Banc

Annual report and financial statements

2023/24

developmentbank.wales

Officers and professional advisers

Directors

Gareth Bullock OBE Chair

Giles Thorley Chief Executive

Roger Jeynes Non-Executive Director

Iraj Amiri 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

Elizabeth Hitchings Company Secretary

Registered office

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

Bankers

Barclays,
6th Floor,
5 Callaghan Square,
Cardiff
CF10 5BT

Auditors

Forvis Mazars LLP,
Statutory Auditor,
30 Old Bailey,
London
EC4M 7AU

Purpose, mission and values

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

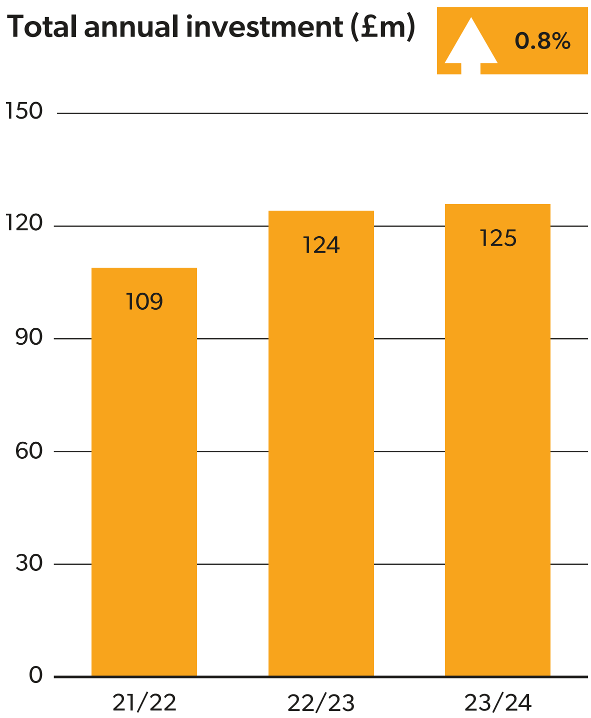
Contents

Strategic report

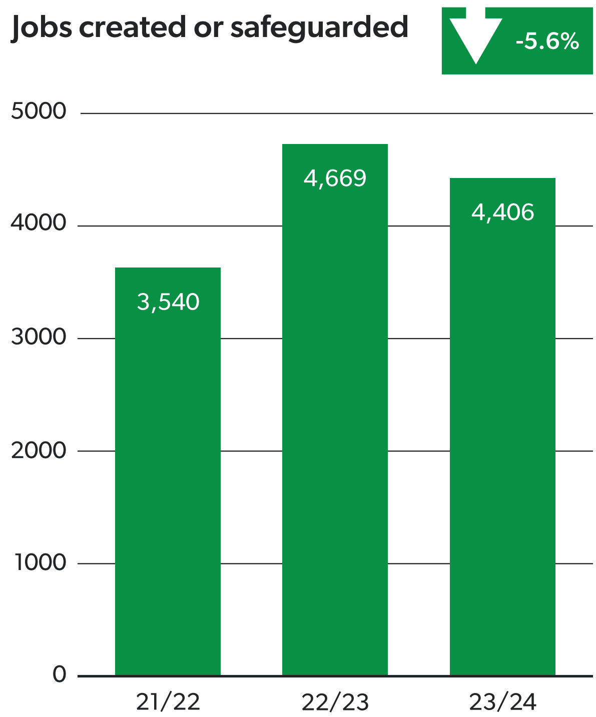
Performance highlights

The Group's key financial (amount invested) and three non-financial (number of investments, jobs created/safeguarded and co-investment) performance indicators over the past three years are shown in the charts below:

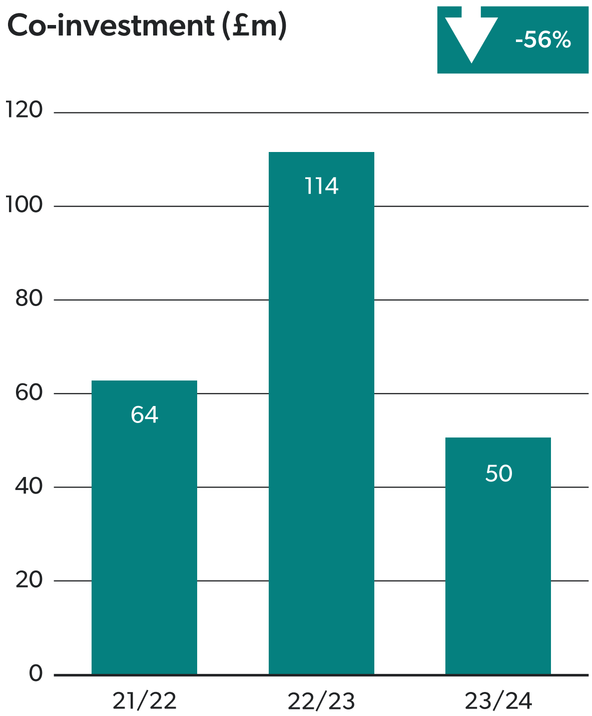
Total annual investment (£m)



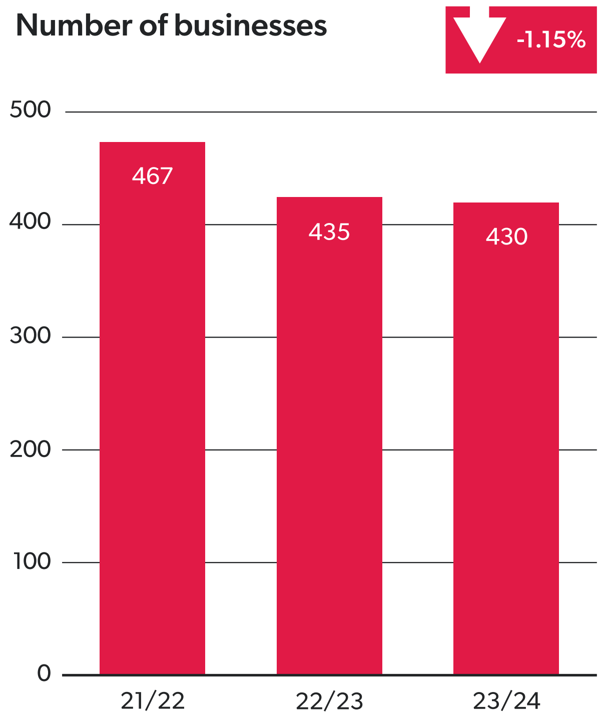
Jobs created or safeguarded



Co-investment (£m)



Number of businesses



Annual performance

Other headline metrics from the 2023/24 performance include:

430
Number of businesses

491
Number of investments

£254,997
Average deal size

207
Housing units

281
Number of colleagues

25,263
Sq ft of commercial property space

91
Customer NPS®

£37.7m
Property development finance

60
Employee NPS®

NPS® - Net Promoter Score

Chair's statement

It was 2022 when we published our second five-year strategy that set out clear strategic objectives with operational targets that focused on delivering debt and equity funding with a social impact, promoting and advancing a green future in Wales and ensuring delivery excellence and financial sustainability with the aim of unlocking potential in the Welsh economy.

I am therefore pleased to report that in 2023/24 we marked good progress on achieving those strategic aims with 430 businesses in Wales benefitting from £125.2 million of debt and equity financing, thereby creating or safeguarding 4,406 jobs. We are confident we can achieve our baseline targets for 2022/27. Once again, I thank Giles Thorley, our Chief Executive, and our experienced management team, for their hard work and dedication against a background of all major economies struggling to post consistent growth.

Continuing to expand and grow what we do, and do it effectively, in a global environment of geopolitical turmoil, high interest rates and low growth is testament to the resilience and commitment of the entrepreneurs who need our funding to start and grow their businesses. It is their determination and positive outlook that drives all that we do.

Team Wales

As a commercial investor, we are responding to market demand to create a positive impact in the Welsh economy. We are a core part of 'Team Wales', helping to promote and develop Wales as an attractive place to live, study, work and invest. Indeed, our remit from the Welsh Government is to remain agile and responsive to business needs, extending patient capital, driving financial inclusion and social equity. Flexibility and responsiveness enable us to pivot as required, ready to grasp new opportunities as they arise, including innovation and new government policy.

We use our position and influence to promote a robust, proportionate transition to a greener future by championing the green economy. Our new sustainability strategy was approved by the Board in March 2024. It provides transparency on our approach to sustainability, ensuring the wellbeing of future generations through incorporating environmental, social and governance (ESG) considerations in our corporate and financial decision making.

We're not allowing the best to be the enemy of good. This is a realistic and pragmatic strategy that puts sustainability at the centre of our corporate objectives and the management of a growing investment portfolio. This now includes a range of green business funds, including the Green Business Loan Scheme, that offers discounted interest rates and patient capital to support businesses undertaking energy efficiency and decarbonisation projects. The first company to benefit from this innovative new fund in June 2023 was giftware wholesaler Something Different Limited. It is now using a £1.2 million loan from the scheme to install 2,200 new solar panels on its 158,000 square foot warehouse at the Enterprise Park on Upper Fforest Way, Swansea.

Meeting market demand

Our ability to respond to changing market conditions by adapting the mix and composition of funding, as well as marketing and business development approaches, has been an important factor in our performance this year.

Our purpose, as a gap funder, is to support economic opportunity by making finance available to viable businesses in the event of market failure. Our pricing is fair to reflect risk and to encourage private sector co-financing, wherever possible. As the mainstream banks, the dominant market participants in our micro-to-medium enterprise sector, seem to be increasingly more selective in terms of both amount and sector, our average deal size has increased, standing now at almost £255,000 with a customer portfolio that has grown to over 3,000.

Post-EU funding

Our predecessor, Finance Wales, was originally created in 2000 as a vehicle to deploy European Regional Development Funding. It was successful in investing and ultimately repaying, on schedule, its first EU financial instrument, the £157 million Wales JEREMIE Fund.

The Wales Business Fund followed in 2016, initially at £136 million, but after garnering more EU funding, closed in December 2023 fully invested at £216 million. An independent report has confirmed that it supported 474 businesses that have so far created 3,583 and safeguarded 5,324 jobs. It attracted private sector co-investment of £332 million which had an economic impact on the Welsh economy of £548 million. Over 70% of the total funding went to businesses in West Wales and the Valleys, both areas recognised as the most economically deprived parts of Wales.

This foundation paved the way for what the Development Bank is now, a very active and experienced lending bank and equity investment manager with a professional, highly skilled executive. Through greater collaboration with government departments in recent years we have broadened the range of funds which allows us to operate in almost every sector of the Welsh economy and to offer increasingly tailored solutions to address specific needs. Good examples of this include the Stalled Site Fund which uses a mix of grant and loan to remediate problem sites that can be commercially developed for housing, along with the recent groundbreaking Help to Stay - Wales scheme which provides shared equity loans to help those families facing financial difficulty to remain in their homes.

FW Capital is the FCA-regulated entity within the Group. As a specialist in SME finance and one of the UK's largest regional fund managers, FW Capital is now also supporting businesses in Wales, and certain regions of England, with a range of new capital funds including £30 million for the Investment Fund for Wales, £19 million for the South West Investment Fund, £20 million for the Teeside Flexible Fund and the £75 million Northern Powerhouse Investment Fund II. Some of these funds come from the British Business Bank with whom we have a strong and productive relationship. These activities strengthen both the experience and expertise base of the Bank as a whole.

Overall, whether micro-loans for start-ups, seed investment for high-risk technology ventures, improvements to enhance Wales's tourism offer, new housing developments, green loans to reduce businesses' carbon footprint, equity funding for fast growth businesses or the mutual investment model (MIM) loans for infrastructure investment, the Development Bank has changed and continues to change in positive, innovative ways. There is and always will be more to do but we are supporting businesses and communities across the breadth of the country.

Our people

One of our greatest strengths is our positive culture. We are purpose driven and work hard to foster an inclusive and truly diverse organisation that reflects the communities we serve. We have aligned our competencies with our company values. Our performance management process drives our goals and supports our colleagues to thrive and grow while they work on a wide range of deals that provide deep and meaningful experience across a variety of sectors and deal sizes.

Like any organisation, we must manage attrition, but our approach to talent development and retention means that we have an excellent team who share a real commitment to meeting our shareholder ambitions and supporting economic development in Wales.

In addition, our Board is actively engaged with management, and all are fully committed to securing impact, tackling challenges and exploiting opportunities. Indeed, the core theme of our Board Strategy Day was centred around what more we can do, and where to improve potential outcomes. This includes keeping a watchful eye on the emerging threats and opportunities of innovation like AI.

A new era

My time as Chair of the Development Bank of Wales comes to an end this September when I hand over to Sally Bridgeland. We've come a long way since we established the Development Bank of Wales in October 2017.

I had been Chair of Finance Wales for two years at that time. As the UK's first development bank, we were a team of around 140 with some £440 million available to invest in Welsh businesses. We've grown to become a considerable force in the Welsh economy, a cornerstone economic development institution and a centre of excellence for SME finance and investment. Today we number around 280 staff and have invested and investible funds of around £2 billion.

I am proud of all that we have achieved during my term as Chair, and I thank everyone who has played a part in our journey to date. The Development Bank now has an incredibly talented and stable management team and I wish them all continued success in bringing ambitions to life and fuelling possibilities for people, businesses and communities in Wales.

Gareth Bullock OBE
Chair

3 September 2024

Chief Executive's report

In a challenging economy marked by volatility in the financial markets, a UK-wide recession, high inflation and high interest rates, the 2023/24 results have been satisfactory. Overall, we have seen our investment figures in Wales grow from £124.2 million in 2022/23 to £125.2 million in 2023/24, against a target of £112 million.

Delivering debt and equity funding with a social impact.

The third Economic Intelligence Wales quarterly report of the 2023/24 financial year included commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales. The number of announced equity investment deals across the UK during 2023 was down by 25% from the previous year, and the total amount raised was down by around half.

It seems clear that very early-stage funding is in limited supply throughout the UK. Investors are cautious and institutional funds are putting their money into better performing markets, like the US and EU, meaning the UK market is materially underperforming compared to the rest of the world. These macroeconomic trends have an impact on people's willingness to invest because the size of the prize is smaller and the appetite for risk is reduced.

These market challenges have directly affected our performance in equity investing and co-investment. Our equity investments in 2023/24 were down by £10 million compared to the previous year. Our co-investment figures also saw a reduction from £114.5 million to £50.1 million (the previous year benefitting from one significant transaction generating £32 million of co-investment). Despite this year's performance, we remain on track against our objective of £100 million of equity investment by 2027. Moreover, the ratio of investment to co-investment over the last two-year period since the start of our corporate plan for 2022/27 remains close to our target of 1:1 at 1:09.

I am pleased that Angels Invest Wales performed well with a 48% increase on investment levels facilitated compared to 2022/23. The number of individual angel investments rose from 102 in 2022/23 to 119 in 2023/24 . This is despite a significant drop in our investor base following the introduction of new UK-wide legislation that has resulted in new rules for self-certified High Net Worth 'sophisticated' investors.

As a patient investor, we're focussed on providing accessible funding to support the long-term sustainability of the businesses that we fund. Pre-revenue start-ups, like Awen Oncology, are an important part of our equity portfolio. As a spin-out from Bangor University and Cardiff University, Awen Oncology is developing a breakthrough range of anti-cancer drugs that target a variety of cancer types. Based at M-Sparc in Gaerwen, Anglesey the company was originally founded with a Cancer Research UK grant. We have now made a six-figure equity investment alongside co-investors Start Codon.

We have also seen success in crystallising investments in several long-standing investee businesses with six successful exits occurring in the year to the value of £4.7 million. These exits are all examples of how we operate as a patient investor and generate returns that can be recycled into the next generation of entrepreneurs, creating a long-term, value for money asset for Wales.

The legacy of the Wales Business Fund

The Wales Business Fund was launched in 2016 with an initial fund size of £136 million. It closed in December 2023, having invested £216 million.

Providing debt and equity, the fund operated during a period that saw several defining economic shocks; the Covid-19 pandemic, Brexit and the cost-of-living crisis. These all had a major impact on the economy and the demand and supply of finance for SMEs. Our proactive and well-organised approach ensured that the fund remained relevant and accessible, clearly filling a gap in the market where the risk of failure is perceived to be too high and returns too low for private sector investment. Our strong investment performance means that the Wales Business Fund will leave a legacy in excess of £104 million that can contribute to investments in future funds. This money will be available for recycling into future investments in Wales.

People centred, green growth

We are continually improving our knowledge, skills and understanding of climate change impacts and the role of finance in delivering innovative financial solutions that advance the ambitions for a green future in Wales.

The Green Business Loan Scheme is gaining real momentum with 18 deals totalling £3.3 million completed during the year. While the Green Homes Incentive offers a reduction of up to 2% in loan fees for residential developers who meet green standards. I am also pleased to report that we completed our largest ever strategic funding deal in a syndicate with Barclays.

The sustainability-linked financing package is enabling Bluestone Resorts, in Pembrokeshire, to continue with a major sustainable investment programme including the development of a five-hectare solar farm that will generate 3.2 megawatts of renewable electricity a year, almost 60% of the resort's demand.

Community groups, social enterprise, local ownership models and SMEs that are unable to access commercial funding are developing small renewable energy projects thanks to support from our £12.5 million Local Energy Fund.

Increasing the flow of funding

As one of the most active impact investors in the UK, one of our responsibilities is to foster and grow the financial market. We are working in close collaboration with the private and public sector to increase the flow of funds into Wales, so I am pleased that our regulated fund management business, FW Capital, has been successful in winning British Business Bank funds in Wales, the South West of England and the North of England. These total £124 million and demonstrate our ability to win competitive and commercial, impact investing, fund management opportunities across the UK.

The Investment Fund for Wales is offering a range of commercial finance options with loans from £25,000 to £2 million and equity investment up to £5 million. FW Capital is managing the £30 million debt finance fund that is providing loans from £100,000 to £2 million to help businesses grow.

More funding equals more opportunities for businesses to start-up, grow and scale. Our task is to provide funding from the most appropriate source of fund with speed and efficiency.

Understanding and improving the Welsh economy

Long-term productivity and jobs growth remains a critical concern for Welsh Government which is why Economic Intelligence Wales (EIW) was established to create independent, robust and reliable insight to help better understand and improve the Welsh economy.

As a unique research collaboration between the Development Bank, Cardiff Business School, Bangor Business School, the Enterprise Research Centre (ERC) and the Office for National Statistics, EIW tracks the supply of, and demand for, finance across Wales. Our work complements and co-ordinates with wider Welsh Government research and economic impact activity.

Together we published four quarterly reviews of economic data relevant to SME development in Wales during 2023/24. A report on R&D intensive businesses in Wales was also produced, with the support of ERC, and published in March 2024. It showed that there are more than 2,400 high and medium-high R&D intensive businesses in Wales that are making a significant contribution to the Welsh economy.

The data told us that high R&D intensive firms generate a disproportionate share of jobs and turnover but, as we see across the UK, economic risks and high costs are barriers to innovation. Collaboration with universities was also analysed, with the results showing that only 20% of Welsh R&D intensive firms are collaborating with universities, compared to 35% in Scotland. This analysis is now being used to inform future strategies to ensure that we can enhance innovation, productivity and growth while addressing the challenges experienced by people sharing protected characteristics and people experiencing socio-economic disadvantage within the business community.

What lies ahead

Our ambition to fuel possibilities for businesses and communities in Wales continues into 2024/25 as we focus on meeting our delivery targets for 2022/27.

The remit of the Development Bank has continued to grow as market challenges have emerged and solutions sought. We will continue to address these challenges to increase the flow of funds in Wales by developing innovative finance solutions, promoting equity and nurturing relationships with co-investors, to the best of our ability and resources. We will keep working closely with all strategic partners and stakeholders and will maintain our support for Government policy.

With over 3,000 customers, we will rise to the challenge of an ever-growing remit while meeting customers' evolving needs. We are an open organisation and will always address challenges, dissatisfaction or complaints fairly and honestly. Our teams are based on the ground in communities throughout Wales and we pride ourselves on our friendly approach, personal service and local knowledge. However, we recognise that this needs to be supported behind the scenes with strong governance, systems and processes.

The introduction of our new customer portal later this year, as part of our digital transformation programme, will drive value for money for the taxpayer by making our operations as efficient as possible with improved response times, and a quicker flow of information for our customers. Our aim is to reduce the time to decision and enhance the overall customer experience.

This drive for continuous improvement and passion for supporting economic development in Wales is testament to the commitment and dedication of our team. We have been most fortunate to have Gareth Bullock OBE as our Chair for the last nine years, steering our growth and overseeing the impact that we have had in the regional communities that we serve. Gareth has been hugely supportive of myself as Chief Executive and our wider executive team. I thank him for his first-rate leadership and his excellent counsel and look forward to welcoming Sally Bridgeland as our new Chair in September 2024.

I am sure that Sally's experience will bring a new perspective and fresh thinking as we strive to maintain delivery excellence and support the long-term sustainability of the Welsh economy for the benefit of the people of Wales.

I am privileged to work with almost 300 colleagues who are motivated by the direct impact we aspire to have on our communities. Outside of the day job, we engage with local communities through volunteering days, 24 hour runs, host charity events and have raised over £72,000 for this year's chosen charity, Pancreatic Cancer UK. I would like to thank all of them for their tireless work and enduring spirit.

Giles Thorley
Chief Executive

3 September 2024

Chief Financial Officer's 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 2024.

Our financial statements have become increasingly difficult to understand in recent years, not only due to the diverse nature of our activities, but also because of the complex accounting standards that we have to apply.

In 2023/24, we made a Group profit after tax of £38 million compared to a loss after tax of £24 million in 2022/23. We understand that these headline figures are markedly different which is why it is important to understand the methods that we are required to apply when presenting our financial statements. It should also be noted that the Development Bank of Wales Group has two distinct parts to the business:

- Operations
- Funds for Investment

The results of the Operations side of our business reflect traditional, consistent service business accounts. In contrast, the results of our Funds for Investment activity are far less predictable and have proven to be extremely volatile as a result of the accounting policies we have to apply. Many of the factors that feed into the accounting treatment, such as macro-economic conditions and general trading conditions are outside of our control. An annual assessment of the financial performance of our Funds for Investment activity is not an effective way of assessing the performance of our funds. This can only truly be done when a fund closes.

The underlying business is not impacted by the volatility caused by non-cash accounting movements. We remain able to invest over future years at levels agreed with Welsh Government and other funders. We are also on track to continue to repay our loans from Welsh Government as scheduled.

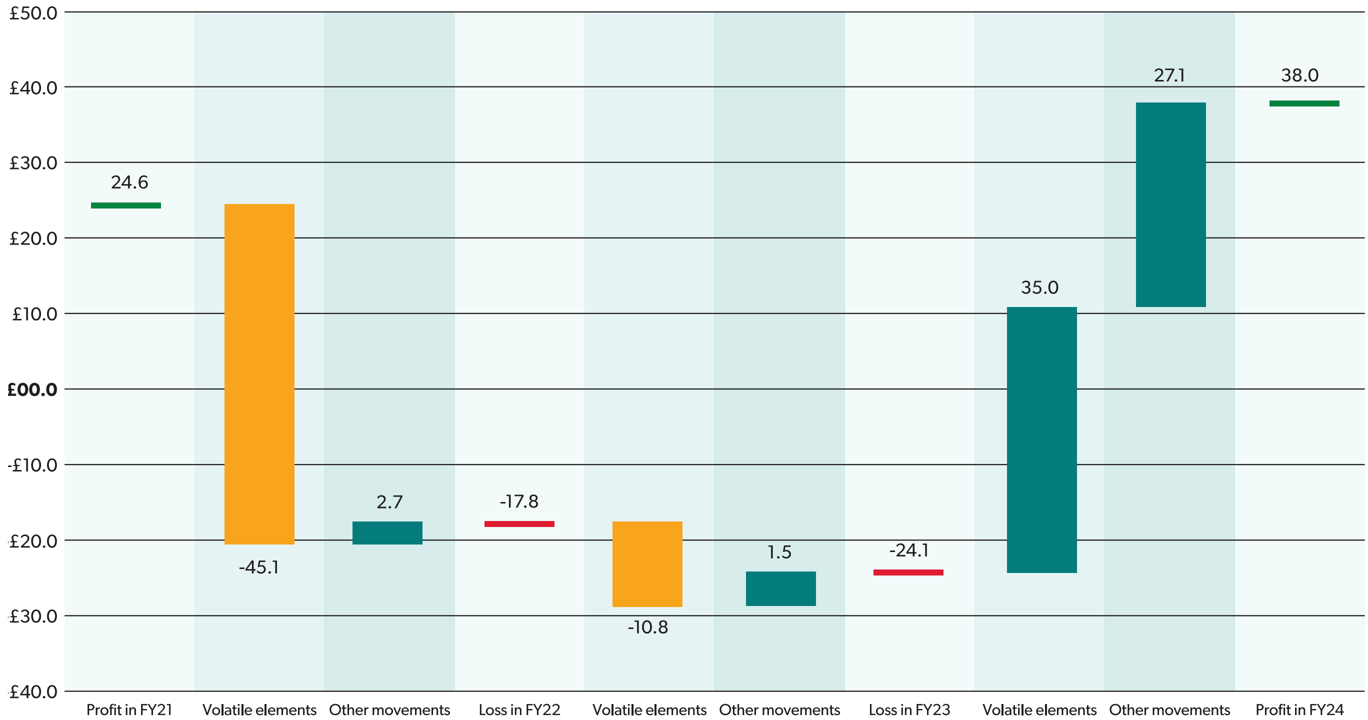
Our financial year

In 2023/24, we made a Group profit after tax of £38.0 million compared to a loss after tax of £24.1 million in 2022/23. The change in our Group loss in 2022/23 to profit in 2023/24 can be attributed to the improving macro-economic conditions and high base rates during the year.

