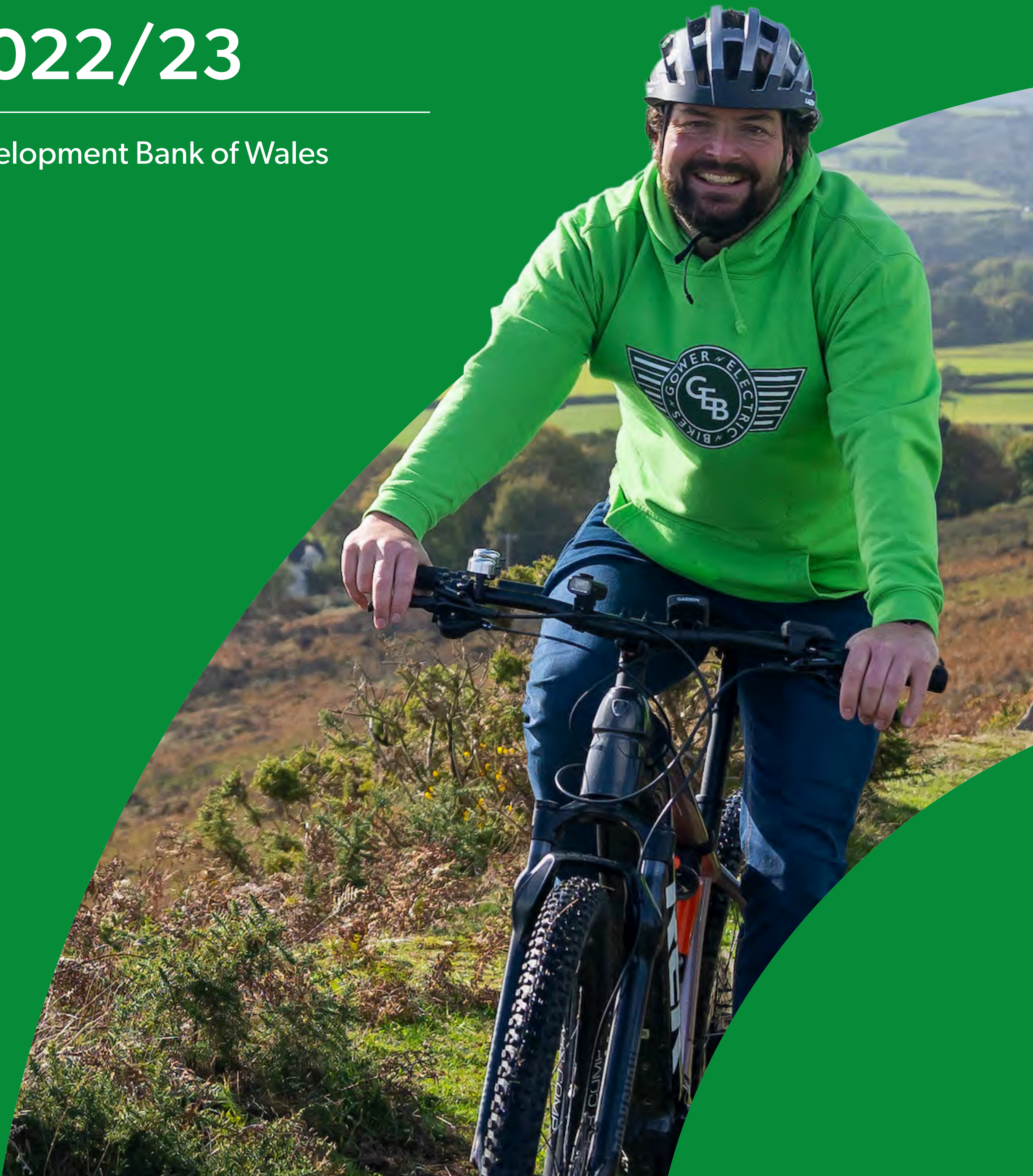
Annual report and financial statements 2022/23

Development Bank of Wales



Officers and professional advisers

Directors

Gareth Bullock OBE Chair

Giles Thorley Chief Executive

Huw Morgan Non-Executive Senior Independent Director resigned 17 November 2022

Roger Jeynes Non-Executive Director Senior Independent Director appointed 18 November 2022

Iraj Amiri Non-Executive Director

Carol Bell Non-Executive Director

Rhys Jones Non-Executive Director

Kate Methuen-Ley Non-Executive Director

Robert Lamb Non-Executive Director

Iestyn Evans Non-Executive Director

Dianne Walker Non-Executive Director

David Staziker Chief Financial Officer

Judi Oates Company Secretary Resigned 1 December 2022

Elizabeth Hitchings Company Secretary Appointed 1 December 2022

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,
Statutory Auditor
30 Old Bailey,
London
EC4M 7AU

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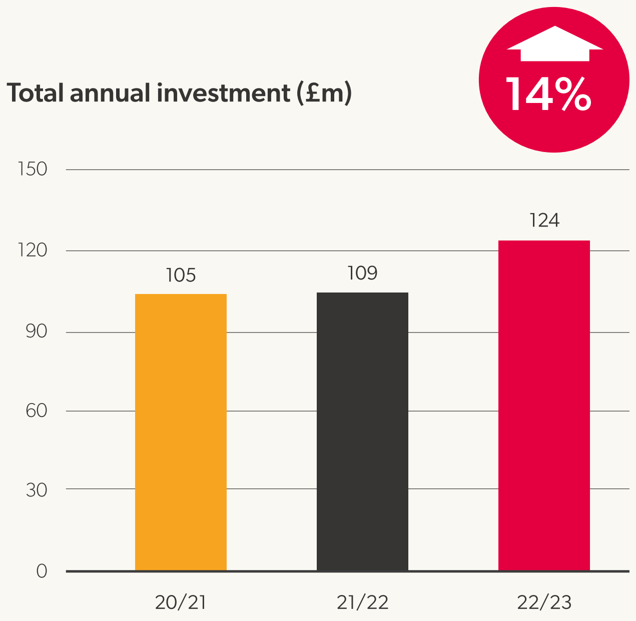
Section one

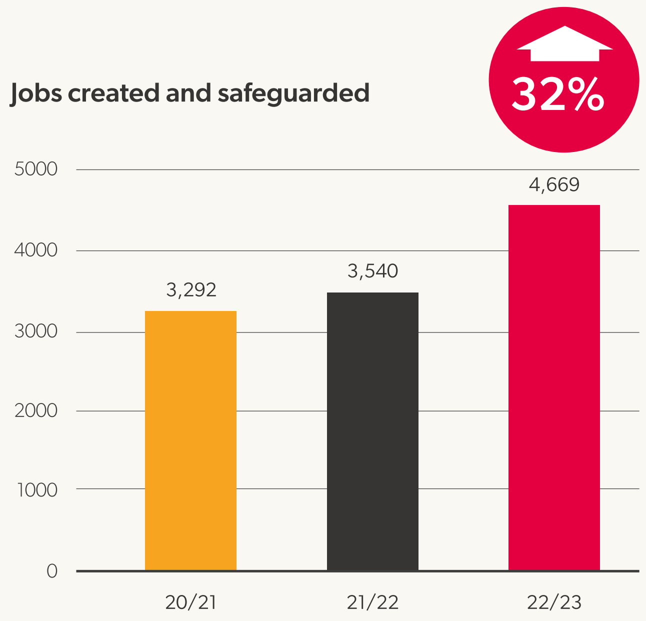
Strategic report

Performance highlights

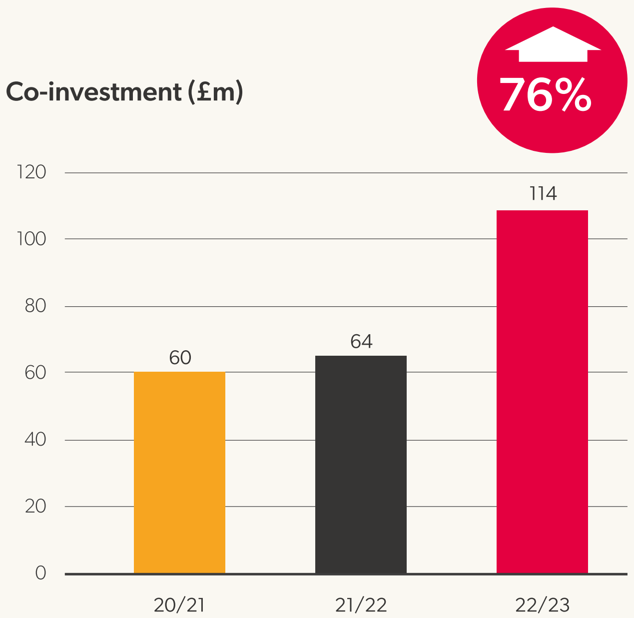
Total annual investment (£m)



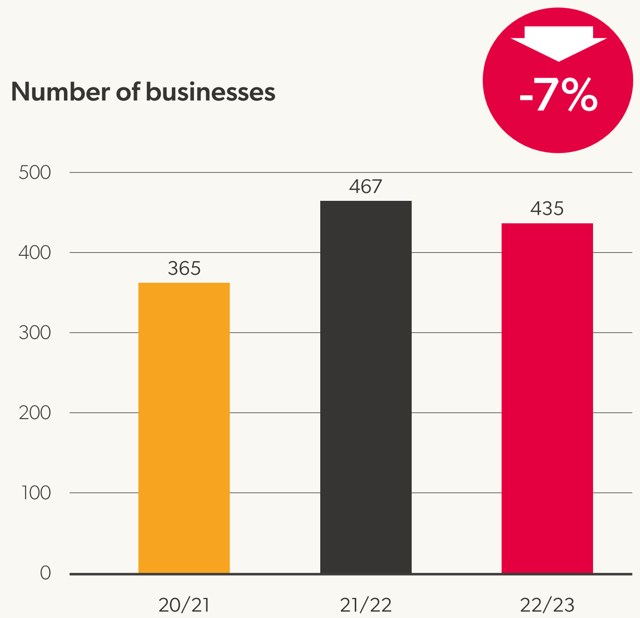
Jobs created and safeguarded



Co-investment (£m)



Number of businesses



Annual performance

435
Number of businesses

516
Number of investments

£240,747
Average deal size

163
Housing units

71,882
Sq ft of commercial property space

£48.3m
Property development finance

282
Number of colleagues

88
Customer NPS®

67
Employee NPS®

*Net Promoter Score

Chair's statement

This last year has been positive for the Development Bank as we have met or exceeded most of our main operational targets in a difficult economic environment. As a bank deploying taxpayers' money, we inevitably must measure ourselves against hard financial targets but our refreshed brand and revised purpose this year reminds us that behind those numbers are the Welsh people, businesses, and communities whose ambitions we help bring to life.

The Board is rightly proud of the Bank's experienced and hardworking management team which our Chief Executive Officer, Giles Thorley, has led to the largest ever annual investment volume of £124.2 million. The team completed 516 individual investments and created or safeguarded 4,669 jobs, a significant increase of 32% on last year.

All our hard work is undertaken within a detailed framework that is enshrined in our remit letter from the Minister for Economy to the Board of the Development Bank along with our corporate plan. This term of government remit, as opposed to the previous series of annual remit letters, lends itself to the reality of how optimal value is best delivered to the Welsh economy. Most of our ambitions and targets require detailed strategic planning as well as specific resourcing and testing, followed by extended periods of implementation. Such projects cannot be completed in a single calendar year. We therefore welcome the space to be able to carefully plan the implementation of the Welsh Government's considered and ambitious agenda within its economic resilience and reconstruction mission.

Fund management

Within our core activity of financing micro-to-medium Welsh enterprises we have listened to our stakeholders and customers and have focused on providing greater access to patient capital and increasing our use of equity stakes. Some of our funds now have the ability to make selected loans with repayment terms of up to 15 years, limiting the impact of debt repayments on regular cashflow and helping business owners take a longer-term view. Whilst recognising that taking on another shareholder is one of the biggest decisions a business will take, we strongly believe that expanding our use of equity stakes is a healthy way for business owners to share risk, deleverage balance sheets and benefit from the support of the trusted, constructive partner the Development Bank always aims to be.

As part of the wider range of activities the Bank now undertakes, we have also continued to use our skills and expertise to help the Welsh Government finance important public infrastructure projects through the Mutual Investment Model approach. This is helping to bring forward investment in important strategic projects that cannot be sure of attracting private sector capital. The new approach will ensure that key transport, hospital, and schools projects are completed.

FW Capital

Our Financial Conduct Authority (FCA) authorised subsidiary FW Capital manages funds in the North of England including regional contracts with the British Business Bank. Annual investment reached over £38 million for 86 different businesses during the year, a record for the team. One of the benefits of FW Capital's activity is the deployment of funds into areas that border Wales that enables us to maximise the potential value of our investments where there are geographic but not economic frontiers. FW Capital is also the authorised vehicle for the Clwyd Pension Fund's £10 million investment into the Wales Management Succession Fund and enhances our overall scale, talent pool, and capabilities, creating valuable additional room for the development of experience, ideas, and new financing structures.

Environmental, social and governance focus

The principles of the Welsh Government's Economic Contract Pledge are at the heart of all that we do, and we continuously refine our environmental, social and governance (ESG)-focused investment decision-making criteria to ensure we support more local, quality employment; improve business productivity, governance, and sustainability; promote a culture of innovation; and encourage equality and diversity and local supply chains. The metrics in our impact framework are aligned with the Well-being of Future Generations Act and UN Sustainable Development Goals and this year saw us sign up to the world's largest voluntary corporate sustainability initiative, Principles for Responsible Investment (PRI). This gives us a blueprint for responsible investment that ensures our financial risks have the best chance of producing positive real-world outcomes; it is a practical approach, not a tick-box exercise.

An important ambition in our remit is to play a meaningful role in supporting the 2050 Net Zero Pathway set by the Welsh Government in March 2021. A crucial first step during the year was the launch of our Green Homes Incentive and the Green Business Loan Scheme, the genesis of which was our desire to respond to an identified market need by acting quickly and constructively in a vital policy sector. In the spirit of not letting the best be the enemy of the good, ours is a 'test and learn' approach as we try to develop financing structures which can potentially suit projects that aid decarbonisation in the Welsh economy and help to embed and prioritise environmental credentials as part of business as usual. We are much encouraged by the early evidence of customer demand.

Economic recovery and future growth

The Covid-19 Wales Business Loan Scheme was launched in March 2020 in response to the pandemic. As we emerge from a very difficult three-year period, there is much speculation in the media about the financial performance of some government backed emergency schemes. To be clear about our own Covid-19 Wales Business Loan Scheme, I am pleased to report that 40% of the £92 million provided by the Bank to 1,331 Welsh businesses during this time has now been repaid. Our current low default rate of 4.6% is largely attributable to eligibility and customer due diligence and we are managing this portfolio very closely to ensure we limit any further defaults.

You will recall last year that I sounded a note of caution about the economic environment. Inflation remains high and economic growth is stubbornly low this year. Whilst we are seeing a larger number of customers move into our higher credit risk categories, requiring more intensive scrutiny and support, this is inevitably translating into an increase in loan provision levels and some negative impact on investment valuations. Our focus on securing recoveries from past defaults has helped to mitigate the negative effects on our balance sheet. At the same time, changes in credit risk appetite from high street lenders are bringing in companies which historically would not have approached us as potential customers. As the economic pressures continue, we will remain vigilant and continue in our efforts to find effective solutions for those of our customers under stress whilst we await the return to stable base rates, lower inflation, and positive economic growth.

Delivering for the people of Wales

Our business is as much about people as it is finance, whether staff, customers, or stakeholders. I am very happy with the positive and constructive relationship that we have built with an increasing number of departments within the Welsh Government. This is enabling us to develop a wider range of ideas and solutions that will in time increase both the flow and variety of finance into Welsh businesses.

Our Board of Directors and management continue to engage with a wide range of stakeholders, with the resumption of physical events and meetings in particular allowing the renewal of personal relationships which remain a crucial factor in effective communication, collaboration and understanding.

Through a determined strategy of focused recruitment and professional development the Bank has built an excellent team of professionals supporting the development of the Welsh economy. Many have developed specialist capabilities and our ability to offer executives exposure to a large variety and volume of business transactions means that we are also developing finance professionals with deep practical experience. I am particularly pleased and proud that we take on and develop young graduates and that we make significant investment in professional development, including coaching and mentoring. I like to think that we have created the Development Bank as a centre of excellence in micro-to-medium business financing for Wales.

I remain impressed and gratified that the Bank is making good progress against all the policy objectives set out in our remit. Once again, my sincere thanks go to all our staff whose professionalism and dedication help to make Wales an attractive place to live, work and invest. All of us in the Development Bank are determined to do more and better.

Gareth Bullock OBE, Chair
31 August 2023

Chief Executive's report

Our purpose at the Development Bank of Wales is to bring ambitions to life and fuel possibilities by increasing the supply and accessibility of finance where market failure exists.

Against a backdrop of rising energy prices, economic uncertainty, and an emerging cost of living crisis, we entered the year more determined than ever to ensure that we had the funding and the firepower necessary to meet customer demand.

As high street banks tightened their credit policies in anticipation of higher interest rates and a possible recession, we stood by our promise of being forever open; and, as we reached our fifth anniversary in October 2022, demand for funding has never been so strong.

Recognising the enormous challenge that small business owners and entrepreneurs have faced in this tougher economic environment, means that my mantra to always remain active supporters and champions of Welsh entrepreneurs has rarely been of more importance. It is therefore, with mixed feelings that I have to start my report for 2022/23 by saying that we've exceeded both our targets and expectations making 516 investments totalling £124.2 million and co-investment of £114.5 million.

It is testament to the maturity of our business and the commitment of our team that we were able to support 435 businesses throughout the year. Over half of these were existing customers in our portfolio, a reflection of the emphasis that we place on ensuring a long-term working relationship with those that we fund. It never has been, and never will be, just about getting money out of the door.

Delivering debt and equity funding with a social impact

Our investment into smaller businesses is only a very small part of the funding needed for the business economy to grow and prosper. It is my belief that our confidence in the Welsh economy will encourage others to maintain and extend their financial commitment to Welsh business.

The funding landscape is also changing with new players in the market and the launch of a £130 million fund for Wales by the British Business Bank this year and the Cardiff Capital Region's £50 million Innovation Investment Capital fund which launched in November 2022. We welcome these new funds as one of our key responsibilities is to foster and grow the financial market here in Wales. We're therefore working closely with these new funders to ensure that all funding is complementary and focused to address genuine market gaps.

We're also adapting to a market without EU funding. Preparation for this has been underway since the 2016 referendum. We have the ongoing commitment of the Welsh Government and our Wales Flexible Investment Fund is well-capitalised as is our Wales Management Succession Fund. This stands us in good stead for whatever the future holds.

The private sector plays an important role, and it is pleasing to see the high levels of co-investment in 2022/23, including large scale funding rounds completed by Coincover, QLM and Creo Medical during the year.

As one of the most active venture capital investors in the UK, we've continued to provide equity finance as a key enabler of business growth. It plays an important role in the complete life cycle of business funding from seed and early-stage investment through to established, privately-owned businesses looking to fund succession and exit. Indeed, over £20 million was invested in succession deals during the year, retaining wealth and goodwill in Wales. I'm pleased to report that we have a steady stream of deals in the pipeline for 2023/24.

The delivery of debt and equity funding with a social impact is helping to facilitate an entrepreneurial culture in Wales from foundational through to high-growth businesses. Championing young entrepreneurs, and activity aimed at increasing participation by female and minority ethnic entrepreneurs, have been an important part of our work in 2022/23 to build a diverse and sustainable economy for the future as is our work with underrepresented groups to help improve social justice and financial inclusion.

Promoting and advancing a green future in Wales

Our five-year corporate plan for 2022/27 sets out our commitment to supporting our new and existing customers to address decarbonisation, reduce their energy consumption and drive the evolution to a low carbon Wales.

The launch of the Green Business Loan Scheme was met with immediate demand and 33 new business enquiries were received in the first month alone. This highlights that the market is ready for innovative financial instruments that can and will advance the ambitions for a green future in Wales. We've continued to improve our knowledge, skills and understanding by working collaboratively with stakeholders like the Future Generations Commissioner for Wales, Innovate UK, and NESTA, the UK innovation agency for social good. We also joined the UK Public Financial Institutions Green Finance and Sustainability Forum along with other bodies like the British Business Bank, UK Infrastructure Bank and Scottish National Investment Bank to consider how best we can share insight and expertise to advance impact investment across the UK.

Improving the energy efficiency of Wales's housing stock is another one of the key environmental challenges that we face. The launch of our £33 million Green Homes Incentive in July 2022 gives new home developers a reduction in loan repayment fees of up to 2% subject to a qualifying criteria that includes EPC A Rating/Passivhaus status, non-concrete structures and non-fossil fuel heating systems. However, the bigger task is supporting the decarbonisation of the existing housing stock in Wales and this will continue to be a focus for us as we move in to 2023/24. Our work with the Welsh Government and NESTA will help to identify the key efficiency opportunities for householders.

Our Local Energy Fund has been helping community groups, social enterprise, local ownership models and SMEs. A natural extension of this fund is under consideration for larger community energy schemes like onshore wind and solar energy generation that could create a virtuous circle with the investment proceeds being returned to the community to further invest in local businesses. The size of our customer base also has the potential to support efforts to see Wales becoming a hub for green technologies. It's a win-win and fits nicely with our focus on ESG investments.

Delivery excellence, customer-faced, financial sustainability

All that we do in the market is supported by the research of Economic Intelligence Wales. The unique collaboration between the Development Bank, Cardiff Business School and the Office for National Statistics (ONS) was joined by Bangor Business School and the Enterprise Research Centre in October 2022. Together, we're developing further insights into the issues affecting the Welsh economy so that we can continue to meet the evolving needs of our customers.

This collaboration is particularly important given that the quarterly report that was published in early 2023 suggests that challenging conditions remain for SMEs in Wales. We're therefore carefully tracking what is happening in our economy and this data is used to optimise delivery impact and demonstrate clear value for money as we evolve our support for customers. We also know that key stakeholders like the Federation of Small Businesses, Institute of Chartered Accountants in England and Wales and Business Wales value the information produced.

Of course, our ability to quickly expand delivery in line with the growing needs of the market is attributable largely to continuous investment in our systems and processes and our people. We welcomed 60 new starters to the Development Bank team in 2022/23, taking our overall headcount to 282. I was also particularly pleased to confirm 10 internal promotions, all of whom came through our career progression framework.

A look ahead

As we embark on the second year of our latest corporate plan, I want to thank our team, our Board of Directors and Gareth Bullock as our Chair for all that they have done throughout 2022/23 to support businesses the length and breadth of Wales. It really has been a team effort.

Our people are our greatest asset and fundamental to our long-term success, We'll move forward in 2023/24 by working with our colleagues to maintain delivery excellence for the long-term sustainability of the Welsh economy and the businesses that we support.

Giles Thorley, Chief Executive
31 August 2023

A purpose led organisation

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

2,200
Support over 2,200 businesses

1,900
Fund 1,900 new house builds

20,000
Over 20,000 jobs supported

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

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

60
Maintain a customer NPS®* of 60

*Net Promoter Score

60
Maintain a employee NPS® of 60

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

Five–year phase strategic objectives 2022/27

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

Holbrook Dubs
Vale of Glamorgan

Our funds and services

- Debt
- Equity
- Debt and Equity

<table>
<tr><th>Fund</th><th>Seed</th><th>Early stage tech</th><th>Start-up business</th><th>Growth</th><th>Succession</th><th>Property</th><th>Fund administrative services</th></tr>
<tr><td colspan="8">Business Funds</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 Business Fund</td><td></td><td></td><td colspan="3">£50k - £5m</td><td></td><td></td></tr>
<tr><td>Wales Flexible Investment Fund*</td><td></td><td></td><td colspan="3">£25k - £10m</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>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 Rescue and Restructure Fund</td><td></td><td></td><td></td><td>£50k - £2m</td><td></td><td></td><td></td></tr>
<tr><td>Wales Technology Seed Fund II</td><td>£50k - £450k</td><td></td><td></td><td></td><td></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>Local Energy Fund</td><td></td><td></td><td>£50k - £2m</td><td></td><td></td><td></td><td></td></tr>
</table>

*(includes Green Business Loan Scheme)

<table>
<tr><th>Fund</th><th>Seed</th><th>Early stage tech</th><th>Start-up business</th><th>Growth</th><th>Succession</th><th>Property</th><th>Fund administrative services</th></tr>
<tr><td colspan="8">Property Development Funds</td></tr>
<tr><td>Wales Stalled Sites Fund</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>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 colspan="8">Personal Lending for Homes</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></td><td>% of Build cost</td></tr>
<tr><td>Leaseholder Support Scheme</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="8">Infrastructure</td></tr>
<tr><td>Mutual Investment Model</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="8">FW Capital</td></tr>
<tr><td>Northern 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>North East Commercial Property Investment Fund</td><td></td><td></td><td></td><td></td><td></td><td>£1m - £7m</td><td></td></tr>
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Working with the Welsh Government

Vaughan Gething MS

Minister for Economy

"I'm delighted to see the Development Bank of Wales is delivering record levels of equity investment with a set of results that prove what an asset it has become for the Welsh economy.

"The Welsh Government created the UK's first regional bank to help businesses access the sustainable and effective finance they need to grow and develop. Through its broad suite of funds, the Bank has helped hundreds of businesses in a diverse range of sectors to leverage investment and create jobs.

"We will work with the Bank as it continues to innovate, introducing new products to help businesses reduce their energy consumption and transition to Net Zero. I look forward to our continued partnership during challenging times as we work to support better jobs in stronger businesses across Wales."

Rebecca Evans MS

Minister for Finance

"In the face of economic turmoil and the resulting financial challenges facing businesses across Wales, the Development Bank has further developed its support for our economy. This annual report sets out how the Development Bank is providing vital finance, helping businesses to develop and grow.

"As a key delivery partner, we continue to work together to build an economy for now and for Wales' future based on the principles of sustainability and fairness.

"Thank you to those at the Bank for their professionalism and commitment to serving the business community in Wales over the past year."

Julie James MS

Minister for Climate Change

"I welcome the steps taken by the Development Bank of Wales to share our vision for tackling the climate emergency and move towards Net Zero.

