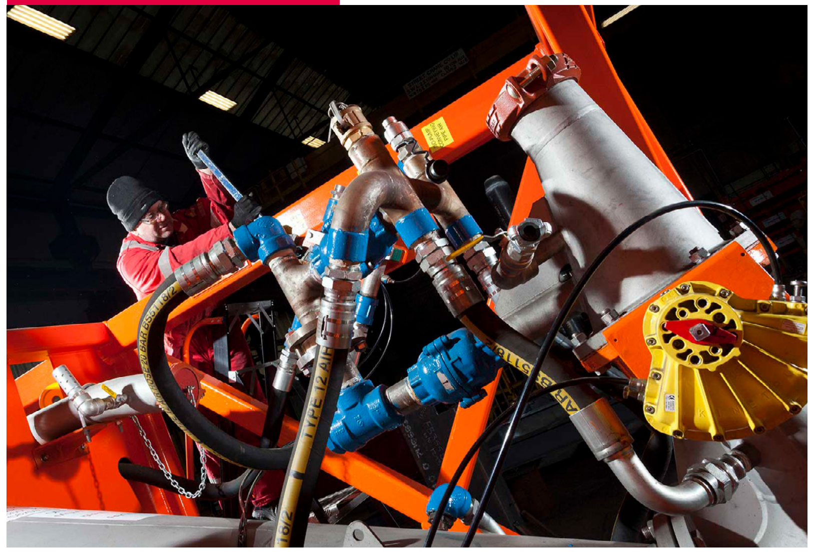
FW Capital has worked closely with the Middlesbrough-based firm since 2018. The business initially received a £300,000 investment from the Tees Valley Catalyst Fund (TVCF), managed by FW Capital, in 2018 enabling it to fulfil its bond requirement on a £2 million contract working on the Boston Flood Defence System. In 2019 a £500,000 NPIF investment was made enabling IMH to secure a major contract and employ more specialist hydraulic engineers.

Middlebrough, North East
£250,000
NPIF – FW Capital Debt Finance

"FW Capital has been a valued supporter of IMH for several years and really goes the extra mile to understand our business."

James Griffiths, Managing Director, IMH

FRANCIS BROWN LTD



Tees Valley Catalyst Fund

Independent fabrication and engineering firm Francis Brown Ltd secured investment to help it join a major mining project. The Stockton-based firm received a six-figure sum from the £10 million Tees Valley Catalyst Fund (TVCF), managed by FW Capital on behalf of Tees Valley Business, which is the local growth hub for the Tees Valley and part of the Tees Valley Combined Authority.

The funding supported Francis Brown to fulfil bond requirements for a contract worth over £1 million to fabricate 400 metres of mine shaft casings for Strabag AG at the Anglo American Woodsmith Mine project, in North Yorkshire. The Advance Payment Guarantee and Performance Bond means the company could enter into the contract, to be delivered in April 2021, and retain its working capital.

This is the second major contract that Francis Brown has secured in relation to the Woodsmith Project, having already fabricated high tolerance steel formwork for casting of concrete for the mine shafts.

In March 2021 the business secured funding from NPIF – FW Capital to provide working capital.

Francis Brown Ltd was founded in 1903. Now in its fourth generation of family ownership, the business is run by brothers Simon and Jamie Brown and MD Mark Roddy, who was appointed in 2017. The company's services include design and manufacture of pressure vessels, tanks and structural fabrications and their installation at customers' sites.

Tees Valley, North East
£ Six-figure
Tees Valley Catalyst Fund

"Securing the backing of FW Capital and the Tees Valley Catalyst Fund enabled us to win this major contract on top of others, safeguard jobs and to continue to grow our business. We are grateful for the support."

Jamie Brown, CEO, Francis Brown Ltd

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.

Vaughan Gething

Minister for Economy

"I'd like to congratulate the Development Bank of Wales on another highly successful year, as it continued to work closely alongside Business Wales and the Welsh Government during incredibly challenging conditions. The Development Bank delivered the vitally important Covid-19 Wales Business Loan Scheme to specifically support Welsh businesses during the pandemic, whilst also providing record levels of 'business as usual investments' to enable enterprises to develop and prosper.

"The Development Bank of Wales will be key in supporting our new Programme for Government in the years ahead, helping us to realise our ambitious plan for a stronger, greener and fairer Wales as we recover and rebuild, post pandemic. I look forward to working closely with the Development Bank and supporting its important work."

Julie James

Minsiter for Climate Change

"The Development Bank of Wales remains an important partner in assisting us to deliver financial support to the housing sector. This last year has demonstrated just how important it is that we provide a range of products to support the house building industry.

"As part of our Covid-19 reconstruction plan the Property Development and Stalled Sites funds received an additional £15m each to help small and medium sized businesses unlock sites and access affordable finance to build more homes across the country. I am grateful for the way they have continued to assist businesses through this difficult time and help to meet the challenges we face to build more homes in Wales."

Rebecca Evans

Minister for Finance and Local Government

"The Development Bank of Wales has become a key partner to support delivery of our collective priorities from supporting business to delivering on our housing targets.

"I want to thank all the staff at the Development Bank of Wales for the role they have played to deliver, professionally and at speed to counter the damaging impacts of the pandemic on the Welsh economy and the role they will continue to play in supporting our new Programme for Government."

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. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Group's stakeholders. 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.

Engaging with the Group's stakeholders is key to the way the Group runs its business and is an important consideration for the Directors when making relevant decisions. Details of how the Directors engage with colleagues and have regard to the need to foster relationships with suppliers, customers and other key stakeholders can be found below.

The Board has made three key strategic decisions during the year ended 31 March 2021 where due consideration was given to the Group's key stakeholders which are disclosed below and show how the Board has considered and challenged different stakeholder priorities.

Covid-19 pandemic response

During the year, significant economic and social disruption has arisen from the Covid-19 pandemic. The Group's priority throughout the year has been helping customers and colleagues through the many challenges created by the Covid-19 pandemic. The Group invoked crisis management plans as it sought to serve and support its customers throughout the early stages of the pandemic while maintaining the safety and well-being of colleagues but has since transitioned new working practices to business-as-usual, with ongoing, stable operational performance. The crisis management response included a focus on operational resilience. The actions taken included enhancing home working capability for colleagues and providing repayment holidays and new subsidised funding to customers. Close monitoring remains in place to ensure that the Group's critical functions continue to be resilient.

The Group's customer response was focused on providing repayment holidays and new funding whilst the main UK funding response schemes, Covid Business Interruption Loan Scheme ("CBILS"), Bounce Back Loans Scheme ("BBLS") and furlough scheme, came on line. In March and April, the Development Bank offered a three month repayment holiday to its entire portfolio and in April, it opened its own £100m Covid-19 Wales Business Loan Scheme ("CWBLS"). Within one week this fund was fully subscribed.

The Group not only had to change its working practises from the office to from home but also its entire investment process in order to fulfil these applications in a timely manner whilst safe guarding public money. The Board recognised that these responses to the pandemic whilst transitioning to a new work from home basis put significant pressure onto employees and ensured that colleague training, support and wellbeing initiatives were put in place to alleviate these pressures. The Group's digital transformation programme was far enough advanced to enable the change to home working to be implemented seamlessly. The bulk of these loans were paid out between April and June with the final amount invested amounting to £92m into over 1,300 businesses. The Board has received frequent operational, financial and colleague updates from the Executive team throughout the crisis and provided challenge and support.

During May, the Board considered potential further demand and other funders' actions and agreed that, with the CBILS and BBLS now in operation across the UK, no follow-on fund to CWBLS was required. The Board also agreed that further repayment holidays would be granted on a case by case basis.

Covid-19 pandemic response (continued)

The Group's response to the Covid-19 pandemic included some key decisions taken to consider colleagues. The UK Government's furlough scheme was not utilised. The Group's offices have been closed and then reopened on a controlled basis involving a desk booking system, to account for Welsh Government advice. The Group provided training and support to the leadership team to enable them to manage and support colleagues remotely. The Group's Health and Wellbeing initiatives were focused on supporting colleagues working remotely through lockdown such as; encouraging work-life balance, providing information and advice to ensure colleagues work environment at home was appropriate, including the introduction of an allowance for the purchase of office equipment, ensuring policies were updated to include Covid-19 related amendments, weekly virtual exercise classes, daily webinars offered by the company's Employee Assistance Programme, regular themed talks facilitated by the Group's Mental Health First Aiders and Group challenges encouraging physical activity with all proceeds going to the Group's nominated charity of the year. Regular surveys were also conducted to enable the Group to adapt support provided to the needs of the colleagues. Communication to the Group was increased during lockdown to ensure colleagues were kept up to date with support available and Group activity. This was supplemented by regular Group wide events held by the Senior Management Team to update colleagues on Group activity and allow colleagues the opportunity to ask questions as well as weekly messages from the CEO. A Welsh Christmas Hamper was also sent out to all colleagues as a small recognition of everyones' efforts over the year.

A working group was also set up to evaluate future working practises. This work included seeking feedback from colleagues to understand their needs and preferences and achieve buy-in to future plans. The output of the group suggested a move to a more flexible approach involving a combination of office and home working, this has been endorsed by the Senior Management Team and planning is underway to roll this out.

Additional funding

The Group raised additional funding of c. £500m during the year from the Welsh Government as top ups to a number of its funds, the most significant being a £270m top up to the Wales Flexible Investment Fund, brings this fund up to a size of £500m which will enable the Group to continue investing into the next decade. A full list of new funding raised can be seen on page 13.

The Board considered, challenged and approved the funding proposals including reviewing the quantum, timeframes, scope and repayment requirements for each fund.

Future opportunities

The Group has developed proposals in the following areas:

- Recovery support group – to help businesses with an increased debt burden post Covid-19 manage working capital challenges.
- Self Build Wales – finding more development land opportunities.
- Regeneration – predominantly in town centres.
- Decarbonisation Programme – working with Welsh Government to implement the financing of zero carbon schemes.
- Agri Capital – developing funds for sustainable diversification such as agro forestry, power generation, tourism and food processing.
- Youth Employment – developing investment strategies focused on this sector.

The Board considered, challenged and approved the proposed plans to develop these proposals into detailed programmes over the next couple of years.

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. In 20/21, this became our most pressing priority.

Supporting the economy through business owners during the pandemic was an issue across the globe. We were integral for meeting the challenge of supporting the economy in Wales. At the start of the year, we restructured our entire business to deliver £92m through the Covid-19 Wales Business Loan Scheme. Our fast mobilisation was crucial for our customers as we issued repayment holidays alongside financial support while other mainstream lenders organised delivery of other schemes.

Our scheme came with a 12-month repayment holiday and saw a number of existing portfolio customers access loans to continue trading.

A priority in this scheme was that we did not lose our principles as a responsible investor. Throughout the year, in business as usual investments, we continued our approach to customer interactions as one framed within the Well-being of Future Generations (Wales) Act 2015, providing sustainable and effective finance, complementary to the private sector with strong governance and oversight. This meant continuing with our broadened measurement of our impact across four impact themes:

Prosperity and global opportunity

Communities, health and social inclusion

Decarbonisation and environment

Innovation and digital 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 provides a unique view of our customers coming into, and transitioning out of the pandemic's lockdown periods, and how our finance has made an impact.

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.

During the last year, the focus of EIW has been on analysing the impact of the pandemic on the Welsh economy, both through the quarterly reports and working in collaboration with Welsh Government on a series of bespoke reports evaluating the impact of Covid-19 Welsh Government financial interventions.

The Development Bank sponsored the Entrepreneur Award at Womenspire 2020, demonstrating our support for women entrepreneurs. We achieved a silver award in Chwarae Teg's FairPlay Employer benchmarking service in 2020 and were also shortlisted for the FairPlay Employer award at Womenspire 2020. We have also continued our contribution to the Supporting Entrepreneurial Women Advisory Panel by implementing actions from the Good Practice Guide. The Development Bank was the main sponsor of the inaugural and bilingual Llais Cymru Welsh Women in Business Awards, held online on 2 July 2021.

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.

During the pandemic, like many businesses we closed our premises and shifted to working remotely. This was made easier by a long-term project for reassessing our use of office space and has enabled us to reduce our Cardiff office space. Reducing this space is part of a long-term commitment to ways of working that reduce our environmental impact.

This year our internal working group (Teulu) focused on our internal decarbonisation. This group calculated the Development Bank carbon footprint for the period of April 2019 – March 2020 as 184 tonnes of CO2. For immediate action, this footprint was offset making the Development Bank carbon neutral for the first time. Further to this, the group established priority actions for reducing our impact on the environment across areas such as best practice policies, green travel and behaviour changes. These actions are a priority for the Group to continue into 21/22 year.

However, we are not just changing organisational behaviours, we are also supporting our colleagues to reduce their own footprint. Our internal decarbonisation Teulu set in motion a programme of support for individuals to calculate and track their personal carbon footprint with support to change behaviours outside of work.

The Board received presentations from the Teulu during the year and considered, challenged and approved the proposed next steps. The Board also requested that a new risk on Environmental, Social and Governance issues was added to the Group's principle risks (see the Principle Risks section for more detail on this).

As we work more remotely, the Board remains committed to minimising 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 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 directly supports the economic development of the regions we operate in, creating and safeguarding jobs and stimulating local supply chains.

We have raised over £53,000 for our charity partner between July 2019 – January 2021, 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
- Participation in the Virtual London Marathon

The Development Bank's new charity of the year is mental health charity Mind Cymru. Mind Cymru was nominated by several colleagues across the company.

For the sixth year running, Development Bank colleagues donated Christmas presents and food hampers to 105 children and young adults through the charities NSPCC and Barnardo's.

The Board received regular updates on the Group's community and fund raising activities through the monthly executive management report and considered, challenged and approved the ongoing activities.

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 digital transformation programme.

During 20/21, our procurement policy was updated to ensure it reflects current legislation. The revised procurement policy emphasises the need to utilise government framework contracts in the first instance. Colleagues provided training and guidance on the new policy, as well as specific training on framework agreements and how to access them.

The Board received regular updates on the Group's principle procurement activities through the monthly executive management report and policy updates from the Audit and Risk Committee and considered, challenged and approved the ongoing procurement policies and activities.

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. Our colleagues are motivated to deliver our vision and in order to attract this talent, we recognise we need a culture and environment in which our colleagues can thrive and learn.

The Group encourages and supports colleagues to develop their career with 51% of our recruitment drives being filled by internal candidates. In 20/21 a structured career development path for colleagues within investment teams was implemented, with eight promotions. This is a key driver in attracting and retaining the right people to deliver the future growth of the organisation.

The Group's selection, training, development and promotion policies are designed to provide equality of opportunity for all colleagues, regardless of age; disability; gender; gender reassignment; marital and civil partnership status; pregnancy and maternity; race; religion or belief, or absence of religion or belief; sexual orientation or trade union affiliation.

The Group works with all colleagues, including those with disabilities (4%) and adapts work practices where necessary to support productivity and engagement.

Our training has shifted to online training and remained consistent even through the pandemic, we have delivered 1,159 days of training. Taking into account our increased headcount this year, this equates to an average of 4.5 days training per colleague.

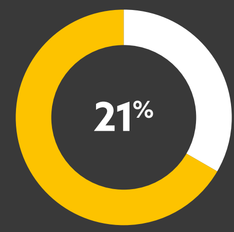
The Development Bank is committed to ensuring a planned approach to provide a healthy, happy work environment. This supports colleagues in maintaining and enhancing their personal health and wellbeing in work and includes financial awareness, mental health and physical health.

The following wellbeing initiatives took place during the year:

- Daily and weekly communications to all colleagues
- One grace day given to help prevent 'burn-out'
- Flexible working to support caring responsibilities
- Wellbeing seminars on mental and financial wellbeing
- Medito App introduced to practice relaxation, meditation and mindfulness
- Relaunched DBW's cycle to work scheme
- Pilates classes offered to all
- Employee engagement initiatives
- 64 flu jabs were provided to colleagues
- 10 mental health first aiders trained and available to support colleagues
- Resilience workshop for managers
- 49 colleagues involved in the 'ice breaker' sessions to encourage keeping in touch with colleagues

At the end of this financial year, 8.9% of our colleagues were from Black, Asian and Minority Ethnic backgrounds.

These policies and KPIs to monitor progress are reviewed and challenged by the Remuneration Committee. The committee chair provides the Board with a summary of discussions and decisions after each committee meeting.



Over 21% of our external recruitment was to the Wrexham HQ which, at 42 employees, is fully on track to meet the Pan Wales Strategy.

HQ

Total training costs has decreased by 18% to £332k, this reflects the move to online training and shorter training sessions. The Group is committed to developing our colleagues.

Training

Continued to streamline our processes, integrating DocuSign and a new payroll system.

Digital transformation

24

25

Recruitment continues to meet business growth with 24 new recruits and 25 internal moves.

Recruitment

IMPACT INVESTMENT

The Development Bank of Wales operates in a unique space which balances financial returns with social impact. As a long-term provider of capital (loans and equity investments) to the micro to medium business community, we believe that small businesses and entrepreneurs rooted in the community have a major part to play in addressing local and global challenges, including addressing climate change and creating a more sustainable economy.

In our Annual Report for the 19/20 financial year, we noted that we had initiated a long-term project to broaden our mechanisms for evaluating and measuring impact. We chose to align our aspirations with the UN Sustainable Development Goals, the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's Calls to Action

Consequently, we continued to measure our impact in 20/21 by reference to four themes:

- Prosperity and global opportunity
- Communities, health and social inclusion
- Decarbonisation and environment
- Innovation and digital inclusion

In 20/21, we used our impact questionnaire to deepen the understanding and benchmarking of the impacts of businesses which received funding from the Development Bank.

