Banc

# Annual report and financial statements 2021/22

## Development Bank of Wales

# 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
(Resigned 31 August 2021)

**Rhys Jones**
Non-Executive Director

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

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

**Iestyn Evans**
Non-Executive Director
(appointed 1 March 2022)

**Dianne Walker**
Non-Executive Director
(appointed 1 March 2022)

**David Staziker**
Chief Financial Officer

**Judi Oates**
Company Secretary

**Registered office**
Unit J, Yale Business Village,
Ellice Way, Wrexham LL13 7YL

**Bankers**
Barclays Bank Plc, PO Box 69,
Queen Street, Cardiff

**Auditors**
Mazars LLP, 30 Old Bailey,
London

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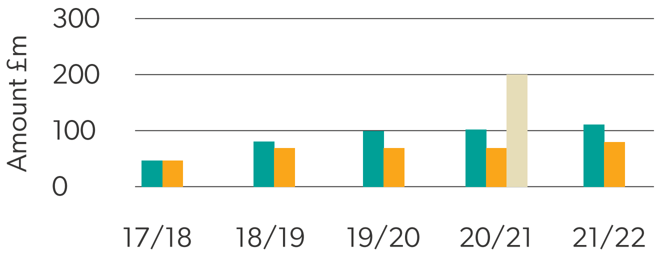
# Strategic report

# Five year performance highlights

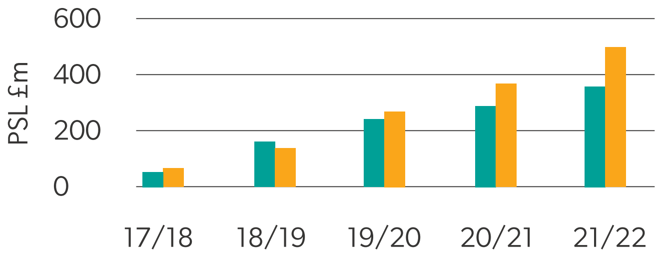
### Annual investment

Actual Target With CWBLS



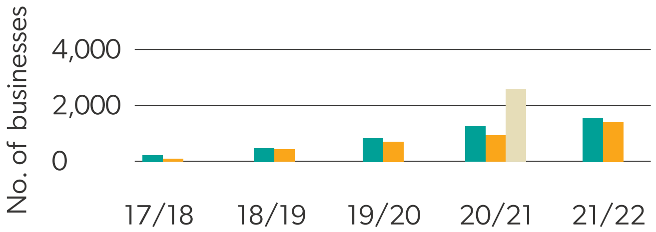

### Private sector investment

Cumulative actual PSL Cumulative target PSL



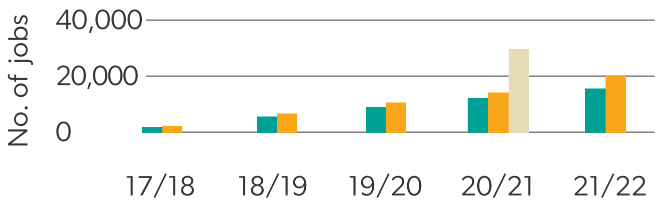

### Businesses supported

Cumulative actual With CWBLS
Cumulative target




### Jobs

Cumulative actual With CWBLS
Cumulative target




Businesses supported since launch

**1,740**

**389**
Start–ups

Businesses supported since launch including emergency Covid–19 response funding

**3,074**

Funds under management

**£1.9bn**

Customers in portfolio

**2,982**

People

**253**
Total colleagues 2022

**12**
Board members

Private sector co–investment

Over **£365m**

**5** regional offices

Jobs supported since launch

Including emergency Covid–19 response funding

**32,862**

Total impact since launch (Wales)

**£1.2bn**

# Chair's statement

Last year I expressed both surprise and pleasure at how the underlying demand for loans and equity in Wales was strong at the same time as the Welsh and UK governments' business support loan schemes were being heavily subscribed. This last year marked our journey back from the peak of the pandemic crisis towards a resumption of near-normality and the picture of Welsh businesses seeking growth finance has continued to hold true.

Our Chief Executive, Giles Thorley, has once again led our team to a very satisfactory performance. Loans and equity investments to Welsh enterprises increased year-on-year (£109.1 million vs £105.6 million) on a much-increased number of financings (519 vs 402). This funding enabled us to create or safeguard 3,540 jobs (vs 3,292).

## Our impact on the Welsh economy

2021/22 was the Development Bank of Wales's fifth year of operation. As we close our first multi-year Corporate plan let me give you a sense of what the Development Bank has become since its establishment in 2017 and the impact it is having on the Welsh economy.

> Our core mission is to unlock potential in the Welsh economy by increasing the supply and accessibility of finance for micro-to-medium enterprises in a sustainable and effective way.

We make loans and equity investments when businesses cannot find the right finance package from the private sector. We therefore take higher risks but work hard to ensure we do not incur higher losses over the economic cycle.

In our first five years we have lent or invested £557 million into the Welsh economy. The c£400 million of private sector co-financing we have attracted alongside that amount brings the total impact to close to £1 billion, an enormous sum which far exceeds the impact cautiously envisaged in the Bank's original strategic plan. If we add the value of home-loans under the Help to Buy – Wales scheme which the Bank administers, then that total impact rises to over £1.2 billion. The major factor in our success has been the foresight and commitment of Welsh Ministers who have backed their vision with the means necessary to achieve it. Almost £1 billion of capital has been injected into the Bank and has been deployed in over 20 separate funds targeted at specific sectors and regions of the Welsh economy in line with government policies and priorities.

## Meeting customer demand

I am impressed by the ever-increasing level of demand from Welsh entrepreneurs who access this supply of finance with enthusiasm and purpose. We see our job as helping to bring our customers' ambitions to life - we help fuel possibilities for people, businesses, and communities in Wales. The sheer range of the ways in which we do this is now both impressive and exciting.

We have grown from some 140 people to a professional financial services company of over 250 colleagues. Our biggest growth sector over the period has been in housebuilding and commercial property where we have filled the gap left by the traditional commercial banks.

Our Micro Business Fund can lend up to £50,000 in a single deal and has been able to support a rising trend of small start-ups and expansions. Our variety of other funds focus on sectors requiring specific encouragement - technology seed ventures, tourism, management succession and co-investment with private angel investors.

Our two biggest funds - the Wales Flexible Investment Fund and the Wales Business Fund - can accommodate almost any type of business proposition and have enabled us to support growth in the Valleys and West Wales as well as ensuring we finance businesses in every one of the 22 Welsh unitary authorities.

Our activities outside Wales are conducted by FW Capital which uses funds from UK government to finance specific policy priorities in the North of England. It increased its lending volume in this last year to £35.5 million. FW Capital is valuable in giving us greater scale, depth, and reputation, helping us to attract talented professionals, as well as developing strong networks in North-West England where the economic links with North Wales are strong. We are now exporting specific fund-types, successfully developed in Wales, to those regions in England.

## Understanding our remit

The Development Bank's activities now also range beyond pure financing. We stand ready to use the experience of our board members and senior management to assist Welsh Government ministers and officials with advice on specific situations. We provide complex administrative support for Help to Buy – Wales as well as providing services for Mutual Investment Model infrastructure projects.

Our new Recovery support group assists and advises companies in difficulties on how best to get back on their feet. Economic Intelligence Wales now provides regular market analyses which help inform strategies and priorities. Our collaboration with partner colleagues in Business Wales ensures Welsh enterprises can more easily navigate the whole range of services from advice and support through to finance. This diverse range of activities serves to emphasise the importance of the word 'Development' in our name.

## Our future priorities

Our new Corporate plan refines and revitalises our corporate purpose and mission. Our critical themes will be the foundational economy and its vital social impact, decarbonisation and internal service and efficiency. We will remain open to developing new skill sets and capabilities that enable us to execute our ministerial remit more fully.

Crucially, the Development Bank must help promote a transition in Wales to a significantly more decarbonised business environment. We expect this focus to intensify in the years ahead as governments see finance as an important lever for reducing carbon emissions and generating more green energy solutions for people and businesses. We have several fund initiatives in development which support those ambitions.

## A collective effort

None of the progress we have made in the last five years could have been achieved without a healthy internal culture. The last two years of working in a pandemic could not have produced the positive results they did without every colleague's commitment to our values. The hybrid working arrangements now in place still produce smart collaboration amongst colleagues who work with energy, empathy, and a strong sense of responsibility. I am particularly pleased and proud that the Board can see a strong internal succession pipeline for key positions as this will ensure the Bank can sustain momentum and success.

However, I do need to sound a note of caution as we navigate the year ahead. There are potentially significant headwinds which could affect our business goals. The continuing impact of Covid–19 in China, the practical implications of leaving the EU and the social and economic effects of the Russia-Ukraine conflict are adversely affecting trade flows and input costs. The cost of the pandemic has strained public finances. Food and fuel price rises have increased the cost of living for all. These negative trends will certainly combine to create pressure on people and businesses and, for us as a bank, it will translate into higher credit risks which we will need to manage sensitively and effectively.

In April, the Development Bank welcomed two new Non-Executive Directors in Dianne Walker and Iestyn Evans in anticipation of upcoming Board retirements. We specifically sought strong financial experience and accountancy qualifications as our accounts have become increasingly complex and require a significant level of technical expertise and judgement. We look forward to Dianne and Iestyn's valuable contributions.

In closing, I want to acknowledge the tremendous effort made by all colleagues and my own Board colleagues in building the Bank over the last five years. We have created a new, vigorous Welsh institution with objectives that are aligned with the policies and priorities of Welsh ministers. Our capabilities and culture promise much for the future of the Welsh business community.

**Gareth Bullock**
Chair
19 August 2022

# Chief Executive's report

## Five years ago, we set out to unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the market.

We've always said that we must be flexible and responsive to the changing market needs in Wales. We're an organisation that is demand driven and solutions focused, and as we reach the end of our first five-year plan, 2021/22 has been no different.

Indeed, we complete our first five years having reached a scale and breadth of offer that exceeds our initial ambitions. At formation in 2017, we were tasked with reaching an annual investment target of more than £80 million by 2022. That initial target was achieved just two years later in the financial year ending 31 March 2019. We have since gone on to record investments in excess of £100 million each year with a total impact over the first five-year period of £1.2 billion, including £400 million in co-investment from the private sector.

However, the ongoing coronavirus pandemic meant that it was an uncertain start to 2021/22. We were all still living with various restrictions and businesses the length and breadth of Wales were still doing their best to manage the impact of Covid–19. It was difficult for us to predict what the year might bring.

Against the odds, we've delivered a strong performance during a period that saw our team focus on business as usual. Specific Covid–19 support funding from both Welsh and UK governments came to an end but there's been other support available in the economy and an abundance of finance in the market as institutional lenders have increased their flow of funding. As our regulated entity that holds the private funds for our Management Succession Fund, FW Capital has also had an increasing role to play as we begin to navigate the post-EU funding landscape.

It is testament to the commitment and passion of our team that we have achieved budget and continued to grow despite the challenges.

### Unlocking potential in the Welsh economy

A key priority for us in 2021/22 was our focus on facilitating an entrepreneurial culture in Wales, from foundation through to high-growth businesses. We have developed the infrastructure needed to support a substantial growth in the number of young entrepreneurs supported throughout Wales with 106 young people having received support to start-up or grow 94 businesses. At a personal level, it has been a particularly rewarding aspect of our work during the year particularly as the youngest entrepreneur is just 20 years old.

This work was an important part of the 519 investments that were made during the year ending 31 March 2022. With an average deal value of £210,276 across more than 460 Welsh businesses, the total investment was £109.1 million with equity funding playing a growing part in our portfolio as an alternative source of capital for business owners.

Equity offers a funding route which strengthens balance sheets and supports succession planning. Importantly it also helps with cash flow, removing the pressure of immediate serviceability. We are seeing many owners reflecting on their lives and business interests post-pandemic with some keen to facilitate a full or partial exit by using equity as a highly effective funding mechanism.

Providing equity capital is a core, long-term strategy of the Development Bank, and the findings of the Beauhurst, Investing in Wales report we commissioned in late 2021 confirmed that high growth start-ups and scale-ups in Wales are attracting record levels of equity investment. It goes to show that Wales is becoming a springboard for a new generation of high-growth companies and equity is a great growth enabler.

## Encouraging co-investment

We're also seeing more co-investment deals and businesses are recognising the benefits of securing capital and expertise through angel syndicates. The investor base held by Angels Invest Wales grew to 299 and there were 92 individual angel investments during the year totalling £3.3 million compared to £2.6 million in 2020/21. Through co-investment, the network had a total cumulative impact of £8.6 million - including £1.65 million in match-funding by lead Angel investor syndicates. 10% of investors registered are women.

Some of our most successful businesses in Wales started life with angel investment. Coincover, the platform providing industry-leading protection and insurance-backed guarantees for cryptocurrency investors, raised $9.2 million in Series A funding from leading fintech and crypto investors in late 2021 following a partial exit by our Wales Angel Co-investment Fund. We've maintained an equity stake through our Wales Flexible Investment Fund and the company – it's a great success story for Wales.

A simple, connected, and visible support system is increasingly becoming part of our economic DNA in Wales. It's what is helping us to make sure that businesses get the support and finance that they need to start-up, strengthen and grow - the importance of which should never be underestimated. We provided £8.8 million for 135 start-ups during the year and micro loans of up to £50,000 accounted for 362 transactions in 2021/22 – that's 70% of our total investment volume and over half were fast track loans with decisions targeted within two working days.

## Understanding business needs and drivers

Feedback tells us that our work with those that are experiencing difficulties continues to make a real difference. This has been particularly important in the current climate as we work with our customers to aid recovery and build better businesses. Our approach is very much based on relationships; advising boards and providing pragmatic guidance that helps our customers to navigate the unchartered waters of post-Covid–19 and Brexit; protecting local supply chains and safeguarding jobs right at the heart of our communities.

It is our engagement with local business and identifying their needs and economic drivers that underpins all that we do. Maximising economic development opportunities requires deep knowledge of the unique issues facing the Welsh economy hence the importance of Economic Intelligence Wales. Their accurate and timely assessments of the Welsh economy provide insight that informs new products and enables agile decision making.

The role of Economic Intelligence Wales has continued to grow and expand as feedback from those with a real interest in the well-being of our economy reinforces the importance of having robust data. Of note during 2021/22 is the programme of research that has assessed the effectiveness of Covid-19 financial interventions by the Welsh and UK governments. This included the examination of findings from a survey of over 1,700 businesses that benefited from the Economic Resilience Fund Phase 1 and 2, the Covid-19 Wales Business Loan Scheme, and the local authority managed Start-Up Grants scheme.

A review in 2021 concluded that a number of new business support organisations like CBI Wales should also contribute to this work. This additional expertise means that I am confident that we are creating a credible and valuable source of genuine data. I look forward to this evolving to include the decarbonisation agenda.

## Investing for impact

"Smart collaboration" is a core value of the Development Bank. We will not succeed alone in meeting our objectives and so we work across both the public and private sector, connecting business support solutions and new opportunities to create a cohesive and efficient funding ecosystem in Wales. It's about doing the right thing at the right time which is why we are also working with both new and existing customers to encourage them to identify and prioritise social impact opportunities as part of their business planning processes.

Our primary purpose is to be a delivery medium for the Welsh Government's economic strategy. Our role continues to evolve as we increasingly align with government's strategic focus on inclusion and decarbonisation as part of the Economic Contract. However, this has to be balanced with commercial drivers, so our approach is always pragmatic – balancing social and economic impact wherever possible.

This is important because there are lots of headwinds that we cannot ignore. We are very mindful of the rising cost of living, the implications of our exit from the European Union and the effect of Russia's invasion of Ukraine. Wales is not immune to the rising cost of labour, energy, import and raw material prices.

Our property portfolio is particularly sensitive to these challenges hence the support that we have given to 19 residential and commercial sites over the last year. It's a booming sector but it is under pressure with supply chain difficulties and the need to gear up for incoming legislation that will see significant changes to the house building industry as part of the fight against climate change. We'll therefore be developing new products and introducing new measures to encourage the private sector to take action over the coming months and years.

## Priorities ahead

We must keep moving forward and this means very much being part of 'Team Wales', on our collective journey to Net Zero. From community investment in larger scale electricity production to helping SMEs to reduce their carbon footprint by providing funding to offset emissions, we will use our position and influence to promote a robust, proportionate, transition to a green future across the business ecosystem in Wales.

It's all about changing behaviour, and that includes our own. As we enter the next five-year phase of our evolution and start working towards our new objectives, we will see an increased focus on seeking financial returns and positive impact with the evolution of our environmental, social and governance criteria for investing and the launch of specific new green funds. We'll also continue to work on our own decarbonisation strategy which has seen over 190 trees planted through Carbon Footprint's UK tree planting scheme to fully offset our carbon emissions.

In the meantime, I thank our hugely talented team and highly committed Board for their unwavering support in the last year. Together, we have done an effective job in a very challenging market. There's an even bigger job to do in 2022/23 as we focus on our updated mission to bring ambitions to life and fuel possibilities for people, businesses, and communities in Wales.

**Giles Thorley**
Chief Executive
19 August 2022

# Looking to the future - a refreshed purpose and mission

**Purpose**

Bringing ambitions to life and fuelling possibilities for people, businesses and communities in Wales.

**Mission**

Unlocking potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance.

**Values**

– Smart collaboration
– Entrepreneurial energy
– Objective empathy
– Conscious responsibility

# Delivery targets 2022/27

## Baseline delivery targets 2022/27

Support over **2,200** businesses

Over **20,000** jobs supported

Directly invest over **£650m** into Welsh companies

Target co–investment on business funds of **1:1**

Deliver on our pledge to the Welsh Government All Wales Plan – **Working Together to Reach Net Zero**

Maintain a customer NPS® of **60**

Maintain an employee NPS® of **60**

Fund **1,900** new house builds

## Five–year phase strategic objectives

| Core: Deliver debt and equity funding with a social impact | Emergent: Promote and advance a green future in Wales | Operational: Delivery excellence, customer–first, financial sustainability |
|---|---|---|
| 1. Facilitate an entrepreneurial culture in Wales, from foundational through to high–growth businesses | 1. Use our position and influence to promote a robust, proportionate transition to a green future across the business ecosystem in Wales | 1. Ensure collaborative and responsive delivery that meets customers' evolving needs |
| 2. Support financial inclusion for underrepresented groups and create positive impact in the Welsh economy | 2. Develop innovative financial instruments to advance the ambitions for a green future in Wales | 2. Embed financial sustainability into the long–term through innovative use of capital for ongoing market needs |
| 3. Work with our new and existing customers to encourage them to identify and prioritise social impact opportunities as part of their business planning | 3. Continually improve our knowledge, skills and understanding of climate change impacts and the role of finance in delivering solutions | 3. Make optimal use of our ability to support the delivery of government policy through our structure and expertise |

## Baseline investment targets 2022/27

| | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | |
|---|---|---|---|---|---|---|
| **Debt and equity** | 66 | 66 | 74 | 76 | 79 | **361** |
| **Property** | 51 | 59 | 61 | 61 | 59 | **290** |
| **TOTAL** | 117 | 125 | 135 | 137 | 138 | **651** |

# Our funds and services

**Key**
- Debt
- Equity
- Debt and equity

<table>
<tr><th rowspan="2">Fund</th><th colspan="5">Stage of business</th><th rowspan="2">Property</th><th rowspan="2">Fund admin services</th></tr>
<tr><th>Seed</th><th>Early stage tech</th><th>Start-up business</th><th>Growth</th><th>Succession</th></tr>
<tr><td>Business Funds</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wales Micro Loan Fund</td><td></td><td></td><td colspan="2">£1k –50k</td><td></td><td></td><td></td></tr>
<tr><td>Wales Angel Co-investment Fund</td><td colspan="4">£25k – £250k</td><td></td><td></td><td></td></tr>
<tr><td>Wales Flexible Investment Fund</td><td></td><td colspan="4">£25k – £10m</td><td></td><td></td></tr>
<tr><td>Wales Technology Seed Fund II</td><td>£50k –£250k</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wales Business Fund</td><td></td><td colspan="4">£50k – £5m</td><td></td><td></td></tr>
<tr><td>Wales Tourism Investment Fund</td><td></td><td></td><td colspan="2">£100k – £5m</td><td></td><td></td><td></td></tr>
<tr><td>Wales Management Succession Fund</td><td></td><td></td><td></td><td></td><td>£500k –£3m</td><td></td><td></td></tr>
<tr><td>Rescue and Restructuring Fund II</td><td></td><td></td><td></td><td>£50k –£2m</td><td></td><td></td><td></td></tr>
<tr><td>Local Energy Fund</td><td></td><td></td><td>£1k – £2m</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Property Development Funds</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wales Stalled Sited Fund</td><td></td><td></td><td></td><td></td><td></td><td>£150k – £6m</td><td></td></tr>
<tr><td>Wales Property Development Fund II</td><td></td><td></td><td></td><td></td><td></td><td>£150k –£6m</td><td></td></tr>
<tr><td>Wales Commercial Property Fund</td><td></td><td></td><td></td><td></td><td></td><td>£250k –£5m</td><td></td></tr>
<tr><td>Personal Lending for Homes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Help to Buy - Wales</td><td></td><td></td><td></td><td></td><td></td><td></td><td>£1k–£50k</td></tr>
<tr><td>Self Build Wales</td><td></td><td></td><td></td><td></td><td></td><td>% of build cost</td><td></td></tr>
<tr><td>Infrastructure</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>MIMS</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>FW Capital</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Nothern Powerhouse Investment Fund</td><td></td><td></td><td></td><td>£100k –£750k</td><td></td><td></td><td></td></tr>
<tr><td>North East Property Fund</td><td></td><td></td><td></td><td></td><td></td><td>£250k –£2m</td><td></td></tr>
<tr><td>Tees Valley Catalyst Fund</td><td></td><td></td><td></td><td>£100k –£2m</td><td></td><td></td><td></td></tr>
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Correct as of July 2022

# Working with the Welsh Government

**Vaughan Gething MS**
Minister for Economy

Finance is vital to businesses as they seek to develop and grow, and the Development Bank has a unique role in helping Welsh businesses access the finance they need. This investment strengthens our economy, supports jobs and wealth generation in communities across Wales, and is increasingly playing a role in supporting business transition to Net Zero. Improving on the Bank's prior year's performance is a particularly significant achievement given continued economic uncertainty and challenge.

"The annual report and results for 2021/22 demonstrate another successful year for the Development Bank of Wales. I am delighted to see the Bank has again increased the value of investments into Welsh businesses."

The Bank has firmly established its role as a cornerstone economic development institution, and these results reflect positively on the trusted and respected role it plays across Wales.

**Rebecca Evans MS**
Minister for Finance and Local Government

I would like to congratulate the Development Bank of Wales on another successful year supporting the Welsh economy by making it easier for businesses to get the finance they need to start up, strengthen, and grow. The Bank's role will be even more critical in the coming months, which are likely to be economically challenging.

I would like to thank the staff of the Bank for their professionalism and hard work in directing public funds to the places where they can have most impact – delivering on a larger scale, at a faster speed, and in a sustainable way.

"The Development Bank is a key partner to the Welsh Government, working with us to continue to build an economy based on the principles of fair work and sustainability and with a focus on the industries and services of the future."

**Julie James MS**
Minister for Climate Change

"The Development Bank of Wales continues to be a key partner and make an important contribution in supporting the housing sector."

The Bank provides support across tenures to address the differing housing needs of the people of Wales via a number of finance products.

As at the end of this Annual report period for 2021/22, I am pleased that we are continuing to explore with the Bank what more can be done to support the development of quality energy efficient homes.

This includes ensuring that tackling the climate emergency is at the heart of everything we do in Wales as we all work together across this decade of action.

Finding innovative ways to promote the delivery of low carbon homes will not only improve the energy efficiency of new homes but also bring down costs for homeowners which is crucial as we help people through a cost-of-living crisis.

I am pleased that the Development Bank of Wales share this vision and are helping to achieve the move towards Net Zero.

# Investment principles

**Our investment principles underpin our role and position in supporting economic development in Wales. They are designed to meet our shareholder ambitions, taking account of the capacity of our operations and market regulation.**

The **six core principles** of the Development Bank's approach to investment are:

| | |
|---|---|
| 1 | We operate where there is **market failure**, supporting economic opportunity by making finance available to viable businesses and responding to evolving market and customer needs. |
| 2 | We invest on **commercial terms** pricing the investment fairly to reflect the risk. This ensures we are not displacing the private sector, and that we generate returns that can be recycled into new customers, creating a long-term, value for money asset for Wales. |
| 3 | We are a **patient investor**, providing accessible funding to support the long–term sustainability of the businesses we fund. |
| 4 | We work in close collaboration with the private and public sector and **crowd-in private sector co-investment** wherever possible to increase the flow of funds in Wales. |
| 5 | We invest for positive financial and non–financial impact in the regional communities we serve. **Environmental, social and governance** are considerations proportionately embedded in our investment decision–making. |
| 6 | We are a responsible investor, delivering **expert, independent investment management services**. Our experienced team adds value to the businesses we work with, for the life of the relationship. |

# Investment Director's report

**Our work in 2021/22 has been focused on delivering our core objectives, helping the Welsh Government to build an economy based on strong foundations, supercharging our industries of the future, and empowering all our regions to become more productive.**

The reality is that nobody was too sure what the year would bring. The ongoing challenges of the coronavirus pandemic and the end of government backed business interruption and bounce back loans meant that the backdrop to the start of this year was quite unique. We also had to keep an eye on the fall-out from Brexit.

As a supportive investor, the help and guidance that we offer Welsh businesses as they start-up and grow is of equal importance to the support that we offer when times are tough. It hasn't been, and never will be, just about getting money out of the door – we've been plugging the gap when traditional methods of funding aren't available, supporting our portfolio through value creation planning and working collaboratively with our stakeholders to ensure a cohesive approach to business support in Wales.

## Building stronger, better businesses

An increase in the overall volume and value of deals coupled with record levels of co-investment in Welsh businesses resulted in a strong performance for 2021/22. 519 investments with an average value of £210,276 were made in more than 460 Welsh businesses throughout the year. Total investment was £109.1 million, an increase of £3.6 million compared to business as usual in 2020/21 with co-investment reaching £64.1 million, £30.3 million of which was for tech ventures.

As part of the Group, FW Capital provided £35.5 million to help businesses in the North of England during 2021/22. This included Coronavirus Business Interruption Loan Scheme (CBILS) funding of £13.3 million for 38 businesses.

With a customer portfolio of almost 3,000 businesses, we now manage funds totalling £1.9 billion including the £32.5 million Wales Micro Loan Fund which continues to be a popular source of funding for start-ups and small businesses in Wales. The accessibility of this funding is so important as it allows business owners to avoid more expensive personal borrowing.