"The new Green Business Loan Scheme is addressing business demand for green finance by helping businesses overcome barriers to investment in decarbonisation, as well as providing a means to counter high energy costs.

"In addition, the Green Homes Incentive offers tapered reductions in property loans based on the extent of the energy efficiency and low carbon measures SME developers incorporate into their housing developments.

"I am pleased the Development Bank of Wales continue to work with us in finding ways to address the differing housing needs of the people of Wales through the provision of property finance with a greater emphasis on the provision of low carbon homes.

"This will not only improve the energy efficiency of new homes but also help to bring down costs for homeowners, which is so important during the continuing cost-of-living crisis.

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

2022/23 has been a big year for investments. The numbers are impressive with a record amount of equity and debt finance totalling £124.2 million awarded to businesses ranging from start-ups to management succession spanning all sectors and reaching all corners of Wales.

Equity investments saw growth with an increase of some 97% from £11.6 million in 2021/22 to £22.9 million in 2022/23. This reflects the efforts that we have put in to make businesses aware of the value of equity investment and the work that we have done with other funders and co-investors like Wesley Clover, Mercia and Pi Labs to promote the commercial opportunities here in Wales and stimulate demand.

However, we know that economic conditions are still fragile and data from our research partners at Economic Intelligence Wales does suggest a risk of increased insolvencies in the coming year. We're here to help those businesses that are facing a tough time, stepping in to provide finance where market failure exists.

Of course, we operate on commercial terms, but we recognise the need to achieve a balance of social and financial outcomes. This has been a key driver of our growth in the last year as high street lenders have withdrawn from the market, giving us the opportunity to step in and plug the gaps. It also explains why our average deal size has grown over the past year by 14% to £240,748.

Growth from the bottom up

The long-term sustainable growth of our economy starts with supporting entrepreneurs as they move their business idea from concept to creation. 2022/23 saw us investing £14.32 million in start-ups and early stage companies, as well as supporting 320 different businesses with micro loans. Almost half of these were fast track loans for businesses trading for two years or more, who value the quick decision making and simple application process.

Facilitating an entrepreneurial culture in Wales means that we're seeing more young people applying for funds to start-up and grow their business ventures. We invested in £16.9 million in 111 young entrepreneurs this year, an increase from 106 in 2021/22, with one company supported having the youngest director and shareholder aged just 17. Rosa Cundill from Neath is an inspiration to us all having set up her own bakery serving organic breads, pastries, and cakes with the help of her parents and a micro loan from the Development Bank.

Young entrepreneurs and start-up businesses are a big part of our future in Wales which is why we are always keen to proactively manage our customer relationships and offer support throughout the lifecycle of a business. Follow-on funding is an important part of this as a business scales up for growth. For example, a six-figure investment from our Wales Flexible Investment Fund in early 2023 for vegan beauty brand Mallows Beauty is helping to fund product development and export growth. With a mix of debt and equity, it's the second investment that we've made in this fast growth business since 2021.

Growth in key sectors

Tourism is big business in Wales, accounting for around 8% of our economy and employing over 12% of our workforce. But it is a sector that continues to face significant challenges post Covid with labour shortages and rising costs. The Wales Tourism Investment Fund has stepped up in the last year with £7.8 million being awarded to tourism businesses that are demonstrating real commitment to Welsh Government's Economic Contract.

Property has also seen significant growth with investment in 23 different projects totaling 163 new homes and 71,882 square feet of commercial space as our work in progress continues to mature across Wales.

£6.7 million from our Commercial Property Fund represented almost double the investment made in 2021/22 with developments like FABCO Holdings approaching completion of 18 units at Felindre Court, part of Pencoed Technology Park.

Funded by the Development Bank in March 2023, all have been pre-sold.

The property sector is also benefitting from the introduction of our new Green Homes Incentive. The first residential developer to access the fund in January 2023 was Cardiff-based Wellspring Homes with a £1.2 million loan to part-fund the build of eight sustainable homes using Hempcrete in Neath.

Meanwhile, away from the building sites, our technology funds also performed well with 31 different tech ventures supported throughout the year totalling £10.9 million. That growth included a third equity investment for Hut Six Security Limited, the Newport-headquartered developer of software-based information security training products.

Growth in co-investment

Our SME funding helped bring in an additional £114.5 million of co-investment from private sector partners or leverage of 1:1.36 in 2022/23. This does include three particularly large deals with a £32.3 million funding package for Creo Medical, £10.8 million for QLM and £12 million for Coincover. All demonstrate how our funding and long-term relationships with customers can be a catalyst for further growth.

Investors registered with Angels Invest Wales rose to 334 with 102 individual angel investments made during the year. I am particularly pleased to report that we've seen growth in the number of female investors in Wales following the launch of Women Angels of Wales in late 2022. Led by lead investor Jill Jones, the syndicate now has more than 30 successful female entrepreneurs and business leaders working closely with the Development Bank to invest in women in Wales, for Wales. We're looking forward to the first deal being completed in the new financial year.

Growing our focus on environmental, social and governance

2022/23 has seen us further grow our role as a responsible investor, evolving our decision-making processes to increasingly focus on environmental, social and governance factors. We've made big strides in terms of how we capture data enabling us to collect a broader suite of information about the impact that our investments have.

Of course, as Gareth has already mentioned, we have signed up to the United Nations-supported Principles for Responsible Investment (PRI) but we're also seeing more appetite from our customer base who want the commercial benefits of the third-party endorsement that comes from accreditations. Data-driven marketing and technology agency Yard achieved B Corp Status in early 2023, just two years after completing a seven-figure management buy-in that was part-funded by our £25 million Wales Management Succession Fund. A great result all round.

Business succession and the growing trends

There has been a definite increase in demand for succession funding with 44 businesses having accessed £20.6 million to finance succession deals. £3.9 million of this came from our £25 million Wales Management Succession Fund which is financed by the Welsh Government and Clwyd Pension Fund. Loans and equity are available for management teams that want to run and own their businesses, allowing founder Directors to pursue other interests and/or retire.

Growth outside of Wales, for Wales

It's not just Wales that has seen growth this year. FW Capital received an additional funding boost of £9.5 million as part of the Northern Powerhouse Investment Fund (NPIF). It's now a £171.6 million fund comprising of £102.2 million in the North West, and £69.4 million in Tees Valley and Cumbria.

We also welcomed the launch of the £35 million North East Commercial Property Investment Fund that is managed by FW Capital and backed by the North East Local Enterprise Partnership (LEP). With a strong pipeline of deals, it's a mirror image of our Wales Commercial Property Fund, enabling us to maximise our value and export our skills.

Planning for future growth

The growth of our business and the funds that we manage means that we are now operating in an increasingly complex environment, delivering investments, working with co-investors to maximise the flow of private capital in Wales and providing expert, independent fund management services.

As a long-term provider of patient capital, we'll continue to work hard to develop the market in Wales and support both our new and existing customers with debt and equity in a sustainable and effective way. We have funding available, expertise in the team and our network, and we're investing in our processes and systems to improve the customer journey. That will remain our focus in the coming year.

Mike Owen, Group Investment Director
31 August 2023

Core:

Deliver debt and equity funding with a social impact

Progress against our strategic objectives

Core: Deliver debt and equity funding with a social impact

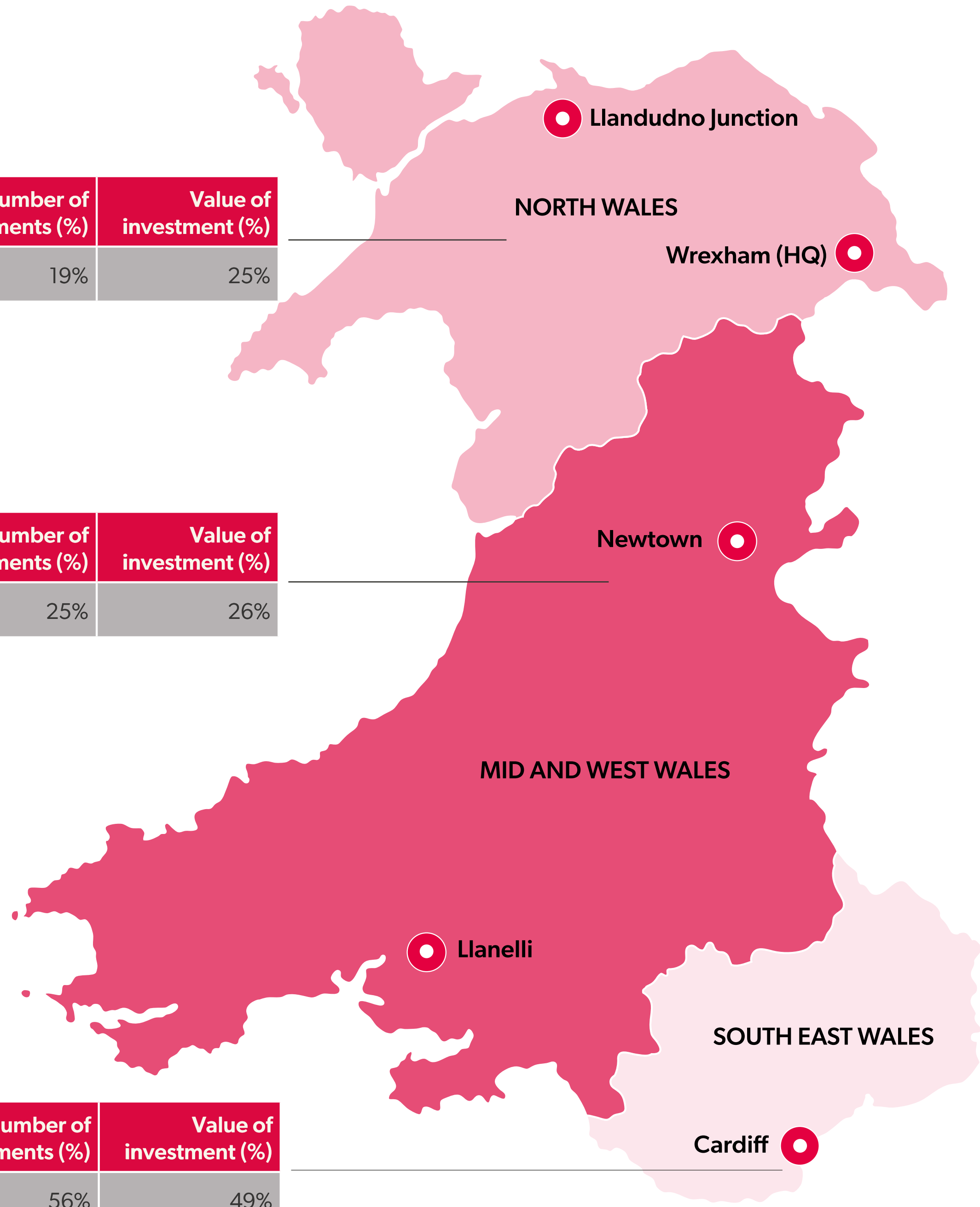
We're making investment accessible for as many businesses as possible across the whole of Wales and continuing to play our part in balancing the economies of the Welsh Government's three economic regions.

2022/23 was a record year for investing at £124 million including a March investment total of £22 million. Number of investments fell slightly from 519 in 2021/22 to 516, while the average investment size across all funds, increased from £210k and £240k reflecting increased and persistent UK inflation.

A key priority in the year was delivery of the ERDF backed Wales Business Fund , prioritised to West

Wales and the Valleys, ensuring that businesses in economically deprived areas benefit from the full amount of funding available.

Investing across Wales



North Wales

Number of SME businesses *	Number of investments (%)	Value of investment (%)
25%	19%	25%

Mid and West Wales

Number of SME businesses *	Number of investments (%)	Value of investment (%)
26%	25%	26%

South East Wales

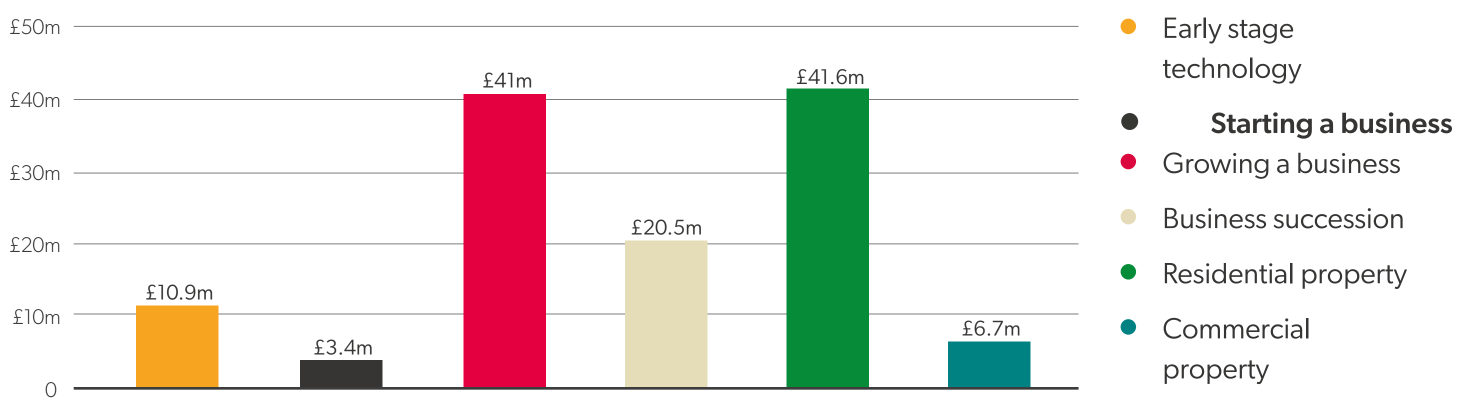
Number of SME businesses *	Number of investments (%)	Value of investment (%)
49%	56%	49%

* Source: Office for National Statistics. https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/14936smallandmediumenterprisesinwales

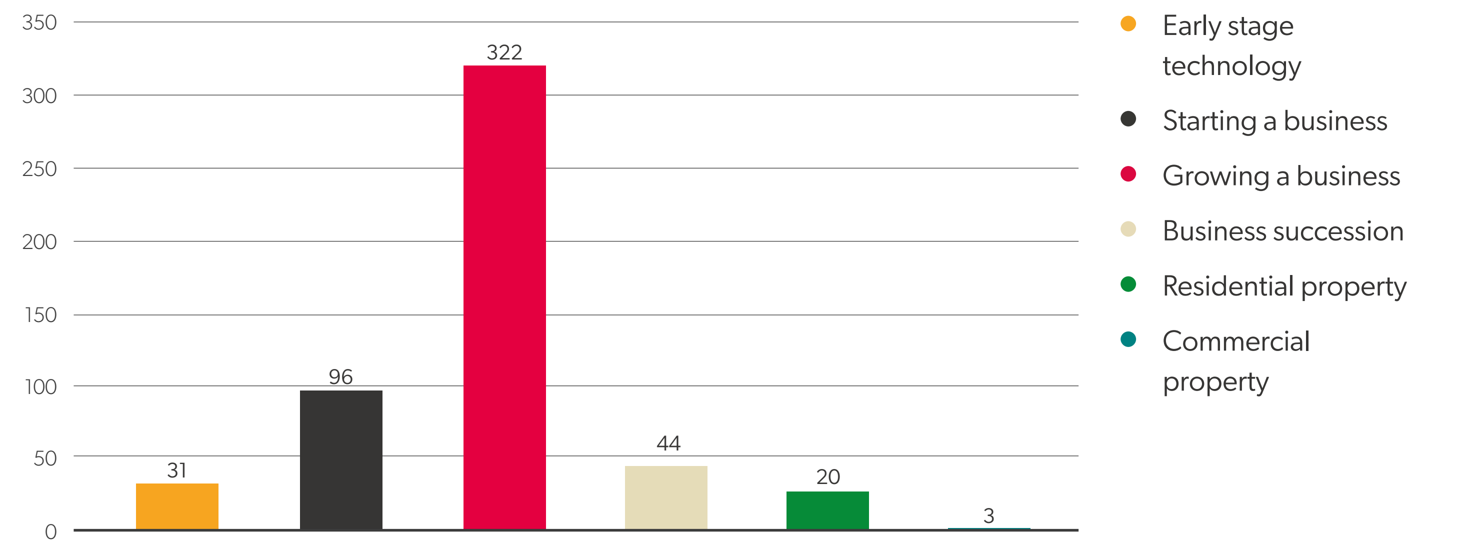
Supporting businesses at each stage of their journey

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



Number of investments by stage of business



Start-up and early stage

Funding for early stage and start up businesses decreased slightly year on year, from £15 million to £14.3 million. This is indicative of trends in the wider economy which saw a sharp fall in the volume of business births in the first half of the year.[1]

Within this total, support for seed and early stage technology businesses increased by 40% from £7.8 million to £10.9 million with the number of deals increasing 24% from 25 to 31.

Case Study

Against the Grain

Region: South Wales

Type of finance: Micro loan

Business need: Starting a business

Investment: £15,000

Former customer service professional Frazer Twigg was inspired to set up Against the Grain by his long-term partner Chris, who was diagnosed with coeliac disease in 2018.

The Cardiff couple found there were no coffee shops or bakeries locally which could guarantee completely gluten free ingredients.

This led to them opening Against the Grain in June 2022 as Wales' first completely gluten free coffee shop, offering a range of light meals and home-made snacks – allowing customers with gluten intolerance and related conditions to safely enjoy food and drink without running the risk of cross-contamination.

The Development Bank of Wales backed the couple with a £15,000 micro loan, allowing them to fit out their new venue in Whitchurch.

1 https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/inessdemographyquarterlyexperimentalstatisticsuk

Case Study

Gower Electric Bikes

Region: West Wales

Type of finance: Micro loan

Business need: Starting a business

Investment: £17,000

Gower Electric Bikes was founded by Tom Clulee and Joe Matthews to help more visitors and locals explore the stunning scenes and landscapes around Gower, which became the UK's first Area of Outstanding Natural Beauty in 1956.

Supported with £17,000 from the Wales Micro Loan Fund, the company uses a fleet of Trek Powerfly battery-powered bikes allow less experienced cyclists to tackle the area's stunning terrain without the need for athletic levels of physical fitness.

Gower Electric Bikes also aim to use 100% renewable energy to charge their bikes, using local solar panels and green energy suppliers.

Business succession

Succession continues to be a priority policy area for the Welsh Government and for the Development Bank, retaining business in Welsh ownership. Employee ownership can take a number of forms and the primary transaction type supported by the Development Bank continues to be the Management Buy Out. In total 44 succession companies were supported with succession finance of £20.5 million.

£3.9 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, and the Wales Flexible Investment Fund.

Case Study

Reel Label Solutions

Region: South Wales

Type of finance: Equity and loan

Business need: Buying a business

Investment: £1.2million

The Development Bank invested £1.2 million in Pontyclun-based printing specialist business Reel Label Solutions to fund a shareholder restructure and provide funding for capex investment as the company embarked on a programme of growth led by newly-appointed Jonathan Wright as Managing Director. Funding for the investment came from the Wales Business Fund and the Wales Management Succession Fund.

Reel Label Solutions was established in 2002 by founding directors Jonathan Wright, Paul Prothero and Chris Duffin. The investment of £1.2 million is a mixture of debt and equity from the Development Bank with former Sales Director Jonathan Wright becoming the majority shareholder and Managing Director following the exit of Paul Prothero and partial exit of Chris Duffin.

Based on Cambrian Industrial Estate , the company employs 27 and specialises in high-quality digital labels, in particular short-run production of digital adhesive labels and flexographic label printing.

Case Study

Avantis Marine

Region: South Wales

Type of finance: Equity

Business need: Buying a business

Investment: Undisclosed

A Bridgend-based technology service provider for the marine sector completed a management buyout (MBO) with a seven-figure package from the Development Bank and HSBC UK, with funding coming from the Wales Management Succession Fund.

Established in 2019, Avantis used equity investment from the Development Bank to complete the MBO from current owners Envoy and Partners, with young entrepreneur Thomas David taking up the role of Chief Executive Officer. At 30 years of age, he is supported by Chairman Chris David, Chief Operating Officer Jack Jenkins and Chief Commercial Officer, Leon Solder.

The MBO helped to secure long-term employment opportunities in South Wales and internationally, as well as enabling the management team to have control over day-to-day operations.

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[2] , shows that Wales is home to 1,583 high growth companies, representing 3.5% of the UK total. Their research further shows that 0.31% of active enterprises registered at Companies House have used equity investment to fund their growth. This compares with a UK figure of 0.37% showing that when it comes to the proportion of equity backed businesses in the economy, Wales is broadly comparable with the wider UK data.

The value of our equity transactions almost doubled in 2022/23, from £11.6 million to £22.9 million, a reflection of efforts in recent years to stimulate demand for investment in Wales. We have continued to invest heavily in our efforts to grow the market, including attracting co-investors to Wales, diversifying the sources of capital available to Welsh entrepreneurs.

2 https://www.beauhurst.com/wp-content/uploads/2023/06/Beauhurst-Equity-Investment-in-Wales-2023.pdf sources of capital available to Welsh entrepreneurs.

Case Study

Halo Therapeutics

Region: South Wales

Type of finance: Equity

Business need: Developing a tech venture

Investment: £1 million

Medical technology pioneers Halo Therapeutics came to Wales from Bristol following an investment of £1 million by the Development Bank.

Clinical trials of an easy-to-use home therapeutic treatment for SARS-CoV-2 (coronaviruses) are due following a £1.52 million investment led by the Development Bank alongside Science Angel Syndicate members and the KBA Group, an angel consortium of high-net-worth individuals co-led by Dr Nikolaos Kostopoulos and Paras Barot.

Based on world-class research carried out at Bristol University, Halo Therapeutics was established as a spin-out company in 2020 by Dr Daniel Fitzgerald, Professor Christiane Schaffitzel, and Professor Imre Berger. Halo Therapeutics has been attracted to Wales following an £1,000,000 equity investment by the Development Bank of Wales and will be initially based at Welsh ICE, Caerphilly.

This first-in-human study of Halo Therapeutic's respiratory antiviral spray for coronaviruses will investigate the safety and tolerability of the treatment prior to subsequent studies being conducted in patients that are SARS-CoV-2 positive or are at risk of becoming SARS-CoV-2 positive.

Angels Invest Wales

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

The number of transactions facilitated by the network remained steady at 25 while total value of investment decreased from £3.3 million to £2.3 million. Increased efforts in building the investor base delivered an additional 35 angels, growing the network to 334 investors, while a strategic focus on our efforts to diversify the investor base resulted in an increase in the proportion of female investors growing from 10% to 16%.

This growth in the female investor base and the support of the network, resulted in more than 30 of Wales's most successful female entrepreneurs and business leaders uniting to form Women Angels of Wales, a new business angel investment syndicate for women led by lead investor Jill Jones.

It comes as the latest report by the UK Business Angels Association (UKBAA) suggests that despite female angel investors having helped drive more than £2 billion of investment in companies across the UK in the past decade, women remain a minority in angel investment. This shortage of women angels has a direct impact because data shows that women are much more likely to invest in female-founded companies.

Case Study

Explorage

Region: North Wales

Type of finance: Equity

Business need: Growing a business

Investment: Over £100,000

Based in Anglesey, Explorage.com is an online marketplace that allows self-storage facilities to list their space and customers to find, compare and instantly reserve the right space for their needs.

There are approximately 27,000 new storage bookings each month in the UK, and the sector is now worth an estimated £48 billion annually. Yet comparing and reserving the right solution can be an inconsistent and long-winded process.

In November 2022, a syndicate of nine business angels joined the Development Bank of Wales and M-SParc in backing owner Anna Roberts as she prepared to launch Explorage.com's online platform. Huw Bishop of Camau Nesaf was the lead investor of the syndicate that invested a six-figure sum in Explorage, with Angels Invest Wales providing match funding from the Wales Angel Co-investment Fund. Recognising the company's potential, M-Sparc's Accelerator Programme also committed funding to Explorage.com.

Anna used the money to make key hires and begin regional rollouts throughout the UK, and Explorage has since received additional equity funding from our Technology Seed Fund to further develop the technology behind Explorage.com.

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 held up well in a year when the Building Cost Information Service (BCIS) Private Housing Construction Price Index (PHCPI)[3] reported inflation in the housebuilding sector of 12.8% at the end of 2022. In total, £48.3 million was invested across our property funds, delivering 163 housing units, 28 of which were affordable homes and 71,882 square feet of new commercial property space. In total, 20 projects received funding from the Development Bank.

The Green Homes Incentive was launched in July 2022, the first of our green finance initiatives to be delivered. Funded by the Welsh Government, residential developers who meet green standards can access a reduction in loan repayment fees of up to 2%. Through the scheme we are targeting our support to help deliver more thermally efficient and lower carbon homes in Wales.

Finance for up to 100% of building costs is available with interest rolled-up throughout the loan term. Eligibility will depend upon qualifying criteria that includes Energy Performance Certificate (EPC) A Rating/Passivhaus status, non-concrete structures and non-fossil fuel heating systems.

The operation of buildings accounts for around 30% of emissions in the UK, mainly from heating, cooling and electricity use. For new buildings, the embodied emissions from construction can account for up to half of the carbon impacts associated with the building over its lifecycle.

The latest data from the Royal Institution of Chartered Surveyors (RICS) (2020) shows 77% of all new builds in Wales achieved an EPC B rating, with only 5% achieving an A rating. Additional insulation, double/triple glazing and solar panels can all help to improve EPC ratings.

It is also widely accepted that alternative structures such as timber frames, hempcrete blocks, limecrete blocks and mycelium bricks have a lower carbon impact than concrete. The use of timber frames has become more commonplace over the last decade but recent global pressures on timber cost and availability have led to a number of developers reverting to concrete hence the need for financial incentives. Developers that install non-fossil fuel heating systems will also be able to benefit from the new incentive as ground and air source heat pumps significantly reduce operational energy demand during the life of a property.

The incentive has proven highly popular since launch, with £9m sanctioned across 10 deals within the first nine months. These combined 10 deals are set to deliver a range of lower carbon measures across 42 new build houses in Wales, including 16 EPC A, 37 non-concrete structures and 16 air source heat pumps. Demand for the funding remains strong with a healthy pipeline in place for 2023/24.

3 https://bcis.co.uk/news/housebuilding-costs-continue-to-increase/

Case Study

Wellspring Homes

Region: South Wales

Type of finance: Green loan

Business need: Property development

Investment: £1.2 million

A £1.2 million property development loan for Cardiff-based Wellspring Homes was used to part-fund the build of eight sustainable homes at Pearson Way, Neath.