This difference has largely been caused by a reduction of £30.4 million in the movement in our equity book value. This is known as equity fair value loss. It dropped from a £30.5 million reduction in 2022/23 to a £0.1 million reduction in 2023/24 reflecting the improving macro-economic environment during the year. We also saw a £6.4 million reduction in the amount of theoretical interest that we have to account for on our loans from Welsh Government while the bank interest received increased by £28.8 million as a result of rising deposit rates.

The graph below illustrates how these factors have impacted our Group performance over the last three years. This timeframe has been chosen as 2020/21 was the point at which the Group was last profitable. 2023/24 does differ due to the significant bank interest earned in the period (see page 18).

Movement in Results 2020/21 - 2023/24



*The volatile elements are provisions on our loan book, equity book value and theoretical interest on Welsh Government loans.

Analysis of Group activities

As explained, the two core areas of our Group activities are Operations and Funds for Investment. These are explained below:

Operations	Funds for Investment
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, 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 Operations 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 equity investments which are revalued at the year end to their current (fair/book) 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.

Consolidated Group performance

The analysis in Table A below shows the results of the Operations and Funds for Investment areas and the overall consolidated Group performance.

The £38.0 million Group profit after taxation (2022/23 £24.1 million loss) for 2023/24 includes the £4.9 million profit (2022/23 £3.5 million) from Operations and the £33.1 million profit (2022/23 £27.6 million loss) from Funds for Investment. The profits and losses for the two areas of the business are explained in more detail in Tables B and C respectively.

In the consolidated income statement, the Group's profit after tax is analysed between a £32.6 million profit (2022/23 £22.8 million loss) attributable to Welsh Ministers as our equity shareholders, and a £5.4 million profit (2022/23 £1.3 million loss) attributable to non-controlling interest. This represents the share of profit from the Funds for Investment area of the business 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 notes for details.

Table A: High-level analysis of 2023/24 and 2022/23 consolidated income statement

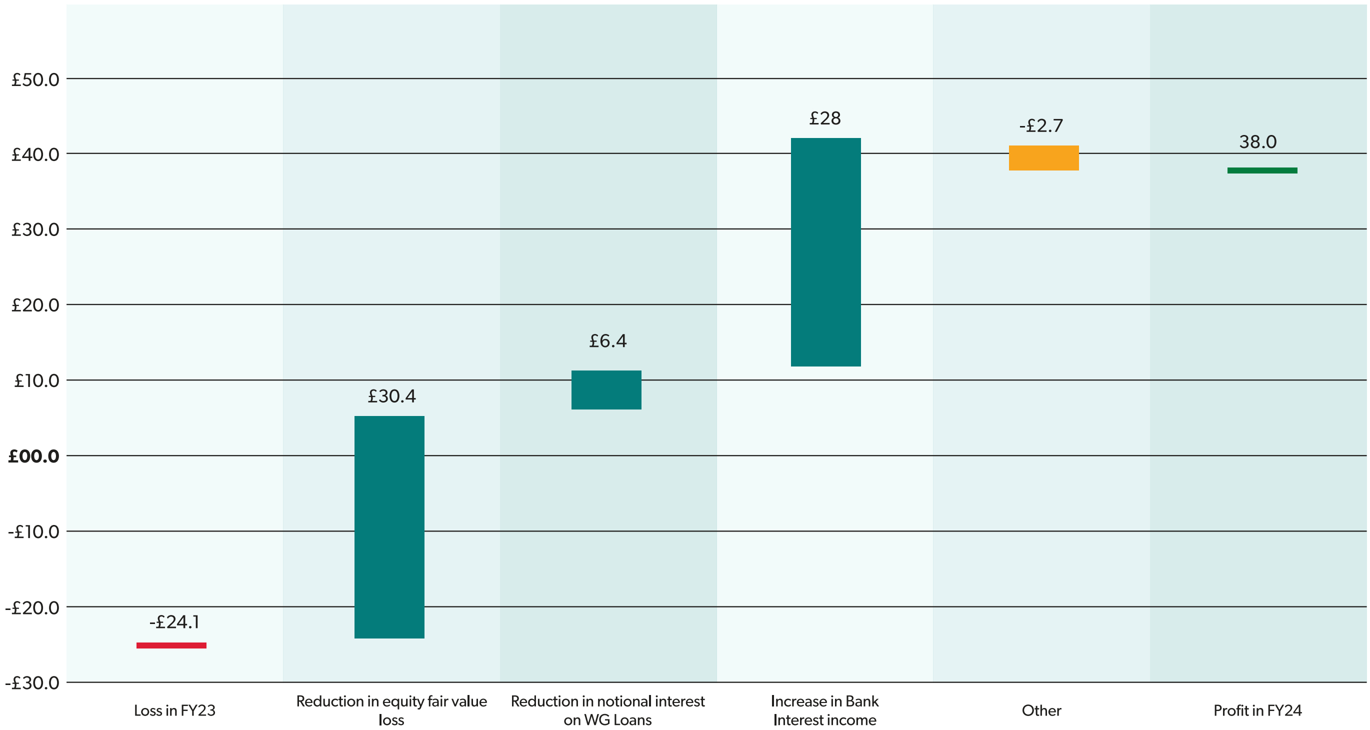
	2023/24			2022/23		
	Operations £m	Funds £m	Group* £m	Operations £m	Funds £m	Group* £m
Income	49.0	88.4	94.5	41.4	56.9	62.2
Provisions released/(made)	0	(18.2)	(18.2)	0	(16.8)	(16.8)
Changes in equity book value	0	(0.1)	(0.1)	0	(30.5)	(30.5)
Other expenses	(42.8)	(32.6)	(32.5)	(37.9)	(27.9)	(29.7)
Profit/(loss) before the Welsh Government notional interest	6.2	37.5	43.7	3.5	(18.3)	(14.8)
Notional interest on Welsh Government loans	0	(2.9)	(2.9)	0	(9.3)	(9.3)
Profit/(loss) after the Welsh Government notional interest	6.2	34.6	40.8	3.5	(27.6)	(24.1)
Taxation	(1.3)	(1.5)	(2.8)	0	0	0
Profit/(loss) post tax	4.9	33.1	38.0	3.5	(27.6)	(24.1)

*These Group figures are less than the total of the Operations and Funds for Investment areas of the 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. The consolidated income statement is included at Appendix A to the annual report and financial statements.

The material impacts on the change from loss in 2022/23 to profit in 2023/24 are a mixture of non-cash items comprising the movement in our equity book value (equity fair value), theoretical interest on Welsh Government loans and cash items comprising bank interest. The profit in 2023/24 has resulted in corporation tax being due on profit made by the Group after all available reliefs had been utilised.

The graph below summarises how the 2022/23 loss of £24.1 million moves to the £38.0 million profit this year:

Profit Bridge (£m) FY23 to FY24



Reduction in equity fair value loss

The reduction in equity fair value losses year on year is £30.4 million and the reduction itself in 2023/24 is £0.1 million (2022/23 reduction of £30.5 million). The materially smaller reduction in 2023/24 indicates a broadly stable portfolio value at the year-end in comparison to the start of the year, reflecting the improving macro-economic environment.

The determination of equity book value requires a subjective assessment with varying degrees of judgement which takes into consideration the liquidity, pricing assumptions and the risks affecting each specific investment. The movement in our equity book value is influenced by the ongoing macro-economic uncertainties in the UK including the impact of the cost of living crisis along with the conflicts in Ukraine and Gaza, on inflation, the cost of energy and interest rates. The change in fair value is a combination of realised and unrealised gains and losses on equity investments that the Group holds directly. Net Realised profits of £1.6 million were generated on the disposal of several equity investments, offset by net unrealised losses on revaluation of £1.7 million.

Equity investments directly held by the Group are reported at fair value, which is effectively our best estimate of what the value of the equity should be as at the year-end date. Before IFRS 9 was adopted from 2019 onwards, changes in the fair value of equity were shown in the other comprehensive income statement and did not impact Group profitability. IFRS 9 means that we have had to show changes in the fair value of equity investments in the income statement.

The implementation of IFRS from 2019 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 change. 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 are set out in Note 19 of the financial statements. This is a highly volatile figure within our financial statements.

The following example illustrates both our patient capital approach and the volatile nature of equity valuations on the income statement caused by the adoption of IFRS 9. A mixed equity and debt investment was completed into a Welsh business between 2015 and 2017 and was held at cost until March 2018. The equity fair value rose by 8% at September 2018 and then fell by 26% at March 2019 caused by an increase/decrease in earnings respectively. From September 2019 onwards, due to further poor performance, the equity valuation was reduced to £nil where it stayed until a strategic buyer took a different view and purchased the business in 2024 which resulted in us realising returns of five times our original sunk equity.

Reduction in theoretical interest on the Welsh Government loans

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 'theoretical 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.

The reduction in theoretical interest on the Welsh Government Loans is £6.4 million. This is the difference between the theoretical interest charge of £2.9m in 2023/24 and a charge of £9.3 million in 2022/23. This is discussed in more detail in the 'Further Commentary' section on page 25.

Despite the positive impact of a reduction in theoretical interest on our results, the £6.4 million decrease for 2023/24 is due to a small reduction in the annual theoretical interest unwind of £0.2m (2023/24 theoretical interest is £6.6 million compared to £6.8 million in 2022/23) with the remaining £6.2 million principally caused by a net reduction in expected repayments in some smaller funds.

Table A above shows Group profit after tax under historic accounting treatment (i.e., removing the impact of the Welsh Government theoretical interest) of £43.7 million (2022/23 group loss £14.8 million), which is more indicative of the underlying performance of the Group for the reporting period in the improving macro-economic environment.

Increase in bank interest received

The £28.8 million increase in bank interest has been predominantly caused by an increase in the average deposit rate in 2023/24 to 4.1% (2022/23 1.6%). The average treasury balance during 2023/24 was £960 million (2022/23 £685 million). Interest was also received on the Group's smaller short term cash holdings.

Performance of Operations

This area of the business provides fund management services to both our own and third-party funds. During the year we employed an average of 281 employees compared to 265 in 2022/23 to invest and monitor the funds that we manage and provide the support services for the fund investment activities.

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

Overall profitability has increased year on year, primarily due to the increase in fund management income of £7.6 million. This was predominantly driven by a £4.6 million catch up in fees on two funds that now have returns enabling these fees to start to be paid. A long-term profitable Operations business supports the sustainability aspirations of the Group.

Table B: Services 2023/24 and 2022/23 income statement analysis

	23/24	22/23	Commentary
	£m	£m	
Fund management income	49.0	41.4	Increase is due to a combination of catch-up fees, new funds under management, the full-year impact of new funds that came under management during 2022/23, and the impact of top-ups made to existing funds during 2023/24. 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 2023/24 and 2022/23 including FW Capital, were £2.4 billion and £2.2 billion respectively, an increase of 9%. Average fee income compared to average funds under management increased marginally to 2.0% (2022/23 1.9%).
Total revenue	49.0	41.4	
Staff costs	(20.6)	(18.7)	Increase is due to increased headcount to support fund delivery. The average number of employees has increased from 265 in 2022/23 to 281 in 2023/24. Average cost per employee has risen marginally ahead of the UK's 2023/24 CPI of 3.2% from £70,600 to £73,400 (4%).
Other costs	(22.2)	(19.2)	The increase in operating costs reflects c. £1 million increase in IT costs. Removing this increase, the increase in other costs is in line with the increase in funds under management and the 2023/24 annual CPI of 3.2%.
Total costs	(42.8)	(37.9)	
Profit before tax	6.2	3.5	

Operations 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 2025 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 Operations business amount to c. £106 million as at 31 March 2024 (£77 million as at 31 March 2023).

Performance of Operations against annual operational plan

As shown in Table B, the profit before tax generated by the service businesses increased by £2.7 million (77%) from 2022/23, which was a decrease of £1.3 million on 2021/22's profit of £4.8 million. A small loss of £0.5 million was forecast in the 2023/24 annual operational plan. The improved performance was principally caused by the unbudgeted catch-up fees charged as mentioned above. We seek to charge market fund management fee rates to generate sufficient income to cover our costs. We leave any balancing cash in each fund to invest into more businesses. These reserves 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 income and expenditure for the Operations area of the business with reasonable certainty for the next three years which shows this part of the business remains in a cumulative profit position. This means that we are able to make our long-term viability statement over the next three years in the Directors' Report, irrespective of whether the Funds part of our business is in profit or loss.

Performance of Funds for Investment

The Group receives funds from investors including the Welsh Ministers, the British Business Bank and the Clwyd Pension Fund. We invest these funds in line with guidelines set, collect repayments, and we then either repay the investor or reinvest the repayments into new or existing funds (see the Operations profit and sustainability section above). The breadth of the funds we offer is outlined on page 33 of the strategic report. During the year new funding of £30.4 million was received from the Welsh Government to support their priorities compared to £5.1 million in 2022/23.

The performance in Table C (over page) reflects the combined results of 16 investment funds that the Operations area manages, and the Help to Buy – Wales shared equity loan fund ('HTB-W').

The Funds for Investment area is reporting a profit after tax of £33.1 million this year as compared to a loss after tax of £27.6 million in the prior year. As noted in the high-level summary, the main drivers for this movement are the increase in bank interest and the reduction in equity book losses.

Table C: Funds 2023/24 and 2022/23 income statement analysis

	23/24	22/23	Commentary
	£m	£m	
Fees received	3.8	5.0	Fees received include arrangement fees charged on loans as well as legal and due diligence fees recovered. The value of fees charged depends on the size and complexity of the deal. The year-on-year reduction reflects a decrease in fees charged to customers.
Dividends and interest income	19.2	14.6	Interest income has increased by £4.6 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 value of the interest bearing HTB-W book has also increased from £91 million to £123 million, resulting in an increase in interest income on the HTB-W book of £0.6 million.
Notional interest on CWBLS loans	3.1	4.2	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 below.
Total fees, dividends and interest income	26.1	23.8	
ERDF Grant release	20.0	20.3	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. In last year's report, we described the year-on-year reduction at that point in time had resulted from the targeted regional nature of the remaining money within the fund. The regional focus continued to be in place for 2023/24, and in addition to this, all ERDF funding had to be spent by 31 December 2023. This figure will be zero for 2024/25. More detail is set out in Note 18.
Release of other grant income	0.5	0.0	Other grant income release relates to two of our newer funds, the Leaseholder Loan Scheme and Help to Stay - Wales, where fund management costs are covered by grant funding provided by the Welsh Government.
Bank interest received	41.8	12.8	Whilst the base rate only increased from 4.25% to 5.25% during the financial year, there were significant increases in the second half of 2022/23, with the full year impact being seen in 2023/24. We continue to operate a prudent Treasury Policy and counterparty credit risk weekly. Average interest rates earnt on treasury balances have increased from an average of 1.6% in 2022/23 to an average of 4.1% in 2023/24. Average treasury balances held over the same period have increased from £685 million to £960 million. Interest was also received on the Group's smaller short term cash holdings.
HTB-W Fair value changes:	-	-	-
Realised gain on disposal	7.9	13.6	The reduction in realised gain is principally due to a significant reduction in redemptions in comparison to prior year with the number of redemptions dropping from 1,283 to 784. We believe high interest rates have impacted activity levels both in terms of house sales and the number of households refinancing out of the scheme. As well as the 39% reduction in the number of redemptions, there was also a small decrease in the average gain per redemption from £10,602 in 2022/23 to £10,128 in 2023/24.
Unrealised fair value Gain/(loss) in year	34.8	-50.6	Please see commentary below. Note that this is a non-cash movement to reflect the fair value of the equity book as at the year end. See Note 3 for detail of accounting judgements applied in the calculation.

Table C: Funds 2023/24 and 2022/23 income statement analysis is continued over the page

Table C: Funds 2023/24 and 2022/23 income statement analysis - continued

	23/24	22/23	Commentary
	£m	£m	
Increase /decrease in amount owed to principal shareholder	-42.7	37.0	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	88.4	56.9	
Fund management fees paid	-30.8	-26.0	As noted in the Operations section above, the increase in fund management fees paid is due to a combination of catch-up fees, new funds under management, the full-year impact of new funds that came under management during 2022/23, and the impact of top-ups made to existing funds during 2023/24.
Other costs	-1.8	-1.9	
Subtotal costs	**-32.6**	**-27.9**	
Provisions (made) / released	-18.2	-16.8	There has been a small increase of £1.4 million in provisions made. This is primarily driven by increased loss rates used in the calculation, most notably for our stage 3 assets. The effective provision percentage for our loan book has increased from 15.9% in 2022/23 to 18.9% in 2023/24. More detail can be found in Note 4 - Credit risk.
Unrealised gain / (loss) on non-consolidated fund	0.0	-0.1	In prior years, the results noted under these captions have related to the unrealised and realised fair value movement in the Group's investment in the Wales Life Sciences Fund (WLSIF). As noted in the 2022/23 annual report and accounts, WLSIF reached the end of its ten-year life, and a liquidation process commenced. The remaining equity investments have been passed back to DBW to manage in-house.
Other fair value gain / loss	-0.1	-30.4	See commentary in 'Reduction in equity fair value loss' on page 19.
Theoretical interest on Welsh Government loans	-2.9	-9.3	This represents the year-on-year movement in theoretical interest charged on Welsh Government loans. As noted above, the £6.4 million decrease in the theoretical interest charge for 2023/24 is due to a small reduction in the annual theoretical interest unwind of £0.2m (2023/24 theoretical interest is £6.6 million compared to £6.8 million in 2022/23) with the remaining £6.2 million principally caused by a net reduction in expected repayments in some smaller funds.
Total costs	**-53.8**	**-84.5**	-
Profit / (loss) before tax	**34.6**	**-27.6**	-

Further commentary

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

House prices can fluctuate which is why you will see in Table C that there is a significant movement in the unrealised fair value of the shared equity assets in our Help to Buy-Wales book. The model used to arrive at the unrealised fair value of this book is highly sensitive to changes in the House Price Index ('HPI') and the discount rate used in the calculation. The net £42.7 million unrealised gain transferred to Welsh Minsters in 2023/24 compared to an unrealised loss of £37 million in 2022/23 is primarily the result of better-than-expected HPI performance in 2023/24 and also a more positive HPI forecast for the short/medium term. In addition to these positive movements in HPI, there has also been a reduction in the discount rates used in the calculation. In the prior year, the discount rate had been adversely impacted by changes in interest rates and had increased from 3.05% in 2021/22 to 6.22% in 2022/23. As interest rates have stabilised in 2023/24, the discount rate has reduced to 5.41% for 2023/24.

We may continue to see future volatility in gains and losses moving forward as a small change in either the HPI 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 is the first external equity investment made into one of the Group's Funds. £7.9 million has been drawn down and invested and £3.5 million repaid by the fund as at 31 March 2024 (2022/23 £7.5 million invested with £2.8 million repaid).

The investment by Clwyd Pension Fund 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 2020/21, 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. This interest rate subsidy represents state aid awarded on behalf of Welsh Government. CWBLS loan assets are initially recognised at fair value derived by discounting the agreed repayments 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 on the next page). 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 2026/27. The difference between the estimated market rate and the contractual interest rate of 2% results in additional theoretical income of £3.1 million (2022/23 £4.2 million).

Treatment for Welsh Government loans

In recent years, the Welsh Government has increasingly provided funding to the Group via 0% interest loans. Up until 2020/21 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 'theoretical 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 theoretical 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.

A cost for the interest is charged each year in the consolidated income statement. This is 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 Group would be showing a profit of £43.7 million in 2023/24, £2.9 million higher than the profit reported before tax (2022/23 loss of £14.8 million, £9.3 million lower than the reported amount).

Similarly, the balance sheet would show Net Assets/ Total Equity of £180.9 million as at 31 March 2024, £175.5 million lower than the reported amount (£134.2 million as at 31 March 2023, £178.4.1 million lower than the reported amount).

David Staziker

David Staziker
Chief Financial Officer

3 September 2024

Working with the Welsh Government

Rebecca Evans MS
Cabinet Secretary for Finance, Constitution and Cabinet Office

"The Development Bank of Wales provides vital finance to help businesses succeed, across sectors and at every stage of their development. As households and entrepreneurs continue to grapple with the ongoing cost-of-living and cost-of-doing-business crises, I cannot stress enough how valuable this support is.

The Bank's latest annual report demonstrates how its suite of agile and innovative financial products has benefitted hundreds of businesses and enabled the creation and safeguarding of thousands of jobs over the past year – with a strong focus on sustainability.

Congratulations and thank you to all who played a role in this success. I look forward to continuing working with the Bank to unlock further business growth and achieve our shared vision for a fairer and greener economy for Wales."

3rd September 2024

Jayne Bryant MS
Cabinet Secretary for Housing, Local Government and Planning

"I welcome the latest annual report from Development Bank of Wales which highlights the important role being played by the Bank in delivering on our vision for a stronger, fairer and greener Wales.

Over the last year, we have worked closely together to extend the support available to people impacted by the cost-of-living crisis through our Help to Stay scheme. The willingness on the part of the Bank to deliver robust solutions at pace reflects well on the agility and professionalism of the organisation.

Working together, we have delivered more than £700m of investment through our Help to Buy, Help to Stay and Leaseholder Support schemes."

3rd September 2024

Working with the Welsh Government

Ken Skates MS

Cabinet Secretary for the Economy, Transport and North Wales

"The 2023-24 year saw the Development Bank make just short of 500 investments, helping business across a broad range of sectors and in all parts of Wales to grow and develop.

The Bank has developed a key role in supporting the economic development outcomes we want in all parts of Wales. For example, it has supported 55 management succession deals over the year, providing finance critical to keeping businesses in Welsh ownership, and is helping Net Zero transition through the Green Business Loan Scheme. As I welcome the Bank's success in making its largest ever investment in Wales, I also celebrate the continued and vital role it plays in making finance available to small and micro businesses. Those investments sustain livelihoods, jobs and the vitality of our communities across Wales, and are evidence the Bank is delivering on its economic development mission. At a time when opportunities for equity investment have been constrained, it is positive to see returns from exits are up - reflecting the growth in value of those businesses in Wales.

Hard work by the Bank has delivered another strong year of results and I welcome the progress set out in this report."

3rd September 2024

Who we are and what we do

The Development Bank of Wales deploys financial support to stimulate economic growth, innovation, and entrepreneurship, often operating in the market gap where viable activities are not supported by the private sector. We help ambitious and promising businesses, projects and communities in Wales access sustainable finance to achieve their potential. Our role as a development bank is to counteract the cyclical nature of the mainstream capital markets to develop those that are emerging or underserved and our approach as a lender or investor is supportive while still being commercial.

We use both General and Financial Transaction Capital (FTC) on behalf of the Welsh Government. The restrictions that accompany FTC mean that the Development Bank is one of a limited number of public bodies that can make use of this finance. By operating commercially, pricing in line with the wider market, we can structure the funds within repayable models to satisfy the conditions set by His Majesty's Treasury with the ability to fund our operations and recycle or repay capital over the longer term.

Through our regulated subsidiary, FW Capital, we are also able to raise funds from the private sector and bid competitively for fund management contracts, complementing existing sources of capital while building resilience for the future.

Importantly, we maintain a strong presence in all regions allowing customers and stakeholders to benefit from local relationships with people embedded within communities across the whole of Wales. This local presence is an important factor in developing strong stakeholder relationships while maintaining our understanding of regional economic dynamics, which is as important as the funding we offer.

Funding for micro to medium businesses

Our core products and services offer continuity of access to finance for micro to medium businesses. When other sources in the market are retrenching, we take on a counter-cyclical role and this has proved essential in the economic recovery from the Covid–19 pandemic. Our financial scale, skills, and fund structures are critical in doing this, enabling us to be agile and flexible in the way we respond to the market.

The market gap in any given year is shaped by the prevailing economic conditions, which impact business confidence and therefore demand, inflation which influences metrics such as job creation or property construction and finally the credit risk appetite of other lenders and investors, which determines the private sector capital available and impacts co-investment.

We offer a broad range of funding options, from smaller–scale micro lending through to project finance for property development and larger–scale equity for growth. This range ensures we can play an essential role in meeting the continuing needs of businesses, including access to patient capital. The quantum and flexibility in our core funding offer, particularly through the Wales Flexible Investment Fund, enables us to create tailored finance packages to suit customers' individual needs, aiding them to startup and scaleup.

Funding for homeowners

Alongside our core debt and equity products for business, we also support the Welsh Government to manage a number of specialist investment services, including over £700 million through the Help to Buy - Wales scheme and two homeowner support schemes - the Leaseholder Support Scheme and Help to Stay, for customers in difficulty as a result of fire safety issues or cost of living impacts respectively.

Fund administration services

The Development Bank is also able to leverage the breadth of skills and experience available within the team to provide portfolio management services for certain Welsh Government strategic investments as well as acting as the public sector equity shareholder in the Welsh Government's infrastructure schemes through the Mutual Investment Model.

Other services

Other services provided by the Development Bank include Economic Intelligence Wales, our research partnership, Angels Invest Wales, our business angel network and the Recovery Support Group, which offers access to expertise for businesses in difficulty that may include funding support if appropriate.