Prosperity and global opportunity

This theme helps us measure how our customers through our loans and investments impact economic growth. It also enables us to measure the distribution of this growth with the aim of creating a more prosperous Wales with a vibrant culture.

Communities, health and social inclusion

We seek to improve financial inclusion and make investments that address societal issues. Metrics captured under this theme are aimed at measuring our impact on creating a more equal and healthier Wales of cohesive communities. Impact data relates to new investments made during the financial year and include investments made through the Covid-19 Wales Business Loan Scheme.

Innovation and digital inclusion

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

Decarbonisation and environment

The scale, complexity and immediacy of the global climate emergency means that the Development Bank is currently reviewing its approach in order to be more proactive in tackling the issue and to measure more relevant metrics.

Prosperity and global opportunity

60%

of Full Time Equivalents (FTEs) in the jobs created by businesses we support earn more than two thirds the median wage and are in median to high pay brackets. **Our sample indicates that this percentage increases to 86% for businesses taking on equity investment. (50% in 19/20)**

9%

Productivity increase. This is the increase in turnover per FTE. Our sample indicated an increase in the average turnover per employee to £90,372 in 20/21 from £83,189. **Our sample indicates that businesses taking on equity investments saw a higher productivity increase of 28%.**

14%

of our sample businesses were exporting in 20/21 compared to 12% in 19/20. **Our sample indicates that 81% of FTEs in jobs created by businesses that exported were in median to high pay jobs.**

Progress on our commitments
Our priority under this theme is supporting businesses to trade through the pandemic and sustainable grow as we transition out of the economic shock.

In 20/21 we have:
1. Delivered an exporting masterclass to our customers.
2. Invested £120.5 million into the West Wales and the Valleys (ERDF definition).

In 21/22 we will:
1. Deliver an equity awareness and education campaign to demystify the process of equity finance and encourage owner/managers to consider the opportunity presented by investment.
2. Work with the portfolio of Covid-19 Wales Business Loan Scheme businesses to assess requirements for flexible repayment options or other support to recover from the pandemic.
3. Deliver an ongoing programme of portfolio workshops and masterclasses.

Communities, health and social inclusion

3%

of owners/directors/shareholders in the businesses we supported in 20/21 Black, Asian and Minority Ethnic individuals (3% in 19/20)

4%

of owners/directors/shareholders in the businesses we supported in 20/21 are under 25 years of age. (7% in 19/20)

3%

considered themselves to have a long-term disability. (1% in 19/20)

32%

of owners/directors/shareholders in the businesses we supported in 20/21 are female (29% in 19/20.)

Progress on our commitments
We will continue to support those more adversely affected by the pandemic induced economic shock.

In 20/21 we have:
1. Achieved a silver award as a FairPlay employer.
2. Sponsored the entrepreneur category at the Womenspire Awards.

In 21/22 we will:
1. Continue to support female entrepreneurs by working in partnership with organisations like the Female Entrepreneur Network and Chwarae Teg;
2. Review how we can increase the numbers of young entrepreneurs we support.
3. We will identify more opportunities to work with people from under-represented groups to increase engagement.

Innovation and digital inclusion

33%
of respondents were actively innovating within their business following an investment from the Development Bank.
(31% in 19/20)
Our sample indicates that of businesses actively innovating, 45% were in South Wales and 40% were in Mid and West Wales.

15%
of businesses have participated in collaborative R&D projects
Our sample indicates that 53% of businesses undertaking such activity had between 10 and 49 FTEs and over 70% of the jobs they created are in median to high pay brackets.

35%
were actively digitalising their business following an investment from the Development Bank.
(41% in 19/20)
Our sample indicates that of businesses actively digitalising, 42% were in South Wales and 39% were in Mid and West Wales.

18%
Of businesses have transitioned to cloud computing.
Our sample indicates that 48% of businesses undertaking such activity have less than 10 FTEs and 66% of the jobs they created are in median to high pay brackets.

Progress on our commitments

In 20/21 we have:
delivered a series of six customer masterclasses to encourage investment in areas such as innovation, learning and development and international markets.

In 21/22 we will:
encourage our customers to improve their efficiency and opportunities for innovation by encouraging collaboration and competition.

Decarbonisation and environment

£830k
invested into three social enterprise renewable energy projects with long-term environmental, social and economic benefits introduced through Welsh Government Energy Service.

27
referrals to Business Wales Sustainability Advisor for a range of support including the Green Growth Pledge, environmental sustainability advice, grants and renewable energy.

190
tonnes of carbon dioxide equivalent offset through the planting of 190 trees through the Verified Carbon Standard (VCS 981) ADPML Portel Para REDD project.

Progress on our commitments

In 20/21 we have:
1. Established a task and finish group to map existing policy and consider how well the green finance market in Wales is currently operating.
2. Worked collaboratively with the Welsh Government to identify market gaps where the Development Bank could take action.

The Welsh Government has called for a 'Team Wales' approach in regard to decarbonisation. In delivering this collaborative approach to accelerated decarbonisation action.

In 21/22 we will:
1. Set a long-term research plan as part of Economic Intelligence Wales that will explore further policy and financial product recommendations for transition to the zero-carbon economy.
2. Continue exploration of a number of externally focused schemes which will include our portfolio teams reviewing their 'value add' targets to assist companies in their environmental credentials through referrals to Business Wales colleagues.
3. Further integrate the work of the internally focussed decarbonisation working group to produce a plan through which the Development Bank can achieve net zero.

Case studies

Health & Her

Founded in 2017, Health & Her is the first holistic menopause hub offering products, specialist advice and symptom tracking through their menopause app.

The Development Bank made an initial six-figure investment in 2019 alongside funding from a syndicate of angel investors and the Wales Angel Co-investment Fund. They received a second round of equity funding in December 2020. The money will enable the business to carry out product development and expand into mainstream retail. Health & Her expect to create up to 18 new jobs and supply chain partners in Port Talbot and Conwy are also expected to benefit from the growth of the business.

Evens & Co

Chartered Accountants Evens & Co is a Welsh business which has reduced its carbon footprint, improved the working environment and created jobs by embarking on a sustainability programme with the help of the Development Bank.

A business loan for relocation, coupled with support for the implementation of a Green Growth Pledge, has enabled the company to reduce CO2 emissions and proactively engage with employees and customers. This includes extending product life cycles, co-owning and sharing products across sites, sourcing locally wherever possible and optimising supply chains to achieve low-carbon performance.

The measures to improve energy conversion are reducing carbon footprint and helping the company to save money in the long term; benefitting staff, customers and the local supply chain. It's a win-win all round.

Deer Technology

Deer Technology was established in 2014 by co-founders Hugh Mort and Garry Jackson who co-invented the LimpetReader™ to take accurate meter readings.

The technology provides a new standard in the remote, non-invasive and accurate recording of meter readings for water, electricity, gas and other metered consumption. The Port Talbot based company secured an equity investment totalling £1.32 million in the 20/21 financial year in a round led by the Development Bank. Following the investment they secured a £2.5 million contract with Wave, a leading retailer in the non-household water market.

Data disclosure

We rely on self-reporting for a number of measures. This means some of our datasets contain errors. In the period between 1 April 2020 and 31 March 2021, 437 companies completed and returned an applicable impact questionnaire. A number of these were removed from the sample due to poor quality data.

Consequently, 290 businesses made up the sample. 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

David Staziker
Chief Financial Officer

The purpose of this statement is to provide a transparent presentation of the Group's financial performance. 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;
- comparing the Group's operating costs with its revenue; and
- to explain the impact of the change in accounting policy on this year's results and the comparatives.

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: employees, facilities 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 FY21 and FY20 Consolidated Income Statement

Historically, the Development Bank recognised the loans received from the Welsh Government ("WG loans") in line with their cashflows i.e. recognising a liability equal to the cash received and no interest charge through the income statement as these loans are issued at no interest. Whilst considering the accounting treatment required for the Covid-19 Wales Business Loan Scheme, the Development Bank reconsidered the treatment of all its WG loans and decided to apply a similar accounting treatment to these.

As a result, the WG loans have been recognised at their initial fair value with any difference in the loan value and fair value shown as an increase in Public Equity reserves as against a liability. Notional rates of interest have been applied on the resulting WG loans liabilities and the prior year financial statements restated. The impact of the new accounting treatment as compared to historic is highlighted in the table below where the surplus/(deficit) under the old and new treatment is shown. For further detail, see the note on the Treatment of WG loans following Table C below and Notes 2,3 and 25 in the financial statements.

	FY21			Restated FY20		
	Services	Funds	Group	Services	Funds	Group
	£m	£m	£m	£m	£m	£m
Revenue	35.0	41.1	44.9*	30.9	45.7	49.1*
Operating Costs	-30.9	-24.8	-24.5*	-26.7	-22.5	-21.7*
Provisions made	0	0.3	0.3	0	-10.8	-10.8
Changes in fair value	0	10.3	10.3	0	-32.8	-32.8
Surplus/(deficit) under historic accounting treatment for WG Loans	4.1	26.9	31.1	4.2	-20.4	-16.2
Notional interest on Welsh Government loans	0	-6.4	-6.4	0	-4.9**	-4.9**
Restated Surplus/(deficit) under new accounting treatment for WG Loans	4.1	20.5	24.6	4.2	-25.3**	-21.1**

*These Group figures are less than the total of the Services and Funds business figures due to the elimination of inter-group 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.

**These amounts are or are stated after a prior year adjustment. See note below in the Funds section on treatment of Welsh Government loans for an explanation.

The £24.6m Group surplus (FY20 restated £21.1m deficit) figure for FY21 includes the £4.1m (FY20 £4.2m) surplus from the services business and a £20.5m surplus (FY20 restated £25.3m 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 £23.6m surplus (FY20 restated £21.2m deficit) attributable to equity shareholders, Welsh Ministers, and a £1.0m (FY20 £0.1m) 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 in 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 FY21 and FY20 Income Statement analysis

	FY21 £m	Restated FY20 £m	Commentary
Fund management income	35.0	30.9	Increase is primarily a result of either new Funds under management or the full year effect of new funds that came under management during FY20. Average group funds under management in FY21 and FY20 were £1.8bn and £1.5bn respectively, an increase of 20%. Average fee income compared to average funds under management moved from 2.1% in FY20 to 1.9% in FY21 indicating improving value for money as funds under management grow.
Total revenue	**35.0**	**30.9**	
Staff costs	-14.4	-13.0	Increase is primarily a result of increased workforce levels to deliver increased level of funds. The average number of staff employed during FY21 and FY20 was 242 and 218 respectively.
Other costs	-16.5	-13.7	20% increase in infrastructure and operating costs is in line with the increase in funds under management.
Total costs	**-30.9**	**-26.7**	
Surplus of income over costs	4.1	4.2	

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 Group's build-up of operating cash reserves and £103m contribution requirement between 2024 and 2030 into the Wales Flexible Investment Fund alongside the legacy returns from the Wales Business Fund and other funds in realisation mode such as the Wales JEREMIE* fund and the Wales SME fund. These legacy returns from the Wales Business Fund, Wales JEREMIE Fund and Wales SME Fund and the cumulative surplus available from the Services business amount to c. £44m as at 31 March 2021 (£30m as at 31 March 2020).

As shown in table B, the surplus generated by the service businesses decreased by £0.1m (2%) from FY20. A surplus in FY21 of £0.2m 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. We can forecast the services business income and expenditure with reasonable certainty for the next three 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 three years irrespective of whether our funds business is in surplus or deficit.

The reported £4.1m surplus noted in Table B above is £3.9m higher than planned which is attributable to the impact of the Covid-19 pandemic. The Group received additional funds to invest into businesses resulting in £1m of additional fee income and experienced £2.9m of delayed expenditure relating to recruitment and IT infrastructure and reduced expenditure on marketing and travel and subsistence. These costs are forecast to be caught up and modestly increase on FY20 levels for IT expenditure and return to FY20 levels for marketing and travel and subsistence in FY22.

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

Performance of our funds business

The Group receives funds from investors (mainly 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 18 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.

*JEREMIE stands for the Joint European Resources for Micro to Medium Enterprises initiative.

Table C: Funds FY21 and FY20 Income Statement analysis

	FY21 £m	Restated FY20 £m	Commentary
Fees received	4.0	4.2	Decrease reflects zero fees charged on the £92m of CWBLS loans issued in the year, a general reduction in arrangement and monitoring fees charged on new loans.
BAU Dividends and interest income	13.1	8.4	Increase is in line with the year on year increase in the debt book offset by the fall in average interest rates from 7.3% in FY20 to 7.1% in FY21.
Notional interest on CWBLS loans	4.6	0	The FY21 interest represents the additional notional interest that would have been charged if the loans had been issued at market rates. See comment below.
Total dividends and interest income	**17.7**	**8.4**	
ERDF Grant release	23.2	29.5	Decrease reflects a lower level of investment in the East Wales part of the Wales Business Fund (see note below) as this element of the fund diminishes and these investments are made from the Wales Flexible investment fund instead which has no grant element.
Equity realisations	-4.9	0.7	This decrease reflects £6.3m of realised losses on three large equity investments (blended cash on cash return of 0.42 times) set off by £1.4m of realised gains on two exits (blended cash on cash return of 2.1 times) in the management succession fund compared to FY20 with the three exits representing a blended cash on cash return of 2.1 times.
Net Treasury excl notional Welsh Government loan interest	1.1	2.9	Decrease principally reflects the significantly lower treasury interest rates achieved in FY21 (average rate of 0.3% and 0.7% in FY21 and FY20 respectively set off against higher average cash balances held (average cash balance held in treasury was £390m and £470m in FY21 and FY20 respectively.
HTB-W Fair value changes:			
Realised gain on disposal	4.0	3.2	Increase reflects growing size and maturity of HTB-W book.
Unrealised fair value gain/(loss) in year	31.3	-27.7	See comments below.
(Increase)/decrease in amount owed to principal shareholder	-35.3	24.5	This is the sum of the above realised and unrealised gains/losses which is (added to)/subtracted from the amount owed to the Group's principal shareholder.
Net HTB-W fair value change recorded in income statement	**0**	**0**	
Total Net Income	**41.1**	**45.7**	
Fund Management fees paid	-23.1	-20.7	Increase reflective of additional Welsh Funds under management off set by a small fall in the average fund management fee paid.
Other costs	-1.7	-1.8	Minimal change.
Sub total costs	-24.8	-22.5	
Provisions made	0.3	-10.8	See comment below.
Non-consolidated fund fair value gain/(loss)	0.3	-5.4	This gain (FY20 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 gain/(loss)	10.0	-27.4	See comment below.
Notional interest on WG Loans	-6.4	-4.9*	See comment below.
Total Costs	**-20.6**	**-71.0***	
Surplus/(deficit)	20.5	-25.3*	
Surplus/(deficit) attributable to equity shareholder	19.5	-25.4*	This represents the share of the funds business's surplus/(deficit) due to the shareholder, Welsh Ministers.
Surplus attributable to non-controlling interest	1.0	0.1	This represents the share of the funds business's surplus/(deficit) that is attributable to Clwyd Pension Fund as a result of their equity investment in the Wales Management Succession Fund (see note below).

*These are restated numbers – see comment below on Notional interest on WG loans.

Table C shows that the funds business generated a surplus of £20.5m this year as compared to a restated deficit of £25.3m in the prior year. The main reasons for the change in performance is the significant increase in interest income, decrease in provisions made and fair value gains in FY21 set off against the lower EDRF grant release, losses on equity realisations and a reduction in net 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

Under IFRS 9 loan loss provisions are based on expectations for future losses, not just on losses which occurred during the year. During the year the loan book has grown significantly however the level of overall provisions has remained constant resulting in a reduction in the provision as a percentage of the book. The FY20 provision included £10.8m of significant adjustments for the impact of Covid-19 and the uncertainty around market conditions and the future performance of companies highly impacted by the pandemic. As more information has become available on the performance of these companies, a number of these specific provisions have been released where they are no longer required. Our expected loss rates have fallen for the majority of classes of loans due to reductions in the probability of default expected by the market since March 2020 where there was a significant increase in default expectations. Further analysis on our loss provisions can be found in Notes 3 and 4.

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 £10m (12% increase in fair value) increase this year is the reversing impact of Covid-19 and good news regarding clinical trial results and medical device authorisations on the Group's listed equity portfolio (£19m gain) set off against a net reduction in valuations across the unlisted portfolio during FY21. The FY20 charge of £27.4m was driven by the impact of Covid-19 on the equity valuations.

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 is much more volatile, as demonstrated in the comparative figures above, 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 held in the financial statements at fair value. Of the £50m investment in this fund, £20.4m had been repaid as at 31 March 2021 (FY20 £20.4m). The fair value of the outstanding investment as at 31 March 2020 was £11.2m. At 31 March 2021, this fair value increased by £0.3m to £11.5m principally as a result of the reversing impact of Covid-19 on the fund's listed assets netted off against some dilution impacts on the funds unlisted 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 £35.5m unrealised gain transferred to Welsh Minsters in FY21 as opposed to a £24.5m unrealised loss transferred in FY20 is a result of the unwinding impact of Covid-19 from the prior year on the future house price index assumptions, a decrease in the discount factor (based on comparative market bond yields) and a shortening of the realisation curve (in line with actual experience) 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 statements for further details of this valuation.

Non-controlling interest

The £10m investment into the Wales Management Succession Fund by Clwyd Pension Fund ,of which £3.5m has been drawn down and invested and £1.6m repaid by the fund as at 31 March 2021 (FY20 £3.1m invested with £0.7m 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.