The loan was the first to be provided under the Development Bank's discounted Green Homes Incentive.

Just minutes from the M4 corridor, the development will offer four four-bedroom detached family homes alongside four two-bedroom semi-detached properties. With an A Grade energy rating, all will be fitted with air source heat pumps and will be built using Hempcrete, a natural "better-than-zero-carbon" material.

Supporting young entrepreneurs

Our research with customers has helped us understand how we can better support young entrepreneurs to start their own businesses.

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. This year, making sure more young entrepreneurs know we're there to help them has been a priority and we have worked to build awareness of the Development Bank by sharing the stories of successful role models. We have continued to work in partnership with organisations like Big Ideas Wales and The Prince's Trust so that young entrepreneurs have access to the support they need.

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

The 2022/23 financial year saw us support 111 young entrepreneurs (i.e., directors who were 30 or younger when we closed a deal with them), with £16.9 million invested, an increase of £10 million on the £6.9 million invested in 2021/22.

We have been working to review our approach to ensure that we continue to reach people under 30 who wish to start or grow their own business.

Case Study

Maggie Cross

Region: West Wales

Type of finance: Micro loan

Business need: Growing a business

Investment: £5,000

Young entrepreneur, jeweller and silversmith Maggie Cross expanded her boutique jewellery business with the help of a micro loan from the Development Bank of Wales.

The 29-year-old single mum makes minimal but fun jewellery using traditional silversmithing techniques and recycled precious metals from her studio in Cardigan. She trained at the School of Jewellery in Birmingham and is using workshops in the famous Jewellery Quarter for casting.

A £5,000 loan from the Development Bank was used to invest in stock, casting and materials as she began scaling-up to meet customer demand, along with a program of workshops.

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 and benchmarking to ensure our rates and fees are in line with the market.

Our strategic activity developing strong co-investor relationships remains a priority and we have continued to promote investment opportunities within our network resulting in co-investment of £114 million for our customers in 2022/23.

Case Study

CanSense

Region: South Wales

Type of finance: Equity

Business need: Developing a tech venture

Investment: £500,000

Swansea-based CanSense developed a blood test which aims to save lives by diagnosing bowel cancer at an early stage.

CanSense's test combines laser spectroscopy with artificial intelligence, and is more effective, acceptable and efficient than conventional tests such as faecal testing or invasive colonoscopies.

It can also detect polyps before they develop into cancer, and can rule out cancer with a higher degree of accuracy – meaning fewer patients will have to go on to more invasive tests. Currently, fewer than one in ten patients who have a colonoscopy are found to have cancer and unnecessary procedures are estimated to cost the NHS around £300m a year. Its test also reduces pressure on diagnostic resources, and earlier detection reduces the costs associated with late-stage cancer.

The Development Bank invested in Cansense alongside Nonacus and Mercia, with total investment during the round reaching £1.5m. The investment will allow the company to develop its products and bring its test to market.

CanSense's blood test is based on research by Professor Peter Dunstan, Professor Dean Harris and Dr Cerys Jenkins at Swansea University which was part funded by Cancer Research Wales. They joined forces with Dr Adam Bryant, an entrepreneur and former investment banker with a PhD in physics, to set up CanSense in 2019.

Supporting our customers

With a customer portfolio that has grown to over 3,100 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 2022/23, 55% of investment delivered went to existing customers of the Development Bank, an increase from 51% in the previous year, 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.

Customer feedback and insight informs our strategy and we use our Net Promoter Score as our measure for customer satisfaction achieving a first-year benchmark score in 2021/22 of 74 from a survey response rate of 29%. For 2022/23, a score of 88 from a 35% response rate was achieved. Surveys were issued following completion of a transaction and to portfolio customers and the feedback received is directly informing improvements to the customer journey.

Case Study

Midtec

Region: West Wales

Type of finance: Loan

Business need: Growing a business

Investment: £220,000

Midtec, one of the UK's leading manufacturers of chimney cowls and flue systems has the construction of 2,500 square feet of additional manufacturing space at Capel Hendre Industrial Estate near Ammanford, using a £220,000 loan from the Development Bank of Wales.

Formed in 2003 by Managing Director, Trefor Jenkins, Midtec first benefitted from investment from the Development Bank in 2005.

They have since had several rounds of funding from the Development Bank to support growth plans, with the next generation running the business looking to the future with the new additional space being used to house a state of the art ENSIS laser cutting machine, supplied by Amada.

FW Capital

FW Capital is the Development Bank of Wales Group's FCA authorised fund management arm. It has been operational since 2009 and has a strong track record of delivering commercial fund management contracts, primarily across the North of England as well as being the vehicle for the Clwyd Pension Fund investment in the Wales Management Succession Fund.

Operating from six offices across the North of England with 35 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 2022/23, loans totalling £38 million were made directly by FW Capital which attracted co-investment of £51.4 million from the private sector. These investments helped local businesses across the North of England to create and safeguard 1,238 jobs.

Case Study

Stonedale Developments

Region: North East

Type of finance: Loan

Business need: Building a property

Investment: Undisclosed

Allendale-based Stonedale Developments began work on six new eco-friendly homes at Catton in Hexham, after receiving a seven-figure investment from FW Capital's North East Property Fund (NEPF).

Established in 2021 by stonemason and builder Terry Sparke and developer Trevor Newman, Stonedale Developments combines traditional building methods with modern construction techniques to build beautiful, practical and future-proof homes. The new builds at Splitty Lane in Catton each boast eco-friendly underfloor heating, air-source heat pumps and solar panels.

This has helped to create five jobs locally including stonemasons and an apprentice.

The NEPF supports the development of small-scale property schemes and is funded by the North East Local Enterprise Partnership (LEP).

Case Study

Polar Specialist Coatings

Region: North West

Type of finance: Loan

Business need: Growing a business

Investment: Undisclosed

Cheshire-based Polar Specialist Coatings used investment from the Northern Powerhouse Investment Fund FW Capital Debt Finance - managed by FW Capital and part of the Northern Powerhouse Investment Fund - to finance growth and new product development, with six-figure funding also backing the launch of their new eco-friendly bitumen product.

Launched in 2018 by brothers Tom and John Johnstone – the fifth generation of the Johnstone paints family – the business makes good use of more than 130 years in the paint manufacturing business to make specialist paints, coatings, spray-paints, sealers and other products for a wide variety of applications.

The business operates from Winsford and first started selling its products on Amazon. It also announced partnerships with Selco Builders Warehouse to distribute its product range

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, 13,633 properties have been purchased under the scheme, supporting over 21,000 buyers. In total, more than £538 million has been lent supporting property sales of £2.6 billion. In the year, the Welsh Government extended the third phase of the scheme until March 2025 and from April 2023, an increased price cap of £300,000 and a requirement for a minimum EPC B will apply.

The Welsh Government has commissioned research into the future needs of home buyers, and the role Help to Buy Wales can play to meet those needs. The research findings, which are planned to be available in summer 2024, will underpin future planning to support people wishing to buy a home.

Our priority remains that we support our most vulnerable customers through the challenging financial climate, with consideration for the new FCA Consumer Duty, to act and deliver good outcomes for retail customers.

Phase 3 is continuing to support the target demographic with 87% of customers being first time buyers, an average age of 31 and an average income of £27,359.

Gower Electric Bikes
Swansea

Emergent:

Promote and advance a green future in Wales

Progress against our strategic objectives

Emergent: Promote and advance a green future in Wales

Good progress was seen in the year across products and services and in our own operations.

We recognise the critical role we have to play in supporting a stronger, greener economy as we progress towards decarbonisation, and are continually building our role as part of 'Team Wales'. The scale of the challenge and diverse needs of our customers, require us to have a considered approach to ensure our resources, capacity and capital are used in the most effective ways.

Our pledge:

The Development Bank is fully committed to addressing the climate change emergency and will continue to develop ways of working that will have direct impact driven through:

1. Ongoing delivery of a carbon reduction plan focused on our own operations, managed by a dedicated working group with the ambition to reach net zero*

2. Using our research unit Economic Intelligence Wales to explore policy and product recommendations that can inform the transition to a low carbon economy

3. Supporting the businesses we work with to improve and reduce environmental impact, including through referrals to Business Wales sustainability advisors.

* to align with the Welsh Government targets for Net Zero by 2030

Products

Develop and submit proposals for two new decarbonisation schemes to the Welsh Government

Good progress has been made in expanding our offer to include more support for decarbonisation focused activity. The Green Homes Incentive was launched in July 2022 and has gathered real interest from developers with over £28 million in the investment process at year end.

The **Green Business Loan Scheme** was launched in February 23 with the first deal of £1.2 million completing in March 23. Further consideration is being given to other products including research into the role of public finance in housing retrofit.

Case Study

Something Different

Region: West Wales

Type of finance: Green loan

Business need: Growing a business

Investment: £1.2million

Welsh giftware company was the first to access the Development Bank of Wales' new Green Business Loan Scheme.

Swansea-based Something Different Wholesale received a £1.2m loan from the scheme, which was set up by the Development Bank and the Welsh Government to help businesses in Wales reduce their carbon footprint, supporting the nation's journey to become net zero by 2050.

The business will use the investment provided to install 2,200 new solar panels on its 158,000 square foot warehouses at the Enterprise Park on Upper Fforest Way, Swansea.

The new solar energy systems will help Something Different cut its energy bills while meeting increasing demand more sustainably, and allow it to sell surplus energy back to the market. The installation of the new panels follows an upgrade of the company's lighting to LED lights in 2021.

Research

Through Economic Intelligence Wales, expand our research collaboration to include two new partners and agree a forward plan for research with a focus on green.

In October 2022 we announced two new research partners would be joining existing partners, Cardiff Business School, and the Office for National Statistics (ONS) to produce reports and develop further insights into the real-time issues affecting the Welsh economy.

Bangor Business School has an international reputation in banking and finance and is recognised as a Chartered Banker Institute 'Centre of Excellence'. It is also currently ranked highest of all UK universities for research in the field of Banking.

The Enterprise Research Centre (ERC) is the UK's leading centre of excellence for research into the growth, innovation and productivity of small and medium-sized enterprises (SMEs), with a particular focus on drivers of SME growth, innovation and performance. Its research helps shape the policies and practices which enable SMEs to thrive.

The ERC has been delivering independent research to inform policy and practice on SMEs since 2013, with its core leadership and research team based at Warwick and Aston University Business Schools.

We expect the first report from Bangor University who are producing a research into '***net zero carbon policies and SME initiatives towards decarbonisation***' in 2023.

Investment decision making

Integrate Environmental, Social and Governance (ESG) assessment into investment decision making and value creation plans for the equity portfolio.

The Development Bank takes a "stewardship" approach to sustainability, supporting and encouraging small businesses to navigate a changing landscape. The investment sanction process now incorporates narrative around environmental, social and governance risks and opportunities, and initial training has been rolled out across the group.

While social and governance factors have long been a core consideration in the way we design and deliver our products, we are working to build the additional skills necessary to support the delivery of our decarbonisation products and services.

Operations

Agree sustainability standard to pursue and implement across the organisation and align to the Welsh Government targets for net zero by 2030

We became signatories to the UN's Principles for Responsible Investment (PRI). With 7,000 corporate signatories in 135 countries, the PRI is recognised as the leading global network for investors who are committed to integrating ESG considerations into their practices and policies. Signatories include institutional investors such as pension funds, insurance providers, sovereign wealth funds and endowment funds.

The principles set by PRI align with the Development Bank's commitment to incorporating ESG factors into investment, analysis and decision-making processes. This includes seeking appropriate disclosures, promoting acceptance and implementation of the principles and reporting on progress.

The Bank also joined the Partnership for Carbon Accounting Financials in 2022/23 and will complete our first reports in 2023/24.

We agreed to continue membership of Business in the Community and completed our fourth FairPlay Employer accreditation for gender equality. We also completed our first carbon accounting return as participants in the Welsh Government's net zero carbon reporting and participated in a tree planting carbon offsetting scheme, Carbon Footprint.

Operational:

Delivery excellence, customer first, financial sustainability

Progress against our strategic objectives

Operational: Delivery excellence, customer first, financial sustainability

As government budgets become tighter and business needs become more complex, we must consider new and novel ways to optimise delivery impact.

This includes using our FCA regulated entity, FW Capital, to work with a wider pool of investors to increase the flow of funds within the Welsh economy.

Digital transformation

Our customer-focused digital transformation programme continued through 2022/23. Our aim is to create efficiencies in the application assessment process and reduce response times to our customers.

Alongside this, efficiency improvements through broadened use of electronic signatures has further enhanced the customer experience. Behind the scenes work has continued to transfer our loan administration to the new financial management system Pancredit. A key strand of work also focussed on the group wide data strategy to ensure digital advances in reporting are supported by well governed data sources.

Change management office

Beneath the headline business objectives and priority projects, each of our teams are tasked with operational consistency, robust delivery, and continuous improvement.

The efficiency of the latter, from system and process changes, controls, and new opportunity development is harnessed through our change management office. It is the responsibility of this function to prioritise and govern innovation to implement positive change in the most effective way. The group is now embedded as a critical function with oversight and governance of the programme of strategic business change initiatives.

In 2022/23 this was supported by rollout of a new operational change forum with membership made up of individuals from across the organisation supporting cross team collaboration tasked with the development and implementation of business change initiatives to improve the colleague and customer experience.

Recruitment and retention

The economy is experiencing momentous change from the climate emergency, rising inflation, and recovery post pandemic.

As a result, we are facing a changing employment environment and, like many other organisations, greater challenges with recruitment and retention. People are our greatest asset and fundamental to our long-term success. To achieve our ambitions and deliver on our purpose, we have worked to maintain a culture and environment in which our colleagues can thrive and learn.

A recruitment and retention plan for specific roles was introduced in Q2 and has significantly helped recruit in those roles that are seeing higher turnover across the sector. It has also identified solutions to recruiting for roles where there were delays in finding suitable candidates.

Investment services

The Leaseholder Support Scheme was launched at the end of Q1 in line with the Welsh Government's policy to offer support to individuals in or facing significant financial hardship because of fire safety issues affecting their property.

The Scheme has been ready to accept applications since this time with a team recruited and in place. The Development Bank will continue to work with departments across the Welsh Government, leveraging our capability and expertise in financial services to support policy areas with a financial delivery need.

Impact investment report

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 delivery around a regional approach. This allows us to create social and economic impact within the significant foundational economy in Wales as well as targeting high growth and technology businesses. Social impact is embedded in the way we work including in our own organisation.

During the term of our corporate plan 2022/27, we will work to further develop our approach to responsible investment, leading by example both in 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

We joined the UN's Principles for Responsible Investment, the world's largest voluntary corporate sustainability initiative in March 2023 and our mechanisms for evaluating and measuring our impact are also aligned with the UN Sustainable Development Goals, the seven goals of the Well-being of Future Generations (Wales) Act 2015, and the Welsh Government's policy priorities.

These metrics are not key performance indicators for our activity, and the reporting in any given year is heavily shaped by the market, the individual fund investment profiles and how long a reporting business has been a customer. We do, however, use the data to inform investment policy and action plans; promoting best practice and adding value wherever possible.

Our impact report for 2022/23 includes the latest data reported by a sample of 792 portfolio customers during the year. The sample size is around 25% of our active portfolio and features data from a mix of customers across a range of sizes, sectors and regions, including those reporting for the first-time post-investment and businesses which have been in our portfolio for a number of years.

Our methodology and definitions for impact metrics are disclosed on our website:

https://developmentbank.wales/about-us/performance-and-impact

A prosperous future

By providing funding to underserved markets, we're helping business to create employment opportunities, enabling people to take access employment opportunities and wealth generated by businesses in the communities in which they are based.

- 62% of jobs created in businesses with a net increase in employment levels, were in median to high pay jobs.
- The proportion of jobs created in median to high pay roles, where businesses have had a net increase in employment levels, has continued to be higher in our tech-venture portfolio at 97% and our equity investment cohort at 96%. However, this metric can vary each year as the business types and growth priorities in the sample changes independently from our investment performance. For example, the sample may include more tech-based businesses recruiting highly skilled jobs, which are more likely to be higher paid, or more foundational businesses recruiting across a wider range of pay bands as they support their communities.
- We've seen an average increase of 48% in productivity based on turnover per full time employee (FTE). This is a means to calculate efficiency with increases year on year being an indication of businesses making productivity gains to grow. It was highest amongst tech-venture businesses (88%), the wider equity investments (81%) and in businesses which have also experienced a net increase in employment levels (49%). Despite the management succession investment cohort having a below average productivity increase (21%), the average turnover they generated per FTE was the highest at nearly £96,520. This compares to figures from the SME Finance Monitor suggesting that over 60% of small businesses in Wales that have used finance have seen turnover increases but less than 5% report making redundancies during 2022.
- Latest ONS data suggests that 13% of small businesses located in Wales, with employees, are involved in export activity. However, the latest Economic Intelligence Wales Quarterly report shows that Wales' exports have grown by 34.9% to £20.5 billion over the year to December 2022 but the number of businesses that were exporting decreased over the period. 10% of our sample portfolio were exporters in 2022/23. Export was highest amongst our tech-venture and equity investment cohorts (36% respectively) followed by medium -sized businesses (28%). The revenue generated from exporting for these businesses was 51% of their turnover. 88% of jobs created by export businesses were in median to high pay bands.

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.

- 12% of owners/directors/shareholders in the businesses receiving a new investment that provided ethnicity data were black, Asian or minority ethnic individuals (70). This is an increase from 10% over the last three years.
- 4% of owners/directors/shareholders in the businesses receiving a new investment that provided age range data, were under 25 (45). This has been the same for the last three years.
- 35% of owners/directors/shareholders in the businesses receiving a new investment that provided gender data were female (380). This compares well to other regions in the UK and we're pleased to report that 32% of owners/directors/shareholders of businesses we supported over the last three years have been female. Around 43% of businesses supported with employees in 2022/23 had no female owners.
- 44% of owners/directors/shareholders in businesses that we helped to start a business were female while 17% were under 25. 17% of owners/directors/shareholders in businesses receiving an equity investment were black, Asian or minority ethnic.

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.

- Innovation activity includes starting new forms of collaborative R&D activity, patents registered and market innovation. The State of Small Business 2022 report shows that around 20% of firms were increasing their innovation and R&D activity while around a third were reducing R&D activity and 10% had stopped some or all such activity. However, 20% of businesses in our sample were actively innovating following an investment from the Development Bank. Innovation was highest amongst our tech-venture customers (84%) and our wider equity investment (83%) cohort of the sample. Businesses reporting innovation activity had a higher-than-average productivity increase (61%) and more jobs created were in median to high pay roles (70%).
- Digitalisation includes implementing CRM, web-based accounting or computer aided design software, cloud computing, e-commerce machine learning and artificial intelligence processes. Research suggests that the Covid-19 pandemic accelerated digitalisation for many small businesses, although financial pressures are now presenting a barrier to investment. 24% of our respondents said they are actively digitalising their business following an investment from the Development Bank. This activity was highest amongst the tech-venture sector (58%) and our wider equity investment cohort (57%). Businesses reporting digitalisation activity had a higher than average productivity increase (67%) and more jobs created were in median to high pay roles (65%).

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.

- We have joined the Partnership for Carbon Accounting Financials (PCAF), an industry-led initiative to enable financial institutions to consistently measure and disclose the GHG emissions financed by their loans and investments.
- We continue to work closely with the wider Welsh advisory network including banks and financial intermediaries and continued to refer customers to Business Wales sustainability advisors.
- We're working with Nesta, the UK's innovation agency for social good to gain a better understanding of the kinds of financial support needed to help encourage and support people to make green home improvements. Nesta will report on recommendations on the funding required to help homeowners decarbonise during 2023/24.
- We're supporting the market transition to a greener future with the introduction of new funds including the Green Homes Incentive that offers a reduction of up to 2% on residential development loans. We have also launched the Green Business Loan Scheme with repayment terms of up to 15 years. This fund is already helping Welsh businesses to tackle energy efficiency.

Case Study

Yard

Data-driven marketing and technology agency Yard achieved B Corp status in March 2023, just two years after completing a seven figure management buy-in that was funded by the Wales Management Succession Fund.

As long-term investors in Yard, we have continued to support the team over the last year with introductions to a new Chairman through specialist recruitment platform Nurole, and specialist business advisors who helped the business to become only the second B Corp certified digital agency in Wales. We have also made referrals to other portfolio customers.

Chief Executive Officer of Yard, Collette Easton said: "With the financial backing of the Development Bank as our long-term investor, we have seen revenue and profit more than treble as we capitalise on the growing UK demand for digital transformation services and software development."

Certified B Corporation

Economic Intelligence Wales

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

Bringing together economic statistics and SME research, the service is a unique research collaboration between the Development Bank of Wales, Cardiff Business School, Bangor Business School, the Enterprise Research Centre, and the Office for National Statistics (ONS). 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 quarterly and annual reports on the Welsh economy, Welsh SMEs, and access to finance.

Cardiff Business School, Bangor Business School and the Enterprise Research Centre each lead on producing bespoke reports to address specific and topical research questions. The purpose of these reports is to add new understanding of an issue in the Welsh economy, provide policy recommendations and establish an evidence base for further research. The research outputs will use data from the ONS, StatsWales, the Development Bank of Wales and other data sources.

Representatives from the five organisations as well as from Welsh Government form the Economic Intelligence Wales Steering Group which guides the research agenda, sets scopes for projects, and reviews and approves research outputs for publication.

A sustainable future

In 2022/23, Economic Intelligence Wales implemented its expansion plans. New academic partners, Bangor Business School and the Enterprise Research Centre, joined the research collaboration. These new members will produce reports and develop further insights into the real-time issues affecting the Welsh economy.

Bangor Business School has an international reputation in banking and finance, and is recognised as a Chartered Banker Institute 'Centre of Excellence'. It is also currently ranked highest of all UK universities for research in the field of Banking.

The Enterprise Research Centre (ERC) is the UK's leading centre of excellence for research into the growth, innovation and productivity of small and medium-sized enterprises (SMEs), with a particular focus on drivers of SME growth, innovation and performance. Its research helps shape the policies and practices which enable SMEs to thrive.

Reports published in 2022/23

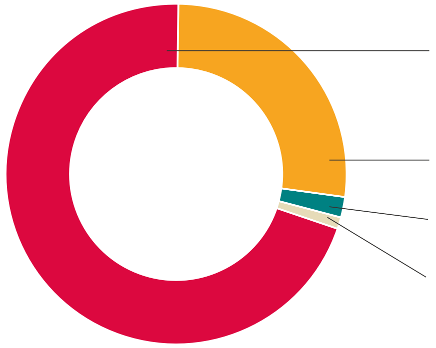
- Quarterly report, June 2022
- Annual report, September 2022
- Quarterly report, November 2022
- Covid-19 Welsh Government financial interventions: An analysis of administrative and beneficiary survey data, January 2023
- Quarterly report, February 2023

Bespoke reports

Economic Intelligence Wales published the third in a series of Bespoke reports on Covid–19 Welsh Government financial interventions which included:

1,669

businesses surveyed which received Welsh Government Covid-19 financial support.



70% of businesses surveyed were micro firms

27% small

2% medium

1% large

30%

had higher employment at time of survey compared to March 2020.

92%

agreed that Welsh Government assistance worked in safeguarding employment.

97%

97% still trading at time of survey while 46% developed new services or products in response to Covid-19 pandemic.

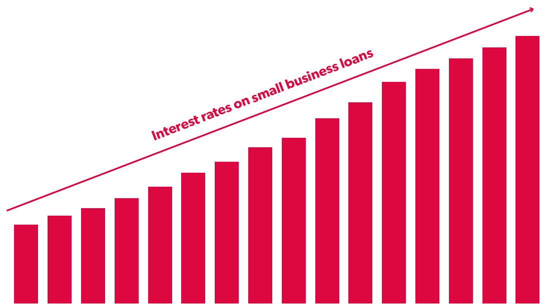
Quarterly reporting

Key findings from the quarterly reports throughout the year include:

£20.5 billion

The value of Wales' exports increased by 34.9% to £20.5 billion over the year to December 2022, compared with an increase of 23.5% in Scotland, 18.1% in England, and 15.3% in Northern Ireland. However, the number of businesses exporting only decreased in Wales.

Business investment levels have yet to recover to pre-pandemic levels.



Interest rates on small business loans have increased for 16 consecutive months as inflation remained high.

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 the Group's stakeholders. By considering the Group's purpose, mission 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.

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 Wales as champions of a green economy and facilitators of change.

Having established the Development Bank as a credible, trusted, and effective organisation over the term of the first corporate plan, the Board is committed to ensuring that all 282 colleagues are focussed on the delivery of our purpose; bringing ambitions to life and fuelling possibilities for people, businesses, and communities in Wales.

Our corporate plan for the period 2022/27 sets out how we will unlock potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance. It was informed by the 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.

Future opportunities

Key initiatives progressed during 2022/23 include:

- Launch of the Green Homes Incentive in July 2022, the first product aimed at supporting the move to decarbonise the Welsh Economy. Details of the scheme can be found on page 51.
- Launch of the Green Business Loan Scheme in February 2022, offering discounted lending and consultancy support to businesses implementing decarbonisation projects such as renewables or building fabric improvement.
- Launch of the Leaseholder Support Scheme, a service the Development Bank is administering on behalf of the Welsh Government, offering support to individuals in, or facing significant financial hardship because of fire safety issues affecting their property.
- The Development Bank's Recovery Support Group (RSG) was formed in 2021 to provide intensive support to Welsh businesses as the economy emerged from the pandemic. Mindful of the ongoing economic challenges caused by the invasion of Ukraine, the Board received an update on the activities of the RSG. The Board noted that RSG activity levels had increased compared to the preceding year with a greater number of Welsh businesses benefitting from targeted assistance through interventions such as introductions to specialist advisers and/or the provision of funding.

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

- 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;
- further development of innovative financial instruments to advance the ambitions for a green future in Wales including domestic retrofit and large scale renewable energy.

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.

Working in partnership with stakeholders has been a core value that remains at the heart of our refreshed brand and corporate plan for 2022/27. Our revised values emphasise how we work with others and have been reflected in our new competency framework:

- Smart collaboration;
- Entrepreneurial energy;
- Objective empathy;
- Conscious responsibility.