Micro loans of up to £50,000 across all funds accounted for 70% of our total investments during the year, of which almost half were fast track loans with a lending decision targeted within 48 hours. With 140 fast track loans totalling £2.39 million awarded in 2021/22 compared to 93 in 2020/21, the process is certainly making it simpler for businesses to secure the funding that they need quickly and easily. Funding for start-ups also increased from £7.5 million to £8.8 million with 135 investments in 2021/22 compared to 122 in the previous year.

Our dedicated Wales Tourism Investment Fund offers loans between £100,000 and £5 million for distinctive, stand-out projects that align with the priorities of the Welsh Government. It's a key sector for us with activity increasing in the latter part of 2021/22 with the pipeline looking strong for the coming year.

But whatever the sector, small businesses are the lifeblood of our economy in Wales, so we work very closely with our colleagues at Business Wales to ensure a collaborative approach. From the creative industries to manufacturing, there were 320 referrals this year which demonstrates the value of advisory services to small business.

## Retaining Welsh ownership

I was particularly pleased with how well our Wales Management Succession Fund performed during the year. Financed by the Welsh Government and Clwyd Pension Fund, this £25 million fund offers equity investments between £500,000 and £3 million for management teams seeking to own and run their businesses. This certainly helps to retain Welsh ownership and we're seeing strong appetite for succession funding resulting from pent-up demand and many business owners reconsidering their options post Covid–19. This is from new customers and our existing portfolio who we are always keen to support.

Watching someone grow a small start-up to a successful and sustainable business and being part of that journey is always particularly satisfying. Pontyclun-based Abbey Glass is a great example of what can be achieved with funding from the Development Bank. We backed the management buy-out in March 2022 with a debt and equity package from our Wales Management Succession Fund; enabling the managing director to take ownership of the bespoke glass manufacturing business following the retirement of the founding director.

Of course, conversations about future planning and the potential benefits of equity funding are much easier with those customers that we already have a strong relationship. There are different ways to plan for succession and fund full or part exit strategies, a message that we've been promoting via an awareness campaign that our marketing colleagues successfully delivered this year. We're also working closely with the employee ownership team at the Wales Co-operative Centre. Their role is to support businesses seeking to make the transition to employee ownership, a model that is the fastest growing type of succession transaction in the UK.

## A long-term approach

We take a long-term approach, which is particularly important in the tech sector where we provide follow-on funding for those companies that have benefitted from seed and early-stage equity finance. The last year saw £7.8 million invested in 25 tech ventures and we continue to have strong interest from businesses looking to secure equity investment.

Data shows that there is a large amount of money coming into the venture capital market, but the growth is being driven by larger deals. We can see this trend in our investment activity. There has been more funding available for the series A fund raise meaning that we have stepped aside from some investment opportunities where there has been sufficient private funding. This is pleasing, particularly as it has led to some exit opportunities including our partial exists from Coincover and Space Forge.

## Attracting co-investment

The Development Bank operates where there is market failure, supporting businesses which fall outside of the risk tolerance of the market, yet where viable investments can be made through the structuring of tailored financial packages. As such, we undertake an inherently higher risk approach in our investment decision making.

Co-investment in 2021/22 reached £64.1 million, an increase of £4.1 million on 2020/21 as we continue to focus on working with the private sector to maximise the flow of private capital in Wales. £30.3 million of the co-investment was for tech ventures and the ratio to our investment more than doubled between 2021 and 2022.

There has also been a real uptake in the number of new angels looking for co-investment opportunities in 2021/22. The investor base held by Angels Invest Wales has now grown to 299 and there were 92 individual angel investments during the year. These totalled £3.3 million compared to £2.6 million in 2020/21.

Investing can be highly pressured, so there are lots of benefits in working together, sharing risk, and supporting each other as part of a portfolio approach to investing. 10% of angel investors are now women and we continue to focus on encouraging and attracting a diverse range of investors.

Wales needs as much finance as possible for Welsh businesses. We will continue to develop our ecosystem and work with funders to make sure that all funding is complementary and focused on addressing genuine market gaps and encouraging an entrepreneurial economy.

## Our future priorities

Moving forward, our objective is to deliver debt and equity funding with a social impact. We'll be working with our new and existing customers to encourage them to identify and prioritise social impact opportunities as part of their business planning. This will include the introduction of new evaluation criteria to ensure the sustainable use of public funds is a force for good.

There has been lots of work behind the scenes in 2021/22 that will shape our future. We are working hard to improve the customer experience with a programme of digitalisation that includes investment in our processes to enhance our speed of delivery and turnaround times. We're reducing the amount of paperwork, sharpening our operations, and investing in our people. This transformational change will help support Wales's journey to Net Zero, enhance value and make sure that we continue to meet our customers' evolving needs.

Supporting businesses to scale-up and do better in the future will result in positive benefits for our economy and our communities. As we look forward, we'll be making sure that we maintain our strong pipeline and continue to maximise investor relations to support our fundraising activity. We'll also keep investing in our team; attracting and retaining the skills and experience that allow us to raise our game and build quality relationships with our customers that stand the test of time.

We've got some stretching targets to meet over the next five-year period, but I have every confidence in our ability to continue to deliver for the people of Wales.

**Mike Owen**
Group Investment Director
19 August 2022

# Business finance

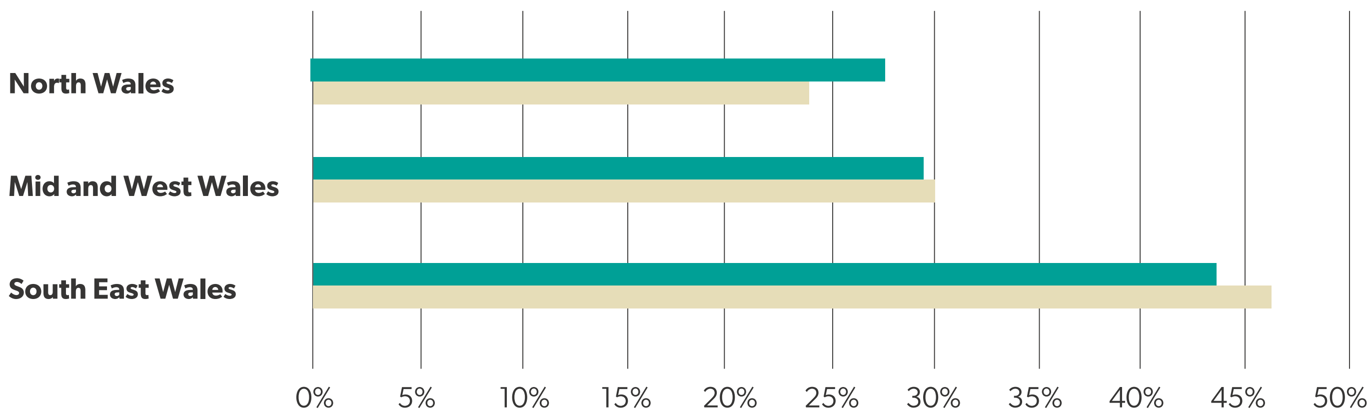
**We're making investment accessible for as many businesses as possible across the whole of Wales. This continued to be a key priority and in 2021/22, we continued to grow our regional teams, playing our part in balancing the economies of the Welsh Government's three economic regions.**

We have continued our work to distribute investment across Wales, ensuring that businesses in economically deprived areas of Wales benefit from the full range of investment products and services we deliver.

This year, investment in North Wales as a proportion of total funds, was 5% higher than the proportion of Welsh businesses in North Wales. This is a reflection of the growth in the team based across the region which has increased from 23 to 42 since our Wrexham head office opened in 2018.

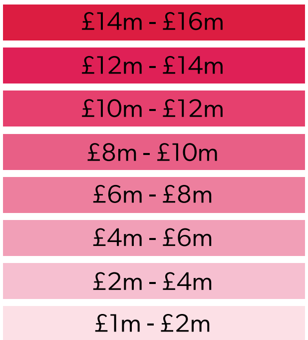
During the year, we participated in Wales's Economic Growth and Development Conference. Together with developers, investors, and policymakers we discussed topics surrounding Wales's multi-million-pound projects, government's plans, and creation of regeneration schemes such as the £85 million Royal Victoria Court scheme in Newport. Cenydd Rowlands, our Property Director, spoke about major projects that are aiming to create healthier, smarter, and more inclusive towns and cities.

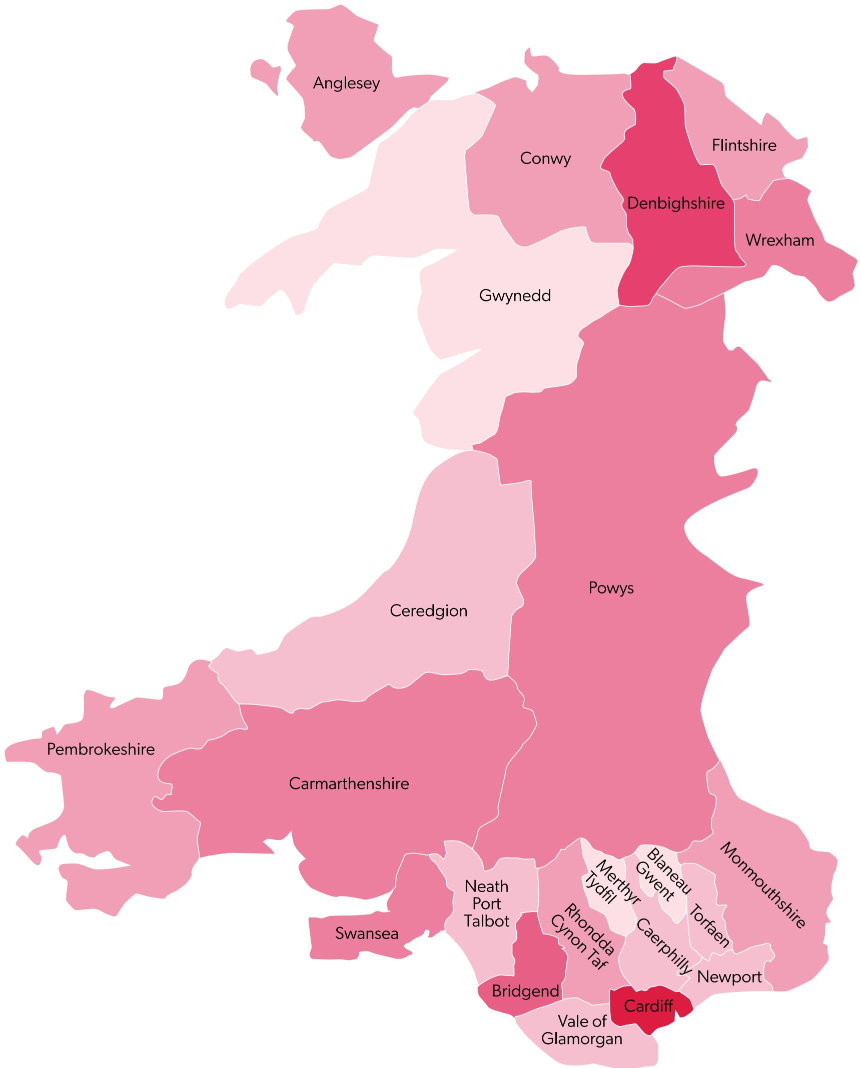
### Investment value by region




| | South East Wales | Mid and West Wales | North Wales |
|---|---|---|---|
| Development Bank investment | 43% | 29% | 28% |
| Business distribution | 46% | 30% | 23% |

## Investment distribution

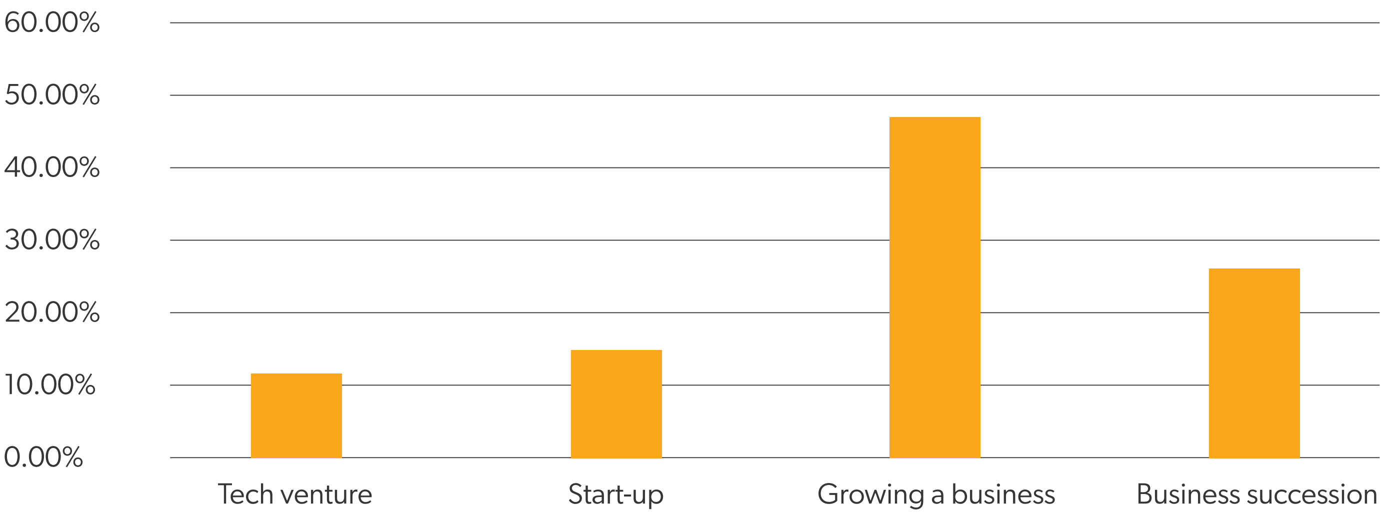



## Supporting businesses at each stage

The funds we manage support businesses through the full lifecycle, from equity-based seed capital for early-stage technology businesses, through to supporting business succession transactions for established companies.

### Investment value by stage of business



## Start-up and early stage

We saw strong demand for start-up finance as individuals took the opportunities created by lifestyle changes as a result of the pandemic to become self-employed. The value of start-up investment increased from £7.5 million in 2020/21 to £8.8 million into 136 businesses in 2021/22. The majority of this investment (£4.9 million) was delivered in the West Wales and the Valleys ERDF region, carrying out our role to deliver investment with impact.

25 technology-based companies received seed and early-stage equity investment of £7.8 million in the year which attracted £30.3 million of co-investment from the private sector.

### *Spirit of Wales*

**Region:** Newport, South East Wales

**Purpose:** Starting a business

**Type of investment:** Debt

**Investment:** £50,000

A love of Wales along with a keen interest in botanicals, hedgerow fruits and fermentation has inspired Daniel Dyer to discover the art of distilling and open his own distillery in Newport.

A £50,000 start-up micro loan from the Development Bank of Wales has been used to fund the fit-out of the Spirit of Wales Distillery that Daniel has set-up to create his award-winning authentic Welsh spirits – Steeltown Welsh Gin, Steeltown Welsh Vodka and Dragon's Breath Spiced Welsh Rum.

Having first started distilling spirits as a hobby, Daniel and head Distiller James Gibbons now produce affordable premium spirits that celebrate their Celtic roots and Wales's industrial heritage of steel production, coal mining, agriculture, and fishing.

### *Karry's Deli*

**Region:** Barry, South East Wales

**Purpose:** Starting a business

**Type of investment:** Debt

**Investment:** £10,000

Support from the Development Bank allowed one of Wales's only meat-free butchers and delis to open on Sundays and provide a click-and-collect service offering more than 300 different varieties of plant-based cheeses, meats, pies, and sweets.

Karry's Deli is single-handedly run by Karry Meyrick, who was furloughed from her job as a swimming instructor during the early stages of the Covid-19 pandemic.

Karry took the opportunity to set-up her own business and was introduced to the Development Bank of Wales by Business in Focus.

A £10,000 micro loan from the Development Bank then helped fund her start-up costs including the fit-out of her plant-based deli on Park Crescent in Barry.

## Business growth

Support for business growth continues to be our strongest performance area with over £30 million or 48% of our business finance going to established businesses. £23 million of this funding was invested in the West Wales and the Valleys economic region with companies in the Unitary Authority areas of Swansea, Carmarthenshire and Bridgend each benefitting from over £3 million in funding.

### *Hughes Holiday Homes (Bryn Morfydd)*

**Region:** Denbigh, North Wales

**Purpose:** Growing a Business

**Type of investment:** Debt

**Investment:** £2.1 million

Bryn Morfydd Hotel and Lodge Park at Llanrhaeadr, near Denbigh, closed in January 2009 and fell into disrepair.

The Development Bank financed the redevelopment of the 15-acre site by Jamie Hughes of HHH Park No 1 Limited with a £2.1 million loan from the Wales Business Fund, used to part-finance the construction of 68 luxury lodges.

## DAR Stores Ltd

**Region:** Troedyrhiw, South East Wales

**Type of investment:** Debt

**Debt Purpose:** Growing a business

**Size of investment:** Undisclosed

Shop owners Rej Singh Sohanpal and his wife Daisy Sohanpal set their sights on opening a new store in Troedyrhiw, Merthyr Tydfil, after successfully running the popular Londis store and Post Office on Merthyr Road in the village.

Their new store will open on Bridge Street, Troedyrhiw, with loan support from the Wales Business Fund.

The new shop provides the local community with a modern convenience store, including fresh bakery products, groceries, and off-license goods.

The couple had earlier benefitted from the Covid-19 Wales Business Loan Scheme in 2020.

## Animal Trust Vets CIC

**Region:** Rhyl, North Wales

**Purpose:** Growing a Business

**Type of investment:** Debt

**Investment:** £700,000

A loan from the Development Bank of Wales helped Animal Trust, a North Wales based veterinary practice, to open a new premise – allowing them to expand their services to even more pet owners in the region.

The £700,000 loan – provided via the £500 million Wales Flexible Investment Fund – to Animal Trust allowed them to purchase the site of the former Aldi on Wellington Road, Rhyl, as well as supporting the refit of the new site for animal care.

The new development in Rhyl created 15 new jobs upon opening, with vets providing free consultations, dental care, neutering, inpatient care, and surgery. It is Animal Trust's tenth veterinary hospital in the UK.

## Business succession

2021/22 was our strongest year yet for succession transactions having supported 43 businesses in 2021/22, with £17.48 million drawn. Support for business succession is critical to ensuring that companies can stay in Welsh ownership. Typical succession deals see companies being acquired by another business as part of a strategic growth plan or offering ownership opportunities to the existing management team or employees through management buy-outs (MBOs) or increasingly through employee ownership trusts (EOTs).

£4.4 million in funding came from the Wales Management Succession Fund, which is tailored specifically to back existing management teams with equity finance to become owners through buyouts. Equity is an attractive option to support businesses with a strong commercial track record and offers a financing route which also strengthens the balance sheet, enabling businesses to grow under new leadership.

Funding was also provided for succession transactions via the Wales Business Fund, the Wales Micro Loan Fund, the Wales Tourism Investment Fund, and the Wales Flexible Investment Fund.

## *Abbey Glass*

**Region:** Pontyclun, South East Wales

**Purpose:** Buying a business

**Type of investment:** Debt and equity

**Investment:** Undisclosed

A bespoke glass manufacturer, Abbey Glass provides fittings and glazing to major firms throughout the UK, including Whitbread, Brewers Fayre, Costa Coffee and JD Wetherspoon.

Based in South Wales for more than 20 years, it provides a wide range of glass products to commercial and domestic buyers alike.

Angela Worgan, who had served as Managing Director of Abbey Glass since early 2020, took ownership of the businesses following a succession deal in March of 2022, following the retirement of the business' former owner.

The deal was backed by the Wales Management Succession Fund, which is tailored specifically to helping businesses undergoing succession.

## Local Energy Fund

The Local Energy Fund offers accessible development and capital finance for community led low carbon and renewable energy projects which can provide economic, social, and environmental benefit to local areas across Wales. We are working closely with the Welsh Government Energy Service, helping to support Welsh Government's renewable energy target for a gigawatt of locally owned generation by 2030.

### *Gower Power Solar Storage CIC*

**Region:** Swansea,
Mid and West Wales

**Purpose:** Community energy project

**Type of investment:** Debt

**Size of investment:** Undisclosed

Gower Power Solar Storage aims to provide green energy to hundreds of homes and businesses in the Swansea area, while also giving them the opportunity to support grassroots community projects via the community benefit society Gower Regeneration Ltd, which owns the solar farm.

The 1MW solar farm at Killan Fach Farm, Dunvant, began generating power in 2017 and became the first community-owned solar farm in Wales thanks to the backing of local investors.

Backed by the Development Bank, the Welsh Government Energy Services and ERDF, Gower Power Solar Storage is expected to generate clean, renewable energy for 25 years, and provide a surplus to the local community.

## Equity finance and patient capital

Access to equity finance and patient capital is essential for backing innovative early-stage technology businesses or for supporting the growth strategies of ambitious companies and, is a key driver of economic growth.

Research from data platform Beauhurst has demonstrated that equity investment is associated with higher three-year compound annual growth rates (CAGRs) in turnover and headcount. The mean three-year CAGR for companies that had received equity investment was 19.6% compared to only 5.1% for companies that had not.

In the year, we commissioned Beauhurst to research and write the report "Investing in Wales, the Welsh high growth ecosystem 2021". The report showed that Wales is playing an increasingly important role in the growth of British start-ups and scaleups with 1,215 high-growth companies which have raised £882 million since 2011. Technology businesses accounted for 28% of these, and Cardiff and Swansea are now firmly established as two of the most exciting and dynamic tech clusters in the UK.

The report also showed that while Wales is home to 3.5% of UK based high-growth companies, we received just 2.5% of the equity deals.

Our own equity transactions decreased in 2021/22 compared to the previous year from £13.8 million to £11.6 million. We are working to develop the equity market in Wales and in 2021/22, we invested in a campaign to educate business owners on the benefits of equity, the fundraising process, finding the right investor and building a stronger business through good governance.

Research with customers showed that the most common barriers for business owners were a fear of a loss of control and finding the right investor for their business.

### The programme delivered the following:

- Educational, explainer content describing key aspects of fundraising and how equity is used by businesses at different growth stages
- Sponsored media content with national and regional publications
- A webinar for over 50 intermediaries

## Expanding your horizons with equity: Live

Co-hosted with the British Business Bank and Business Wales, we delivered a half day conference with over 200 businesses in attendance, and which offered a series of rich discussions with leading industry professionals on key topics like the fundraising process, finding the right fit for your business, working with business angels and the power of NEDs. The event closed with a fireside chat with Piers Linney, Dragon's Den investor and former board member at the British Business Bank.

Continuing this educational and awareness raising programme is a long-term priority for the Development Bank.

Ceryx

## *Vortex IoT*

**Region:** Neath, Mid and West Wales

**Purpose:** Exit

**Type of investment:** Equity

**Size of investment:** N/A

The Development Bank's Technology Ventures team exited Vortex IoT – a Neath-based supplier of environmental sensors, networks, and data solutions – in early 2022.

Founded by CEO Adrian Sutton and CTO Behzad Heravi, Vortex IoT helps to support decarbonisation and sustainability efforts globally by giving organisations and local governments the systems and data they need across a number of environmental factors, monitored and gathered through the Internet of Things (IoT).

Providing equity finance, the Development Bank invested £500,000 over two investment rounds in December 2018 and December 2019, and co-invested with angel investors and the London-based Start-up Funding Club (SFC Capital).

After helping Vortex IoT to scale up in just three years, the Development Bank exited Vortex IoT early in 2022 following its acquisition by Marston Holdings, the UK's leading provider of integrated, technology-enabled transport solutions.

## *Ceryx*

**Region:** Cardiff, South East Wales

**Purpose:** Developing a tech venture

**Type of investment:** Equity

**Investment:** £1,000,000

Ceryx uses biomimetic designs – tech which copies key biological structures such as cell membranes - to create electronics which can merge with the human body, restoring functions lost due to disease or injury.

Its unique platform is being used to create next-generation medical devices which have unprecedented power and potential in the field of disease treatment.

Ceryx's first product is a cardiac pacemaker which can communicate with the cardiorespiratory system to restore and optimise function, resulting in unmatched therapeutic response in treating heart failure - a disease which is currently incurable.

In April, Ceryx announced the closure of a successful seed funding round to bring its cardiac devices to human trials, with more than £3.8 million generated from a number of investors - including the Development Bank and a consortium of angel investors.

## Angels Invest Wales

Angels Invest Wales is the largest angel network in Wales, connecting experienced investors with Welsh businesses seeking private investment.

The value of transactions facilitated by the network grew from £2.6 million in 2020/21 to £3.3 million in 2021/22 while the number of transactions fell from 31 to 25. Increased efforts in building the investor base delivered an additional 45 angels, growing the network to 299 investors, 10% of whom are women. Recruiting more female investors will remain a priority for 2022/23.

### *Concentric Health*

**Region:** Cardiff, South East Wales

**Purpose:** Business angel investment

**Investment type:** Equity

**Size of investment:** £72,500

Digital consent tech start-up Concentric Health was backed with £500,000 in investment from a syndicate of 24 business angels late in 2021, with £72,500 funding from the Development Bank via the Wales Angel Co-investment Fund.

Led by lead technology investor Ed Parkinson, the syndicate invested £345,000, along with £72,500 match-funding from the Development Bank and £82,500 from other private investors, allowing Concentric to speed up the delivery of contracts and funding recruitment for new roles.

The Cardiff-based business was launched in 2020 and has since become the widest-used digital consent application in the NHS.

## Property investment

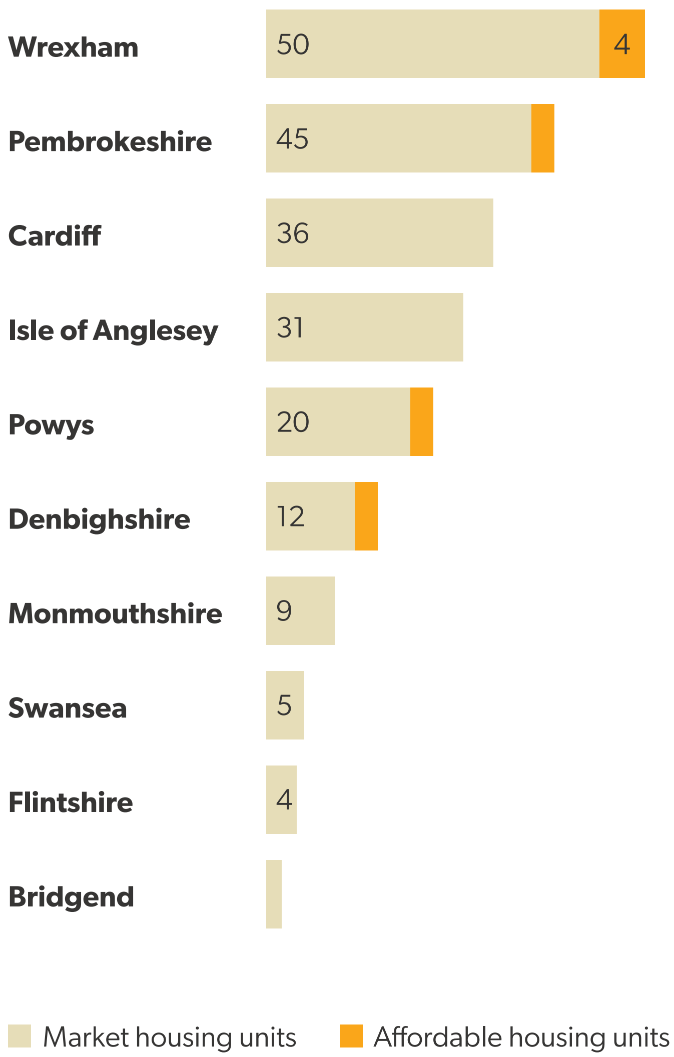
Through our targeted property funds, we are backing small and medium sized developers to build new homes, offices, industrial spaces, and mixed-use developments.