Investment principles

Our investment principles underpin how we work to support economic development in Wales. They are designed to meet our shareholder's ambitions, taking account of the capacity of our operations and market regulation.

- 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.
- We invest on **commercial terms**, pricing the investment fairly to reflect the risk. This ensures we are not displacing the private sector. It also means we generate returns that can be recycled into new customers, creating a long–term, value for money asset for Wales.
- An exception to this principle can be found in **emergent sectors**, such as **green finance**, where we have identified a need to incentivise change.
- We are a **patient investor**, providing accessible funding to support the long–term sustainability of the businesses we fund.
- 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.
- 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.
- 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.

Objectives and targets 2022/27

Baseline delivery targets 2022/27

2,200
Support over **2,200** businesses

20,000
Over **20,000** jobs supported

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

1,900
Fund **1,900** new house builds

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

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

60
Maintain a Customer NPS® of **60**

60
Maintain an Employee NPS® of **60**

NPS® - Net Promoter Score

Five-year phase strategic objectives

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

Baseline investment targets 2022/27

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

Our funds and services

Equity and Debt Debt 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 admin services</th><th>Turnaround</th><th>One-off energy projects</th></tr>
<tr><td colspan="10">Business Funds</td></tr>
<tr><td>Wales Angel Co Investment Fund</td><td colspan="4">£25 - £250k</td><td></td><td></td><td></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><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><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><td></td><td></td></tr>
<tr><td>Wales Rescue and Restructure Fund</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>£50k - £2m</td><td></td></tr>
<tr><td>Wales Technology Seed Fund II</td><td>£50k - £350k</td><td></td><td></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><td></td><td></td></tr>
<tr><td>Local Energy Fund</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>£50k - £2m</td></tr>
<tr><td colspan="10">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><td></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><td></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><td></td><td></td></tr>
<tr><td colspan="10">Funding for homeowners</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><td></td><td></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><td></td><td></td></tr>
<tr><td>Leaseholder Support Scheme</td><td></td><td></td><td></td><td></td><td></td><td></td><td>as required</td><td></td><td></td></tr>
<tr><td>Help to Stay</td><td></td><td></td><td></td><td></td><td></td><td></td><td>£10k - £150k</td><td></td><td></td></tr>
<tr><td colspan="10">Infrastructure</td></tr>
<tr><td>Mutual Investment Model</td><td></td><td></td><td></td><td></td><td></td><td></td><td>as required</td><td></td><td></td></tr>
<tr><td colspan="10">FW Capital</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><td></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><td></td><td></td></tr>
<tr><td>Northern Powerhouse Investment Fund II</td><td></td><td></td><td colspan="2">£100k - £2m</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>South West Investment Fund</td><td></td><td></td><td colspan="2">£100k - £2m</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Teesside Flexible Fund</td><td></td><td></td><td></td><td colspan="3">£100k - £3m</td><td></td><td></td><td></td></tr>
<tr><td>Investment Fund for Wales</td><td></td><td></td><td colspan="2">£100k - £2m</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

*(includes Green Business Loan Scheme)

Investment Director's report

Our team has worked hard throughout the year to deliver 491 investments totalling £125.2 million and generating £50.1 million of private sector co-investment in 2023/24. 4,406 jobs were created or safeguarded against a target of 3,779.

We've invested in 430 different businesses that range from the smallest start-ups to scale-ups and those looking to realise value at the point of exit. In fact, we now have over 3,000 customers and an experienced team of 281 spanning the length and breadth of Wales which is a factor in our success.

Market dynamics have certainly influenced outturn but there is no shortage of opportunities as we continue to support Welsh businesses by addressing any shortfall in funding where needed. In a sign that the gap is widening, our average deal size increased to £254,997 in 2023/24 and we recorded our largest ever strategic funding deal in January 2024 as part of a syndicate with Barclays for Bluestone Resorts.

Creating positive impact

We invest for positive financial and non-financial impact, creating socio-economic value for the people of Wales by supporting the long-term sustainability of the ambitious businesses that we fund.

I am pleased to report strong demand for our micro loan fund with an increase in the average deal size to £28,900 and an overall investment value of £8.14 million. Many small businesses, like John Henry Flowers in Cardiff, are accessing the fund to invest in growth. A £15,000 loan helped this popular florist relocate to larger premises.

We have also been busy funding business succession with over £22 million of debt and equity going to 55 different companies to help finance management buy-outs. This includes 89-year-old Dnyaneshwar Gaikwad and his 78-year-old wife Pushpa who retired from their popular vegetarian Indian café and mini-market in Cardiff after 43 years following a management buy-out that was part-funded by a £100,000 loan from the Wales Flexible Investment Fund. Chef Maruti Satpe and his wife Sadhana, who is the store manager, have taken over the business after working with the Gaikwad's for the last ten years. We know that they look forward to serving their customers with traditional home-cooked Indian food while growing the grocery store.

Equity is an important financial instrument at all stages of the lifecycle of a business. Investors only realise their money when the business does well, so with six exits during 2023/24, we were pleased to make £4.7 million that will now be recycled and reinvested for the benefit of the Welsh economy.

Co-investment for debt and equity in 2023/24 did drop to 1:0.4 but this is not surprising given the uncertain nature of the wider funding market. Appetite for risk on the part of investors is dwindling as a result of difficult economic conditions but Angels Invest Wales did have a strong year with a record 119 investments totalling £3.4 million. Our Wales Angel Co-Investment Fund provided £1.96 million in match-funding giving an excellent private sector leverage ratio of 1.25.

Our support for exciting innovation and technology companies that are driving Wales's booming tech sector included £250,000 equity from the Wales Technology Seed Fund II for Cardiff-based Tendertec.

We led a £440,000 funding round alongside family office Puffin Point, Theti Club angels and business angels as co-investors. Coupled with previous investment from Metavallon VC and a grant of £1.4 million from Innovate UK and UKRI's Designed for Ageing challenge in 2022, Tendertec is using the funding to support the development of AI-powered technology that is helping to keep the elderly healthy, independent and safe.

The recruitment of additional highly skilled investment and portfolio executives over the last year means that we now have a team with real strength and depth on the ground throughout Wales. This additional resource means that we can do more as we work alongside universities and co-investors, including business angels and specialist funds, to support early-stage, pre-revenue tech ventures. With a broad portfolio, we are supporting business growth and adding real value as part of the wider ecosystem.

Key sectors

Tourism is big business in Wales. It makes up a significant portion of the Welsh economy and accounts for 11.3% of all employment in Wales. Our Wales Tourism Investment Fund offers loans of up to £5 million for distinctive, stand-out tourism projects that align with the priorities of Welsh Government and demonstrate commitment to the Economic Contract.

We invested £12.4 million from this dedicated fund in 2023/24, including a seven-figure loan for Wayfind Escapes to upgrade Pennant Holiday Park near Holywell. This includes the construction of 55 new lodges that will benefit holiday makers along with the local economy and community of Holywell.

Another growth sector during the year has been health and care. As part of the foundational economy, health and care services is a sector that people rely on to keep them safe, sound and civilised. It is estimated that the foundational economy accounts for four in every ten jobs and £1 in every £3 that is spent, with rising demand for quality care including specialist EMI facilities across Wales.

From the young to the old, investments during 2023/24 in health and care included £950,000 to fund the purchase of Williamston Nursing Home, an award-winning 34-bed care home, set in five acres of garden and woodland in Houghton, near Milford Haven. Meanwhile, a micro-loan of £35,000 was used to part-fund fit-out costs for Wibli Wobli Nursery, the first Welsh language daycare nursery in Newport for children aged two to five-years.

However, the property sector continues to suffer from the effects of supply chain pressures and increased material costs. Across both the commercial and domestic markets, developers have been under pressure with reduced availability of land and labour, increased build costs and changes to regulations. Buyer affordability has also continued to be a real obstacle given the high cost of borrowing.

Despite the challenges, our support for developers totalled almost £37.69 million during the year. We have a baseline delivery target to fund 1,900 new house builds in Wales by 2027.

Highlights include £4.68 million to help family-run Primesave Homes complete the first phase of a development of 44 new homes in Newton, Powys along with an investment of £4.1 million for MKR Property Developments to revitalise a dormant brownfield site in Merthyr Tydfil into a dynamic business park of 24 modern factory units. These are both developments that are driving economic progress and job creation while creating much needed residential homes and modern commercial premises.

Smart collaboration

Smart collaboration with stakeholders, investment partners and co-investors is helping to increase the supply and accessibility of sustainable, effective finance in Wales.

We continue to work closely with our colleagues at Business Wales, City Deals, universities and business accelerators to improve access to funding and make a positive impact in the Welsh economy.

We firmly believe that the more funding there is, the better it is for Wales which is why it is important that all funders collaborate to deliver support and ensure a seamless process for the entrepreneurs and businesses in Wales that need our collective help.

As professional fund managers, with experienced teams on the ground throughout Wales and a strong back-office function, we are taking a lead role in the delivery of the British Business Bank Nations and Regions Investment programme. This is helping to increase the flow of funds into Wales alongside the work that we are doing to attract co-investors to the market.

FW Capital

As one of the UK's largest regional investors, FW Capital has a strong track record in providing much-needed finance to small and medium-sized businesses since 2010.

2023/24 was a successful year for fundraising, including the new Teeside Flexible Investment Fund. Backed by Teeside Pension Fund, the £20 million fund can reinvest returns with the aim of investing £68 million. It will support economic development in Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton-on-Tees through a mix of finance to support buying a business, property funding and bond finance.

We're also proud that the British Business Bank has now appointed us to manage three funds for SMEs in the North and South West of England as well as the whole of Wales.

In July 2023, the British Business Bank launched the £200m South West Investment Fund (SWIF) aimed at fostering growth and prosperity for small businesses across the South West of England. As one of four fund managers, FW Capital is managing the debt (£100,000 to £2 million) funds for the north of the region.

This was followed swiftly by the launch of the new Investment Fund for Wales in November 2023. It includes a range of finance options with loans from £25,000 to £2 million and equity investments up to £5 million to help small and medium-sized businesses start up, scale up or stay ahead. With responsibility for larger loans from £100,000 to £2 million, FW Capital is one of three fund managers appointed to manage the fund. We completed three deals totalling £730,000 in 2023/24, including a £500,000 loan for Deeside-based Palmers Scaffolding.

March 2024 then saw the launch of the new £660 million Northern Powerhouse Investment Fund II by the British Business Bank. Covering the North of England, the fund builds on our successful delivery of £173 million of loans to SMEs in the North of England through the first Northern Powerhouse Investment Fund. We're one of nine fund managers.

Our ability to win these competitive fund management opportunities is testament to our professional approach, presence on the ground and ability to deploy capital in line with return targets. I like to think of FW Capital as a successful Welsh export; using our knowledge and expertise to create extra value for the people and businesses of Wales.

Our future priorities

In overall terms, I am pleased with our performance in 2023/24 but, as always, there is room to do more.

A priority for 2024/25 will be to extend patient capital delivery in response to market demand. We'll continue to help businesses to spread the cost of borrowing and encourage more to consider equity as a route to achieving growth ambitions.

We're also preparing for the launch of our new customer management portal. We hope that this investment in digital transformation will make a material difference to our efficiency and the customer experience, with improved funding delivery times and faster decisions.

I look forward to the future with optimism. We are embedded in the communities that we serve and we'll continue to give our people the best opportunities to grow and develop. Together, we're making it easier for businesses to secure the finance that they need to start-up, strengthen and grow.

Mike Owen
Group Investment Director

3 September 2024

Progress against our strategic objectives 2022/27

Core: Deliver debt and equity funding with 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.

We work with the Welsh Government to set forecast targets across five-year phases for each corporate plan. Targets are based on the investment profiles of the funds to be invested during that period. Total targets for the Development Bank for the period of the corporate plan 2022/27 can be found on page 31.

The primary target which fulfils our role is the headline investment amount. This is supported by associated economic outcome targets set against the mix of products profiled in the period, such as co-investment, jobs created and safeguarded, homes built and square footage of commercial property.

The data reported within each of our annual reports should be seen in the context of overall progress towards achievement of the five year corporate plan. The data reported in an individual year is influenced by three factors. Firstly, the activity of the Development Bank in promoting the funding available, together with the mix of the specific products offered to the market. Secondly, the prevailing economic conditions which impact business confidence or inflation which shapes metrics, such as job creation or property measures. Finally, the credit risk appetite of other lenders and investors which determines market competition and shapes co-investment.

The economic uncertainty as a result of shifting regulation following Brexit, post-Covid recovery and the more recent cost of living crisis, has created a volatile market that has challenged the way we work. Ultimately, our role to provide liquidity is ever more important in a challenging environment particularly when traditional lenders and investors are changing their risk appetite. Given this overriding responsibility, our primary objective is to find a commercially satisfactory solution for our customers.

2023/24 was another record year for investing at £125.2 million. The number of investments fell slightly from 516 in 2022/23 to 491, while the average investment size across all funds, increased from £240,000 to £255,000, a trend that has endured over the last three years reflecting increased and persistent UK inflation.

Wales Business Fund

A key objective for 2023/24 was concluding full investment of the ERDF backed Wales Business Fund, prioritised to West Wales and the Valleys, ensuring that businesses in economically deprived areas benefitted from the full amount of funding available. Launched in 2016 at an initial fund size of £136 million, the fund was increased significantly during its lifetime to £216 million in response to changes in the market and evidence of strong demand.

The final review of the fund was conducted by Hatch and published in December 2023[1]. The review considered monitoring and performance data, stakeholder feedback and a counterfactual impact evaluation to provide an assessment of the net economic impact and value for money of the fund.

The fund was successful in driving economic growth across all parts of Wales as well as helping to boost Wales's profile as a place where businesses can secure investment. £332 million of private sector co-investment was leveraged for a total economic impact of £548 million, creating 3,583 jobs and safeguarding 5,324 in 474 businesses.

The counterfactual impact evaluation found that:

- The performance of 293 beneficiaries has been able to be tracked by matching to a control group of non-supported businesses with similar characteristics. The support they have received amounts to a total of £139.2m of direct investment. These businesses have experienced strong employment growth in the years following investment from the Wales Business Fund. Total employment across these supported businesses has increased by 2,515 jobs, equivalent to 8.6 jobs per business.
- The analysis indicates that approximately 58% of the employment growth was additional. That is, although around 40% of the jobs would probably have been created anyway, most of the growth is attributable to receiving the finance. This equates to a total additional increase of 1,466 jobs, an average of 5.0 jobs per business. All of the estimates on employment additionality are statistically significant.
- The beneficiaries' real (i.e. adjusted for inflation) turnover increases by a total of £319.9 million in the years following support, which reflects an average £1.09 million increase in real turnover per business. The beneficiaries outperform the comparison groups, in terms of growth in sales, indicating that part of the increase is attributable to the funding received.
- Around 60% of the increase in turnover was additional. This amounts to a total additional turnover of £190.7 million, approximately £650,800 per supported business. However, it is worth noting that a statistically significant difference is only found for three years after support is received.
- The beneficiaries that received equity rather than loans show a higher impact in employment growth in the years following support. However, no additional impact on real turnover is observed for this group until three years after receiving support. This may reflect the large share of equity investment that is being made in early stage, pre-revenue companies. This contrasts with the businesses which receive loan funding, who experience a positive impact on both employment and turnover in the years following support, though these effects are more modest.
- Impact has been assessed for the two regions of Wales separately. No evidence of a significant difference in impact is found when comparing the impact on East Wales against West Wales and the Valleys beneficiaries.

The ERDF grant within the fund has a condition attached that any returns will be used for the same purpose. Therefore, the legacy of this fund will provide future funding for more SMEs in Wales helping reduce the need for new public funding in future funds.

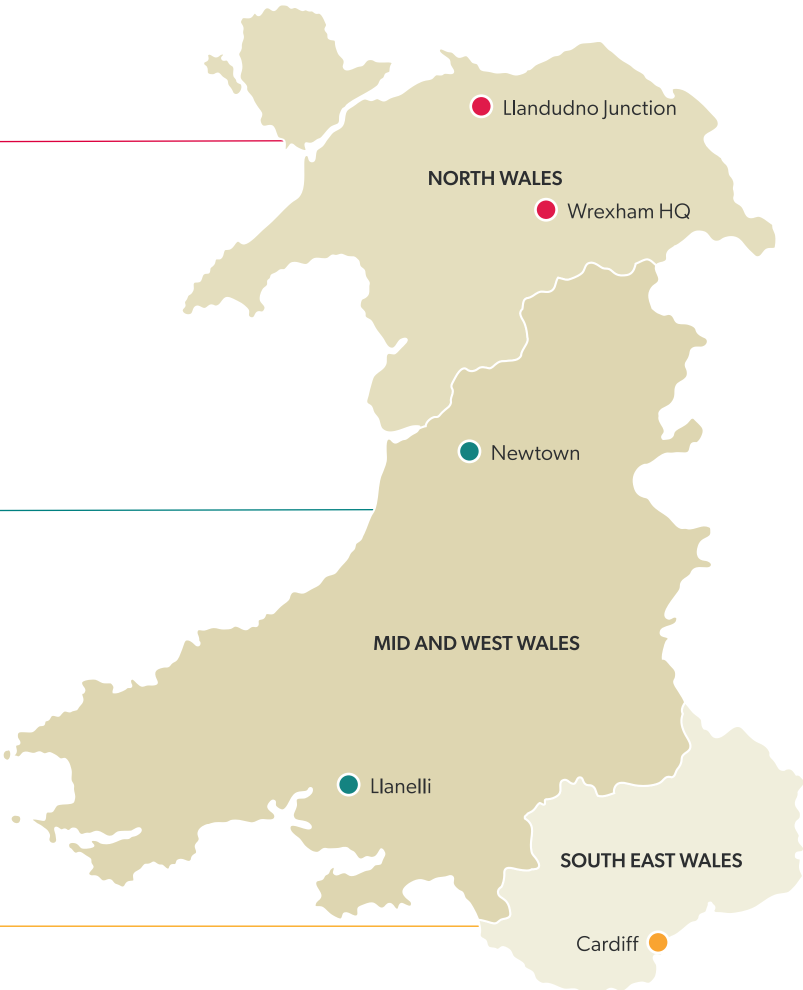
[1] Final evaluation of the Wales Business Fund, December 2023, Hatch

Investing across Wales

North Wales	
SME population (%) 2023	24%
Number of investments (%) 2023/24	20.16%
Number of investments (%) 2022/24	19.76%
Value of investment (%) 2023/24	22.56%
Value of investment (%) 2022/24	23.66%

Mid and West Wales	
SME population (%) 2023	33%
Number of investments (%) 2023/24	31.36%
Number of investments (%) 2022/24	31.08%
Value of investment (%) 2023/24	43.89%
Value of investment (%) 2022/24	38.46%

South East Wales	
SME population (%) 2023	43%
Number of investments (%) 2023/24	48.47%
Number of investments (%) 2022/24	49.16%
Value of investment (%) 2023/24	33.55%
Value of investment (%) 2022/24	37.88%

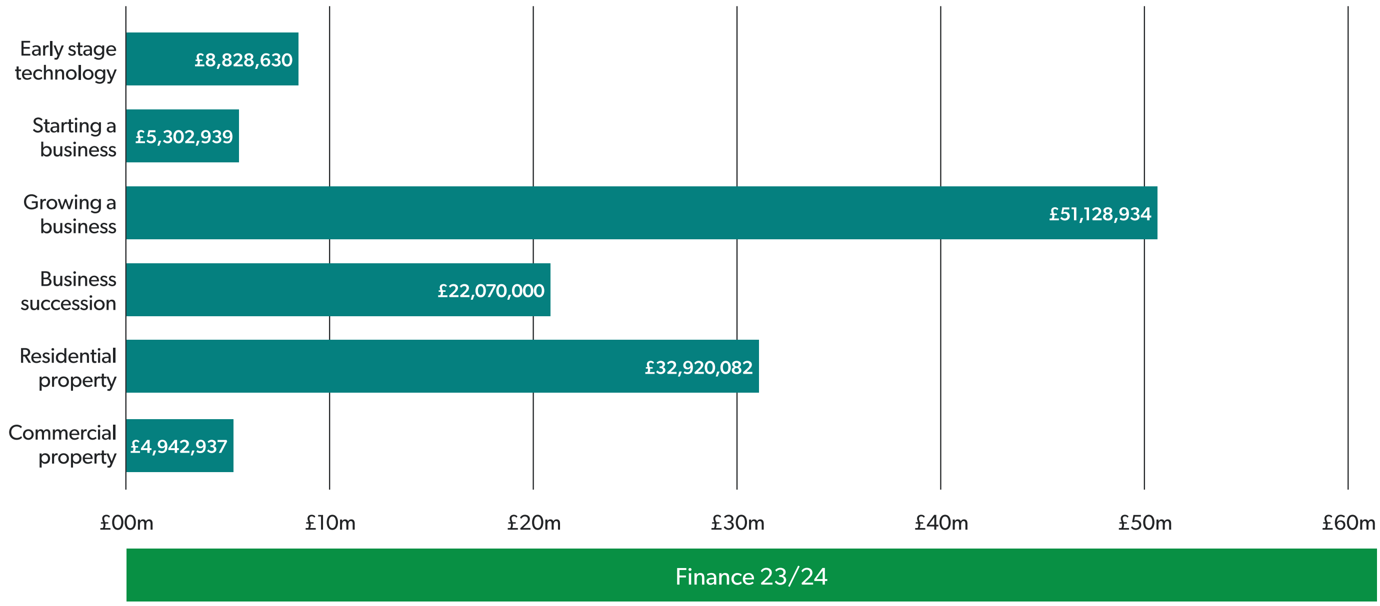


This is data from the last FY and data for the period of the corporate plan 2022/27.
* Source: https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year

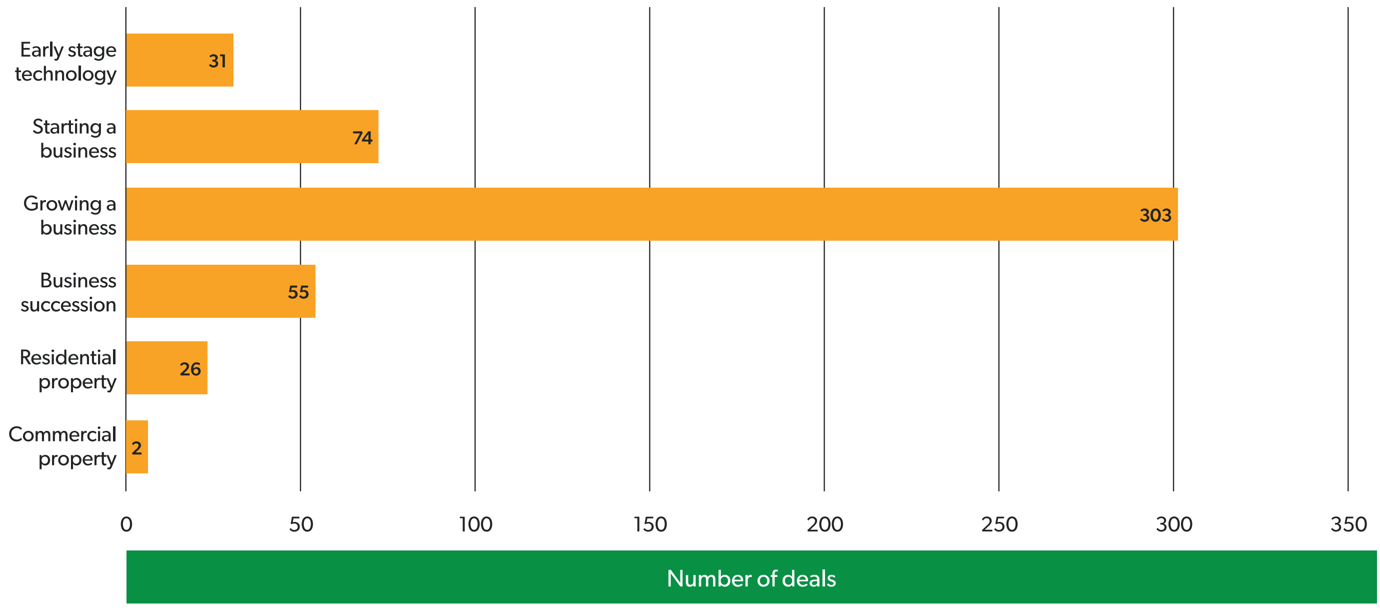
Supporting businesses at each stage of their journey

The funds we manage support businesses at each stage, from equity-based seed capital for pre-revenue early-stage technology businesses, backing start-ups and scale ups through to supporting business succession transactions to helping established companies transition to new leadership.