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 which the Board approved:

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

These are discussed in more detail in our Impact statement on pages 58 - 62.

During the year, an internal cross-team working group was convened to consider implementation of the FCA New Consumer Duty. The working group developed an implementation programme to meet the new requirements including additional measures to protect vulnerable customers. The Board and Audit and Risk Committee have been briefed on progress.

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.

Net Promoter Score is now our standard measure of customer satisfaction. The results of the 2022/23 surveys for both our Wales investments and FW Capital track customer feedback on all micro loans, larger debt, equity, technology ventures and property deals in Wales together with all deals completed by FW Capital.

This combined score of 88 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.

Events and sponsorship

We have continued to invest in our outreach programme, engaging in a wide range of stakeholder events and sponsoring activity aligned to our overall strategic goals. Amongst these, the Development Bank sponsored the Entrepreneur Award at Womenspire 2022, demonstrating our support for women entrepreneurs. We retained our silver award in Chwarae Teg's FairPlay Employer benchmarking service in 2022. 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 second bilingual Llais Cymru Welsh Women in Business Awards, held online in July 2021.

Other stakeholder events supported included the Institute of Directors, Federation of Small Business, North Wales Tourism Awards and ICAEW annual dinner. Board members attend key strategic events to engage directly with stakeholders.

Our environment

We've continued to develop our impact investment activity and overall approach to the broader sustainability agenda. The ESG steering group is 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 and have reported to Board on progress throughout the year. The Board has nominated Kate Methuen-Ley as the lead Director for sustainability issues and who will act as a link between the Board and ESG group.

In September the Board endorsed several recommendations from the group including:

- Approval of a new responsible investment policy which will guide the way in which ESG considerations are incorporated into investment decision making.
- Becoming a signatory of the UN's Principles of Responsible Investment, the world's largest voluntary corporate social responsibility framework
- Becoming signatories to the Partnership for Carbon Accounting Financials to support an assessment of the scale and dynamics of our financed emissions.
- Recruitment of a dedicated sustainability manager to provide specialist support and advice to senior leadership and business operations.

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 economic development in the regions in which we operate, 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 and attend key strategic events.

Between February 2021 and March 2023, we are proud to have raised over £45,000 for our charity partner, Mind. We achieved this through a variety of fundraising initiatives, including:

- a team of colleagues participated in Endure24, a 24-hour relay race over an 8km course;
- a team of colleagues climbed Snowdon;
- we held our inaugural Charity Golf Day;
- we held charity balls in Cardiff and Newcastle;
- 50/50 employee lottery.

In addition to our main charity partnership with Mind, we also raised money and supported those impacted by the war in Ukraine. Our activities included raising money for a colleague whose family was directly impacted by the war, our Wrexham headquarters was used to store donations, and we donated vital supplies to a Ukrainian club.

For the eighth year running, colleagues donated Christmas presents to 150 children through the charities NSPCC and Barnardo's.

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 used the Welsh Government procurement portal Sell2Wales throughout the year to source suppliers. We have also accessed 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. The Welsh Government attends the Development Bank of Wales Board meetings in an observer capacity.

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.

The Chair and CEO meet periodically with the Minister for Economy and his officials, and the relationship is managed by the Welsh Government Partnership Team.

Our colleagues

We are a people business, and our colleagues are vital to the achievement of the corporate plan. We have worked hard to create a culture and environment in which our colleagues can thrive and learn. The design of our Wrexham and Cardiff work environments has created space that supports our flexible working model and encourages greater collaboration and innovation. Further consideration will be given to investing in our smaller offices across the coming year.

The Board engages with staff, inviting team members to present to the Board on strategic topics, attending networking events and holding staff engagement meetings which this year were at our Wrexham headquarters.

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. Positive feedback was received on our first all colleague conference since the pandemic which offered an opportunity to share business updates in the Cardiff Principality Stadium. It was clear from this feedback, the high value placed on the opportunity to meet in person, network and to stimulate creative thinking.

The Group encourages and supports colleagues to develop their career with 45% of our recruitment drives being filled by internal candidates during 2022/23 and this data is provided to the Board in monthly and annual reports. A structured career development path for colleagues has been implemented, resulting in 10 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 (4%) 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 1,716 days of training during 2022/23. This equates to our highest ever level, with an average of six days training per colleague and an increase from 4.5 days in 2021/22.

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;
- hybrid working;
- regular well-being seminars covering all aspects of wellbeing;
- reviewed our employee benefits and provided enhanced package;
- menopause awareness sessions for line managers and all colleagues and support available;
- cycle to work scheme;
- employee engagement initiatives;
- 150 + flu jabs were provided to colleagues;
- 10 mental health first aiders available to support colleagues and holding regular well-being sessions for all colleagues;
- 63 colleagues involved in the 'ice breaker' sessions, great opportunity for new starters to get to know colleagues;
- "Walk and talk" mental health events.

At the end of this financial year, 7% of our colleagues were from Black, Asian, and Minority Ethnic backgrounds compared to 9% in 2021/22. We were also proud to have maintained Chwarae Teg's Silver FairPlay Employer award for gender equality this year.

Our headquarters in Wrexham

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 2023.

Our statements have become increasingly complex and difficult to understand in recent years, not only is this 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 structured 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

In FY23, the Group made a loss after tax of £24.1 million compared to a loss after tax of £20.0 million in FY22.

As predicted last year, the reduction in provisions following the perceived reduction in risk associated with Covid-19 has reversed and has been replaced by an increase in provisions of £21.6 million.

This is not unexpected given the macro-economic conditions and the Group's overarching remit to step in where market failure exists. In this context, when we consider our principal key performance indicators ('KPIs') for our shareholder as presented below, we've had a strong year, exceeding both target and prior year performance in three out of four of our KPIs.

	FY23	FY23 Target	FY22
Annual investment (£m)	124.2	117	109.1
Number of investments	516	532	519
Co-investment on business funds ratio	1:1.36	1:1	1:0.8
Number of jobs created or safeguarded*	4,669	3,662	3,540

*The method for measuring the number of jobs created or safeguarded in each year is set out in each individual fund agreement and the annual totals shown here comprise a mixture of actual jobs created/safeguarded and planned jobs created/safeguarded

Analysis of the Group's activities

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. 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 provide 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 year 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 twenty years. The profitability and performance of a fund varies from year to year and is dependent on its maturity phase, as well as the macro-economic environment. 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 £24.1 million Group loss after taxation (FY22 £20.0 million loss) figure for FY23 includes the £3.5 million (FY22 £4.8 million) profit from the services business and the £27.6 million loss (FY22 £24.8 million loss) 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 £22.8 million loss (FY22 £20.2 million loss) attributable to equity shareholders, Welsh Ministers, and a £1.3 million loss (FY22 £0.2 million profit) attributable to non-controlling interest. This represents the share of the funds business's loss 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.

	FY23			FY22		
	Services	Funds	Group*	Services	Funds	Group*
	£m	£m	£m	£m	£m	£m
Income	41.4	56.9	62.2	39.8	51.3	55.6
Provisions released / (made)	0.0	(16.8)	(16.8)	0.0	4.8	4.8
Changes in fair value	0.0	(30.5)	(30.5)	0.0	(25.3)	(25.3)
Other expenses	(37.9)	(27.9)	(29.7)	(35.0)	(28.1)	(27.6)
Profit/(loss) before the Welsh Government notional interest	3.5	(18.3)	(14.8)	4.8	2.7	7.5
Notional interest on Welsh Government loans	0.0	(9.3)	(9.3)	0.0	(25.3)	(25.3)
Profit/(loss) after the Welsh Government notional interest	3.5	(27.6)	(24.1)	4.8	(22.6)	(17.8)
Taxation	0.0	0.0	0.0	0.0	(2.2)	(2.2)
Profit/(loss) post tax	3.5	(27.6)	(24.1)	4.8	(24.8)	(20.0)

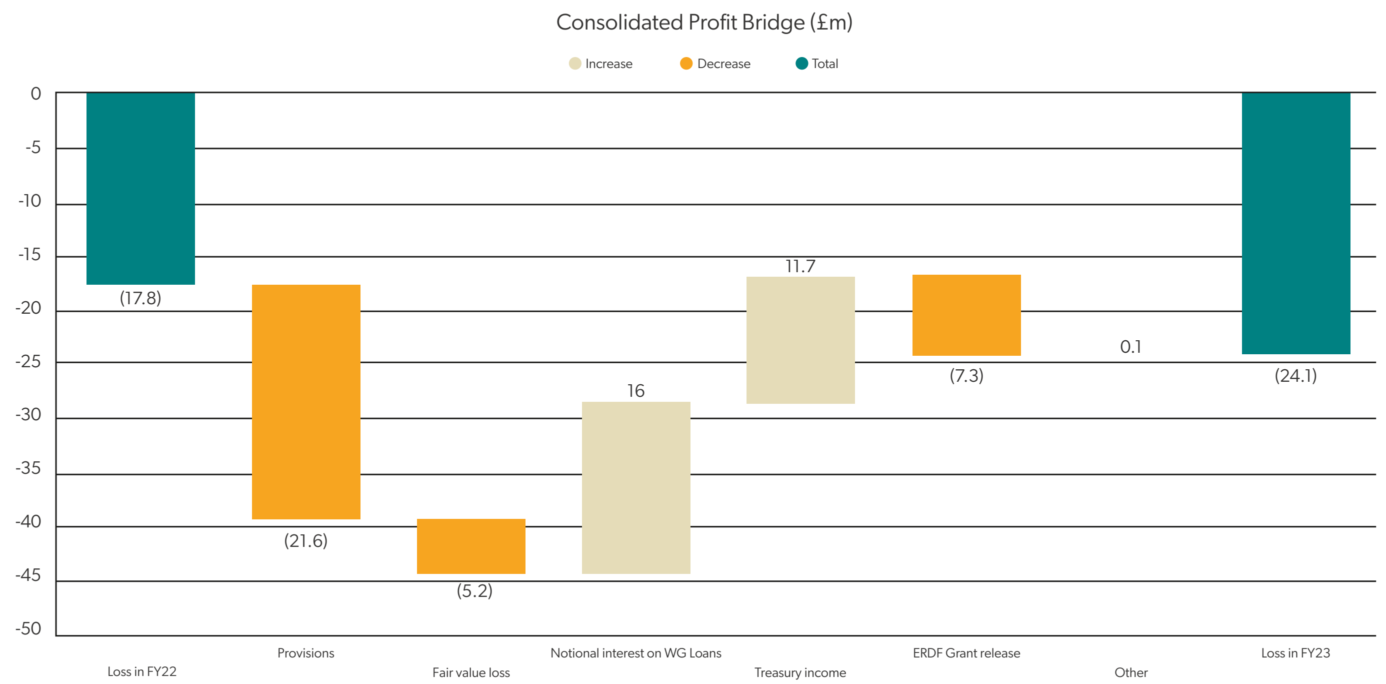
Table A: High-level analysis of FY23 and FY22 consolidated income statement

*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.

The material impacts on the loss for the year are all non-cash items comprising provisions, equity fair value and notional interest on Welsh Government loans.

The graph below summarises how the FY22 pre-tax loss of £17.8 million moves to the £24.1 million pre-tax loss this year.

The key elements to note from this chart are the changes in provisions and the movement in notional interest on the Welsh Government's loans as explained below.



Increase in provisioning and fair value loss

Both provisions and equity fair values are impacted by the challenging macro-economic climate facing the UK and Europe in the wake of the ongoing war in Ukraine including rising inflation, interest rates and energy costs.

Under IFRS 9 loan loss provisions are based on expectations for future losses, not just on losses which occurred during the year. As predicted in last year's financial statements the reductions in provision levels observed in FY22 have been reversed in FY23.

The £21.6 million increase in provisions reflects the change in credit conditions at this year-end compared to last year. This has resulted in a £16.8 million provisions charge this year compared to £4.8 million release last year. There have been significant increases in the loss rates used to calculate the provisions charge leading to a 41% increase in the loss allowance and an increase in the effective provision percentage from 11.7% in FY22 to 15.9% in FY23, reflecting the challenging ongoing macro-economic climate. The provisions charge is discussed in more detail in notes 2, 4 and 19 in the financial statements.

The other key contributor to the loss is the reduction in fair value of our investments. The movement in reduction of fair value from year to year is £5.2 million and the reduction itself in FY23 is £30.5 million (FY22 reduction of £25.3 million). The reduction in fair value is a combination of realised and unrealised gains and losses on equity investments that the Group holds directly (FY23 £30.4. million compared to FY22 £16.4 million with the movement principally caused by a c. £10.4 million fall in the value of the Development Bank's AIM listed shares) and the reduction in the fair value of the Group's investment in the Wales Life Science Investment Fund (FY23 £0.1 million compared to FY22 £8.9 million).

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. 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. A formal process of equity valuation is followed bi-annually 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.

Our investment in the Wales Life Sciences Fund ('WLSIF') is also held at fair value within our financial statements and is subject to the same volatility as mentioned above. This Fund is the only fund within our portfolio that is not managed by our services business.

WLSIF is managed by Arix Capital Management ('ACM') via a discretionary fund management contract which means that the performance of assets held within the fund are a matter for ACM as the fund manager.

On 28 February 2023, the fund reached the end of its ten year life, and a liquidation process has commenced. This has caused the unrealised loss on the Development Bank's £50m investment in WLSIF to become realised. The Board has approved an interim write-off of £27.1 million. The final write-off will be recognised once our share of the remaining assets of the fund has been realised.

Of the £50 million investment in this fund, £20.0 million had been repaid to the Welsh Government as at 31 March 2023 (FY22 £20.0 million). The fair value of the outstanding investment as at 31 March 2023 was £2.5 million (FY22 £2.6 million), which we expect to be passed back to the Development Bank as a mixture of cash and shares as part of the liquidation process.

Notional interest on the Welsh Government loans

The other principal contributor to the loss is the £9.3 million (FY22 £25.3 million) notional interest charge on the Welsh Government loans. This is discussed in more detail in the 'Further Commentary' section on page 84. 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 of notional interest on our results, the £16 million decrease in the notional interest charge for FY23 is due to the sustained positive performance of our £92 million CWBLS fund (our emergency Covid–19 response fund), which we deployed in FY21. Lower than expected default rates adjusted for in FY22 have continued at the same level resulting in no repeat in FY23 of the catch up of additional interest cost on the expected loan repayment for the CWBLS fund. It's worth noting that since inception of the fund £37 million (FY22 £19 million) of cash has been repaid by our CWBLS fund customers, representing 40% (FY22 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. There have similarly been no material changes to expected loan repayments to Welsh Government on any of our other funds.

Removing the impact of the Welsh Government notional interest reduces the loss by £9.3 million (FY22 £25.3 million), resulting in an overall group loss of £14.8 million (FY22 group profit £7.5 million), which is more indicative of the underlying performance of the Group for the reporting period in the current challenging macro-economic environment.

The other less significant movements summarised in the above graph are summarised in the graph on page 76.

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 265 employees (FY22 254) 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 profitability has moderately decreased year on year, primarily due to the increase in costs exceeding the growth in fund management fees, as noted in the table below. The reduction in profitability was planned in our budgets as noted in the budgetary commentary on page 80. A long-term profitable services business supports the sustainability aspirations of the Group.

	FY23	FY22	Commentary
	£m	£m	
Fund management income	41.4	39.8	Increase is due to a combination of new Funds under management, the full-year impact of new funds that came under management during FY22, and the impact of top-ups made to existing funds during FY23. These increases have been partly offset by a reduction in fees in relation to funds moving into their realisation (non-investing) phase and a cessation of fees on funds reaching the end of their life. Average Group funds under management in FY23 and FY22 including FW Capital, were £2.2 billion and £2.1 billion respectively, an increase of 5%. Average fee income compared to average funds under management remained at 1.9% (FY22 1.9%)
Total revenue	**41.4**	**39.8**	
Staff costs	(18.7)	(17.1)	Increase is due to increased headcount to support fund delivery. The average number of employees has increased from 254 in FY22 to 265 in FY23. Average cost per employee has risen well below the UK's FY23 CPI of 10.1% from £67,300 to £70,600 (4.9%).
Other costs	(19.2)	(17.9)	The 7% increase in operating costs is slightly ahead of the 5% increase in funds under management and well below the FY23 annual CPI of 10.1%.
Total costs	**(37.9)**	**(35.0)**	
Surplus of income over costs	**3.5**	**4.8**	

Table B: Services FY23 and FY22 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. £77 million as at 31 March 2023 (£47 million as at 31 March 2022).

**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 the services business against Annual operational plan

As shown in Table B, the profit generated by the service businesses decreased by £1.3 million (27%) from FY22. A profit of £1.2 million was forecast in the FY23 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 shows 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 £3.5 million profit noted in Table B above is £2.3 million higher than planned which is principally attributable to £1 million of unbudgeted fee income across new funds and existing funds which received additional funding and £1.3 million reduction in various other costs.

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 invests 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 pages 20 - 21 of the strategic report. During the year new funding of £5.1 million was received from the Welsh Government to support their priorities (FY22 £99 million).

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 incurred a loss after tax of £27.6 million this year as compared to a loss after tax of £24.8 million in the prior year. As noted in the high-level summary, the main driver for this movement is the increase in provisions.

The funds business has performed in a difficult environment. As outlined on page 73, our headline key performance indicators with the exception of businesses supported have outperformed both target and FY22 performance.

Table C: Funds FY23 and FY22 income statement analysis

	FY23	FY22	Commentary
	£m	£m	
Fees received	5.0	4.3	Increase in fees reflects the increased investment activity in the current year. Fees include arrangement and where applicable monitoring fees as well as the recharge of professional fees incurred by our Funds during the investment process.
BAU Dividends and interest income	14.6	14.3	Interest income has increased by £1.1 million in comparison to prior year, primarily due to the increase in the value of the underlying SME loan book which has increased from £277 million to £288 million. The increase in interest income has been offset by a £0.9 million increase in the interest income adjustment required by IFRS9 in relation to Stage 3 assets. This adjustment is to reflect interest charged on the net carrying value of the loan as opposed to the gross value. The value of assets sitting in Stage 3 has increased from £55 million to £67 million. See note 4 for further detail. Average interest rates for the SME lending book have remained broadly consistent at 7% (FY22 7.1%).
Notional interest on CWBLS loans	4.2	4.0	This balance represents the additional notional interest that would have been charged if the CWBLS loans had been issued at market rates. See additional commentary on page 84.
Total dividends and interest income	18.8	18.3	
ERDF Grant release	20.3	27.6	ERDF grant funding relates solely to the Wales Business Fund, which has received £186 million of ERDF funding over its lifetime. The grant is released as revenue to the income statement in line with investment made. The year-on-year reduction is due to the targeted regional nature of the remaining money within the fund, with FY23 investments focussing on a smaller geographical area than in previous years. All ERDF funding must be spent by 31 December 2023, and so this figure will be lower in FY24 and zero in FY25. More detail is set out in note 18.

Table C: Funds FY23 and FY22 income statement analysis is continued over the page.

	FY23	FY22	Commentary
	£m	£m	
Net Treasury excl notional Welsh Government loan interest	12.8	1.1	The increase is due to movement in Bank of England base rate over the period, with base rate increasing from 0.75% to 4.25%. We continue to operate a prudent Treasury Policy and regularly monitor counterparty credit risk.
HTB-W Fair value changes:			
Realised gain on disposal	13.6	11.1	The movemenwt can be attributed to several factors including the size and maturity of the book as well as house price inflation. The number of redemptions has fallen by 20% in FY23 from 1,609 to 1,283. However, the average gain on redemption has increased, from £6,920 to £10,602, an increase of 53%, resulting in the increase in realised gain of £2.5 million
Unrealised fair value Gain/(loss) in year	(50.6)	4.2	Please see commentary on page 84. Note that this is a non-cash movement to reflect the fair value of the book as at the year end. See note 3 for detail of accounting judgements applied in the calculation.
Increase / (decrease) in amount owed to principal shareholder	37.0	(15.3)	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	56.9	51.3	
Fund management fees paid	(26.0)	(26.2)	This relates to the fees paid to the services business. No material movement in year.
Other costs	(1.9)	(1.9)	No material movement in year.
Sub total costs	(27.9)	(28.1)	
Provisions made	(16.8)	4.8	See 'Increase in provisioning and fair value loss' on page 76

Table C: Funds FY23 and FY22 income statement analysis is continued over the page.

	FY23	FY22	Commentary
	£m	£m	
Unrealised gain / (loss) on non-consolidated fund	27.0	(8.9)	These relate to the unrealised and realised fair value movement in the Group's investment in the Wales Life Sciences Fund (WLSIF). See 'Increase in provisioning and fair value loss' on page 76
Realiased gain / (loss) on non-consolidated fund	(27.1)	0.0	
Other fair value gain / (loss)	(30.4)	(16.4)	See 'Increase in provisioning and fair value loss' on page 76 for commentary
Notional interest on WG loans	(9.3)	(25.3)	This represents the year-on-year movement in notional interest charged on WG loans. It is made up of an annual notional interest unwind of £6.8 million (FY22 £7.2 million) which will vary as new funding is provided / repaid to WG, and a variable element, which is driven by changes in forecast repayment levels. In FY22 we saw a significant increase in this variable element due to the better-than-expected performance of the CWBLS fund, which resulted in an increase in anticipated repayments to WG and subsequently notional interest charged. The strong performance of the CWBLS fund has continued into FY23, which has resulted in little movement to the variable element of the charge in the current year. See further comments on the background of this below.
Total costs	(84.5)	(73.9)	
Profit / (loss)	(27.6)	(22.6)	
Taxation	0.0	(2.2)	In FY22, a tax liability arose as a result of historic movements on WG loans following the restatement of balances in the FY21 financial statements. No tax liabilities have arisen in FY23.
Profit / (loss) after tax	(27.6)	(24.8)	

Table C: Funds FY23 and FY22 income statement analysis

Further commentary:

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

From Table C, you will note that there is a significant movement 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 £37 million unrealised loss transferred to Welsh Minsters in FY23 (FY22 £15.3 million unrealised gain) is primarily the result of an increase in the discount rate used in the FY23 calculation. The discount rate is influenced by recent changes in interest rates and has increased from 3.05% in FY22 to 6.22% in FY23, resulting in the unrealised loss. We may continue to see future volatility in gains and losses moving forward as a small change in either the house price index or discount rate can cause a significant change in the fair value gain or loss. The critical accounting judgements applied in arriving at the unrealised fair value gain / (loss) are set out in note 3, additional analysis is set out in note 19.

Non-controlling interest

The £10 million investment into the Wales Management Succession Fund by Clwyd Pension Fund, of which £7.5 million has been drawn down and invested and £2.8 million repaid by the fund as at 31 March 2023 (FY22 £5.5 million invested with £2.8 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 loans (see below). The recognition of grant expense and grant income occur at the same time, and they were 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 (FY22 £4 million).

Treatment for Welsh Government loans

In recent years, the Welsh Government 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 actually payable by the Group to the Welsh Government, 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 Welsh Government 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 loss of £14.8 million in FY23, £9.3 million lower than the loss reported before tax (FY22 profit of £7.5 million, £25.3 million higher than the reported amount).

Similarly, the balance sheet would show Net Assets/ Total Equity of £134.2 million as at 31 March 2023, £178.4 million lower than the reported amount (£145.3 million as at 31 March 2022, £187.1 million lower than the reported amount).

David Staziker, Chief Financial Officer
31 August 2023

Risk management

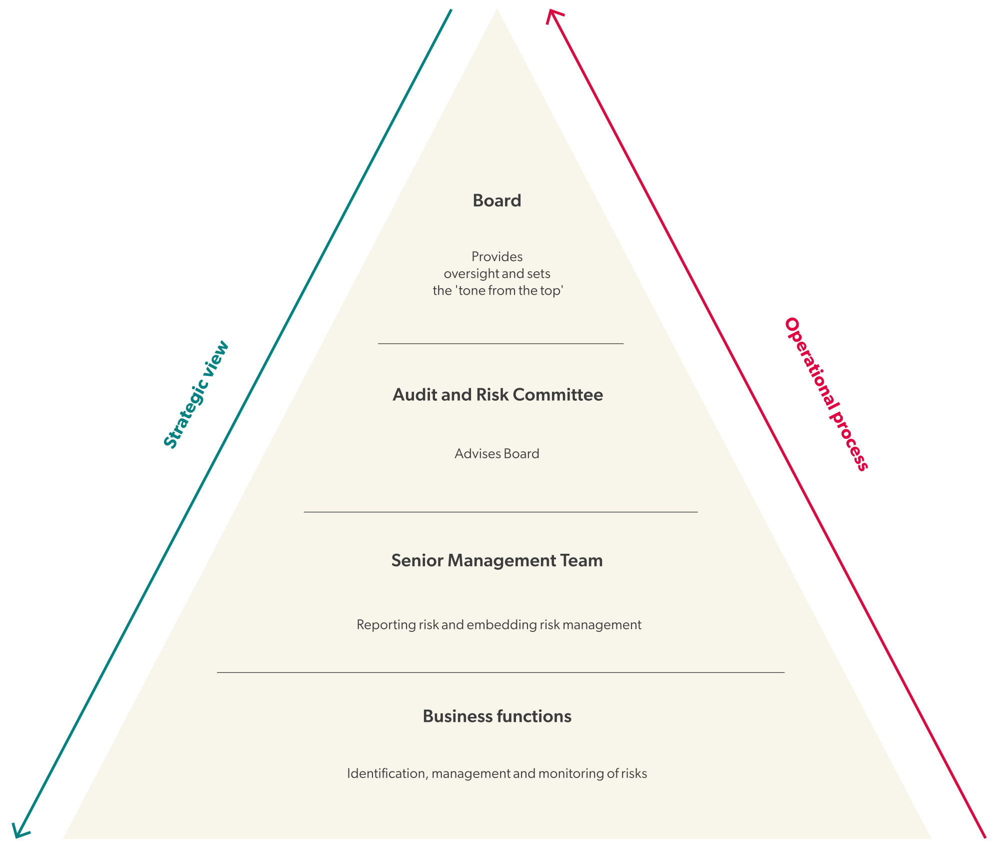
We recognise that effective management of key risks is essential to meeting our objectives and to achieving sustainable growth. These key risks need to be identified, understood, and appropriately addressed, to protect our customers, stakeholders, and the environment.