Demand for funding from the property sector remained particularly strong in 2021/22, with 19 new developments supported in the year. In total, loans totalling £43.53 million were provided, supporting new and existing development sites.

- 223 housing units were delivered, including 10 Affordable Housing Units.
- 55% of these housing units were at a market rate at or below £250,000 making them eligible for support from Help to Buy – Wales.
- 44,546 sq. ft of commercial space was delivered.

### Value of investment by unitary authority


### Housing units by unitary authority



## Self Build Wales

The Self Build Wales scheme was established by the Welsh Government in 2020 to help remove the barriers and uncertainty that prevent people in Wales from building their own homes. Originally the scheme intended to offer plots of land with pre-agreed planning permissions by using undeveloped land owned by Local Authorities. The scheme was significantly impacted by Covid-19 and as a result, the availability of land has been lower than expected.

In 2021/22, the team worked to refocus the scheme, obtaining agreement to expand the paratemers to include private landowners. The necessary permissions are now in place and the intention is to bring more plots forward to the market in 2022/23.

## *Dawan Developments*

**Region:** Barry, South East Wales

**Purpose:** Property development

**Type of investment:** Debt

**Size of Investment:** Undisclosed

Commercial property development firm Dawan Developments – based on the Atlantic Trading Estate in Barry, Vale of Glamorgan – began construction of a new commercial site on the trading estate in early 2021.

Known as Spider Camp, the new development comprises six light industrial buildings, made up of 42 individual units. These are designed as starter units for growing businesses and start-ups who need smaller commercial spaces.

Funding from the Wales Commercial Property Fund allowed work to commence on Spider Camp.

## Supporting young entrepreneurs

We are developing our approach to reach more young people, recognising that we have an important part to play in delivering the Welsh Government's Young Person's Guarantee.

The 2021/22 financial year saw us support 106 young entrepreneurs (i.e., directors who were 30 or younger when we closed a deal with them) across 94 deals, with £6.9 million invested.

A wide range of businesses were supported, from delis and bakeries to space-tech labs. The amount of support we provided via funding to each business was also wide-ranging, from £2,500 to £2 million.

We have been working to review our approach to ensure that we continue to reach people under 25 who wish to start or grow their own business. In the year we held workshops and 1-2-1 interviews with young entrepreneurs to engage them in developing our model and making sure we understand the barriers they face.

**From these conversations, a range of potential barriers have been identified including:**

- perception that funders may be reluctant to back Young Entrepreneurs
- lack of access to capital or security
- lack of experience to underpin a business plan and sell the proposition to funders
- and a lack of role models and mentors

In response to this we have nominated two young entrepreneur champions within our team to help bridge the barriers. In 2022/23, increasing awareness of the Development Bank among young entrepreneurs, sharing successful role models, and making sure more young entrepreneurs know we're there to help them will be a priority. We will continue to work in partnership with organisations like Big Ideas Wales and The Prince's Trust to ensure young entrepreneurs have access to the support they need.

### *Lumberjack Axe Throwing*

**Region:** Swansea, Mid and West Wales

**Purpose:** Growing a business

**Type of investment:** Debt

**Investment:** £35,000

Lumberjack Axe Throwing proved a successful venture for young entrepreneur Matthew Griffin when he opened his first premise in Cardiff in the summer of 2019.

The 24-year-old opened his first site – which gives customers the chance to take part in the increasingly popular indoor sport – after spotting a gap in the market for an axe-throwing venue in the capital.

Following the Covid-19 pandemic, Matthew set his sights on expanding the business and opening a new venue in Swansea.

A micro loan from the Development Bank allowed him to refit a site on Dilwyn Street, in Swansea city centre, before opening the new site in the spring of 2022.

## Co-investment

We work with a network of co–investors to maximise the flow of private capital in Wales and minimise displacement; we do this by introducing investors to our customers, co–investing on individual transactions or benchmarking to ensure our rates and fees are in line with the market.

Our strategic activity developing strong co-investor relationships has been a focus throughout the year. We have continued to promote investment opportunities within our network, including:

- hosted a CxO Forum with Maven Capital Partners, Project X and Environmental Technology Partners with the aim of supporting the C-Suite to manage positive co- investor relationships
- supported a British Business Bank event in London which offered tech ventures portfolio companies a pitching opportunity to raise their profile with VCs in the City
- supported a range of events at Wales Tech Week 2021

Parkwalk Investing in Innovation

BGF

Bristol Private Equity Club

British Business Bank

WealthClub

### Co-investment value by region

## Supporting customers

With a customer portfolio that has grown to over 3,000 active businesses, the way we work with and support customers to create value is an increasingly important part of our offering.

Developing lasting and strong relationships with the businesses in which we invest is a key part of the way in which we work. In 2021/22, 51% of investment delivered went to existing customers of the Development Bank, demonstrating our commitment to supporting our customers for the long-term.

We assign each customer a named executive, responsible for managing the relationship, monitoring the financial performance of the business, and completing follow-on investments. In the case of larger loans and for all equity investments, our team of portfolio executives build strong relationships with company boards and any other investors, encourage good governance, and support the team in delivering their growth plans.

In the last year our teams completed 445 referrals and introductions with customers including:

- 50+ introductions to support fundraising including institutional and angel investors
- 130+ referrals to Business Wales for advisory support
- 40+ referrals for strategic and business planning advice
- 200+ introductions across the network in areas such as non-executive directors to strengthen boards, recruitment, training, and operational resilience

Customer feedback and insight informs our strategy and in June 2021, we adopted Net Promoter Score as our measure for customer satisfaction achieving a first-year benchmark score of 74 from a survey response rate of 29%. For 2021/22, surveys were issued following completion of a transaction and the feedback received is directly informing improvements to the customer journey. In 2022/23, we will extend the survey to gather feedback from customers through the life of the customer relationship and will work to improve response rates.

### *ACAI Outdoorwear*

**Region:** Sandycroft, North Wales

**Purpose:** Growing a business

**Investment type:** Debt

**Size of investment:** £500,000

Based in Flintshire, ACAI is a first-of-its-kind outdoorwear brand 'made by women for women'.

The company was set-up by Kasia and Joe Bromley in 2016 and is on a mission to be the number one outdoor apparel brand for women in the UK and worldwide.

It aims to combine style, quality, functionality, and sustainability in providing good-looking outdoor wear for women.

The Development Bank supported ACAI with £100,000 from the Covid-19 Wales Business Loan Scheme in 2020, allowing the company to continue with growth plans and create five new jobs.

In the summer of 2021, the Development Bank backed ACAI again with £500,000 from the Wales Flexible Investment Fund.

## Help to Buy - Wales

Following its original launch by the Welsh Government in 2014, the Help to Buy – Wales scheme is now in its third phase, supporting the purchase of homes at a market value of up to £250,000 through a registered Help to Buy – Wales builder.

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

Since the scheme started in 2014, over 13,000 properties have been purchased under the scheme, of which over 77% were sold to first time buyers. In total, more than £518 million has been lent supporting property sales of £2.6 billion. The second phase of the scheme came to an end in December 2021, with the third phase currently in place until March 2023. The introduction of the third phase saw a reduction in the maximum eligible purchase price from £300,000 to £250,000, which so far is seeing a higher percentage of first-time buyers (84%) being supported through the scheme.

Cymorth i Brynu-Cymru
Help to Buy-Wales

Cefnogir gan Lywodraeth Cymru

Supported by Welsh Government

- Phase 3 of the scheme has seen an improvement in target demographics with a 7% uplift in first time buyers supported (84% supported against the average of 77% since scheme inception in 2014).
- In the last 12 months, our strategic priority has been focused on improving our capability to offer support to our most vulnerable customers through the challenging financial climate.
- Improved capability in collections and recoveries has also ensured the percentage of customers in arrears remains a very small portion of the overall loan book.

# Impact investment

## As a long-term provider of loans and equity investments in Wales, we work hard to balance financial returns with social impact.

We are an impact investor with a social purpose and have built our funding offer around a regional approach. This allows us to create social and economic impact within the significant foundational economy in Wales. We have also embedded social impact in our own organisation.

A fundamental focus for us over the next five years will be to further embed our responsible investor role in both our operations and investment decision-making.

This will align with our core impact themes:

### A prosperous future

By providing funding to underserved markets, we help business to create employment opportunities, allowing people to take advantage of wealth generated by businesses in the communities in which they are based.

### Community and place

Investing in businesses that reflect the diversity in the communities we serve helps make our society more equal, inclusive, and cohesive. Investing in improvements to where people work and live promotes health and well-being.

### Innovation and technology

Investing in businesses that innovate creates highly skilled employment opportunities at the cutting edge of technology. Supporting more traditional businesses to adopt new technologies makes them more competitive and productive – using resources more efficiently and proportionately.

### A sustainable future

Investing in businesses that are seeking to grow sustainably contributes to a low carbon, biodiverse society that supports social and economic resilience.

## Measuring success

Our mechanisms for evaluating and measuring our impact are aligned with the UN Sustainable Development Goals, the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's Calls to Action. We use this data to inform investment policy and action plans to promote best practice and impact across our delivery, ensuring that added value interventions are optimised.

Our impact report for the 2021/22 year includes the latest data reported by a sample of our portfolio in 2021/22. The sample size is 330 which is around 10% of our active portfolio for businesses based in Wales. The report features our rolling impact taking the latest impact returns from our customers.

Consequently, the sample contains data from businesses that are returning the first impact form post-investment and data from the latest impact form from businesses which have been in the portfolio for a number of years.

This data covers a period of recovery following the Covid-19 pandemic in which our portfolio, like the wider Welsh business market, accessed government support schemes and has adapted to trading in continued uncertainty. We therefore expect the impact data reported here to be highly influenced by wider economic trends.

It is also important to note that, at baseline, medium businesses were the smallest cohort in our sample at 9%. However, this increases to 16% for businesses reporting impact data for the last three years showing an element of dynamism in our sample. The 2019 report from Economic Intelligence Wales Medium-sized businesses and Welsh business structure shows the importance of this as a 'non-dynamic' population could result in a decline in employment and productivity growth and medium sized firms are typically more likely to have higher productivity.

## A prosperous future

- 41% of jobs created are in median to high pay jobs compared to 60% in 2020/21. This drop is due to attrition in the proportion of median to high pay jobs created compared to the first year following our investment. The proportion of jobs created in median to high pay roles has continued to be higher in our tech-venture investments at 88%, our equity investment cohort at 82% and the micro-sized businesses in the sample at 54%.
- 46% increase in productivity. This is the average increase in turnover per FTE. It is highest amongst the start-up businesses (107%) and tech venture (84%) cohort of the sample. Despite the business growth investment cohort having a below average productivity increase (34%) the average turnover they generated per FTE was the highest at nearly £145,000.
- 22% of our sample businesses were exporters in 2021/22 compared to 14% in the previous year. The revenue generated from exporting for these businesses was 53% of their turnover and 41 businesses reported exporting for the first time.

## Community and place

- 10% of owners/directors/shareholders in the businesses that provided ethnicity data were Black, Asian, and Minority Ethnic individuals (54).*
- 3% of owners/directors/shareholders in the businesses that provided age range data were under 25 (36).
- 29% off owners/directors/shareholders in the businesses that provided gender data were female (312).
- 15% of owners/directors/shareholders in the combined start-ups and tech venture deals were Black, Asian, and Minority Ethnic.

*Please be aware that the number of owners reporting ethnicity data is different from that of previous reports to a degree of significance that it should not be compared to previous reports.

## Innovation and technology

- 36% of businesses were actively innovating following an investment from the Development Bank. Businesses reporting this activity had a higher-than-average productivity increase and more jobs created were in median to high pay roles. In the innovation active cohort, 76 businesses initiated collaborative R&D projects and 75 introduced new products or processes to their respective markets.
- 34% of respondents were actively digitalising their business following an investment from the Development Bank with 72 undertaking initiatives like the installation of cloud computing and web-based accounting software for the first time.

## A sustainable future

2021/22 has seen us progress both our impact investment activity and our broader sustainability agenda. Our Board has endorsed our overall approach to ESG, beginning with research and building internal capability, conducting a materiality assessment, and researching stakeholder insights. An ESG steering group has also been established with a remit to develop strategy, policies and performance indicators.

We have also commissioned strategic advice from a decarbonisation consultancy. They have assessed our emissions against the GHG Protocols and made recommendations for improving the assessment of our scope 3 emissions in respect of our customers. Our Board will consider these recommendations in early 2022/23 and take a decision on the most appropriate ESG standards and accreditations to pursue.

In the meantime, our research shows:

- 41% of customers have indicated that they are motivated to act on climate change but lack expertise. This demonstrates the opportunity that we have to encourage and support customers, ensuring that SMEs in Wales are able to reduce emissions and create value through the commercial opportunities that will become available in the green economy.
- 64% of customers are taking informal or partially structured action with regard to environmental management while 13% of customers have either achieved or are working towards an environmental standard.
- 68% of customers believe that the Development Bank should only be investing in those businesses who are either already or are willing to work towards strong environmental management practices. We will be incorporating environmental narrative into the investment decision making process with effect from 2022/23. This will further bolster our ESG credentials.

We take a proactive approach to identifying customers who would benefit from environmental management advisory services and refer them to appropriate providers whenever possible. Our portfolio and technology ventures teams completed over 130 referrals to Business Wales including the sustainability advisory service in 2021/22. They will now help to develop decarbonisation strategies and give advice on specific projects.

## Case studies

### *Padda Care*

Older people in care homes throughout Wales are benefitting from new facilities and improved services to help keep them safe, sound and civilised thanks to funding from the Development Bank in 2021/22.

Padda Care has three care homes situated in Llandybie, Ammanford and in Morriston, Swansea. All homes provide specialist dementia care that is tailored to the individual needs of residents by using a person-centred approach. Residents live as part of the community and lead as full and active lives as possible.

A £1.5 million loan from the Development Bank of Wales in August 2021 was used to fund the development of a new 36-bed unit adjoining Glanmarlais in Llandybie. Built by local construction company Sterling of Cross Hands, the new facility now provides specialist EMI care for local people. 30 new jobs have also been created.

### *Vale Grocer*

A £20,000 fast track micro loan from the Development Bank of Wales has helped husband and wife team Liz and Chris Kameen to expand their Denbigh-based fruit and veg business.

The Vale Grocer stocks and sells organic fruit and veg which are either grown locally by the Kameen's or supplied by farmers via Organic North, an organic wholesaler. Local farmers are also being encouraged to grow organic produce that the couple can buy and sell.

Customers in and around Denbigh and Ruthin can subscribe to a veg box that is delivered weekly to their home or visit The Vale Grocer shop. The loan from the Development Bank has been used to fit-out a new industrial unit in Denbigh, as well as funding a larger van to scale-up deliveries. With a refrigerated storage facility and dedicated packing area, the aim is that the unit will become a hub where customers can buy organic fresh and grocery produce.

# Economic Intelligence Wales

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

Economic Intelligence Wales brings together economic statistics and SME research and is a unique collaboration between the Development Bank of Wales, Cardiff Business School and the Office for National Statistics. Its research provides insight into the supply of, and demand for, finance in the Welsh market within the broader Welsh economic context. Cardiff Business School leads on producing the research outputs, with a 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 second in a series of Bespoke Reports on Covid–19 Welsh Government financial interventions.

- published the second in a series of bespoke reports on Covid-19 Welsh Government financial interventions
- 1,757 businesses surveyed which received Welsh Government Covid-19 financial support
  - 17% of these were in depth telephone surveys
  - over 20% of surveyed businesses were recipients of the Covid-19 Wales Business Loan Scheme administered by the Development Bank
  - launch of the second round of surveys targeting over 1,000 respondents
- published four quarterly reports collating and analysing economic and SME data
- launched first research prospectus to engage leading research organisations on future projects and expansion of the collaboration. The expanded collaboration is to be launched in 2022/23

"Our economy has begun to emerge from an unprecedented downturn and our unemployment rate continues to track lower than the rest of the UK. It is heartening to see a significant proportion of the businesses we supported now expressing confidence about their ability to grow employment in the year ahead. The Welsh Government remains committed to playing our full part in building and sustaining Wales's economic recovery."

**Vaughan Gething MS**

Minister for Economy

## Quarterly reports

Key findings from the quarterly reports throughout the year include:

- following the UK's largest annual economic contraction on record in 2020, the UK economy grew for a third consecutive quarter in 2021 Q4. By February 2022, monthly estimated UK GDP exceeded its pre-pandemic level by 1.5%. However, forecasts for the global and UK economies for 2022 and 2023 have been downgraded.
- vacancies in the UK have hit record levels at over 1.2 million by December 2021.
- the number of SMEs in Wales declined during 2021. The largest percentage decrease in the number of enterprises was in the micro size band at 2.5%. The number of SMEs in the production sector decreased by 10.2% while the Welsh production index continued to fall over the second half of 2021.
- the value of Welsh goods exports has increased by 12.4% to £15.2 billion.
- Welsh SME confidence was lower than any other region in the UK in 2021 Q4 and was accompanied by low business investment levels.
- bank lending returns to levels last seen prior to the Covid-19 pandemic while the value of Welsh equity investment continues to rise.
- the SME Finance Monitor for Wales in 2021 Q4 identified the increasing cost pressures facing SMEs in Wales; 37% of Welsh SME respondents revealed that they had been significantly impacted by increasing costs.

## Reports published 2021/22

Covid-19 Welsh Government financial interventions: An analysis of administrative and beneficiary survey data, April 2022

Quarterly report, May 2021

Annual Report, August 2021

Quarterly Report, November 2021

Quarterly Report, February 2022

## Future bespoke reports

The evaluation of the impact of Welsh Government Covid-19 financial interventions is a longer-term research project which started in 2020 and will continue into 2023.

## Expanding research collaboration to form an academic collaboration panel

2022/23 will be an important year for Economic Intelligence Wales as it expands to include new research partners and publish at least one report from one of the new research partners before the end of the year.

We will continue to refine the research prospectus and will use it to determine which research projects should be prioritised. We will also look to grow audience and reach.

# FW Capital

## FW Capital is the Development Bank of Wales Group's FCA registered fund management arm and delivers funds across the North of England.

Operating from six offices across the North of England with 31 employees, including two dedicated fund directors who manage operations in the North West and North East of England, FW Capital forms a core part of the Group strategy creating direct benefits to Wales:

- **Financial** - making a financial contribution to the Group to benefit Wales, as well as job creation in Wales for back-office support
- **Expertise** - widening the scope of the Group's investment activity and therefore increasing the knowledge base across the organisation
- **Fundraising** - successfully securing and delivering contracts on behalf of third parties, including the British Business Bank

In 2021/22, loans totalling £35.5 million were made directly by FW Capital which attracted co-investment of £69 million from the private sector. These investments helped local businesses across the North to create and safeguard 1,677 jobs - a 79% increase from last year's figures of 935.

### *Everflow*

**Region:** North East (Wynyard and Nuneaton)

**Type of finance:** NPIF Debt Finance

**Business need:** Growing a business

**Investment:** £750,000

Established in 2015, utilities firm Everflow comprises of water retailer Everflow Water and software specialist Everflow Tech.

The company secured a £750,000 investment from FW Capital in April 2021, via the Northern Powerhouse Investment Fund (NPIF) Debt Finance – Tees Valley and Cumbria.

The funding allowed Everflow to continue development of its software system, in addition to working towards its objective of reaching annual revenues of over £240 million by increasing its customer base. They are now working with a record number of new and existing customers in simplifying the utilities landscape.

Everflow was recognised for its significant growth efforts when it was placed at number three in the 2021 FT1000, the Financial Times' annual list of Europe's top 1,000 growing businesses.

# Section 172

## S172 of the Companies Act 2006 requires a director of the 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 stakeholders.

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 in this S172 statement.

## Corporate plan 2022/27

Our remit letter for the current term of government sets out our priorities as part of the Team Wales model supporting the Welsh Government's economic recovery mission and response to the climate emergency.

We are uniquely positioned to support the economic resilience and future growth of the Welsh economy. We also have a duty to play our part in the drive towards a Net Zero carbon Wales as champions of a green economy and facilitators of change.

Having established the Development Bank as a highly credible, trusted, and effective organisation over the last five-year period, the Board is committed to ensuring that all 250 colleagues are focussed on the delivery of our purpose; bringing ambitions to life and fuelling possibilities for people, businesses, and communities in Wales.

Our new Corporate plan for the next five-year period sets out how we will unlock potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance. It has been informed by Our Board strategy day held in November 2021 and addresses the key priorities in terms of the increasing importance of ESG factors in measuring the sustainability and ethical impacts of our investments and our role in supporting the development of a low-carbon economy.

## Brand perception

An independent study of almost 800 customers and key stakeholders including membership organisations was conducted in 2021. The objectives of the research were to understand the extent to which the Development Bank is perceived as:

- a trusted expert in business finance
- an authoritative voice in SME investment and economic development
- a commercial investor with a social remit
- a responsible/ethical investor.

The study also considered the appetite and intent for external investment, in particular equity investment.

Key findings of the report show that the Development Bank scores well in terms of being a responsible investor and awareness of the Bank and likelihood of recommending it among Intermediaries interviewed as part of this research was strong. However, only one third (34%) of SMEs were aware of the Development Bank of Wales.

Among membership organisation participants in the qualitative research, the Bank was felt to have a number of roles including helping SMEs in Wales to access finance especially if they might have struggled to find financial support from more 'traditional' lenders; aligning with Welsh Government priorities; being an important tool for economic development in Wales; and developing as a strategic partner for businesses.

Some membership organisation participants deemed the Bank's priorities as supporting businesses that might find it difficult to access finance provided it made commercial sense. Prioritising growth and innovation were also noted.

Encouragingly, all groups were much more likely to spontaneously mention strengths rather than weaknesses of the Development Bank of Wales. For intermediaries, top of mind strengths related to market position factors such as its Welsh focus, our willingness to lend where others won't and our variety of funding. Our portfolio customers spontaneously mentioned strengths relating to customer service attributes such as good communication, accessibility, listening to business and a personal, friendly service.

Membership organisation participants in the qualitative research voiced similar, positive brand perceptions. They also associated the Bank with being 'professional', 'local' and 'proudly Welsh'. There was also reference to how our profile and reputation had reportedly improved in recent years.

## Covid-19 pandemic response

The economic and social disruption of the Covid-19 pandemic continued throughout 2021/22. The Group's priority has therefore been focussed on helping customers and colleagues; building resilience, maintaining delivery, and providing a safe working environment.

Our ongoing support for colleagues has resulted in the introduction of new hybrid working practices that offer greater flexibility with the opportunity to work from home. Group wide events and regular communication forums have enabled the senior management team to update colleagues on a regular basis and ensure strong two-way dialogue. A range of health and well-being initiatives have also continued throughout the year with frequent daily webinars offered by the company's Employee assistance programme and regular themed talks facilitated by the Group's mental health first aiders. Regular surveys have also continued to enable the Group to adapt support provided to the needs of the colleagues.

We continue to monitor our customer portfolio for signs of stress and have offered interventions including repayment holidays and refinancing options as appropriate.

We have also continued to offer repayment holidays and extensions of up to 10 years for customers that accessed the £100 million Covid-19 Wales Business Loan Scheme (CWBLS). There are encouraging signs that our cautious approach to lending is now paying dividends with 83 customers having now repaid their loans in full (total capital of £6.6 million). Our request for personal guarantees of 20% together with a cap of £25,000 has helped to ensure minimal loss.

FW Capital also continued to provide Coronavirus Business Interruption Loan Scheme (CBILS) and Recovery Loan Scheme (RLS) funding. 75 deals totalling £22,757,500.00 were completed in 2021/22 including 15 follow-on loans for existing customers.

## Additional funding

The focus on funding in 2021/22 has been on bedding in the new funding introduced in the previous financial year. However, additional funding of £30 million was allocated to the Wales Property Development Fund and Wales Stalled Sites Fund. This money was split evenly across the two funds to support the increase in deals with delivery forecasts, KPI commitments and adjusted fund parameters all agreed and implemented.

## Future opportunities

Key initiatives progressed during 2021/22 include:

- identification of six pilot schemes to support decarbonisation with three prioritised for future development. This included the development of a new Green Homes Incentive for residential developers to deliver more thermally efficient and lower carbon homes in Wales. The £33 million allocation is available through the Wales Property Development Fund and Wales Stalled Sites Fund and will be launched in July 2022. Additional work on the development of a potential housing retrofit scheme and green loan offer for SMEs is also underway
- work with the Welsh Government Building Safety Fund on a scheme to support leaseholders facing financial hardship due to fire safety issues. An investment service proposal for launch in early 2022/23 has been initiated.

Our corporate strategy sets out our plans for 2022/27. Future opportunities include:

- the ongoing role of our Recovery Support Group in continuing to help businesses with an increased debt burden post Covid-19 manage working capital challenge
- working with private landowners as part of Self Build Wales to help find more opportunities for development as approved by our Board with the Welsh Government
- developing innovative financial instruments to advance the ambitions for a green future in Wales with the progression of a decarbonisation programme that includes a range of debt and equity products for SMEs to support decarbonisation, incentive schemes for property developers and the creation of energy hubs
- facilitating an entrepreneurial culture in Wales with bespoke support for young entrepreneurs. 94 young entrepreneurs were supported with £6.9 million by the Development Bank during 2021/22. We'll continue to raise awareness of the help available for young entrepreneurs and develop their interest in business start-ups.

## 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 responsible investor, we measure our impact with mechanisms that are aligned with the UN Sustainable Development Goals, the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's Calls to Action.

Balancing financial returns with social impact, we have developed four impact themes:

- a prosperous future
- community and place
- a sustainable future
- innovation and technology

These are discussed in more detail in our Impact statement on page 36.

We continue to invest in our programme of digital transformation with the aim of enhancing value and making sure that we continue to meet our customers' evolving needs. This includes improved processes to enhance our speed of delivery and turnaround times along with the introduction of a new change management office in 2021/22.