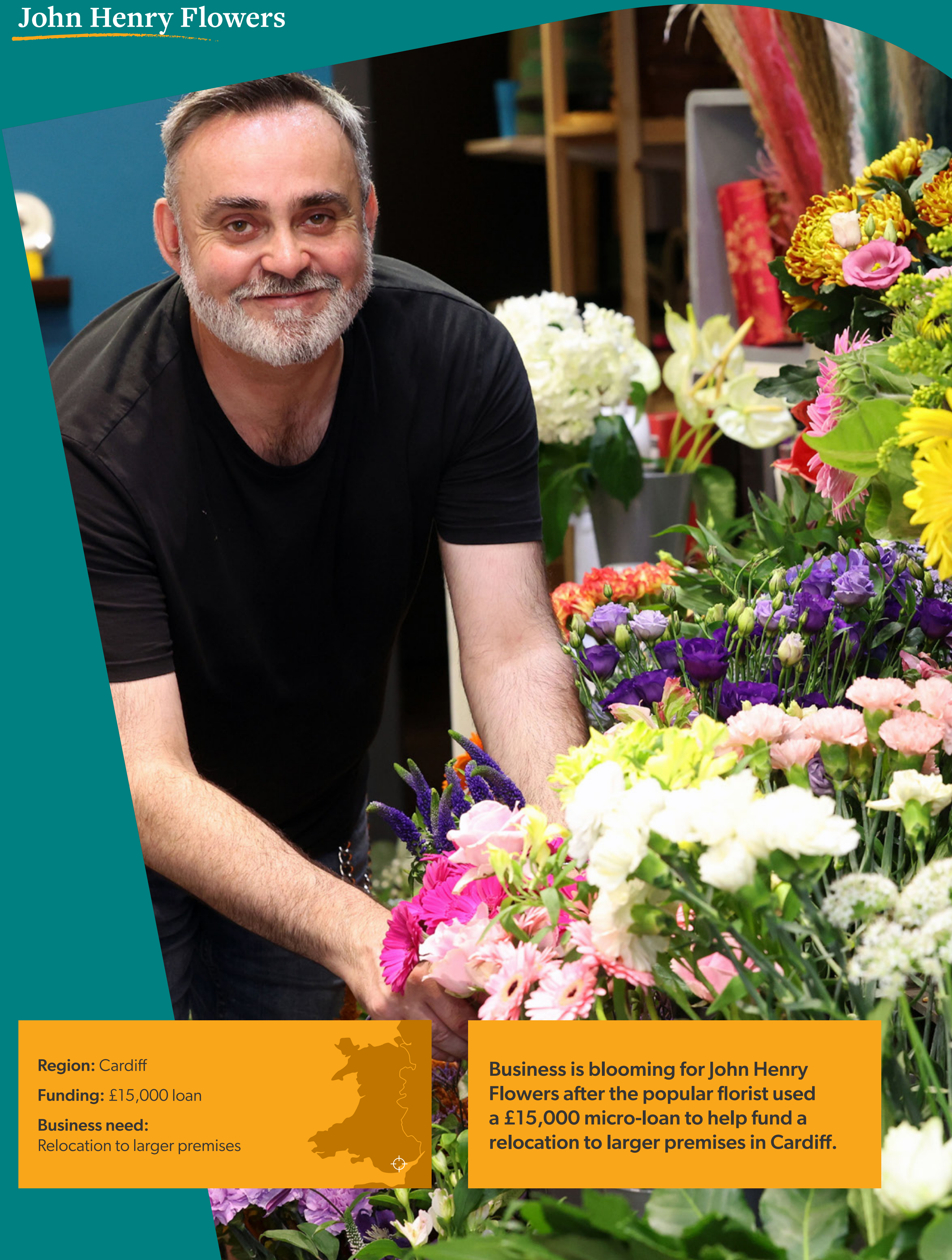
Investment value by stage of business



Number of investments by stage of business



John Henry Flowers



Region: Cardiff

Funding: £15,000 loan

Business need:
Relocation to larger premises

Business is blooming for John Henry Flowers after the popular florist used a £15,000 micro-loan to help fund a relocation to larger premises in Cardiff.

Awen Oncology

Region: Anglesey

Funding: Six-figure equity investment

Business need:
Product development

Originally founded with a Cancer Research UK grant, Awen Oncology is developing a breakthrough range of anti-cancer drugs that target a variety of cancer types.

Based at M-Sparc, the University spin-out has had a six-figure equity investment from the Wales Flexible Investment Fund and a further six-figure investment from Start Codon, a specialist life science venture builder. Awen Oncology also has financial backing from Cancer Research UK, Innovate UK and the Welsh Government SMART capital programme. Additionally, the company has been selected for further development through Innovate UK Business Growth, a scale-up programme for pioneering businesses that drive economic development.

Start-up and early stage

Funding for early stage and start-up businesses decreased slightly year on year, from £14.3 million to £14.131 million. Across the current corporate plan 2022/27, investment at this business stage totals £28.6 million into 237 companies.

Within the annual total, support for start-ups increased from £3.4 million to £5.3 million while equity investments into early stage and seed technology businesses fell from £11.1 million to £8.8 million. This decrease is reflective on an overall fall in announced equity deals across the UK during 2023, which fell by 25% from the previous year, (from 2,917 in 2022 to 2,179 in 2023), with the total amount raised down by around half (from £20.6 billion in 2022 to £12 billion in 2023)[2].

The British Business Bank's Small Business Equity Tracker[3] noted the importance of government backed funds in countering this contraction given the resilience in the reported figures for Wales and that government backed funds participated in over half (53%) of transactions.

Growing a business

Funding for growing businesses continues to be our area of strongest demand and the value of growth capital transactions increased by over £11 million, from £39.8 million in 2022/23 to £51.1 million in 2023/24. We are continuing to offer the right debt and equity finance at the right time, fuelling sustainable growth for ambitious businesses. Over the term of the current corporate plan, 624 businesses have benefitted from over £90.9 million in growth capital.

[2]Economic Intelligence Wales Quarterly Report May 2024 (developmentbank.wales)
[3]Small Business Equity Tracker 2024 | British Business Bank (british-business-bank.co.uk)

Case Study

Bluestone National Park Resort

Region: Pembrokeshire

Funding: Syndicated loan with Barclays

Business need:
Business growth and sustainability

In January 2024, we completed our largest ever strategic funding deal with a first-of-its-kind syndicated facility with Barclays to Bluestone Resorts.

The total loan facility is enabling Bluestone Resorts to continue with a major sustainable investment programme including the ongoing development of the Bluestone National Park Resort and the development of a 5-hectare solar farm that will generate 3.2 megawatts of electricity a year.

Bluestone National Park Resort is a 500 acre holiday resort which has its roots and ethos set in being a sustainable business. Simon Vittle, Director of Large Corporates for Barclays said: "Our partnership with the Development Bank is a reflection of our approach to sustainable finance, providing the capital required to transform the economies that we serve."

Costcutter

Region: Knighton, Powys

Funding: £100,000 loan

Business need:
Business growth and investment in energy efficiency

Knighton Costcutter is offering customers an enhanced range of fresh and chilled goods and reducing energy use thanks to the installation of new energy-efficient refrigeration and display units.

Business succession

Succession remains 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 55 succession deals were supported, with succession finance of £22 million, an increase from 44 companies and £20 million in the previous year. In the last 2 years, 99 businesses have received over £42.6 million of succession funding.

£1.7 million in funding came from the £25 million 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.

RIVA

Region: Wrexham

Funding:
Seven-figure equity and debt investment

Business need:
Succession management

Operations Manager Joe Quinlan realised his ambition of taking over Riva UK from its founder Rita Bird and her son Carl with a seven-figure equity and debt investment package from the Wales Management Succession Fund.

Established in 1993 by Rita, the textiles company employs over 50 people and supplies custom engineered textile solutions to a variety of blue chip companies in the automotive, emergency services, aerospace and industrial sectors.

Joe Quinlan said: "I'm extremely grateful to the Development Bank of Wales for their support in getting the MBO completed. Their insight and expertise proved essential in making this happen for me and the team at Riva. I'd never been through a transaction like this before so I'm grateful for their input and the help from Chris Thomas at SME Finance Partners who was by my side every step of the way."

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. Demand for equity in Wales has grown but is still relatively small, with UK research from the British Business Bank showing that Wales had 2.5% of the total UK transactions in 2023[4]. While the value of equity investment into UK SMEs contracted in the year Wales was one of only two UK regions to show resilience, with overall investment volumes falling by less than other UK regions. Government backed funds participated in over half of these suggesting that these funds are providing important resilience to the Welsh economy.

We monitor equity investment on a rolling three-year average to help account for the volatility in demand for equity year on year. £12.2 million in 2023/24, £22.9 million in 2022/23 and £11.6 million in 2021/22. During the current term of government there has been a c.12% increase in equity deployed (on a three-year rolling average basis), currently at an average of £15.5 million per annum.

Equity investments are managed by specialist teams within the Development Bank. A dedicated technology ventures team, with expert knowledge, supports businesses through their early stages to commercialisation and on to growth. Our new investments team can structure a blend of debt and equity for more established businesses so that companies benefit from the investment package best suited to their needs. The portfolio development team manages the relationship with the scale up equity portfolio and are focussed on supporting the growth journey of these businesses through to exit.

Angels Invest Wales

Angels Invest Wales is the largest angel network in Wales, connecting experienced investors with Welsh businesses seeking private investment. The network recorded a record £3.4 million across 28 projects and 17 investment syndicates. This involved 129 individual investments while £1.96 million was invested from the Wales Angel Co-investment Fund, a fund which invests alongside angel syndicates, encouraging more of this activity on a passive basis. The fund supports the network's move, in line with a market trend, towards 'syndicate' as opposed to individual angel investing which is influenced by a desire to collaborate on technology and share financial risk in difficult economic times.

Alongside the core investment activity, the network has been working to diversify both the sources of deal flow opportunities and the investor base. Women Angels of Wales completed its first investment in the year and women within the investor base increased to 18%.

[4]Small Business Equity Tracker 2024 | British Business Bank (british-business-bank.co.uk)

IE Hub

Region: Cardiff

Funding: £1 million angel investment

Business need:
Relocation to Cardiff and accelerate growth

IE Hub, the income and expenditure hub used by financial services providers, utility companies and consumers, relocated to Cardiff following a £1 million fundraising round that was led by a syndicate of business angels and Angels Invest Wales.

IE Hub is a free online tool that allows users to complete income and expenditure forms in a stress-free and convenient manner. The £1 million investment is being used as working capital to accelerate growth with further investment in technology, operations and marketing. Up to four new jobs are expected to be created.

Chief Executive of IE Hub, Dylan Jones said: "Our investors have total empathy with our mission to support those in debt and are aligned to being part of a unique solution to address the growing problem of debt management."

Property development

Through our targeted property funds, we are backing small and medium sized developers to build new homes, offices, industrial spaces, and mixed-use developments. Conditions for SME residential and commercial property developers were challenging in 2023/24 with a combination of the highest mortgage rates in 15 years slowing the market. Developers are continuing to see supply chain and labour market pressures increase development costs combined with a contraction in available land.

Total investment reduced to £37.8 million from £50.3 million in the previous year for a total of £88.19 million during this corporate plan. 24 developers were supported across 27 developments, 227 homes were built of which 20 were affordable and 25,263 sq ft of commercial space supported.

Loans through the Green Homes Incentive investment this year will deliver 99 of the total homes above, six of which are affordable, including:

- 46 EPC As;
- 2 Passivhaus;
- 96 non-concrete structures;
- 56 air source heating.

MKR

Region: Merthyr Tydfil

Funding: £1.5 million loan

Business need:
Commercial property development

MKR Property Developments Ltd is revitalising a dormant brownfield site near Merthyr Tydfil with the backing of a £4.1 million investment from the Welsh Government and Development Bank of Wales.

Paisley Business Park is on the site of the former ICI works at Pant Industrial Estate. It will be a business park of 14 modern factory units, providing space for local small and medium-sized businesses. The £4.1 million investment is made up of a £2.6 million Welsh Government Property Development Grant coupled with a loan of £1.5 million from the Wales Commercial Property Fund.

Rob Price at MKR said: "We're really pleased to be working with the Development Bank of Wales to rejuvenate this part of our urban landscape and provide a great new space for local businesses to flourish."

Primesave Homes

Region: Newtown, Powys

Funding: £4.68 million loan

Business need:
Residential property development

Two investments totalling £4.68 million from the Stalled Sites Fund have enabled the development of 44 new family homes at Oaks Meadow near Newtown by local developers Primesave Homes.

Mallows Beauty

Region: Pontyclun, Rhondda Cynon Taf

Funding: Debt and equity

Business need:
Product development and export growth

A six-figure funding package with a mix of debt and equity from the Wales Flexible Investment Fund is helping to fund product development and export growth for vegan beauty brand Mallows Beauty.

Based in Pontyclun, the fast growth business was founded in 2020, with River Island, Oliver Bonas and Urban Outfitters initially stocking products, with the brand since going on to stock in Superdrug and Beauty Bay.

Director Laura Mallows said: "This investment will help us to reach our full potential - it also means that we no longer continuously run out of stock. The Development Bank has been a long-standing supporter of the brand so they were our first port of call when planning our next growth chapter."

Supporting young entrepreneurs

Our research with customers has helped us to 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

We made changes to our marketing, business development and sanctioning to encourage greater engagement from ambitious young entrepreneurs. In the year, 84 directors aged 30 and under from 69 businesses were supported with £12.4 million of funding.

Supporting our customers

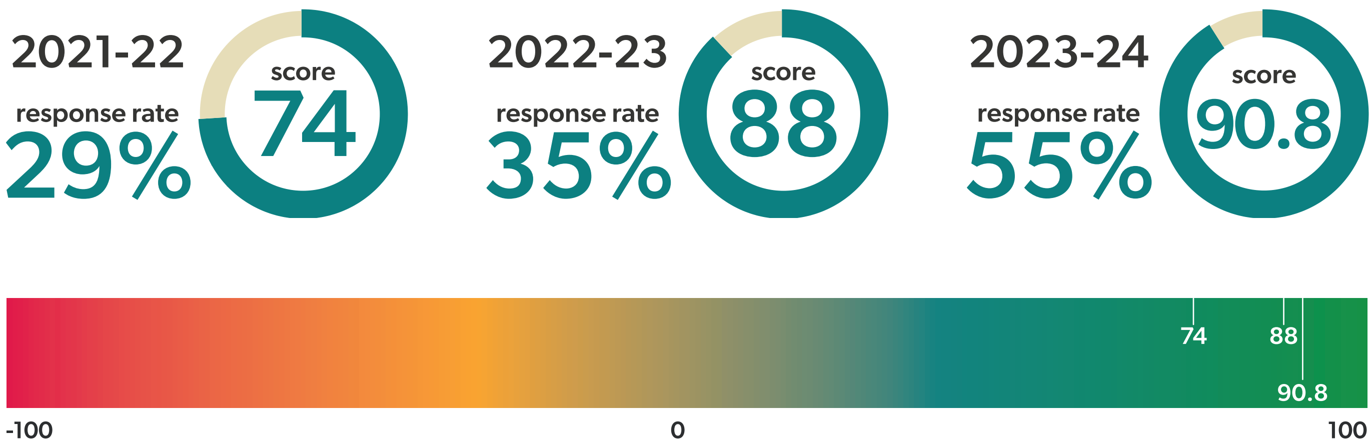
With a customer portfolio that has grown to over 3,000 active businesses, the way we work with and support customers to create value is an increasingly important part of our offering.

Developing lasting and strong relationships with the businesses in which we invest is a key part of the way we work. In 2023/24, 44% of investment delivered went to existing customers of the Development Bank demonstrating our commitment to supporting our customers for the long-term.

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

Customer feedback and insight informs our strategy, and we use our NPS as our KPI for customer satisfaction. NPS is derived from a question as to whether a customer would recommend us to others tracking advocacy. The Development Bank achieved 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 while 2023/24 saw a score of 90.8 from a response rate of 55%. Surveys were issued following completion of a transaction and to portfolio customers and the feedback received is directly informing improvements to the customer journey. The creators of Net Promoter Scores, Bain & Company, suggest that a score above 0 is good, above 20 is favourable, above 50 is excellent and above 80 is world class.

Our Net Promoter Scores



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 winning and fulfilling competitive commercial fund management contracts. It is also the vehicle for the Clwyd Pension Fund investment in the Wales Management Succession Fund.

Fundraising

The company has had significant fundraising success in the year, bidding on and winning three funds from the British Business Bank through its nations and regions programme.

In July, the British Business Bank launched the £200 million South West Investment Fund with FW Capital responsible for the management of the £19 million debt finance fund. We can now offer £100,000 to £2 million to help businesses with their growth plans in the South West with a particular focus on Bristol, Gloucestershire, North and North East Somerset and Wiltshire.

We were also successful in bidding for part of the Investment Fund for Wales, a £130 million fund which launched in November. FW Capital was appointed as the fund manager for the £30 million debt fund which can lend £100,000 to £2 million to growing businesses across Wales, complementing our existing capital for SMEs.

We also now manage the £75 million Northern Powerhouse Investment II – Debt Finance fund, part of the £660 million Northern Powerhouse Investment Fund II which launched in March, the same month that we celebrated the milestone of £400 million impact on Northern businesses, creating close to 5,000 jobs from the first Northern Powerhouse Fund.

Performance

In England, FW Capital deployed £43 million, an increase of £5 million on the previous year. The investment attracted a further £39 million of co-investment for a total economic impact of £82 million into 107 businesses.

Greencroft Homes

Region: Morpeth, Northumberland

Funding: Six-figure loan

Business need:
Residential housing development

Greencroft Homes is developing a unique eco-style home in the rural village of Hartburn village near Morpeth after receiving a six-figure investment from the North East Property Fund (NEPF).

Case Study

Lankem

Region: Greater Manchester

Funding: Six-figure loan

Business need: Product development and business growth

Greater Manchester specialist manufacturer Lankem is developing a range of next generation bio-based surfactants with a six-figure investment from NPIF – FW Capital Debt Finance.

Lankem is a rapidly expanding business located in Dukinfield which supplies industrial surfactant products such as coatings, emulsion polymerisation, agrochemicals, textiles, industrial cleaning oils and lubricants. The new BioLoop products contain components that come from renewable sources.

Sean Hodgkinson, Director at Lankem said:

"This product is plant based which has huge benefits to the planet and is also ultra-mild so can be used in personal care and cosmetics. The funding from FW Capital is supporting the development of BioLoop and our launch to market."

Property Services

The Development Bank of Wales manages several financial support schemes for homeowners on behalf of the Welsh Government.

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 £300,000 and a requirement for a minimum EPC B, 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, 14,189 properties have been purchased under the scheme. There have been 6,336 redemptions. £25.9 million was loaned last financial year across 526 cases. Due to the current financial climate and the higher interest rates, applications for the scheme have declined. This has impacted customer's ability to re-mortgage and raise funds to repay their shared equity loan. As the market begins to stabilise, we expect to see applications and redemptions rates increase.

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.

Leaseholder Support Scheme

The Leaseholder Support Scheme helps applicants who are in or facing significant financial hardship because of fire safety issues affecting their property. The scheme offers leaseholders advice and solutions to their current financial concerns. In some cases, this may include the purchase of the leasehold property. If the applicant is not in financial hardship, the scheme may still be able to help by offering avenues for alternative support.

Help to Stay - Wales

Help to Stay Wales launched in November 2023. It is a new service aimed at homeowners in or facing financial difficulty support in paying their mortgage. The aim of the equity loan is to reduce existing monthly mortgage payments to an affordable level. This will allow homeowners to continue to live in and own their homes. It will also provide time for them to resolve their underlying financial issues, which may reduce the risk of repossession and homelessness.

Emergent: Promote and advance a green future in Wales

We are working to promote and advance a green future in Wales through deployment of targeted finance and supporting our customers to address decarbonisation.

We recognise the critical role we have to play in supporting a stronger, greener economy as we progress with decarbonisation. 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 addressing our own operations 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.

Sustainability strategy

Ultimately, we believe that the businesses that will be most successful are those that take a holistic view of their social and environmental impacts and invest in solutions to maintain their competitiveness and resilience in domestic and international markets.

Similarly, sustainability considerations are at the heart of building the homes, workplaces and infrastructure fit for the future, ensuring the financial resilience and long-term well-being of our customers and the communities we serve.

The board approved our sustainability strategy in March 2023 which sets out four thematic pillars for our approach to sustainability.

1. Investment

As a responsible investor we incorporate environmental, social and governance (ESG) considerations in our investment sanctioning process with the aim of identifying the risks and opportunities to an investment.

We saw strong demand from businesses looking to access both the Green Business Loan Scheme and Green Homes Incentive. £3.3 million of loans were provided to 15 businesses under the Green Business Loan Scheme while 99 homes were built under the Green Homes Incentive which provided measures such as:

- 46 homes built to EPC A;
- 2 homes achieved Passivhaus status;
- 96 built with non-concrete structures;
- 56 homes had air source heating installed.

2. Value creation

Value creation is at the centre of the way we work with businesses once they become portfolio customers, supporting transitions to more sustainable practices that build stronger, better businesses and creating employment which in turn strengthens the economy.

3. Product development

As a development bank, our role is to address market gaps or develop new or underserved markets. Our green finance products are one way that government owned organisations can share the risk when developing new financial products.

We worked with Nesta to produce a report into the retrofit opportunity[5]. The report concluded that 55% of people would make green home upgrades in the next three years if they had some financial support. The retrofit proposal was developed into a business case with a pilot project anticipated for 2024/25.

4. Operations

We are committed to meeting the standards we set our customers and ensuring that we too are driving the transition to sustainable practices through our operations as well as our investments.

In 2023 the Development Bank became signatories to two international standards in sustainable finance.

With 7,000 corporate signatories in 135 countries, the UN Nations-supported Principles for Responsible Investment (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. In September 2023, we completed our first PRI return ahead of our first public disclosure in 2025.

The Partnership for Carbon Accounting Financials (PCAF) is an industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement. PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. Our first PCAF return is due in 2024.

[5]All the things I could do: financing green home upgrades | Nesta

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 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.

Research

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 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 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.

Reports published in 2023/24

- Quarterly report, May 2023
- Annual report, September 2023
- Quarterly report, November 2023
- Quarterly report, February 2024
- R&D intensive businesses in Wales, March 2024
- **Bespoke report:**

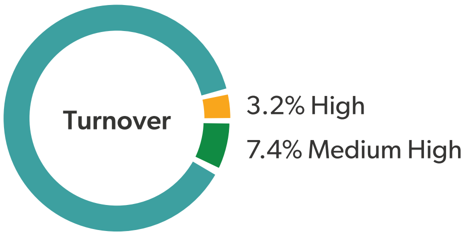
The Enterprise Research Centre (ERC), the UK's leading centre of excellence for research into the growth, innovation and productivity of SMEs, undertook a review of the UK Innovation Survey, followed by a series of in-depth interviews with firms operating in high R&D intensity sectors in Wales. This was ERC's first publication in partnership with Economic Intelligence Wales, and it analysed a group of firms which, through their investments in R&D, demonstrate a strong commitment to innovation and future value creation.

Report results

Welsh R&D intensive firms undertake less collaboration with universities.


20% 35%

Turnover contributions of Welsh R&D intensive firms compare well with regions of the UK.



Economic risks and high costs are the main barriers to innovation in Wales.

36% High cost

35% Economic risks

High cost was a barrier for **36%** of firms, whilst only **21%** reported cost of finance as a barrier, compared to **28%** in Scotland.

Innovation activity in Welsh high R&D intensity firms differs from the UK.

36%

Only **25%** of Welsh R&D intensive firms are process innovators, compared to **30%** for the UK.

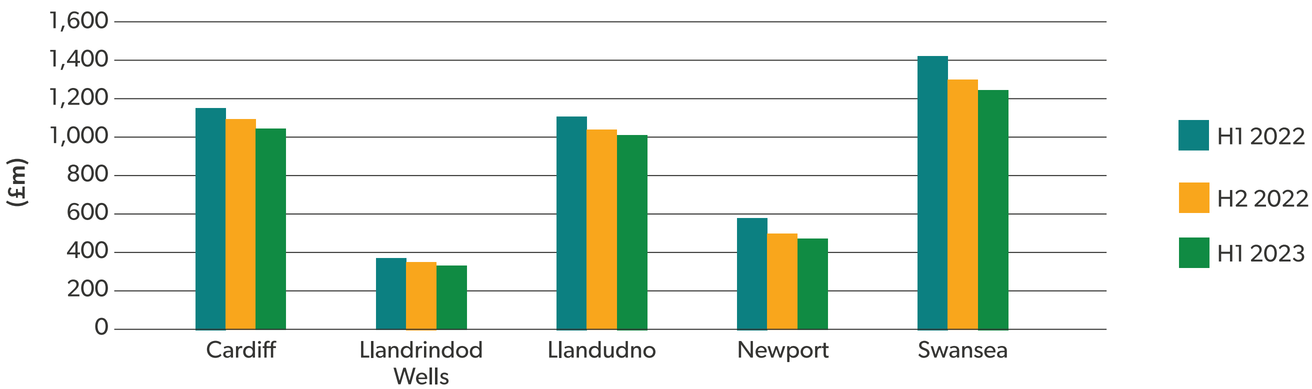
Quarterly reports

Cardiff Business School continued to produce quarterly reports for Economic Intelligence Wales throughout 2023/24, reviewing economic data relevant to SME development in Wales, and analysing the investment activities of the Development Bank of Wales. This year, the content from these quarterly reports has been used to provide regular briefings to Senedd Members and their staff in partnership with the Federation of Small Businesses (FSB) Wales.

Key findings from the quarterly reports throughout the year include:

UK Finance SME lending within UK postcodes data showed a continued reduction in lending to Welsh SMEs during the first half of 2023, with the overall lending volume decreasing from £4.56 billion in 2022 H1 to £4.11 billion in 2023 H1.

SME Lending, Welsh Postcode Area (£m)



The value of goods exported from Wales decreased by 5.2% to £19.4bn in the year ending December 2023 (compared with a decrease of 1.7% in England, 8.3% in Scotland, and an increase of 16.6% in Northern Ireland).

Digital transformation

Our customer-focused digital transformation programme continued through 2023/24.