Our risk management framework has been designed to align to the size, scale and complexity of the Group and defines a common approach to risk management. The Risk Management and Assurance Policy sets out our approach to governance, risk management and assurance activity using the "three lines of defence" model.

We have Group-wide policies and procedures in place designed to ensure compliance with applicable laws and regulations, including the FCA Senior Managers & Certification Regime, fraud and financial crime, bribery and corruption, whistleblowing, General Data Protection Regulation and the Freedom of Information Act.

The key principles of this model, as demonstrated by the diagram, 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 Chief Risk Officer.
3. The CEO and Chief Risk Officer 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.



Our risk management framework (RMF) supports the identification, assessment, monitoring, and mitigation of risks that the Group is likely to face.

Risk management framework:
Demonstrates a clear link to the overall strategy and business plan of the Development Bank.
Is owned by the Chief Risk Officer and approved by the Development Bank's 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.

Roles and responsibilities

Role of the Board

The Board has overall accountability and responsibility for the management of risk within the Group and supports the implementation of a framework of effective controls which enables risk to be assessed and managed. The Audit and Risk Committee support the Board.

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.

Setting the "tone from the top" is an essential part of the Board's role in encouraging a positive risk culture. Both 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.

Finally, the Board approves the Group's risk tolerances to identify and define the types and levels of risks it is willing to accept in pursuit of our strategic objectives and to ensure that there is an appropriate framework for decision making.

Role of management and colleagues

The Senior Management Team (SMT) is responsible for implementing the Development Bank'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.

The SMT takes responsibility for embedding effective risk management practice throughout the Group and is also responsible for ensuring that the financial and non-financial implications of risk on our performance are recognised in a prudent and timely manner.

In addition to the specific responsibilities of the SMT, all colleagues are responsible for the identification, management, and mitigation of risks within their business area(s).

Risk culture

A positive risk culture supports the Group in achieving its stated purpose and objectives at acceptable risk. Our culture is reflected in behaviours exhibited by the Board and colleagues regarding risk awareness, risk taking and risk management.

The "three lines of defence" model (see assurance framework on pages 102 - 103 for and explanation of the model) is key to ensuring that risk management is embedded across the Group, as is the "tone from the top" in relation to guidance and support from the Board and SMT.

Personal accountability is also an important part of our risk culture. Colleagues are encouraged to take ownership of the identification and management of risks falling within their respective business areas. Guidance and support are available to enable colleagues to report risk incidents and "near misses."

Finally, first and second line of defence teams work together, in collaboration, to manage the Development Bank's risk profile. In doing so, the second line of defence looks to maintain an operational independence from the first line by publishing clear guidance about risk management, delegating the overall responsibility for control design and operation to the first line of defence, and supporting and challenging their decision making.

Principal risks

The principal risks to the achievement of the Development Bank's strategic objectives are defined by the Board and are set out below.

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

- Annual Board assessment of our principal risks.
- Operating a risk management framework designed to identify and manage risk within risk tolerances, as defined by the Board.
- The use of mitigating controls to reduce the probability and impact of risks.
- A comprehensive induction programme for new employees and mandatory training for colleagues in key risk areas.
- The availability of guidance to colleagues via a comprehensive suite of policies available on the Development Bank intranet.
- Horizon scanning to identify forthcoming regulatory, legislative, and accounting changes and emergent risks.

There are four risk ratings:

- Negligible
- Low
- Moderate
- High

Failure to deliver the Development Bank corporate plan and commitments to our stakeholder.	
Principal risk category	**Strategic**
Rationale	**Pre-control risk rating**
The Bank has undergone a period of rapid growth, and the long-term impact of Covid-19 on working practices, coupled with a turbulent socio-political and economic environment, presents challenges to the ongoing delivery of stretching targets.	High
Mitigations	**Post-control risk rating**
The delivery of the Group's business case relies on a robust governance model with clearly defined objectives, supported by a comprehensive suite of management information. Board members and our shareholder receive regular performance updates in respect of both core business and project work and there is regular review of our Principal Risks. We work closely with the Welsh Government Partnership Team, other Welsh Government departments and other stakeholders on delivery of the current plan and new fund initiatives.	Low

Failure to ensure the continued availability of funding or budget cover in terms of type or sufficiency	
Principal risk category	**Funding**
Rationale	**Pre-control risk rating**
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. Changes to the Development Bank's ONS classification require a wholesale change to the way that budgets are compiled, agreed, and managed, requiring closer engagement with Welsh Government colleagues in the Partnership and Finance Teams.	**High**
Mitigations	**Post-control risk rating**
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 Green Business Loan Scheme. Evidencing continued successful delivery of fund outputs is key to our credibility both as a successful delivery channel for Welsh Government business support initiatives and a professional fund management business. Accordingly, we track closely fund performance and delivery of the key performance indicators associated with them. 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.	**Moderate**

Failure to comply with legal and regulatory requirements	
Principal risk category	**Compliance**
Rationale	**Pre-control risk rating**
The Development Bank continues to operate in a complex and ever-changing legal and regulatory environment, which straddles both the public and private sectors. This increased regulatory burden opens the Bank to increased risk of non-compliance.	High
Mitigations	**Post-control risk rating**
We have a comprehensive suite of detailed policies and procedures to direct governance supported by a diverse range of mandatory training for all colleagues. We undertake robust new customer onboarding due diligence, as well as ongoing customer due diligence, and suspicious activity reporting procedure. The Compliance Team undertakes file sampling activity, the results of which are reported to senior management. Our independent internal auditors provide assurance on the design and effectiveness of internal controls across the Group, reporting to the Audit and Risk Committee. They have delivered the internal audit plan and have reviewed the Group's risk management framework, concluding that the Group has an adequate and effective framework for risk management, governance and internal control whilst identifying enhancements to ensure that the framework remains adequate and effective.	Low

Failure to understand or adapt to the needs of our customers, and the risk of poor outcomes and customer detriment	
Principal risk category	**Conduct**
Rationale	**Pre-control risk rating**
Customers are at the heart of our business model, and fundamental to our strategy as a gap funder. Failure to understand and adapt to their needs would cause significant detriment, which is likely to attract the attention of regulators and threaten the long-term operation of the Bank.	High
Mitigations	**Pre-control risk rating**
The Development Bank acts clearly and effectively to maintain the exacting standards of professional conduct and behaviour it expects of its colleagues. This is enabled through: – Proactive engagement with our target markets and stakeholders through a variety of channels. – Customer satisfaction monitoring through surveys and feedback. – Complaints monitoring. – A comprehensive suite of staff resources.	Moderate

Failure to meet fund performance objectives	
Principal risk category	Investment Mandate
Rationale	**Pre-control risk rating**
The long-term impact of Covid-19 and the continued turbulent socio-political and economic environment are likely to impact our customers, making it harder for them to repay loans. The result of this will be adverse impact on fund performance	High
Mitigations	**Post-control risk rating**
We continue to assess the impact of the socio-political and economic environment 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 are kept under review and re-modelled as appropriate. We understand that in these uncertain times the availability of funding from the Development Bank is more important than ever. Accordingly, we continue to raise awareness of the availability of funding to Welsh businesses. 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.	Low

Failure to optimise operational resilience, data governance and effectiveness in managing change	
Principal risk category	Operational
Rationale	**Pre-control risk rating**
Operational resilience remains a key risk to firms across the financial services industry. It continues to be at the centre of the Financial Conduct Authority's focus, too. As the Development Bank continues to grow and change, with new processes, people and technology, the importance of strong data governance increases.	High
Mitigations	**Post-control risk rating**
Security and resilience are 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. A Project Management Office (PMO) is in place to provide oversight and governance to strategic change. A Change Management Office (CMO) has been established to provide oversight and challenge of the change agenda. 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.	Moderate

Managing cultural change and failure to recruit and retain appropriately skilled and experienced colleagues	
Principal risk category	Operational
Rationale	**Pre-control risk rating**
Our people are key to our success. Post-pandemic changes to employment practices have given candidates greater choice, and underscores why it is integral for the Development Bank to offer an attractive proposition to our colleagues and to attract and retain high-quality employees.	High
Mitigations	**Post-control risk rating**
The Group operates a performance appraisal process to ensure that strong performance is recognised and that colleagues are motivated and competent in their roles. Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year. The Group encourages staff development, and a range of training options are available. A succession plan is in place for key posts.	Low

Vulnerability to cybercrime, data security breaches and the risk of poor IT resilience	
Principal risk category	Operational
Rationale	**Pre-control risk rating**
The cyber threat landscape continues to evolve though ongoing political unrest, an increasing cyber-attack surface (due to an increased reliance on technology) and increased profitability from cybercrime and capabilities of threat actors. This risk extends further than just the prevention of a cyber-attack, to the resiliency of IT systems more generally.	High
Mitigations	**Post-control risk rating**
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. IT support is outsourced to a range of specialist third party suppliers, all of whom are subject to contractually enforceable Service Level Agreements. Penetration Tests are carried out annually or at any point of significant change. Specialist third party advice is sought where appropriate. IT procedures are detailed in our Information Security Policy. Online security and cyber awareness training is delivered on a continuing basis and is mandatory across the Group. We also hold the Cyber Essentials Plus governance accreditation and IASME certification.	Moderate

Failure to manage the contribution of third-party providers to the successful delivery of the Development Bank corporate plan

Principal risk category	Interface

Rationale	Pre-control risk rating
This remains a risk due to the reliance on managed service providers, and third-party suppliers, and particularly due to the presence of multiple "Critical" risk outsourced suppliers in the IT space.	High

Mitigations	Post-control risk rating
The Group has in-house specialist procurement and IT Services staff, with access to external legal advice and consultancy as required. Internal policies and procedures are regularly reviewed and updated to ensure that regulatory requirements are satisfied. We undertake due diligence on new and existing external third parties, and their performance against contractual requirements and Service Level Agreements. 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.	Low

Failing to have sufficient focus on the Environmental, Social and Governance (ESG) aspects of our activities

Principal risk category	Reputational

Rationale	Pre-control risk rating
ESG, and demonstrating that it is embedded with business operations, continues to be a priority for businesses across the UK. Our role in the Welsh economy, and close working relationship with Welsh Government, means we cannot be complacent in this area.	High

Mitigations	Post-control risk rating
The Development Bank 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. We recognise that ESG considerations go beyond our established impact measures and ESG considerations are built into policies, procedures, and Key Risk Indicators. Bidders' environmental, social and governance arrangements and performance aspects are considered when procuring goods and services and when appraising new funding opportunities. The annual review of the Group's compliance with the UK Corporate Governance Code is reviewed by the Board and identifies areas for improvement.	Low

Emerging 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.

Emerging risk	Related Principal Risks Rationale	Rationale and mitigations
Macro-economic environment	• Failure to deliver the Group's corporate plan and commitments to our stakeholders. • Failure to ensure the continued availability of funding or budget cover in terms of type or sufficiency. • Failure to meet fund performance objectives	Businesses and consumers continue to face an economic environment of high inflation and increased interest rates. This will continue to have a knock-on effect on the Bank's loan and investment portfolio in the form of provisioning for bad debts and the fair value of equity investments. This risk is 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.
Impact of climate change	• Failure to understand or adapt to the needs of our customers, and the risk of poor outcomes and customer detriment. • Failing to have sufficient focus on the Environmental, Social and Governance aspects of our activities.	Failure to understand or adapt to the needs of our customers, and the risk of poor outcomes and customer detriment. 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.
Changing regulatory environment	• Failure to comply with legal and regulatory requirements. • Failure to understand or adapt to the needs of our customers, and the risk of poor outcomes and customer detriment.	The FCA continues to evolve the regulatory landscape. This includes the introduction of Principle for Business 12; The Consumer Duty in respect of retail customers. The FCA has also published new guidance in relation to climate change[4] and diversity and inclusion[5]. We continue to monitor other regulatory changes through our horizon scanning activity.
Rising fraud and financial crime	• Failure to comply with legal and regulatory requirements. • Vulnerability to cybercrime, data security breaches and the risk of poor IT resilience	Fraud and financial crime continue to pose a risk to businesses and consumers across the UK, with fraud representing 41 percent of all crime against individuals in England and Wales. The UK Government continues to introduce measures designed to reduce the impact of fraud on the UK economy. We continue to monitor the evolving legislative and regulatory landscape in this area (notably the progression of the Economic Crime and Corporate Transparency Bill), as well as assessing our own departmental risks and controls against fraud and financial crime-related output from regulators and industry bodies.
Growing use of artificial intelligence (AI)	• Failure to optimise operational resilience, data governance and effectiveness in managing change. • Vulnerability to cybercrime, data security breaches and the risk of poor IT resilience.	Artificial intelligence continues to grow in popularity, especially with the public launch of the Chat GPT platform in 2022. Despite the apparent benefits of this technology, concerns continue to be raised about its efficacy, and how it may be used to execute sophisticated cyber and social engineering attacks against colleagues, businesses, and customers. We recognise the potential benefits and challenges associated with the use of A1 technologies and have developed policy on the use of A1 internally. We continue to monitor its use and impact elsewhere in the industry, as well as by our third-party suppliers. Our cyber security training programme ensures that colleagues remain informed of new and evolving methods of attack.

4 See: https://www.fca.org.uk/news/press-releases/fca-proposes-new-rules-tackle-greenwashing and https://www.fca.org.uk/firms/climate-change-sustainable-finance/reporting-requirements.

5 See: https://www.fca.org.uk/publications/multi-firm-reviews/understanding-approaches-diversity-inclusion-financial-services.

Assurance at the Development Bank is obtained using the "three lines of defence" model, and an accompanying Joint Assurance Plan

Assurance framework

Lines of defence model

First line of defence (1LOD)

The first line of defence comprises operational teams across the Group, and assurance is obtained with the help of policies and procedures defined by individual business units. These are supplemented with regular attestations by risk owners, ensuring the content of policies and procedures remain up to date and address the risks in question.

Risk registers are maintained throughout the Group, and capture current and emerging risks and controls, with owners assigned to each. This drives ownership and accountability, and provides assurance that risks are being appropriately managed.

The production of regular management information and reporting, quality assurance activity, and the completion of regular training by all staff underpins the work of the 1LOD, and ensures that controls are operated, and risks responded to, as expected.

Second line of defence (2LOD)

The second line of defence provides assurance through its oversight of 1LOD activities, namely by maintaining and facilitating the completion of departmental risk registers; carrying out additional, independent quality assurance activity; completing risk assessments; and providing subject matter expertise in areas such as financial crime, data protection and procurement.

Quality assurance activity in the 2LOD is applied on a risk-based approach and monitors compliance of investment related activity to established policies and procedures. Detailed findings are reported to the 1LOD monthly, and recurring findings are subject to root cause analysis carried out in conjunction with the 1LOD.

2LOD risk assessments are updated based on quality assurance outcomes and in response to emergent risks and regulatory and legislative output. As such, the 2LOD is responsible for focused deep dive reviews and controls testing, which ensures that new and emerging risks are captured and adequately responded to.

The Development Bank and FW Capital subsidiary boards also provide challenge and oversight on business issues in their respective areas.

Third line of defence (3LOD)

Independent assurance of our risk management framework is carried out in the third line of defence by independent internal auditors.

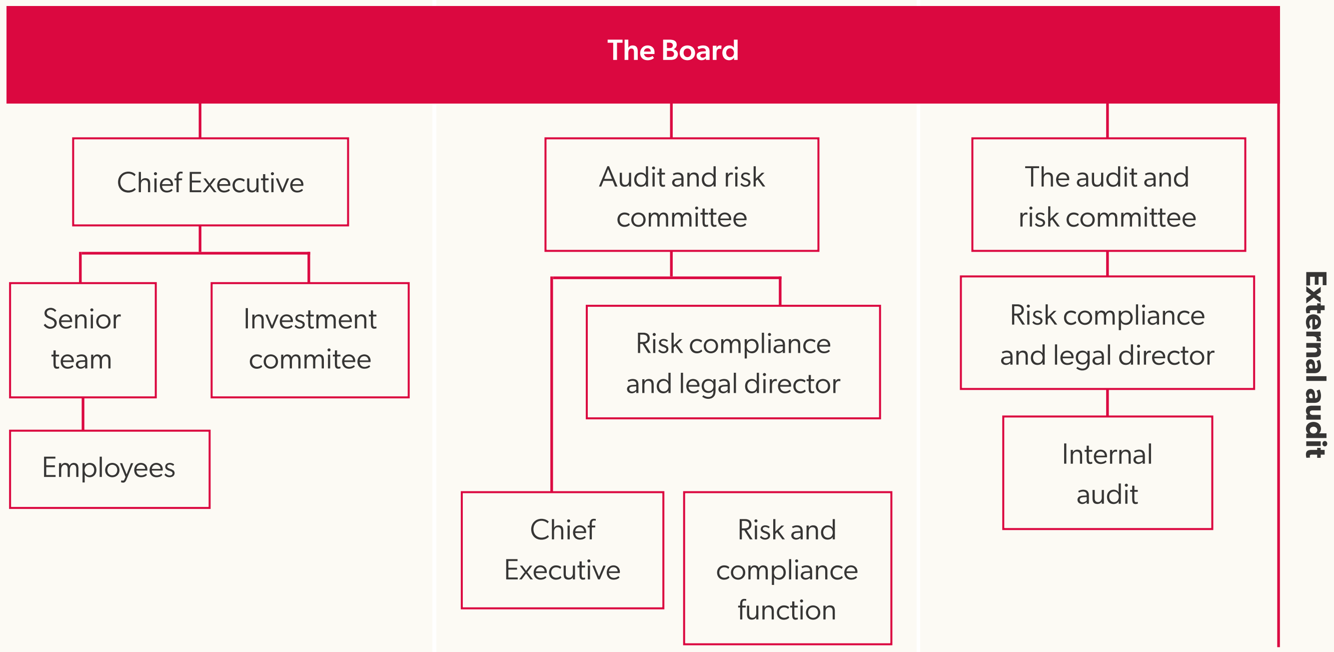
At the start of each financial year a scope of work is agreed with the internal auditors, detailing the business areas to be reviewed and the proposed timing and duration of each review. Individual recommendations are graded as advisory, low, medium, or high, dependent on the perceived risk, its likelihood and impact. Depending on the number and rating of individual recommendations, each internal audit assignment is ascribed an overall rating of, minimal assurance, partial assurance, reasonable assurance or substantial assurance. Management provides responses to recommendations and a deadline for completion of the necessary work.

Assurance in the 3LOD 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. These are regularly reported to the ARC.

Our 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.

The Development Bank's activities are also audited or tested by other independent external bodies. This includes audits by the European Funds Audit Team (EFAT) and the Welsh European Funding Office (WEFO). Our Cyber Essentials Plus accreditation is also subject to external assessment.

First line of defence	Second line of defence	Third line of defence
Day to day management and risk ownership	Risk policies, methodologies and independent oversight and challenge	Independent assurance



Neil Maguinness, Chief Risk Officer
31 August 2023

Section two

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: Nominations, Audit and risk and Remuneration. It also records Board/Committee attendance and other operational information.
Risk management and internal control **(Statement included in the strategic report)**	This section details the risks the Development Bank is exposed to and how they are mitigated. It describes the roles of the Board, management and staff, the risk management framework, risk culture and tolerance, principal risks, and the risk assurance framework.

Director's 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 2023.

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;
1. The Group's risk management disclosures are set out in the strategic report on pages 86-103;
1. Information about the use of financial instruments by the Group is given in Note 19 to the financial statements;
1. 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 (2022: £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. No new directors were appointed during the year, and Huw Morgan resigned as an NED of the Board on 17 November 2022. The rules for the appointment and removal of directors are set out in the corporate governance statement found on pages 124-125.

Name	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Gareth Bullock	Independent Non-Executive Chair	Sept 2015	Sept 2018	Sept 2021	Sept 2024
Giles Thorley	Chief Executive Officer	Apr 2016	n/a	n/a	n/a
Iraj Amiri	Independent Non-Executive Director	Sept 2016	Aug 2019	Sept 2019	Aug 2025
Carol Bell	Independent Non-Executive Director	Oct 2014	Sept 2017	Sept 2020	Sept 2023
Rhys Jones	Independent Non-Executive Director	Mar 2020	Feb 2023	March 2023	Feb 2026
Roger Jeynes	Independent Non-Executive Director, appointed Senior Independent Director 18 Nov 2022	Mar 2016	Oct 2019	Nov 2019	Oct 2025
David Staziker	Chief Financial Officer	Apr 2018	n/a	n/a	n/a
Robert Lamb	Independent Non-Executive Director	Apr 2021	Apr 2024	n/a	n/a
Kate Methuen-Ley	Independent Non-Executive Director	Apr 2021	Apr 2024	n/a	n/a
Dianne Walker	Independent Non-Executive Director	Mar 2022	Mar 2025	n/a	n/a
Iestyn Evans	Independent Non-Executive Director	Mar 2022	Mar 2025	n/a	n/a

* Huw Morgan resigned as a director on 17 November 2022 after serving his 9 year term

Our directors

Gareth Bullock

Chair

Gareth is Chair of the Development Bank of Wales Board and has over 45 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 functiwonal 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. He is also a non-executive director at Eurocell plc.

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

Giles Thorley

Chief Executive

Before joining the Development Bank of Wales, Giles was a partner at private equity firm TDR Capital LLP focusing on deal origination. 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, D&D London 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.

Roger Jeynes

Senior 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 Staziker

Chief Financial Officer

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 leads the Development Bank of Wales' internal finance team. 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

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

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.

Carol Bell

Non-Executive Director and Chair of the Investment Committee

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

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 Acting 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.

Kate Methuen-Ley

Non-Executive Director

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.

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.

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.

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.

Rob was previously 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.

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

Dianne Walker, FCA

Non-Executive Director

Born and raised in North Wales, Dianne brings more than 30 years' experience in finance and board advisory roles; she has had a long career as a trusted adviser to a wide variety of businesses and ownership structures, from multi-national PLCs, private and public bodies, as well as employee-owned and owner-managed businesses, including private equity backed businesses.

A Fellow of the Institute of Chartered Accountants in England & Wales, and an award-winning non-executive director, Dianne was previously part of the senior management team of PricewaterhouseCoopers in Manchester, providing guidance to a broad portfolio of clients, with responsibility for Audit, Risk Management as well as M&A Transaction Services .

Currently combining a portfolio of main board non-executive roles, Dianne is currently also Chair of the Audit and Risk Committee at Inspired plc, Chair of the Remuneration Committee of Victorian Plumbing PLC and Senior Independent non-executive Director of Scott Bader Group.

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

Dianne holds a first-class dual honours degree in Economics, Accounting & Financial Management from the University of Sheffield. She was recently awarded a Sunday Times Non-Executive Director of the Year Award and also regularly contributes to panel discussions on Board governance matters.

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.

Iestyn Evans

Non-Executive Director

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.

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.

Responsibilities of the directors

The following should be read in conjunction with the responsibilities of the auditor set out in their report on pages 140-149. 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 Group 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 and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

In preparing the Parent Company financial statements, the Directors are required to:

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

Directors' responsibilities in respect of accounting records and internal control

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

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

Each of the Directors, whose names are listed on page 109 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. This considered a downside scenario impacting income and costs arising from the UK's exit from the European Union and the challenging, ongoing macro-economic conditions (principally rising inflation, interest rates and energy prices) caused by 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 impact of the global banking market events in March 2023 on the Group's cash holdings;
- 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. This considered a downside scenario impacting income and costs arising from the UK's exit from the European Union and the challenging, ongoing macro-economic conditions (principally rising inflation, interest rates and energy prices) caused by 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 and funds held in treasury as well as the operational challenges of flexible working. 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.

Streamlined Energy and Carbon Reporting (SECR)

As a growing business, this is the first year that we have compiled a Streamlined Energy and Carbon Report (SECR) for the Greenhouse Gas emissions of our business operations. The following outlines an assessment of our energy and transport emissions, providing the baseline year for future reporting.

Overview:

Baseline year	2022/23
Boundary summary	All facilities under operational control
Emission factor data source	DESNZ (2022)[1]
Assessment methodology	Greenhouse Gas Protocol[2]
Intensity ratio	Emissions per full-time employee (FTE)

Metrics:

Metric	FY 2022/23
Transport KW/h	358,436 KW/h
Electricity KW/h	340,982 KW/h
Total Energy Consumption KW/h Transport & Electricity	700,418 KW/h
Total CO_2e (tonnes)	53.62 (tonnes)
Electricity CO_2e (tonnes)	89.18 (tonnes)
Total CO_2e(tonnes) Transport & Electricity	142.8 tCO_2e (tonnes)
Intensity Ratio (tCO_2e/FTE)	0.52 tCO_2e (tonnes)

Methodology:

In line with the SECR duties, this report outlines our total annual emissions following the Green House Gas Protocol methodology and applying DESNZ emissions factors. Our total emissions include business transport and electricity emissions across all our facilities and operations.

Our transport emissions relate to the consumption of fuel for business travel by car and not commuting or business travel on separate couriers.

With regards to our energy consumption and emissions please note we purchase electricity from our landlords across our 13 offices and as such, we do not consume any gas directly, as the boilers for the buildings in which we have offices are owned and managed by landlords. We therefore do not include gas in our energy emissions and only report electricity emissions.

Energy efficiency actions

In line with our commitments as a Responsible Investor and our support of the transition to a Net Zero economy, we continue to implement energy efficiency measures across our operations as well as our waste, and water.

During the FY 2022/23 we have focussed on reviewing the scope and quality of data collection across our operations. This has included engaging with our landlords across our 13 offices to maintain and enhance our monitoring and efficiency programme. This review and engagement will inform our sustainability strategy, set to be published in 2024 and support future energy and carbon efficiency actions and reporting.

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 66.

1 https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021

2 https://ghgprotocol.org/

Political donations

The Group made no political donations during 2023 (2022: £nil).

Gifts and hospitality

No gifts were made by the Group. The cumulative value of gifts and hospitality received by staff was less than £20,000 during 2023 (2022 less than £20,000).

Severance payments

The cumulative severance payments made in the year by the Group was less than £300,000 (2022 less than £300,000).

Loan losses/losses disposal of equity disclosure

Loan write-offs of £39,682,380 were made by the Group during the year (2022 £2,892,903) which included an interim write off of £27,074,726 on the Group's £50 million investment in the Wales Life Science Fund.