Our Board met with a selection of customers during the recent strategic planning process as part of the Board strategy day held in November 2021. The feedback reinforced the importance of our trusted reputation while our independent study of portfolio customers in 2021 clearly showed that our strengths relate to customer service attributes such as good communication, accessibility, listening to business and a personal, friendly service. Our customers believe our team to be honest, trustworthy, expert, and professional but there is a negative perception of our interest rates and speed of delivery.

Our Net Promoter Score (NPS) is now our standard measure of customer satisfaction. The results of the 2021 surveys for both our Wales investments and FW Capital track customer feedback on all micro, new investments, TVI and property deals in Wales together with all deals completed by FW Capital. The reporting does not include the Wales portfolio teams.

Key statistics for 2021/22 show the following scores:

- 74% of customers are likely to recommend the Development Bank to another business looking for funding
- 100% of customers are likely to recommend FW Capital to another business looking for funding

This combined score of 92% places our service levels in the top quartile. The feedback is now being used to further enhance customer experience and provide a benchmark for the new financial year.

A key focus in 2021/22 was our equity campaign while regular blogs on topical matters like the business ecosystem in Wales and challenges facing the property sector all helped to raise profile and build awareness of the support available for Welsh businesses.

## Our stakeholders

Working in partnership with stakeholders is a core brand value that remains at the heart of our new Corporate plan for 2022/27.

### *Stakeholder feedback*

The independent study of over 185 key stakeholders including intermediaries and membership organisations conducted in 2021 analysed the perception of the Development Bank by organisations like CBI Wales, FSB Wales, and Tech Nation. Among membership organisation participants in the qualitative research, the Development Bank was felt to have a number of roles including helping SMEs in Wales to access finance especially if they might have struggled to find financial support from more 'traditional' lenders; aligning with Welsh Government priorities; being an important tool for economic development in Wales; and developing as a strategic partner for businesses.

Some membership organisation participants deemed our priorities as supporting businesses that might find it difficult to access finance provided it made commercial sense. Prioritising growth and innovation were also noted. Some, however, were uncertain what the Bank prioritised when lending or investing.

A range of suggestions were made among membership organisation participants for how we should evolve over the next five years. Examples included: continue the good work we currently do; further enhance our strategic advisory and development role with customers; develop more funds that targeted sectorial requirements; and begin to consider ESG factors when deciding which businesses to lend to or invest in. Spontaneously, some felt we should be prioritising environmental and social factors in this respect.

For intermediaries, top of mind strengths related to market position factors such as our Welsh focus, our willingness to lend where others won't and the variety of funding that we have available. From a brand personality perspective, it was pleasing that membership organisation participants refer to us as being good communicators, engaging, sensible, and always in control.

We have also carried out research with all political parties in Wales and will use this feedback along with the work of Economic Intelligence Wales (EIW) to ensure that we deliver the financial incentives necessary to bring about real, lasting change.

## Economic Intelligence Wales

During the last year, the focus 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 key findings of this work are detailed below:

- following the UK's largest annual economic contraction on record in 2020, the UK economy grew for a third consecutive quarter in 2021 Q4. By February 2022, monthly estimated UK GDP exceeded its pre-pandemic level by 1.5%. However, forecasts for the global and UK economies for 2022 and 2023 have been downgraded
- vacancies in the UK have hit record levels at over 1.2 million by December 2021
- the number of SMEs in Wales declined during 2021. The largest percentage decrease in the number of enterprises was in the micro size band at 2.5%. The number of SMEs in the production sector decreased by 10.2% while the Welsh production index continued to fall over the second half of 2021
- the value of Welsh goods exports has increased by 12.4% to £15.2 billion
- Welsh SME confidence was lower than any other region in the UK in 2021 Q4 and was accompanied by low business investment levels
- bank lending returns to levels last seen prior to the Covid-19 pandemic while the value of Welsh equity investment continues to rise
- the SME Finance Monitor for Wales in 2021 Q4 identified the increasing cost pressures facing SMEs in Wales; 37% of Welsh SME respondents revealed that they had been significantly impacted by increasing costs.

## Events and sponsorship

Working in partnership with the British Business Bank and Business Wales, we brought leading finance figures and business owners together to share their experiences of equity investment at Expanding Horizons with Equity Live. Business owners on a journey to grow, tech start-ups looking for investment, and those looking to buy or sell a business attended a half-day conference that included advice from speakers on pitching, planning, and finding the right investment fit. Succession planning was also on the agenda.

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

## Our environment

COP26 shone a light on Wales's response to climate change and reinforced the need for urgent action to reduce carbon emissions. It also highlighted the opportunities to develop a greener, lower-carbon economy.

Having pledged our support for the Welsh Government's Net Zero Plan, we have set out the ways in which we will continue to deliver on our own internal plans to reach Net Zero as well as utilising Economic Intelligence Wales to explore policy and product recommendations to inform the transition to a low carbon economy.

We've developed our impact investment activity and our broader sustainability agenda. This includes the implementation of a more ESG-focussed investment decision-making process. An ESG steering group has been incorporated, chaired by the Communications Director and with representation from Wales investments, portfolio, strategy and FW Capital teams. Together, they have responsibility for oversight of the ESG strategy, policies, and performance indicators.

The steering group is working on initiatives like incorporating ESG into the value creation plans for the equity portfolio along with a framework for reporting and monitoring. Decarbonisation specialists EgniDa have also been commissioned to undertake an emissions review for the business and advise on a portfolio assessment approach as part of our commitment to decarbonising our own operations.

Other measures introduced to help protect our natural environment and promote sustainable business practice include:

- research amongst customers, stakeholders, and colleagues to inform the development of our brand and corporate communications strategy
- development and publication of sustainability content on our website and social media platforms to promote best practice
- introduction of a salary sacrifice electric vehicle (EV) scheme for colleagues
- use of LG3 and LG7 efficient lighting in our offices.

## Our communities

We remain committed to the 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. As members of Business in the Community (BITC) Cymru, we have also proactively accessed their support as part of our drive to improve our credentials as a responsible business.

Our Board receives regular updates on the Group's community and fund-raising activities through the monthly executive management report. They approve all activity.

We are proud to have raised £7,861.00 for our charity partner, Mind in 2021/22. This was achieved through a variety of fundraising initiatives, including:

- Around the World in 80 Days challenge which saw colleagues walking, running, cycling, swimming, rowing, and horse riding 27,333 miles around the world. This was done as a virtual activity during the initial lockdown period, with colleagues encouraged to log their activity and to share their photos and stories
- wearing bright and cheerful clothes to beat Blue Monday
- 50/50 staff lottery
- participation in the Great North Run and the Virtual London Marathon.

Our support for Mind will continue in 2022/23 so that we have the opportunity to organise in-person fundraising events. These include plans for an inaugural charity golf day, a 24-hour relay race of an 8km course, climbing Snowdon, participation in the Great North Run and charity balls in both Cardiff and Newcastle.

For the seventh year running, colleagues donated Christmas presents to 110 children through the charities NSPCC and Barnardo's. In addition to the Christmas gifts, we also donated several boxes of brand-new baby clothes for young mothers under the care of the NSPCC.

## Our suppliers

We are proud of the strong and beneficial relationships that we have with our suppliers.

We adhere to the Prompt Payment Code, and 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.

The Board received regular updates on the Group's principal procurement activities through the monthly executive management report and policy updates from the Audit and Risk Committee.

## Our shareholder

Our sole shareholder is the Welsh Government. We work closely with elected representatives and senior officials to deliver policy priorities and aspirations as set out in our Term of Government remit letter.

As the 'entrusted' entity through which the Welsh Government places funds for investment and return, we comply with the standards, guidelines, and governance principles applicable to public service organisations that are funded by the Welsh Government.

Our colleagues also 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. There were 320 referrals between our two organisations in 2021/22.

## Our colleagues

Our people are our greatest strength so we have worked hard to create a culture and environment in which our colleagues can thrive and learn. The new fit-out of our Cardiff offices has created a working space that supports our flexible working model and encourages greater collaboration and innovation.

Colleagues are invited to participate in an annual survey which seeks feedback on key aspects of the employee experience such as internal relationships, pay and benefits, training and communication. Executive members of the board have participated in regular all colleague conference calls during the year. The purpose of these calls to provide an update on relevant business issues and also provide the opportunity for colleagues to ask questions.

The Group encourages and supports colleagues to develop their career with 55% of our recruitment drives being filled by internal candidates during 2021/22. A structured career development path for colleagues has been implemented, resulting in six promotions during the year. 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 (3%) and adapts work practices where necessary to support productivity and engagement.

Our training is delivered online and face-to-face in line with our hybrid working policy. We delivered 1,257 days of training during 2021/22. This equates to an average of 4.5 days training per colleague.

We are committed to ensuring a planned approach to provide a healthy, happy work environment. This supports colleagues in maintaining and enhancing their personal health and well-being in work and includes financial awareness, mental health, and physical health. The following well-being initiatives took place during the year:

- weekly communications to all colleagues
- flexible working to support caring responsibilities
- regular well-being seminars on mental and financial well-being
- Medito App to practice relaxation, meditation, and mindfulness
- cycle to work scheme
- exercise classes offered to all
- employee engagement initiatives
- 100 flu jabs were provided to colleagues and a further 70 vouchers were provided
- 10 mental health first aiders trained and available to support colleagues, holding regular well-being sessions for all colleagues
- line manager workshop
- 59 colleagues involved in the 'ice breaker' sessions to encourage keeping in touch with colleague

At the end of this financial year, 9% of our colleagues were from Black, Asian, and Minority Ethnic backgrounds. We were also proud to have maintained Chwarae Teg's Silver FairPlay Employer award for gender equality this year.

# CFO Report

**The purpose of this report is to provide a clear picture of the Group's financial performance for the financial year ended 31 March 2022. Our statements have become increasingly complex and difficult to understand in recent years not only due to the diverse nature of our activities, but also due to the complexities inherent in the accounting standards we have had to apply.**

To provide clarity, and to assist with interpretation we have formatted the report by:

- providing a high-level review of our consolidated Group results;
- 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 year-on-year performance for each activity.

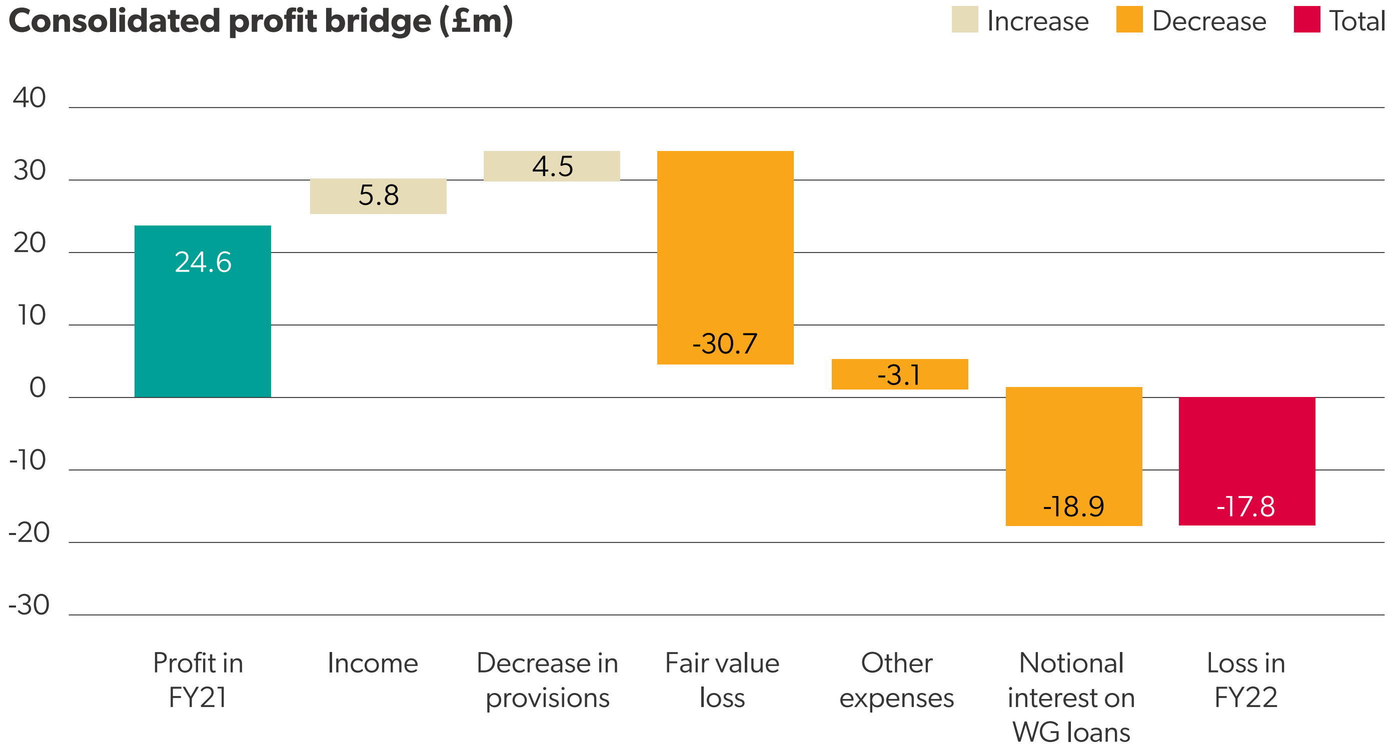
## Our financial year: High-level review

FY22 sees performance moving from a profit before tax of £24.6 million in FY21 to a loss before tax of £17.8 million in the current year. Whilst this appears to be a significant downturn in performance, FY22 has been a successful year in terms of underlying performance. When considering our remit and resulting principal key performance indicators as presented below, we've had a strong year, and our financial performance remains steady in the current economic climate when excluding the impact of the accounting for notional interest on the Welsh Government loans, see below.

| | FY22 | FY21 |
|---|---|---|
| Annual investment (£m) | 109.1 | 105.6 |
| Number of investments | 519 | 402 |
| Private sector investment (£m) | 64 | 60 |
| Number of jobs created or safeguarded | 3,540 | 3,292 |

The movement in performance is broken down at a summarised level in the graph below:

**Consolidated profit bridge (£m)**




## Notional interest on the Welsh Government loans

One of the key contributors to the loss is the £18.9 million movement in notional interest on the Welsh Government loans. This is discussed in more detail in the 'Key accounting issues' section on page 58. In summary, loans from the Welsh Government are issued to the Group at a 0% interest rate. Accounting rules dictate that regardless of this 0% interest rate, we should still recognise an interest charge in our accounts, which is what we describe as 'notional interest'. For clarity, this doesn't represent interest payable by the Group to the Welsh Government, it is an accounting adjustment rather than a cash movement.

Despite the negative impact on our results, the increase in the notional interest charge for FY22 is due to the better-than-expected performance of our CWBLS fund (our emergency Covid–19 response fund), which we deployed in FY21. Lower than expected default rates have resulted in an increase in the expected repayment due to the Welsh Government, resulting in a higher notional interest charge. It's worth noting that since inception of the fund £19.1 million of cash has been repaid by our CWBLS fund customers, representing 21% of funds deployed, far exceeding expectations for this stage of the fund. To date we are unaware of any fraudulent applications in relation to this fund.

**Removing the impact of the WG notional interest reduces the loss by £25.3 million, resulting in an overall group profit of £7.5 million, which is more indicative of the underlying performance of the Group for the reporting period.**

### Fair value loss

The other key contributor to the loss is the reduction in fair value of our investments. This is a combination of realised and unrealised gains and losses on equity investments that the Group directly holds (£21.5 million movement) and the movement in value of the Group's investment in the Wales Life Science Investment Fund (£9.2 million movement).

Equity investments directly held by the Group are held at fair value, which is effectively our best estimate of what the value of the equity should be as at the year-end date. A formal process of equity valuation is followed each year which is overseen by our

Valuations Committee. The methods used to arrive at the fair value of equity is set out in note 19 of the financial statements. This is a highly volatile figure within our financial statements. See 'Key accounting issues' section below for more detail.

Our investment in the Wales Life Sciences Fund is also held at fair value within our financial statements. This Fund is the only fund within our portfolio that is not managed internally by our services business. It is managed by Arix Capital Management ('ACM') via a discretionary fund management contract which means that the performance of individual assets held within the fund are a matter for ACM as the fund manager. As noted in the 'Key accounting issues' section below, the fair value is calculated by taking our share of the net assets of the Limited Partnership that holds the investments. This calculation takes into account the fair value of the investments held by ACM and is subject to the same volatility mentioned above.

## Analysis of the business

The Group's activities can be simplified at a high level by segregating our activities between two primary and distinct areas; the services business and the funds business. The table below sets out the key attributes of each area:

| Services | Funds |
|---|---|
| **Purpose** | |
| Provide fund management services to both our own and third party funds. Services provided cover the life-cycle of our products including investing, ongoing monitoring, collection of repayments and eventual exit or shared equity investments. This part of the business also includes the ongoing operational activities required to support our fund management services such as facilities, IT, finance, communications and HR. All of the activity associated with Angels Invest Wales and Economic Intelligence Wales is also included. | Hold cash for investments - all transactions directly associated with our financial products go through the funds side of the business. The Group has several funds, which are used to proivde loans or purchase shares in businesses in Wales, or provide shared equity to new home buyers in Wales. These funds are in the main managed by the Services Business. |
| **How does each area generate revenue?** | |
| Revenues include fees received for fund management and fund holding services. Such fees are paid for by the funds. | Revenues include fees charged to customers, interest received on loans, receipts when shares are sold or shared equity loans redeemed, and gains or losses on investment which are revalued at the end to their current (fair) value. |
| **What cost does each area incur?** | |
| Costs include: employees, facilities and bought in services (such as IT). | Costs include fees paid for fund management services, provisions for losses on investments and fund operating costs like legal fees or audit fees. |
| **Performance assessment** | |
| An annual review will show whether this part of the group is covering its operational costs. | The duration of each of our funds is diverse and can range from five to 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

The analysis shown in Table A below shows the results of the services and funds business and the overall consolidated Group performance.

The £17.8 million Group loss before taxation (FY21 £24.6 million profit) figure for FY22 includes the £4.8 million (FY22 £4.1 million) profit from the services business and the £24.8 million loss (FY21 £20.5 million profit) from the funds business. The profits and losses 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 loss after tax is analysed between a £20.2 million loss (FY21 £23.6 million profit) attributable to equity shareholders, Welsh Ministers, and a £0.2 million (FY21 £1 million) profit attributable to non-controlling interest. This represents the share of the funds business's profit 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.

| | FY22 | | | FY22 | | |
|---|---|---|---|---|---|---|
| | Services | Funds | Group | Services | Funds | Group |
| | £m | £m | £m | £m | £m | £m |
| Income | 39.8 | 51.3 | 55.6 | 35.0 | 46.0 | 49.8 |
| Provisions released / (made) | 0.0 | 4.8 | 4.8 | 0.0 | 0.3 | 0.3 |
| Changes in fair value | -35.0 | -28.1 | -27.6 | -30.9 | -24.8 | -24.5 |
| Other expenses | 0.0 | -25.3 | -25.3 | 0.0 | 5.4 | 5.4 |
| **Profit/(loss) before WG notional interest** | **4.8** | **2.7** | **7.5** | **4.1** | **26.9** | **31.1** |
| Notional interest on Welsh Government loans | 0.0 | -25.3 | -25.3 | 0.0 | -6.4 | -6.4 |
| **Profit/(loss) after WG notional interest** | **4.8** | **-22.6** | **-17.8** | **4.1** | **20.5** | **24.6** |
| Taxation | 0 | -2.2 | -2.2 | 0.0 | 0.0 | 0.0 |
| **Profit/(loss) post tax** | **4.8** | **-24.8** | **-20.0** | **4.1** | **20.5** | **24.6** |

Table A: High-level analysis of FY22 and FY21 Consolidated income statement

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

## Performance of our service businesses

The services business provides fund management services to both our own and third-party funds. During the year we employed an average of 254 employees (FY21 242) to invest and monitor the funds we manage and provide the support services that wrap around the investment activities.

Our services business is where the operating costs of the Group are incurred, its performance is more stable and easier to predict than the funds business. Fundraising activities also form part of the support activity undertaken by the services business. To ensure ongoing fund availability, the services business continues to look for new opportunities to support the Welsh Government's policy through new fund creation and seeks funding from other sources.

Overall performance has improved year on year, primarily due to the growth in fund management fees, as noted in the table below. The growth in profit supports the sustainability aspirations of the Group.

| | FY22 | FY21 | Commentary |
|---|---|---|---|
| | **£m** | **£m** | |
| Fund management income | 39.8 | 35 | Increase is due to a combination of new Funds under management, the full-year impact of new funds that came under management during FY21, and the impact of top-ups made to existing funds during FY22. These increases have been offset by a reduction in fees in relation to funds moving into their realisation (non-investing) phase. Average group funds under management in FY22 and FY21 including FW Capital, were £2.1 billion and £1.9 billion respectively, an increase of 17%. Average fee income compared to average funds under management remained at 1.9% (FY21 1.9%). |
| **Total revenue** | **39.8** | **35** | |
| Staff costs | -14.9 | -14.4 | Increase is due to increased headcount to support fund delivery. The average number of employees has increased from 242 in FY21 to 254 in FY22. Average cost per employee has fallen from £59,300 to £58,700. |
| Other costs | -20.1 | -16.5 | The 21.5% increase in operating costs is slightly ahead of the 17% increase in funds under management and is primarily due to an additional one-off charge recognised this year in relation to our new loan administration system which is being provided under the software as a service model, necessitating the full implementation fee being charged to the current year income statement rather than spreading this cost over a period of years. We have also incurred an additional £320,000 'notional charge' in relation to our defined benefit pension scheme. Removing these items from the operating costs reduces the year-on-year increase in costs to 13.9%. |
| **Total costs** | **-35** | **-30.9** | |
| **Surplus of income over costs** | **4.8** | **4.1** | |

Table B: Services FY22 and FY21 Income statement analysis

## Services profit and sustainability

It should be noted that the profit noted above is not available for distribution. It is already earmarked as part of the Group's build-up of operating cash reserves and £103 million** contribution requirement between 2024 and 2030 into the Wales Flexible Investment Fund. This profit will be used 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 fund returns and the cumulative profit available from the services business amount to c. £47 million as at 31 March 2022 (£44 million as at 31 March 2021).

## Performance of the services business against Annual operational plan

As shown in Table B, the profit generated by the service businesses increased by £0.7 million (17%) from FY21. A profit of £2.5 million was forecast in the FY22 Annual operational plan. This profit was 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, which is 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 profit 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 profit or loss.

The reported £4.8 million profit noted in Table B above is £2.3 million higher than planned which is attributable to delayed expenditure relating to recruitment and IT infrastructure, both of which are anticipated to flow through into the next financial year.

**It should be noted that £5 million of fund legacy was transferred earlier than planned into the Wales Flexible Investment Fund in FY21 to bridge a shortfall in the fund whilst Welsh Government funds were diverted to the CWBLS Fund, reducing the requirement above from £103 million to £98 million.

## Performance of our funds business

The Group receives funds from investors including the Welsh Ministers, the British Business Bank and the Clwyd Pension Fund and invest those funds in line with guidelines set, collects repayments, and then either repays the investor or reinvests the repayments into new or existing funds (see the Services profit and sustainability section above). The breadth of the funds we offer are outlined on page 13 of the Strategic report. During the year new funding of £99 million was received from the Welsh Government to support their priorities.

The performance in Table C (over page) reflects the combined results of 18 investment funds that the services business manages, the £50 million investment into the Wales Life Science Investment Fund (WLSIF) and the Help to Buy – Wales shared equity loan fund ("HTB-W").

The funds business generated a loss before tax of £22.6 million this year as compared to a profit before tax of £20.5 million in the prior year. As noted in the high-level summary, the main drivers for this movement are the increased notional interest charge in relation to Welsh Government loans and the fair value loss reported on equity assets.

The funds business has performed well in a difficult environment. As outlined above, our headline key performance indicators (value of investments made, businesses supported, private sector investment made alongside our investment, and jobs created and safeguarded) have outperformed FY21. Cash receipts have outperformed prior year as well with a total of £234.3 million cash collected in FY22 (FY21 £136.5 million).

| | FY22 | FY21 | Commentary |
|---|---|---|---|
| | £m | £m | |
| Fees received | 4.3 | 4.0 | Reduced fees in FY21 due to zero fees being charged on the £92 million of CWBLS loans issued in FY21. Current year fees have returned to previous levels. |
| BAU Dividends and interest income | 14.3 | 13.1 | Whilst there has been little movement in the loan book in FY22, interest income has been boosted by the full year impact of interest charging in relation to our CWBLS loan book. There has also been a significant increase in HTB-W customers moving into the interest charging period of their shared-equity loans (which commences in year 6). The number of interest paying customers has increased from 1,103 in FY21 to 1,721 in FY22, a 56% increase. This has been offset by a reduction in interest charges for our property portfolio which saw significant repayments in FY22. £55.8 million of funds were repaid in FY22, an increase of 88% (FY21 cash receipts of £29.7 million). Average interest rates have remained broadly consistent at 7% (FY21 7.1%). |
| Notional interest on CWBLS loans | 4.0 | 4.6 | This balance represents the additional notional interest that would have been charged if the CWBLS loans had been issued at market rates. The balance reduces each year as a result of repayments made. See additional commentary below. |
| **Total dividends and interest income** | **18.3** | **17.7** | |
| ERDF Grant release | 27.6 | 23.2 | The movement is due to the dealflow for Wales Business fund almost exclusively being financed by European Regional Development Fund ('ERDF') monies during FY22, whereas in the prior year dealflow was also partly financed by WG Financial Transaction Reserve. |
| Net Treasury excl notional Welsh Government loan interest | 1.1 | 1.1 | No significant movement year-on-year, whilst activity has been consistent counterparties have been slow to pass on interest rate increases. |
| **HTB-W Fair value changes:** | | | |
| Realised gain on disposal | 11.1 | 4.0 | The movement can be attributed to several factors including the size and maturity of the book as well as house price inflation. The number of redemptions increased by 70% in FY22 from 948 to 1,609. Alongside the growth in redemptions, the average gain on redemption has also increased, from £6,920 to £4,228, an increase of 64%. |
| Unrealised fair value Gain/(loss) in year | 4.2 | 31.3 | Please see commentary below. |
| Increase /decrease in amount owed to principal shareholder | -15.3 | -35.3 | This is the sum of the above realised and unrealised gains and (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** | **0.0** | |
| **Total net income** | **51.3** | **46.0** | |

Table C: Funds FY22 and FY21 Income Statement analysis continued over page

Table C: Funds FY22 and FY21 Income Statement analysis continued

| | FY22 | FY21 | Commentary |
|---|---|---|---|
| | **£m** | **£m** | |
| Fund management fees paid | -26.2 | -23.1 | The increase is reflective of additional funds under management in FY22. |
| Other costs | -1.9 | -1.7 | |
| **Sub total costs** | **-28.1** | **-24.8** | |
| Provisions made | 4.8 | 0.3 | See comments below |
| Non-consolidated fund fair value gain / (loss) | -8.9 | 0.3 | This loss (FY21 gain) represents the movement in the fair value of the original £50 million investment into the Wales Life Sciences Investment Fund. See comments below. |
| Other fair value gain / (loss) | -16.4 | 5.1 | See comments below |
| Notional interest of WG loans | -25.3 | -6.4 | The movement here is due to the better-than-expected performance of the £92 million CWBLS fund. To date, fund returns have far exceeded original fund models. This has had a significant impact on the anticipated repayment to WG and as a result, on the notional interest payable. See further comments on the background of this below. |
| **Total costs** | **-73.9** | **-25.5** | |
| **Surplus / (deficit)** | **-22.6** | **20.5** | |
| Taxation | -2.2 | 0.0 | A tax liability has arisen as a result of historic movements on WG loans following the restatement of balances in the FY21 financial statements. |
| **Surplus / (deficit) after tax** | **-24.8** | **20.5** | |

Table C: Funds FY22 and FY21 Income Statement analysis

**David Staziker**

Chief Financial Officer

19 August 2022

# Key accounting issues

## European Regional Development Fund ('ERDF') grant release

One of our largest funds, the Wales Business Fund, is funded via ERDF grant funding of £174 million, which was invested alongside Welsh Government funding. 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. We can continue to spend this grant funding until 31 December 2023.