Our aim is to drive efficiencies in the application assessment process and reduce response times to our customers.

Projects finalised and initiated in the year included	
Loan administration system	The final phase of this project is now live and fully operational. This system supports management of our debt book and has simplified a range of business critical operational processes including direct debit collection and processing changes to loan repayment schedules.
Customer journey	Development activity substantially concluded and will provide a new customer portal offering improved functionality. This project is expected to be live in 2024/25.
Help to Buy – Wales loan administration system	Procurement phase has been concluded and has now progressed to development.
Performance management system	A replacement system was procured and successfully implemented in the year.
Data strategy	Phase 1 concluded including a roadmap and data classification to meet IASME Level 2 certification requirements.

Change management office

Beneath the headline business objectives and priority projects, each of our teams are tasked with continuous improvement and good governance.

Business efficiency, 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 encourage innovation and implement positive change in the most effective way, maximising return on investment. The group is now embedded as a critical function with oversight and governance of the programme of strategic business change initiatives.

Recruitment and retention

Recruitment and retention continues to be a priority for the management team. 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.

Improving our approach and demonstrating our commitment to equality, diversity and inclusion has been a long-term goal in communications and recruitment activity. As a result 14% of our new starters came from ethnic minority groups in 2023/24 which is significantly above the national average of 6%. In the Chwarae Teg Fair Play employer survey the Development Bank achieved a Gold award for recruitment. The Great Places to Work survey will replace the Fair Play standard in 2024/25.

Impact investment report

Measuring success

We ask our customers to share information that can help us understand our socio-economic impact in Wales. Each year, we take a sample of this information to measure and evaluate this impact via established metrics. Metrics used are aligned with the UN Sustainable Development Goals, 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.

Sample overview

Our impact report includes the latest data reported by a sample of our new investments and portfolio businesses in 2023/24. This is broken down into three cohorts.

- The full sample of 1,182 businesses providing valid data as a new investment or have returned impact of investment forms as a portfolio company in 2023/24. This cohort is used to calculate activity-based metrics on exporting, innovation and digitalisation.
- A sub-sample of 646 portfolio companies which have provided sufficient data to calculate median to high pay jobs created and productivity increases. This cohort is used to calculate growth-based metrics which require multiple years of reporting valid data from the business.
- The third cohort is a sample of 423 new investments which have provided Diversity and Ethnicity data regarding their owners/directors/shareholders in 2023/24.

Data in the report comes from a mix of customers across a range of sizes, sectors and regions, including those reporting for the first-time and businesses which have been in our portfolio for a number of years.

Our methodology and definitions for impact metrics are disclosed on the performance and impact section of our website.

A prosperous future

By providing funding to underserved markets, we're helping businesses create employment opportunities, enabling people to take access employment opportunities and wealth generated by businesses in the communities in which they are based. In 2023/24:

- 76% of the jobs created in businesses with a net increase in employment levels were in median to high pay jobs (based on the sub-sample of 646 portfolio companies).
- The proportion of median to high pay jobs created increased to over 90% for equity investments. For those supported to start a business, 63% of the jobs they reported creating were in median to high pay jobs.
- Businesses in the sub-sample (646 businesses) also exported in 2023/24. Exporters in the sub-sample reported 93% of the jobs they created being in median to high pay bands with innovators and those digitalising their business reporting 79% and 78% respectively.

This continues the trend of previous impact reports but varies each year as the business types and growth priorities in the sample change independently from our investment performance.

- For the 2023/24 impact report, we have changed the methodology for calculating productivity increase on the sub-sample of 646 portfolio companies.

The previous methodology reported the mean-average percentage change in turnover per FTE. As sample sizes and composition changes, statistical outliers can increasingly impact the mean-average reported under the previous methodology.

Under the new methodology, the sum total of turnover reported by the sample is divided by the sum total of FTEs to give a latest turnover per FTE. This is compared to the previous turnover per FTE to give a percentage increase for the sample rather than an average per business. To improve the veracity of this metric, businesses reporting a zero FTEs or Turnover are removed from the sample.

Below is a table showing the application of this new methodology in comparison to the 2022/23 results.

Year	Previous method (sample size)	New method (sample size)
2023/24	47% (848)	10% (646)
2022/23	48% (792)	16% (549)

- Under the new productivity methodology, our sub-sample (646 businesses) has seen a 10% increase in productivity.
- Under the new productivity methodology, businesses receiving equity reported a 15% increase with those starting a business reporting a 37% increase.
- Business in North Wales reported the highest productivity increase at 31% compared to 2% in those in Mid and West Wales.
- A number of businesses in the sub-sample (646 businesses) also exported in 2023/24. Exporters in the sub-sample, saw a 15% productivity increase.
- Turnover per FTE is highest amongst medium-sized businesses at £127,000, but these reported only a 2% productivity increase. Comparatively, micro-sized businesses reported a Turnover per FTE of £90,000 and a 14% productivity increase.
- 10% of the full sample (1,182 businesses) were exporters with this marginally increasing to 11% for portfolio businesses. These businesses reported over £85.3m of exports in 2023/24, accounting for nearly 27% of their reported turnover. BVA-BDRC's SME Finance Monitor and latest ONS data suggests that between 8% and 14% of small businesses located in Wales are involved in export activity.

GVA overview

The social impacts of our investments fuel possibilities for people and businesses in communities across Wales. While each investment has a direct social impact through the jobs they create or safeguard, it also has additional economic impact. Supporting businesses to create this additional economic impact is how we are unlocking potential in the Welsh economy.

To capture these impacts, we now monitor jobs-based Gross Value Added (GVA) contribution to the Welsh economy through the employment we create and safeguard.

During 2023/24, we have been working to further refine the jobs-based net GVA methodology to more fully capture the impact of our investments, including our investment in property. This builds on the jobs based GVA figure that was previously published through the Economic Intelligence Wales Annual Report, looking purely at debt and equity activity.

The new methodology captures our sectoral employment impact in the Welsh economy during the year and applies three separate discount factors to the gross employment numbers so that the stated figure gives clear consideration for our additionality, without overstating in the output. The new methodology for the jobs-based net GVA is disclosed on our website: https://developmentbank.wales/about-us/performance-and-impact

2023/24 GVA impact

In 2023/24, the 4,406 jobs created and safeguarded by Development Bank of Wales have contributed £214.9 million net jobs-based GVA to the Welsh economy.

The Manufacturing sector was one of the largest recipients of investment in 2023/24 with £16.5 million invested across 68 investments, creating and safeguarding 695 jobs. This generated £40.7m of jobs-based net GVA. One such investment in this sector was to support Vantastec, the UK's leading fridge van, temperature-controlled vehicle and conversion specialist, to become employee-owned.

As the Development Bank increases investment in businesses to deliver positive environmental impact, we will monitor the jobs-based net GVA generated by businesses providing renewable energy and energy efficiency services. Businesses in the 'electricity, gas, steam and air conditioning supply' sector, for instance, received £997,000, creating and safeguarding 34 jobs in 2023/24. This generated £6.5 million of jobs-based net GVA.

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. In 2023/24:

- 23% of the 1,182 businesses in the full sample were actively innovating in their business. This increased to 25% for new investments made in 2023/24 and 33% for all equity investments. Innovation activity includes starting new forms of collaborative R&D activity, patents registered and market innovation.
- Businesses in the sub-sample (646 businesses) identifying as innovators in 2023/24, saw a higher productivity increase than non-innovating counterparts at 14%. These businesses also reported 79% of the jobs they created being in median to high pay bands.

- Economic Intelligence Wales's 2024 report on R&D-intensive businesses in Wales shows that manufacturing firms tend to lag behind UK firms for innovation improvements and collaborative R&D projects, but around a 40% of those in the manufacturing sector reported such activities in 2023/24.
- 34% of the 1,182 businesses in the full sample were adopting digital technologies, increasing to 46% for new investments and 64% for equity investments. 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.
- Businesses in the sub-sample (646 businesses) digitalising their business in 2023/24 saw a higher productivity increase than non-digitising counterparts at 22%. These businesses also reported 78% of the jobs they created being 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.

- 10% of owners/directors/shareholders in the businesses receiving a new investment (423 businesses) and providing ethnicity data were ethnic minority individuals, increasing to 13% for micro-sized businesses. The number of ethnic minority individuals amongst our sample increased to 88 compared to 70 reported last year. The proportion of businesses supported with ethnic minority owners/directors/shareholders was just over 11%, which is within the range of 6% reported in the latest ONS data and 24% reported in BVA-BDRC's SME Finance Monitor 2023 data for small businesses located in Wales.
- 8% of owners/directors/shareholders in the businesses receiving a new investment that provided age range data, were under 25. This is an increase from the previous three years where this did not go above 4%. When reviewing activity in 2023/24, over £12.4m was invested in 69 companies with Directors under the age of 30. BVA-BDRC's SME Finance Monitor data suggests only 1% of businesses located in Wales were young entrepreneur led in 2023.
- 41% of owners/directors/shareholders in the businesses receiving a new investment that provided gender data were women, an increase from 32% seen over the last three years. Over 49% of businesses receiving a new investment in 2023/24 had women owners/directors/shareholders which is within the range of 28% reported in BVA-BDRC's SME Finance Monitor 2023 data and 74% reported in the latest ONS data for small businesses located in Wales.
- Nearly 60% of businesses located in North Wales, and 62% of businesses with between 10-49 employees had women owners/directors/shareholders.
- In 2023/24, we matched the sub-sample of businesses (646) to the Welsh Index of Multiple Deprivation at a Lower Super Output Area level. 73% of jobs created by companies located in the top overall decile of the Welsh Index of Multiple Deprivation were in median to high pay jobs. These businesses also saw a 26% productivity increase to a turnover per FTE of £97,000.

Section 172 (1)

S172 (1) 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 (1) 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 (1) 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, 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 vital 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 corporate plan for the period 2022/27 sets out how we will fulfil our mission of unlocking potential in the Welsh economy by increasing the supply and accessibility of sustainable, effective finance. It outlines our 5-year strategic objectives as delivering debt and equity funding with a social impact; promoting and advancing a green future in Wales; and delivery excellence, customer first, financial sustainability.

In December 2023, our Board and Executive team held a two-day strategy session to review progress against our commitments and consider future opportunities for optimising impact and supporting emerging priorities for economic development in Wales. Key areas discussed included the benefit of the introduction of AI into our business operations, review of efficiency metrics across the business and exploration of new product areas including spinout support and infrastructure.

As an impact investor with ESG at the foundation of our delivery, the Development Banks role is to translate Welsh Government policy into practical funding solutions.
We are confident we will continue to successfully deliver against our corporate plan targets as we remain firmly focused on collaborative, long term and expert delivery to fuel ambitions across Wales.

Future opportunities

Initiatives progressed during 2023/24 include:

- Launch of the Help to Stay scheme, a service the Development Bank is administering on behalf of the Welsh Government to support Welsh homeowners who are at risk of losing their homes due to interest rate increases and cost of living impacts.
- Successful development of our Rescue and Restructuring Fund under the Subsidy Control Act.
- Commencement of our role as an Innovate UK Partner with £1.3m of grant accessed for Welsh businesses alongside our investment.
- An updated Equality Impact Assessment was completed leading to a forward action plan of delivery enhancements to ensure equality in access to finance across all of our operations.
- Development of our corporate sustainability strategy for publication in 24/25 outlining our commitment and approach to robust environmental, social and governance impact.
- Ongoing roll-out of our dedicated equity strategy to support the education and uptake of equity investment in Wales.

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

- Piloting an offer for Welsh homeowners to both decarbonise and enhance the energy efficiency of their homes with a view to establish a more permanent structure that supports Welsh Government Net Zero ambitions.
- Work with emerging entities such as Ynni Cymru and Trydan Gwyrdd Cymru, as well as private sector developers, to establish where the Development Bank can play a supportive role to large scale renewable energy projects in Wales.
- Securing future funding for our core product range for Welsh businesses, including most immediately a follow-on Micro Fund and Angel Co-investment Fund.

Engaging with stakeholders

The Group has a number of 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 values emphasise how we work with others and have been reflected in our new competency framework:

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

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 2023, demonstrating our support for women entrepreneurs. 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 third bilingual Llais Cymru Welsh Women in Business Awards, held at S4C's 'Yr Egin' in 2023.

Other stakeholder events supported included the Institute of Directors, Federation of Small Business, FinTech Wales, North Wales Tourism Awards, 4theRegion, Young Enterprise, Wales Tech Week, and ICAEW annual dinner. Board members attend strategic events to engage directly with stakeholders.

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 60-63.

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 2023/24 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 91 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.

Our environment

We have delivered our corporate sustainability strategy (2024/27) which outlines a work programme to develop our responsible investment practices across our portfolio and build on our transition to more sustainable corporate operations. To facilitate our sustainability strategy, we have formalised governance arrangements across the Bank. Kate Methuen-Ley is the lead Non-Executive Director for sustainability issues, acting as a link between the Board and the newly constituted Sustainability Committee, chaired by the Communications Director Beverley Downes to oversee ESG investments and corporate sustainability. Dr Matthew Kelly has been hired as the dedicated sustainability manager to provide specialist support and advice to senior leadership and business operations.

In March the Board endorsed the Sustainability Strategy and several recommendations for the 2024/25 operational plan.

- Positioning the Development Bank at the vanguard of UK impact investors – being among the first to adopt FCA Sustainability Disclosure Requirements, designed to tackle Greenwashing in the financial sector, ensuring that our impact funds and schemes meet these requirements.
- Conducting a review of our ESG practices across our portfolio of investments, providing quality assurance and identifying business development opportunities to advance impact investment into Wales.
- Supporting our customers ambition to drive sustainable value creation - identifying volunteer portfolio companies with which to pilot SME transition planning for Net Zero.
- Ensuring we develop a Net Zero investment strategy that delivers for Wales's priorities - supporting Welsh Government departmental planning for Carbon Budget 3 (2026-30).
- Advancing our corporate sustainability reporting – providing Streamlined Energy and Carbon Reporting (SECR) statement and developing our methodologies for upcoming Principles for Responsible Investment and Partnership for Carbon Accounting Financials disclosures.
- Implementing separate waste recycling schemes across our estate.

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.

Our Board receives regular updates on the Group's community and fundraising activities through the monthly executive management report. They approve all activity and attend key strategic events.

Between March 2023 and April 2024, we are proud to have raised £72,000 for our charity of the year, Pancreatic Cancer UK, in memory of our dear friend and colleague Elaine Yarwood. This is the largest total raised by our colleagues over a 12-month period. We achieved this through a variety of fundraising initiatives, including:

- a team of colleagues participated in Endure24, a 24-hour relay race, where they covered a massive 505 miles, averaging out at 25.25 miles per person;
- a team of colleagues completed the 21 mile Preston Guild Wheel Walk in a day;
- a colleague completed the 91 mile Fife Coastal Walk;
- a team of colleagues participated in the Cardiff half marathon;
- we held charity balls in Cardiff, Manchester and Newcastle;
- we held a charity golf day and a charity quiz;
- we ran the 50/50 employee lottery every month.

For the tenth year running, colleagues donated Christmas presents to 115 children through the charities NSPCC and Barnardo's.

In addition to charity fundraising, our teams got involved in volunteering in our local communities. During 2023/24, this included a team who volunteered to improve the garden and outside space of Maggie's Centre in Manchester, a charity providing free cancer support and information.

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 Cabinet Secretary for the Economy, Transport and North Wales and his officials, and the relationship is managed by the Welsh Government Partnership Team.

Annual scrutiny sessions are held through invitation from the Senedd's Economy Trade and Rural Affairs Committee. In 2023/24 the committee decided to hold an inquiry into the Development Bank in place of annual scrutiny under the following terms of reference.

- The overall performance of the Development Bank of Wales since it was established in 2017, including areas of success as well as any areas of under-performance.
- The extent to which the Development Bank has met the specific objectives, as set out in The Development Bank of Wales – a strategic asset for a more prosperous Wales, published in July 2017 and in the 'Term of Government remit letter' for the Development Bank published in November 2021.
- Exploring examples of global best practice and to understand how the Development Bank of Wales compares with other similar sized development banks – in terms of scale of funds, types of support provided and impact etc.

This inquiry has concluded and the Committee has published its report. The Development Bank is considering its recommendations.

Our colleagues

The Development Bank has a culture and environment in which our colleagues can develop, thrive and learn. We offer flexible working which helps with the work/life balance for our colleagues but is also reflected in the positive performance of the business. In recent years we have developed our office environments in Wrexham, Cardiff and Llanelli to support our commitment to a flexible working model and encourage greater collaboration and innovation. Further consideration will be given to investing in our remaining offices across the coming year.

The Board engages with colleagues, inviting team members to present to the Board on strategic topics and attending networking events. We had 11-star performers who had lunch with the Chair to celebrate their successes. Alongside this many of our Board Members are also involved in Investment Committee which involves close working with colleagues from across the business.

We encourage and support colleagues to develop their career with 43% of our recruitment drives being filled by internal candidates during 2023/24. A structured career development path for colleagues has been implemented, resulting in seven promotions during the year. This is a driver in attracting and retaining the right people to deliver the future growth of the organisation.

Tiger Yard

Equality, diversity and inclusion

The Group's 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. At the end of this financial year, 7.5% of our colleagues were from ethnic minorities compared to 7% in 2022/23. We work with all colleagues, including those with disabilities (4%) and adapt work practices where necessary to support productivity and engagement.

We actively encourage equality, diversity and inclusion. We're committed to the principles of equal opportunity, and we strive to create a workforce that is truly representative of all sections of society and our customers, and for each colleague to feel respected and able to give their best. In particular, we support colleagues with disabilities by ensuring that:

- No job applicant or colleague receives less favourable treatment or is placed at a disadvantage on grounds which are not related to their ability to do the job.
- All recruiting managers must watch our importance of diversity video to ensure they understand the importance of embracing and supporting diversity and inclusion.
- All recruitment advertisements include a statement that we are an equal opportunity employer. We also ensure all training courses can be adapted as necessary to enable colleagues with disabilities to attend.
- We support and continue to monitor our progress in achieving equality of career development opportunities.
- We invite colleagues to discuss their disability with us so we can support them and make reasonable adjustments where appropriate.
- DSE assessments are offered to colleagues on a regular basis to ensure the health and safety of all of our colleagues is protected. Specific equipment can be supplied as a result of this.
- We seek the advice of Occupational Health where appropriate and involve the colleague in those discussions.
- Wherever possible, reasonable requests for flexible working are accommodated in line with the flexible working policy.
- We conduct regular equality and inclusion training via Clever Nelly our continuous learning platform.

We are also proud to have partnered with Great Place to Work®, where colleagues are invited to participate in an annual survey which seeks feedback on important aspects of the employee experience such as internal relationships, pay and benefits, training, and communication.

During the year the Group launched a new set of competencies to align to the Groups values. These form part of the new performance management process. Comprehensive training was provided to all colleagues, ensuring that behaviours align to the Group objectives.

Our training is delivered online and face-to-face in line with our hybrid working policy. We delivered 1,358 days of training during 2023/24 which equates to an average of five days training per colleague.

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

- weekly communications to all colleagues;
- hybrid working;
- regular 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;
- 180 + flu jabs were provided to colleagues;
- 10 mental health first aiders available to support colleagues and holding regular wellbeing sessions for all colleagues;
- 64 colleagues involved in the 'ice breaker' sessions, a great opportunity for new starters to get to know colleagues;
- 'Walk and talk' mental health events;
- 100 health checks were conducted.

G Thorley
Chief Executive

3 September 2024

Risk management

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 safeguard 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, recognised as an industry standard for sound risk management practice. The Risk Management Framework (RMF), including the Group's principal risks, is reviewed, and approved by the Board annually and, if required, more frequently to ensure evolving risks are captured effectively and efficiently.

We have Group-wide policies and procedures in place designed to facilitate compliance with applicable laws and regulations, including the FCA Senior Managers and Certification Regime, fraud and financial crime, bribery and corruption, whistle-blowing, General Data Protection Regulation, and the Freedom of Information Act. These policies and procedures are regularly reviewed to ensure adherence to changing regulatory requirements and to incorporate changes in the business environment.

The key principles of the risk management model, as demonstrated by the diagram on the next page, 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 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 management team (SMT), with the latter also being supported by the Risk and Compliance function in the delivery of their responsibilities.

Our risk management framework 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.

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 page 85 and 86 for an 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.

The Group has four risk ratings, 'negligible, low, moderate and high'. Risks are assessed using a standard risk matrix approach which sets out the likelihood of a risk occurring and its perceived impact on the Group. Depending on where the risk sits within that matrix will determine its rating.

Failure to deliver the Development Bank corporate plan and commitments to our stakeholder	
Principal risk category	**Strategic**
Rationale	**Pre-control rating**
The Bank continues to grow against a backdrop of changing market expectations, and the broader macroeconomic and political climate, presenting challenges to the ongoing delivery of stretching targets.	High
Mitigations	**Post-control 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. 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
Change in Risk	
Unchanged Our robust governance model and board oversight on the delivery of the Group's corporate plan continues. Progress towards the achievement of clearly defined objectives is closely monitored, and principal risks are kept under regular review.	

Failure to ensure the continued availability of funding or budget cover in terms of type or sufficiency

Principal risk category	Funding

Rationale	Pre-control 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. It is further impacted by the complexity and challenges to budget management arising from the Bank's ONS reclassification, requiring closer engagement with Welsh Government colleagues in the Partnership and Finance Teams.	High

Mitigations	Post-control 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 Help to Stay 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.	Moderate

Change in Risk

Unchanged

We continue to work closely with the Welsh Government to ensure fund plans address market needs. The Group's performance to agreed budgets continue to be managed in line with or better than expectations shared with the Welsh Government.

Failure to comply with legal and regulatory requirements	
Principal risk category	**Compliance**
Rationale	**Pre-control rating**
The Development Bank continues to operate in a complex and evolving legal and regulatory environment, which straddles both the public and private sectors. This resultant regulatory landscape exposes the Bank to increased risk of non-compliance.	High
Mitigations	**Post-control 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. Our robust customer onboarding due diligence is maintained throughout the duration of the customer relationship and we have clear procedures through which suspicious activity is reported. 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 operating 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
Change in Risk	
Increased The volume and pace of regulatory change remain high, with a number of these regulations having an increased impact on the Group's activities. Our customer-centric approach is consistent with the new Consumer Duty and the need to ensure good customer outcomes. Arrangements are in hand to ensure that the Group is prepared for regulatory change, such as in respect of the new Procurement Regulations.	

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 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 could result in poor customer outcomes or detriment, which is likely to attract the attention of regulators and threaten the long term operation of the Bank.	High
Mitigations	**Post-control 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, including root cause analysis and recurring themes. – A comprehensive suite of staff training resources, including in the identification of vulnerable customers and responding to their needs appropriately.	Moderate
Change in Risk	
Unchanged We do not consider this risk to have increased. The group continues to monitor customer trends and the macroeconomic climate, to tailor products that meet evolving demand.	

Failure to meet fund performance objectives	
Principal risk category	**Investment mandate**
Rationale	**Pre-control rating**
The UK's challenging economic environment poses a significant challenge to our customers, increasing the risk of loan defaults and lower investment returns, thereby adversely impacting fund performance.	High
Mitigations	**Post-control 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 to accommodate 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
Change in Risk	
Increased Whilst the UK's annual inflation rate is expected to continue to drop in 2024, the impact of price increases in the past two years due to strong global demand post pandemic, related supply chain disruptions and increased energy prices[1] are now 'baked in' to the economy.	

[1]Rising cost of living in the UK - House of Commons Library (parliament.uk)

Failure to optimise operational resilience, data governance and effectiveness in managing change	
Principal risk category	**Operational**
Rationale	**Pre-control 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 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. The Change Management Office (CMO) provides 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
Change in Risk	
Increased With increased exposure to cyber-related threats, such as ransomware and cyber-enabled fraud, organisations in the financial sector will need to constantly enhance their operational resilience framework. We continue to work to enhance our approach to operational resilience and improve data governance controls to be able to withstand disruption in this area.	

Managing cultural change and failure to recruit and retain appropriately skilled and experienced colleagues	
Principal risk category	**Operational**
Rationale	**Pre-control rating**
Our people are key to our success. The Bank must remain agile to changing employment practices if it is to attract, recruit, develop and retain staff with the right skills, experience and values to deliver against the Bank's objectives. This underscores why it is integral for the Development Bank to offer an attractive proposition to our colleagues.	High
Mitigations	**Post-control 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 the Board twice a year. The Group encourages staff development, and a range of training options are available. Work is varied, challenging and rewarding. A succession plan is in place for senior posts.	Low
Change in Risk	
Unchanged The Bank continues to support a hybrid working environment with a key focus on colleague wellbeing and complementing benefits to ensure highly skilled colleagues are recruited and retained.	

Vulnerability to cybercrime, data security breaches and the risk of poor IT resilience	
Principal risk category	**Operational**
Rationale	**Pre-control rating**
The cyber threat landscape continues to evolve through ongoing political unrest, an increasing cyber-attack surface (due to an increased reliance on technology) and the financial rewards available to threat actors. This risk extends further than just the prevention of a cyber-attack, to the resilience of IT systems more generally.	High
Mitigations	**Post-control 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
Change in Risk	
Increased The increasing and evolving nature of cyber threats is exacerbated by the rise of Generative AI[2]. The group considers this to be a significant challenge, and continues to improve its IT capabilities accordingly.	