Treatment for Covid-19 Wales Business Loan Scheme ("CWBLS") Loans

During FY21, the Development Bank invested £92m of CWBLS loans to over 1,300 businesses in Wales. These loans were issued at a below market interest rate of 2% per annum where this interest rate subsidy represents state aid conferred on behalf of Welsh Government. CWBLS loan assets are initially recognised at fair value derived by discounting the contractual cashflows using an appropriate market rate of interest. This resulted in initial loan assets of £72m and a Consolidated Income Statement charge of £20m for the grant which has been effectively given out to businesses.

This position is mirrored in the accounting treatment for the corresponding WG loan i.e. the £92m is split into a grant of £20m which is credited to the Consolidated Income Statement in line with the timing of investment and £72m which is accounted for in line with WG Loans (see below). The recognition of grant expense and grant income occur at the same time and they are disclosed net in the Consolidated Income Statement.

In line with IFRS 9, interest income is recognised using the effective interest rate which is equal to the market rate of interest on the CWBLS book. This interest is credited to the Consolidated Income Statement (included in dividends and interest income) and debited to the debtor which will restore the debtor balance back to £92m by the end of the fund in FY27. The difference between the estimated market rate and the contractual interest rate of 2% results in additional notional income of £4.6m FY21.

Treatment for Welsh Government loans

Historically, the Development Bank has recognised the loans it received from the Welsh Government in line with their cashflows – i.e. recognising a liability equal to the cash received and no interest charge through the Consolidated Income Statement as these loans are issued at zero percent. This approach is straight forward for readers of the financial statements to understand.

Whilst considering the accounting treatment required for the CWBLS loans (see above), the Development Bank reconsidered the treatment of all loans received from the Welsh Government and decided to apply a similar accounting treatment to these. As a result, the WG loans have been recognised at their initial fair value with any difference in the loan value and fair value shown as an increase in Public Equity reserves as against a liability. Notional rates of interest have been applied on the resulting WG loans liabilities. The impact of this change is material on both the Consolidated Income Statement and Balance Sheet and has resulted in a restatement of historic liabilities, equity and expenditure as noted below. There is no change in expected cashflows i.e. the actual interest to be paid (nil) and the actual capital to be repaid (the original loan less expected default).

The fair value of the WG loans is determined by discounting the expected cashflows over the term of the loan using an appropriate discount rate to give the present value of the liability at the time the loan was issued. Since these loans are large in value and over long periods of time, the fair value of the loan can be materially lower than the cash received.

Each year an interest cost is then charged in the Consolidated Income Statement calculated using the initial discount rate and the liability unwinds to match the cashflows on the loan.

The cumulative impact of this restatement only impacts Trade and Other payables, Public Equity and Retained Profit in the Balance sheet and Finance Costs in the Consolidated Income Statement which are described in Note 25 to the financial statements. Public Equity changes as a result of this restatement from £117m as at 1 Apr 2019 to £217m then to £231m as at 31 March 20 and then to £316m as at 31 March 2021. There is a corresponding reduction in the liability to the Welsh Government. This restatement strengthens the balance sheet position of the Development Bank compared to the previous treatment of the Welsh Government loans as liabilities have been reduced and reserves increased.

If the previous accounting treatment was still being followed, Table A indicates that the Development Bank would be showing a surplus of £31.1m in FY21, £6.3m higher than the reported amount (FY20 deficit £16.3m, £4.9m lower than the restated amount). Similarly the balance sheet would show Net Assets/Total Equity of £137.1m as at 31 March 2021, £209.5m lower than the reported amount (£126.2m as at 31 March 2020, £110.5m lower than the restated amount).

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 Group is however subject to other applicable laws and regulations and has a suite of policies and procedures in place, designed 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 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 colleagues are responsible for the identification and management of risks within their area of operation and responsibility.

RISK FRAMEWORK

The 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 approval of the Risk Management and Assurance Policy;
- Operating a risk management framework designed to identify and manage risk within risk tolerances, as defined by the Board, 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;
- 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 Group's 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.

RISK CULTURE

Risk culture supports the 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.

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.

Personal accountability is key to the Group's risk culture. Colleagues are encouraged to take ownership of the identification and management of risks falling within their respective business areas. 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 a "four eyes review";
5. Customer complaint numbers are monitored closely and 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 2021 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 from prior year

No change to risk from prior year

Increased risk from prior year

New principal risk identified in the year

There are four risk ratings:

- **Low**
- **Moderate**
- **Significant**
- **High**

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. In addition, the Board added a new principal risk relating to the Group's Environmental, Social and Governance activities (see the tenth and final principal risk below).

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 proactively engage 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	In the year we deployed £92m of loan funding to Welsh businesses as part of the Welsh Government's business support measures in a little over three months. This had the effect of doubling our number of portfolio businesses. Our focus on continuous improvement for our customers has seen enhancement and simplification in the online customer journey, including processes for automated signature capture. We continue to support our customers with the ongoing impact of Covid-19 through the provision of repayment holidays where required.

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 alongside the effective delivery and portfolio management of increased requests for funding due to Covid-19, whilst improving operational efficiency and growing the business to deliver our challenging targets against a backdrop of Covid-19 and increased funding demand. Failure to deliver the business case commitments would cause reputational damage and may impact alignment and engagement with Welsh Government on new funding initiatives. 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. Regular meetings between the shareholder's engagement team and other departments concerning new fund initiatives. Post-control rating: Significant	Our extensive digital transformation programme, designed to deliver productivity gains and improve our customer interface, continues to make progress, with phase 1 on track for completion in Q2 of the 21/22 financial year. Our shareholder will be represented at the forthcoming Board Strategy day scheduled for Autumn 2021.

Failure to optimise operational resilience and effectiveness in managing change.

Risk and potential issues	How we are addressing the issues	Current status
Failure to maintain or recover operational effectiveness following disruptive events could impact both the release of funds to customers and collection of repayments from them. Customer service and fund returns could both suffer as a result.Inefficient or ineffective processes and systems are also 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	Our 'Cloud First' IT strategy leverages the benefits of the security and resilience posture of the Microsoft Azure platform to strengthen our business continuity and disaster arrangements. In conjunction, core enterprise software applications are hosted by the relevant suppliers in accordance with contractually enforceable service level agreements. A managed detection service and ongoing penetration testing provide further operational resilience. We have a comprehensive set of procedures available to all colleagues on our intranet. Our Compliance team undertakes regular file reviews to ensurea 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	We continue to modernise and enhance our IT environment. Much of our IT estate has been migrated to the Cloud. Consequently, we are seeing the benefits of improved resilience, enhanced security and greater efficiency. The digitalisation programme has already brought efficiency and consistency 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 satisfy the huge demand for funding in response to Covid-19, doubling its portfolio of customers in the process. The experience gained in responding to the challenges of Covid-19 continue to 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 20/21 financial year the Bank secured some £460m of additional funding to support Welsh micro to medium businesses for the next 9 years. 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. As we grow the extent and nature of data we hold will increase. This raises the information and data security risk. 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	The 'Cloud First' ICT strategy has continued in 20/21, with much of the IT estate now hosted in the Microsoft Azure cloud. This continues to reap benefits in terms of performance, security and availability. The procurement of a new IT services support contract has completed. Security and resiliency were key considerations in the process. Business continuity and disaster recovery arrangements are ISO 22301 compliant and the IT department has grown during the year and has used this as an opportunity to support the various digitalisation initiatives. We hold the Cyber Essentials Plus governance accreditation and IASME certification.

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, geographical constraints regarding investment and loan activity, the General Data Protection Regulation and the UK subsidy regime. 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: Moderate	Colleagues undertake a range of mandatory training including: 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 Certification Regime were implemented in accordance with the timescales set by the FCA. Arrangements to address areas where some technical requirements of the Consumer Credit Act were not fully complied with are well advanced. 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."

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 full impact of Covid-19 on default rates for existing funds and the CWBLS Fund is yet to be felt and will become apparent in the coming months as other forms of support to business, such as furloughing, wind down. The pandemic has had a profound impact on both business and consumer confidence. Area of risk: INVESTMENT MANDATE Risk tolerance: Low Pre-control rating: High	We continue to assess the impact of Covid-19 on our loan and equity portfolios and review developments on a case by case basis as part of our portfolio monitoring activity. This will inform overall performance against fund targets, which is 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 exceeded all 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. We have continued to support customers through Covid-19 both in the form of additional funding and forbearance in respect of existing borrowing. Demand for our non-Covid-19 funds has remained strong although, as businesses take an understandably cautious approach to the future, we expect future levels of job creation to be impacted accordingly.

Managing organisational growth and 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 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: Moderate	The digitalisation programme continues to facilitate successful flexible working which has been a necessity for much of the year due to the ongoing Covid-19 pandemic. Whilst this has brought about some improvements in work life balance, in the long term homeworking can result in feelings of isolation and brings about adverse impacts on morale and mental wellbeing, not unique to the Group. We have continued to provide support and guidance to line managers on regular engagement with their colleagues and through regular 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	Internal policies and procedures have been reviewed and updated to ensure that regulatory requirements are satisfied and adequate due diligence performed when engaging with a new third party. 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 is 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.

Being perceived as having insufficient focus on the Environmental, Social and Governance aspects of our activities.

Risk and potential issues	How we are addressing the issues	Current status
There is an external element to this risk, for example, failure to recognise the physical and disruptive effects of climate change on the viability of new funding opportunities and existing portfolio businesses alike could result in higher default rates. In addition, reputational damage may arise from funding industries or businesses in certain sectors, or where the environmental, social and/or governance credentials of an investee business are poor or not perceived to be in support of social or environmental causes. Failure to develop and articulate the Group's operational commitment to the ESG agenda may result in the Group losing relevance as a responsible and employer, leading to higher staff turnover. Failure to identify, support and promote the ESG credentials of portfolio businesses results in future fund management opportunities being missed. Internal aspects of this risk include: • Operational resilience of the Group impacted by adverse weather events. • Failure to embrace changes to working practices post-COVID; potential implications for staff turnover, compliance breaches. • Potential cost savings are not realised. • Reputational damage from failing to align policies and procedures with the "new normal" post-COVID. Failure to demonstrate Board commitment to the ESG agenda, e.g. through engagement with the workforce. Area of risk: STRATEGIC Risk tolerance: Low Pre-control rating: High	An internal project team has investigated how the Group can improve its existing responsible business credentials, particularly in support of the decarbonisation agenda. Another team has explored how the Group can support other businesses to improve their decarbonisation performance. The information gathered is being used to inform future fund development. Bidders' environmental, social and governance arrangements and performance aspects are considered when procuring goods and services as part of any procurement or appraising new funding opportunities. The annual review of the Group's compliance with the UK Corporate Governance Code is reviewed by the Board and identifies areas for improvement. Post-control rating: Significant	The Group is both a responsible business and an impact investor and has been the catalyst for the creation or safeguarding of thousands of jobs and has leveraged many millions of pounds of private sector investment alongside its own funding. ESG considerations go beyond these established impact measures and the Group is developing its internal policies and procedures are being reviewed to ensure they adequately cover our environmental, social and governance commitments.

Evolving risks

In addition to our principal risks, we also monitor emerging and evolving risks which have the potential to have a significant impact on Group activities and performance.

Covid-19 continues to impact the UK and the full extent of the economic impacts are yet to be seen. The timescales associated with the relaxation of social distancing measures will clearly have a profound impact on the duration of the downturn and the extent and speed of economic recovery and will be key to the survival of many businesses, none more so than in the travel and hospitality sectors. In turn, there will be knock on 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.

We continue to monitor the macroeconomic environment and consider the impacts on our customers and operating model. This risk continues to be mitigated by our proactive approach to portfolio management and our willingness to take a pragmatic and patient stance with our customers, for example by providing forbearance in respect of loan repayments where appropriate.

It has been widely reported that business support measures in response to the Covid-19 pandemic 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. Where we suspect or identify instances of fraud our response is suitably robust.

Climate change has been recognised this year as a principal risk as part of our Environmental, Social and Governance risk. We recognise that there is uncertainty over the time horizon over which climate risks will occur and the way they will manifest themselves. Key risk areas could include physical risks (climate and weather related events) and/or risks to established businesses arising from disruptive technology as the UK transitions to a low carbon economy. We will continue to monitor this risk, integrating it into the Group's existing risk management framework and ensuring adequate controls are embedded.

Covid-19 has accelerated the pace of change in technology across the financial services industry as it responds to new working practices and evolving customer needs. We have seen this with our own digitalisation programme during the year. Deployment of new technologies and ongoing deployment to the Cloud change the Group's risk profile, including increased data risks and reliance on third parties and their systems and processes. Successful adoption of new ways of working and technologies is essential in driving productivity improvements and maintaining quality. During the year we have reviewed our project management processes and made some improvements to the way we manage our project risks. We continue to assess our skills requirements and fulfil these needs through a combination of recruitment, training and external resources.

Sensitivity testing

In the financial year the Development Bank received £535.6m of funding and holds cash reserves sufficient to cover anticipated levels of investment to businesses in Wales for the coming three years based on current annual investment rates and forecast investment activity. £185m of the funds received relate to the Help to Buy – Wales scheme, which now has sufficient funds to meet anticipated commitments until 2023.

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

Independent assurance of the overall system of internal control and risk and governance framework 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.

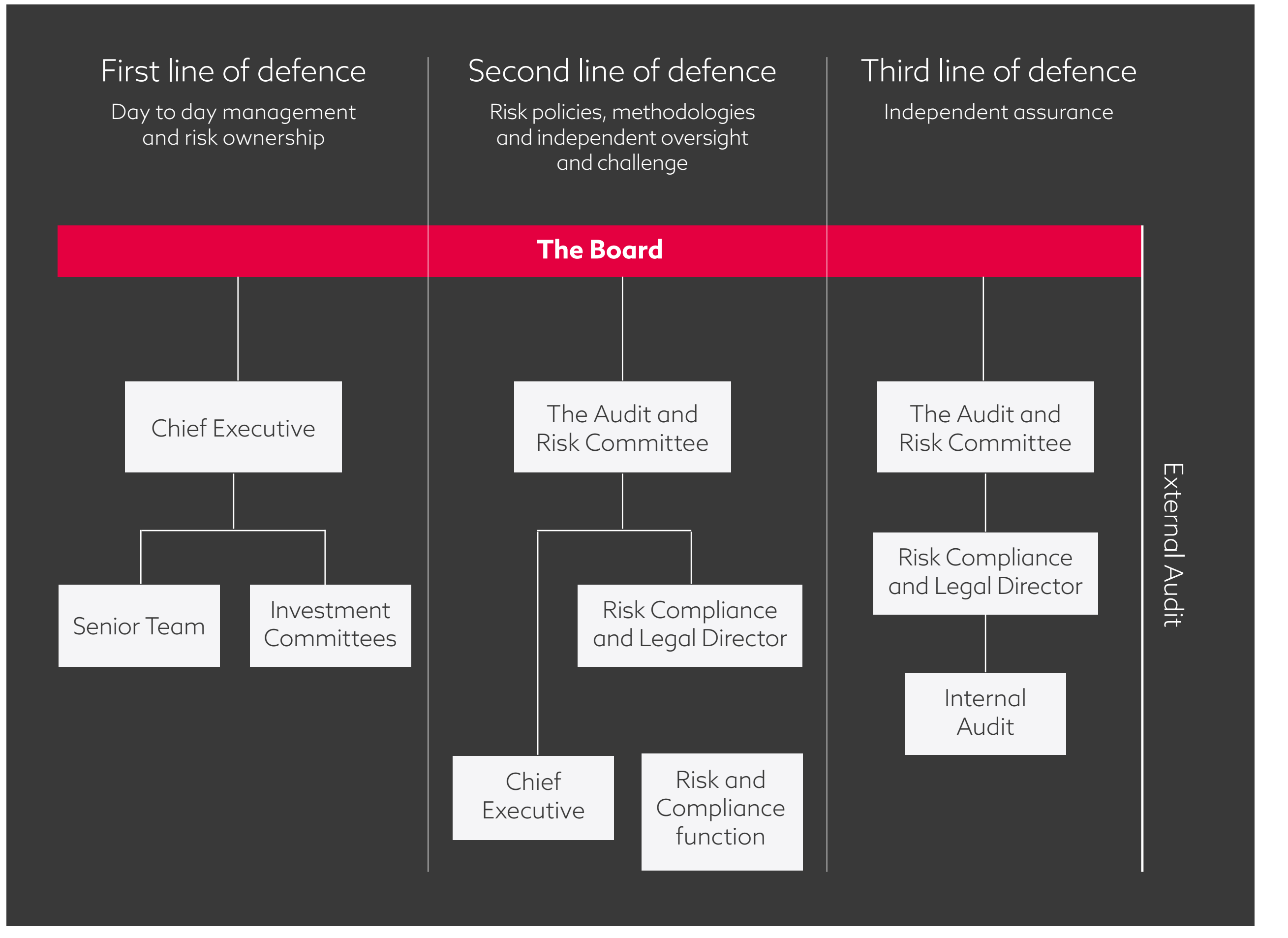
Our independent internal auditors have delivered the internal audit plan and have categorised the Group's risk management and control processes as "Generally satisfactory with some improvements required."

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
22 September 2021

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 2021.

1. 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.
2. Details of the Group's objectives, future developments and significant events since the balance sheet date are included in the Strategic report;
3. The Group's risk management disclosures are set out in the Strategic Report on pages 72-83.
4. Information about the use of financial instruments by the Group is given in Note 19 to the financial statements.
5. The Group's capital structure is discussed in Note 20 to the financial statements.

Dividends

The Directors do not recommend payment of a dividend (2020: £nil)

Directors

During the year the following individuals served as Directors. Two new directors were appointed from 6 April 2021. The rules for the appointment and removal of Directors are set out in the Corporate Governance Statement found on page 95.