## 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 size of the loan book has remained consistent however reductions in the expected probability of default have fallen for the majority of classes resulting in a reduction in the provision in absolute terms as well as a percentage of the book and a credit of £4.8 million being recognised in the Income statement (FY21: credit of £0.3 million). Further analysis on our loss provisions can be found in Notes 3 and 4.

Given the current economic climate, there is a risk that the reductions in provision levels seen this year may reverse next year.

## Other fair value losses/ gains

Under IFRS 9 changes in the fair value of equity investments are shown in the income statement. This leads to volatility in the Group's reported results, as demonstrated in the comparative figures above, depending on how the valuations of these equity assets changes. The main reason for the £21.5 million reduction this year is the reduction in the value of AIM listed assets which are valued in line with their share price, resulting in a reduction in value of £21.3 million. This reduction is offset by a net increase in valuations across the unlisted portfolio during FY22 which gives a net fair value loss of £16.4 million (FY21 net gain of £5.1 million).

## 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 £50 million investment in this fund, £20.4 million had been repaid as at 31 March 2022 (FY21 £20.4 million). The fair value of the outstanding investment as at 31 March 2022 was £2.6 million, which is a £8.9 million reduction from the FY21 valuation. This is principally the result of a reduction in the assessment of the fair value of the assets held in the fund at the year-end, from £13.6 million in FY21 to £9.2 million in FY22.

In early June 2022 one of the Life Science Fund's investments announced their intention to liquidate the company. Having reviewed the evidence available to us, we have concluded that this is an adjusting balance sheet event. Please see note 19 for further details.

## 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 the shared equity assets in our HTB-W book. The model used to arrive at the unrealised fair value of this book is highly sensitive to changes in the house price index and the discount rate used in the calculation. The net £15.3 million unrealised gain transferred to Welsh Minsters in FY22 (FY21: £35.3 million gain) is primarily the result of an increase in the discount rate used in the FY22 calculation. The discount rate is influenced by recent changes in interest rates and has increased from 1.7% in FY21 to 3.1% in FY22, resulting in reduced gains. As in previous years, a cautious approach to house price movements has been adopted, which assumes that the recent boom in the UK Housing market will not be sustained. It also assumes that affordability is stretched and that borrowers are potentially facing the first sustained rise in mortgage costs since the global financial crisis. We may continue to see future volatility in gains and losses 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 £10 million investment into the Wales Management Succession Fund by Clwyd Pension Fund, of which £5.5 million has been drawn down and invested and £2.0 million repaid by the fund as at 31 March 2021 (FY21 £3.5 million invested with £1.6 million repaid) is the first external equity investment made into one of the Group's Funds. It matches £10 million of funding from Welsh Ministers and £5 million 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 £92 million 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 £72 million and a Consolidated Income Statement charge of £20 million for the grant which has been effectively given out to businesses.

This position is mirrored in the accounting treatment for the corresponding Welsh Government loan i.e. the £92 million is split into a grant of £20 million which is credited to the Consolidated income statement in line with the timing of investment and £72 million which is accounted for in line with Welsh Government (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 £92 million 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 million (FY21 £4.6 million).

## Treatment for Welsh Government loans

In recent years, the Welsh Government ('WG') have increasingly provided funding to the Group via 0% interest loans. Up until FY21 these loans had been recognised in line with their cashflows – i.e., recognising a liability equal to the cash received and no interest charge through the income statement. This approach is more intuitive and easier to understand for readers of the financial statements.

As noted in the high-level summary above, the accounting rules which we have had to apply dictate that regardless of the 0% interest rate, we should still recognise a charge in our accounts to reflect what the interest rate would have been had an appropriate rate of interest been charged from the start of the loan. This is what we describe as 'notional interest'. For clarity, this doesn't represent interest physically payable by the Group to WG, it is an accounting adjustment rather than a cash movement.

The impact of this change is material on both the Consolidated income statement and balance sheet, increasing the notional interest charge, and increasing our Public Equity reserves. 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 charged in the Consolidated income statement calculated using the initial discount rate and the liability unwinds to match the cashflows on the loan.

If the previous accounting treatment was still being followed, Table A indicates that the Development Bank would be showing a profit of £12.5 million in FY22 £30.1 million higher than the reported profit before tax (FY21 profit of £31 million, £6.4 million higher than the reported amount).

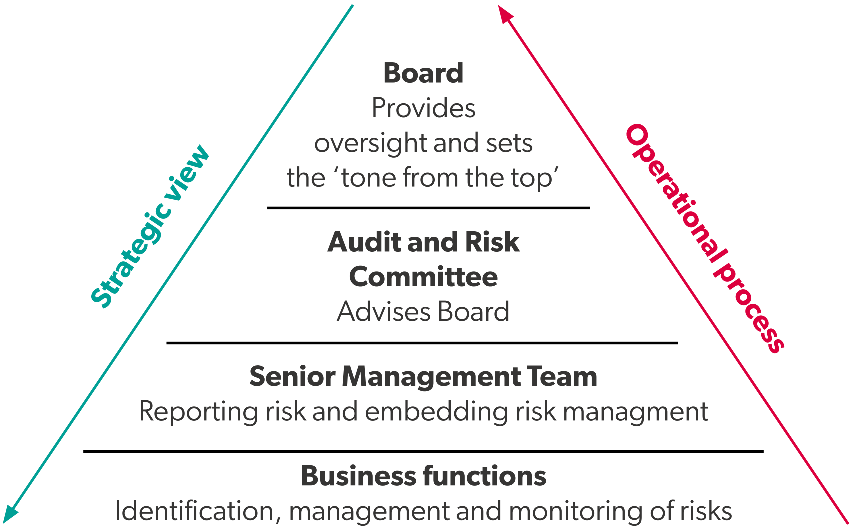
Similarly, the balance sheet would show Net Assets/ Total Equity of £150.5 million as at 31 March 2022, £182 million lower than the reported amount (£137.1 million as at 31 March 2021, £209.5 million lower than the reported amount).

# Risk management and internal controls

The Development Bank of Wales Group (the Group) operates a straightforward business model, delivering generally uncomplicated products and services, albeit that the range of products and services provided continues to expand. The Group 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 credit risk than commercial providers of finance are typically prepared to tolerate.

Our Risk management framework has been designed to align to the size, scale and complexity of the Group. 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.

The Development Bank of Wales plc does not hold regulatory capital and is not authorised or regulated by the Financial Conduct Authority (FCA) or the Prudential Regulatory Authority (PRA). However three of our subsidiaries with assets representing less than 2% of the portfolio are regulated by the Financial Conduct Agency. We have Group-wide policies and procedures in place designed to ensure compliance with applicable laws and regulations, including FCA Senior Management Arrangements, Financial Crime, Anti-Bribery and Corruption, Anti-Fraud, Whistleblowing, Data Protection Regulation and the Freedom of Information Act, and Anti Money Laundering. We aspire to follow good practice where appropriate and applicable.




## Role of the Board

The Board's role is to ensure the Group has a 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 accountability and responsibility for the management of risk within the Group. The Board is supported by the Audit and Risk Committee in discharging this responsibility (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.

## 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, Conduct, 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

## 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".

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.

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 2022 the Board ascribed a tolerance to each category as follows:

| Enterprise Risk Category | Risk Tolerance |
|---|---|
| Compliance | Negligible |
| Conduct | Low |
| 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 indentified in the year**

There are four risk ratings:

- Negligible
- Low
- Moderate
- 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.

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

| Risks | How we are managing the risks |
|---|---|
| DBW's purpose is to provide products that fill the gap between the needs of our customers and what the market will provide. Accordingly, failing to listen to our customers could lead to reduced demand for our products, making DBW a less impactful part of the economic development ecosystem.<br><br>As a responsible lender, DBW is acutely aware of the need to be responsive to the shifting economic climate and the additional challenges that high inflation, increased interest rates, low economic growth and geopolitical uncertainty bring.<br><br>An unsympathetic approach could lead to higher defaults and lower fund returns and impact adversely on our reputation.<br><br>**Area of risk: INTERFACE & CONDUCT**<br><br>**Risk tolerance: Low**<br><br>**Pre-control rating: High** | The Group is averse to conduct that could have a detrimental impact on its customers or displace competition within the wider financial market.<br><br>DBW acts clearly and effectively to maintain the exacting standards of professional conduct and behaviour it expects of its colleagues. This is enabled through:<br><br>– Proactive engagement with our target markets and stakeholders through a variety of media channels.<br>– Customer satisfaction monitoring through surveys and feedback.<br>– Due diligence on new and existing delivery partners and their performance against contractual requirements and Service Level Agreements.<br>– Complaints monitoring.<br>– A comprehensive suite of training resources.<br><br>**Post-control rating: Low** |

## Failure to deliver the Group's business case and commitments and/or poor alignment/engagement with our stakeholder.

| Risks | How we are managing the risks |
|---|---|
| Failure to deliver the business case commitments would cause reputational damage and may impact alignment and engagement with Welsh Government on new funding initiatives.<br><br>Opportunities to win new funds to address market failure may be lost.<br><br>The Bank has undergone a period of rapid growth which coupled with the long-term impact of Covid–19 on working practices presents challenges to the ongoing delivery of stretching targets.<br><br>**Area of risk: STRATEGIC**<br><br>**Risk tolerance: Low**<br><br>**Pre-control rating: High** | The delivery of the Group's business case relies on a robust governance model with clearly defined objectives. Tracking of the Group's core business performance is supported by a comprehensive suite of management information.<br><br>Strategic initiatives are managed through the appointment of project teams, led by senior management, with clearly defined outputs and close monitoring of progress by our Change Management Office.<br><br>Board members and our shareholder receive regular performance updates in respect of both core business and project work and there is regular review of our Principal Risks.<br><br>We are in close contact with our shareholder's engagement team, other Welsh Government departments and other stakeholders concerning new fund initiatives.<br><br>**Post-control rating: Low** |

## Failure to optimise operational resilience and effectiveness in managing change.

| Risks | How we are managing the risks |
|---|---|
| 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.<br><br>The risk that the business takes on too much change or inadequately manages current change programmes.<br><br>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.<br><br>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.<br><br>**Area of risk: OPERATIONAL**<br><br>**Risk tolerance: Low**<br><br>**Pre-control rating: High** | Security and resilience embedded through the increasing use of Cloud services for our IT estate and applications. Additionally, Business Continuity plans are in place and we run incident scenario exercises.<br><br>A Project Management Office (PMO) is in place to provide oversight and governance to strategic change. A change function (CMO) has been established to manage the growth of the organisation.<br><br>Comprehensive policies and procedures are available to all colleagues on our intranet. Our Compliance team undertakes regular file reviews to ensure a consistent approach. Results are shared with senior management and staff have quality targets embedded in their annual performance objectives.<br><br>**Post-control rating: Significant** |

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

| Risks | How we are managing the risks |
|---|---|
| The long-term continuity of the Development Bank is to a large extent dependent on the continued willingness of Welsh Government to provide funds to invest.<br><br>Whilst new fund and product opportunities are continuously being explored there is a risk that failure to capitalise on these will threaten the long-term viability of the business.<br><br>There is a risk of failure to deliver current or future funds due to detrimental impact on portfolio management requirements and likelihood/scale/timing of further funds from Welsh Government coupled with increased portfolio size due to CWBLS delivery.<br><br>**Area of risk: FUNDING**<br><br>**Risk tolerance: Negligible**<br><br>**Pre-control rating: High** | 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 innovative fund proposals to address market failure, such as with the recently launched Leaseholder Support Scheme.<br><br>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 closely fund performance and delivery of the key performance indicators associated with them.<br><br>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. For example we are working with Welsh Government to deliver a range of funds aligned to the decarbonisation agenda.<br><br>Our diligent stewardship of existing funds under management seeks to maximise returns to contribute to future fund requirements.<br><br>**Post-control rating: Negligible** |

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

| Risks | How we are managing the risks |
|---|---|
| Cyber risk results from IT and communication system(s) failure due to compromise through malicious activity or unintentional user error.<br><br>Cyber risk is becoming increasingly more prevalent in the financial services sector as institutions become more reliant on technology and data. Additionally, the current political climate and international conflict raise this risk further.<br><br>The Group's IT estate needs to 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.<br><br>**Area of risk: OPERATIONAL**<br><br>**Risk tolerance: Low**<br><br>**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.<br><br>Penetration Tests are carried out annually or at any point of significant change. Specialist third party advice is sought where appropriate.<br><br>IT support is outsourced to a range of specialist third party suppliers, all of whom are subject to contractually enforceable Service Level Agreements.<br><br>IT procedures are detailed in our Information Security Policy.<br><br>Online security and cyber awareness training is delivered on a continuing basis and is mandatory across the Group.<br><br>We hold the Cyber Essentials Plus governance accreditation and IASME certification.<br><br>**Post-control rating: Significant** |

## Failure to comply with legal and regulatory requirements.

| Risks | How we are managing the risks |
|---|---|
| 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.<br><br>Breach of these regulations would damage the Group's brand and reputation and could result in fines or other sanctions, including legal action, which could impede the Group's ability to operate or raise further funds.<br><br>**Area of risk: COMPLIANCE**<br><br>**Risk tolerance: Negligible**<br><br>**Pre-control rating: High** | We are committed to a high level of compliance with relevant legislation and regulation, internal policies, and corporate governance principles.<br><br>We have a comprehensive suite of detailed policies and procedures to direct governance supported by a diverse range of mandatory training for all colleagues.<br><br>New customer onboarding due diligence, e.g. KYC, Sanctions screening etc.<br><br>Ongoing customer due diligence. Suspicious activity reporting procedure.<br><br>The Compliance Team undertakes file sampling activity, the results of which are reported to senior management.<br><br>Our independent internal auditors provide assurance on the design and effectiveness of internal controls across the Group, reporting to the Audit and Risk Committee. They have delivered the internal audit plan and have categorised the Group's risk management and control processes as "Generally satisfactory with some improvements required."<br><br>**Post-control rating: Low** |

## Failure to meet fund performance objectives.

| Risks | How we are managing the risks |
|---|---|
| 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.<br><br>There is an ongoing risk of adverse implications on fund performance (both in terms of demand for funds and default rates) due to the long-term impact of Covid–19 and the current challenging economic climate of high inflation, increasing interest rates and fragile business and consumer confidence.<br><br>These risks may translate into DBW funds generating fewer jobs or lower levels of private sector co-investment.<br><br>There is a risk that impairments exceed anticipated default rates, leading to failure to repay Financial Transaction Capital to Welsh Government, or funds to other stakeholders on time or in full.<br><br>**Area of risk: INVESTMENT MANDATE**<br><br>**Risk tolerance: Low**<br><br>**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.<br><br>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.<br><br>We have strengthened our specialist Portfolio Risk Team in anticipation of more businesses experiencing stress or distress due to the challenging economic climate. The Portfolio Risk Team work closely with businesses to provide tailored support packages, such as forbearance, wherever possible.<br><br>**Post-control rating: Low** |

## Managing organisational growth and change, and failure to recruit, develop, motivate and retain appropriately skilled and experienced colleagues.

| Risks | How we are managing the risks |
|---|---|
| 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.<br><br>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.<br><br>The disruption to working patterns caused by Covid–19 threatens the culture of many businesses and can impact morale.<br><br>**Area of risk: OPERATIONAL**<br><br>**Risk tolerance: Low**<br><br>**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.<br><br>The Group encourages staff development and a range of training options are available.<br><br>Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year.<br><br>Home working has many benefits, such as improved work/life balance and greater flexibility contributing to improved productivity. However, we are acutely aware of the sense of isolation and being “always on” that can also result. It is for these reasons that we have transitioned to a hybrid working model and most colleagues now choose to split their working time between home and the office.<br><br>**Post-control rating: Low** |

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

| Risks | How we are managing the risks |
|---|---|
| There is a risk that the Group does not procure, contract with or manage its third-party suppliers effectively. 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 those suppliers are operating in accordance with other relevant regulations, such as GDPR. Failure to do so could result in the appointment of unsuitable providers, reputational damage, unbudgeted costs, fines and the need to repeat procurement exercises.<br><br>**Area of risk: INTERFACE**<br>**Risk tolerance: Low**<br>**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.<br>Internal policies and procedures are regularly reviewed and updated to ensure that regulatory requirements are satisfied.<br>Due diligence is 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 any specific risks related to the suppliers.<br>Ongoing suppliers are risk rated and periodically reviewed.<br><br>**Post-control rating: Significant** |

## Failing to have sufficient focus on the Environmental, Social and Governance aspects of our activities.

| Risks | How we are managing the risks |
|---|---|
| The enhanced focus on climate change, the transition to a Net Zero economy from society, our regulators and the financial and public sector have led to the emergence of new and increasing risks in this important area.<br>Rightly, funders are facing increased scrutiny on climate and broader ESG-related issues. Accordingly, we face reputational risks if we fail to articulate our commitment to the transition to a low carbon economy, to protect biodiversity and human rights.<br>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.<br>In addition, reputational damage may arise from funding industries or businesses in some sectors, or where the environmental, social and/or governance credentials of an investee business are poor or not perceived to be in support of the social or environmental agenda.<br>Failure to develop the Group's operational commitment to the ESG agenda may result in the Group losing relevance as a responsible employer, leading to higher staff turnover.<br>Failure to identify, support and promote the ESG credentials of portfolio businesses could result in future fund management opportunities being missed.<br><br>**Area of risk: STRATEGIC**<br>**Risk tolerance: Low**<br>**Pre-control rating: High** | DBW is committed to managing its business activities and operations in a sustainable manner. 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.<br>We recognise that ESG considerations go beyond our established impact measures and ESG considerations are built into policies, procedures and Key Risk Indicators.<br>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.<br>The annual review of the Group's compliance with the UK Corporate Governance Code is reviewed by the Board and identifies areas for improvement.<br><br>**Post-control rating: Moderate** |

## 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.

As we emerge from the pandemic the extent to which periodic increases in the prevalence of Covid-19 will continue to impact the UK and global economy, particularly during the winter months, remain to be seen. In the meantime, as we expected, the run off of the extensive economic support measures implemented by central and devolved government has been the precursor to an increase in the number of portfolio businesses that are showing signs of stress and distress.

Adding the Russian invasion of Ukraine into the mix, the business community and consumers alike now face an economic landscape of high inflation and increasing interest rates that has not been seen for a generation or more. There will undoubtedly be knock on implications for the Bank's loan and investment portfolio in the form of provisioning for bad and doubtful debts and the fair value of equity investments.

This risk continues to be mitigated by our proactive approach to portfolio management and our willingness to adopt a pragmatic and patient stance with our customers, for example through forbearance in respect of loan repayments where appropriate. Moreover, in anticipation of the expected consequences of the withdrawal of government Covid–19 resilience measures, the Bank has formed a Recovery Support Group. The Group comprises a cohort of experienced finance professionals and is equipped with the skills to help businesses in difficulty to navigate the economic uncertainty.

The physical risks associated with climate change in the form, for example, of weather related events continue to pose a threat to businesses, as do the development of disruptive technology as the UK transitions to a low carbon economy. The Bank's work to embed climate change risk in its risk management framework continues, whether as a key consideration when presented with new funding requests or as part or our proactive approach to portfolio management.

The threats of cyber-crime, data security breaches and denial of IT service remain a principal risk to the successful delivery of the Bank's strategic plan. Our Cloud first strategy mitigates this risk to some extent but there is no room for complacency. We will continue to work with trusted suppliers and advisers to mitigate this risk through the deployment of new products and services and by ensuring that we are well prepared to deal with the impact of cyber incidents.

Of course, effective cyber resilience requires the systems and processes of suppliers to be robust in the face of attack. We are developing our approach to the monitoring and audit of our suppliers accordingly.

## 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

The compliance function provides assurance and oversight to the business in the form of Policy management, Anti-Money Laundering and GDPR support, as well as operating a Quality Assurance framework to support risk and compliance management.

Quality Assurance applies a risk-based approach and monitors compliance of investment related activity to established policies and procedures. Risk assessments are updated regularly based on Quality Assurance outcomes and cognisant of emergent risks or policy changes, perhaps as a result of changes to the regulatory landscape. The risk assessment process includes consideration of the skills and experience of investment staff, product risk, process risk and regulatory and legal requirements. The Quality Assurance function carries out regular file sampling activity, focused deep dive reviews and controls testing. Detailed findings are reported back to operational teams monthly with feedback covering any remediation actions and recommendations for process improvement. Recurring findings are subject to root cause analysis carried out in conjunction with the operational team.

The results of Quality Assurance sampling and deep dive reviews are reported to operational teams' management on a quarterly basis. The Senior Management Team and Audit and Risk Committee receive 6 monthly overviews of compliance and Quality Assurance activity. Reporting includes summary Quality Assurance data, key findings, recommendations, and time-bound actions.

The Compliance Team provides investment teams with specialist advisory support in respect of Anti-Money Laundering, including PEP/SIP reviews, simplified and enhanced due diligence reviews and general support for customer due diligence queries.

### 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.

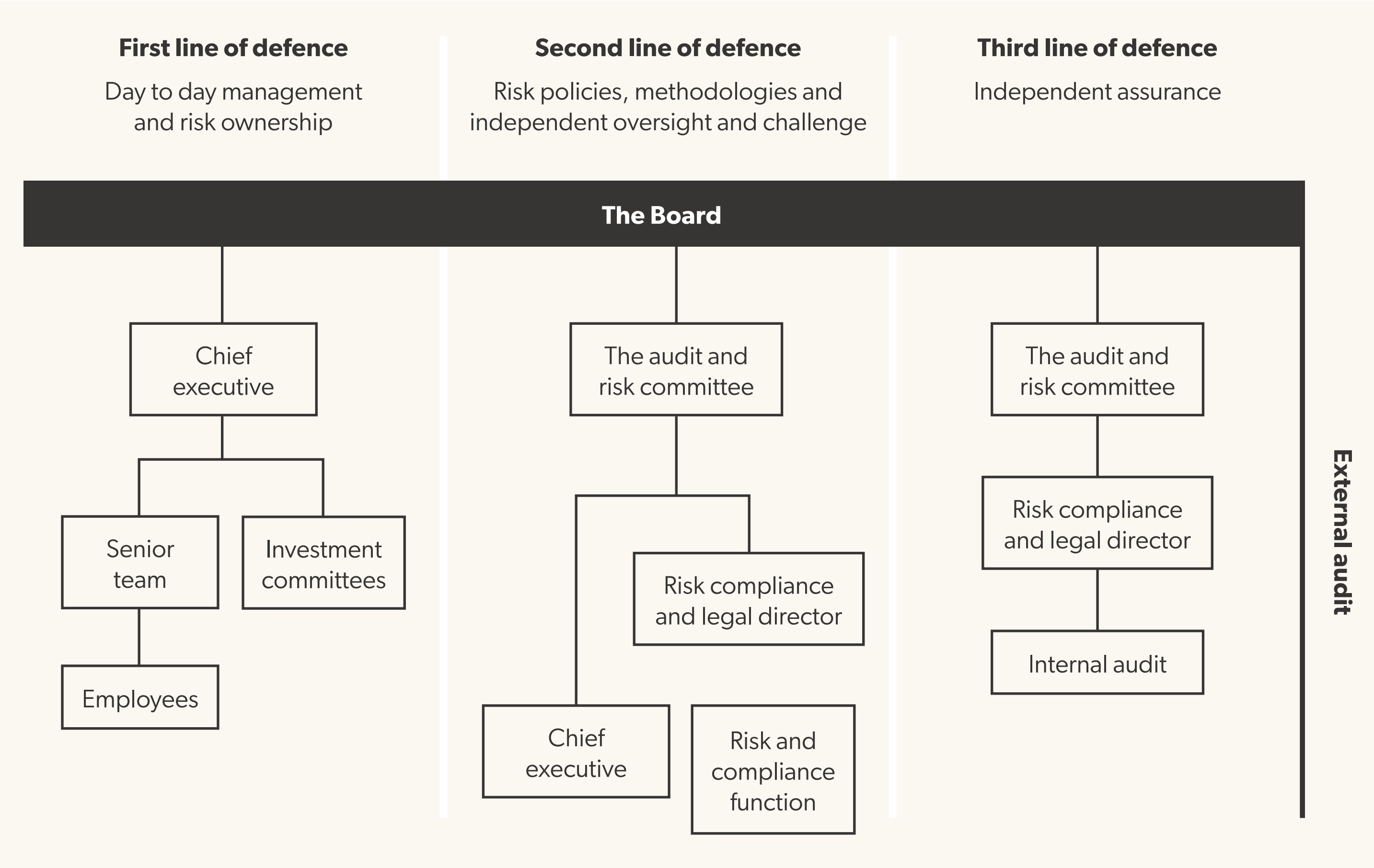
Our independent internal auditors have delivered the internal audit plan and have categorised the Group's risk management and control processes as "Generally satisfactory with some improvements required."

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 a qualified opinion in respect of the eligibility of a small number of loans made by the Wales Business Fund. The Group worked closely with colleagues at EFAT and the Wales European Funding Office to ensure that the issue was promptly addressed to the satisfaction of EFAT.




**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.

**Neil Maguinness**

Risk, Compliance and Legal Director
19 August 2022

# Governance

# Governance

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

In this section of the Annual report, we explain how the Governance and Risk management framework supports the achievement of the Group's objectives.

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:<br>Nominations, Audit and Risk and Remuneration.<br>It also records Board/Committee attendance and other operational information. |
| Risk management and internal control<br>**(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 2022.