[2]Banking & Capital Markets (pwc.co.uk)

Failure to manage the contribution of, and the risk associated with, third-party providers to the successful delivery of the Development Bank Strategic plan	
Principal risk category	**Interface**
Rationale	**Pre-control 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 'High' risk outsourced suppliers in the IT space.	High
Mitigations	**Post-control rating**
The Group has in-house specialist procurement and IT Services staff, with access to specialist legal advice and consultancy as required. Internal policies and procedures are reviewed and updated regularly to ensure that regulatory requirements are satisfied. We undertake due diligence on new and existing third party providers. Project teams are created when undertaking large procurements, ensuring that the input of all relevant colleagues is represented and that detailed consideration is given to the risks relevant to the delivery of the goods/services in question. In turn, this approach supports the effective performance management of third party providers through the negotiation of suitable contractual terms at the outset and (through the identification of key performance metrics, the setting of service level agreements, and regular review meetings) throughout the term of the contract.	Low
Change in Risk	
Unchanged We remain committed to ensuring that robust due diligence and suitable performance monitoring is undertaken on third parties both at the outset and throughout the term of the contractual relationship. This is particularly relevant for our high risk suppliers, where under performance poses a greater risk of disruption to the Development Bank's business operations and reputation.	

Failure to demonstrate our commitment to the Environmental, Social and Governance (ESG) aspects of our activities and the potential adverse reputational impact	
Principal risk category	**Reputational**
Rationale	**Pre-control rating**
Developing and demonstrating ESG credentials as part of 'business as usual' is a priority for many businesses, including the Development Bank. Not only is a commitment to ESG the right thing to do, it is a key competency when it comes to winning new fund management contracts.	High
Mitigations	**Post-control rating**
We are committed to managing our 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 and over £500 million of co-investment. 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.	Low
Change in Risk	
Unchanged Regulatory focus in the ESG risk area continues to tighten in specific to greenwashing, sustainability disclosures and labels, and the governance and cultural landscape[3]. The group continues to embed ESG risks and considerations into its sustainability strategy and framework, and overall risk management framework. We are reviewing how we measure the outputs of our activity to ensure that our impact is captured and reflected fully.	

[3]Banking & Capital Markets (pwc.co.uk)

Emerging risks

Alongside our principal risks, we take into account key areas of emerging and evolving risks which have the potential to affect our ability to deliver against our priorities and objectives.

Emerging risk	Related Principal Risks	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.	Inflation has reduced to within the Bank of England's 2% target. Whilst businesses and consumers continue to face the legacy of high consumer prices, and rising interest rates, 2024 is expected to be a more optimistic year for the UK.[4] These residual effects 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. Any changes to the economic climate arising from the recent general election will begin to be seen in the coming weeks and months. 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. – Failure to demonstrate our commitment to the ESG aspects of our activities and the potential adverse reputational impact.	The physical risks associated with climate change in the form, for example, of weather-related events continue to pose a threat to businesses, as do the development of disruptive technology as the UK transitions to a low carbon economy. The Bank continues to monitor ESG regulatory changes and the work to embed climate change risk in its risk management framework is persistent, whether as a key consideration when presented with new funding requests or as part of our proactive approach to portfolio management. The increasing significance of the Bank's responsibility to climate change impact has been reflected in the updated ESG principal risk which now highlights the banks' increased commitment to this area.
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 Financial Conduct Authority continues to evolve the regulatory landscape. This includes a suite of regulatory reforms aimed to support the growth of the UK's financial sector whilst better suiting UK markets with specific focus on Consumer Duty, Operational Resilience, Financial Fraud, Public Procurement Reforms and Sustainability.[5] We continue to strengthen our commitments to ensure that the Consumer Duty is embedded effectively, tightening controls to improve the Group's ability to detect and prevent financial crime, and monitor other regulatory changes through our horizon scanning activity such as the legislation relating to ESG, the Consumer Credit Act and the Digital Operational Resilience Act.
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 the value of the UK's total reported fraud increasing to £2.3 billion in 2023, a 104% increase from 2022's figures.[6] The FCA note that the rate of growth of investment fraud was down 40% by the end of 2023 and the regulator continues to introduce supporting measures to reduce the impact of fraud on the UK economy and to encourage firms to do more to tackle fraud.[7] We continue to monitor the evolving legislative and regulatory landscape in this area (notably the Economic Crime and Corporate Transparency Act and changes to the anti-money laundering supervisory regime) 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.	AI is expected to contribute up to £12.3 trillion to the global economy in 2030. Despite the apparent benefits of this technology, deploying and implementing AI solutions comes with risk in areas such as legal and compliance, cyber and operational resilience, and data protection and security.[8] The Bank continues to adopt the formal Wesh Government position on the use of Generative AI, including ChatGPT, whilst we continue to explore the potential applications of AI tools for internal use. An internal working group is focused on understanding key public policy and regulatory trends and aligning the Group's compliance processes and compensating controls to address the unique risks associated with the growth of AI.

[4]The Good, the Bad, and the Optimistic: PwC UK economic predictions for 2024
[5]Banking & Capital Markets (pwc.co.uk)
[6]UK fraud makes massive leap to £2.3bn | ICAEW
[7]Reducing and preventing financial crime | FCA
[8]Banking & Capital Markets (pwc.co.uk)

Assurance framework

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

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, supporting the effective operation of the control environment and timely response to emergent risks.

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 non-compliance is 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 developments. The 2LOD is responsible for focused deep dive reviews and controls testing, providing assurance that new and emerging risks are captured and adequately responded to, and closing and verifying internal audit actions to ensure findings are adequately addressed.

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 the internal auditors refresh their risk assessment and meeting with senior management develop a scope of work proposing the business areas to be reviewed and the timing and duration of each review. The internal audit plan is presented to the Audit and Risk Committee for review and approval.

Individual recommendations, resulting from internal audit assignments, 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 ARC and are followed up in subsequent audits.

Neil Maguinness
Chief Risk Officer

3 September 2024

Governance

Governance

We are committed to strong 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 2024.

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

- Details of the Group's objectives and future developments can be found on pages 31-32 and 55-59 of the strategic report respectively.
- The Group's risk management disclosures are set out in the strategic report on pages 71-86.
- Information about the use of financial instruments by the Group is given in Note 19 to the financial statements;
- The Group's capital structure is discussed in Note 20 to the financial statements. The principal activity of the Group is carried out in Wales and the North East, North West and South West of England.

Important post-balance sheet events

There were no important events affecting the Group which have occurred since the end of the financial year.

Dividends

The Directors do not recommend payment of a dividend (2023: £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 Carol Bell resigned as an NED of the Board on 30 September 2023. The rules for the appointment and removal of directors are set out in the corporate governance statement found on pages 103-104.

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Name	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Gareth Bullock	Chair	Sept 2015	Sept 2018	Sept 2021	Sept 2024
Giles Thorley	Chief Executive	Apr 2016	n/a	n/a	n/a
Iraj Amiri	Non-Executive Director	Sept 2016	Aug 2019	Sept 2022	Aug 2025
Rhys Jones	Non-Executive Director	Mar 2020	Feb 2023	Mar 2023	Feb 2026
Roger Jeynes	Non-Executive Director	Oct 2016	Oct 2019	Nov 2022	Oct 2025
David Staziker	Chief Financial Officer	Apr 2018	n/a	n/a	n/a
Robert Lamb	Non-Executive Director	Apr 2021	Apr 2024	Apr 2024	Apr 2027
Kate Methuen-Ley	Non-Executive Director	Apr 2021	Apr 2024	Apr 2024	Apr 2027
Dianne Walker	Non-Executive Director	Mar 2022	Mar 2025	n/a	n/a
Iestyn Evans	Non-Executive Director	Mar 2022	Mar 2025	n/a	n/a

* Carol Bell resigned as a director on 30 September 2023 after serving her 9-year term.

Our directors

Gareth Bullock OBE

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 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.

Gareth has both wide functional and international experience, having been Head of Corporate Banking in Hong Kong, CEO Africa, Group Chief Information Officer and Head of Strategy.

Giles Thorley

Chief Executive

Before joining the Development Bank of Wales, Giles was a partner at private equity firm TDR Capital LLP focusing on deal origination activities. Prior to this he spent nine years with Punch Taverns plc - the first year as chair, and then as chief executive following the IPO of the business.

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

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

Roger Jeynes

Non-Executive Director and Chair of the Investment Committee

Roger is the senior independent director for the Development Bank of Wales, co-chairs its Investment Committee and serves on the Audit and Risk, Remuneration and Nomination Committees.

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 the University of Sheffield 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.

Iraj Amiri

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

Iraj is an independent non-executive director for the Development Bank of Wales.

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

Rhys Jones

Non-Executive Director

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

He is the Group Commercial Director of Sportscape Group (Parent of SportPursuit and PrivateSportShop), a member only, sports focused online retailer with 26 million members across Europe.

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

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

Kate Methuen-Ley

Non-Executive Director

Kate is an independent non-executive director for the Development Bank of Wales.

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 manages the Welsh Government Export Cluster Programme for Technology Businesses.

Rob Lamb

Non-Executive Director

Rob is an independent non-executive director for the Development Bank of Wales and is a member of its Investment Committee.

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, a technology platform 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.

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

Iestyn Evans

Non-Executive Director

Iestyn is an independent non-executive director for the Development Bank of Wales.

He led on major changes and performance improvements during his time as Head of Finance Change and Head of Finance at Lloyds Banking Group 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 LBG, Virgin Money, Omni Partners, Amicus PLC, Monument and Monmouthshire Building Society 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.

Dianne Walker FCA

Non-Executive Director

Dianne is an independent non-executive director for the Development Bank of Wales, a member of the Audit and Risk Committee and the Nominations Committee.

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

Dianne is a Fellow of the Institute of Chartered Accountants in England and Wales, having spent over a decade in practice as part of the senior management team at PricewaterhouseCoopers, providing professional services to a broad portfolio of prestigious clients. Currently combining a portfolio of main board non-executive roles, Dianne is 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 and Chair of the Audit and Risk Committee of Scott Bader Group.

Dianne is a non-executive Chair 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.

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.

Responsibilities of the directors

The following should be read in conjunction with the responsibilities of the auditor set out in their report on pages 115-123. 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 UK-adopted International Accounting Standards (UK-adopted IAS) 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 2 of the annual report and financial statements, confirms that to the best of their knowledge:

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

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook. This considered a downside scenario impacting income and costs arising from ongoing macroeconomic uncertainties, and in particular the impact of the cost-of-living crisis and the conflicts in Ukraine and Gaza on reducing (but still high) global inflation and energy prices, and plateaued (high) interest rates 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, the North West, and South 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 Operations 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 on the Group's cash holdings of the stability of global financial markets following events in March 2023;
- 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 Operations 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 ongoing macroeconomic uncertainties, and in particular the impact of the cost-of-living crisis and the conflicts in Ukraine and Gaza on reducing (but still high) global inflation and energy prices, and plateaued (high) interest rates. 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 Operations business remains in cumulative surplus throughout this period.

Self Build Pentyrch

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)

This is the second 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 highlighting an increase of 8% on our total reported emissions for transport and electricity from our baseline year 2022/23.

This increase in 2023/24 is largely due to increased business travel by staff in cars. This increase reflects business growth and a return to travel by staff following the Covid-19 pandemic.

Overview

Baseline year	2022/23
Boundary summary	All facilities under operational control in the UK
Emission factor data source	Welsh Government Energy Service (2023)[1]
Assessment methodology	Greenhouse Gas Protocol[2]
Intensity ratio	Emissions per full-time employee (FTE)

Methodology

In line with the SECR duties, this report outlines the Development Bank of Wales total annual emissions following the Green House Gas Protocol methodology and applying UK Government Department for Energy Security and Net Zero emissions factors. Our total reported 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 carriers.

The Development Bank of Wales purchases electricity from our landlords across our 13 offices and as such does 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.

Metrics

Metric	FY 2022/23	FY 2023/24
Transport KW/h	195,504 KW/h	222,973 KW/h (+14%)
Electricity KW/h	340,982 KW/h	335,445 KW/h (-2%)
Total Energy Consumption KW/h Transport & Electricity	536,485 KW/h	558,418 KW/h (+4%)
Transport CO_2e (tonnes)	61.02 (tonnes)	70.67 (tonnes) (+16%)
Electricity CO_2e (tonnes)	89.18 (tonnes)	92.2 (tonnes) (+3%)
Total CO_2e (tonnes) Transport & Electricity	150.2 tCO_2e (tonnes)	162.87 (+8%)
Intensity Ratio: tCO_2e per full-time employee	0.55 tCO_2e (tonnes)	0.61tCO_2e (+11%)

[1]https://www.gov.wales/energy-service-public-sector-and-community-groups
[2]https://ghgprotocol.org/

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 2023/24 we have focussed on reviewing the scope and quality of our emissions data collection across our operations. This review has informed our corporate sustainability strategy (2024-27) which outlines commitments to enhance our scope 3 reporting and renewing our corporate decarbonisation pathway, including implementing a sustainable procurement policy and separate business waste collections.

Seven Springs

Amendments on FY 2022/23

Due to a change in the methodology, the baseline figures for transport mileage have been amended in this report. The amendments for FY2022/23, included in this report are:

- Reduced transport KWh from 358,436KWh to 195,504KWh.
- Reduced total KWh from 700,418 to 536,485KWh.
- Increased transport emissions from 53.62 to 61.02 tCO_2e.
- Increased total emissions from 142.8 to 150.2 tCO_2e.
- Increased intensity ratio from 0.52 to 0.55 tCO_2e.

Corporate and social responsibility

Details of the Group's policies, activities and aims in this area can be found in our S172 (1) statement on pages 64-69.

Political donations

The Group made no political donations during 2024 (2023: £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 2024 (2023 less than £20,000).

Severance payments

The cumulative severance payments made in the year by the Group were £Nil (2023 £Nil).

Loan losses/losses disposal of equity disclosure

Loan write-offs of £5,068,995 were made by the Group during the year (2023 £39,682,380). Please note that the 2023 figure 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 26th September 2023 a resolution was passed that Mazars be appointed as auditor for the ensuing year. At the Annual General Meeting on 25th September 2024 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

3 September 2024

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. Each financial year, the Board is presented with a detailed report from the Chief Risk Officer relating to the extent of the Development Bank of Wales plc's compliance with the Code.

The current year review noted that the Group continues to comply 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.

During the financial year, the Group has made progress towards increased compliance in the following areas:

- Provision 2i – Assess and monitor culture
  - Introduction of biannual Senior Management Team ('SMT') new starter calls to introduce new colleagues to the SMT members and their areas of responsibility;
  - Commissioning of a 'Great Places to Work' survey to collate colleagues' opinions on workplace culture.
- Provision 5i – understanding the views of key stakeholders.

There has been wider stakeholder engagement pursuant to the Senedd inquiry into the Development Bank and some actions have already been implemented in response to feedback received.

The Group expects to make further progress against these requirements during 2024/25

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, meet with other non-executive directors to review the Chair's performance.

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 Transport Group.

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 Kate Methuen-Ley and Rob Lamb for a second three-year term with effect from 6 April 2024 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 Risk Committee report

Committee purpose and responsibilities

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

The Committee also has responsibility for the management of the internal and external audit processes and the Group's probity and whistle-blowing policies. The Chair of the Committee acts as the contact point if the whistle-blowing concern relates to the Senior Management Team.

The Committee provides an annual report to the Welsh Government Corporate Governance Committee on its work and confirms the adequacy of the audit arrangements and assurance given by the CEO in respect of governance, risk management and controls.

Membership composition, skills and meetings

Our Audit and Risk Committee comprises four non executive directors:

- Iraj Amiri (Chair)
- Roger Jeynes
- Dianne Walker
- Iestyn Evans

The Audit and Risk Committee met four times during 23/24. 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.

Dylan's Den

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. Approve proposed materiality. 3. Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements. 4. Consider and challenge the going concern and long-term viability assessment prepared by management. 5. Review and monitor any significant adjustments arising from the external audit. 6. Review the annual report and financial statements and other financial reporting. 7. 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, external quality assessment reviews, 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 findings 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. 3. Review the procedures for detecting and preventing fraud including the Fraud Response Plan. 4. Monitor the processes for compliance with laws, regulations and ethical codes of practice.
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. 5. Monitor fund performance against fund risk appetite from time to time, including credit risk appetite.
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 shared equity 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, the holding period and the discount factor used following the impact of reducing (but still high) global inflation and energy prices, and plateaued (high) interest rates arising from the war in Ukraine and Cost of Living Crisis on these assumptions. The sensitivity of the valuation calculation to key assumptions was considered, including the impact of alternative forward-looking economic scenarios. The Committee is satisfied that the fair value is appropriate. The disclosures relating to the Help to Buy - Wales valuation are set out in Notes 3, 13 and 19 of the financial statements.

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 at 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.

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 (December 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.

Revenue recognition

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

Welsh Government zero percent interest loans

£847 million (2023 £847 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 accounting treatment adopted 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 15.

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 2025, 12 months subsequent to signing the annual report and financial statements for the year ended 31 March 2024. 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 ongoing macroeconomic uncertainties, and in particular the impact of the cost of living crisis and the conflicts in Ukraine and Gaza on reducing (but still high) global inflation and energy prices, and plateaued (high) interest rates. The detailed considerations taken by the Board in arriving at its going concern assessment are set out on page 98 in the Directors' report. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2025, that there are no performance issues with any of the Group's fund management contracts and that the Group remains on track to repay its Welsh Government loans on schedule.

The Committee was also satisfied that there would be sufficient cumulative surplus generated by the Operations business and associated working capital to cover all operating expenses to 30 September 2025. 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.

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.

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.

Jaga Brothers Transport

Godfrey Group

Review of the annual report and financial statements

The Audit and Risk Committee met on 25 June 2024 to carry out a detailed review of a draft of the annual report and financial statements, prior to the final draft being presented to the Board on 26 June 2024. 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 of 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 28 August 2024 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 2024 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 2024 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 was appointed as the Group's external auditor for the following year at the Annual General Meeting in September 2022.

Internal audit

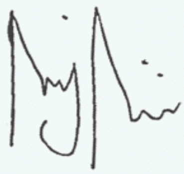
Following a successful procurement exercise in 2022, RSM is the Group's internal auditor.

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 25 June 2024 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

3 September 2024

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, Roger Jeynes 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 and Development are normally in attendance except when their own remuneration is being discussed.

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

Committee purpose and responsibilities

Key responsibilities include:

- Formulation and approval of the strategy and policy for the remuneration of the Group's Directors, 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 colleagues are essential to our operations and without their knowledge and expertise we could not successfully achieve our objectives.

Recruitment

We aim to be an employer of choice and are committed to developing our colleagues and embedding inclusion in the workplace, ensuring an equal workforce, fostering a culture which promotes respect, diversity, and performance. To meet the increased workload, we have recruited 43 new starters and undertaken 32 internal moves and promotions. With the average time for successful recruitment drive to get a new starter onboarded being 3.4 months.

Pay and benefits

We operate in line with our 5 year pay protocol which was signed off by Welsh Government, this is in place from April 2022 until March 2027.

It is important for us to undertake a detailed analysis of our Gender Pay Gap, to strategically review what we do to help close it. Showing our commitment to achieving gender equality and supporting our values. The current version of the report is published on our website.

Our pay and benefits are continuously benchmarked with private sector peers. This review is conducted by Mercer and ensures pay and benefits across the Group are transparent and fair and reflect the industry in which we operate.

As part of our commitment to fair pay, we review our lowest paid band on an annual basis. The current minimum FTE salary is £23,380 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 2023 was 5.38 and is monitored on an annual basis.

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 5 days training per year. The total cost of training for the year was £381,976 (external training only was £112,183).

Our career pathway has continued to support progression of our colleagues with 7 colleagues promoted during the year.

Wellbeing

Supporting our colleagues' 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 3.8 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 is being reviewed to align to our values enabling us to help with recruitment and retention of talent and set out our values and offering to our colleagues.

2023/24 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 scheme has now closed, we are now partnered with 'Great Places to Work' for our annual survey.

Approved by:

Rhys Jones
Chair of the Remuneration Committee

3 September 2024

Nomination Committee report

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

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 2023/24, the Committee discussed and considered succession planning for members of the senior leadership team, appointed Odgers Berndston for the recruitment of the Chair and selected an interview panel for the Chair recruitment. The Committee also carried out the re-appointment of two existing non-executive directors, considered the potential need for new non-executive directors, and reviewed membership of the Board's Committees and 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

G Bullock

Gareth Bullock OBE
Chair of the Nomination Committee

3 September 2024

The Pudding Compartment

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 2023 who attended each Board and Committee.

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

* Carol Bell retired as a Director on 30 September 2023.

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 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 development including increasing board diversity, non-executive succession planning and appropriate management challenge. These areas will be prioritised as part of the board evaluation process during the coming year."

These areas will be prioritised as part of the ongoing Board evaluation process during the coming year.

Independent Auditor's Report

Independent auditor's report to the members of Development Bank of Wales Public Limited Company

Opinion

We have audited the financial statements of Development Bank of Wales Public Limited Company(the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2024 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 material accounting policy information.

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 2024 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with UK-adopted international accounting standards, and the Parent Company's 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 Group's and Parent Company's 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;
- 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 of conditions that may impact the Group's and the Parent Company's ability to continue as a going concern;
- Considering the consistency of the cashflow forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the disclosures in the financial statements on going concern.

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

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

Key audit matters

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

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

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

Key audit matters	How our scope addressed these matters
Identification and completeness of Stage 3 loans and advances to customers and valuation of the associated impairment Group: Allowance for impairment (Stage 3 loans): £35.6m (2023: £34.4m) Loans and advances to customers at amortised cost (Stage 3): £70.7m (2023: £66.8m) 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 and completeness 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.	**Identification and 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 used in the impairment model on a sample of stage 3 exposures; – We performed stand-back procedures on the impairment provision and relevant benchmarking of the key inputs used in the impairment calculation 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 2024 is reasonable.

Key audit matters	How our scope addressed these matters
Valuation of the Help To Buy - Wales Portfolio Group: £355.5m (2023: £325.1m) 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. 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.	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; – We performed independent substantive procedures on the valuation of investments on a sample basis and agreeing to relevant supporting data where possible; – We performed backtesting 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 2024 are considered appropriate.

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

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

Group materiality	
Overall materiality	£18.4m (2023: £17.4m)
How we determined it	1% of total assets (2023: 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 £12.9m (2023: £12.2m) which represents 70% (2023: 70%) 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 £0.6m (2023: £0.5m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Parent Company materiality	
Overall materiality	£4.3m (2023: £4.4m)
How we determined it	2% of net assets (2023: 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 £3.0m (2023: £3.1m), which represents 70% (2023: 70%) 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 (2023: £0.13m) 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's and the Parent Company's 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 contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 96, 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;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit;
- 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;
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with those charged with governance and senior management, review of regulatory and legal correspondence, and review of minutes of meetings of the Board of Directors and the Audit and Risk Committee during the year and up until the date of the approval of the financial statements; 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 Forvis Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey, London
EC4M 7AU

3 September 2024

Financial Statements

Consolidated income statement

For the year ended 31 March 2024

	Note	2024	2023
		£000s	£000s
Interest revenue calculated using the effective interest method	5	18,337	14,257
Other interest revenue	5	3,811	4,487
Other revenue	5	10,005	10,061
Revenue	**5**	**32,153**	**28,805**
Operating expenses:			
Impairment of loans	6	(18,186)	(16,816)
Other administrative expenses	6	(32,504)	(29,817)
Total operating expenses		(50,690)	(46,633)
Other operating income:			
Release of ERDF grant income	5	20,015	20,340
Release of other grant income	5	526	246
Fair value gain/(loss) on shared equity assets	5	34,756	(50,638)
Fair value (loss) on non-consolidated funds	5	-	(30)
Fair value (loss) on other financial assets	5	(80)	(30,318)
Realised gain from the disposal of shared equity assets	5	7,939	13,603
Total other operating income /(expense)		63,156	(46,797)
OPERATING PROFIT/(LOSS)	6	44,619	(64,625)
Other interest income	8	41,824	12,891
Finance costs	9	(2,972)	(9,352)
(Loss)/Gain on amounts owed to principal shareholder held at fair value	16	(42,695)	37,036
PROFIT/(LOSS) BEFORE TAXATION		40,776	(24,050)
Taxation	10	(2,812)	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		37,964	(24,050)
Profit/(Loss) attributable to equity shareholders		32,555	(22,809)
Profit/(Loss) attributable to non-controlling interest	20	5,409	(1,241)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		**37,964**	**(24,050)**

Consolidated statement of comprehensive income

For the year ended 31 March 2024

	Note	2024	2023
		£000s	£000s
Profit/(Loss) for the financial year		37,964	(24,050)
Items that will not subsequently be reclassified to profit or loss:			
Actuarial gain on defined benefit pension schemes	17	6,170	3,030
Other comprehensive income for the year net of tax		6,170	3,030
Total comprehensive income/(loss) for the year		**44,134**	**(21,020)**
Total comprehensive income/(loss) attributable to equity shareholder		38,725	(19,779)
Total comprehensive income/(loss) attributable to non-controlling interest	20	5,409	(1,241)
Total comprehensive income/(loss) for the year		**44,134**	**(21,020)**

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 2024

	Note	Public equity	Share capital	Retained profit	Non-controlling interest	Total
		£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2022		**319,455**	**13**	**7,800**	**5,179**	**332,447**
(Loss) for the financial year		-	-	(22,809)	(1,241)	(24,050)
Actuarial gain on defined benefit pension schemes	17			3,030		3,030
Non-controlling interest capital contribution	20	-	-	-	1,920	1,920
Non-controlling interest distribution	20	-	-	-	(800)	(800)
Sub total		-	-	(19,779)	(121)	(19,900)
Balance at 31 March 2023		**319,455**	**13**	**(11,979)**	**5,058**	**312,547**
Profit for the financial year				32,555	5,409	37,964
Actuarial gain on defined benefit pension schemes	17			6,170		6,170
Non-controlling interest capital contribution	20	-	-	-	400	400
Non-controlling interest distribution	20	-	-	-	(720)	(720)
Sub total		-	-	38,725	5,089	43,814
Balance at 31 March 2024		**319,455**	**13**	**26,746**	**10,147**	**356,361**

Consolidated balance sheet

As at 31 March 2024

	Note	2024	2023
		£000s	£000s
Non-current assets			
Intangibles	11	1,265	1,017
Property, plant and equipment	12	2,604	2,968
Financial assets at fair value	13	424,205	389,759
Trade and other receivables	14	183,284	153,259
Retirement benefit	17	10,640	3,850
		621,998	550,853
Current assets			
Trade and other receivables	14	92,033	97,004
Cash and cash equivalents	15	1,127,495	1,098,237
		1,219,528	1,195,241
Total assets		1,841,526	1,746,094
Current liabilities			
Trade and other payables	16	(80,794)	(47,207)
Deferred income	18	(986)	(20,936)
Lease liabilities	21	(344)	(279)
		(82,124)	(68,422)
Net current assets		1,137,404	1,126,819
Non-current liabilities			
Trade and other payables	16	(1,401,523)	(1,363,499)
Lease liabilities	21	(1,518)	(1,626)
		(1,403,041)	(1,365,125)
Total liabilities		**(1,485,165)**	**(1,433,547)**
Net assets		**356,361**	**312,547**
Equity			
Public equity		319,455	319,455
Share capital	20	13	13
Retained profit		26,746	(11,979)
Non-controlling interest	20	10,147	5,058
Total equity		**356,361**	**312,547**

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 3 September 2024

Signed on its behalf by

G Thorley
Director

Consolidated cash flow statement

For the year ended 31 March 2024

	Note	2024	2023
		£000s	£000s
Net cash (outflow)/inflow from operating activities	**22**	**(38,606)**	**17,086**
Investing activities			
Other interest received	8	41,824	12,891
Purchase of fixed assets	11, 12	(680)	(140)
Net cash received from investing activities		**41,144**	**12,751**
Financing activities			
Finance costs	9	(38)	(50)
Principal elements of lease payments	21	(283)	(334)
Non-controlling interest capital contribution		400	1,920
Non-controlling interest distribution		(720)	(800)
ERDF grant income received	18	591	16,448
WG Funding (repaid)	16	(2,740)	(26,790)
WG Funding received	16	29,510	4,511
Net cash received from/(used in) financing activities		**26,720**	**(5,095)**
Net increase in cash and cash equivalents		29,258	24,742
Cash and cash equivalents at beginning of year		1,098,237	1,073,495
Cash and cash equivalents at end of year		1,127,495	1,098,237

For further details on cash and cash equivalents see Note 15.