	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Gareth Bullock	Chair	Sept 2015	Sept 2018	Sept 2021	Sept 2024
Giles Thorley	Chief Executive Officer	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	Sept 2016	Aug 2019	Sept 2019	Aug 2022
Carol Bell	Non-executive director	Oct 2014	Sept 2017	Sept 2020	Aug 2023
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	Sept 2012	Aug 2015	Sept 2018	Aug 2021
David Staziker	Chief Financial Officer	Apr 2018	n/a	n/a	n/a
Robert Lamb	Non-executive director	Apr 2021	Apr 2024	n/a	n/a
Kate Methuen-Ley	Non-executive director	Apr 2021	Apr 2024	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, Informa PLC, 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.

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, Incorpro Ltd and Matthew Clark Wholesale Ltd. Giles is currently Chair of ZipWorld plc. 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.

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 an ex-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 also a non-executive director of Aon UK Limited and Coventry Building Society. For both business he chairs their Audit Committee and is a member of their Risk Committee.

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 Cardiff-based business ActiveQuote 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 (CONTINUED)

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.

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 8 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. In 2021, Margaret also became a director of Peel Ports Holdings (CI) Ltd, part of the Peel Port Group Ltd.

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 116. 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 Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The Directors 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 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 consequences of Brexit, 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 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.

A three year period is considered to be the most appropriate viability period 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 does not include any new fund assumptions and so the outer years are less certain and therefore the Group uses three years in its long-term viability statement. 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 consequences of Brexit. 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 57.

Political donations

The Group made no political donations during 2021 (2020: £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 2021 (2020 less than £20,000).

Severance payments

The cumulative severance payments made in the year by the Group was less than £300,000 (2020 less than £300,000).

Loan losses/losses disposal of equity disclosure

There were £2,890,192 of loan and equity write offs made by the Group and approved by the Group under its delegations during the year (2020 £10,021,820 was approved by the Shareholder as over the Group's delegations).

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.

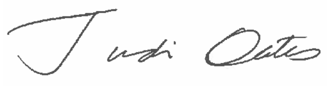
Statement of disclosure of information to the auditor

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

At the Annual General Meeting on 29 September 2020 a resolution was passed that Deloitte be reappointed as auditor for the ensuing year. At the Annual General Meeting on 23 September 2021 a resolution will be proposed that Deloitte be reappointed as auditor until the conclusion of a procurement process for external audit services during autumn 2021.

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



Judi Oates
Company Secretary
22 September 2021

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 20/21, the Board specifically asked for and received a detailed report from the Risk, Legal and Compliance Director 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 in order to comply.

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 2020 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. 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 February 2021 as part of an update exercise for the framework document with Welsh Ministers. These will be reviewed again later in 2021, post the Senedd Election on 6 May 2021, 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, write off of bad debts, 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 102.

Role and responsibility of the Board of Directors of the Company (continued)

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 and other Board members must be notified to the Director General of the Group's sponsor department, currently Economy, Skills and Natural Resources.

During the period Carol Bell was re-appointed for a term of three years commencing in September 2020 on the understanding that this will be the final term.

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 2020 Annual General Meeting Carol Bell was re-elected in 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 88-91 which give more detail of theirs skills and background.

The Audit and Risk Committee met five times during 20/21. 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 the 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 the 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 2021, 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. Following management investigating the appropriate accounting treatment for its CWBLS loans and the Welsh Government funding thereof, management identified that similar treatment was required for all zero percent loans from the Welsh Government. This restatement is a new significant issue which will impact both the current year and prior year amounts in the financial statements. See comments below for detail.

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, the holding period 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 staging assumptions, 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 forward looking market data used to calculate the probability of default as well as historic trends used to calculate the exposure and default and loss given default. 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 disclosures relating to the impairment provision are set out in Notes 2,4 and 14 to the financial statements.

Welsh Government zero percent interest loans

£896m (2020 £484m) of funding received by the Development Bank from the Welsh Government to invest into Welsh businesses has been in the form of zero percent interest loans with a repayment target of between 47.5% and 100% of the original loan received.

Historically, these loans have been recognised at the initial transaction value with no interest charge recorded through the income statement. There was a disclosure note in the financial statements which showed the current value of the loans if they had been discounted at a market rate of interest. Whilst considering the accounting treatment required for the CWBLS loans (see below), DBW reconsidered the treatment of all loans received from Welsh Government and decided to apply a similar accounting treatment to these. The treatment and impact in the current and prior year is discussed fully in Note 25.

The Committee considered and challenged the key judgements applied by management in determining the correct accounting treatment and the assumptions in calculating the initial fair value and notional interest charges, which included reviewing historic and current market rates for such loans issued by the UK Government. The Committee is satisfied that the updated accounting treatment as stated in Note 25 is appropriate. The Committee noted that it was important for the reader of the accounts to understand the impact of the change from the previous treatment to the current treatment in the Consolidated Income Statement and Balance Sheet and this analysis is reported in the CFO statement on page 71.

Covid-19 Wales Business Loan Scheme ("CWBLS")

In April 2020, as a response to the Covid-19 pandemic lockdown in the UK, the Development Bank launched a discounted loan scheme (under the temporary State Aid framework) for businesses in Wales to bridge the funding gap whilst the larger Covid-19 Business Interruption Loan Scheme ("CBILS") and the Bounce Back Loan Scheme ("BBLS") were being put in place by the UK Government and private sector lenders.

Notional grant funding was received by the Development Bank as part of the £92m funding for CWBLS received from the Welsh Government which the Development Bank then passed onto its customers. See Note 2 – Other Grant income/expense for details.

The Committee reviewed management's judgement as to the accounting treatment for the CWBLS loans issued and the £92m WG zero percent interest loan as well as the assumptions around their initial fair values and market rates of interest. The Committee is satisfied that the accounting treatment and market rate of interest applied is appropriate.

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 2022, 12 months subsequent to signing the Annual report and financial statements for the year ended 31 March 2021. 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 93 in the Directors report. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2022 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 2022. 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 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 second 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.

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 2020 to 31 March 2021. 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 21 July 2021 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 23 July 2021. Following these discussions, the Committee advised the Board that the annual report and financial statements, taken as a whole are fair, balanced and understandable but noted there was still some audit work outstanding. The Board agreed to delegate to a sub-committee (comprising the Chair of the Board, the Chair of the Audit and Risk Committee, the CEO and CFO) final approval of the annual report and financial statements on provision that there were no material changes to the draft circulated to the Board. This sub-committee subsequently met on 22 September 2021 and approved the final version of the annual report and financial statements and behalf of 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 2021 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 2021 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. As a result of the Covid-19 pandemic, the external audit tender period was extended by one year. A new procurement exercise will be undertaken during Autumn 2021.

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 21 July 2021 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

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.

We strive to be open, inclusive and embrace diversity, creating a culture where employees feel respected and safe. Our ambition is to have a workforce which is truly representative of the people in our regions.

We recognise that there is much more to work than just the salary, which is why we offer a workplace environment and a comprehensive range of benefits aimed at delivering a rewarding and enjoyable place to work, develop and grow.

Committee membership and attendance

The Group Remuneration Committee comprises three non-executive directors:

Committee Chair: Margaret Llewellyn OBE
Membership: Huw Morgan and Rhys Jones

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 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

Despite the impacts of the pandemic, to meet the increased workload, we have recruited 24 new starters and undertaken 25 internal moves and promotions. We have adapted our on-boarding processes to accommodate recruiting employees who are initially working full-time from home. The average time for the successful recruitment is 2.8 months. Over 23% of total recruitment in Wales was for our Wrexham HQ, with 42 employees currently based there, we are fully on track to meet the Pan Wales strategy to reach 51 by 2021.

Our pay and benefits are continuously benchmarked with private sector peers, the final year of job evaluations will be carried out by Mercer, with 34 roles being reviewed. Once these are complete every position in the Development Bank will have been evaluated over the last three years. This ensures the pay across the DBW Group is transparent and fair and reflects the industry in which we operate in.

To ensure fair pay, we have increased the lowest salary band to a minimum of £20,000 in line with the Welsh Government.

A new incentive scheme 'the Deferred Incentive Scheme (DIS)' was agreed with the Welsh Government on 7 August 2019 and launched for the financial year 20/21. The aim of the DIS is to incentivise the longer term success of the investment portfolio and the Bank's sustained performance against its strategic goals.

Executive Directors and certain other senior colleagues are eligible to participate in the DIS. The DIS operates as a series of three-year cycles. Objectives are set at the beginning of each cycle and progress is reviewed by the Committee on an annual basis. Objectives are set in two categories: corporate and personal. The weighting between these categories is driven by the role of the individual during the year the 3-year cycle and may be varied over time at the discretion of the Committee, considering the requirements of the business, any relevant external factors. Corporate targets cover rolling three-year periods and will generally be in line with the Bank's business plan objectives. Awards are paid 10% after year 1, 10% after year 2 and 80% after year 3. The first payment for the scheme will be made to employees in December 2021.

There is a strict cap on the maximum amount of incentive (both annual and DIS) any individual can receive: total incentive payments over a 3-year period cannot exceed 100% of the last three years annual average salary. The overall cost of the scheme will be contained within the pay remit which has been agreed with the Welsh Government. If a participant's employment within the Group ends before an award is paid, the award opportunity is normally forfeit and lapses in full, although there are exceptions that may be agreed by the Committee for participants categorised as 'good leavers'. The Remuneration Committee has ultimate discretion over the payment of any awards, taking into account factors it considers relevant including the overall performance of the Bank.

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.

We are owned by Welsh ministers as a wholly owned subsidiary, operating in the financial services sector, we recognise our employees are essential to our operations and without their knowledge and expertise we could not successfully achieve our objectives.

Training

We want our employees to achieve their true potential and a major part of our offering is a commitment to developing the skills and careers of everyone who works with us. We have a continuous learning environment. We deliver training in a number of ways including; on the job training; face-to-face; online; coaching and mentoring; further and higher education courses and through daily updates.

We have developed a career pathway to support progression of our employees. Following the successful launch of this, we have had eight employees promoted.

Wellbeing

Supporting our employees physical and mental wellbeing is central to them feeling engaged and reaching their full potential. As an employer, we create and promote a workplace environment that supports and promotes positive physical, mental and social health, wellbeing behaviours and activities for all employees with an enhanced wellbeing programme. We also have dedicated mental health first aiders within the DBW Group.

During this year, sickness absence has reduced from 2.8 days per annum per employee to 1.9 days – well below the UK average of 5.8 days.

Developing the business

A people strategy and employer brand has been published to help with recruitment and retention of talent and set out our values and offering to our employees. 20/21 has seen a number of HR initiatives rolled out aimed at improving employees experience, removing administrative burden in the production of reports and form filling and reducing the amount of paper used.

We have continued to work closely with Chwarae Teg to support gender equality. This year we were proud to be nominated finalists for the FairPlay Employer Award at the Chwarae Teg Womenspire Awards 2020 as well as achieving the Silver award.

Covid-19

The pandemic has fundamentally changed the way in which we work with all employees currently working from home. This not only raised significant issues during the lockdown phases but also raises potential challenges and opportunities as we transition into the new way of working. To support the new ways of working practices, we have set up a working group, including representatives from across the DBW Group, to look at the 'future working' and how this can be achieved while maintaining our commitment to deliver a 'best in class' service.

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 20/21, the Committee discussed and considered succession planning for members of the Senior Leadership Team, the re-appointment of an existing Non-executive director, the potential need for new non-executive directors, 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 2020 who attended each Board and Committee

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 internal review was carried out and presented during the year led by the senior independent non-executive director.

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	6/6	n/a	n/a	2/2
Giles Thorley	6/6	n/a	n/a	n/a
Huw Morgan	6/6	4/4	4/4	2/2
Iraj Amiri	6/6	4/4	n/a	2/2
Carol Bell	6/6*	n/a	n/a	2/2
Roger Jeynes	6/6	n/a	n/a	2/2
Margaret Llewellyn	6/6	4/4	4/4	2/2
Rhys Jones	6/6	n/a	2/2**	2/2
David Staziker	6/6	n/a	n/a	n/a

*part attendance of meeting on 26 January 2021
**appointed to Remuneration Committee in October 2020

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- 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";
- 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 33.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

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 the Financial Transaction Reserve (FTR) funding; • Loan loss provisions; and • 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 £17.8m which was determined on the basis of 1% of total assets.
Scoping	Group audit scope accounted for more than 99% of the Group's net assets, 51% of Group's revenue and 64% of Group's 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 year. We have identified the following additional key audit matter in the current year due to the level of judgement and complexity around its recognition in the financial statements; • Valuation of the Financial Transaction Reserve (FTR) funding We determined that the following key audit matter included in the previous year are no longer key audit matter on the basis of level of judgment, estimation uncertainty and materiality to the financial statements: • Valuation of the equity investments

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the accuracy of managements cash flow forecasts through recalculation of all material inputs;
- Assessing whether sufficient certainty exists in respect of the Welsh Government being unable to recall the funds from the group to evaluate whether the going concern basis remains appropriate;
- Assessing the businesses nature and economic expectations of the market;
- Evaluating the operational resilience/ disruption from COVID-19, through assessment of the mitigation procedures in place around service organisations and supplier risks; and
- Evaluating the appropriateness of the going concern disclosures about relevant events or conditions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 year 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 £408m as at 31 March 2021 (2020: £346m).

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.

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 have obtained an understanding of the controls around review of key Help to Buy assumptions and inputs to be satisfactory.

We have checked that the methodology is compliant with the requirements of the accounting standards.

We have challenged management on the appropriateness of the assumptions used within the model and referencing the assumptions to independent third party sources where available.

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.

We assessed managements repayment profile forecast to identify the possibility of a change in forecast repayments giving rise to a material misstatement in later periods.

We have evaluated the financial instruments disclosures 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 reasonable and within our acceptable range. However, we consider the assumptions around HPI to be closer to the prudent end of the range (specifically over years 1 and 2) but note that managements estimate is Wales specific which historically runs below the UK averages.

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

5. Key audit matters

5.2. Valuation of Financial Transaction Reserve (FTR) funding

Key audit matter description

The Group receives Financial Transaction Reserve ("FTR") monies from the Welsh Government to set up new funds, which has historically been recognised as a financial liability measured at the amount of cash received both on initial recognition and subsequently.

There is a risk the FTR liability is misclassified due to the complexity of the contractual relationship with the Welsh Government ("WG") and no clear standards under IFRS that fully captures the nature of the WG / DBW relationship and contractual terms within its defined scope.

Elements of the transaction are covered in part by IFRS 9 Financial Instruments, IAS 20 Accounting for Government Grants and IAS 8 Accounting Policies (alongside established market practice). The key judgement was to conclude on the necessary standard(s) to apply given the full contractual detail, nature of the relationship and full accounting framework. This dictates classification and measurement of the FTR monies, both initially and subsequently.

In relation to this key audit matter, following challenge from us, management determined that the accounting treatment adopted in prior years was incorrect and that it constituted a prior year error.

This key audit matter is included in the significant issues section of the Audit Committee Report on page 99. Management's associated accounting policies are detailed in Note 2. The financial impact of these loans is included in financial instruments, Note 19, to the Group accounts. Disclosure of the prior year restatement is included in Note 25 to the Group accounts.

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

We have understood the process and controls around the accounting considerations and subsequent valuation calculations.

We have assessed management's accounting papers and conclusions with respect to the prior year restatement.

We have evaluated the accounting considerations, considering the nature of the relationship between the Group and the Welsh Government and the contractual terms.

We have tested the mechanical calculation of the valuation model (for both March 2021 and March 2020).

We evaluated the reasonableness of critical assumptions (such as discount rate) applied in measuring the instruments, including consulting with a valuations specialist.

We have assessed the appropriateness of the disclosure of the accounting judgements, including any potential restatement of prior year comparatives.

Key observations

From our testing performed, we conclude that the accounting treatment applied to the classification of the Financial Transaction Reserve funding to be appropriate.

We agree that the remeasurement of prior year's Financial Transaction Reserve funding due to the classification accounting treatment applied, results in a material impact, and therefore is required to be treated as a prior year adjustment.

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

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 2021 were £38.8m (2020: £35.5m). In response to the Covid-19 pandemic, the Welsh Government (WG) introduced the Covid Wales Business Loan Scheme (CWBLS). Funds have been invested for the first time during the current year, and due to the 12 month initial repayment holiday following the point of origination, these loans have not made any contractual repayments within the FY21 period. Furthermore, loans under £100k are not required to submit management information to the Group, and hence there is very limited information on which to base the risk grade assessment. Management makes judgements about the CWBLS fund based on the performance of similar funds i.e. Micro, alongside the Equifax alerts (or absence thereof) and post year-end information gathered, noting that this is largely providing negative assurance over the accuracy of the staging allocation. We have challenged management's assessment that assets still held at the CWBLS grade as of 31 March 2021 (i.e. unable to be allocated to grade A-E), are recognised in the appropriate stage. 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 99. The key accounting policies relating to loan loss provisions are included in Note 2. 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, the monitoring of investments and recognition of loan loss provisions. We have obtained an understanding of the investment monitoring and provisioning cycle. We have evaluated the methodology of the loan loss provisioning methodology in accordance with IFRS 9. For a sample of CWBLS graded loans, we have performed an assessment of financial performance including any applicable SICR triggers (i.e. Equifax alerts/restructures/missed post year-end payments/company searches). We have used this information to challenge the stage allocation made by DBW. We have challenged the disclosures made in relation to the CWBLS fund and lack of sufficient information to risk grade all loans, to assess whether that the readers of the accounts are aware of the judgements made in relation to these loans.
Key observations	From our testing performed, we conclude that the staging of assets that relate to CWBLS loans and the disclosure in the Group accounts, including the approach adopted and the balances by stage, is appropriate.