The following information required by the Companies Act 2006 can be found in the following sections of the Annual report;

1. Details of the Group's objectives, future developments and significant events since the balance sheet date are included in the Strategic report;
2. The Group's risk management disclosures are set out in the Strategic Report on pages 60 - 70;
3. Information about the use of financial instruments by the Group is given in Note 19 to the financial statements;
4. The Group's capital structure is discussed in Note 20 to the financial statements.

The principal activity of the Group is carried out in Wales and the North East and North West of England.

## Dividends

The Directors do not recommend payment of a dividend (2021: £nil).

## Our Board

Our Board has a crucial role to play in ensuring that we achieve our strategy and the strategic objectives set out in the Welsh Government's remit letter.

During the year the following individuals served as directors. Two new directors were appointed from 1 March 2022*, and Margaret Llewellyn OBE resigned as an NED of the Board on 31 August 2021. The rules for the appointment and removal of directors are set out in the Corporate governance statement found on pages 84 - 85.

| Name | 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 2025 |
| Carol Bell | Non-Executive Director | Oct 2014 | Sept 2017 | Sept 2020 | Sept 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 2025 |
| 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 |
| Dianne Walker* | Non-Executive Director | Mar 2022 | Mar 2025 | n/a | n/a |
| Iestyn Evans* | Non-Executive Director | Mar 2022 | Mar 2025 | n/a | n/a |

# Our directors

**Gareth Bullock**

Chair

Gareth is Chair of the Development Bank of Wales Board and 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 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.

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.

**Iraj Amiri**

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

Iraj is a pioneer in the governance and assurance field, combining detailed and authoritative knowledge of the subject with its practical application. He is a recognised global expert and authority on internal audit and assurance. For many years, he was a regular speaker at internal audit conferences around the world.

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. A fellow of the ICAEW, he developed the enterprise risk service line for Deloitte, where he was a senior 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), and 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.

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

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.

## 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.

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 & Wales.

## Huw Morgan

Non-Executive Director
(Senior Independent Director)

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

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

## Roger Jeynes

Non-Executive Director

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

## 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.

## Rhys Jones

Non-Executive Director

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

He is the Commercial Officer of SportPursuit, a member only, sports focused online retailer with 9 million members across the UK and Europe.

A native Welsh speaker, Rhys has a 1st class Engineering Masters degree from Oxford University.

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

## 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.

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.

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

**Kate Methuen-Ley**

Non-Executive Director

Kate is an experienced entrepreneur, adviser, and business management consultant. She uses her skills to support, mentor and add value to businesses throughout their start-up and scale-up journeys. Kate works with leaders to focus teams on strategy, structure, process, culture and more - allowing them to build the foundations they need to grow.

After a successful 15-year marketing career, in well-known corporates and regional businesses across a variety of sectors, Kate consolidated her experience and love for a challenge by founding the joint venture partnership for Danish high street retailer Flying Tiger Copenhagen – introducing the popular brand to the UK with shops in Wales and Bristol. After five years, launching eight different branches and with +£5 million turnover, and over 120 team members - she and her business partner successfully exited the company in 2018.

Kate also has experience as a member of advisory boards, and NED experience in both the social enterprise sector and commercial sector. She provides mentoring for tech start-ups at the Alacrity Foundation and manages the Welsh Government Export Cluster Programme for Technology Businesses.

Kate grew up in Risca and gained a BA(Hons) from Swansea University in French and Spanish. She also holds an MSc in Strategic Marketing from Cardiff University.

**Rob Lamb**

Non-Executive Director

Rob is a digital entrepreneur and experienced senior leader in the global investment industry, with proven expertise in business development and long-term investment decision making.

Rob is a co-founder of Hedgehog, the app that makes it easy for individuals to invest in real-world assets, such as commercial real estate and renewable energy.

Rob is also a non-executive director of the social impact investment consultancy Expectation State and FairPlay Trading, the commercial arm of Wales's gender equality charity Chwarae Teg.

Before life as an entrepreneur, Rob spent 10 years at Partners Group, one of the world's largest asset managers focused on investments in private markets. During his time at the firm, Rob worked in London, Zurich, San Francisco and Dubai.

A native Welsh speaker, Rob is also a graduate of Cardiff University.

## Dianne Walker, FCA

Non-Executive Director

Dianne is an award-winning non-executive director, with decades of expertise in main board roles and providing trusted advice to public and private entities alike.

Born and raised in North Wales, Dianne Walker brings more than 30 years' experience in finance and board advisory roles.

Dianne previously worked in the senior management team of PricewaterhouseCoopers in Manchester, providing guidance to a broad portfolio of clients.

**She has since been a trusted adviser to a wide variety of businesses, from multi-national PLCs to employee-owned and owner-managed businesses.**

Combining a portfolio of main board roles, Dianne is currently also Chair of the Audit and Risk Committee at Inspired plc, and senior independent non-executive director of Scott Bader Group. She was also recently awarded a Sunday Times Non-Executive Director of the Year Award.

Dianne is Chair of J&L Elevator Components Ltd, an employee-owned business based in St Asaph, and NED at Cygnet Texkimp, a family-owned engineering business in Cheshire. Until recently, she also served as non-executive member of the North Wales Police Joint Audit Committee.

In addition to her professional responsibilities, Dianne plays a prominent role in several voluntary and community projects in Cheshire, where she lives with her family.

She holds a first-class honours degree in economics, accounting and financial management.

## Iestyn Evans

Non-Executive Director

Iestyn has a strong track record of working at global financial groups alongside CEOs and others to build performance within businesses, with his keen sense of judgement and focus on improvement.

Iestyn has more than two decades' experience in the world of finance and banking.

Born in Talgarth, Powys, and raised in the South Wales valleys, he studied History at Aberystwyth University before commencing his career with Deloitte in the late 90s.

He has held senior roles with employers including Lloyds Banking Group (LBG), Virgin Money, Omni Partners, Amicus PLC and Monument as well as a range of roles at main board level, including chief finance officer, chief operating officer and executive director positions.

Outside of his board roles, Iestyn has volunteered his time and expertise to help fundraise for charities supporting people with autism.

**He led on major changes and performance improvements during his time as Head of Finance Change and Head of Finance at LBG during the early 2010s.**

# Responsibilities of the directors

## The following should be read in conjunction with the responsibilities of the auditor set out in their report on pages 97 - 105. 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 Group and Parent Company 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 pages 74 - 79 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, the UK's exit from the European Union and the impact of Russian forces entering Ukraine, 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,the North East and North 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 hybrid working 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 five-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, the UK's exit from the European Union and the impact of Russian forces entering Ukraine. 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 years 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 43.

## Political donations

The Group made no political donations during 2022 (2021: £nil).

## Gifts and hospitality

No gifts were made by the Group. The cumulative value of gifts and hospitality received by staff was less than £10,000 during 2022 (2021 less than £20,000).

## Severance payments

The cumulative severance payments made in the year by the Group was less than £300,000 (2021 less than £300,000).

## Loan losses/losses disposal of equity disclosure

Loan write-offs of £2,892,903 were made by the Group during the year (2021 £1,863,132).

## Directors' 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 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

During the year, we undertook a procurement exercise to appoint new external auditors. Following this procurement exercise, we were pleased to appoint Mazars as our auditors for the 31 March 2022 year-end. Mazars were formally appointed on 2 February 2022 to fill a casual vacancy until the members of the company pass a resolution to appoint them as auditors as part of the Annual General Meeting due to take place in September 2022.

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

Judi Oates

**Judi Oates**
Company Secretary
19 August 2022

# 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.

Whilst we have not formally adopted the requirements of the UK Corporate Governance Code 2018 ('the Code'), the Directors recognise the importance of sound corporate governance. During FY22, 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 Code.

It was found that the Group complies with most requirements of the Code applicable to large and/or listed entities, with the exception of:

- Board engagement with the workforce – Provision 5 of the Code.
- The annual report of the Nominations Committee does not provide the level of detail prescribed by Provision 23 of the Code, for example with regards to gender balance of the Senior Management Team and their direct reports.
- The annual report of the Remuneration Committee does not provide the level of detail prescribed by Provision 41 of the Code, for example regarding transparency around remuneration policy and pay gaps.

The Group will be seeking to address the deficiencies outlined above during 2022/23 and will be publishing its gender pay gap report on the Group website in the coming months. With the relaxation of restrictions in relation to Covid 19, we will also be resuming Board engagement with colleagues. This will commence with an informal breakfast at our headquarters in Wrexham for our September Board meeting. We will also be resuming our 'lunch with the Chairman' for individuals identified as star performers during our annual appraisal process, providing recognition to colleagues who have gone above and beyond the requirements of their role.

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.

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.

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.

## Director election

At a meeting of the Nominations Committee on 2 February 2022, it was agreed that Dianne Walker and Iestyn Evans be appointed as new Non-Executive Directors effective 1 March 2022.

## 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

## Committee purpose and responsibilities

The Audit and Risk Committee has primary responsibility for ensuring the integrity of the Group's financial statements and the effectiveness of its risk management framework and internal controls.

The Committee also has responsibility for the management of 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 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 controls.

## Membership composition, skills and meetings

Our Audit and Risk Committee comprises four non-executive directors:

- Iraj Amiri (Chair)
- Huw Morgan
- Dianne Walker
- Iestyn Evans

The composition of the Committee was altered during the year with Margaret Llewellyn OBE and Rob Lamb resigning from the Committee on 31 August 2021 and 1 March 2022 respectively. Dianne Walker and Iestyn Evans were appointed as their successors on 1 March 2022. Dianne and Iestyn both have strong accounting backgrounds and provide significant additional strength and expertise to the Committee.

The Audit and Risk Committee met six times during 21/22. 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.

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

| Report/Statement | Purpose |
| --- | --- |
| Financial reporting | 1. Monitor integrity of the financial statements and review critical accounting policies<br>2. Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements<br>3. Consider and challenge the going concern and long-term viability assessment prepared by management<br>4. Review and monitor any significant adjustments arising from the external audit<br>5. Review the Annual report and financial statements and other financial reporting<br>6. Advise the Board on whether, taken as a whole, it is fair, balanced, and understandable |
| External audit | 1. Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider their effectiveness, independence, and objectivity<br>2. Agree the policy for the provision of non-audit services. Challenge and agree to the external audit plan<br>3. Make recommendations to the Board concerning the reappointment and removal of the external auditor<br>4. Review audit findings and consider management's responses to any finding or recommendations |
| Internal controls and risk | 1. 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<br>2. Review and approve the internal control, risk management and other assurance statements in the annual report |
| Probity including whistle-blowing | 1. Review the whistle-blowing arrangements and receive reports on instances of whistle- blowing<br>2. Review the Gifts and hospitality register and arrangements |
| Internal audit | 1. Approve the selection and appointment of internal auditors<br>2. Approve the annual work plan and receive reports on individual areas of work<br>3. Monitor management's responses to findings and recommendations<br>4. Monitor the effectiveness of the internal audit function |
| Welsh Government | 1. An observer from the Welsh Government attends all meetings and is kept fully informed on all aspects of the Committee's work<br>2. 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

A key responsibility of the Committee is to ensure that the Group's financial information and the content of the Annual report is fair, balanced and understandable. The Committee challenges the assumptions and estimates made by management in preparing the financial statements. Set out below is a summary of the significant issues that the Committee considered for this financial year.

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, as well as the potential impact of major economic and political developments on the reported results.

## 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 of the financial statements.

## Welsh Government zero percent interest loans

£873m (2021 £896m) of funding received by the Group 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 32% 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. However, during the previous financial year, whilst considering the accounting treatment required for the CWBLS loans (see below), it was identified that the accounting methodology applied to Welsh Government loans needed to change to ensure compliance with accounting rules.

The related Accounting Policy can be found in Note 2.

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 adopted for the first time in the previous financial year is in line with the required accounting treatment. 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 report on page 50.

## 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 2023, 12 months subsequent to signing the Annual report and financial statements for the year ended 31 March 2022. 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, Brexit and the ongoing situation in Ukraine. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on page 81 in the Directors' report. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2023 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 2023. 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 non-recycling fund operated by the Group is partly funded by the European Regional Development Fund and has specific criteria for eligibility of investments. During the year, ten ineligible deals totalling £1.26m were identified as part of a detailed review carried out by our internal compliance team. This internal review was initiated following the identification of two ineligible deals by the European Funds Audit Team at the start of the financial year. Confirmation has since been received from the Wales European Funding Office, that the Group is able to refinance the Fund to the value of the ineligible deals to ensure the overall value of the Fund is not compromised. The Committee was satisfied with the scope and conclusion of the review.

The Committee sought assurance from management that with the exception of the anomaly noted above, all investments made meet the required 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.

The Committee received the appropriate assurances from the Valuation Committee and the Chair of the Investment Committee that the classification and valuation of investments is appropriate.

## 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 2021 to 31 March 2022. 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 assessed 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 20 July 2022 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 26 July 2022. 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 19 August 2022 and approved the final version of the Annual report and financial statements on 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 2022 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 2022 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 2022 financial year, and on 2 February 2022, Mazars were appointed as the Group's new external auditors. Mazars will fill the external auditor role on a casual basis until a resolution is passed to appoint them at the Annual General Meeting in September 2022.

## Internal audit

Following a successful procurement exercise, new internal auditors have been identified, and will be formally appointed in due course.

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 24 March 2022 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:** Rhys Jones

**Membership:** Kate Methuen-Ley, 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 Chair, Chief Executive, Director of Strategy, People & Development 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 47 new starters and undertaken 26 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 successful recruitment is 2.5 months.

Our pay and benefits are continuously benchmarked with private sector peers. This ensures the pay across the 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 £22,259 and will ensure we at least match the Welsh Government lowest salary.

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 Development Bank's sustained performance against its strategic goals.

Executive directors and certain other 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 three-year cycle and may be varied over time at the discretion of the Committee, considering the requirements of the business, and 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 second payment for the scheme will be made to employees in December 2022. A review of the scheme will be conducted in the second half of this financial year prior to the final year of the first three-year cycle. This will be an opportunity to review the current objectives and ensure they achieve the primary aim of the scheme.

There is a strict cap on the maximum amount of incentive (both annual and DIS) any individual can receive: total incentive payments over a three-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 twelve 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 Group.

During this year, sickness absence has increased from 2.4 days per annum per employee to 5.3 days. Whilst this is a significant increase, it is affected by a small number of long-term absences and we have now supported their returns to work. We will continue to closely monitor sickness absence but, expect to reduce over the next year.

## Developing the business

The People strategy and employer brand were published to help with recruitment and retention of talent and set out our values and offering to our employees. 21/22 continues the theme of digitalisation, helping to improve the employee experience and reduce the administrative burden.

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 2021 as well as achieving the Silver award.

## Covid-19

The pandemic has fundamentally changed the way in which we work. We have strived to capture the benefits from this and now operate a hybrid way of working with colleagues attending the office a minimum of one day per week on average. This was developed through the set up a working group, including representatives from across the Group, to look at '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.

**Rhys Jones**

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 21/22, 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.

Approved by the Chair of the Nomination Committee.

**Gareth Bullock**
Chair of the Nomination Committee

# 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 2021 who attended each Board and Committee.

| Board member | Board meetings | Audit and Risk Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Gareth Bullock | 6/6 | n/a | n/a | 1/1 |
| Giles Thorley | 6/6 | n/a | n/a | n/a |
| Huw Morgan | 5/6 | 6*/6 | 5/5 | 1/1 |
| Iraj Amiri | 6/6 | 6/6 | n/a | 1/1 |
| Carol Bell | 5/6 | n/a | n/a | 1/1 |
| Roger Jeynes | 6/6 | n/a | n/a | 1/1 |
| Margaret Llewellyn | 2/2 | 3/3 | 2/2 | n/a |
| Rhys Jones | 6/6 | n/a | 5/5 | 1/1 |
| David Staziker | 5/6 | n/a | n/a | n/a |
| Rob Lamb | 6/6 | 3/3 | n/a | 1/1 |
| Kate Methuen-Ley | 6/6 | n/a | 4/4 | 1/1 |
| Dianne Walker | 1/1 | 1/1 | n/a | n/a |
| Iestyn Evans | 1/1 | 1/1 | n/a | n/a |

*1 meeting part attendance

The Board meeting attendance figures include the strategy session which took place over two days in November 2021.

## 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.

This year's review was conducted by PriceWaterhouseCoopers as part of their annual audit plan, and 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.

# Auditor’s report

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

## Opinion

We have audited the financial statements of Development Bank of Wales plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Parent Company's Balance Sheet, the Parent Company's Statement of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and as regard to the Group financial statements, UK-adopted international accounting standards, and as regard to the Parent Company financial statements, United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006).

## In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as of 31 March 2022 and of the Group's loss for the year then ended;
– the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards, and the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice as applied in accordance with the provisions of the Companies Act 2006; and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## 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 (FRC) 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

## 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 audit procedures to evaluate the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and the Parent Company's future financial performance;
- Challenging the appropriateness of directors' key assumptions in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the consideration of severe but plausible scenarios;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the impact of the Covid-19 pandemic;
- Reading regulatory correspondence, minutes of meetings of the Audit and Risk Committee and the Board of Directors, and considering post balance sheet events to identify events of conditions that may impact the Group's and the Parent Company's ability to continue as a going concern;
- Considering the consistency of the cashflow forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the disclosures in the financial statements on going concern.

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's and the Parent 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.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

| Key audit matters | How our scope addressed these matters |
|---|---|
| **Valuation of the allowance for impairment (including expected credit losses (ECL)) on loans held at amortised cost under IFRS**<br><br>Group:<br>Allowance for impairment: £32.4m (2021: £38.8m)<br><br>Loans and advances to customers at amortised cost: £277.1m (2021: £279.0m)<br><br>Refer to Note 2: Accounting Policies, Note 4: Credit Risk and Note 14: Other Financial Assets in the financial statements.<br><br>Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. The impairment provision relating to the Group's loan portfolio requires the Directors to make judgements over the ability of the Group's customers to make future loan repayments.<br><br>The identification of stage 3 loans and the provision assessment of such exposures have been identified as a Key Audit Matter.<br><br>Management identifies stage 3 loans through criteria relating to days past due and being unlikely to pay [Note 2]. Judgement is applied in the assessment of unlikely to pay criteria.<br><br>Individual impairment assessments are made for loans classified as Stage 3. Judgement is applied to assess the value and timing of recoverable cash flows. Management applies either a 100% or 50% provision on each stage 3 loan following this assessment. | **Identification of stage 3 loans**<br>Our audit procedures included, but were not limited to the following:<br>– We evaluated the design and implementation of controls over the staging criteria relating to internal rating allocation, annual reviews, and days past due monitoring;<br>– We assessed management's ability to identify impairment triggers on a timely basis and to determine whether the exposure will be repaid as originally intended;<br>– We critically assessed the methodology for determining the default criteria; and<br>– We reviewed a sample of stage 1 and 2 exposures against default criteria to determine appropriate staging and assess completeness of the stage 3 loan population.<br><br>**Key assumptions used to determine the stage 3 impairment provision**<br>Our audit procedures included, but were not limited to the following:<br>– We evaluated the design and implementation of controls over the stage 3 impairment provision;<br>– We performed sensitivity analysis on stage 3 provisions;<br>– We performed an independent assessment on a sample of stage 3 loans to assess recoverability and reasonableness of the provision; and<br>– We assessed the value of the collateral on a sample of exposures.<br><br>**Our observations**<br>We concluded that the identification of stage 3 loans is consistent with the requirements of IFRS 9 and determined that the provision on stage 3 loans is appropriate at 31 March 2022. |

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

| Key audit matters | How our scope addressed these matters |
|---|---|
| **Valuation of the Help To Buy - Wales Portfolio**<br>Group: £405.7m (2021: £408.0m)<br><br>Refer to Note 3: Critical Accounting Judgements and Key Sources of Estimation Uncertainty and Note 13: Financial Assets at Fair Value in the financial statements.<br><br>Help to Buy Wales Portfolio (HTB-W) shared equity loans are held at fair value under the classification and measurement provisions of IFRS 13 and IFRS 9. Directors apply significant judgement in determining the fair value of the portfolio, building a model to incorporate the underlying variable inputs present in the valuations, which are subject to significant estimation uncertainty.<br><br>We recognise that the valuation of the HTB-W portfolio is sensitive to changes in forecast House Price Index (HPI) growth, discount rate applied and the forecast repayment profile of the loans, noting some of these are not market observable. Other key inputs also include forced sale discount and retail price index.<br><br>These inputs are subject to significant estimation uncertainty and require judgments to be made by directors. | Our audit procedures included, but were not limited to the following:<br><br>– Obtaining an understanding of the key processes around the HTB-W portfolio including key process controls, any IT related controls and performing walkthroughs.<br>– Assessment of the design and implementation of the controls identified. We adopted a fully substantive audit approach.<br>– Evaluation of the methodology to assess compliance with IFRS 13 and IFRS 9 requirements.<br>– Engagement of valuation experts to review and challenge the key assumptions and inputs to the model. These included the forecast repayment profile, discount rate, forced sale discount, retail price index and HPI.<br>– Independent benchmarking of the forecast HPI and discount rate assumptions used against comparable assumptions used within the industry and other available third-party sources.<br>– Performing independent substantive procedures on the valuation of investments on a sample basis and agreeing to relevant supporting data where possible.<br>– Performing back testing of the default rate to assess the accuracy of the default rates included in the model.<br>– Verification of the completeness and accuracy of the associated disclosures.<br><br>**Our observations**<br>We concluded that the key assumptions used by management were reasonable and in line with IFRS 13 and IFRS 9 requirements. The values determined at 31 March 2022 are thus deemed appropriate. |

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

| Key audit matters | How our scope addressed these matters |
|---|---|
| **Classification of the Financial Transaction Reserve Liability and Welsh Government funding**<br><br>Group: £714.3m (2021: £695.6m)<br><br>Parent Company: £714.3m (2021: £695.6m)<br><br>Refer to Note 2 and Note 25: Accounting Policies, Note 3: Critical Accounting Judgements and Key Sources of Estimation Uncertainty and Note 18: Deferred Income.<br><br>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.<br><br>There is a risk the FTR liability is misclassified due to the complexity of the contractual relationship with the Welsh Government (and no clear standards under IFRS that fully captures the nature of the relationship between the Group and the Welsh Government and contractual terms within its defined scope.<br><br>Valuation 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).<br><br>The Group is required to comply with the regulatory requirements set out by the Welsh Government as part of their funding arrangements. There is a risk that the Group will not comply with these requirements, and this could result in withdrawal of such funding.<br><br>Management is given the ultimate responsibility of providing investment in accordance with the underlying guidelines of each fund and therefore some judgement may be exercised in determining the classification of the investments into the appropriate funds. | Our audit procedures included, but were not limited to the following:<br><br>– Obtaining an understanding of the key processes including key process controls and performing walkthroughs.<br>– Assessment of the design and implementation of the controls identified. We adopted a fully substantive audit approach.<br>– Evaluation of the accounting considerations applied based on our understanding of the relationship between the Group and Welsh Government and related contractual terms. We consulted with our internal accounting technical experts regarding the matter.<br>– Reviewing the loan agreements to assess compliance with criteria set for the loans by the Welsh Government referring to underlying articles including those in relation to gifts and hospitality, funding arrangements and overspend.<br>– Obtaining confirmation of balances from the Welsh Government Fund as at 31 March 2022.<br><br>**Our observations**<br><br>We concluded that the classification of the Welsh Government Funding as a financial liability measured at amortised cost in accordance with IFRS 9 requirements is appropriate. |

## Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

## Group materiality

| | |
|---|---|
| **Overall materiality** | £18.3m |
| **How we determined it** | 1% of total assets |
| **Rationale for benchmark applied** | The core operations of the Group are to invest in various Small to Medium Enterprises and personal loans across Wales via Special Purpose Vehicles. The Group is a trusted entity of the Welsh Government and is used to lend in line with Government policy objectives. As such, the key users of the financial statements are the Welsh Government and the investee businesses. |
| **Performance materiality** | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.<br>We set performance materiality at £11.0m which represents 60% of overall materiality as this is a first-year audit. |
| **Reporting threshold** | We agreed with the directors that we would report to them misstatements identified during our audit above £0.5m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

## Parent Company materiality

| | |
|---|---|
| **Overall materiality** | £5.6m |
| **How we determined it** | 1% of net assets |
| **Rationale for benchmark applied** | The main purpose of the Parent Company is to encourage economic development through lending and investment which is driven by its financial asset balances. |
| **Performance materiality** | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.<br>We set performance materiality at £3.4m, which represents 60% of overall materiality as this is a first-year audit. |
| **Reporting threshold** | We agreed with the directors that we would report to them misstatements identified during our audit above £0.17m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

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

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Group and the Parent Company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the group and the Parent Company financial statements. Based on our risk assessment, all consolidated components of the Group, including the Parent Company, were subject to full scope audit performed by the group audit team.

At the Parent Company level, the group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

## 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. 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 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.

## 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.

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

In 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 material misstatements in the strategic report or the directors' report.

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on pages 81 - 82, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the Group and the Parent Company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: anti-money laundering regulation, FCA supervisory and regulatory requirements, Consumer Credit Act and Welsh Government regulations.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Parent Company, the industry in which they operate, and the structure of the Group, and considering the risk of acts by the Group and the Parent Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group and the Parent Company is in compliance with laws and regulations and discussing their policies and procedures regarding compliance with laws and regulation;
- Inspecting correspondence with relevant licensing or regulatory authorities;
- Reviewing minutes of meetings of the Board of Directors and the Audit and Risk Committee held in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as: tax legislation, pension legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to management override of controls.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

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.

## Use of the audit 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.

**Pauline Pelissier** (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey, London
August 19, 2022

# Financial statements

# Consolidated income statement

For the year ended 31 March 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| Revenue | 5 | 26,885,667 | 25,476,850 |
| **Operating expenses:** | | | |
| Impairment of loans | 6 | 4,852,955 | 342,704 |
| Other administrative expenses | 6 | (27,595,834) | (24,531,058) |
| Total operating expenses | | (22,742,879) | (24,188,354) |
| **Other operating income:** | | | |
| Release of ERDF grant income | 5 | 27,560,486 | 23,228,255 |
| Fair value gain on shared equity assets | 5 | 4,223,434 | 31,270,987 |
| Fair value (loss)/gain on non-consolidated funds | 5 | (8,932,615) | 282,834 |
| Fair value (loss)/gain on other financial assets | 5 | (16,460,411) | 5,088,141 |
| Realised gain from the disposal of shared equity assets | 5 | 11,134,453 | 4,004,536 |
| Total other operating income | | 17,525,347 | 63,874,753 |
| Operating Profit | 6 | 21,668,135 | 65,163,249 |
| Interest receivable | 8 | 1,228,007 | 1,225,563 |
| Finance costs | 9 | (25,341,338) | (6,482,114) |
| (Loss) on amounts owed to principal shareholder held at fair value | 19 | (15,357,887) | (35,275,523) |
| (Loss)/Profit before taxation | | (17,803,083) | 24,631,175 |
| Tax | 10 | (2,185,428) | - |
| (Loss)/Profit for the financial year | | (19,988,511) | 24,631,175 |
| (Loss)/Profit attributable to equity shareholders | | (20,173,678) | 23,621,094 |
| Profit attributable to non-controlling interest | 20 | 185,167 | 1,010,081 |
| **(Loss)/Profit for the financial year** | | **(19,988,511)** | **24,631,175** |

# Consolidated statement of comprehensive income

For the year ended 31 March 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| (Loss)/Profit for the financial year | | (19,988,511) | 24,631,175 |
| Items that will not subsequently be reclassified to profit or loss: | | | |
| Actuarial gain on defined benefit pension schemes | 17 | 1,150,000 | 510,000 |
| Other comprehensive income for the year net of tax | | 1,150,000 | 510,000 |
| **Total comprehensive (expenditure)/income for the year** | | **(18,838,511)** | **25,141,175** |
| Total comprehensive (expenditure)/ income attributable to equity shareholder | | (19,023,678) | 24,131,094 |
| Total comprehensive income attributable to non-controlling interest | 20 | 185,167 | 1,010,081 |
| **Total comprehensive (expenditure)/income for the year** | | **(18,838,511)** | **25,141,175** |

All of the other comprehensive income for the current and prior year is attributable to the owners of the parent.