Notes to the consolidated financial statements

For the year ended 31 March 2024

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 2024 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 material 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 ongoing macroeconomic uncertainties, and in particular the impact of the cost of living crisis and the conflicts in Ukraine and Gaza on reducing (but still high) global inflation and energy prices, and plateaued (high) interest rates 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, North West and South 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 operations 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 on the Group's cash holdings of the stability of global financial markets following events in March 2023;
- 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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

1. General information (continued)

New and revised IFRS standards adopted by the Group

There have been no new or amended standards adopted by the Group during the year. Adoption of amendments to existing standards and annual improvements applicable in the year did not have any impact on the group's accounting policies and did not require retrospective adjustments.

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. Standards, amendments and interpretations issued and effective on or after 1 January 2024 that are expected to have an impact on the Group are as follows:

Minor amendments to accounting standards

The IASB has issued a number of minor amendments to IFRSs (including IAS 1 Presentation of Financial Statements). 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 137.

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 consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Property, plant and equipment (continued)

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. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

European Regional Development Fund (ERDF) grant income

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

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

Other grant income

Notional grant income 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 through the consolidated income statement.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Financial instruments (continued)

Loans and advances to customers (continued)

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

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

Loan commitments

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

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.

Notes to the consolidated financial statements
For the year ended 31 March 2024

2. Accounting policies (continued)

Financial instruments (continued)

Impairment

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

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition. At initial recognition, financial assets are categorised as ‘stage 1’ and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, financial assets are considered to be in ‘stage 2’ when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL.

Financial assets are included in ‘stage 3’ when there is objective evidence that the asset is credit-impaired, with expected credit losses still calculated on a lifetime basis.

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

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

Significant increase in credit risk (SICR)

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been SICR since initial recognition. If there has been SICR the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group’s historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See Note 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 145. 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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Financial instruments (continued)

Definition of default (continued)

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Financial instruments (continued)

Write-off

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Financial liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL or other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

Public equity

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

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

Amounts owed to principal shareholder 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.

Notes to the consolidated financial statements
For the year ended 31 March 2024

2. Accounting policies (continued)

Financial instruments (continued)

Initial recognition (continued)

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 and Help to Stay – 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. 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. Any difference between the sum of the fair value of the liability plus the deferred income recorded and the transaction value (funds received) is deferred.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Leasing (continued)

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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

2. Accounting policies (continued)

Retirement benefits (continued)

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 nine funds managed by FW Capital Limited and specifically as to whether the Group controls those funds.

With regard to eight of the FW Capital Limited managed funds, the Directors note that while FW Capital in its role as fund manager and TVUPB Limited, TVC Loans NPIF GP Limited, North West Loans NPIF GP Limited, North East Property GP Limited, NE Commercial Property (GP) Limited, FWC SWIF Debt GP Limited, FWC IFW Debt GP Limited and FWC NPIFII Debt 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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

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

Deferred tax

The Group has tax losses of £109.8m (2023: £123.5m) 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 £27.4m at 25% of the gross loss (2023: £30.9m 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 the consolidated income statement 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 £34.8m gain (2023: £50.6m loss) on the fair value of the shared equity loan book with a year-end valuation of £355.5m (2023: £325.1m). 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 2024

3. Critical accounting judgements and key sources of estimation uncertainty (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 2024 financial statements. The forecast assumes the housing market will enjoy a soft landing. The fall in mortgage rates since mid-2023 has made the housing market outlook less perilous. Due to less stretched valuations, housing activity has picked up from last year's very low levels and the correction in prices is largely complete. Low unemployment and the gradual passthrough of higher interest rates have kept forced sales low and limited the peak-to-trough fall in prices. But with affordability still poor, strong recoveries in activity and prices are unlikely. The forecast shows a recovery in house prices from FY26 onwards.

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

HPI Sensitivity Scenarios

Scenarios	Annual HPI growth forecast (5 years)					Fair value movement £m	Variance to Central scenario £m	5 year average (i)	Mar-24 to trough (ii)
	FY25	FY26	FY27	FY28	FY29				
Upside	1.8%	4.1%	7.0%	4.9%	2.3%	61.6	26.86	4.0%	n/a
Central	-0.9%	0.3%	2.9%	3.0%	2.0%	34.8	-	1.4%	-0.9%
Downside	-5.5%	-4.4%	-1.2%	1.9%	2.5%	5.0	-29.75	-1.4%	-10.7%
Severe downside	-7.6%	-7.1%	-3.9%	0.9%	2.6%	-11.0	-45.74	-3.1%	-17.5%

i. The average rate for HPI is based on the cumulative annual growth rate over the forecast period

ii. Shown as the largest cumulative fall from 31 March 2024 over the forecast period

Notes to the consolidated financial statements

For the year ended 31 March 2024

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)

Discount Rate

The discount rate of 5.41% (2023: 6.22%), 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 reduction in the discount rate from the prior year is a lower risk premium on the comparable housing bonds which is 1.1 percentage points lower than the prior year. There has been a slight increase in the risk free rate used in the valuation.

Management considers a reasonable range for considering the sensitivity of this input to be 100 basis points above or below the FY24 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 £6.4m loss on fair value, a reduction of £41.2m on the gain reported in our central scenario. 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 gain of £77.5m, an increase in the reported gain of £42.7m.

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 of unlisted equity investments

The fair value of unlisted equity investments has been estimated using a range of techniques giving a year-end valuation of £53.8m (2023: £47.8m)

In estimating the fair value of a financial asset, 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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

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

Key sources of estimation uncertainty (continued)

Fair value measurement of unlisted equity investments (continued)

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

4. Credit risk

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

Credit risk management

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

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

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

4. Credit risk (continued)

Internal credit risk ratings

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

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

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

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

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

Grade C assets, whilst still considered healthy, do show a significant increase in credit risk and are normally managed 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 on page 145 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 2024

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 2024

4. Credit risk (continued)

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.

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.

Incorporation of forward-looking information

Probability of default data is obtained for four UK macroeconomic scenarios (severe downside, downside, base and upside), relative weightings of the forward-looking economic scenarios are then used to generate the weighted output for use in the ECL model. Changes in the macroeconomic inputs does not have a material impact on the ECL provision.

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.

Notes to the consolidated financial statements
For the year ended 31 March 2024

4. Credit risk (continued)

Overdue accounts

The Group measures investments in arrears in two ways:

- Net arrears – amounts which are past due and unauthorised.
- Gross arrears – amounts which are past due compared to the original loan schedule whether authorised or not.

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days past due. Assets in Stage 1 which are over 30 days past due are flagged as having a significant increase in credit risk and moved to Stage 2. A probationary period is applied whereby assets are not subsequently moved back to stage 1 until they have been less than 30 days past due for a period of 6 months.

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.

Groupings based on shared characteristics
When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, specifically:

- Portfolio grade; and
- Investment type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Notes to the consolidated financial statements

For the year ended 31 March 2024

4. Credit risk (continued)

Credit quality

Class of financial instrument

The Group monitors credit risk per class of financial instrument. An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables:

Loans and advances to customers at amortised cost	2024	2023
	£000s	£000s
Concentration by category:		
Rescue and restructure loans	2,586	2,698
Property development loans	55,126	49,363
Micro loans	14,922	15,710
Covid-19 Wales business loans	30,331	44,956
Mutual investment model loans	18,908	11,757
Mainstream loans	146,403	117,312
	268,276	**241,796**
By Maturity:		
Loans to customers receivable in < 1 year	84,992	88,537
Loans to customers receivable in > 1 year	183,284	153,259
	268,276	**241,796**

Notes to the consolidated financial statements
For the year ended 31 March 2024

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				2024
				£000s
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	169,046	-	-	169,046
Grade Micro: Low to fair risk	22,304	-	-	22,304
Grade CWBLS: Low to fair risk	9,068	-	-	9,068
Grade C: Early warning*	1,080	32,319	-	33,399
Grade A-B: Low to fair risk - in arrears	-	12,667	-	12,667
Grade Micro: Low to fair risk – in arrears	-	5,155	-	5,155
Grade CWBLS: Low to fair risk – in arrears	-	1,747	-	1,747
Grade C: Early warning – in arrears	-	6,589	-	6,589
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	12,451	12,451
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	15,834	15,834
Grade E: Objective evidence of impairment	-	-	42,461	42,461
Total gross carrying amount	201,498	58,477	70,746	330,721
Loss allowance	(6,162)	(10,731)	(45,552)	(62,445)
Net carrying amount	**195,336**	**47,746**	**25,194**	**268,276**
Provision coverage ratio	**3.1%**	**18.4%**	**64.4%**	**18.9%**

Loans and advances to customers at amortised cost (prior year comparative)				2023
				£000s
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	130,383	-	-	130,383
Grade Micro: Low to fair risk	23,976	-	-	23,976
Grade CWBLS: Low to fair risk	14,037	-	-	14,037
Grade C: Early warning*	1,992	26,139	-	28,131
Grade A-B: Low to fair risk - in arrears	-	7,382	-	7,382
Grade Micro: Low to fair risk – in arrears	-	5,313	-	5,313
Grade CWBLS: Low to fair risk – in arrears	-	1,760	-	1,760
Grade C: Early warning – in arrears	-	9,719	-	9,719
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	12,837	12,837
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	12,696	12,696
Grade E: Objective evidence of impairment	-	-	41,272	41,272
Total gross carrying amount	170,388	50,313	66,805	287,506
Loss allowance	(4,242)	(7,041)	(34,427)	(45,710)
Net carrying amount	**166,146**	**43,272**	**32,378**	**241,796**
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 2024

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				
				£000s
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 April 2023	4,242	7,041	34,427	45,710
Changes in the loss allowance:				
New financial assets originated	3,244	-	-	3,244
Transfers to Stage 1	1,264	(947)	(317)	-
Transfers to Stage 2	(763)	1,459	(696)	-
Transfers to Stage 3	(295)	(1,275)	1,570	-
(Decrease)/increase due to other changes in credit risk	(1,530)	4,453	13,496	16,419
Write offs	-	-	(2,928)	(2,928)
Loss allowance as at 31 March 2024	**6,162**	**10,731**	**45,552**	**62,445**

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				
				£000s
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 April 2023	170,388	50,313	66,805	287,506
Changes in the gross carrying amount:				
New financial assets originated	116,964	-	-	116,964
Transfers to Stage 1	8,023	(6,669)	(1,354)	-
Transfers to Stage 2	(28,015)	31,360	(3,345)	-
Transfers to Stage 3	(7,838)	(8,584)	16,422	-
Write offs	-	-	(2,928)	(2,928)
Other changes	(58,024)	(7,943)	(4,854)	(70,821)
Gross carrying amount as at 31 March 2024	**201,498**	**58,477**	**70,746**	**330,721**

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 (2023: £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 2024

5. Revenue and other operating income

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

	2024	2023
	£000s	£000s
Revenue		
Interest revenue calculated using the effective interest method	18,337	14,257
Other interest revenue	3,811	4,487
Fees	9,884	10,051
Dividends	121	10
	32,153	**28,805**
Other operating income		
European Regional Development Fund (ERDF) grant income	20,015	20,340
Other grant income	526	246
Fair value gain/(loss) on shared equity assets	34,756	(50,638)
Fair value (loss) on non-consolidated funds	-	(30)
Fair value (loss) on other financial assets	(80)	(30,318)
Realised gain from the disposal of shared equity assets	7,939	13,603
Total revenue and other operating income/(expense)	**95,309**	**(17,992)**

6. Operating profit

	2024	2023
	£000s	£000s
Operating profit has been arrived at after charging:		
Amortisation of intangibles	282	89
Depreciation of fixtures and fittings	446	442
Depreciation of right of use assets	306	389
Directors' emoluments and staff costs (see Note 7)	20,674	18,811
Provision for deferred incentive scheme	537	469
Grant expense in respect of below market rate loans	265	180
Impairment of loans	18,186	16,816
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's financial statements	199	131
Fees payable to the Company's auditor for other services to the Group: Audit of the Company's subsidiaries	369	362
Total audit fees	**568**	**493**
Fees payable for the provision of assurance services:		
Audit of client assets (CASS)	23	22
Group reporting	20	-
Total non-audit fees	**43**	**22**

Included in the audit fees of the Company's financial statements is cost overruns of £80k associated with the prior year audit (2023: £nil).

Notes to the consolidated financial statements

For the year ended 31 March 2024

7. Information regarding directors and employees

	2024	2023
	£000s	£000s
Directors' emoluments		
Wages and salaries	668	607
Pension costs	76	53
	744	**660**

Remuneration of highest paid director	**260**	**217**

One director (2023: one) of the Company and three directors (2023: three) of subsidiary companies were members of the defined benefit pension scheme.

	2024	2023
	£000s	£000s
Aggregate payroll costs		
Wages and salaries	16,860	15,229
Social security costs	1,818	1,732
Pension costs	1,996	1,850
	20,674	**18,811**

	2024	2023
	No.	**No.**
The monthly average number of persons employed (excluding directors and agency temps):		
Administration	64	62
Funds Management	217	203
	281	**265**

8. Other interest income

	2024	2023
	£000s	£000s
Bank interest	41,624	12,851
Net return on pension scheme assets	200	40
	41,824	**12,891**

9. Finance costs

	2024	2023
	£000s	£000s
Notional interest on WG loans	2,934	9,302
Interest on lease liabilities	38	50
	2,972	**9,352**

Notes to the consolidated financial statements

For the year ended 31 March 2024

10. Taxation

	2024	2023
	£000s	£000s
Current tax		
UK corporation tax charge for the year	**2,812**	**-**

The difference between the current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

	2024	2023
	£000s	£000s
Profit/(Loss) on ordinary activities before tax	**40,776**	**(24,050)**
Tax at 25% (2023: 19%) thereon	10,194	(4,569)
Factors affecting charge for the year		
Expenses not deductible	4,567	1,663
Deferred tax not recognised	(1,801)	5,825
Partnership share	1,016	754
Non-taxable income	(11,164)	(3,715)
Chargeable gains	-	42
Total tax charge	**2,812**	**-**

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 £22,112k (2023: deferred tax assets not recognised at 25% is £25,203k).

The main rate of corporation tax is 25% and this rate has been used to calculate deferred tax in these financial statements. (2023: 25% used to calculate deferred tax).

Notes to the consolidated financial statements
For the year ended 31 March 2024

11. Intangibles

	2024	2023
	£000s	£000s
Group and Company		
Software		
Cost		
At 1 April	1,143	1,143
Additions	530	-
At 31 March	1,673	1,143
Accumulated amortisation		
At 1 April	126	37
Charge for the year	282	89
At 31 March	408	126
Net book value		
At the end of the financial year	1,265	1,017
At the beginning of the financial year	1,017	1,106

12. Property, plant and equipment

	Land & buildings		Fixtures, fittings & equipment		Total	
Group and Company	2024	2023	2024	2023	2024	2023
	£000s	£000s	£000s	£000s	£000s	£000s
Cost						
At 1 April	3,268	4,458	2,281	2,254	5,549	6,712
Additions	253	-	135	140	388	140
Disposals	-	(1,190)	(289)	(113)	(289)	(1,303)
At 31 March	**3,521**	**3,268**	**2,127**	**2,281**	**5,648**	**5,549**
Accumulated depreciation						
At 1 April	1,353	1,365	1,228	899	2,581	2,264
Charge for the year	306	389	446	442	752	831
Disposals	-	(401)	(289)	(113)	(289)	(514)
At 31 March	**1,659**	**1,353**	**1,385**	**1,228**	**3,044**	**2,581**
Net book value						
At the end of the financial year	1,862	1,915	742	1,053	2,604	2,968
At the beginning of the financial year	1,915	3,093	1,053	1,355	2,968	4,448

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 2024

13. Financial assets at fair value

	2024	2023
	£000s	£000s
Shared equity assets	355,528	325,111
Equity investments	60,586	55,402
Investments in non-consolidated funds	400	400
Convertible loan notes	7,691	8,846
	424,205	**389,759**

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.

14. Other financial assets

Trade and other receivables	2024	2023
	£000s	£000s
Current assets		
Trade debtors	212	193
	212	**193**
Loans receivable carried at amortised cost	108,887	111,828
Impairment	(23,895)	(23,291)
	84,992	**88,537**
Other debtors	5,753	7,266
Prepayments	1,076	1,008
	92,033	**97,004**
Non-current assets		
Loans receivable carried at amortised cost	221,834	175,678
Impairment	(38,550)	(22,419)
	183,284	**153,259**

The Group enters into agreements to advance loans to businesses in Wales. 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 2024

15. Cash and cash equivalents

Cash and cash equivalents comprise cash, short-term bank deposits with an notice period 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.

	2024	2023
	£000s	£000s
Cash at banks and on hand	122,139	339,671
Short -Term Deposits	855,356	758,566
Fixed -Term Deposits	150,000	-
Cash and cash equivalents	**1,127,495**	**1,098,237**

The credit risk on liquid funds is limited because, not only are the majority of liquid funds held with the Group's principal bankers - Barclays Bank plc, Lloyds Bank plc, NatWest plc, Handelsbanken, HSBC plc, Santander UK plc and Nationwide Building Society (all banks with high credit ratings assigned by international credit rating agencies) - care is taken to ensure that there is no significant concentration of credit risk with one particular entity.

16. Other financial liabilities

Trade and other payables	2024	2023
	£000s	£000s
Current liabilities		
Trade payables and accruals	6,026	8,232
Taxation and social security	5,414	2,566
Other creditors	2,602	1,627
Amounts owed to principal shareholder held at amortised cost	63,922	32,342
Amounts owed to principal shareholder held at fair value	2,830	2,440
	80,794	**47,207**
Non-current liabilities		
Amounts owed to principal shareholder held at amortised cost	678,875	703,447
Amounts owed to principal shareholder held at fair value	722,039	659,766
Other creditors	609	286
	1,401,523	**1,363,499**

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.

Within the current amounts owed to principal shareholder held at amortised cost, £29,614k (2023: £32,342k) 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.

All other amounts owed to the principal shareholder relate to FTR and core capital funding and are repayable by 31 March 2049. These borrowings are non-secured and are non-interest bearing.

The fair value of financing liabilities is included in the table below. The Directors consider that the carrying amount of all other financial liabilities approximates their fair value.

Notes to the consolidated financial statements
For the year ended 31 March 2024

16. Other financial liabilities (continued)

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

	Amounts held at amortised cost	Amounts held at fair value	2024	Amounts held at amortised cost	Amounts held at fair value	2023
	£000s	£000s	£000s	£000s	£000s	£000s
Balance at April 1	703,447	662,206	1,365,653	714,334	701,332	1,415,666
WG funding repaid	(300)	(2,440)	(2,740)	(24,700)	(2,090)	(26,790)
WG funding received	7,102	22,408	29,510	4,511	-	4,511
Interest charged	2,934	-	2,934	9,302	-	9,302
FV changes	-	42,695	42,695	-	(37,036)	(37,036)
Public equity	-	-	-	-	-	-
Subtotal	**9,736**	**62,663**	**72,399**	**(10,887)**	**(39,126)**	**(50,013)**
Balance at March 31	**713,183**	**724,869**	**1,438,052**	**703,447**	**662,206**	**1,365,653**
Fair Value at March 31	555,180	724,869	1,280,049	612,045	662,206	1,274,251

MATURITY ANALYSIS:

	Amounts held at amortised cost	Amounts held at fair value	2024	Amounts held at amortised cost	Amounts held at fair value	2023
	£000s	£000s	£000s	£000s	£000s	£000s
Due less than 1 year	34,307	2,830	37,137	-	2,440	2,440
Due between 1 and 5 years	190,714	22,260	212,974	222,543	16,570	239,113
Due after 5 years	488,162	699,779	1,187,941	480,904	643,196	1,124,100
	713,183	**724,869**	**1,438,052**	**703,447**	**662,206**	**1,365,653**

Notes to the consolidated financial statements

For the year ended 31 March 2024

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 £1,087k (2023: £938k) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2024, nil contributions (2023: £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:

	2024	2023
	£000s	£000s
Development Bank of Wales plc	3,940	1,800
DBW FM Limited	6,700	2,050
Net surplus	**10,640**	**3,850**

Notes to the consolidated financial statements
For the year ended 31 March 2024

17. Retirement benefit schemes (continued)

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	2024		2023	
	Development Bank of Wales plc	DBW FM Ltd	Development Bank of Wales plc	DBW FM Ltd
Rate of increases in salaries	3.85%	3.85%	3.95%	3.85%
Rate of increases in pensions in payment	2.6%	2.6%	2.7%	2.6%
Rate of increase to deferred pensions	2.6%	2.7%	2.7%	2.6%
Discount rate	4.8%	4.7%	4.7%	4.6%
Inflation assumption CPI	2.6%	2.6%	2.7%	2.6%

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. Sample life expectancies at 65 resulting from these mortality assumptions are shown below:

Mortality assumptions	31 March 2024	31 March 2023	31 March 2024	31 March 2023
	Males		Females	
Member aged 65 at accounting date	21.0	21.6	23.8	24.2
Member aged 45 at accounting date	22.3	22.9	25.2	25.7

The allocation 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	Asset split
	2024	2023
	%	%
Quoted Equities	64.0	68.1
Property	6.5	7.8
Government bonds	12.2	10.5
Corporate bonds	15.6	12.4
Cash	0.4	0.7
Other	1.3	0.5
Total market value	**100.0**	**100.0**

Notes to the consolidated financial statements

For the year ended 31 March 2024

17. Retirement benefit schemes (continued)

Reconciliation of funded status to balance sheet	Development Bank of Wales plc		DBW FM Ltd	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Fair value of assets	13,010	11,700	24,390	21,360
Present value of funded defined benefit obligation	(7,720)	(7,740)	(15,380)	(14,760)
Unrecognised asset	(1,350)	(2,160)	(2,310)	(4,550)
Net surplus	**3,940**	**1,800**	**6,700**	**2,050**

Amounts recognised in income statement	Development Bank of Wales plc		DBW FM Ltd	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Operating costs				
Current service cost	100	230	380	810
Past service cost	-	-	-	-
Total operating charge	**100**	**230**	**380**	**810**
Financing cost				
Interest on net defined benefit (asset)	(90)	(10)	(110)	(30)
Pension expense recognised in profit and loss	**10**	**220**	**270**	**780**

Amounts recognised in other comprehensive income	Development Bank of Wales plc		DBW FM Ltd	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Asset gain/(loss) arising during the period	760	(1,030)	1,430	(2,020)
Liability gain arising during the period	310	3,510	310	7,910
Adjustment in respect of unrecognised asset	910	(810)	2,450	(4,530)
Total actuarial gain	**1,980**	**1,670**	**4,190**	**1,360**

Notes to the consolidated financial statements
For the year ended 31 March 2024

17. Retirement benefit schemes (continued)

Changes to the present value of the defined benefit obligation	Development Bank of Wales plc		DBW FM Ltd	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Opening defined benefit obligation	7,740	10,910	14,760	21,340
Current service cost	100	230	380	810
Interest expense on defined benefit obligation	360	290	680	580
Contribution by participants	40	50	230	220
Actuarial (gain) on liabilities	(310)	(3,510)	(310)	(7,910)
Net benefits paid out	(210)	(230)	(360)	(280)
Closing defined benefit obligation	**7,720**	**7,740**	**15,380**	**14,760**

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Ltd	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Opening fair value of assets	11,700	12,340	21,360	22,050
Interest income on assets	550	330	1,000	610
Re-measurement gain/(loss) on assets	760	(1,030)	1,430	(2,020)
Contributions by employers	170	240	730	780
Contributions by participants	40	50	230	220
Net benefits paid out	(210)	(230)	(360)	(280)
Closing fair value of assets	**13,010**	**11,700**	**24,390**	**21,360**

Notes to the consolidated financial statements

For the year ended 31 March 2024

18. Deferred income

Group	ERDF	Other	2024	2023
	£000s	£000s	£000s	£000s
Balance at 1 April	20,015	921	20,936	25,074
Grant received in the year	-	591	591	16,448
Grant released to income statement in the year	(20,015)	(526)	(20,541)	(20,586)
Balance at 31 March	**-**	**986**	**986**	**20,936**

Company	ERDF	Other	2024	2023
	£000s	£000s	£000s	£000s
Balance at 1 April	20,015	638	20,653	25,074
Grant received in the year	-	-	-	15,919
Grant released to income statement in the year	(20,015)	-	(20,015)	(20,340)
Balance at 31 March	**-**	**638**	**638**	**20,653**

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 (Group and Company) and Help to Stay Wales Scheme (Group).