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. 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. Given the pervasive nature of adherence to the operational guidelines, we tailor our Key audit matter to specifically focus on the allocation of funding to each investment in accordance with these guidelines. This key audit matter is included in the significant issues section of the Audit Committee Report on page 100. The financial effect of this funding is included in Note 14 to the Group accounts.
How the scope of our audit responded to the key audit matter	Development Bank of Wales funds and identify the key criteria stipulating adherence to these guidelines. We have evaluated a sample of investments made in the year, independently verifying the industry and geographical location of the company. We have compared this against the criteria set out within the investment operating guidelines to ensure compliance. We have evaluated the spending and gifts and hospitality register to ensure the expenditure in the current year is compliant with the articles and agreements set out by the Welsh Government.
Key observations	From our testing performed, we did not identify any instances of non-compliance with the investment operating guidelines in the current year.

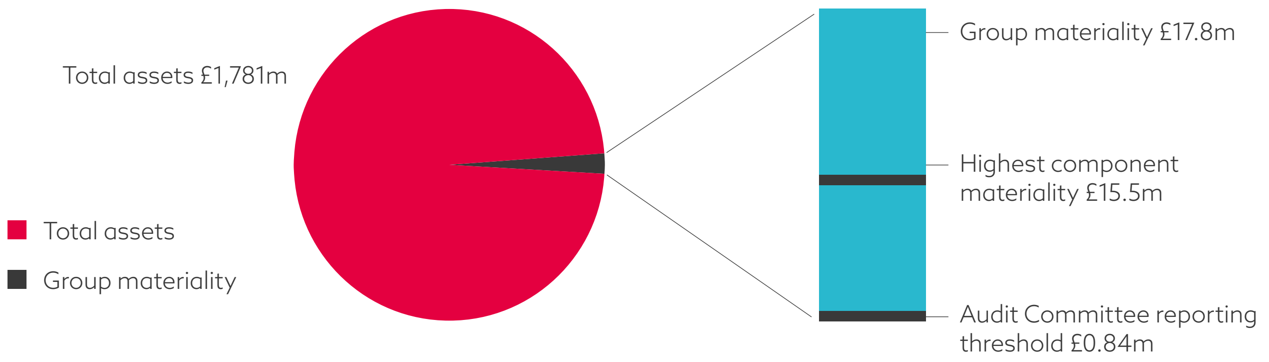
Independent Auditor's report to the members of Development Bank of Wales plc

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	£17.8m (2020: £10.9m)	£0.4m (2020: £0.4m)
Basis for determining materiality	1% of total assets (2020: 1%)	5% of expenses (2020: 5%)
Rationale for the benchmark applied	We determined materiality based upon the value of total assets at March 2021. 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, cash waiting to be invested along with the equity and loan investment portfolios represent key performance indicators to the Group.	Development Bank of Wales plc as a parent company covers the administrative expenses for the Group which it recovers through recharges. It does not have any external operation of its own and as such, we consider this to be the most appropriate basis for materiality.



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 financial statements	Parent company financial statements
Performance materiality	80% (2020: 80%) of group materiality	90% (2020: 90%) of parent company materiality
Basis and rationale for determining performance materiality	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. Following the emergence of the Covid-19 pandemic in 2020, the heightened engagement risk and levels of complexity and judgment inherent in the audit, we have set performance materiality (PM) at 80% of materiality for the Group audit only. In respect of the company, we note that the error rate in individual entities was below 10% of individual statutory materiality across the Group for the majority of entities. Therefore, we have concluded that a 10% error rate is to be set across the Development Bank of Wales group subsidiaries, with a 20% error rate for DBW Group financial statements.	

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8m (2020:£0.5m) , 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% (2020: 99%) of the Group's net assets, 51% (2020: 47%) of the Group's revenue and 64% (2020: 62%) of the Group's profits before tax. We note that there were no new subsidiaries incorporated in the year. 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 £15.5m (2020: £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 other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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

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.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 Group'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 Group'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
- Loan loss provisions
- Classification and Valuation of FTR Funding

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 Group 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 Group's ability to operate or to avoid a material penalty. These included the Group's operating licence and compliance with key laws and regulations set by the Financial Conduct Authority.

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

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
- Loan loss provisions
- Classification and Valuation of FTR Funding

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.

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 this matter.

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

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
30 September 2021

Consolidated Income Statement
For the year ended 31 March 2021

	Note	2021	Restated* 2020
		£	£
Revenue	5	25,476,850	16,007,044
Operating expenses:			
Impairment of loans	6	342,704	(10,869,783)
Other administrative expenses		(24,531,058)	(21,673,758)
Total operating expenses		(24,188,354)	(32,543,541)
Other operating income:			
Release of ERDF grant income	5	23,228,255	29,545,664
Fair value gain/(loss) on shared equity assets		31,270,987	(27,682,924)
Fair value gain/(loss) on non-consolidated funds		282,834	(5,374,676)
Fair value gain/(loss) on financial assets		10,017,908	(27,460,351)
Realised gains from the disposal of shared equity assets	5	4,004,536	3,143,998
Realised (loss)/gain from the disposal of financial assets		(4,929,767)	749,335
Total other operating income/(expenditure)		63,874,753	(27,078,954)
Operating profit/(loss)	6	65,163,249	(43,615,451)
Interest receivable	8	1,225,563	2,925,494
Finance costs	9	(6,482,114)	(5,006,308)
(Loss)/gain on amounts owed to principal shareholder held at fair value	19	(35,275,523)	24,538,926
Profit/(loss) before taxation		24,631,175	(21,157,339)
Tax	10	-	-
Profit/(loss) for the financial year		24,631,175	(21,157,339)
Profit/(loss) attributable to equity shareholders		23,621,094	(21,200,784)
Profit attributable to non-controlling interest	20	1,010,081	43,445
Profit/(loss) for the financial year		**24,631,175**	**(21,157,339)**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 25.

Consolidated statement of comprehensive income
For the year ended 31 March 2021

	Note	2021	Restated* 2020
		£	£
Profit/(loss) for the financial year		24,631,175	(21,157,339)
Actuarial gain/(loss) on defined benefit pension schemes	17	510,000	(670,000)
Other comprehensive income/(expenditure) for the year net of tax		510,000	(670,000)
Total comprehensive income/(expenditure) for the year		**25,141,175**	**(21,827,339)**
Total comprehensive income/(expenditure) attributable to equity shareholder		24,131,094	(21,870,784)
Total comprehensive income attributable to non-controlling interest	20	1,010,081	43,445
Total comprehensive income/(expenditure) for the year		**25,141,175**	**(21,827,339)**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 25.

Consolidated statement of changes in equity
For the year ended 31 March 2021

	Note	Public equity	Share capital	Capital reserve	Retained Profit	Non-Controlling Interest	Total
		£	£	£	£	£	£
Balance at 1 April 2019 as reported		**117,151,017**	**12,500**	**10,100**	**23,205,078**	**2,972,983**	**143,351,678**
Restatement	1, 25	99,834,707	-	-	1,358,636	-	101,193,343
Balance at 1 April 2019 restated		**216,985,724**	**12,500**	**10,100**	**24,563,714**	**2,972,983**	**244,545,021**
(Loss)/profit for the financial year		-	-	-	(21,200,784)	43,445	(21,157,339)
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)
Increase in public equity	1, 25	14,230,960	-	-	-	-	14,230,960
Sub Total		14,230,960	-	-	(21,870,784)	(186,641)	(7,826,465)
Balance at 31 March 2020 restated		**231,216,684**	**12,500**	**10,100**	**2,692,930**	**2,786,342**	**236,718,556**
Profit for the financial year		-	-	-	23,621,094	1,010,081	24,631,175
Actuarial gain on defined benefit pension schemes	17	-	-	-	510,000	-	510,000
Non-controlling interest capital contribution	20	-	-	-	-	300,000	300,000
Non-controlling interest distribution	20	-	-	-	-	(843,913)	(843,913)
Increase in public equity		85,270,968	-	-	-	-	85,270,968
Sub Total		85,270,968	-	-	24,131,094	466,168	109,868,230
Balance at 31 March 2020		**316,487,652**	**12,500**	**10,100**	**26,824,024**	**3,252,510**	**346,586,786**

Consolidated balance sheet
As at 31 March 2021

	Note	31 March 2021	Restated* 31 March 2020	Restated* 1 April 2019
		£	£	£
Non-current assets:				
Intangibles	11	1,866,841	363,781	173,660
Property, plant and equipment	12	3,541,056	4,182,132	517,086
Financial assets at fair value	13	511,607,863	432,268,380	436,492,837
Trade and other receivables	14	208,370,171	102,636,250	73,624,779
		725,385,931	539,450,543	510,808,362
Current assets:				
Trade and other receivables	14	39,845,148	22,892,001	23,702,952
Cash and cash equivalents	15	1,016,053,931	589,130,541	477,641,068
		1,055,899,079	612,022,542	501,344,020
Total assets		**1,781,285,010**	**1,151,473,085**	**1,012,152,382**
Current liabilities:				
Trade and other payables	16	(45,574,375)	(42,358,092)	(38,682,370)
Deferred income	18	(8,899,379)	(15,304,196)	(8,867,203)
Lease liabilities	21	(320,142)	(417,532)	-
		(54,793,896)	(58,079,820)	(47,549,573)
Net current assets		**1,001,105,183**	**553,942,722**	**453,794,447**
Non current liabilities:				
Trade and other payables	16	(1,376,894,341)	(852,578,820)	(720,007,788)
Retirement benefit obligations	17	(180,000)	(840,000)	(50,000)
Lease liabilities	21	(2,829,987)	(3,255,889)	-
		(1,379,904,328)	(856,674,709)	(720,057,788)
Total liabilities		**(1,434,698,224)**	**(914,754,529)**	**(767,607,361)**
Net assets		**346,586,786**	**236,718,556**	**244,545,021**
Equity:				
Public equity		316,487,652	231,216,684	216,985,724
Share capital	20	12,500	12,500	12,500
Capital reserve		10,100	10,100	10,100
Retained profit		26,824,024	2,692,930	24,563,714
Non-controlling interest	20	3,252,510	2,786,342	2,972,983
Total equity		**346,586,786**	**236,718,556**	**244,545,021**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 25.

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 22 September 2021.

Signed on its behalf by:

Giles Thorley
Director

Consolidated cash flow statement
For the year ended 31 March 2021

	Note	2021	Restated* 2020
		£	£
Net cash outflow from operating activities	**22**	**(119,486,705)**	**(95,427,303)**
Investing activities:			
Interest received		1,225,563	2,925,494
Purchases of fixed assets and investments		(1,654,404)	(410,848)
Net cash received from investing activities		**(428,841)**	**2,514,646**
Financing activities:			
Finance costs		(6,482,114)	(5,006,308)
Capital paid on lease liabilities		(523,292)	(409,124)
Non-controlling interest capital contribution		300,000	489,914
Non-controlling interest distribution		(843,913)	(720,000)
Cash received in relation to deferred income		16,823,438	35,982,657
FTR Funding received		537,564,817	174,064,991
Net cash received from financing activities		**546,838,936**	**204,402,130**
Net increase in cash and cash equivalents		426,923,390	111,489,473
Cash and cash equivalents at beginning of year		589,130,541	477,641,068
Cash and cash equivalents at end of year		**1,016,053,931**	**589,130,541**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 25.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 2021 have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 93. The principal accounting policies adopted have been applied consistently to all of the years presented, unless otherwise stated.

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

Restatement of Prior Year

Management identified a prior period adjustment during the year resulting in a restatement of the comparative period in the current year financial statements as detailed in Note 25.

New and Revised IFRS Standards in Issue But Not Yet Effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 9 Financial Instruments and IFRS 16 Leases

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 29 of the company financial statements.

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

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

Property relates to Right of Use assets and is discussed in more detail in the Leasing accounting policy note on page 130.

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 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 (FVTPL). The Group's risks arising from investments in associates are similar to investments in other equity investments that have not been classified as associates where significant deterioration in the value of the investment could reduce Group net assets. No financial guarantees are given or borrowing restrictions established with investee companies.

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

Investments in associates are designated as at FVTPL.

Measurement of associates at FVTPL is consistent with the Group's documented Risk Management and Investment Strategy.

Notes to the consolidated financial statements
For the year ended 31 March 2021

2. Accounting policies (continued)

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.

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.

Other Grant Income

Notional grant income was received in relation to the Covid-19 Wales Business Loan Scheme where state aid was conferred to customers via interest rate subsidies on loans issued at below market rates. As the Group is committed to issue loans at below market rates, grant income is recognised in line with the grant expense incurred as described below.

Grant expense

Where loans are issued at below market rates the loan asset is initially recognised at fair value calculated using an appropriate market rate, the difference between the transaction value of the loans and their fair value are recognised immediately through the Consolidated Income Statement as a grant expense.

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.

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 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 the Consolidated Income Statement.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

2. Accounting policies (continued)

Financial Instruments (continued)

Financial Assets (continued)
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 SPPI on the principal outstanding.

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 amortised cost of the asset. Interest recognised is taken as the calculated amount except for those assets deemed to be credit-impaired. 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 carrying value of the asset.

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 2021

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.

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.

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 assesses on a forward looking basis, the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost being Loans and advances to customers.

IFRS 9 outlines a three stage model for impairment based on changes in credit quality since initial recognition. At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL. Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit-impaired, with expected credit losses still calculated on a lifetime basis.

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.

More information is provided in Note 4, including details on how instruments are grouped to assess the correct inputs for the ECL calculation.

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. Evidence of credit-impairment includes observable data about the performance of the borrower. The Group uses its portfolio risk grading system (grades A to E) to identify credit-impaired financial assets. Indicators of credit-impairment used by the Group are presented in the portfolio grade descriptors on page 136. Assets classified within grade D and E are considered to be credit-impaired.

It may not be possible to identify a single discrete 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. See page 128 for the Group's definition of default.

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 the Consolidated Income Statement. 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 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 contrast to this, no loss allowance is recognised for OCI financial assets at initial recognition because the deep discount already reflects the incurred credit losses.

Notes to the consolidated financial statements
For the year ended 31 March 2021

2. Accounting policies (continued)

Financial Instruments (continued)

Originated credit-impaired (OCI) (continued)
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 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 or 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 for further information.

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 significant unauthorised arrears.

Significant increase in credit risk (SICR)
The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been SICR since initial recognition. If there has been SICR 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. 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.

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).

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 the Consolidated Income Statement.

Notes to the consolidated financial statements
For the year ended 31 March 2021

2. Accounting policies (continued)

Financial Instruments (continued)

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 the Consolidated Income Statement.

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 being recognised in the Consolidated Income Statement.

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.

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, 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.

Embedded Derivatives
Embedded derivatives will be separated from host contracts in accordance with IFRS 9, where a separate derivative is recorded it will be held at FVTPL.

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

This non-repayable 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. Additional public equity arises where the Group receives loans from the Welsh Government at below market rates as described below.

Notes to the consolidated financial statements
For the year ended 31 March 2021

2. Accounting policies (continued)

Financial Instruments (continued)

Welsh Government Loans
The Welsh Government has also provided funding to the Group via interest free loans, these loans are specific to each created with repayment levels linked to the performance of the fund.

Initial recognition
On initial recognition the financial liability is recognised at fair value, calculated in accordance with IFRS 13, with the difference between fair value and the transaction value (funds received) being treated as a capital contribution. In line with previous capital contributions we will include this in 'Public Equity' within equity on the Consolidated Balance Sheet.

As it is not possible to identify market transactions involving similar financial instruments and apply a market approach, the Group uses the income approach and a present value technique which uses the future cashflows associated with the loan discounted to give the present value of these cashflows and the fair value of the liability. The key inputs to this technique are the expected cashflows associated with the loan and the discount rate applied to those cashflows. See Note 3 for further information.

Subsequent treatment
Loans are held at amortised cost with a notional interest charge being recorded in each period to reflect the unwinding of the initial discount using the EIR of each loan.

In the event of a revision to expected repayments, the Group shall adjust the amortised cost of a financial liability to reflect the revised estimated contractual cash flows. The amortised cost of the financial liability will be recalculated as the present value of these cash flows using the original EIR of the loan, any adjustment will be recognised in the Consolidated Income Statement as income or expense.

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 right of use (ROU) asset 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 Balance Sheet.

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

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.

Operating Profit

Operating profit is stated before net finance costs.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 the Consolidated Statement of Comprehensive Income (SOCI), in which case it is recognised through SOCI.

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 in the Consolidated Balance Sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the Consolidated Statement of Comprehensive Income.

The Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council administered 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 2021

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 seven 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 six of the FW Capital Limited managed funds, the directors note that while FW Capital in its role as fund manager and 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 £96.2m (2020 restated: £99.4m) available for offset against future taxable profits. A deferred tax asset has 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 £18.3m (2020 restated: £18.8m) being recognised before any potential liabilities are taken into account.

Welsh Government Loans
Under IFRS 9, financial instruments are initially to be recorded at fair value with adjustments for transaction costs in certain circumstances. As described in Note 2, the Group has received interest free loans from the Welsh Government where in some instances full repayment of the loan principal is not expected, as such the initial fair value of the liability recognised is not equal to the transaction value i.e. the loan principal.