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

At the Annual General Meeting on 27th September 2022 a resolution was passed that Mazars be appointed as auditor for the ensuing year. At the Annual General Meeting on 26th September 2023 a resolution will be proposed that Mazars be reappointed as auditor.

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

Elizabeth Hitchings
Company Secretary
31 August 2023

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 FY23, the Board specifically asked for and received a detailed report from the Chief Risk Officer 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 has addressed some of these deficiencies during 2022/23. Non-Executive Directors' (NEDs) engagement with the workforce has expanded by NEDs attending a wider range of Group activities. The responsibilities of the Chair, CEO and SID are agreed by the Board and are publicly available. The annual report cites that outside interests can be beneficial for Executive Directors. The Group's current gender pay gap report, which is discussed in the Remuneration Committee report, is available on its website.
The Group expects to make further progress against these requirements during 2023/24.

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 Roger Jeynes, who was appointed into the SID role from 18 November 2022, following the retirement of the previous SID and Non-Executive Director 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 and individual interviews with all board members. 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, Treasury and Constitution.

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 re-election

The Nominations Committee approved the re-appointment of Rhys Jones for a second three year term with effect from 1 March 2023 in accordance with the requirements of the Articles of Association.

Board information

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

Board Committees

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

Audit and Risk Committee report

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 whistleblowing 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 (resigned 17 November 2022)
- Roger Jeynes (appointed 18 November 2022)
- Dianne Walker
- Iestyn Evans

The composition of the Committee was altered during the year with Huw Morgan resigning from the Committee on 17 November 2022. Roger Jeynes was appointed as the successor on 18 November 2022. Roger has a strong investment background and provides significant additional strength and expertise to the Committee.

The Audit and Risk Committee met six times during 22/23. It is attended by Development Bank of Wales plc's Chief Executive, Chief Financial Officer and Chief Risk Officer, 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 2. Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements 3. Consider and challenge the going concern and long-term viability assessment prepared by management 4. Review and monitor any significant adjustments arising from the external audit 5. Review the annual report and financial statements and other financial reporting 6. Advise the Board on whether, taken as a whole, the annual report and financial statements are 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 2. Agree the policy for the provision of non-audit services. Challenge and agree to the external audit plan 3. Make recommendations to the Board concerning the reappointment and removal of the external auditor 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 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 2. Review the gifts and hospitality register and arrangements
Internal audit	1. Approve the selection and appointment of internal auditors 2. Approve the annual work plan and receive reports on individual areas of work 3. Monitor management's responses to findings and recommendations 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 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 statements and the content of the annual report are 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 potential impact of major economic and political developments being another factor to consider for each issue 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 increasing global inflation and interest rates arising from the war in Ukraine 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

£847 million (2022 £873 million) 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 FY21, 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 FY21 is in line with the required accounting treatment. The Committee noted that it was important for the reader of the financial statements 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 72.

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 2024, 12 months subsequent to signing the annual report and financial statements for the year ended 31 March 2023. 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 Brexit and the ongoing situation in Ukraine on global inflation, interest rates and energy prices. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on page 120 in the Directors' report. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2024 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 cumulative surplus generated by the services business and associated working capital to cover all operating expenses to 30 September 2024. 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 Framework Agreement 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. The Committee sought assurance from management that all investments made meet the criteria. The Committee was satisfied that appropriate controls were in place to ensure that funds were invested in eligible businesses.

Valuation of equity investments

IFRS 9 requires all equity investments to be held at fair value in accordance with IFRS 13. The Committee considered and challenged how management had applied the latest (2022) 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.

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 21 June 2023 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 22 June 2023. 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 16 August 2023 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 2023 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 2023 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 with the most recent exercise undertaken in the 2022 financial year. Mazars were appointed as the Group's external auditor for the following year at the Annual General Meeting in September 2022.

Internal audit

Following a successful procurement exercise in 2022, RSM were appointed as the Group's new internal auditors.

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 are 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 dated 20 July 2023 our Internal Auditor's opinion as to our governance, risk management and control arrangements stated:

"The organisation has an adequate and effective framework for risk management, governance and internal control.

However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective."

Approved by the Chair of the Audit and Risk Committee.

Iraj Amiri

Chair of the Audit and Risk Committee

31 August 2023

Remuneration Committee report

Our Remuneration Committee adopts a fair and responsible approach to rewarding our colleagues, 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 colleagues 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 (left committee 17th November 2022) Roger Jeynes (joined committee 18th November 2022) 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

To meet the increased workload, we have recruited 60 new starters and undertaken 50 internal moves and promotions.

We have adapted our on-boarding processes to accommodate recruiting colleagues who are able to work in a hybrid working environment. The average time for successful recruitment is 2.8 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.

In our aim to achieve gender equality and support our values, we undertake a detailed analysis of our Gender Pay Gap and take the necessary action to help close it. The current version of the report is published on our website.

As part of our commitment to fair pay, we review our lowest paid band on an annual basis, the current minimum FTE salary is £22,259 and it will be reviewed each July as part of our pay review process and will move in line with our cost-of-living increase. Our CEO median ratio as at July 2022 was 4.79 and is monitored on an annual basis.

In order to support our colleagues with the financial burden of the cost-of-living crisis, we made a one-off payment of £1,000 to those earning up to £50,270 FTE in October 2022.

A review of the Deferred Incentive Scheme was undertaken during the year to ensure it met the aims of the scheme to offer a fair remuneration package to attract and retain people who add value to DBW FM Ltd, to incentivise the right behaviours and to add long term value for the business and its shareholder. Following the review, a number of changes have been proposed and agreed in order to streamline and simplify the process whilst retaining the key purpose of the scheme of driving the right behaviours in order to benefit the business and its shareholder. During the year the Non-Executive Directors pay was reviewed (excluding the Chairman) to reflect the increased complexity, workload and responsibility for directors since the Bank's inception in 2017. The proposal was made following two independent benchmarking exercises and resulted in a modest increase to core fees which will continue to increase in line with the Bank's annual pay review. Fees for additional representation on board sub committees were also introduced. This was approved by Welsh Government.

An employee referral scheme was launched during the year to reward colleagues who refer a candidate for a live external vacancy, which results in them being appointed. A recognition scheme was introduced providing managers an opportunity to give real time feedback with a £20 voucher for when someone has gone over and above what is expected in their role. An electrical vehicle scheme (EV) was also launched to support the Bank's aim to support our green initiative.

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 colleagues 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. On average our colleagues received 6 days training per year, an increase on the previous year (5 days). The total cost of training for the year was £393,000 (external training only was £168,941).

Our career pathway has continued to support progression of our colleagues with ten colleagues promoted during the year.

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 colleagues with an enhanced wellbeing programme. We also have dedicated mental health first aiders within the Group who organise events throughout the year.

During this year, sickness absence per annum per colleague was 3 days, a significant decrease from the previous year of 5.3 days. We will continue to closely monitor sickness absence to ensure we are supporting our colleagues in all aspects of their wellbeing.

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 colleagues. We will review this over the coming year to ensure it is aligned with our values.

22/23 continues the theme of digitalisation, helping to improve the colleague experience and reduce the administrative burden.

We have continued to work closely with Chwarae Teg to support gender equality. This year achieved the Silver award, with gold level in four out of the nine categories.

Covid-19

The pandemic has fundamentally changed the way in which we work. We implemented a hybrid way of working with colleagues attending the office a minimum of one day per week on average which was developed through the set up a working group. During the year ahead we will review how this is working for the business and maintain our commitment to deliver a 'best in class' service.

Approved by:

Rhys Jones

Chair of the Remuneration Committee

31 August 2023

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 22/23, the Committee discussed and considered succession planning for members of the senior leadership team, the appointment of a new senior independent director, 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

31 August 2023

Other committees

The Bank has a number of Executive Committees including an Investment Committee, a Risk Committee and a Valuation Committee.

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 2022 who attended each Board and Committee.

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

* Huw Morgan retired as a Director on 17 November 2022.

**1 meeting part attendance

*** Roger Jeynes was appointed to the Audit and Risk and Remuneration Committees on 18 November 2022

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, which was last performed by PwC in 2022.

This year's review was conducted internally by Roger Jeynes, the Group's SID. It 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, balance of strategic and operational discussions, breadth of management performance reporting and division of responsibilities. These areas will be prioritised as part of the ongoing Board evaluation process during the coming year.

Section three

Independent 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 2023 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 at 31 March 2023 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.

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;
- Evaluating the directors' going concern assessment of the Group and the Parent Company and challenging the appropriateness of the key assumptions used by the directors in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and the mitigating actions put in place in response to the current economic situation, including but not limited to, the inflation levels and interest rates, 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;
- Reading regulatory correspondence, reviewing minutes of meetings of the Audit and Risk Committee and the Board of Directors, making inquiries of management and considering post balance sheet events to identify events or 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.

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.

Independent auditor's report to the members of Development Bank of Wales plc (continued)

Key audit matters	How our scope addressed these matters
Valuation of the allowance for impairment (including expected credit losses ('ECL')) on stage 3 loans held at amortised cost under IFRS **Group: Allowance for impairment (Stage 3 loans): £34.4m (2022: £27.9m)** Loans and advances to customers at amortised cost (Stage 3): £66.8m (2022: £55.1m) Refer to Note 2: Accounting Policies, Note 4: Credit Risk and Note 14: Other Financial Assets in the financial statements. 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. The identification of stage 3 loans and the provision assessment of such exposures have been identified as a Key Audit Matter. Management identifies stage 3 loans through criteria relating to days past due and being unlikely to pay. Judgement is applied in the assessment of unlikely to pay criteria. 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. The level of risk has remained consistent with prior year.	**Completeness of stage 3 loans** Our audit procedures included, but were not limited to the following: – We obtained an understanding of the key processes around the allowance for impairment including key process controls, any IT related controls and performing end to end review of the key business process; – We evaluated the design and implementation of key controls over the staging criteria and internal rating allocations, annual reviews, and days past due monitoring. We adopted a fully substantive audit approach; – 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; – We critically assessed the methodology for determining the default criteria in accordance with IFRS 9 requirements; and – In order to assess the completeness of the stage 3 loan portfolio, we reviewed a sample of stage 1 and 2 exposures against default criteria to determine appropriate staging and assessed appropriateness of returns to non-default status by reviewing stage 3 loans which showed improvement in credit risk. **Key assumptions used to determine the stage 3 impairment provision** Our audit procedures included, but were not limited to the following: – We evaluated the design and implementation of key controls over the stage 3 impairment provision; – We challenged the reasonableness of the assumptions used by management in supporting the use of either 50% or 100% provision on stage 3 exposures. This also included assessing the recovery outcomes of the associated loans;
	– We performed an independent assessment on a sample of stage 3 loans to assess recoverability and reasonableness of the provision; – We assessed the valuation and existence of the collateral on a sample of exposures; – We performed stand-back procedures on the impairment provision and relevant benchmarking of the key inputs used in the impairment model to assess the appropriateness of the allowance for impairment on stage 3 loans; and – We verified the completeness and accuracy of the associated disclosures in the financial statements. **Our observations** We concluded that the identification of stage 3 loans and the ECL assessment of stage 3 exposures are consistent with IFRS 9 requirements, and we determined that the allowance for impairment on stage 3 loans at 31 March 2023 is reasonable.

Independent auditor's report to the members of Development Bank of Wales plc (continued)

Key audit matters	How our scope addressed these matters
Valuation of the Help To Buy Wales Portfolio **Group: £325.1m (2022: £405.7m)** Refer to Note 2: Accounting Policies, Note 3: Critical Accounting Judgements and Key Sources of Estimation Uncertainty and Note 13: Financial Assets at Fair Value in the financial statements. 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. The 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. 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.	Our audit procedures included, but were not limited to the following: – We obtained an understanding of the key processes around the HTB-W portfolio including key process controls, any IT related controls and performing end to end review of the key business process; – We assessed the design and implementation of the key controls identified. We adopted a fully substantive audit approach; – We reviewed the valuation methodology to assess compliance with IFRS 13 and IFRS 9 requirements; – We engaged 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; – We performed independent benchmarking of the forecast HPI and discount rate assumptions used against relevant comparable assumptions used within the industry and other available third-party sources;
These inputs are subject to significant estimation uncertainty and require judgments to be made by directors. The level of risk has remained consistent with prior year.	– We performed independent substantive procedures on the valuation of investments on a sample basis and agreeing to relevant supporting data where possible; – We performed back testing of the default rate to assess the accuracy of the default rates included in the model; and – We verified the completeness and accuracy of the associated disclosures in the financial statements. **Our observations** We concluded that management's methodology and the key assumptions used in determining the fair value of the HTB-W Portfolio were reasonable and in line with IFRS 13 and IFRS 9 requirements. The values determined at 31 March 2023 are considered appropriate.

In the prior year, our audit report included a key audit matter in relation to Classification of the Financial Transaction Reserve Liability and Welsh Government Funding. We determined that the nature and complexity of this area no longer contributes significantly to our audit efforts and therefore is no longer considered as a key audit matter.

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	£17.4m (2022: £18.3m)
How we determined it	**1% of total assets (2022: 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 an entrusted entity through which the Welsh Government places funds for investment and return in line with Government policy objectives which makes total assets a focus area for key users of the financial statements which 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. We set performance materiality at £12.2m (2022: £11.0m) which represents 70% (2022: 60%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £0.5m (2022: £0.5m) 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 (continued)

Parent Company materiality

Overall materiality	£4.4m (2022: £5.6m)
How we determined it	**2% of net assets (2022: 2% 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.Net assets are the main focus of the key users of the financial statements which are mainly the Welsh Government.
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. We set performance materiality at £3.1m (2022: £3.4m), which represents 70% (2022: 60%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount towards the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £0.13m (2022: £0.17m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 the 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

Independent auditor's report to the members of Development Bank of Wales plc (continued)

- 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 page 118, 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 regulations, Financial Conduct Authority ('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 regulations;
- 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 subsequent to the balance sheet; 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;
- Addressing the risks of fraud through management override of controls by performing journal entry testing and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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 Pélissier (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey, London

31 August 2023

Section four

Financial statements

Consolidated income statement

For the year ended 31 March 2023

	Note	2023	2022
		£	£
Interest revenue calculated using the effective interest method	5	14,257,413	16,582,876
Other interest revenue	5	4,486,445	1,658,574
Other revenue	5	10,060,978	8,644,217
Revenue	5	28,804 ,836	26,885,667
Operating expenses:			
Impairment of loans	6	(16,816,150)	4,852,955
Other administrative expenses	6	(29,816,570)	(27,595,834)
Total operating expenses		(46,632,720)	(22,742,879)
Other operating income:			
Release of ERDF grant income	5	20,340,328	27,560,486
Release of other grant income	5	246,086	-
Fair value (loss)/gain on shared equity assets	5	(50,638,492)	4,223,434
Fair value (loss) on non-consolidated funds	5	(29,562)	(8,932,615)
Fair value (loss) on other financial assets	5	(30,318,229)	(16,460,411)
Realised gain from the disposal of shared equity assets	5	13,602,529	11,134,453
Total other operating (expense)/income		(46,797,340)	17,525,347
Operating (Loss)/Profit	6	(64,625,224)	21,668,135
Other interest income	8	12,891,524	1,228,007
Finance costs	9	(9,352,178)	(25,341,338)
Gain/(loss) on amounts owed to principal shareholder held at fair value	16	37,035,963	(15,357,887)
(Loss) before taxation		(24,049,915)	(17,803,083)
Tax	10	-	(2,185,428)
(Loss) for the financial year		(24,049,915)	(19,988,511)
(Loss) attributable to equity shareholders		(22,808,721)	(20,173,678)
(Loss)/profit attributable to non-controlling interest	20	(1,241,194)	185,167
(Loss) for the financial year		**(24,049,915)**	**(19,988,511)**

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Note	2023	2022
		£	£
(Loss) for the financial year		(24,049,915)	(19,988,511)
Items that will not subsequently be reclassified to profit or loss:			
Actuarial gain on defined benefit pension schemes	17	3,030,000	1,150,000
Other comprehensive income for the year net of tax		3,030,000	1,150,000
Total comprehensive (expenditure) for the year		**(21,019,915)**	**(18,838,511)**
Total comprehensive (expenditure) attributable to equity shareholder		(19,778,721)	(19,023,678)
Total comprehensive (expense)/income attributable to non-controlling interest	20	(1,241,194)	185,167
Total comprehensive (expenditure) for the year		**(21,019,915)**	**(18,838,511)**

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 2023

	Note	Public equity	Share capital	Capital reserve	Retained profit	Non-controlling interest	Total
		£	£	£	£	£	£
Balance at 1 April 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	1, 25	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**
(Loss)/profit for the financial year					(22,808,721)	(1,241,194)	(24,049,915)
Actuarial gain on defined benefit pension schemes	17				3,030,000		3,030,000
Non-controlling interest capital contribution	20					1,920,000	1,920,000
Non-controlling interest distribution	20					(800,000)	(800,000)
Sub Total		-	-	-	(19,778,721)	(121,194)	(19,899,915)
Balance at 31 March 2023		**319,454,949**	**12,500**	**-**	**(11,978,375)**	**5,058,083**	**312,547,157**

Consolidated balance sheet

As at 31 March 2023

	Note	2023	2022
		£	£
Non-current assets			
Intangibles	11	1,016,634	1,105,770
Property, plant and equipment	12	2,967,720	4,448,561
Financial assets at fair value	13	389,759,280	488,951,980
Trade and other receivables	14	153,259,505	156,962,619
Retirement benefit	17	3,850,000	800,000
		550,853,139	652,268,930
Current assets			
Trade and other receivables	14	97,003,913	93,997,896
Cash and cash equivalents	15	1,098,237,472	1,073,495,399
		1,195,241,385	1,167,493,295
Total assets		**1,746,094,524**	**1,819,762,225**
Current liabilities			
Trade and other payables	16	(47,206,878)	(45,636,457)
Deferred income	18	(20,936,218)	(25,074,614)
Lease liabilities	21	(278,826)	(415,209)
		(68,421,922)	(71,126,280)
Net current assets		**1,126,819,463**	**1,096,367,015**
Non-current liabilities			
Trade and other payables	16	(1,363,499,763)	(1,413,575,516)
Lease liabilities	21	(1,625,682)	(2,613,357)
		(1,365,125,445)	(1,416,188,873)
Total liabilities		**(1,433,547,367)**	**(1,487,315,153)**
Net assets		**312,547,157**	**332,447,072**
Equity			
Public equity		319,454,949	319,454,949
Share capital	20	12,500	12,500
Retained profit		(11,978,375)	7,800,346
Non-controlling interest	20	5,058,083	5,179,277
Total equity		**312,547,157**	**332,447,072**

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 31 August 2023.

Signed on its behalf by

G Thorley

Director

Consolidated cash flow statement

For the year ended 31 March 2023

	Note	2023	2022
		£	£
Net cash inflow from operating activities	22	17,085,093	12,915,917
Investing activities			
Other interest received		12,891,524	1,228,007
Purchase of fixed assets		(139,724)	(1,437,773)
Net cash received from investing activities		12,751,800	(209,766)
Financing activities			
Finance costs		(49,652)	(74,979)
Principal elements of lease payments		(334,072)	(381,151)
Non-controlling interest capital contribution		1,920,000	2,061,600
Non-controlling interest distribution		(800,000)	(320,000)
ERDF grant income received		16,448,018	43,735,721
WG Funding (repaid)		(26,790,000)	(100,755,347)
WG Funding received		4,510,886	100,469,473
Net cash (used in)/received from financing activities		(5,094,820)	44,735,317
Net increase in cash and cash equivalents		24,742,073	57,441,468
Cash and cash equivalents at beginning of year		1,073,495,399	1,016,053,931
Cash and cash equivalents at end of year		**1,098,237,472**	**1,073,495,399**

Certain numbers shown as prior year comparatives within the cash flow statement have been updated to reflect changes made in the year to appropriately state the cash flow arising from operating, investing and financing activities.

The overall impacts on the cash flow statement as shown in the 2022 financial statements are as follows:

Net cash flow from operating activities has reduced from £38.1m to £12.9m, net cash flow from investing activities has reduced from £0.4m to £0.2m and net cash flow from financing activities has increased from £19.7m to £44.7m.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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 2023 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.

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook. This considered a downside scenario impacting income and costs arising from the UK's exit from the European Union and the challenging, ongoing macro-economic conditions (principally rising inflation, interest rates and energy prices) caused by 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 impact of the global banking market events in March 2023 on the Group's cash holdings;
- The regulatory and legal environment and any potential conduct risks which could arise.

As a result of this assessment, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

New and revised IFRS standards in issue but not yet effective

The Group has considered all new and revised IFRS standards that have been issued but are not yet effective at the date of authorisation of these financial statements. During the year the Group did not early adopt any new accounting standards or amendments to standards. Standards, amendments and interpretations issued and effective on or after 1 January 2023 that are expected to have an impact on the Group are as follows:

Notes to the consolidated financial statements

For the year ended 31 March 2023

1. General information (continued)

New and revised IFRS standards in issue but not yet effective (continued)

Minor amendments to accounting standards

The IASB has issued a number of minor amendments to IFRSs (including IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies Changes in Accounting Estimates and Errors). These amendments are not expected to have a significant impact on the Group.

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.

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.

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 165.

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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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.

Other interest income

Interest income, excluding interest receivable on loans, is recognised in the period to which it relates using the effective interest rate method.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

2. Accounting policies (continued)

Other grant income

Notional grant income is recorded in relation to schemes financed by the Welsh Government where state aid is conferred to customers via 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 income is capped at the difference between the transaction value of funding received and the initial fair value of the liability recorded. Where this amount is lower than the total grant expense for a scheme, grant income is recorded proportionally to the principal of loans as they are issued.

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

Notes to the consolidated financial statements

For the year ended 31 March 2023

based on conditions at the point of drawdown. The Group will always reserve the right not to invest if agreed conditions are not met.

Effective interest method

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

The contractual cash flows of shared equity loans are linked to the value of the underlying property and are therefore not solely payments of principal and interest on the principal amount outstanding.

Shared equity loans are held at FVTPL and measured at fair value as at the balance sheet date. More detail on the measurement of shared equity loans can be found in Note 3.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

2. Accounting policies (continued)

Financial instruments (continued)

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 4 for more details about forward-looking information.

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 172. 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 net present value (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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

2. Accounting policies (continued)

Financial instruments (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. Some of this Welsh Government funding was originally made as public dividend capital (PDC) whilst the remainder is classified as grant in aid or core funding for investment purposes.

This non-repayable funding is to invest in the long-term sustainability of Development Bank of Wales and within the Welsh Minister's own accounting arrangements the funds are regarded as being an investment. Additional public equity arises where the Group receives loans from the Welsh Government at below market rates as described below.

Amounts owed to principal shareholder held at amortised cost: Welsh Government loans (WG loans)

The Welsh Government has provided financial transaction reserve (FTR) and core capital 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. Where the Group is obligated to issue below market rate loans and grant income is to be recorded (as noted above) this balance is included within deferred income. The difference between the sum of the fair value of the liability plus the deferred income recorded and the transaction value (funds received) is 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 cash flows associated with the loan discounted to give the present value of these cash flows and the fair value of the liability. The key inputs to this technique are the expected cash flows associated with the loan and the discount rate applied to those cash flows. See Note 3 for further information.

Subsequent treatment

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

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

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.

Amounts owed to principal shareholder held at fair value

The Welsh Government has also provided FTR funding to the Group to provide Help to Buy - Wales shared equity loans with gains and losses on the portfolio transferred back to Welsh Government.

Initial recognition

On initial recognition the financial liability is recognised at fair value, calculated in accordance with IFRS 13. Any differences between the fair value at initial recognition and the transaction price are deferred.

Notes to the consolidated financial statements

For the year ended 31 March 2023

Subsequent treatment

As the shared equity loan portfolio is held at FVTPL, the Group has designated these liabilities as measured at FVTPL to eliminate the inconsistency that would otherwise arise from recognising the gains and losses on different bases. Gains or losses deferred on initial recognition are released as the loan portfolio is realised.

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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

2. Accounting policies (continued)

Retirement benefits (continued)

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.

In preparing these financial statements, the Directors have considered the relationship the Group has with the Wales Life Science Investment Fund (WLSIF) and the eight funds managed by FW Capital Limited and specifically as to whether the Group controls those funds. On 28 February 2023, WLSIF reached the end of its life, and a liquidation process has commenced. As the Group was a limited partner investor in the WLSIF and did not take part in the management of the WLSIF, this did not meet the definition of control and the WLSIF has therefore not been consolidated into these financial statements.

With regard to seven of the FW Capital Limited managed funds, the Directors note that while FW

Notes to the consolidated financial statements

For the year ended 31 March 2023

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, North East Property GP Limited and NE Commercial 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 £123.5m (2022: £120.8m) 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 £30.9m at 25% of the gross loss (2022: £30.2m at 25% 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.

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 £50.6m loss (2022: £4.2m 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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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)

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. To forecast future house price movements over the maximum 25 year duration of the loan term, the model uses independent house price index (HPI) forecast data for Wales. This data has been adjusted for expected divergences between the forecast and the expected movement of the shared equity loan book due to the particular characteristics of the HTBW portfolio.

The central scenario for future HPI growth is used in the fair value calculation for the 2023 financial statements. The forecast assumes that the fall in property prices and mortgage approvals since autumn 2022 is the start of a sustained correction in the housing market. Mortgage rates have increased significantly, household real incomes are falling, affordability remains stretched, and demand is probably suffering from some potential buyers delaying purchases in expectation of further price falls. This results in a compounded 8.6% reduction in house prices projected over the next 3 years and no return to current valuations until 2030.

Sensitivity analysis on this input indicates a range of alternative scenarios for house price movements. The sensitivity of the modelled fair value to changes to changes in HPI, with all other assumptions held constant, is illustrated below.