# Consolidated statement of changes in equity

For the year ended 31 March 2022

| | Note | Public equity | Share Capital | Capital reserve | Retained Profit | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ |
| **Balance at 1 April 2020** | | **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 | 1 | 85,270,968 | - | - | - | - | 85,270,968 |
| Sub Total | | 85,270,968 | - | - | 24,131,094 | 466,168 | 109,868,230 |
| **Balance at 31 March 2021** | | **316,487,652** | **12,500** | **10,100** | **26,824,024** | **3,252,510** | **346,586,786** |
| (Loss)/Profit for the financial year | | - | - | - | (20,173,678) | 185,167 | (19,988,511) |
| Actuarial gain on defined benefit pension schemes | 17 | - | - | - | 1,150,000 | - | 1,150,000 |
| Non-controlling interest capital contribution | 20 | - | - | - | - | 2,061,600 | 2,061,600 |
| Non-controlling interest distribution | 20 | - | - | - | - | (320,000) | (320,000) |
| Increase in public equity | | 2,957,197 | - | - | - | - | 2,957,197 |
| Transfer | | 10,100 | - | (10,100) | - | - | - |
| Sub Total | | 2,967,297 | - | (10,100) | (19,023,678) | 1,926,767 | (14,139,714) |
| **Balance at 31 March 2022** | | 319,454,949 | 12,500 | - | 7,800,346 | 5,179,277 | 332,447,072 |

# Consolidated balance sheet

As at 31 March 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| **Non-current assets:** | | | |
| Intangibles | 11 | 1,105,770 | 1,866,841 |
| Property, plant and equipment | 12 | 4,448,561 | 3,541,056 |
| Financial assets at fair value | 13 | 488,951,980 | 511,607,863 |
| Trade and other receivables | 14 | 156,962,619 | 208,370,171 |
| Retirement benefit | 17 | 800,000 | - |
| | | 652,268,930 | 725,385,931 |
| **Current assets:** | | | |
| Trade and other receivables | 14 | 93,997,896 | 39,845,148 |
| Cash and cash equivalents | 15 | 1,073,495,399 | 1,016,053,931 |
| | | 1,167,493,295 | 1,055,899,079 |
| **Total assets** | | **1,819,762,225** | **1,781,285,010** |
| **Current liabilities:** | | | |
| Trade and other payables | 16 | (45,636,457) | (45,574,375) |
| Deferred income | 18 | (25,074,614) | (8,899,379) |
| Lease liabilities | 21 | (415,209) | (320,142) |
| | | (71,126,280) | (54,793,896) |
| **Net current assets** | | 1,096,367,015 | 1,001,105,183 |
| **Non-current liabilities:** | | | |
| Trade and other payables | 16 | (1,413,575,516) | (1,376,894,341) |
| Retirement benefit obligations | 17 | - | (180,000) |
| Lease liabilities | 21 | (2,613,357) | (2,829,987) |
| | | (1,416,188,873) | (1,379,904,328) |
| **Total liabilities** | | **(1,487,315,153)** | **(1,434,698,224)** |
| **Net assets** | | 332,447,072 | 346,586,786 |
| **Equity:** | | | |
| Public equity | | 319,454,949 | 316,487,652 |
| Share capital | 20 | 12,500 | 12,500 |
| Capital reserve | | - | 10,100 |
| Retained profit | | 7,800,346 | 26,824,024 |
| Non-controlling interest | 20 | 5,179,277 | 3,252,510 |
| **Total equity** | | **332,447,072** | **346,586,786** |

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 19 August 2022.

Signed on its behalf by:

**G Thorley** Director

# Consolidated cash flow statement

For the year ended 31 March 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| **Net cash inflow/(outflow) from operating activities** | 22 | 38,182,276 | (119,486,705) |
| **Investing activities:** | | | |
| Interest received | | 1,228,007 | 1,225,563 |
| Purchase of fixed assets | | (1,697,361) | (1,654,404) |
| Net cash received from investing activities | | (469,354) | (428,841) |
| **Financing activities:** | | | |
| Finance costs | | (25,341,338) | (6,482,114) |
| Principal elements of lease payments | | (121,563) | (523,292) |
| Non-controlling interest capital contribution | | 2,061,600 | 300,000 |
| Non-controlling interest distribution | | (320,000) | (843,913) |
| ERDF grant income received | | 43,735,721 | 16,823,438 |
| WG Funding (repaid)/received | | (285,874) | 537,564,817 |
| Net cash received from financing activities | | 19,728,546 | 546,838,936 |
| Net increase in cash and cash equivalents | | 57,441,468 | 426,923,390 |
| Cash and cash equivalents at beginning of year | | 1,016,053,931 | 589,130,541 |
| **Cash and cash equivalents at end of year** | | **1,073,495,399** | **1,016,053,931** |

# Notes to the consolidated financial statements

For the year ended 31 March 2022

## 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 2022 have been prepared and approved by the Directors in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments at fair value. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

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

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, which reflects a period of at least 12 months from the date of approval of the financial statements and have concluded that there are no material uncertainties relating to going concern. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further details of the Directors' considerations in relation to going concern are included in the Director's Report on page 81.

### 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:

Annual Improvements to IFRS Standards 2018-2020 Cycle

These annual improvements include amendments to both IFRS 9 Financial Instruments and IFRS 16 Leases which may be applicable to the Group.

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.

## 2. Accounting policies

### Basis of consolidation

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

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

### Property, plant and equipment

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

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

*Fixtures, fittings and 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 118.

## 2. Accounting policies (continued)

### Property, plant and equipment (continued)

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.

### 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.

## 2. Accounting policies (continued)

### 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**

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

Specifically:

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

**Loans and advances to customers**

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.

A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio and how the performance of the portfolio is managed and reported.

**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.

## 2. Accounting policies (continued)

### Financial instruments (continued)

**Effective interest method**

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

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.

**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.

**Impairment**

The Group assesses on a forward-looking basis, the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost.

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.

**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.

# 2. Accounting policies (continued)

## Financial instruments (continued)

### 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 125. 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.

### 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.

Default is considered to have occurred when there is evidence that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where:

- the customer has incurred significant unauthorised arrears as a result of overdue contractual repayments (see Note 4 for further information on arrears);
- the customer makes a declaration of significant financial difficulty;
- it appears probable that the customer will enter administration, bankruptcy, or another form of financial restructure;
- the customer is unlikely to pay its credit obligations to the Group in full for any other reason.

### 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.

### 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.

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. 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). On modification the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate.

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. 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. 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. 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.

## 2. Accounting policies (continued)

### Financial instruments (continued)

**Modification and de-recognition of a financial asset (continued)**

The Group would also 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.

**Write-off**

Financial assets are written off when the Group has no reasonable expectations of recovering the 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.

**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.

**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.

**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.

**Amounts owed to principal shareholder: Welsh Government loans (WG loans )**

The Welsh Government has also provided funding to the Group via interest free loans, these loans are specific to each fund 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.

## 2. Accounting policies (continued)

### Financial instruments (continued)

**Amounts owed to principal shareholder: Welsh Government loans (WG loans )(continued)**

*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.

**Embedded derivatives**

Embedded derivatives that are not closely related will be separated from host contracts in accordance with IFRS 9, where a separate derivative is recorded it will be held at FVTPL.

### 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. All leases relate to property.

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 the HM Treasury discount rate at the inception of the lease. 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 are depreciated over the period of the lease term.

### Related party transactions

The Group 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.

### 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.

## 2. Accounting policies (continued)

### Retirement benefits

The Group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon 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.

## 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.

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

### Critical judgements in applying the Group's accounting policies (continued)

**Basis of consolidation (continued)**

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 £120.8m (2021: £96.2m) 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 £30.2m at 25% of the gross loss (2021: £18.3m at 19% of the gross loss) 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 contractually required, 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.

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. If the interest subsidy had instead been treated as a grant, this would have been recognised in profit or loss on a basis that reflected the substance of that grant.

### 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.

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

### Key sources of estimation uncertainty (continued)

**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 £4.2m gain (2021: £31.3m gain) 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 movement and a discount rate based on a risk free rate and comparable housing bonds.

*House price forecasts*

The model uses observable transaction data to estimate movements in house prices between the origination of a loan and the measurement date. Previously, official HPI data, as published by Office for National Statistics, was used to estimate the current value of the portfolio. However, we have recently observed differences in house price movement between published HPI data and our actual transaction data on redeemed loans. This difference is likely due to the HPI data reflecting the whole housing market and is not necessarily representative of house price movements on Help to Buy - Wales eligible homes, which are new build properties, purchased with a mortgage and where loans can be redeemed either by staircasing or house sale. Using observable transaction data instead of published HPI leads to a more refined estimate of the current value of the portfolio.

To forecast future house price movements over the maximum 25 year duration of the loan term, independent HPI forecast data for Wales has been used. This data has been adjusted for expected divergence between the forecast and the expected movement of the shared equity loan book due to the particular characteristics of the HTB-W portfolio highlighted above.

*Base case scenario*

The base case scenario for future HPI growth is used in the fair value calculation within the 2022 financial statements. The forecast assumes that the recent boom in the UK housing market will not be sustained given the withdrawal of fiscal support. Furthermore, it assumes affordability is very stretched and borrowers are facing the first sustained rise in mortgage costs since the global financial crisis. The impact of higher mortgage costs will feed in gradually and unemployment is set to remain very low, meaning few homeowners will be forced to sell. The forecast is a soft landing for house prices with low levels of transactions over the short run.

Sensitivity analysis on this input indicates a range of reasonably possible alternative forecasts to estimate house price movements, which if used in the valuation would have a significant effect on the fair value of the shared equity loan book. The upside and downside scenarios below are based on other publicly available medium term house price forecasts for the UK and illustrate this sensitivity.

*Upside scenario*

This scenario shows similar growth to the base case over the next reporting period. Although growth slows in subsequent years it remains positive before returning to a long term steady growth rate from FY27. If this forecast was used to model fair value it would result in an overall gain of £17.9m, a £13.7m increase on the reported fair value.

*Downside scenario*

This downside scenario shows an earlier fall in HPI growth but recovery is faster than in the base case and upside scenario. This scenario highlights how the model is more sensitive to short term house price drops due to the timing of forecast cashflows from loan redemptions. The overall fair value gain in this downside scenario is £0.3m, a £3.9m decrease on the reported fair value.

# 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*

The following table shows the medium term HPI rates for each scenario. From 2028 onwards both the upside and downside scenarios assume the same long term annual growth rates as the base case.

| Scenarios | Year | | | | | Overall FV gain | FV gain relative to base case |
|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | £'000 | £'000 |
| **Base case scenario** | 5.9% | -0.6% | -0.9% | 0.6% | 2.2% | 4,200 | n/a |
| **Upside scenario** | 5.9% | 1.4% | 1.8% | 2.7% | 2.9% | 17,860 | 13,660 |
| **Downside scenario** | 0.6% | 1.3% | 2.0% | 2.0% | 2.1% | 300 | (3,900) |

*Discount rate*

The discount rate used of 3.1% (2021: 1.7%), which is based on a risk-free rate (UK gilts) and the credit risk spread from comparable housing bonds, is also a significant input to the valuation model. A key driver in deriving an appropriate discount rate is the forecast cash flows, principally from repayment of shared equity loans. This affects the weighted average life of the portfolio which is used to determine the risk free rate and the calculation of the credit risk spread on comparable housing bonds. The primary reason for the increase in the discount rate from the prior year is a general rise in interest rates, which have pushed up gilt yields. The risk free rate element of the discount rate has increased by approximately 1 percentage point on the prior year as a result.

As with HPI, sensitivity analysis on this input indicates a range of reasonably possible alternative scenarios that would have a significant impact on the fair value. Future changes in the timing of repayments would impact the risk free rate and credit risk on the bonds which would lead to swings in the discount rate. For example, if customers were to repay quicker than currently forecast then the risk inherent in the forecast cashflows would reduce and this would lead to a reduction in the discount rate and an increase in the fair value. Were customers to take longer than currently forecast to repay their loans then the risk of realising the forecast cashflows would increase which would cause the discount rate to rise and the fair value of the shared equity loan book to fall.

Similarly, were management to use an alternative financial instrument to the comparable housing bonds used in the valuation as a proxy for market risk this could lead to an increase or decrease in the fair value.

Management considers a reasonable range for the discount rate to be 0.5 percentage points above or below the chosen rate. Increasing the discount rate would result in a decrease of £6.7m on the fair value reported in the 2022 financial statements whilst decreasing the discount rate would lead to an increase in fair value of £7.1m.

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.

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

### Key sources of estimation uncertainty (continued)

**Fair value measurement and valuation process**

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

Where relevant, multiple valuation approaches may be used in arriving at an estimate of fair value for an individual asset. Such inputs are typically portfolio-company specific and therefore cannot be aggregated for the purposes of portfolio-level sensitivity analysis. Further details of the Group's level 3 financial instruments and the valuation techniques used are set out in Note 19.

## 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.

## 4. Credit risk (continued)

### Credit risk management (continued)

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.

## 4. Credit risk (continued)

**Internal credit risk ratings (continued)**

| Asset Class | Typical Descriptors | | |
|---|---|---|---|
| | Calculation of ECL | 12 month | Lifetime |
| **A – Healthy** | - Good quality financial information submitted on time.<br>- Performance exceeding or more or less in line with business plan.<br>- Risk position not increased since investment made.<br>- Payments made in timely manner.<br>- No negative credit alerts. | Arrears <30 days: **Stage 1** | Arrears >30 days: **Stage 2** |
| **B – Healthy** | - Irregular financial information.<br>- Performance is broadly in line with business plan.<br>- Performance is within covenants.<br>- Payments made in a timely manner.<br>- 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.<br>- Business still appears to be viable but difficult to assess the risk.<br>- Unauthorised arrears capitalised.<br>- Request for authorised repayment holiday.<br>- Satisfactory explanation to negative credit alert.<br>- Evidence of creditor payments being stretched.<br>- Breach of covenant for two consecutive months. | **Stage 1*** | **Stage 2** |
| **D – Sick** | - Material underperformance.<br>- Business changed direction or strategy.<br>- Unauthorised arrears.<br>- Breach of covenant for more than two consecutive months.<br>- No formal Time to Pay agreement in place with HMRC.<br>- Payment plans with creditors breached. | | **Stage 3** |
| **E – Terminal** | - No recovery from D.<br>- 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.

## 4. Credit risk (continued)

### 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.

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.

### 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 prior year, mutual investment model loans and Covid-19 Wales business loans.

## 4. Credit risk (continued)

**Measurement of expected credit loss (ECL) (continued)**

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.

## 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 | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Concentration by category:** | | |
| Rescue and restructure loans | 2,750,106 | 1,452,640 |
| Property Development loans | 44,916,886 | 57,475,698 |
| Micro loans | 14,945,538 | 11,708,483 |
| Covid-19 Wales business loans | 61,713,740 | 71,788,724 |
| Mutual investment model loans | 8,579,501 | 7,929,501 |
| Mainstream loans | 111,819,124 | 89,843,792 |
| | **244,724,895** | **240,198,838** |
| **By Maturity:** | | |
| Loans to customers receivable in < 1 year | 87,762,276 | 31,997,834 |
| Loans to customers receivable in > 1 year | 156,962,619 | 208,201,004 |
| | **244,724,895** | **240,198,838** |

## 4. Credit risk (continued)

### 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 | | | | 2022 |
|---|---|---|---|---|
| | | | | £ |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Grade A-B: Low to fair risk | 117,222,011 | - | - | 117,222,011 |
| Grade Micro: Low to fair risk | 21,864,709 | - | - | 21,864,709 |
| Grade CWBLS: Low to fair risk | 19,202,161 | - | - | 19,202,161 |
| Grade C: Early warning* | 1,139,730 | 23,109,181 | - | 24,248,911 |
| Grade A-B: Low to fair risk - in arrears | - | 16,167,933 | - | 16,167,933 |
| Grade Micro: Low to fair risk – in arrears | - | 7,606,778 | - | 7,606,778 |
| Grade CWBLS: Low to fair risk – in arrears | - | 2,264,767 | - | 2,264,767 |
| Grade C: Early warning – in arrears | - | 13,465,516 | - | 13,465,516 |
| Grade D: Significant increase in credit risk and objective evidence of impairment | - | - | 16,371,746 | 16,371,746 |
| Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears | - | - | 10,768,070 | 10,768,070 |
| Grade E: Objective evidence of impairment | - | - | 28,004,916 | 28,004,916 |
| Total Gross carrying amount | 159,428,611 | 62,614,175 | 55,144,732 | 277,187,518 |
| Loss allowance | (1,333,379) | (3,269,375) | (27,859,869) | (32,462,623) |
| **Net Carrying amount** | **158,095,232** | **59,344,800** | **27,284,863** | **244,724,895** |
| | | | | |
| Provision coverage ratio | 0.8% | 5.2% | 50.5% | 11.7% |

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

# 4. Credit risk (continued)

### Exposure by class, internal rating and stage (continued)

| 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.

## 4. Credit risk (continued)

### 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 2021 | 2,825,965 | 6,443,115 | 29,482,208 | 38,751,288 |
| **Changes in the loss allowance:** | | | | |
| New financial assets originated | 384,855 | - | - | 384,855 |
| Transfers to Stage 1 | 1,446,707 | (973,652) | (473,055) | - |
| Transfers to Stage 2 | (456,308) | 2,137,175 | (1,680,867) | - |
| Transfers to Stage 3 | (105,815) | (354,627) | 460,442 | - |
| (Decrease)/increase due to other changes in credit risk | (2,751,329) | (3,852,733) | 2,835,557 | (3,768,505) |
| Financial assets derecognised in the year | (10,696) | (129,903) | (431,891) | (572,490) |
| Write offs | - | - | (2,332,525) | (2,332,525) |
| **Loss allowance as at 31 March 2022** | **1,333,379** | **3,269,375** | **27,859,869** | **32,462,623** |

### 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 2021 | 159,781,535 | 62,435,330 | 56,733,261 | 278,950,126 |
| Changes in the gross carrying amount: | | | | |
| New financial assets originated | 69,039,990 | - | - | 69,039,990 |
| Transfers to Stage 1 | 9,738,218 | (8,266,598) | (1,471,620) | - |
| Transfers to Stage 2 | (21,495,142) | 26,221,053 | (4,725,911) | - |
| Transfers to Stage 3 | (7,120,263) | (6,705,044) | 13,825,307 | - |
| Financial assets derecognised in the year | (1,046,702) | (3,579,272) | (2,365,228) | (6,991,202) |
| Write offs | - | - | (2,332,525) | (2,332,525) |
| Other changes | (49,469,025) | (7,491,294) | (4,518,552) | (61,478,871) |
| **Gross carrying amount as at 31 March 2022** | **159,428,611** | **62,614,175** | **55,144,732** | **277,187,518** |

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 (2021: £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.

## 5. Revenue and other operating income

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

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Revenue:** | | |
| Fees | 8,599,669 | 7,721,556 |
| Dividends | 44,548 | - |
| Loan interest | 18,241,450 | 17,755,294 |
| | 26,885,667 | 25,476,850 |
| **Other operating income:** | | |
| European Regional Development Fund (ERDF) grant income | 27,560,486 | 23,228,255 |
| Fair value gain on shared equity assets | 4,223,434 | 31,270,987 |
| Fair value (loss)/gain on non-consolidated funds | (8,932,615) | 282,834 |
| Fair value (loss)/gain on other financial assets | (16,460,411) | 5,088,141 |
| Realised gain from the disposal of shared equity assets | 11,134,453 | 4,004,536 |
| **Total revenue and other operating income** | **44,411,014** | **89,351,603** |

## 6. Operating profit

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Operating profit has been arrived at after charging/(crediting):** | | |
| Amortisation of intangibles | 103,151 | 98,993 |
| Depreciation of fixtures and fittings | 266,397 | 246,444 |
| Depreciation of right of use assets | 470,959 | 446,983 |
| Directors' emoluments and staff costs (see Note 7) | 14,900,719 | 14,353,264 |
| Provision for Deferred Incentive Scheme | 450,378 | 352,315 |
| Impairment of loans | (4,852,955) | (342,704) |
| **Auditor's remuneration:** | | |
| Fees payable to the Company's auditor for the audit of the Company's financial statements | 114,505 | 67,135 |
| Fees payable to the Company's auditor for other services to the Group: | | |
| Audit of the Company's subsidiaries | 344,965 | 409,965 |
| **Total audit fees** | **459,470** | **477,100** |
| | | |
| Tax compliance | - | 81,641 |
| Other taxation advisory services | - | 7,850 |
| Other assurance services | - | 17,370 |
| **Total non-audit fees for the Group** | **-** | **106,861** |

## 7. Information regarding directors and employees

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Directors' emoluments:** | | |
| Wages and salaries | 542,096 | 517,514 |
| Pension costs | 49,817 | 50,820 |
| | 591,913 | 568,334 |
| **Remuneration of highest paid director** | **210,929** | **216,264** |

One director (2021: one) of the Company and three directors (2021: three) of subsidiary companies were members of the defined benefit pension scheme.

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Aggregate payroll costs (excluding directors):** | | |
| Wages and salaries | 11,524,965 | 11,097,668 |
| Social security costs | 1,259,869 | 1,207,266 |
| Pension costs | 1,523,972 | 1,479,996 |
| | 14,308,806 | 13,784,930 |
| **Directors Emoluments & Staff Costs** | **14,900,719** | **14,353,264** |

| | No. | No. |
|---|---|---|
| **The monthly average number of persons employed (excluding directors and agency temps):** | | |
| Administration | 61 | 59 |
| Funds Management | 193 | 183 |
| | **254** | **242** |

## 8. Interest receivable

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Bank interest** | **1,228,007** | **1,225,563** |

## 9. Finance costs

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Notional interest on WG loans | 25,266,359 | 6,402,106 |
| Interest on lease liabilities | 64,979 | 70,008 |
| Net finance cost of pension scheme | 10,000 | 10,000 |
| | **25,341,338** | **6,482,114** |

## 10. Tax

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Current taxation:** | | |
| **UK corporation tax charge for the year** | **2,185,428** | **-** |

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:

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **(Loss)/Profit on ordinary activities before tax** | **(17,803,083)** | **24,631,175** |
| Tax at 19% (2021: 19%) thereon | (3,382,585) | 4,679,924 |
| **Factors affecting charge for the year:** | | |
| Adjustments in respect of prior year | 2,185,428 | - |
| Expenses not deductible | 5,923,906 | 4,852,504 |
| Deferred tax not recognised | 5,815,378 | (1,859,108) |
| Partnership Share | 1,192,793 | 811,144 |
| Non-taxable income | (9,644,432) | (8,751,082) |
| Chargeable gains | 94,940 | 266,618 |
| **Total taxation charge** | 2,185,428 | - |

A net deferred tax asset has not been recognised in respect of timing differences relating to non-trade financial losses, excess management expenses, accrued pension costs and fair value gains in respect of investments in associates and capital losses. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets. At 25% of gross tax assets the unrecognised deferred tax in this respect is £19,360,627 (2021: deferred tax assets not recognised at 19% is £7,186,247).

The main rate of corporation tax is 19%. From 1 April 2023 the main rate of corporation tax will be 25% and this rate has been used to calculate deferred tax in these financial statements.

The Group has made an overall loss of £(17,803,083) during the period (2021: profit £24,631,175).

## 11. Intangibles

| | Company | | Group | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Software | £ | £ | £ | £ |
| **Cost** | | | | |
| At 1 April | 1,602,053 | - | 2,013,882 | 411,829 |
| Additions | 52,500 | 1,602,053 | 52,500 | 1,602,053 |
| Transfer on reclassification | (511,375) | - | (923,204) | - |
| At 31 March | 1,143,178 | 1,602,053 | 1,143,178 | 2,013,882 |
| **Accumulated amortisation:** | | | | |
| At 1 April | 16,625 | - | 147,041 | 48,048 |
| Charge for the year | 20,783 | 16,625 | 103,151 | 98,993 |
| Transfer | - | - | (212,784) | - |
| At 31 March | 37,408 | 16,625 | 37,408 | 147,041 |
| **Net book value:** | | | | |
| **At the end of the financial year** | **1,105,770** | **1,585,428** | **1,105,770** | **1,866,841** |
| At the beginning of the financial year | 1,585,428 | - | 1,866,841 | 363,781 |

During the current year previously capitalised software implementation costs were reclassified as Software as a Service arrangements and therefore transferred out of Intangibles. Additions in the prior year included £511,375 that related to the new Loan Administration system, where amortisation had not yet commenced, which forms part of this transfer.

## 12. Property, plant and equipment

| Group and Company | Land & Buildings 2022 | Land & Buildings 2021 | Fixtures, Fittings & Equipment 2022 | Fixtures, Fittings & Equipment 2021 | Total 2022 | Total 2021 |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Cost:** | | | | | | |
| At 1 April | 4,198,413 | 4,198,413 | 2,020,410 | 1,968,059 | 6,218,823 | 6,166,472 |
| Additions | 259,588 | - | 1,385,273 | 52,351 | 1,644,861 | 52,351 |
| Disposals | - | - | (1,151,369) | - | (1,151,369) | - |
| At 31 March | 4,458,001 | 4,198,413 | 2,254,314 | 2,020,410 | 6,712,315 | 6,218,823 |
| **Accumulated depreciation:** | | | | | | |
| At 1 April | 893,966 | 446,983 | 1,783,801 | 1,537,357 | 2,677,767 | 1,984,340 |
| Charge for the year | 470,959 | 446,983 | 266,397 | 246,444 | 737,356 | 693,427 |
| Disposals | - | - | (1,151,369) | - | (1,151,369) | - |
| At 31 March | 1,364,925 | 893,966 | 898,829 | 1,783,801 | 2,263,754 | 2,677,767 |
| **Net book value** | | | | | | |
| **At the end of the financial year** | **3,093,076** | **3,304,447** | **1,355,485** | **236,609** | **4,448,561** | **3,541,056** |
| At the beginning of the financial year | 3,304,447 | 3,751,430 | 236,609 | 430,702 | 3,541,056 | 4,182,132 |

All of the land and buildings are classified as right of use assets with a corresponding lease liability and are depreciated over the life of the lease. Additions in the year represent new leases entered into.