IFRS 9 states that ordinarily the difference between the transaction value and the fair value should be recognised as an expense or reduction of income unless it qualifies for recognition as another type of asset however treatment of the below-market rate element of an intercompany loan is not directly addressed by IFRS 9. IAS 20 deals with government loans at a below-market rate of interest with the difference treated as a government grant however it does not address the situation where the government entity is a related party.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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

Welsh Government Loans (continued)
Whilst the loans provided by the Welsh Government are intended to support their policy objectives, Management's view with reference to the IASB's Conceptual Framework for Financial Reporting is that the substance of these transactions is that a subsidy has been given by a parent company to its subsidiary. This interest subsidy should be recognised as a component of equity in the subsidiary i.e. a capital contribution in the financial statements of the Group.

Key Sources of Estimation Uncertainty

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

Fair value 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.

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. A number of observable inputs have been used in the calculation which results in a £31.3m gain (2020: £27.7m loss) on the fair value of the shared equity loan book. This calculation uses a number of judgemental assumptions, notably a forecast for future House Price Inflation (HPI) and a discount rate based on comparable housing bonds.

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 HM Land Registry as a key input to estimate movements in house prices between the origination of the loan and the measurement date. HPI forecast data for Wales has then been used to establish an annual HPI rate over 25 years.

The base case HPI forecast includes the expected impact of Covid-19 on house prices over the medium term. Sensitivity analysis on this input indicates a range of possible outcomes and highlights the sensitivity of this particular input on the calculation. The three following scenarios reflect the sensitivity of this input and specifically the impact of Covid-19 on HPI for the medium term outlook on house prices.

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 2021 financial statements. It forecasts a fall in house prices over the next two years followed by a gradual recovery in 2024. Key assumptions underpinning the forecast include the end of the stamp duty holiday and unsupportive economics factors: higher unemployment; a weak outlook for household incomes; no newsupport from the Bank of England; and high house prices relative to incomes. The fair value gain using this HPI forecast of £31.3m is shown in the 2021 financial statements.

Upside scenario
This scenario represents a blend of the more positive economic forecasts publicly available and projects positive house price inflation over the next four years, albeit at a lower rate than in recent years. Whilst the economic assumptions outlined above remain relevant the effect of them on the housing market is less severe. The overall fair value gain in this upside scenario is £70.6m.

Downside scenario
This scenario is at the bottom end of economic forecasts reviewed and shows a deeper fall in the HPI over the next two years followed by a third year of negative growth and house prices only returning to positive growth in 2025. This scenario assumes the economic assumptions outlined above having a more severe effect on the housing market than in our base case. The overall fair value gain in this downside scenario is £18.5m.

The following table shows the medium term HPI rates for each scenario. From 2026 onwards both the upside and downside scenarios assume the same long term annual growth rates as the base case.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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)

HPI Sensitivity Scenarios

HPI scenario	Medium term HPI forecast					Compound average HPI over 25 years	Overall Fair Value gain	Fair Value gain relative to base case
	2022	2023	2024	2025	2026	%	£	£
Base case	-5.7%	-2.6%	1.4%	3.4%	3.1%	2.6%	31.3m	n/a
Upside scenario	1.0%	2.2%	2.7%	2.6%	3.1%	3.1%	70.6m	39.3m
Downside scenario	-6.0%	-3.0%	-1.5%	0.0%	3.1%	2.3%	18.5m	-12.8m

The impact of HPI growth on the valuation is also sensitive to changes in forecast disposal rates. A revision of the disposal curve this year to reflect actual customer behaviour to date has resulted in a steeper curve for this year's valuation and reflects management's view that customers are likely to repay the majority of their loans earlier than originally forecast. The effect of this change in isolation is significant. If this year's valuation used the prior year disposal forecast then the fair value gain would be £56.9m, £25.6m higher than the reported fair value gain.

The discount rate used of 1.7% (2020: 3.7%), which is based on a risk free rate (UK gilts) and the credit risk spread from comparable housing bonds, is also a key input in the valuation model. Sensitivity analysis on this input also indicates a range of possible outcomes and highlights the sensitivity of this input.

A key driver in choosing the discount rate is the forecast disposal curve, which affects the weighted average life of the portfolio. This in turn affects the choice of risk free rate and the calculation of the credit risk spread in building the discount rate. The revised, steeper curve this year has been a significant factor, alongside generally low market risk rates, in driving down the discount rate from the prior year. Future changes in either the timing of repayments and/or market rates for the comparable housing bonds used to calculate the credit risk spread could potentially lead to swings in the discount rate.

For example, if customers were to repay quicker than currently forecast and market rates for credit risk were to decrease further then we would expect the discount rate to fall. Similarly, if customers were to take longer to repay their loans and market rates for credit risk were to increase we would expect the discount rate to rise.

To illustrate this potential movement in discount rates, a movement of 50% (0.85 percentage points) above or below the discount rate used could result in a decrease in value of £14.2m or an increase in value of £15.5m. A movement of 50% is considered by the directors to be a reasonable range of possible outcomes on which to base the sensitivity analysis.

All other inputs have been tested for sensitivity and do not have a material impact on the valuation of the shared equity book. Actual gains and losses on the portfolio are transferred back to Welsh Government so the overall impact to the Group is limited.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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.
- 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.

As part of the three year internal audit work plan, audits are performed to ensure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk (SICR)
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. The portfolio grading approach is well embedded in the various portfolio teams, with several controls in place to ensure grading is appropriate.

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 objective evidence of impairment, 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. Similarly, assets in the Covid-19 Wales Business Loan Scheme fund are initially graded 'CWBLS' until sufficient information has been obtained to accurately grade these investments.

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. We consider that grade A, B, MICRO and CWBLS assets are low risk and healthy and remain with the portfolio team. Together, they are regarded as Stage 1.

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 as Stage 3 assets.

The table below 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 grade might be expected to display.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 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**
CWBLS	Assets in the CWBLS classification are not initially allocated a specific portfolio grade as we did not have sufficient regular information to accurately grade these investments. These cases are therefore graded 'CWBLS'. These loans are graded A-E once sufficient information has been obtained through management information and payment history.	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 1***	**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**

*Some Covid-19 business loans classified as Grade C do not show indicators of SICR and remain in Stage 1.

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 past due. Assets in Stage 1 which are over 30 days past due are flagged as having a significant increase in credit risk and moved to Stage 2.

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 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.

Where the review process indicates there is no objective evidence of impairment, despite the gross arrears in excess of 90 days, assets will remain in Stage 2 and the 90 day trigger is considered to have been rebutted.

Notes to the consolidated financial statements
For the year ended 31 March 2021

4. Credit risk (continued)

Overdue accounts (continued)
Capital repayment holidays, initially lasting 3 months, were offered across the portfolio in response to the impact of the Covid-19 pandemic. Whilst these holidays are considered alongside other key observable data in grading assets and the SICR assessment, the granting of a Covid-19 repayment holiday is not taken as a sole indicator of SICR. Eligibility criteria was broad and borrowers may have requested a repayment holiday in order to manage liquidity due to short-term cash-flow disruption. Further holidays after the initial 3 month period were given in line with our existing policies and are taken as a SICR trigger.

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.

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. The principal macroeconomic indicators considered were the Bank of England base rate, the unemployment rate, the Consumer Prices Index measure including owner occupiers housing costs (CPIH) annual rate, Gross Domestic Product (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.

There are additional factors which can influence the credit risk of the Group's investment portfolio, for example, the failure of a major employer could have a significant impact on business in the local area and beyond. Such events are considered as part of the Risk Committee's assessment of forward looking information. In the prior year an additional review took place on the impact of the pandemic on the portfolio, focussing on highly impacted sectors such as retail and hospitality, resulting in additional assets being identified as credit-impaired with additional allowances recorded as a result. These assets were reviewed in the current year to assess if they were credit-impaired.

During the year the Group moved from using historic incurred loss rates alongside overlay adjustments which draw on current market conditions to using external data for probability of default which is a forward looking measure based on current market conditions as discussed in more detail below.

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. Previously, four categories of loan with different risk profiles have been identified; micro loans, property loans, rescue and restructure loans, and mainstream loans.

The disaggregation is reconsidered from time to time and amended to fit the risk profiles apparent at that time resulting in the identification of two new categories in the year, mutual investment model loans and Covid-19 Wales business loans.

Expected loss rates are calculated for each category of the Group's portfolio with the following main inputs:

- Probability of default – Data is obtained from an external credit specialist which analyses expected default frequencies based on the characteristics of UK companies, such as size and sector, and current market conditions. This data is then mapped to our internal risk gradings using historic loss data to provide a forward looking expectation for the probability of default.
- Exposure at default – Exposure at the point of default is estimated using historic data from the Group's portfolio and movements in capital balances across each default horizon considered.
- Loss given default – Expected losses on Grade E assets are used to estimate the loss given default for similar assets held at higher grades.

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 six 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 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 the Consolidated Income Statement.

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 the Consolidated Income Statement 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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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	**2021**	**2020**
	£	**£**
Rescue and restructure fund	1,452,640	1,392,274
Property Fund	57,475,698	35,464,226
Micro loan fund	11,708,483	8,308,937
Covid-19 Wales business loans	71,788,724	-
Mutual investment model loans	7,929,501	-
Mainstream loans	89,843,792	72,485,349
	240,198,838	**117,650,786**
By Maturity		
Loans to customers receivable in < 1 year	31,997,834	15,253,703
Loans to customers receivable in > 1 year	208,201,004	102,397,083
	240,198,838	**117,650,786**

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				
				2021 (£)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade A-B: Low to fair risk	103,833,347	-	-	103,833,347
Grade Micro: Low to fair risk	22,620,639	-	-	22,620,639
Grade CWBLS: Low to fair risk	25,511,051	-	-	25,511,051
Grade C: Early warning*	7,816,498	27,306,226	-	35,122,724
Grade A-B: Low to fair risk - in arrears	-	18,005,321	-	18,005,321
Grade Micro: Low to fair risk – in arrears	-	5,852,495	-	5,852,495
Grade CWBLS: Low to fair risk – in arrears	-	2,226,161	-	2,226,161
Grade C: Early warning – in arrears	-	9,045,127	-	9,045,127
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	9,856,569	9,856,569
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	15,718,662	15,718,662
Grade E: Objective evidence of impairment	-	-	31,158,030	31,158,030
Total Gross carrying amount	**159,781,535**	**62,435,330**	**56,733,261**	**278,950,126**
Loss allowance	(2,825,965)	(6,443,115)	(29,482,208)	(38,751,288)
Net Carrying amount	**156,955,570**	**55,992,215**	**27,251,053**	**240,198,838**
Provision coverage ratio	1.8%	10.3%	52%	13.9%

*Some Covid-19 business loans classified as Grade C do not show indicators of SICR and remain in Stage 1.

Notes to the consolidated financial statements
For the year ended 31 March 2021

4. Credit risk (continued)

Exposure by class, internal rating and stage (continued)

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%

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 2020	**740,284**	**3,575,659**	**33,333,280**	**37,649,223**
Changes in the loss allowance:				
New financial assets originated	2,969,986	-	-	2,969,986
Transfers to Stage 1	1,369,104	(396,252)	(972,852)	-
Transfers to Stage 2	(633,777)	2,910,841	(2,277,064)	-
Transfers to Stage 3	(134,827)	(669,333)	804,160	-
(Decrease)/increase due to other changes in credit risk	(1,473,210)	1,022,200	580,919	129,909
Financial assets derecognised in the year	(11,595)	-	(123,103)	(134,698)
Write offs	-	-	(1,863,132)	(1,863,132)
Loss allowance as at 31 March 2021	**2,825,965**	**6,443,115**	**29,482,208**	**38,751,288**

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 2020	**78,719,627**	**25,833,811**	**50,746,571**	**155,300,009**
Changes in the gross carrying amount:				
New financial assets originated	144,303,510	-	-	144,303,510
Transfers to stage 1	4,952,467	(3,095,192)	(1,857,275)	-
Transfers to stage 2	(44,235,521)	48,581,224	(4,345,703)	-
Transfers to stage 3	(9,219,123)	(4,533,313)	13,752,436	-
Financial assets derecognised in the year	(385,813)	-	(327,903)	(713,716)
Write offs	-	-	(1,863,132)	(1,863,132)
Other changes	(14,353,612)	(4,351,200)	628,267	(18,076,545)
Gross carrying amount as at 31 March 2021	**159,781,535**	**62,435,330**	**56,733,261**	**278,950,126**

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 (2020: £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
For the year ended 31 March 2021

5. Revenue and other operating income

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

	2021	2020
	£	£
Revenue:		
Fees	7,721,556	7,534,558
Dividends	-	65,603
Loan interest	17,755,294	8,406,883
	25,476,850	**16,007,044**
Other Operating Income:		
European Regional Development Fund (ERDF) grant income	23,228,255	29,545,664
Fair value gain/(loss) on shared equity assets	31,270,987	(27,682,924)
Fair value gain/(loss) on non-consolidated funds	282,834	(5,374,676)
Fair value gain/(loss) on other financial assets	10,017,908	(27,460,351)
Realised gains from the disposal of shared equity assets	4,004,536	3,143,998
Realised (loss)/gain from the disposal of other financial assets	(4,929,767)	749,335
Total revenue and other operating income/(expenditure)	**89,351,603**	**(11,071,910)**

Notes to the consolidated financial statements
For the year ended 31 March 2021

6. Operating profit

	2021	2020
	£	£
Operating profit has been arrived at after charging/(crediting):		
Amortisation of intangibles	98,993	48,048
Depreciation of fixtures and fittings	246,444	259,063
Depreciation of right of use assets	446,983	446,983
Directors emoluments and staff costs (see Note 7)	14,353,264	12,991,709
Provision for Deferred Incentive Scheme	352,315	-
Impairment of loans	(342,704)	10,869,783

	2021	2020
	£	£
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's financial statements	67,135	63,930
Fees payable to the Company's auditor for other services to the Group: Audit of the Company's subsidiaries	409,965	168,860
Total audit fees	**477,100**	**232,790**
Tax compliance	81,641	76,817
Other taxation advisory services	7,850	14,322
Other assurance services	17,370	16,540
Total non-audit fees for the Group	**106,861**	**107,679**

7. Information regarding directors and employees

	2021	2020
	£	£
Directors' emoluments:		
Wages and salaries	517,514	479,173
Pension costs	50,820	33,577
	568,334	**512,750**
Remuneration of highest paid director	**216,264**	**208,235**

One director (2020: one) of the Company and three directors (2020: three) of subsidiary companies were members of the defined benefit pension scheme.

Notes to the consolidated financial statements
For the year ended 31 March 2021

7. Information regarding directors and employees (continued)

	2021	2020
	£	£
Aggregate payroll costs (excluding directors):		
Wages and salaries	11,097,668	10,161,405
Social security costs	1,207,266	1,120,658
Pension costs	1,479,996	1,196,896
	13,784,930	**12,478,959**
Directors Emoluments and Staff Costs	**14,353,264**	**12,991,709**
	No.	No.
The monthly average number of persons employed (excluding directors and agency temps):		
Administration	59	57
Funds Management	183	161
	242	**218**

8. Interest receivable

	2021	2020
	£	£
Bank interest	**1,225,563**	**2,925,494**

9. Finance costs

	2021	Restated 2020
	£	£
Notional interest on WG loans	6,402,106	4,927,892
Interest on lease liabilities	70,008	78,416
Net finance cost of pension scheme	10,000	-
	6,482,114	**5,006,308**

Notes to the consolidated financial statements
For the year ended 31 March 2021

10. Tax

	2021	Restated 2020
	£	£
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:

	2021	Restated 2020
	£	£
Profit/(Loss) on ordinary activities before tax	**24,631,175**	**(21,157,339)**
Tax at 19% (2020: 19%) thereon	4,679,924	(4,019,894)
Factors affecting charge for the year:		
Expenses not deductible	4,852,504	2,260,105
Deferred tax not recognised	(1,859,108)	8,604,254
Partnership Share	811,144	212,492
Non-taxable income	(8,751,082)	(7,204,076)
Chargeable gains	266,618	147,119
Total taxation charge	**-**	**-**

A net deferred tax asset of £7,186,247 (2020: asset of £14,748,918) has not been recognised in respect of timing differences relating to non-trade financial losses, excess management expenses, accrued pension costs and FV Gains in respect of investments in associates. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

The main rate of corporation tax is 19%. The UK Budget on 3 March 2021 provided the main rate of corporation tax to rise to 25% from 1 April 2023 in Finance Bill 2021. This legislation was substantively enacted on 24 May 2021. As the date of substantive enactment was after the balance sheet date the 25% rate has not been used to calculate deferred tax in these financial statements.

The Group has made an overall profit of £24,631,175 during the period (2020: restated loss £21,157,339).

Notes to the consolidated financial statements
For the year ended 31 March 2021

11. Intangibles

	Company		Group	
	2021	**2020**	**2021**	**2020**
	£	£	£	£
Software: **Cost**				
At 1 April	-	-	411,829	173,660
Additions	1,602,053	-	1,602,053	238,169
At 31 March	**1,602,053**	**-**	**2,013,882**	**411,829**
Accumulated amortisation:				
At 1 April	-	-	48,048	-
Charge for the year	16,625	-	98,993	48,048
At 31 March	**16,625**	**-**	**147,041**	**48,048**
Net book value:				
At the end of the financial year	**1,585,428**	**-**	**1,866,841**	**363,781**
At the beginning of the financial year	-	-	363,781	173,660

Software additions during the year includes an amount of £1,512,203 that relates to the new Digitisation Project and new Loan Administration system both in the process of implementation. Software is not amortised until it is fully implemented.