HPI Sensitivity Scenarios

Scenario	Annual HPI growth forecast (5 years)					Fair value movement	Variance to Central scenario	5 year average (i)	Mar-23 to trough (ii)
						£m	£m		
	FY24	FY25	FY26	FY27	FY28				
Upside	-0.9%	-0.6%	3.4%	4.7%	3.7%	-25.8	24.89	2.0%	-1.5%
Central	-4.4	-4.2%	-0.3%	2.9%	3.3%	-50.6		-0.6%	-8.6%
Downside	-8.1	-8.7%	-4.4%	1.7%	3.9%	-75.1	-24.47	-3.2%	-19.7%
Severe downside	-9.9%	-11.1%	-7.0%	0.6%	4.1%	-88.4	-37.78	-4.9%	-25.5%

i. The average rate for HPI is based on the cumulative annual growth rate over the forecast period
i. Shown as the largest cumulative fall from 31 March 2023 over the forecast period

Discount Rate

The discount rate of 6.22% (2022: 3.05%), is based on a risk-free rate, which is calculated using the UK gilts yield curve, and the credit risk spread from comparable housing bonds. Alongside HPI it is a significant input to the valuation model. A key driver in deriving the appropriate discount rate is the forecast cash flows, principally from repayment of shared equity loans. This determines the weighted average life of the portfolio, which is used to identify the correct point on the yield curve spread for UK gilts and the comparable housing bonds. The primary reason for the significant increase in the discount rate from the prior year is a rise in official interest rates, which have pushed up gilt yields. This constitutes a 2 percentage points increase on the prior year rate used. There has also been an increase in the risk premium which has risen by 1.2 percentage points.

Management considers a reasonable range for considering the sensitivity of this input to be 100 basis points above or below the FY23 rate. Sensitivity analysis on this input suggests that changes to the discount rate are not material to the fair value when viewed in isolation. However, due to the interrelationship of this input with assumptions for house price forecasts, as outlined below, an explanation of how the discount rate is derived has been disclosed.

Interrelationship between unobservable inputs

Due to the interaction between different economic variables within the fair value model, the impacts of single variable sensitivities may not be representative of realistic alternative scenarios. Movements in either HPI or discount rate are unlikely to occur in isolation. Were the HPI scenario to become more pessimistic, for example, reflecting the downside or severe downside scenarios identified above, then there is a realistic expectation that this would also see a rise in the discount rate as we would expect both the risk free rate and risk premium to increase. We have illustrated this by combining our downside scenario with a 100 basis points increase in the discount rate. The combined effect is a fair value movement of £84.3m, an increase in the reported loss of £33.7m. Were the HPI outlook to improve then we would expect both the risk free rate and risk premium to fall. We have illustrated this using our upside scenario in combination with a 100 basis points decrease in the discount rate. The combined effect is a fair value movement of £13.2m, a reduction in the reported loss of £37.4m.

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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

4. Credit risk (continued)

Credit risk management (continued)

- Creating credit policies to protect the Group against identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method to measure ECL.
- Ensure that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

Significant increase in credit risk (SICR)

As explained in Note 2, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group operates a portfolio grading system that categorises asset exposure according to the degree of risk of default. The Group's grading framework comprises 5 categories and allocates an appropriate grade to each asset which realistically reflects the change in credit risk over the life of the investment.

This approach was implemented as part of the portfolio controls in order to ensure appropriate strategies are deployed on assets given their particular circumstances, and in order to ensure those assets requiring a specific provision are identified. The portfolio grading approach is well embedded in the various portfolio teams, with several controls in place to ensure grading is appropriate.

Assets are classified as grade A to E, with grades A to C representing 'healthy' assets (albeit with grade C showing signs of underperformance and a significant increase in credit risk). Grade D being 'sick' with objective evidence of impairment, and grade E carrying a specific provision.

Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as the Group does not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified. Similarly, assets in the Covid-19 Wales Business Loan Scheme fund are initially graded 'CWBLS' until sufficient information has been obtained to accurately grade these investments.

We would normally expect mainstream investments to start life as a grade B and typically those investments which are exceeding expectations at the point of drawdown would be graded A. We consider that grade A, B, MICRO and CWBLS assets are low risk and healthy and remain with the portfolio team. Together, they are regarded as Stage 1.

Notes to the consolidated financial statements

For the year ended 31 March 2023

Grade C assets, whilst still considered healthy, do show a significant increase in credit risk and are normally managed with input from the risk team. They are regarded as Stage 2 assets.

Assets in grades D and E show a further increase in credit risk with objective evidence of impairment and are, therefore, regarded as Stage 3 assets.

The table below shows a summary of the descriptors for each portfolio grade. The list is not exhaustive, but indicative of the characteristics that "typical" assets in a particular grade might be expected to display.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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. – Performance exceeding or more or less in line with business plan. – Risk position not increased since investment made. – Payments made in timely manner. – No negative credit alerts.	Arrears<30 days: **Stage 1**	Arrears>30 days: **Stage 2**
B – Healthy	– Irregular financial information. – Performance is broadly in line with business plan. – Performance is within covenants. – Payments made in a timely manner. – No negative credit alerts.	Arrears<30 days: **Stage 1**	Arrears>30 days: **Stage 2**
Micro	Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as we do not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.	Arrears<30 days: **Stage 1**	Arrears>30 days: **Stage 2**
CWBLS	Assets in the CWBLS classification are not initially allocated a specific portfolio grade as we did not have sufficient regular information to accurately grade these investments. These cases are therefore graded 'CWBLS'. These loans are graded A-E once sufficient information has been obtained through management information and payment history.	Arrears<30 days: **Stage 1**	Arrears>30 days: **Stage 2**
C – Early Warning	– Financial information difficult to obtain or not available. – Business still appears to be viable but difficult to assess the risk. – Unauthorised arrears capitalised. – Request for authorised repayment holiday. – Satisfactory explanation to negative credit alert. – Evidence of creditor payments being stretched. – Breach of covenant for two consecutive months.	**Stage 1***	**Stage 2**
D – Sick	– Material underperformance. – Business changed direction or strategy. – Unauthorised arrears. – Breach of covenant for more than two consecutive months. – No formal Time to Pay agreement in place with HMRC. – Payment plans with creditors breached.		**Stage 3**
E – Terminal	– No recovery from D. – Objective evidence of risk of loss identified warranting a specific provision.		**Stage 3**

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

Notes to the consolidated financial statements

For the year ended 31 March 2023

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.

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.
Six categories of loan with different risk profiles have been identified: mainstream loans, micro loans, property loans, rescue and restructure loans, mutual investment model loans, and Covid-19 Wales business loans.

The disaggregation is reconsidered from time to time and amended to fit the risk profiles apparent at that time.

Notes to the consolidated financial statements

For the year ended 31 March 2023

4. Credit risk (continued)

Measurement of expected credit loss (ECL) (continued)

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

- Probability of default (PD) – data is obtained from an external credit specialist which analyses expected default frequencies based on the characteristics of each portfolio company. Where data is not available for an individual customer the average PD based on the loan category and internal risk grading is used.
- 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.

In the prior year PDs were estimated using aggregate expected default data which was then mapped to our internal risk gradings using historic loss data to provide a forward-looking expectation for the probability of default. The use of company specific data, where available, increases the precision of the calculation and more accurately reflects the PDs across the loan portfolio. There have been no other significant changes in the methodology applied in the prior year.

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.

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:

Notes to the consolidated financial statements

For the year ended 31 March 2023

Loans and advances to customers at amortised cost.	2023	2022
	£	£
Concentration by category:		
Rescue and restructure loans	2,698,323	2,750,106
Property development loans	49,363,254	44,916,886
Micro loans	15,709,653	14,945,538
Covid-19 Wales business loans	44,956,442	61,713,740
Mutual investment model loans	11,757,074	8,579,501
Mainstream loans	117,311,294	111,819,124
	241,796,040	**244,724,895**
By Maturity:		
Loans to customers receivable in < 1 year	88,536,535	87,762,276
Loans to customers receivable in > 1 year	153,259,505	156,962,619
	241,796,040	**244,724,895**

Notes to the consolidated financial statements

For the year ended 31 March 2023

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				2023
				£
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	130,382,802	-	-	130,382,802
Grade Micro: Low to fair risk	23,976,440	-	-	23,976,440
Grade CWBLS: Low to fair risk	14,037,106	-	-	14,037,106
Grade C: Early warning*	1,991,917	26,138,645	-	28,130,562
Grade A-B: Low to fair risk - in arrears	-	7,381,994	-	7,381,994
Grade Micro: Low to fair risk – in arrears	-	5,312,978	-	5,312,978
Grade CWBLS: Low to fair risk – in arrears	-	1,760,088	-	1,760,088
Grade C: Early warning – in arrears	-	9,718,610	-	9,718,610
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	12,836,989	12,836,989
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	12,695,788	12,695,788
Grade E: Objective evidence of impairment	-	-	41,272,338	41,272,338
Total Gross carrying amount	170,388,265	50,312,315	66,805,115	287,505,695
Loss allowance	(4,241,926)	(7,040,785)	(34,426,944)	(45,709,655)
Net Carrying amount	**166,146,339**	**43,271,530**	**32,378,171**	**241,796,040**
Provision coverage ratio	2.5%	14.0%	51.5%	15.9%

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

Notes to the consolidated financial statements

For the year ended 31 March 2023

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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 2022	1,333,379	3,269,375	27,859,869	32,462,623
Changes in the loss allowance:				
New financial assets originated	1,842,893	-	-	1,842,893
Transfers to Stage 1	273,674	(239,304)	(34,370)	-
Transfers to Stage 2	(258,552)	905,780	(647,228)	-
Transfers to Stage 3	(208,077)	(1,071,252)	1,279,329	-
(Decrease)/increase due to other changes in credit risk	1,258,609	4,176,186	12,320,534	17,755,329
Write offs	-	-	(6,351,190)	(6,351,190)
Loss allowance as at 31 March 2023	**4,241,926**	**7,040,785**	**34,426,944**	**45,709,655**

Notes to the consolidated financial statements

For the year ended 31 March 2023

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 2022	159,428,611	62,614,175	55,144,732	277,187,518
Changes in the gross carrying amount:				
New financial assets originated	110,698,751	-	-	110,698,751
Transfers to Stage 1	4,101,394	(3,795,257)	(306,137)	-
Transfers to Stage 2	(20,665,340)	21,833,901	(1,168,561)	-
Transfers to Stage 3	(12,806,319)	(13,148,503)	25,954,822	-
Write offs	-	-	(6,351,190)	(6,351,190)
Other changes	(70,368,832)	(17,192,001)	(6,468,551)	(94,029,384)
Gross carrying amount as at 31 March 2023	**170,388,265**	**50,312,315**	**66,805,115**	**287,505,695**

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 (2022: £nil).

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. There are no net modification gains or losses from financial assets where modification does not result in derecognition.

Notes to the consolidated financial statements

For the year ended 31 March 2023

5. Revenue and other operating income

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

	2023	2022
	£	£
Revenue		
Interest revenue calculated using the effective interest method	14,257,413	16,582,876
Other interest revenue	4,486,445	1,658,574
Fees	10,050,917	8,599,669
Dividends	10,061	44,548
	28,804,836	26,885,667
Other operating income		
European Regional Development Fund (ERDF) grant income	20,340,328	27,560,486
Other grant income	246,086	-
Fair value (loss)/gain on shared equity assets	(50,638,492)	4,223,434
Fair value (loss) on non-consolidated funds	(29,562)	(8,932,615)
Fair value (loss) on other financial assets	(30,318,229)	(16,460,411)
Realised gain from the disposal of shared equity assets	13,602,529	11,134,453
Total revenue and other operating (expense)/income	**(17,992,504)**	**44,411,014**

Notes to the consolidated financial statements

For the year ended 31 March 2023

6. Operating profit

	2023	2022
	£	£
Operating profit has been arrived at after charging/(crediting):		
Amortisation of intangibles	89,136	103,151
Depreciation of fixtures and fittings	441,823	266,397
Depreciation of right of use assets	388,756	470,959
Directors' emoluments and staff costs (see Note 7)	18,738,650	17,096,266
Provision for deferred incentive scheme	469,175	450,378
Grant expense in respect of below market rate loans	179,954	-
Impairment of loans	16,816,150	(4,852,955)
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's financial statements	131,185	114,505
Fees payable to the Company's auditor for other services to the Group:		
Audit of the Company's subsidiaries	361,402	344,965
Total audit fees	**492,587**	**459,470**
Fees payable to the Company's auditor for the provision of assurance services in the form of audit of client assets (CASS)	22,040	20,000
Total non-audit fees	**22,040**	**20,000**

Notes to the consolidated financial statements

For the year ended 31 March 2023

7. Information regarding directors and employees

	2023	2022
	£	£
Directors' emoluments		
Wages and salaries	606,915	542,096
Pension costs	52,928	49,817
	659,843	591,913
Remuneration of highest paid director	217,415	210,929

One director (2022: one) of the Company and three directors (2022: three) of subsidiary companies were members of the defined benefit pension scheme.

	2023	2022
	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	14,620,855	13,305,939
Social security costs	1,660,083	1,494,266
Pension costs	1,797,869	1,704,148
	18,078,807	16,504,353
Directors emoluments & staff costs	**18,738,650**	**17,096,266**

	No.	No.
The monthly average number of persons employed (excluding directors and agency temps)		
Administration	62	61
Funds Management	203	193
	265	**254**

Notes to the consolidated financial statements

For the year ended 31 March 2023

8. Other interest income

	2023	2022
	£	£
Bank interest	12,851,524	1,228,007
Net return on pension scheme assets	40,000	-
	12,891,524	**1,228,007**

9. Finance costs

	2023	2022
	£	£
Notional interest on WG loans	9,302,526	25,266,359
Interest on lease liabilities	49,652	64,979
Net finance cost of pension scheme	-	10,000
	9,352,178	**25,341,338**

Notes to the consolidated financial statements

For the year ended 31 March 2023

10. Tax

	2023	2022
	£	£
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:

	2023	2022
	£	£
(Loss) on ordinary activities before tax	**(24,049,915)**	**(17,803,083)**
Tax at 19% (2022: 19%) thereon	(4,569,484)	(3,382,585)
Factors affecting charge for the year		
Adjustments in respect of prior year	-	2,185,428
Expenses not deductible	1,663,087	5,923,906
Deferred tax not recognised	5,824,760	5,815,378
Partnership share	753,840	1,192,793
Non-taxable income	(3,714,644)	(9,644,432)
Chargeable gains	42,441	94,940
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 £25,202,877 (2022: deferred tax assets not recognised at 25% is £19,360,627).

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 £24,049,915 during the period (2022: loss £17,803,083).

Notes to the consolidated financial statements

For the year ended 31 March 2023

11. Intangibles

	Company		Group	
	2023	2022	2023	2022
Software	£	£	£	£
Cost				
At 1 April	1,143,178	1,602,053	1,143,178	2,013,882
Additions	-	52,500	-	52,500
Transfer on reclassification	-	(511,375)	-	(923,204)
At 31 March	1,143,178	1,143,178	1,143,178	1,143,178
Accumulated amortisation				
At 1 April	37,408	16,625	37,408	147,041
Charge for the year	89,136	20,783	89,136	103,151
Transfer	-	-	-	(212,784)
At 31 March	126,544	37,408	126,544	37,408
Net book value				
At the end of the financial year	**1,016,634**	**1,105,770**	**1,016,634**	**1,105,770**
At the beginning of the financial year	1,105,770	1,585,428	1,105,770	1,866,841

During the prior year previously capitalised software implementation costs were reclassified as Software as a Service arrangements and therefore transferred out of Intangibles

Notes to the consolidated financial statements

For the year ended 31 March 2023

12. Property, plant and equipment

	Land & Buildings		Fixtures, Fittings & Equipment		Total	
Group and Company	2023	2022	2023	2022	2023	2022
	£	£	£	£	£	£
Cost						
At 1 April	4,458,001	4,198,413	2,254,314	2,020,410	6,712,315	6,218,823
Additions	-	259,588	139,724	1,385,273	139,724	1,644,861
Disposals	(1,190,508)	-	(113,209)	(1,151,369)	(1,303,717)	(1,151,369)
At 31 March	3,267,493	4,458,001	2,280,829	2,254,314	5,548,322	6,712,315
Accumulated depreciation						
At 1 April	1,364,925	893,966	898,829	1,783,801	2,263,754	2,677,767
Charge for the year	388,756	470,959	441,823	266,397	830,579	737,356
Disposals	(400,522)	-	(113,209)	(1,151,369)	(513,731)	(1,151,369)
At 31 March	1,353,159	1,364,925	1,227,443	898,829	2,580,602	2,263,754
Net book value						
At the end of the financial year	**1,914,334**	**3,093,076**	**1,053,386**	**1,355,485**	**2,967,720**	**4,448,561**
At the beginning of the financial year	3,093,076	3,304,447	1,355,485	236,609	4,448,561	3,541,056

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. Disposals represent a lease surrendered during the year.

Notes to the consolidated financial statements

For the year ended 31 March 2023

13. Financial assets at fair value

	2023	2022
	£	£
Shared equity assets	325,111,504	405,675,444
Equity investments	55,401,530	76,755,792
Investments in non-consolidated funds	400,293	2,936,513
Convertible loan notes	8,845,953	3,584,231
	389,759,280	**488,951,980**

All financial assets at fair value are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

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 in the prior year includes the Group's investment in the Wales Life Science Investment Fund held at fair value of £2,561,222. On 28 February 2023, the fund reached the end of its life, and a liquidation process has commenced. This has caused the previously unrealised loss of £27.1 million to become realised.

Notes to the consolidated financial statements

For the year ended 31 March 2023

14. Other financial assets

Trade and other receivables	2023	2022
	£	£
Current assets		
Trade debtors	193,571	300,500
	193,571	300,500
Loans receivable carried at amortised cost	111,827,287	109,266,935
Impairment	(23,290,752)	(21,504,659)
	88,536,535	87,762,276
Other debtors	7,266,285	4,788,347
Prepayments	1,007,522	1,146,773
	97,003,913	**93,997,896**
Non-current assets		
Loans receivable carried at amortised cost	175,678,408	167,920,583
Impairment	(22,418,903)	(10,957,964)
	153,259,505	**156,962,619**

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is 4.2 years (2022: 4.2 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 (2022: 7%).

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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.

	2023	2022
	£	£
Cash and cash equivalents	**1,098,237,472**	**1,073,495,399**

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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

Other financial liabilities

Trade and other payables	2023	2022
	£	£
Current liabilities		
Trade payables and accruals	8,231,743	5,409,632
Taxation and social security	2,565,433	2,537,989
Other creditors	1,627,245	2,650,158
Amounts owed to principal shareholder held at amortised cost	32,342,457	32,948,678
Amounts owed to principal shareholder held at fair value	2,440,000	2,090,000
	47,206,878	**45,636,457**
Non-current liabilities		
Amounts owed to principal shareholder held at amortised cost	703,446,660	714,333,249
Amounts owed to principal shareholder held at fair value	659,766,305	699,242,267
Other creditors	286,798	-
	1,363,499,763	**1,413,575,516**

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 FTR and core capital funding. The current balances in respect of FTR and core capital funding are repayable by 31 March 2048. These borrowings are non-secured and are non-interest bearing.

The amounts owed to principal shareholder held at amortised cost within current liabilities are repayable on demand. This balance is excluded from the reconciliation of changes in amounts owed to principal shareholder and the maturity analysis below which relate to financing liabilities.

Notes to the consolidated financial statements

For the year ended 31 March 2023

Reconciliation of changes in amounts owed to principal shareholder which are financing liabilities:

	Amounts held at amortised cost	Amounts held at fair value	2023	Amounts held at amortised cost	Amounts held at fair value	2022
	£	£	£	£	£	£
Balance at April 1	714,333,249	701,332,267	1,415,665,516	695,554,614	682,729,727	1,378,284,341
WG funding repaid	(24,700,000)	(2,090,000)	(26,790,000)	(20,000,000)	(80,755,347)	(100,755,347)
WG funding received	4,510,886	-	4,510,886	16,469,473	84,000,000	100,469,473
Interest charged	9,302,526	-	9,302,526	25,266,359	-	25,266,359
FV changes	-	(37,035,963)	(37,035,963)	-	15,357,887	15,357,887
Public equity	-	-	-	(2,957,197)	-	(2,957,197)
Subtotal	(10,886,588)	(39,125,963)	(50,012,551)	18,778,635	18,602,540	37,381,175
Balance at March 31	**703,446,661**	**662,206,304**	**1,365,652,965**	**714,333,249**	**701,332,267**	**1,415,665,516**

Maturity analysis:

	Amounts held at amortised cost	Amounts held at fair value	2023	Amounts held at amortised cost	Amounts held at fair value	2022
	£	£	£	£	£	£
Due less than 1 year	-	2,440,000	2,440,000	-	2,090,000	2,090,000
Due between 1 and 5 years	222,543,238	16,570,000	239,113,238	149,473,794	12,850,000	162,323,794
Due after 5 years	480,903,423	643,196,304	1,124,099,727	564,859,455	686,392,267	1,251,251,722
	703,446,661	**662,206,304**	**1,365,652,965**	**714,333,249**	**701,332,267**	**1,415,665,516**

Notes to the consolidated financial statements

For the year ended 31 March 2023

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 £938,489 (2022: £866,336) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2023, nil contributions (2022: £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 net of deferred tax.:

	2023	2022
	£	£
Development Bank of Wales plc	1,800,000	110,000
DBW FM Limited	2,050,000	690,000
Net surplus	**3,850,000**	**800,000**

Notes to the consolidated financial statements

For the year ended 31 March 2023

The last tri annual actuarial valuation was carried out at 31 March 2022 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	2023		2022	
	Development Bank of Wales plc	DBW FM Ltd	Development Bank of Wales plc	DBW FM Ltd
Rate of increases in salaries	3.95%	3.85%	4.15%	4.15%
Rate of increases in pensions in payment	2.7%	2.6%	2.9%	2.9%
Rate of increase to deferred pensions	2.7%	2.6%	2.9%	2.9%
Discount rate	4.7%	4.6%	2.7%	2.7%
Inflation assumption CPI	2.7%	2.6%	2.9%	2.9%

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 2023	31 March 2022	31 March 2023	31 March 2022
Member aged 65 at accounting date	21.6	21.6	24.2	23.9
Member aged 45 at accounting date	22.9	22.6	25.7	25.4

Notes to the consolidated financial statements

For the year ended 31 March 2023

17. Retirement benefit schemes (continued)

The market value of the assets in the schemes at the balance sheet date for the whole of the Rhondda Cynon Taf County Borough Council Pension Fund were as follows:

Asset allocation	Asset split 2023	Asset split 2022
	%	%
Equities	68.1	67.5
Property	7.8	-
Government bonds	10.5	11.6
Corporate bonds	12.4	12.7
Cash	0.7	0.6
Multi asset credit	-	7.3
Other	0.5	0.3
Total market value	**100.0**	**100.0**

Reconciliation of funded status to balance sheet	Development Bank of Wales plc		DBW FM Limited	
	2023	2022	2023	2022
	£	£	£	£
Fair value of assets	11,700,000	12,340,000	21,360,000	22,050,000
Present value of funded defined benefit obligation	(7,740,000)	(10,910,000)	(14,760,000)	(21,340,000)
Unrecognised asset	(2,160,000)	(1,320,000)	(4,550,000)	(20,000)
Net surplus	**1, 800,000**	**110,000**	**2,050,000**	**690,000**

Amounts recognised in income statement	Development Bank of Wales plc		DBW FM Limited	
	2023	2022	2023	2022
	£	£	£	£
Operating costs				
Current service cost	230,000	270,000	810,000	900,000
Past service cost	-	-	-	-
Total operating charge	230,000	270,000	810,000	900,000
Financing cost				
Interest on net defined benefit (asset)/liability	(10,000)	(20,000)	(30,000)	10,000
Pension expense recognised in profit and loss	**220,000**	**250,000**	**780,000**	**910,000**

Notes to the consolidated financial statements

For the year ended 31 March 2023

Amounts recognised in other comprehensive income	Development Bank of Wales plc		DBW FM Limited	
	2023	2022	2023	2022
	£	£	£	£
Asset (loss) arising during the period	(1,030,000)	(250,000)	(2,020,000)	(420,000)
Liability gain arising during the period	3,510,000	1,160,000	7,910,000	2,000,000
Adjustment in respect of unrecognised asset	(810,000)	(1,320,000)	(4,530,000)	(20,000)
Total actuarial gain/(loss)	**1,670,000**	**(410,000)**	**1,360,000**	**1,560,000**

Changes to the present value of the defined benefit obligation	Development Bank of Wales plc		DBW FM Limited	
	2023	2022	2023	2022
	£	£	£	£
Opening defined benefit obligation	10,910,000	11,660,000	21,340,000	21,940,000
Current service cost	230,000	270,000	810,000	900,000
Interest expense on defined benefit obligation	290,000	240,000	580,000	460,000
Contribution by participants	50,000	50,000	220,000	200,000
Actuarial (gain) on liabilities	(3,510,000)	(1,160,000)	(7,910,000)	(2,000,000)
Net benefits paid out	(230,000)	(150,000)	(280,000)	(160,000)
Closing defined benefit obligation	**7,740,000**	**10,910,000**	**14,760,000**	**21,340,000**

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Limited	
	2023	2022	2023	2022
	£	£	£	£
Opening fair value of assets	12,340,000	12,190,000	22,050,000	21,230,000
Interest income on assets	330,000	260,000	610,000	450,000
Re-measurement (loss) on assets	(1,030,000)	(250,000)	(2,020,000)	(420,000)
Contributions by employers	240,000	240,000	780,000	750,000
Contributions by participants	50,000	50,000	220,000	200,000
Net benefits paid out	(230,000)	(150,000)	(280,000)	(160,000)
Closing fair value of assets	**11,700,000**	**12,340,000**	**21,360,000**	**22,050,000**

Notes to the consolidated financial statements

For the year ended 31 March 2023

18. Deferred income

Group	ERDF	Other	2023	2022
	£	£	£	£
Balance at 1 April	25,074,614	-	25,074,614	8,899,379
Grant received in the year	15,280,858	1,167,160	16,448,018	43,735,721
Grant released to income statement in the year	(20,340,328)	(246,086)	(20,586,414)	(27,560,486)
Balance at 31 March	**20,015,144**	**921,074**	**20,936,218**	**25,074,614**

Company	ERDF	Other	2023	2022
	£	£	£	£
Balance at 1 April	25,074,614	-	25,074,614	8,899,379
Grant received in the year	15,280,858	638,045	15,918,903	43,735,721
Grant released to income statement in the year	(20,340,328)	-	(20, 340,328)	(27,560,486)
Balance at 31 March	**20,015,144**	**638,045**	**20,653,189**	**25,074,614**

The ERDF 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.