## 13. Financial assets at fair value

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Shared equity assets | 405,675,444 | 407,947,929 |
| Equity investments | 76,755,792 | 87,459,049 |
| Investments in non-consolidated funds | 2,936,513 | 11,794,125 |
| Convertible loan notes | 3,584,231 | 4,406,760 |
| | **488,951,980** | **511,607,863** |

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 £2,561,222 (2021: £11,493,837).

## 14. Other financial assets

| Trade and other receivables | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Current assets** | | |
| Trade debtors | 300,500 | 49,388 |
| | 300,500 | 49,388 |
| Loans receivable carried at amortised cost | 109,266,935 | 38,543,095 |
| Impairment | (21,504,659) | (6,545,261) |
| | 87,762,276 | 31,997,834 |
| Other debtors | 4,788,347 | 7,323,688 |
| Prepayments | 1,146,773 | 474,238 |
| | **93,997,896** | **39,845,148** |
| **Non-current assets** | | |
| Loans receivable carried at amortised cost | 167,920,583 | 240,407,031 |
| Impairment | (10,957,964) | (32,206,027) |
| | 156,962,619 | 208,201,004 |
| Other debtors | - | 169,167 |
| | **156,962,619** | **208,370,171** |

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is 4.2 years (2021: 5 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% per annum (2021: 7.1%).

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

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.

## 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.

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Cash and cash equivalents** | **1,073,495,399** | **1,016,053,931** |

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 | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Current liabilities** | | |
| Trade payables and accruals | 5,409,632 | 7,992,005 |
| Taxation and social security | 2,537,989 | 331,373 |
| Other creditors | 2,650,158 | 2,298,220 |
| Amounts owed to principal shareholder held at amortised cost | 32,948,678 | 33,262,777 |
| Amounts owed to principal shareholder held at fair value | 2,090,000 | 1,690,000 |
| | **45,636,457** | **45,574,375** |
| **Non-current liabilities** | | |
| Amounts owed to principal shareholder held at amortised cost | 714,333,249 | 695,554,613 |
| Amounts owed to principal shareholder held at fair value | 699,242,267 | 681,039,728 |
| Other creditors | - | 300,000 |
| | **1,413,575,516** | **1,376,894,341** |

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.

Reconciliation of changes in liabilities arising from financing activities:

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Balance at the start of the year | 1,378,284,341 | 853,792,722 |
| Cashflows | (285,874) | 588,072,021 |
| **Non cash changes:** | | |
| Classification as public equity | (2,957,197) | (85,270,968) |
| Classification as grant | - | (19,987,063) |
| Interest charged | 25,266,359 | 6,402,106 |
| Fair Value changes | 15,357,887 | 35,275,523 |
| **Balance at the end of the year** | **1,415,665,516** | **1,378,284,341** |

## 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 £866,336 (2021: £782,846) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2022, nil contributions (2021: £nil) 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.

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

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Development Bank of Wales plc | 110,000 | 530,000 |
| DBW FM Limited | 690,000 | (710,000) |
| **Net surplus/(deficit)** | 800,000 | (180,000) |

## 17. Retirement benefit schemes (continued)

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 | 2022 | | 2021 | |
|---|---|---|---|---|
| | Development Bank of Wales plc | DBW FM Ltd | Development Bank of Wales plc | DBW FM Ltd |
| Rate of increases in salaries | 4.15% | 4.15% | 3.95% | 3.85% |
| Rate of increases in pensions in payment | 2.9% | 2.9% | 2.7% | 2.6% |
| Rate of increase to deferred pensions | 2.9% | 2.9% | 2.7% | 2.6% |
| Discount rate | 2.7% | 2.7% | 2.1% | 2.1% |
| Inflation assumption CPI | 2.9% | 2.9% | 2.7% | 2.6% |

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 2022 | 31 March 2021 | 31 March 2022 | 31 March 2021 |
| Member aged 65 at accounting date | 21.6 | 21.8 | 23.9 | 24.1 |
| Member aged 45 at accounting date | 22.6 | 22.8 | 25.4 | 25.6 |

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 2022 | Asset split 2021 |
|---|---|---|
| | % | % |
| Equities | 67.5 | 72.5 |
| Property | - | 6.3 |
| Government bonds | 11.6 | 8.3 |
| Corporate bonds | 12.7 | 12.3 |
| Cash | 0.6 | 0.6 |
| Multi asset credit | 7.3 | - |
| Other | 0.3 | - |
| **Total market value** | **100.0** | **100.0** |

# Notes to the consolidated financial statements

For the year ended 31 March 2022

## 17. Retirement benefit schemes (continued)

| Reconciliation of funded status to balance sheet | Development Bank of Wales plc | | DBW FM Limited | |
|---|---|---|---|---|
| | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| Fair value of assets | 12,340,000 | 12,190,000 | 22,050,000 | 21,230,000 |
| Present value of funded defined benefit obligation | (10,910,000) | (11,660,000) | (21,340,000) | (21,940,000) |
| Unrecognised asset | (1,320,000) | - | (20,000) | - |
| **Net surplus/(deficit)** | **110,000** | **530,000** | **690,000** | **(710,000)** |

| Amounts recognised in income statement | Development Bank of Wales plc | | DBW FM Limited | |
|---|---|---|---|---|
| | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| **Operating costs** | | | | |
| Current service cost | 270,000 | 180,000 | 900,000 | 610,000 |
| Past service cost | - | - | - | - |
| Total operating charge | 270,000 | 180,000 | 900,000 | 610,000 |
| **Financing Cost** | | | | |
| Interest on net defined benefit (asset)/liability | (20,000) | - | 10,000 | 10,000 |
| **Pension expense recognised in profit and loss** | **250,000** | **180,000** | **910,000** | **620,000** |

| Amounts recognised in other comprehensive income | Development Bank of Wales plc | | DBW FM Limited | |
|---|---|---|---|---|
| | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| Asset (loss)/gain arising during the period | (250,000) | 2,860,000 | (420,000) | 4,920,000 |
| Liability gain/(loss) arising during the period | 1,160,000 | (2,260,000) | 2,000,000 | (5,010,000) |
| Adjustment in respect of unrecognised asset | (1,320,000) | - | (20,000) | - |
| **Total actuarial (loss)/gain** | **(410,000)** | **600,000** | **1,560,000** | **(90,000)** |

## 17. Retirement benefit schemes (continued)

| Changes to the present value of the defined benefit obligation | Development Bank of Wales plc | | DBW FM Limited | |
|---|---|---|---|---|
| | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| Opening defined benefit obligation | 11,660,000 | 9,110,000 | 21,940,000 | 15,890,000 |
| Current service cost | 270,000 | 180,000 | 900,000 | 610,000 |
| Interest expense on defined benefit obligation | 240,000 | 210,000 | 460,000 | 370,000 |
| Contribution by participants | 50,000 | 50,000 | 200,000 | 190,000 |
| Actuarial (gain)/loss on liabilities | (1,160,000) | 2,260,000 | (2,000,000) | 5,010,000 |
| Net benefits paid out | (150,000) | (150,000) | (160,000) | (130,000) |
| **Closing defined benefit obligation** | **10,910,000** | **11,660,000** | **21,340,000** | **21,940,000** |

| Changes to the fair value of assets | Development Bank of Wales plc | | DBW FM Limited | |
|---|---|---|---|---|
| | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| Opening fair value of assets | 12,190,000 | 9,000,000 | 21,230,000 | 15,160,000 |
| Interest income on assets | 260,000 | 210,000 | 450,000 | 360,000 |
| Re-measurement (loss)/gain on assets | (250,000) | 2,860,000 | (420,000) | 4,920,000 |
| Contributions by employers | 240,000 | 220,000 | 750,000 | 730,000 |
| Contributions by participants | 50,000 | 50,000 | 200,000 | 190,000 |
| Net benefits paid out | (150,000) | (150,000) | (160,000) | (130,000) |
| **Closing fair value of assets** | **12,340,000** | **12,190,000** | **22,050,000** | **21,230,000** |

## 18. Deferred income

| Group and Company | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Balance at 1 April | 8,899,379 | 15,304,196 |
| Grant received in the year | 43,735,721 | 16,823,438 |
| Grant released to income statement in the year | (27,560,486) | (23,228,255) |
| **Balance at 31 March** | **25,074,614** | **8,899,379** |

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.

## 19. Financial instruments (continued)

| Carrying value as at 31 March 2022 | Note | Financial assets and liabilities at amortised cost | Financial assets and liabilities designated at FVTPL | Total |
|---|---|---|---|---|
| £ | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | | 1,073,495,399 | - | 1,073,495,399 |
| **Financial assets:** | | | | |
| Measured at market price | i | - | 19,374,466 | 19,374,466 |
| Measured at fair value using other methods | ii | - | 63,902,070 | 63,902,070 |
| Loans to customers | iii | 244,724,895 | - | 244,724,895 |
| Shared-equity loans | v | - | 405,675,444 | 405,675,444 |
| Retirement benefits | iii | 800,000 | - | 800,000 |
| Other receivables | iii | 6,235,620 | - | 6,235,620 |
| Total financial assets | | 1,325,255,914 | 488,951,980 | 1,814,207,894 |
| Non-financial assets | | | | 5,554,331 |
| **Total assets** | | | | **1,819,762,225** |
| | | | | |
| **Liabilities** | | | | |
| Amounts due to principal shareholder at amortised cost | iv | 747,281,927 | - | 747,281,927 |
| Amounts owed to principal shareholder at fair value | v | - | 701,332,267 | 701,332,267 |
| Trade and other payables | iv | 13,626,345 | - | 13,626,345 |
| Total financial liabilities | | 760,908,272 | 701,332,267 | 1,462,240,539 |
| Non-financial liabilities | | | | 25,074,614 |
| Reserves | | | | 332,447,072 |
| **Total reserves and liabilities** | | | | **1,819,762,225** |

During the current year, no assets were within Level 2 of the fair value hierarchy (2021 - £nil).

## 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** |

## 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 2022 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 showing a fair value at 31 December 2021 of £11.1m (31 December 2020: £12m). 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.

The portfolio valuation was calculated as follows:

- valuing the three listed assets at the market price on the valuation date.
- the fair value of the unlisted investments has been valued using the mid-point from a range of values per an expert's valuation report.

Adjustments have been made to the 31 December 2021 valuations as follows:

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

As a result of review of the valuation provided by the fund manager and the review of subsequent adjustments, the Directors conclude that the fair value of the Group's investment in the WLSIF as at 31 March 2022 is £2.6m (2021: £11.5m).

*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).

## 19. Financial instruments (continued)

ii) *Equity investments (continued)*

- 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).

The table below summarises the fair value measurements:

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Multiples | 16,104,437 | 14,883,137 |
| Discounted Cash flows | 1,692,890 | 2,521,250 |
| Net asset Value | 1,820,339 | 1,902,785 |
| Price of recent investment | 37,759,138 | 30,282,686 |
| **Balance at 31 March** | **57,376,804** | **49,589,858** |

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 anticipated future cashflows and discounting these at an appropriate funding rate (level 3 hierarchy as defined below). 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. |

## 19. Financial instruments (continued)

| Reconciliation of level 3 measurements of financial assets | FVTPL Shared-equity loan book 2022 | FVTPL Shared-equity loan book 2021 | FVTPL Other financial assets 2022 | FVTPL Other financial assets 2021 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Balance 1 April | 407,947,929 | 345,995,504 | 65,790,744 | 67,395,113 |
| Additions | 53,891,760 | 64,976,066 | 10,125,756 | 15,294,613 |
| Disposals | (60,387,679) | (34,294,628) | (5,495,712) | (2,680,605) |
| Revaluations | 4,223,434 | 31,270,987 | (6,518,718) | (14,218,377) |
| **Balance 31 March** | **405,675,444** | **407,947,929** | **63,902,070** | **65,790,744** |

### 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.

## 20. Capital and reserves

### Group and Company

| Called up share capital | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **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 | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Movements during the year were:** | | |
| Balance at the beginning of the year | 3,252,510 | 2,786,342 |
| Non-controlling interest capital contribution | 2,061,600 | 300,000 |
| Distribution | (320,000) | (843,913) |
| Share of profit for the year | 185,167 | 1,010,081 |
| **Balance at the end of the year** | **5,179,277** | **3,252,510** |

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.

## 21. Leases

### Group and Company

| Right of use assets | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Net carrying amount | 3,093,075 | 3,304,447 |
| Depreciation expense of the year | 470,959 | 446,983 |

| Amounts recognised in profit & Loss | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Expenses relating to low value leases | 106,696 | 109,232 |
| Depreciation expense on ROU assets | 470,959 | 446,983 |
| Interest expense on lease liabilities | 64,978 | 70,008 |
| Expense relating to short term leases | 78,798 | 70,398 |

| Lease liabilities | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Amounts due for settlement within 12 months (Current liabilities) | 415,209 | 320,142 |
| Amounts due for settlement after 12 months | 2,613,357 | 2,829,987 |
| | **3,028,566** | **3,150,129** |

| Maturity analysis | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Not later than 1 year | 415,209 | 320,142 |
| Later than 1 year and not later than 5 years | 1,633,356 | 1,551,671 |
| Later than 5 years | 980,001 | 1,278,316 |
| | **3,028,566** | **3,150,129** |

The average lease term is 7.3 years (2021: 8.2 years)

## 22. Notes to the consolidated cash flow statement

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| (Loss)/Profit before tax for the year | (17,803,083) | 24,631,175 |
| **Adjustments for:** | | |
| Defined benefit pension costs | 170,000 | (150,000) |
| Interest received | (1,228,007) | (1,225,563) |
| Finance costs | 25,341,338 | 6,482,114 |
| Depreciation of property, plant and equipment | 840,506 | 792,420 |
| Reclassification of intangible assets | 710,421 | - |
| Corporation tax | (2,185,428) | - |
| Reversal of deferred income revenue | (27,560,486) | (23,228,255) |
| Operating cash flows before changes in net operating assets | (21,714,739) | 7,301,891 |
| (Increase) in receivables | (2,745,196) | (122,687,068) |
| Increase in payables | 39,986,328 | 75,237,955 |
| Decrease/(Increase) in financial assets at fair value | 22,655,883 | (79,339,483) |
| **Cash generated/(consumed) during operations** | **38,182,276** | **(119,486,705)** |

## 23. Related party transactions

### Group and Company

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

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

### 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 (2021: £375,000), these fees are charged at the Group's usual prices.

### Transactions with associates

Management have not identified any associates as at 31 March 2022 (2021: 4), the transactions between the Group and its associates during the prior year are as follows:

| Sale of services | | Interest charged | | Loans to related parties | | Loss provision on outstanding balances | |
|---|---|---|---|---|---|---|---|
| 2022 £ | 2021 £ | 2022 £ | 2021 £ | 2022 £ | 2021 £ | 2022 £ | 2021 £ |
| - | 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 £nil (2021: £2,109,428).

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.

# Company balance sheet

## As at 31 March 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| **Non-current assets** | | | |
| Intangibles | 11 | 1,105,770 | 1,585,428 |
| Property, plant and equipment | 12 | 4,448,561 | 3,541,056 |
| Investments | 28 | 1,023,068,270 | 1,011,230,102 |
| | | 1,028,622,601 | 1,016,356,586 |
| **Current assets** | | | |
| Debtors: due within one year | 29 | 1,196,458 | 1,463,966 |
| Cash at bank and in hand | | 549,536 | 695,602 |
| | | 1,745,994 | 2,159,568 |
| **Total assets** | | **1,030,368,595** | **1,018,516,154** |
| **Current liabilities** | | | |
| Trade and other payables | 30 | (1,482,411) | (1,575,379) |
| Deferred income | 18 | (25,074,614) | (8,899,379) |
| Lease liabilities | 21 | (415,209) | (320,142) |
| | | (26,972,234) | (10,794,900) |
| **Net current liabilities** | | **(25,226,240)** | **(8,635,332)** |
| **Non-current liabilities** | | | |
| Trade and other payables | 31 | (721,222,249) | (699,443,613) |
| Lease liabilities | 21 | (2,613,357) | (2,829,987) |
| | | (723,835,606) | (702,273,600) |
| **Total liabilities** | | **(750,807,840)** | **(713,068,500)** |
| **Net assets excluding pension obligations** | | 279,560,755 | 305,447,654 |
| Pension surplus | 17 | 110,000 | 530,000 |
| **Net assets** | | **279,670,755** | **305,977,654** |
| **Capital and reserves** | | | |
| Public equity | | 319,454,949 | 316,487,652 |
| Called up share capital | 20 | 12,500 | 12,500 |
| Capital reserve | | - | 10,100 |
| Profit and loss account | | (39,796,694) | (10,532,598) |
| **Shareholders' funds** | | **279,670,755** | **305,977,654** |

The Company reported a loss for the financial year ended 31 March 2022 of £28,854,096 (2021: loss of £7,183,970).

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 19 August 2022.

Signed on its behalf by:

**G Thorley**
Director

# Company statement of changes in equity

For the year ended 31 March 2022

| | Note | Public equity | Share capital | Capital reserve | Retained Profit | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| **Balance at 1 April 2020** | | 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** |
| (Loss) for the financial year | | - | - | - | (28,854,096) | (28,854,096) |
| Actuarial (loss) on defined benefit pension schemes | 17 | - | - | - | (410,000) | (410,000) |
| Increase in public equity | | 2,957,197 | - | - | - | 2,957,197 |
| Transfer | | 10,100 | - | (10,100) | - | - |
| Sub Total | | 2,967,297 | - | (10,100) | (29,264,096) | (26,306,899) |
| **Balance at 31 March 2022** | | **319,454,949** | **12,500** | **-** | **(39,796,694)** | **279,670,755** |

## 25. Accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention, except for the revaluation of certain financial instruments at fair value.

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 England and 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.

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which reflects a period of at least 12 months from the date of approval of the financial statements and have concluded that there are no material uncertainties relating to going concern. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further details of the Directors' considerations in relation to going concern are included in the Director's Report on page 81.

### 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, fittings and 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.

## 25. Accounting policies (continued)

### Taxation (continued)

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

### Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. 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.

### Amounts owed to principal shareholder: Welsh Government loans (WG 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,

## 25. Accounting policies (continued)

### Loans to subsidiaries (continued)

**Subsequent treatment (continued)**

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.

### 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.

### 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.

### 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.

## 25. Accounting policies (continued)

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

**Critical judgements in applying the Company's accounting policies (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 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.

## 26. Information regarding directors and employees

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Directors' emoluments** | | |
| Emoluments | 542,096 | 517,514 |
| Pension costs | 49,817 | 50,820 |
| | 591,913 | 568,334 |
| **Remuneration of highest paid director** | **210,929** | **216,264** |

One director of the Company and three directors of subsidiary companies were members of the defined benefit pension scheme (2021: one and three).

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Aggregate payroll costs (excluding directors)** | | |
| Wages and salaries | 2,498,789 | 2,382,335 |
| Social security costs | 312,311 | 295,781 |
| Pension costs | 349,080 | 327,932 |
| | **3,160,180** | **3,006,048** |

| | No. | No. |
|---|---|---|
| **The monthly average number of persons employed (excluding directors) – administration** | **61** | **59** |

## 27. Result for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £28,854,096 (2021: loss of £7,183,970). Auditor's remuneration for audit services for the Company was £114,505 (2021: £67,135) and for other taxation advisory services for the Company was £nil (2021: £16,135).

## 28. 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 | 155,027 | 302,165,593 | 278,540,808 | 430,368,674 | 1,011,230,102 |
| Additions | - | 2,957,196 | 29,687,512 | - | 32,644,708 |
| Interest Income | - | - | 33,383,240 | - | 33,383,240 |
| Fair Value gains/(losses) | - | - | - | (34,189,780) | (34,189,780) |
| Disposals/repayment | - | - | - | (20,000,000) | (20,000,000) |
| At 31 March | 155,027 | 305,122,789 | 341,611,560 | 376,178,894 | 1,023,068,270 |
| **Impairment** | | | | | |
| At 1 April | - | - | - | n/a | - |
| At 31 March | - | - | - | n/a | - |
| **Net book value** | | | | | |
| **At the end of the financial year** | **155,027** | **305,122,789** | **341,611,560** | **376,178,894** | **1,023,068,270** |
| At the beginning of the financial year | 155,027 | 302,165,593 | 278,540,808 | 430,368,674 | 1,011,230,102 |

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.

## 28. Investments (continued)

The Company's investments in group companies relate to:

| Direct Subsidiaries | Principal place of business | Holding |
|---|---|---|
| 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** | **Principal place of business** | **Holding** |
| 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 ordinary 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 |

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 in the current and prior year 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.

# Notes to the company financial statements

For the year ended 31 March 2022

## 28. Investments (continued)

Summarised financial information in relation to WMSF LP:

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Turnover | 633,169 | 537,853 |
| Operating profit | 462,916 | 2,525,202 |
| Profit attributable to non-controlling interest | 185,167 | 1,010,081 |
| Fixed assets | 3,405,060 | 2,635,000 |
| Current assets | 1,046,061 | 1,921,568 |
| Creditors: amounts falling due within one year | (85,639) | (58,973) |
| Net assets | 12,312,547 | 8,133,307 |
| Accumulated non-controlling interest | 5,179,277 | 3,252,510 |

## 29. Other financial assets

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Debtors due within one year:** | | |
| Trade debtors | 9,473 | 9,473 |
| Amount owed by group undertakings | 4,019 | 533 |
| Other debtors | 69,339 | 871,032 |
| Prepayments and accrued income | 1,113,627 | 582,928 |
| | **1,196,458** | **1,463,966** |

## 30. Other current financial liabilities

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **Trade and other payables:** | | |
| Trade creditors | 118,413 | 599,954 |
| Taxation and social security | 362,679 | 80,661 |
| Other creditors | 32,896 | 27,512 |
| Accruals | 968,423 | 867,252 |
| | **1,482,411** | **1,575,379** |

## 31. Other non-current financial liabilities

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| Amounts owed to group undertakings | 6,889,000 | 3,889,000 |
| Amount due to principal shareholder | 714,333,249 | 695,554,613 |
| | **721,222,249** | **699,443,613** |

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.

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 50.

## TABLE A: High-level analysis of 2022 and 2021 Pre-tax Consolidated Income Statement (CIS)

| 2022 | | | | |
|---|---|---|---|---|
| | Services | Funds | Consolidation adjustment | Group (per the financial statements) |
| | £m | £m | £m | £m |
| Revenue | 39.8 | 51.3 | (35.5) | 55.6 |
| Operating costs | (35) | (28.1) | 35.5 | (27.6) |
| Provisions made | - | 4.8 | - | 4.8 |
| Changes in fair value | - | (25.3) | - | (25.3) |
| Notional interest charge on WG loans | - | (25.3) | - | (25.3) |
| **Surplus/(Deficit)** | **4.8** | **(22.6)** | **-** | **(17.8)** |

| 2021 | | | | |
|---|---|---|---|---|
| | Services | Funds | Consolidation adjustment | Group (per the financial statements) |
| | £m | £m | £m | £m |
| Revenue | 35 | 46 | (31.2) | 49.8 |
| Operating costs | (30.9) | (24.8) | 31.2 | (24.5) |
| Provisions made | - | 0.3 | - | 0.3 |
| Changes in fair value | - | 5.4 | - | 5.4 |
| Notional interest charge on WG loans | - | (6.4) | - | (6.4) |
| **Surplus** | **4.1** | **20.5** | **-** | **24.6** |

The third column in the above table shows the consolidation accounting adjustments made. When we present group financial statements, 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 financial statements 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 £35.5 million (FY21: £31.2 million) 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 107 as follows:

| | 2022 | 2021 |
|---|---|---|
| All revenue items below are on the face of the CIS | £m | £m |
| Revenue | 26.9 | 25.5 |
| Release of ERDF grant income | 27.6 | 23.2 |
| Investment revenue excluding notional interest on WG loans | 1.1 | 1.1 |
| **Total revenue per Table A** | **55.6** | **49.8** |

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 107.

## TABLE B: Services 2022 and 2021 Pre-Tax Income Statement analysis

| | 2022 | 2021 | Financial statements reference |
|---|---|---|---|
| | £m | £m | |
| Fund management income | 39.8 | 35 | Note (i) after Table C |
| Total revenue | 39.8 | 35 | Table (A) |
| Staff costs | (14.9) | (14.4) | Pg 133 note 6 |
| Other costs | (20.1) | (16.5) | Note (ii) after Table C |
| Total costs | (35) | (30.9) | Table (A) |
| **Surplus** | **4.8** | **4.1** | **Table (A)** |

## TABLE C: Funds 2022 and 2021 Pre-Tax Income Statement analysis

| | 2022 | 2021 | Financial statements reference |
|---|---|---|---|
| | £m | £m | |
| Fees received | 4.3 | 4 | Note (i) below |
| Dividends and interest income | 14.3 | 13.1 | Pg 132 note 5 |
| Notional interest on CWBLS loans | 4.0 | 4.6 | |
| Total dividends and interest income | 18.3 | 17.7 | |
| ERDF grant release | 27.6 | 23.2 | Pg 132 note 5 |
| Net treasury excluding notional interest on WG loans | 1.1 | 1.1 | Pg 134 & 135 sum of amounts shown in note 8 & 9 |
| HTB-W fair value changes: | | | CIS Pg 107 |
| • Realised gain on disposal | 11.1 | 4 | |
| • Unrealised gain in year | 4.2 | 31.3 | |
| • (Increase) in amount owed to principal shareholder | (15.3) | (35.3) | |
| Net HTB-W fair value change shown in CIS | 0 | 0 | |
| Total revenue | 51.3 | 46 | Table (A) |
| Provisions released | 4.8 | 0.3 | Pg 123 note 4 |
| Other fair value (losses)/gains | (16.4) | 5.1 | |
| Non-consolidated fund fair value (loss)/gain | (8.9) | 0.3 | |
| Fund management fees paid | (26.2) | (23.1) | Note (ii) below |
| Other costs | (1.9) | (1.7) | Note (ii) below |
| Notional interest on WG loans | (25.3) | (6.4) | |
| Total costs | (73.9) | (25.5) | Table (A) |
| **(Deficit)/Surplus** | **(22.6)** | **20.5** | **Table (A)** |

**Note (i)** – Fees shown in Note 5 Pg 123 of the DBW Group financial statements 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 CIS on Pg 107 of the DBW Group financial statements 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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