12. Property, plant and equipment

Group and Company	Land & Buildings		Fixture & Fittings		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	£	£	£	£	£	£
Cost:						
At 1 April	4,198,413	4,198,413	1,968,059	1,965,259	6,166,472	6,163,672
Additions	-	-	52,351	172,679	52,351	172,679
Disposals	-	-	-	(169,879)	-	(169,879)
At 31 March	**4,198,413**	**4,198,413**	**2,020,410**	**1,968,059**	**6,218,823**	**6,166,472**
Accumulated depreciation:						
At 1 April	446,983	-	1,537,357	1,448,173	1,984,340	1,448,173
Charge for the year	446,983	446,983	246,444	259,063	693,427	706,046
Disposals	-	-	-	(169,879)	-	(169,879)
At 31 March	**893,966**	**446,983**	**1,783,801**	**1,537,357**	**2,677,767**	**1,984,340**
Net book value:						
At the end of the financial year	**3,304,447**	**3,751,430**	**236,609**	**430,702**	**3,541,056**	**4,182,132**
At the beginning of the financial year	3,751,430	4,198,413	430,702	517,086	4,182,132	4,715,499

Notes to the consolidated financial statements
For the year ended 31 March 2021

13. Financial assets at fair value

	2021	2020
	£	£
Shared equity assets	407,947,929	345,995,504
Equity investments	87,459,049	71,345,476
Investments in non-consolidated funds	11,794,125	11,511,304
Convertible loan notes	4,406,760	3,416,096
	511,607,863	**432,268,380**

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 Notes 3 and 19. The maximum exposure to credit risk of shared equity loans for the current and prior period is the carrying amount.

Actual gains and losses on the portfolio are transferred back to Welsh Government so the overall impact to the Group is limited.

Investments in non-consolidated Funds includes the Group's investment in the Wales Life Science Investment Fund held at fair value of £11,493,837 (2020: £11,211,003).

14. Other financial assets

Trade and other receivables	2021	2020
	£	£
Current assets:		
Trade debtors	49,388	142,011
	49,388	142,011
Loans receivable carried at amortised cost	38,543,095	23,571,667
Impairment	(6,545,261)	(8,317,964)
	31,997,834	15,253,703
Other debtors	7,323,688	7,404,930
Prepayments	474,238	91,357
	39,845,148	**22,892,001**
Non-current assets:		
Loans receivable carried at amortised cost	240,407,031	131,728,342
Impairment	(32,206,027)	(29,331,259)
	208,201,004	102,397,083
Other debtors	169,167	239,167
	208,370,171	**102,636,250**

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is five years (2020: 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 7.1% per annum (2020: 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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

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.

	2021	2020
	£	£
Cash and cash equivalents	**1,016,053,931**	**589,130,541**

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, HSBC plc, Santander UK plc and Nationwide Building Society (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	2021	Restated 2020
	£	£
Current liabilities:		
Trade payables and accruals	(7,992,005)	(3,924,875)
Taxation and social security	(331,373)	(298,536)
Other creditors	(2,298,220)	(3,639,569)
Amounts owed to principal shareholder held at amortised cost	(33,262,777)	(33,281,210)
Amounts owed to principal shareholder held at fair value	(1,690,000)	(1,213,902)
	(45,574,375)	**(42,358,092)**
Non-current liabilities:		
Amounts owed to principal shareholder held at amortised cost	(695,554,613)	(373,498,517)
Amounts owed to principal shareholder held at fair value	(681,039,728)	(479,080,303)
Other creditors	(300,000)	-
	(1,376,894,341)	**(852,578,820)**

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 and Core Capital funding. The current balances in respect of Financial Transaction Reserve and Core Capital funding are repayable by 31 December 2046. These borrowings are non-secured and are non-interest bearing.

Notes to the consolidated financial statements
For the year ended 31 March 2021

16. Other financial liabilities (continued)

Reconciliation of changes in liabilities arising from financing activities:

	2021	Restated 2020
	£	**£**
Balance at the start of the year restated	853,792,722	720,007,788
Cashflows	588,072,021	167,626,928
Non Cash changes:		
Classification as public equity	(85,270,968)	(14,230,960)
Classification as grant	(19,987,063)	-
Interest charged/(credited)	6,402,106	4,927,892
Fair Value changes	35,275,523	(24,538,926)
Balance at the end of the year	**1,378,284,341**	**853,792,722**

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 £782,846 (2020: £649,676) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2021, nil contributions (2020: £56,436) were due in respect of the current reporting period that 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 career average 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 below.

Notes to the consolidated financial statements
For the year ended 31 March 2021

17. Retirement benefit schemes (continued)

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

	2021	2020
	£	**£**
Development Bank of Wales plc	530,000	(110,000)
DBW FM Limited	(710,000)	(730,000)
Net deficit	**(180,000)**	**(840,000)**

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	2021		2020	
	Development Bank of Wales plc	**DBW FM Ltd**	**Development Bank of Wales plc**	**DBW FM Ltd**
Rate of increases in salaries	3.95%	3.85%	3.15%	3.05%
Rate of increases in pensions in payment	2.7%	2.6%	1.9%	1.8%
Rate of increase to deferred pensions	2.7%	2.6%	1.9%	1.8%
Discount rate	2.1%	2.1%	2.3%	2.3%
Inflation assumption CPI	2.7%	2.6%	1.9%	1.8%

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 2021	**31 March 2020**	**31 March 2021**	**31 March 2020**
Member aged 65 at accounting date	21.8	21.7	24.1	24
Member aged 45 at accounting date	22.8	22.7	25.6	25.5

Notes to the consolidated financial statements
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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 2021	Asset split 2020
	%	%
Equities	72.5	63.7
Property	6.3	8.6
Government bonds	8.3	13.8
Corporate bonds	12.3	13.0
Cash	0.6	0.9
Total market value	**100.0**	**100.0**

Reconciliation of Funded Status to Balance Sheet	Development Bank of Wales plc		DBW FM Limited	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Fair value of assets	12,190,000	9,000,000	21,230,000	15,160,000
Present value of funded defined benefit obligation	(11,660,000)	(9,110,000)	(21,940,000)	(15,890,000)
Net surplus/(deficit)	**530,000**	**(110,000)**	**(710,000)**	**(730,000)**

Amounts recognised in income statement	Development Bank of Wales plc		DBW FM Limited	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Operating costs:				
Current service cost	180,000	180,000	610,000	620,000
Past service cost	-	70,000	-	-
Total operating charge	180,000	250,000	610,000	620,000
Financing Cost:				
Interest on net defined benefit liability	-	-	10,000	-
Pension expense recognised in profit and loss	**180,000**	**250,000**	**620,000**	**620,000**

Notes to the consolidated financial statements
For the year ended 31 March 2021

17. Retirement benefit schemes (continued)

Amounts recognised in other comprehensive income	Development Bank of Wales plc		DBW FM Limited	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Asset gain/(loss) arising during the period	2,860,000	(480,000)	4,920,000	(790,000)
Liability (loss)/gain arising during the period	(2,260,000)	290,000	(5,010,000)	310,000
Total actuarial gain/(loss)	**600,000**	**(190,000)**	**(90,000)**	**(480,000)**

Changes to the present value of the defined benefit obligation	**Development Bank of Wales plc**		**DBW FM Limited**	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Opening defined benefit obligation	9,110,000	9,390,000	15,890,000	15,240,000
Current service cost	180,000	180,000	610,000	620,000
Interest expense on defined benefit obligation	210,000	230,000	370,000	380,000
Contribution by participants	50,000	40,000	190,000	170,000
Actuarial loss/(gain) on liabilities	2,260,000	(290,000)	5,010,000	(580,000)
Net benefits paid out	(150,000)	(510,000)	(130,000)	(210,000)
Past service cost	-	70,000	-	270,000
Closing defined benefit obligation	**11,660,000**	**9,110,000**	**21,940,000**	**15,890,000**

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Limited	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Opening fair value of assets	9,000,000	9,520,000	15,160,000	15,060,000
Interest income on assets	210,000	230,000	360,000	380,000
Re-measurement gain/(loss) on assets	2,860,000	(480,000)	4,920,000	(790,000)
Contributions by employers	220,000	200,000	730,000	550,000
Contributions by participants	50,000	40,000	190,000	170,000
Net benefits paid out	(150,000)	(510,000)	(130,000)	(210,000)
Closing fair value of assets	**12,190,000**	**9,000,000**	**21,230,000**	**15,160,000**
Net (deficit)/surplus	**530,000**	**(110,000)**	**(710,000)**	**(730,000)**

Notes to the consolidated financial statements
For the year ended 31 March 2021

18. Deferred income

Group and Company	2021	2020
	£	£
Balance at 1 April	15,304,196	8,867,203
Grant received in the year	16,823,438	35,982,657
Grant released to income statement in the year	(23,228,255)	(29,545,664)
Balance at 31 March	**8,899,379**	**15,304,196**

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, non-controlling interest and retained earnings as disclosed in the statement of changes in equity.

Categories of financial instruments

The Group's financial instruments comprise investments in businesses 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 businesses 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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

19. Financial instruments (continued)

Carrying value as at 31 March 2021 (£)	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
Assets:				
Cash and cash equivalents		1,016,053,931	-	1,016,053,931
Financial assets:				
Measured at market price	i	-	37,869,190	37,869,190
Measured at fair value using other methods	ii	-	65,790,744	65,790,744
Loans to customers	iii	240,198,838	-	240,198,838
Shared-equity loans	v	-	407,947,929	407,947,929
Other receivables	iii	8,016,481	-	8,016,481
Total financial assets		**1,264,269,250**	**511,607,863**	**1,775,877,113**
Non-financial assets				5,407,897
Total assets				**1,781,285,010**
Liabilities:				
Amounts due to principal shareholder at amortised cost	iv	728,817,390	-	728,817,390
Amounts owed to principal shareholder at fair value	v	-	682,729,728	682,729,728
Trade and other payables	iv	14,071,727	-	14,071,727
Retirement benefit obligations	iv	180,000	-	180,000
Total financial liabilities		**743,069,117**	**682,729,728**	**1,425,798,845**
Non-financial liabilities				8,899,379
Reserves				346,586,786
Total reserves and liabilities				**1,781,285,010**

During the current year, no assets were within Level 2 of the fair value hierarchy (2020 - £nil)

Notes to the consolidated financial statements
For the year ended 31 March 2021

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	Restated 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	406,779,727	-	406,779,727
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		**419,156,128**	**480,294,205**	**899,450,333**
Non-financial liabilities				15,304,196
Reserves				236,718,556
Total reserves and liabilities				**1,151,473,085**

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 2021 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 Arix Capital Management (ACM), WLSIF's fund manager, within the WLSIF financial statements showing a fair value at 31 December 2020 of £12m (31 December 2019: £15m). 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 WLSIF 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 2020 and of its loss and cash flows for the year then ended.

Adjustments have been made to the 31 December 2020 valuations as follows:

- updating the share price for the three listed securities
- adjusting the valuation of unlisted shares for any significant changes to the inputs used in the valuation report.

As a 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 2021 is £11.5m (2020: £11.2m) 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.

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 of multiples are used in valuing the portfolio including revenue, 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).

Notes to the consolidated financial statements
For the year ended 31 March 2021

19. Financial instruments (continued)

The table below summarises the fair value measurements:

	2021	2020
	£	**£**
Multiples	14,883,137	12,225,660
Discounted Cash flows	2,521,250	3,492,978
Net asset Value	1,902,785	3,621,098
Price of recent investment	30,282,686	33,127,977
Balance at 31 March	**49,589,858**	**52,467,713**

iii. Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method.

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) and Core Capital funding is not carried at fair value (see Liquidity Risk Management section for fair value consideration of FTR and Core Capital funding).

v. The fair value of the HTB-W loan book has been calculated by setting out anticipate 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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

19. Financial instruments (continued)

Reconciliation of Level 3 measurements of financial assets:

	FVTPL Shared-equity loan book		FVTPL Other Financial Assets	
	2021 £	**2020 £**	**2021 £**	**2020 £**
Balance 1 April	345,995,504	333,802,414	67,395,113	74,849,399
Additions	64,976,066	72,218,944	15,294,613	16,961,493
Disposals	(34,294,628)	(32,342,930)	(2,680,605)	(1,499,542)
Revaluations	31,270,987	(27,682,924)	(14,218,377)	(22,916,237)
Balance 31 March	**407,947,929**	**345,995,504**	**65,790,744**	**67,395,113**

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.

Market risk

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

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 FTR and Core Capital Funding. The current balances in respect of FTR and Core Capital funding are repayable by 31 December 2046. These borrowings are non-secured and non-interest bearing.

Notes to the consolidated financial statements
For the year ended 31 March 2021

20. Capital and reserves

Called up Share Capital – Group and Company

	2021	2020
	£	£
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	2021	2020
	£	£
Movements during the year were:		
Balance at the beginning of the year	2,786,342	2,972,983
Non-Controlling Interest Capital Contribution	300,000	489,914
Distribution	(843,913)	(720,000)
Share of profit for the year	1,010,081	43,445
Balance at the end of the year	**3,252,510**	**2,786,342**

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
For the year ended 31 March 2021

21. Leases

Group and company

Right of Use Assets	2021	2020
	£	£
Net carrying amount	3,304,447	3,751,429
Depreciation expense of the year	446,983	446,983
Amounts recognised in profit and Loss:	2021	2020
	£	£
Expenses relating to low value leases	109,232	74,382
Depreciation expense on ROU assets	446,983	446,983
Interest expense on lease liabilities	70,008	78,416
Expense relating to short term leases	70,398	70,398
Lease Liabilities:	2021	2020
	£	£
Amounts due for settlement within 12 months (Current liabilities)	320,142	417,532
Amounts due for settlement after 12 months	2,829,987	3,255,889
	3,150,129	**3,673,421**
Maturity Analysis:	2021	2020
	£	£
Not later than 1 year	320,142	417,532
Later than 1 year and not later than 5 years	1,551,671	1,584,877
Later than 5 years	1,278,316	1,671,012
	3,150,129	**3,673,421**

The average lease term is 8.2 years (2020: 9.1 years)

Notes to the consolidated financial statements
For the year ended 31 March 2021

22. Notes to the consolidated cash flow statement

	2021	Restated 2020
	£	**£**
Profit/(Loss) for the year	24,631,175	(21,157,339)
Adjustments for:		
Defined benefit pension costs	(150,000)	120,000
Investment revenues	(1,225,563)	(2,925,494)
Finance costs	6,482,114	5,006,308
Depreciation of property, plant and equipment	792,420	754,094
Reversal of deferred income revenue	(23,228,255)	(29,545,664)
Operating cash flows before changes in net operating assets	7,301,891	(47,748,095)
(Increase) in receivables	(122,687,068)	(28,316,388)
Increase/(Decrease) in payables	75,237,955	(23,587,277)
(Increase)/Decrease in financial assets at fair value	(79,339,483)	4,224,457
Cash consumed during operations	**(119,486,705)**	**(95,427,303)**

Notes to the consolidated financial statements
For the year ended 31 March 2021

23. Related party transactions

Transactions between the Company and its principal shareholder are disclosed in Note 16.

Transactions between the Company and its Directors are disclosed in Note 7.

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:

Fund management fees have been charged totalling £375,000 (2020: £375,000), 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	
2021 (£)	**2020 (£)**	**2021 (£)**	**2020 (£)**	**2021 (£)**	**2020 (£)**	**2021 (£)**	**2020 (£)**
82,758	-	230,150	-	2,906,052	-	2,372,599	-

The expense recognised during the period in respect of the provision for amounts due from related parties was £2,109,428 (2020: £nil).

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.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2021

25. Prior year adjustment

The previous year has been restated for the following:

Historically the Group recognised the loans received from Welsh Government in line with their cashflows i.e. recognising a liability equal to the cash received and no interest charge through the Consolidated Income Statement as these loans are issued at 0%. As these loans have been issued at a below market rate they are subsidised loans between parent and subsidiary and should have been recognised at their initial fair value with any difference in the loan value and fair value shown as a capital contribution increasing Public Equity reserves rather than as part of the liability.

Subsequently, WG loan liabilities are held at amortised cost with interest being charged based on the initial discount rate and any change to the estimated repayable amount as a result of the link between contractual repayments and the performance of underlying investments. Where non-closely related derivatives exist within the loan contract these are separately recognised as described in Note 2. The accounting treatment of these loans and critical judgement in applying accounting policies are discussed in more detail in Notes 2 and 3 respectively.

The 2020 financial statements have been restated to reflect the accounting described above, resulting in a £4.9m increase in the loss for that year and an increase in net assets of £110.5m.

Consolidated Income Statement – Restated Lines	Previously Reported 2020	Impact of Adjustment	Restated 2020
	£	£	£
Finance costs	(78,416)	(4,927,892)	(5,006,308)
(Loss) before taxation	**(16,229,447)**	**(4,927,892)**	**(21,157,339)**
(Loss) for the financial year	**(16,229,447)**	**(4,927,892)**	**(21,157,339)**
(Loss) attributable to equity shareholders	(16,272,892)	(4,927,892)	(21,200,784)
(Loss) for the financial year	**(16,229,447)**	**(4,927,892)**	**(21,157,339)**

Consolidated Balance Sheet – Restated Lines	Previously Reported 31 March 2020	Impact of Adjustment	Restated 31 March 2020
		£	£
Non current liabilities:			
Trade and other payables	(963,075,231)	110,496,411	(852,578,820)
Non-current liabilities	(967,171,120)	110,496,411	(856,674,709)
Total liabilities	(1,025,250,940)	110,496,411	(914,754,529)
Net assets	**126,222,145**	**110,496,411**	**236,718,556**
Equity:			
Public equity	117,151,017	114,065,667	231,216,684
Retained profit	6,262,186	(3,569,256)	2,692,930
Total equity	**126,222,145**	**110,496,411**	**236,718,556**

Notes to the consolidated financial statements
For the year ended 31 March 2021

25. Prior year adjustment (continued)

The opening balance sheet position for the 2020 financial statements has also been restated resulting in an increase in net assets of £101.2m.