Other deferred revenue relates to grant income in respect of the Leaseholder Support Scheme that commenced during the current financial year.

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For the year ended 31 March 2023

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.

Categories of financial instruments

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

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Notes to the consolidated financial statements

For the year ended 31 March 2023

19. Financial instruments (continued)

Carrying value as at 31 March 2023	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
		£	£	£
Assets				
Cash and cash equivalents		1,098,237,472	-	1,098,237,472
Financial Assets				
Measured at market price	i	-	7,627,700	7,627,700
Measured at fair value using other methods	ii	-	57,020,076	57,020,076
Loans to customers	iii	241,796,040	-	241,796,040
Shared-equity loans	v	-	325,111,504	325,111,504
Other receivables	iii	8,467,378	-	8,467,378
Total financial assets		1,348,500,890	389,759,280	1,738,260,170
Non-financial assets				7,834,354
Total assets				**1,746,094,524**
Liabilities				
Amounts due to principal shareholder at amortised cost	iv	735,789,117	-	735,789,117
Amounts owed to principal shareholder at fair value	v	-	662,206,305	662,206,305
Trade and other payables	iv	14,615,727	-	14,615,727
Total financial liabilities		750,404,844	662,206,305	1,412,611,149
Non-financial liabilities				20,936,218
Reserves				312,547,157
Total reserves and liabilities				**1,746,094,524**

During the current year, no assets were within Level 2 of the fair value hierarchy (2022 - £nil).

Notes to the consolidated financial statements

For the year ended 31 March 2023

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
Other receivables	iii	6,235,620	-	6,235,620
Total financial assets		1,324,455,914	488,951,980	1,813,407,894
Non-financial assets				6,354,331
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**

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19. Financial instruments (continued)

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

Note:

i. The fair value of investments in quoted securities in an active market is the market price on the balance sheet date (level 1 hierarchy as defined below).

ii. **Non-consolidated funds - £400,293 (2022: £2,936,513)**

Included within the 2022 balance of investments in non-consolidated funds held at fair value is the Group's investment in the WLSIF. This fair value was 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).

The fund reached the end of its life on 28 February 2023 and a liquidation process has commenced, as such the Group have recognised the assets distributed from the fund within their respective asset classes.

Convertible Loan notes - £8,845,953 (2022: £3,584,231)

Convertible loan notes are categorised as hybrid instruments as the equity conversion feature represents an embedded derivative. Hybrid instruments including derivative elements require complex pricing models to determine the value of the instrument.

The fair value at inception is generally determined to be equal to the transaction price, subsequent valuation models consider the outstanding debt, the conversion option (which has yet to be exercised) and the potential future equity value. (level 3 hierarchy as defined below).

Unlisted equity investments - £47,773,830 (2022: £57,376,804)

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).

  Significant unobservable inputs: Earnings multiple, revenue multiple and adjustments made for factors such as the size of the company and the quality of its earnings.

- 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).

  Significant unobservable inputs: Risk-adjusted discount rate, cash flow forecasts.

- 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).

  Significant unobservable inputs: Underlying net asset values.

- 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).

  Significant unobservable inputs: Investment specific information including the implied valuation and capital structure of the transaction.

The table below summarises the fair value measurements:

	2023	2022
	£	£
Multiples	10,516,845	16,104,437
Discounted cash flows	1,055,800	1,692,890
Net asset value	1,762,810	1,820,339
Price of recent investment	34,438,375	37,759,138
Balance at 31 March	**47,773,830**	**57,376,804**

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.

v. The fair value of the HTB-W loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate funding rate (level 3 hierarchy as defined below). See Note 3 for further information.

Notes to the consolidated financial statements

For the year ended 31 March 2023

Financial instruments (continued)

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

Level	Hierarchy for fair value disclosures
1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
3	Inputs for the asset or liability that are not based on observable market data. 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, using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser.

Reconciliation of level 3 measurements of financial assets	FVTPL Shared-equity loan book		FVTPL Other financial assets	
	2023	2022	2023	2022
	£	£	£	£
Balance 1 April	405,675,444	407,947,929	63,902,070	65,790,744
Additions	20,127,849	53,891,760	15,921,222	10,125,756
Disposals	(50,053,297)	(60,387,679)	(2,680,647)	(5,495,712)
Revaluations	(50,638,492)	4,223,434	(20,122,568)	(6,518,718)
Balance 31 March	**325,111,504**	**405,675,444**	**57,020,077**	**63,902,070**

Notes to the consolidated financial statements

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Market risk

The Group's activities expose it primarily to the financial risks of changes in credit risks. See Note 4 for further information.

Interest rate risk

The Group's loan portfolio consists of fixed rate loans financed primarily via equity and interest free loans from the principal shareholder, there is no significant exposure to interest rate risk on these loans.

Changes in interest rates would impact the valuation of the shared equity loan book however there is a compensating impact on the value of amounts owed to principal shareholder at fair value and there is no net risk to the Group. Changes in the valuation of other financial assets held at fair value would not vary materially due to changes in interest rates.

Other price risks

The Group is exposed to equity price risks arising from equity investments. The shares included above represent investments in quoted equity securities that present the Group with opportunity for return through dividend income and trading gains. Equity price risk is not currently significant in relation to the Group's overall results and financial position.

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 March 2048. These borrowings are non-secured and non-interest bearing.

Foreign exchange risk

The Group is not exposed to foreign exchange risk as the Group primarily invests in its functional currency, pounds sterling.

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to meet its financial obligations as they fall due. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2023

20. Capital and reserves

Group and Company

Called up share capital	2023	2022
	£	£
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	2023	2022
	£	£
Movements during the year were:		
Balance at the beginning of the year	5,179,277	3,252,510
Non-controlling interest capital contribution	1,920,000	2,061,600
Distribution	(800,000)	(320,000)
Share of (loss)/profit for the year	(1,241,194)	185,167
Balance at the end of the year	**5,058,083**	**5,179,277**

The non-controlling interest represents the investment made by Clwyd Pension Fund in the Management Succession (Wales) Limited Partnership and the profit attributable to them on that investment.

Notes to the consolidated financial statements

For the year ended 31 March 2023

21. Leases

Group and Company

Right of use assets	2023	2022
	£	£
Net carrying amount	1,914,334	3,093,075
Depreciation expense of the year	388,756	470,959

Amounts recognised in profit & Loss	2023	2022
	£	£
Expenses relating to low value leases	88,157	106,696
Depreciation expense on ROU assets	388,756	470,959
Interest expense on lease liabilities	49,652	64,978
Expense relating to short term leases	78,798	78,798

Lease liabilities	2023	2022
	£	£
Amounts due for settlement within 12 months (current liabilities)	278,826	415,209
Amounts due for settlement after 12 months	1,625,682	2,613,357
	1,904,508	**3,028,566**

Lease liabilities reconciliation	2023	2022
	£	£
At 1 April	3,028,566	3,150,129
Additions	-	259,588
Interest	49,652	64,979
Payments	(383,724)	(446,130)
Disposals	(789,986)	-
At 31 March	**1,904,508**	**3,028,566**

Maturity analysis	2023	2022
	£	£
Not later than 1 year	278,826	415,209
Later than 1 year and not later than 5 years	1,195,225	1,633,356
Later than 5 years	430,457	980,001
	1,904,508	**3,028,566**

The average lease term is 6.4 years (2022: 7.3 years).
The total cash flow in respect of lease payments during the current year was £548,122 (2022: £795,746).

Notes to the consolidated financial statements

For the year ended 31 March 2023

22. Notes to the consolidated cashflow statement

	2023	2022
	£	£
(Loss) before tax for the year	(24,049,915)	(17,803,083)
Adjustments for:		
Defined benefit pension costs	(20,000)	170,000
Other interest income	(12,891,524)	(1,228,007)
Finance costs	9,352,178	25,341,228
Depreciation of property, plant and equipment	830,579	737,356
Amortisation of intangible assets	89,136	103,150
Reclassification of intangible assets	-	710,421
Deferred incentive scheme provision	469,176	450,378
Impairment	16,816,150	(4,852,955)
Fair value loss on assets	80,986,283	21,169,592
Fair value (gain)/loss on liabilities	(37,035,963)	15,357,887
Reversal of deferred income revenue	(20,586,414)	(27,560,486)
Operating cash flows before changes in net operating assets	13,959,686	12,595,591
(Increase)/decrease in receivables	(16,119,053)	2,107,759
(Decrease)/increase in payables	1,038,043	(3,273,724)
Decrease in financial assets at fair value	18,206,417	1,486,291
Cash generated during operations	**17,085,093**	**12,915,917**

Notes to the consolidated financial statements

For the year ended 31 March 2023

23. Related party transactions

Group and Company

Transactions between the Company and its Directors (including Non-Executive Directors), who are the key management personnel of the Group, 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 (2022: £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 2023 (2022: nil).

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 2023

	Note	2023	2022
		£	£
Non-current assets			
Intangibles	11	1,016,634	1,105,770
Property, plant and equipment	12	2,967,720	4,448,561
Investments	28	942,009,040	1,023,068,270
		945,993,394	1,028,622,601
Current assets			
Debtors: due within one year	29	1,101,473	1,196,458
Cash at bank and in hand		1,639,709	549,536
		2,741,182	1,745,994
Total Assets		**948,734,576**	**1,030,368,595**
Current liabilities			
Trade and other payables	30	(2,391,970)	(1,482,411)
Deferred income	18	(20,653,189)	(25,074,614)
Lease liabilities	21	(278,826)	(415,209)
		(23,323,985)	(26,972,234)
Net current liabilities		**(20,582,803)**	**(25,226,240)**
Non-current liabilities			
Trade and other payables	31	(706,335,660)	(721,222,249)
Lease liabilities	21	(1,625,682)	(2,613,357)
		(707,961,342)	(723,835,606)
Total liabilities		**(731,285,327)**	**(750,807,840)**
Net assets excluding pension obligations		217,449,249	279,560,755
Pension surplus	17	1,800,000	110,000
Net assets		**219,249,249**	**279,670,755**
Capital and reserves			
Public equity		319,454,949	319,454,949
Called up share capital	20	12,500	12,500
Profit and loss account		(100,218,200)	(39,796,694)
Shareholders' Funds		**219,249,249**	**279,670,755**

The Company reported a loss for the financial year ended 31 March 2023 of £62,091,506 (2022: loss of £28,854,096).

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 31 August 2023. Signed on its behalf by

G Thorley, Director

Company statement of changes in equity

For the year ended 31 March 2023

	Note	Public equity	Share capital	Capital reserve	Retained profit	Total
		£	£	£	£	£
Balance at 1 April 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**
(Loss) for the financial year		-	-	-	(62,091,506)	(62,091,506)
Actuarial gain on defined benefit pension schemes	17	-	-	-	1,670,000	1,670,000
Sub Total		-	-	-	(60,421,506)	(60,421,506)
Balance at 31 March 2023		**319,454,949**	**12,500**	**-**	**(100,218,200)**	**219,249,249**

Notes to the Company financial statements

For the year ended 31 March 2023

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 Note 1.

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.

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 (ROU) and is discussed in more detail in the leasing accounting policy note on page 165.

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.

Notes to the Company financial statements

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

Revenue recognition

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

European Regional Development Fund (ERDF) grant income

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

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

Taxation

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

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

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

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. 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 held at amortised cost : Welsh Government loans (WG Loans)

The Welsh Government has also provided financial transaction reserve (FTR) and core capital 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. Where the Group is obligated to issue below market rate loans and grant income is to be recorded this balance is included within deferred income. The difference between the sum of the fair value of the liability plus the deferred income recorded and the transaction value (funds received) is treated as a capital contribution. In line with previous capital contributions, we will include

Notes to the Company financial statements

For the year ended 31 March 2023

25. Accounting policies (continued)

Amounts owed to principal shareholder held at amortised cost : Welsh Government loans (WG Loans) (continued)

Initial recognition (continued)

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 Company uses the income approach and a present value technique which uses the future cash flows associated with the loan discounted to give the present value of these cash flows and the fair value of the liability. The key inputs to this technique are the expected cash flows associated with the loan and the discount rate applied to those cash flows. See Note 3 for further information.

Subsequent treatment

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

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

Investments in subsidiaries

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

Loans to subsidiaries

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

Initial recognition

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

Subsequent treatment

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

Given that the repayment on the loans is linked to the performance of the underlying funds they fail the SPPI test and as such are held at FVTPL. At each year-end, the expected cash flows associated with the loan and the discount rate applied to those cash flows, 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.

Notes to the Company financial statements

For the year ended 31 March 2023

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.

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

Key sources of estimation uncertainty

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Company financial statements

For the year ended 31 March 2023

26. Information regarding directors and employees

	2023	2022
	£	£
Directors' emoluments		
Emoluments	606,915	542,096
Pension costs	52,928	49,817
	659,843	591,913
Remuneration of highest paid director	217,415	210,929

One director of the Company and three directors of subsidiary companies were members of the defined benefit pension scheme (2022: one and three).

	2023	2022
	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	2,972,107	2,716,776
Social security costs	322,963	343,031
Pension costs	396,439	371,534
	3,691,509	**3,431,341**
	No.	**No.**
The monthly average number of persons employed (excluding directors) – administration	**62**	**61**

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 £62,091,506 (2022: loss of £28,854,096). Auditor's remuneration for audit services for the Company was £131,185 (2022: £114,505).

Notes to the Company financial statements

For the year ended 31 March 2023

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	305,122,789	341,611,560	376,178,894	1,023,068,270
Additions	-	-	16,445,318	3,984,431	20,429,749
Interest income	-	-	4,543,535	-	4,543,535
Fair value gains/(losses)	-	-	-	(60,992,227)	(60,992,227)
Disposals/repayment	-	-	(45,040,287)	-	(45,040,287)
At 31 March	155,027	305,122,789	317,560,126	319,171,098	942,009,040
Impairment					
At 1 April	-	-	-	-	-
At 31 March	-	-	-	-	-
Net book value					
At the end of the financial year	**155,027**	**305,122,789**	**317,560,126**	**319,171,098**	**942,009,040**
At the beginning of the financial year	155,027	305,122,789	341,611,560	376,178,894	1,023,068,270

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 cash flows of the loans are equal to estimated receipts and no credit losses are forecast on these loans.

Notes to the Company financial statements

For the year ended 31 March 2023

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 NW Loans Limited	United Kingdom	£1 ordinary shares
NW Loans Limited	United Kingdom	£1 ordinary shares
FWC CIP Limited (formerly 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 (North West) 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 adjacent
NE Commercial Property GP Limited	United Kingdom	£1 ordinary shares

Notes to the Company financial statements

For the year ended 31 March 2023

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.

North West Loans Limited changed its name to FWC CIP Limited on 11 May 2023.

Notes to the Company financial statements

For the year ended 31 March 2023

28. Investments (continued)

Summarised financial information in relation to WMSF LP:

	2023	2022
	£	£
Turnover	793,538	633,169
Operating (loss)/profit	(3,102,984)	462,916
(Loss)/profit attributable to non-controlling interest	(1,241,194)	185,167
Fixed assets	3,141,417	3,405,060
Current assets	1,292,964	1,046,061
Creditors: amounts falling due within one year	(133,444)	(85,639)
Net assets	12,647,239	12,312,547
Accumulated non-controlling interest	5,058,083	5,179,277

Significant holdings in undertakings other than subsidiaries

At 31 March 2023 the Group held shares amounting to 20% or more of the relevant class of share capital for the following undertakings, all of which are incorporated in the United Kingdom:

Company name	Class of share	% holding	Company name	Class of share	% holding
1st Choice Auto Body Group UK Ltd	Preferred Ordinary	100	Space Forge Ltd	Preferred Ordinary	100
Afferent Medical Solutions Ltd	Preferred Ordinary	100	Laser Wire Solutions Ltd	Preferred Ordinary	46
Agam International Ltd	Preferred Ordinary	100	Learnium Ltd	Preferred Ordinary	50
Agxio Ltd	A Ordinary	100	Glucose Republic Ltd	Preferred Ordinary	100
Alesi Surgical Ltd	Preferred A	57.6	Marketmate Ltd	Ordinary B	50
Antiverse Ltd	A Ordinary	51	Mazuma GB Ltd	Preferred Ordinary	62
Avantis Marine Ltd	A Ordinary	100	Near Me Now Ltd	Ordinary	20
Better Boards Ltd	Preferred Ordinary	100	Nemesis Bioscience Ltd	A Preferred	38
Bikmo Ltd	Preferred Ordinary	50	Nolan UPVC (Holdings) Ltd	Ordinary	25
Blurrt Ltd	Preferred Ordinary	66	Opengenius Ltd	A Preferred Ordinary	100
D N Interiors Ltd	Preferred Ordinary	100	Orange Banana Software Ltd	Preference	50
Bytemine Technologies Ltd	Preferred Ordinary	100	Ortharize Ltd	Preference	100
Cansense Ltd	A Ordinary	33.3	Outlook Hold Ltd	C Ordinary	100
Calon Cardio-Technology Ltd	B Preferred Ordinary	33	Pathfinder Systems Ltd	A Ordinary	25
Camtronics Vale (Holding) Co Ltd	Preferred Ordinary	100	Hut 6 Security Ltd	Preferred Ordinary	49.4
Combine AI Ltd	Preferred Ordinary	100	RCT 1 Holdings Ltd	B Ordinary	100

Notes to the Company financial statements

For the year ended 31 March 2023

Company name	Class of share	% holding	Company name	Class of share	% holding
Carebeans Ltd	A Ordinary	100	I.Q.Endoscopes Ltd	A Preferred A1 Preferred	50 29.1
Ceryx Medical Ltd	A Ordinary	27	Diamond Cat Ltd	Preferred Ordinary	100
CloudIQ Ltd	Series A Preferred Series A2 Preferred Series A3 Preferred	36 41 27	Perpetual V2G Systems Ltd	Ordinary A Ordinary	32 21
Coltrun Ltd	Preferred Ordinary	100	Jellagen Pty Ltd	Preferred Ordinary B Preferred Ordinary	100 21.5
Driverly Company Ltd	Preferred Ordinary	50	Jottnar Ltd	C Ordinary	100
Halo Therapeutics Ltd	Preferred A Ordinary	76.2	Kit Log Ltd	A Ordinary Preferred Ordinary	100 100
Kingsward Group Ltd	Preferred Ordinary	100	Signum-Health Ltd	Preferred Ordinary	100
Cufflink.IO Ltd	Preferred Ordinary	100	Smart Storm Ltd	Preferred Ordinary	58
Curapel (Scotland) Ltd	Preferred Ordinary	100	Snowdrop Independent Living Ltd	B Ordinary	100
Deer Technology Ltd	A Ordinary	100	Loyalty Logistix Holdings Ltd	Preferred Ordinary	100
Delio Ltd	C Ordinary	100	Spotnails (Holdings) Ltd	Preferred Ordinary	100
Deploy Tech Ltd	Preferred Ordinary	87	Stockomendation Ltd	Preferred Ordinary	100
Digital Asset Services Ltd	Seed Preferred	55	Stone Bear Capital Ltd	Preferred Ordinary	100
Driveright Ltd	Preferred Ordinary	100	Sunscape Systems Ltd	Ordinary	24
Reel Label Solutions (Holdings) Ltd	Preferred Ordinary	100	Talent Intuition Ltd	Preferred Ordinary	100
Drone Evolution Ltd	Ordinary	21	Talkative Ltd	Preferred Ordinary	34
Excelerate Technology Ltd	Ordinary B	100	Tazio Online Media Ltd	B Ordinary	28
Finalrentals Ltd	A Ordinary	50	Trameto Ltd	Preferred Ordinary	49.7
Finboot Ltd	Preferred Ordinary	77	Trecento Diagnostics Ltd	Preferred Ordinary	100
Flintshire Schools Holdings Ltd	B Ordinary	100	Nutrivend Ltd	A Ordinary A Preferred Ordinary	33.8 100
Route Konnect Ltd	Preferred Ordinary	50.4	Thalia Design Automation Ltd	A Ordinary C Ordinary	67 67
Frontgrid Ltd	Preferred Ordinary	87.5	Viscose Holdings Ltd	Preferred Ordinary Redeemable Preferred Ordinary	100 100
Spacebands Ltd	Preference	64.2	Vizolution Ltd	Ordinary	26
Hatch Homes Accelerator Ltd	Preferred Ordinary	100	Voip Cloud Solutions Ltd	A Ordinary	70
Health and Her Ltd	Preference	100	Wagonex Ltd	Preferred Ordinary	32.3

Notes to the Company financial statements

For the year ended 31 March 2023

28. Investments (continued)

Significant holdings in undertakings other than subsidiaries (continued)

Company name	Class of share	% holding	Company name	Class of share	% holding
Humankind Ventures Ltd	Preferred Ordinary	63	W2 Global Data Solutions Ltd	Preferred Ordinary B Ordinary C Ordinary	100 22.2 42.4
Universal Synergistic Holdings Ltd	Preferred Ordinary	100	We Predict Ltd	Preferred Ordinary	100
Cotton Mouton Diagnostics Ltd	Preferred Ordinary	23.2	WEPCO Ltd	A Ordinary	100
JIVA.AI Ltd	Preference	42	World Class Finance Ltd	A Ordinary	100
Journolink Ltd	C Ordinary	88	X4 Software Ltd	A Ordinary	100
Just Love Food Company Holdings Ltd	Preferred A Ordinary	100	Yard Associates Ltd	A Ordinary	100
FLS Holdco Ltd	Preference	100	Zeal Innovation Ltd	Preferred Ordinary	100

Structured entities

Structured entities include entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when the relevant activities are directed by means of a contractual relationship. As the Group directs the investing activities of the 7 non-consolidated funds managed by FW Capital Limited, through its investment management and other agreements with them, it considers them to be structured entities.

These funds, setup as Limited Partnerships, provide investment support to Small and Medium Enterprises ("SMEs") in certain areas of England. The Group receives fund management fee income in relation to the services provided to the funds. The Group does not sponsor these entities and has no contractual obligation or intention to reimburse any expenses of the funds in the future. The Group has contributed a nominal amount of capital into the funds, via FW Capital Limited, with the majority of capital invested in the funds being received from external investors.

The Group's interests in these funds at 31 March, are as follows:

	2023	2022
	£	£
Investments in non-consolidated funds	400,293	375,291
Other debtors	314,600	345,552
	714,893	**720,843**

The Group's maximum exposure to losses related to the funds is represented by the total of its investment in fund units and amounts due from funds, as shown above.

Notes to the Company financial statements

For the year ended 31 March 2023

29. Other current financial assets

	2023	2022
	£	£
Debtors due within one year:		
Trade debtors	27,555	9,473
Amount owed by group undertakings	220	4,019
Other debtors	151,582	69,339
Prepayments and accrued income	922,116	1,113,627
	1,101,473	**1,196,458**

30. Other current financial liabilities

	2023	2022
	£	£
Trade and other payables		
Trade creditors	**822,755**	118,413
Taxation and social security	395,819	362,679
Other creditors	31,427	32,896
Accruals	1,141,969	968,423
	2,391,970	**1,482,411**

31. Other non-current financial liabilities

	2023	2022
	£	£
Amounts owed to group undertakings	**2,889,000**	6,889,000
Amount owed to principal shareholder	703,446,660	714,333,249
	706,335,660	**721,222,249**

Amounts owed to the principal shareholder relate to FTR and core capital funding and is repayable by 31 March 2048. 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 72.

Table A: High-level analysis of 2023 and 2022 pre-tax consolidated income statement (CIS)

2023				
	Services	Funds	Consolidation adjustment	Group (per the financial statements)
	£m	£m	£m	£m
Revenue	41.4	56.9	(36.1)	62.2
Operating costs	(37.9)	(27.9)	36.1	(29.7)
Provisions made	-	(16.8)	-	(16.8)
Changes in fair value	-	(30.5)	-	(30.5)
Notional interest charge on WG loans	-	(9.3)	-	(9.3)
Surplus/(deficit)	**3.5**	**(27.6)**	**-**	**(24.1)**

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 released	-	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)**

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 £36.1 million (FY22: £35.5million) from our services business revenue accounts and from our funds and services business costs accounts.

The revenue total in Column 4 of Table A reconcile back to the CIS on page 152 as follows:

	2023	2022
	£m	£m
All revenue items below are on the face of the CIS		
Revenue	29.1	26.9
Release of ERDF grant income	20.3	27.6
Investment revenue excluding notional interest on WG loans	12.8	1.1
Total revenue per Table A	**62.2**	**55.6**

Table B: Services 2023 and 2022 pre-tax income statement analysis

	2023	2022	Financial statements reference
	£m	£m	
Fund management income	41.4	39.8	Note (i) after Table C
Total revenue	41.4	39.8	Table (A)
Staff costs	(18.7)	(17.1)	Pg 181 note 6
Other costs	(19.2)	(17.9)	Note (ii) after Table C
Total costs	(37.9)	(35)	Table (A)
Surplus	**3.5**	**4.8**	**Table (A)**

Table C: Funds 2023 and 2022 pre-tax income statement analysis

	2023	2022	Financial statements reference
	£m	£m	
Fees received	5.0	4.3	Note (i) below
Dividends and interest income	14.6	14.3	Pg 180 note 5
Notional interest on CWBLS loans	4.2	4.0	
Total dividends and interest income	18.8	18.3	
ERDF grant release	20.3	27.6	Pg 180 note 5
Net treasury excluding notional interest on WG loans	12.8	1.1	Pg 183 sum of amounts shown in note 8&9
HTB-W fair value changes:			CIS Pg 152
– Realised gain on disposal	13.6	11.1	
– Unrealised gain in year	(50.6)	4.2	
– (Increase) in amount owed to principal shareholder	37.0	(15.3)	
Net HTB-W fair value change shown in CIS	0	0	
Total revenue	56.9	51.3	Table (A)
Provisions released	(16.8)	4.8	Pg 181 note 6
Other fair value /(losses)	(30.4)	(16.4)	
Non-consolidated fund fair value (loss)	(0.1)	(8.9)	
Fund management fees paid	(26.0)	(26.2)	Note (ii) below
Other costs	(1.9)	(1.9)	Note (ii) below
Notional interest on WG loans	(9.3)	(25.3)	
Total costs	(84.5)	(73.9)	Table (A)
(Deficit)	**(27.6)**	**(22.6)**	**Table (A)**

Note (i) – Fees shown in Note 5 Pg 180 of the 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 152 of the 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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