Consolidated Balance Sheet – Restated Lines	Previously Reported 1 April 2019	Impact of Adjustment	Restated 1 April 2019
		£	£
Non current liabilities:			
Trade and other payables	(821,201,131)	101,193,343	(720,007,788)
Non-current liabilities	(821,251,131)	101,193,343	(720,057,788)
Total liabilities	(868,800,704)	101,193,343	(767,607,361)
Net assets	**143,351,678**	**101,193,343**	**244,545,021**
Equity:			
Public equity	117,151,017	99,834,707	216,985,724
Retained profit	23,205,078	1,358,636	24,563,714
Total equity	**143,351,678**	**101,193,343**	**244,545,021**

Company balance sheet
As at 31 March 2021

	Note	2021	Restated* 2020
		£	£
Non current assets:			
Intangibles	11	1,585,428	-
Property, plant and equipment	12	3,541,056	4,182,132
Investments	29	1,011,230,102	615,847,814
		1,016,356,586	620,029,946
Current assets:			
Debtors: due within one year	30	1,463,966	1,658,036
Cash at bank and in hand		695,602	2,159,029
		2,159,568	3,817,065
Total assets		**1,018,516,154**	**623,847,011**
Current liabilities:			
Trade and other payables	31	(1,575,379)	(810,149)
Deferred income	18	(8,899,379)	(15,304,196)
Lease liabilities	21	(320,142)	(417,532)
		(10,794,900)	(16,531,877)
Net current liabilities		**(8,635,332)**	**(12,714,812)**
Non current liabilities:			
Trade and other payables	32	(699,443,613)	(376,658,589)
Lease liabilities	21	(2,829,987)	(3,255,889)
		(702,273,600)	(379,914,478)
Total liabilities		**(713,068,500)**	**(396,446,355)**
Net assets excluding pension obligations:		305,447,654	227,400,656
Pension (deficit)/surplus	17	530,000	(110,000)
Net assets		**305,977,654**	**227,290,656**
Capital and reserves:			
Public equity		316,487,652	231,216,684
Called up share capital	20	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(10,532,598)	(3,948,628)
Shareholders' funds		**305,977,654**	**227,290,656**

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 33.

The Company reported a loss for the financial year ended 31 March 2021 of £7,183,970 2020:restated profit of £6,567,114.

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 22 September 2021.

Signed on its behalf by

Giles Thorley
Director

Company statement of changes in equity
For the year ended 31 March 2021

	Note	Public equity	Share capital	Capital reserve	Retained Profit	Total
		£	£	£	£	£
Balance at 1 April 2019 as reported		**117,151,017**	**12,500**	**10,100**	**(25,869,936)**	**91,303,681**
Restatement	1,33	99,834,707	-	-	15,544,194	115,378,901
Balance at 1 April 2019 restated		**216,985,724**	**12,500**	**10,100**	**(10,325,742)**	**206,682,582**
Profit for the financial year		-	-	-	6,567,114	6,567,114
Actuarial (loss) on defined benefit pension schemes	17	-	-	-	(190,000)	(190,000)
Increase in public equity		14,230,960	-	-	-	14,230,960
Sub Total		14,230,960	-	-	6,377,114	20,608,074
Balance at 31 March 2020 restated		**231,216,684**	**12,500**	**10,100**	**(3,948,628)**	**227,290,656**
(Loss) for the financial year		-	-	-	(7,183,970)	(7,183,970)
Actuarial gain on defined benefit pension schemes	17	-	-	-	600,000	600,000
Increase in public equity		85,270,968	-	-	-	85,270,968
Sub Total		85,270,968	-	-	(6,583,970)	78,686,998
Balance at 31 March 2021		**316,487,652**	**12,500**	**10,100**	**(10,532,598)**	**305,977,654**

Notes to the company financial statements
For the year ended 31 March 2021

26. Accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention and under the going concern assumption. Further details of the directors' considerations in relation to going concern are included in the Director's Report on page 93.

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.

Restatement of Prior Year

Management identified a prior period adjustment during the year resulting in a restatement of the comparative period in the current year financial statements as detailed in Note 33.

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.

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.

Revenue Recognition

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

Taxation

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

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

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

Notes to the company financial statements
For the year ended 31 March 2021

26. Accounting policies (continued)

Public equity

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

This non-repayable 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.

Additional public equity arises where the Group receives loans from the Welsh Government at below market rates as described below.

Welsh Government Loans

The Welsh Government has also provided funding to the Company via interest free loans, these loans are specific to each created with repayment levels linked to the performance of the fund.

Initial recognition
On initial recognition the financial liability is recognised at fair value, calculated in accordance with IFRS 13, with the difference between fair value and the transaction value (funds received) being treated as a capital contribution. In line with previous capital contributions we will include this in 'Public Equity' within equity on the Company Balance Sheet.

As it is not possible to identify market transactions involving similar financial instruments and apply a market approach, the Company uses the income approach and a present value technique which uses the future cashflows associated with the loan discounted to give the present value of these cashflows and the fair value of the liability. The key inputs to this technique are the expected cashflows associated with the loan and the discount rate applied to those cashflows. See Note 3 for further information.

Subsequent treatment
Loans are held at amortised cost with a notional interest charge being recorded in each period to reflect the unwinding of the initial discount using the Effective Interest Rate ("EIR") of each loan.

In the event of a revision to expected repayments, the Company shall adjust the amortised cost of a financial liability to reflect the revised estimated contractual cash flows. The amortised cost of the financial liability will be recalculated as the present value of these cash flows using the original EIR of the loan, any adjustment will be recognised as income or expense.

Investments in subsidiaries

Equity investments in subsidiaries are treated as fixed assets and stated in the balance sheet at cost less any provision for impairment. Capital contributions to subsidiaries in relation to below market rate loans are reflected in the cost of the investment of the related subsidiary.

Loans to Subsidiaries

Loans received from WG, as described above, are subsequently passed on to subsidiary companies for investment by the relevant funds.

Initial recognition
On initial recognition the financial asset is recognised at fair value, calculated in accordance with IFRS 13, with the difference between fair value and the transaction value (funds received) being treated as an investment in subsidiary.

Subsequent treatment
The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset. For an asset to be classified and measured at amortised cost its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

Given that the repayment on the loans is linked to the performance of the underlying funds they fail the SPPI test and as such are held at FVTPL. At each year-end, the expected cashflows associated with the loan and the discount rate applied to those cashflows, are re-assessed with any changes in fair value being taken to the income statement.

Notes to the company financial statements
For the year ended 31 March 2021

26. Accounting policies (continued)

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 administered 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

Welsh Government Loans
Under IFRS 9, financial instruments should initially be recorded at fair value with adjustments for transaction costs in certain circumstances. As described above, the Company has received interest free loans from the Welsh Government where in some instances full repayment of the loan principal is not expected, as such the initial fair value of the liability recognised is not equal to the transaction value i.e. the loan principal.

IFRS 9 states that ordinarily the difference between the transaction value and the fair value should be recognised as an expense or reduction of income unless it qualifies for recognition as another type of asset however treatment of the below-market rate element of an intercompany loan is not directly addressed by IFRS 9. IAS 20 deals government loans at a below-market rates of interest with the difference is treated as a government grant however it does not address the situation where the government entity is a related party.

Whilst the loans provided by the Welsh Government are intended to support their policy objectives, Management's view with reference to the IASB's Conceptual Framework for Financial Reporting is that the substance of these transactions is that a subsidy has been given by a parent company to its subsidiary. This interest subsidy should be recognised as component of equity in the subsidiary i.e. a capital contribution in the financial statements of the Company.

Key sources of estimation uncertainty
There are no 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.

Notes to the company financial statements
For the year ended 31 March 2021

27. Information regarding directors and employees

	2021	2020
	£	£
Directors' emoluments:		
Emoluments	517,514	479,173
Pension costs	50,820	33,577
	568,334	512,750
Remuneration of highest paid director	**216,264**	**208,235**

One director of the company and three directors of subsidiary companies were members of the defined benefit pension scheme (2020: one and three).

	2021	2020
	£	£
Aggregate payroll costs (excluding directors):		
Wages and salaries	2,382,335	2,127,215
Social security costs	295,781	267,142
Pension costs	327,932	263,212
	3,006,048	**2,657,569**
	No.	No.
The monthly average number of persons employed (excluding directors) – administration	59	51

Notes to the company financial statements
For the year ended 31 March 2021

28. 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 £7,183,970 (2020: restated profit of £6,567,114). Auditor's remuneration for audit services for the Company was £67,135 (2020: £63,930) and for other taxation advisory services for the Company was £16,135 (2020: £20,666).

29. Investments

	Shares in subsidiary undertaking	Other Investments in subsidiaries	Loans to subsidiary undertakings (Amortised Cost)	Loans to subsidiary undertakings (Fair Value)	Total
	£	£	£	£	£
Cost/Fair value:					
At 1 April - restated	155,027	215,956,929	206,379,760	193,356,098	615,847,814
Additions	-	86,208,664	92,955,399	300,558,351	479,722,414
Interest Income	-	-	6,394,668	-	6,394,668
Fair Value gains / (losses)	n/a	n/a	n/a	(5,261,448)	(5,261,448)
Disposals	-	-	(27,189,019)	(58,284,327)	(85,473,346)
At 31 March	**155,027**	**302,165,593**	**278,540,808**	**430,368,674**	**1,011,230,102**
Impairment:					
At 1 April	**-**	**-**	**-**	**n/a**	**-**
At 31 March	**-**	**-**	**-**	**n/a**	**-**
Net book value:					
At the end of the financial year	155,027	302,165,593	278,540,808	430,368,674	1,011,230,102
At the beginning of the financial year - restated	155,027	215,956,929	206,379,760	193,356,098	615,847,814

Under the terms of loans to subsidiaries held at amortised cost, contractual repayments are linked to the performance of underlying fund investments. As such the contractual cashflows of the loans are equal to estimated receipts and no credit losses are forecast on these loans.

Notes to the company financial statements
For the year ended 31 March 2021

29. 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
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
Management Succession (Wales) Limited Partnership	United Kingdom	See below

Notes to the company financial statements
For the year ended 31 March 2021

29. 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.

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:

	2021	2020
	£	£
Turnover	537,853	497,413
Operating profit /(loss)	2,525,202	108,612
Profit Attributable to non-controlling interest	1,010,081	43,445
Fixed Assets	2,635,000	1,654,000
Current Assets	1,921,568	5,400,291
Creditors: Amounts falling due within one year	(58,973)	(72,885)
Net Assets	8,133,307	6,967,888
Accumulated non-controlling interest	3,252,510	2,786,342

30. Other financial assets

	2021	2020
	£	£
Debtors due within one year:		
Trade debtors	9,473	8,284
Amount owed by group undertakings	533	1,015,180
Other debtors	871,032	367,724
Prepayments and accrued income	582,928	266,848
	1,463,966	**1,658,036**

31. Other current financial liabilities

Trade and other payables	2021	2020
	£	£
Trade creditors	599,954	298,638
Other taxes and social security	80,661	74,871
Other creditors	27,512	35,196
Accruals	867,252	401,443
Amounts owed to group undertakings	-	1
	1,575,379	**810,149**

Notes to the company financial statements
For the year ended 31 March 2021

32. Other non current financial liabilities

	2021	Restated 2020
	£	£
Amounts owed to group undertakings	3,889,000	2,889,000
Amount due to principal shareholder	695,554,613	373,769,589
	699,443,613	**376,658,589**

Amounts owed to the principal shareholder relate to Financial Transaction Reserve and Core Capital funding and is repayable by 31 December 2046. 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

33. Prior year adjustment

The previous year has been restated for the following:

Historically the Company recognised the loans received from Welsh Government in line with their cashflows i.e. recognising a liability equal to the cash received and no interest charge through the income statement as these loans are issued at 0%. As these loans have been issued at a below market rate they are subsidised loans between parent and subsidiary and should have been recognised at their initial fair value with any difference in the loan value and fair value shown as an increase in Public Equity reserves rather than as a liability. Subsequently interest is charged on each of the resulting WG loan liabilities based on the initial discount rate and any change to the estimated repayable amount. The accounting treatment of these loans is discussed in more detail in Notes 2 and 3.

As the Company passes on the loans received from Welsh Government to its subsidiaries with back to back terms the accounting treatment for the assets held by the Company must also be amended. In line with the treatment above, loans to subsidiaries are initially recognised at their fair value however the difference between the loan value and fair value is treated as an investment in subsidiary. Subsequently loan assets related to debt only funds are held at amortised cost with interest income recognised based on the initial discount rate and any change to the estimated repayable amount as a result of the link between contractual repayments and the performance of underlying investments. Loan assets related to all other funds are held at FVTPL with gains and losses taken to the Income Statement in line with changes to expected repayment, unwind of discounting and changes in the discount rate in line with the market.

The 2020 financial statements have been restated to reflect the accounting described above, resulting in an increase in net assets of £151.2m.

Company Balance Sheet – restated lines	Previously Reported 31 March 2020	Impact of Adjustment	Restated 31 March 2020
		£	£
Non current assets:			
Investments	575,106,485	40,741,329	615,847,814
Non-current assets	579,288,617	40,741,329	620,029,946
Total assets	**583,105,682**	**40,741,329**	**623,847,011**
Non current liabilities:			
Trade and other payables	(487,155,000)	110,496,411	(376,658,589)
Non-current liabilities	(490,410,889)	110,496,411	(379,914,478)
Total liabilities	(506,942,766)	110,496,411	(396,446,355)
Net assets	**76,052,916**	**151,237,740**	**227,290,656**
Equity:			
Public equity	117,151,017	114,065,667	231,216,684
Retained profit	(41,120,701)	37,172,073	(3,948,628)
Total equity	**76,052,916**	**151,237,740**	**227,290,656**

The following tables do not form part of the audited financial statements.
For further explanation of the tables please refer to the CFO Report on page 66.

Table A: High-level analysis of 2020 and 2019 Consolidated Income Statement

	Services	Funds	Consolidation adjustment	Group (per the financial statements)
2021				
	£m	£m	£m	£m
Revenue	35	41.1	(31.2)	44.9
Operating Costs	(30.9)	(24.8)	31.2	(24.5)
Provisions made	-	0.3	-	0.3
Changes in Fair Value	-	10.3	-	10.3
Notional interest charge on WG loans	-	(6.4)	-	(6.4)
Surplus/(Deficit)	4.1	20.5	0	24.6
2020 Restated				
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)
Notional interest charge on WG loans	-	(4.9)	-	(4.9)
Surplus/(Deficit)	4.2	(25.3)	0	(21.1)

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 business interacts with our funds business. This adjustment removes £31.2 million (FY20: £27.5million) from our services business revenue accounts and from our funds and services business costs accounts.

The revenue total in Column 4 of Table A reconciles back to the Consolidated Income Statement ("CIS") on page 118 as follows:

	2021	2020
All revenue items below are on the face of the CIS	**£m**	**£m**
Revenue	25.5	16
Release of ERDF Grant income	23.2	29.5
Realised (loss)/gains from the disposal of equity investments	(4.9)	0.7
Investment revenue excluding notional interest on WG loans	1.1	2.9
Total revenue per Table A	**44.9**	**49.1**

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 118.

Table B: Services 2021 and 2020 Income Statement analysis

	2021	2020	Statutory Accounts reference
	£m	**£m**	
Fund management income	35	30.9	Note (i) after Table C
Total revenue	**35**	**30.9**	**Table (A)**
Staff costs	(14.4)	(13)	Pg 142 Note 6
Other costs	(16.5)	(13.7)	Note (ii) after Table C
Total costs	**(30.9)**	**(26.7)**	**Table (A)**
Surplus	4.1	4.2	Table (A)

Table C: Funds 2021 and 2020 Income Statement analysis

	2021	Restated 2020	Accounts Reference
	£m	**£m**	
Fees received	4	4.2	Note (i) below
Dividends and interest income	17.7	8.4	Pg 141 Note 5
ERDF Grant release	23.2	29.5	Pg 141 Note 5
Equity realisations	(4.9)	0.7	Pg 141 Note 5
Net Treasury	1.1	2.9	Pg 143 sum of amounts shown in Note 8&9
HTB-W fair value changes:			
• Realised gain on disposal	4	3.2	Consolidated Income Statement Pg 118
• Unrealised gain/(loss) in year	31.3	(27.7)	
• (Increase)/Decrease in amount owed to principal shareholder	(35.3)	24.5	
Net HTB-W FV change shown in CIS	0	0	
Total Revenue	**41.1**	**45.7**	**Table (A)**
Provisions made	0.3	(10.8)	Pg 142 Note 6
Other fair value gains/(losses)	10	(27.4)	
Non consolidated fund fair value gains/(losses)	0.3	(5.4)	
Fund Management fees paid	(23.1)	(20.7)	Note (ii) below
Other costs	(1.7)	(1.8)	Note (ii) below
Notional interest on WG loans	(6.4)	(4.9)	
Total Costs	**(20.6)**	**(71)**	**Table (A)**
Surplus/(Deficit)	20.5	(25.3)	Table (A)
Surplus/(deficit) attributable to equity shareholder	19.5	(25.4)	
Surplus attributable to non-controlling interest	1.0	0.1	

Note (i)
Fees shown in Note 5 Pg 141 of the DBW group accounts is the sum of the Fund Management income per Table B less the consolidation adjustment plus the funds' fees per Table C.

Note (ii)
Other administrative expenses shown in the Consolidated Income Statement on Pg 118 of the DBW Group accounts is the sum of staff and other costs per Table B plus Fund Management Fees and Other Costs per Table C less the consolidation adjustment.

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