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.

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19. Financial instruments (continued)

Carrying value as at 31 March 2024	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
		£000s	£000s	£000s
Assets				
Cash and cash equivalents		1,127,495	-	1,127,495
Financial assets:				
Measured at market price	i	-	6,804	6,804
Measured at fair value using other methods	ii	-	61,873	61,873
Loans to customers	iii	268,276	-	268,276
Shared-equity loans	v	-	355,528	355,528
Other receivables	iii	7,041	-	7,041
Total financial assets		**1,402,812**	**424,205**	**1,827,017**
Non-financial assets				14,509
Total assets				**1,841,526**
		£000s	£000s	£000s
Liabilities				
Amounts due to principal shareholder at amortised cost	iv	742,797	-	742,797
Amounts owed to principal shareholder at fair value	v	-	724,869	724,869
Trade and other payables	iv	16,513	-	16,513
Total financial liabilities		**759,310**	**724,869**	**1,484,179**
Non-financial liabilities				986
Reserves				356,361
Total reserves and liabilities				**1,841,526**

During the current year, no assets were within Level 2 of the fair value hierarchy (2023 - £nil), and there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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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
		£000s	£000s	£000s
Assets				
Cash and cash equivalents		1,098,237	-	1,098,237
Financial assets:				
Measured at market price	i	-	7,628	7,628
Measured at fair value using other methods	ii	-	57,020	57,020
Loans to customers	iii	241,796	-	241,796
Shared-equity loans	v	-	325,111	325,111
Other receivables	iii	8,468	-	8,468
Total financial assets		**1,348,501**	**389,759**	**1,738,260**
Non-financial assets				7,834
Total assets				**1,746,094**
Liabilities				
Amounts due to principal shareholder at amortised cost	iv	735,789	-	735,789
Amounts owed to principal shareholder at fair value	v	-	662,206	662,206
Trade and other payables	iv	14,616	-	14,616
Total financial liabilities		**750,405**	**662,206**	**1,412,611**
Non-financial liabilities				20,936
Reserves				312,547
Total reserves and liabilities				**1,746,094**

Notes to the consolidated financial statements

For the year ended 31 March 2024

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 - £400k (2023: £400k)*

Investments in non-consolidated funds are investments in Limited Partnerships setup to hold various investment funds. This fair value is derived from the amounts the Group expects to receive at the point each fund terminates in line with respective Limited Partnership agreements (level 3 hierarchy as defined below).

Convertible Loan notes - £7,691k (2023: £8,846k)

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 - £53,782k (2023: £47,774k)

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 event, which can be either the price of recent funding round, an offer to purchase the investment 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, adjustments made to multiples for factors such as the size of the company and the quality of its earnings, and adjustments made to financial inputs e.g. maintainable earnings. Valuations are sensitive to each of these inputs, for example a reduction/increase in the earnings multiple used would result in a significant decrease/ increase in the items fair value.

- 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. Valuations are sensitive to each of these inputs.

- The price of recent event such a funding round, an offer or the cost of investment provide observable inputs into the valuation of an individual investment. However, Directors are required to assess whether the event provides a reliable indicator of fair value, subsequently the Directors must reassess if this remains the case at each year end, both of which result in unobservable inputs into the valuation methodology, (level 3 hierarchy as defined below).

Notes to the consolidated financial statements

For the year ended 31 March 2024

19. Financial instruments (continued)

Significant unobservable inputs: Investment specific information including the implied valuation and capital structure of the transaction. Valuations are sensitive to the assessment of whether an event is deemed to be a reliable indicator of fair value.

- 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 and adjustments applied to carrying values. Valuations are sensitive to the carrying value adjustments applied.

The table below summarises the fair value measurements of unlisted equity investments:

	2024	2023
	£000s	£000s
Multiples	24,739	10,517
Discounted cash flows	-	1,056
Price of recent event	24,647	34,438
Net asset value	4,396	1,763
Balance at 31 March	**53,782**	**47,774**

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.

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.

Notes to the consolidated financial statements

For the year ended 31 March 2024

19. Financial instruments (continued)

Reconciliation of level 3 measurements of financial assets	FVTPL Shared-equity loan book		FVTPL Other financial assets	
	2024	2023	2024	2023
	£000s	£000s	£000s	£000s
Balance 1 April	325,111	405,674	57,020	63,902
Additions	25,875	20,128	9,117	15,921
Disposals	(30,214)	(50,053)	(5,406)	(2,681)
Revaluations	34,756	(50,638)	1,142	(20,122)
Balance 31 March	**355,528**	**325,111**	**61,873**	**57,020**

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's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities.

Listed investments included above represent investments in quoted equity securities. Price risk in relation to these assets is not currently significant to the Group's overall results and financial position.

Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted companies, though the risk can be mitigated to a certain extent by diversifying the portfolio. A 25% overall decrease in the valuation of the unquoted investments at 31 March 2024 would reduce the value of the equity portfolio by £13,446k (2023: £11,944k) and an equivalent change in the opposite direction would increase the value of the equity portfolio by the same amount.

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. See Note 16 for further information.

Notes to the consolidated financial statements

For the year ended 31 March 2024

19. Financial instruments (continued)

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.

20. Capital and reserves

Group and Company		
Called up share capital	**2024**	**2023**
	£000s	£000s
Authorised and allotted		
50,000 ordinary shares of £1 each	50	50
Called up, allotted and part paid		
50,000 ordinary shares, 25p part paid	13	13

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		
Movements during the year were:	**2024**	**2023**
	£000s	£000s
Balance at the beginning of the year	5,058	5,179
Non-controlling interest capital contribution	400	1,920
Distribution	(720)	(800)
Share of profit/(loss) for the year	5,409	(1,241)
Balance at the end of the year	**10,147**	**5,058**

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 2024

21. Leases

Group and Company

Right of use assets	2024	2023
	£000s	£000s
Net carrying amount	1,863	1,914
Depreciation expense of the year	306	389

Amounts recognised in profit & Loss	2024	2023
	£000s	£000s
Expenses relating to low value leases	104	88
Depreciation expense on ROU assets	306	389
Interest expense on lease liabilities	38	50
Expense relating to short term leases	85	79

Lease liabilities	2024	2023
	£000s	£000s
Amounts due for settlement within 12 months (current liabilities)	344	279
Amounts due for settlement after 12 months	1,518	1,626
	1,862	**1,905**

Lease liabilities reconciliation	2024	2023
	£000s	£000s
At 1 April	**1,905**	**3,029**
Additions	238	-
Interest	38	50
Payments	(319)	(384)
Disposals	-	(790)
At 31 March	**1,862**	**1,905**

Maturity analysis	2024	2023
	£000s	£000s
Not later than 1 year	344	279
Later than 1 year and not later than 5 years	1,401	1,196
Later than 5 years	117	430
	1,862	**1,905**

The average lease term is 5.3 years (2023: 6.4 years).

The total cash flow in respect of lease payments during the current year was £519k (2023: £548k).

Notes to the consolidated financial statements
For the year ended 31 March 2024

22. Notes to the consolidated cash flow statement

Right of use assets	2024	2023
	£000s	£000s
Profit/(Loss) before tax for the year	40,776	(24,050)
Adjustments for:		
Defined benefit pension costs	(620)	(20)
Other Interest Income	(41,824)	(12,891)
Finance costs	2,972	9,352
Depreciation of property, plant and equipment	752	831
Amortisation of intangible assets	282	89
Deferred incentive scheme provision	537	469
Impairment	18,186	16,816
Fair value (loss)/gain on assets	(34,676)	80,986
Fair value loss/(gain) on liabilities	42,695	(37,036)
Corporation tax	(2,812)	-
Reversal of deferred income revenue	(20,541)	(20,586)
Operating cash flows before changes in net operating assets	5,727	13,960
(Increase) in receivables	(43,237)	(16,119)
(Decrease)/Increase in payables	1,326	1,039
Decrease in financial assets at fair value	230	18,206
Cash generated during operations	**(38,606)**	**17,086**

Notes to the consolidated financial statements

For the year ended 31 March 2024

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.

The Group and Company have taken advantage of the exemption conferred by paragraph 25 of IAS 24 Related Party Disclosures and have not disclosed all transactions between with its principal shareholder, the Welsh Government. Significant transactions are disclosed in Note 16.

Transactions with subsidiaries

In accordance with the exemption conferred by paragraph 8 (j) of FRS 101 Reduced Disclosure Framework the Company has not disclosed transactions with other Group companies, where 100% of the voting rights are controlled by the Group. 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 £375k (2023: £375k), these fees are charged at the Group's usual prices.

Transactions with associates

Management have identified 1 associate as at 31 March 2024 (2023: nil), the transactions between the Group and its associate during the prior year are as follows:

Sale of services		Interest charged		Loans to related parties		Loss provision on outstanding balances	
2024	2023	2024	2023	2024	2023	2024	2023
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
15	-	8	-	159	-	4	-

The expense recognised during the period in respect of the provision for amounts due from related parties was £4k (2023: £nil).

Sales of services and interest charged on loans to related parties were made at the Group's usual prices. The amounts outstanding were unsecured and to be settled in cash. No guarantees had been given or received.

24. Ultimate controlling party

The ultimate parent and controlling party and the smallest and largest group in which the results of Development Bank of Wales plc are included is Welsh Ministers. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays Park, Cardiff, CF10 3NQ. The consolidated financial statements of Development Bank of Wales plc may be obtained from its registered address, Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL.

Development Bank of Wales plc regards the Welsh Ministers, acting through the Welsh Government, as the ultimate parent company and ultimate controlling party.

Company balance sheet
As at 31 March 2024

	Note	2024	2023
		£000s	£000s
Non-current assets			
Intangibles	11	1,265	1,017
Property, plant and equipment	12	2,604	2,968
Investments	28	927,433	942,009
		931,302	**945,994**
Current assets			
Debtors: due within one year	29	2,478	1,100
Cash at bank and in hand		1,077	1,640
		3,555	**2,740**
Total assets		**934,857**	**948,734**
Current liabilities			
Trade and other payables	30	(37,693)	(2,392)
Deferred income	18	(638)	(20,653)
Lease liabilities	21	(344)	(279)
		(38,675)	**(23,324)**
Net current liabilities		(35,120)	(20,584)
Non-current liabilities			
Trade and other payables	31	(681,765)	(706,335)
Lease liabilities	21	(1,518)	(1,626)
		(683,283)	**(707,961)**
Total liabilities		**(721,958)**	**(731,285)**
Net assets excluding pension obligations		**212,899**	**217,449**
Pension surplus	17	3,940	1,800
Net assets		**216,839**	**219,249**
Capital and reserves			
Public equity		319,455	319,455
Called up share capital	20	13	13
Profit and loss account		(102,629)	(100,219)
Shareholders' funds		**216,839**	**219,249**

The Company reported a loss for the financial year ended 31 March 2024 of £4,390k (2023: loss of £62,092k).

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 3 September 2024.

Signed on its behalf by

G Thorley, Director

Company statement of changes in equity

For the year ended 31 March 2024

	Note	Public equity	Share capital	Retained profit	Total
			£000s	£000s	£000s
Balance at 1 April 2022		**319,455**	**13**	**(39,797)**	**279,671**
(Loss) for the financial year		-	-	(62,092)	(62,092)
Actuarial gain on defined benefit pension schemes	17	-	-	1,670	1,670
Sub Total		-	-	(60,422)	(60,422)
Balance at 31 March 2023		**319,455**	**13**	**(100,219)**	**219,249**
(Loss) for the financial year		-	-	(4,390)	(4,390)
Actuarial gain on defined benefit pension schemes	17	-	-	1,980	1,980
Sub Total		-	-	(2,410)	(2,410)
Balance at 31 March 2024		**319,455**	**13**	**(102,629)**	**216,839**

Notes to the Company financial statements

For the year ended 31 March 2024

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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account 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 137.

Notes to the Company financial statements

For the year ended 31 March 2024

25. Accounting policies (continued)

Property, plant and equipment (continued)

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

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 profit and loss account 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 Company receives loans from the Welsh Government at below market rates as described below.

Notes to the Company financial statements

For the year ended 31 March 2024

25. Accounting policies (continued)

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 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).

Notes to the Company financial statements
For the year ended 31 March 2024

25. Accounting policies (continued)

Subsequent treatment (continued)

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.

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.

Notes to the Company financial statements

For the year ended 31 March 2024

25. Accounting policies (continued)

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 2024

26. Information regarding directors and employees

Directors' emoluments	2024	2023
	£000s	£000s
Emoluments	668	607
Pension costs	76	53
	744	660
Remuneration of highest paid director	**260**	**217**

One director of the Company was a member of the defined benefit pension scheme (2023: one).

Aggregate payroll costs	2024	2023
	£000s	£000s
Wages and salaries	3,726	3,579
Social security costs	382	395
Pension costs	455	449
	4,563	**4,423**

Aggregate payroll costs	2024	2023
	No.	**No.**
The monthly average number of persons employed (excluding directors) – administration	64	62

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 £4,390k (2023: loss of £62,092k). Auditor's remuneration for audit services for the Company was £199k (2023: £131k), including cost overruns of £80k associated with the prior year audit (2023: £nil).

Notes to the Company financial statements

For the year ended 31 March 2024

28. Investments

	Shares in subsidiary undertaking	Other investments in subsidiaries	Loans to subsidiary undertakings (Amortised cost)	Loans to subsidiary undertakings (Fair value)	Total
	£000s	£000s	£000s	£000s	£000s
Cost/Fair value					
At 1 April	155	305,123	317,560	319,171	942,009
Additions	-	-	-	7,102	7,102
Interest Income	-	-	6,002	-	6,002
Fair value gains/(losses)	-	-	-	(7,365)	(7,365)
Disposals/repayment	-	-	(20,315)	-	(20,315)
At 31 March	**155**	**305,123**	**303,247**	**318,908**	**927,433**
Impairment					
At 1 April	-	-	-	-	-
At 31 March	-	-	-	-	-
Net book value					
At the end of the financial year	155	305,123	303,247	318,908	927,433
At the beginning of the financial year	155	305,123	317,560	319,171	942,009

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 2024

28. Investments (continued)

The Company's investments in group companies, all of which have the United Kingdom as their principal place of business, relate to:

Direct Subsidiaries	Holding
DBW Holdings Limited	£1 ordinary shares
DBW Services Limited	£1 ordinary shares
DBW Managers Limited	£1 ordinary shares
Indirect Subsidiaries	
DBW FM Limited	£1 ordinary shares
DBW Investments (2) Limited	£1 ordinary shares
DBW Investments (3) Limited	£1 ordinary shares
DBW Investments (4) Limited	£1 ordinary shares
DBW Investments (5) Limited	£1 ordinary shares
DBW Investments (6) Limited	£1 ordinary shares
DBW Investments (8) Limited	£1 ordinary shares
DBW Investments (9) Limited	£1 ordinary shares
DBW Investments (10) Limited	£1 ordinary shares
DBW Investments (11) Limited	£1 ordinary shares
DBW Investments (12) Limited	£1 ordinary shares
DBW Investments (14) Limited	£1 ordinary shares
Management Succession Fund (GP) Limited	£1 ordinary shares
Help To Buy (Wales) Limited	£1 ordinary shares
Angels Invest Wales Limited	£1 ordinary shares
Economic Intelligence Wales Limited	£1 ordinary shares
FW Capital Limited	£1 ordinary shares
TVUPB Limited	£1 ordinary shares
FW Development Capital (North West) GP Limited	£1 ordinary shares
FWC CIP Limited (formerly North West Loans Limited)	£1 ordinary shares
TVC Loans NPIF GP Limited	£1 ordinary shares
North West Loans NPIF GP Limited	£1 ordinary shares
FWC Loans (North West) Limited	£1 ordinary shares
FWC Loans (TVC) Limited	£1 ordinary shares
North East Property GP Limited	£2 ordinary shares
DBW Investments (MIMS) Limited	£1 ordinary shares
Management Succession (Wales) Limited Partnership	See below
NE Commercial Property GP Limited	£1 ordinary shares
FWC SWIF DEBT GP Limited	£1 ordinary shares
FWC IFW DEBT GP Limited	£1 ordinary shares
FWC TFIF GP Limited	£1 ordinary shares
FWC NPIFII DEBT GP Limited	£1 ordinary shares

The registered office of the subsidiaries noted above is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL.

The activities of the subsidiaries consist of the provision of financial services to businesses, fund management activities and provision of shared equity loans to individuals.

All of the investments in subsidiary companies are 100% owned in the current and prior year with the exception of the holding in the Management Succession (Wales) Limited Partnership ('WMSF LP'). The non-controlling interest in WMSF LP contributed 40% of the capital invested in the fund with their effective interest being based on the performance of the fund and will vary between 32% and 40% with reference to the net assets of the fund.

Notes to the Company financial statements
For the year ended 31 March 2024

28. Investments (continued)

Summarised financial information in relation to WMSF LP:

	2024	2023
	£000s	£000s
Turnover	965	794
Operating profit/(loss)	12,869	(3,103)
Profit/(Loss) attributable to non-controlling interest	5,409	(1,241)
Fixed assets	17,052	3,141
Current assets	3,302	1,293
Creditors: amounts falling due within one year	(35)	(133)
Net assets	25,370	12,647
Accumulated non-controlling interest	**10,147**	**5,058**

Significant holdings in undertakings other than subsidiaries

At 31 March 2024 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.

These figures represent the Group's % Holding of the relevant share class and not the overall shareholding in the company. The Group does not control any of these undertakings and thus they are not subsidiaries.

Company name	Class of share	% holding
1st Choice Auto Body Group UK Ltd	Preferred Ordinary	100
Afferent Medical Solutions Ltd	Preferred Ordinary	100
Agam International Ltd	Preferred Ordinary	100
Agxio Ltd	A Ordinary	100
Alesi Surgical Ltd	Preferred A	58
Antiverse Ltd	A Ordinary	51
Avantis Marine Ltd	A Ordinary	100
Bikmo Ltd	Preferred Ordinary	50
Board Secure Ltd	Preferred Ordinary	100
Bond Digital Health Ltd	Preferred	100
Bytemine Technologies Ltd	Preferred Ordinary	100
Calon Cardio-Technology Ltd	B Preferred Ordinary	33
Cansense Ltd	A Ordinary	33
Carebeans Ltd	A Ordinary	50
Ceryx Medical Ltd	A Ordinary	26
CloudIQ Ltd	Series A Preferred Series A2 Preferred Series A3 Preferred	36 41 27
Coltrun Ltd	Preferred Ordinary	100
Combine AI Ltd	Preferred Ordinary	100
Conversant Technologies Limited	A Ordinary	70
Corryn Biotechnologies Ltd	Preference Shares	100
Cotton Mouton Diagnostics Ltd	Preferred Ordinary	23
Credit Canary Limited	A Ordinary	42
Cufflink.IO Ltd	Preferred Ordinary	100

Notes to the Company financial statements
For the year ended 31 March 2024

28. Investments (continued)

Significant holdings in undertakings other than subsidiaries (continued)

Company name	Class of share	% holding
Curapel (Scotland) Ltd	Preferred Ordinary	100
D N Interiors Ltd	Preferred Ordinary	100
Deer Technology Ltd	A Ordinary	100
Delio Ltd	C Ordinary	100
Deploy Tech Ltd	Preferred Ordinary	87
Diamond Cat Ltd	Preferred Ordinary	100
Digital Asset Services Ltd	Seed Preferred	55
Driverly Company	Preferred Ordinary	50
Drone Evolution Ltd	Ordinary	21
Excelerate Technology Ltd	Ordinary B	100
Finalrentals Ltd	A Ordinary	50
Finboot Ltd	Preferred Ordinary	77
Flintshire Schools Holdings Ltd	B Ordinary	100
FLS Holdco Ltd	Preference	100
Frontgrid Ltd	Preferred Ordinary	87.5
Glucose Republic Ltd	Preferred Ordinary	100
Halo Therapeutics Ltd	Preferred A Ordinary	76
Hatch Homes Accelerator Ltd	Preferred Ordinary	100
Health and Her Ltd	Preference	100
Hexigone Inhibitors Limited	Ordinary	21
Humankind Ventures Ltd	Preferred Ordinary	63
I.Q.Endoscopes Ltd	A Preferred A1 Preferred	50 29
Infinite Renewables Wales Ltd	Preferred Ordinary	100
Jellagen Pty Ltd	Preferred Ordinary	100
JIVA.AI Ltd	Preference	42
Jottnar Ltd	C Ordinary	100
Journolink Ltd	C Ordinary	88
Just Love Food Company Holdings Ltd	Preferred A Ordinary	100
Kubos Semiconductors Ltd	Preferred Ordinary	66
KW Group (2022) Ltd	Preferred Ordinary	100
Laser Wire Solutions Ltd	Preferred Ordinary	75
Learnium Ltd	Preferred Ordinary	50
Llusern Scientific Ltd	A1	100
Loyalty Logistix Holdings Ltd	Preferred Ordinary	100
Near Me Now Ltd	Ordinary	20
Nemesis Bioscience Ltd	A Preferred	38
Nolan UPVC (Holdings) Ltd	Ordinary	25
Nutrivend Ltd	A Preferred Ordinary	100
Opengenius Ltd	A Preferred Ordinary	100

Notes to the Company financial statements
For the year ended 31 March 2024

28. Investments (continued)

Significant holdings in undertakings other than subsidiaries (continued)

Company name	Class of share	% holding
Operati Ltd	A Ordinary	35
Orange Banana Software Ltd	Preferred	50
Ortharize Ltd	Preference	100
Outlook Hold Ltd	C Ordinary	100
Pathfinder Systems Ltd	A Ordinary	25
Perpetual V2G Systems Ltd	Ordinary A Ordinary	26 51
RCT 1 Holdings Ltd	B Ordinary	100
Reacta Biotech Ltd	Ordinary	32
Reel Label Solutions (Holdings) Ltd	Preferred Ordinary	100
Riva Industries Ltd	Ordinary	33
Route Konnect Ltd	Preferred Ordinary	50
Salus Healthcare Group Limited	A Ordinary	100
Signum-Health Ltd	Preferred Ordinary	100
Smart Storm Ltd	Preferred Ordinary	58
Snowdrop Independent Living Ltd	B Ordinary	100
Space Forge Ltd	Preferred Ordinary	100
Spacebands Ltd	Preference	64
Spotnails (Holdings) Ltd	Preferred Ordinary	100
Stockomendation Ltd	Preferred Ordinary	100
Stone Bear Capital Ltd	Preferred Ordinary	100
Sunscape Systems Ltd	Ordinary	23
Talent Intuition Ltd	Preferred Ordinary	100
Talkative Ltd	Preferred Ordinary	45
Tazio Online Media Ltd	B Ordinary	28
Thalia Design Automation Ltd	A Ordinary C Ordinary	67 67
Tourhub Ltd	A Ordinary	54
Trameto Ltd	Preferred Ordinary	50
Trecento Diagnostics Ltd	Preferred Ordinary	100
Universal Synergistic Holdings Ltd	Preferred Ordinary	100
UPVC (Electrical and Plumbing) Ltd	Preferred Ordinary	100
Wagonex Ltd	Preferred Ordinary	32
WEPCO Ltd	A Ordinary	100
WP Realisations 2022 Ltd	Preferred Ordinary	45
X4 Software Ltd	A Ordinary	100
Yard Associates Ltd	Preferred Ordinary	100
Zeal Innovation Ltd	Preferred Ordinary	100

Notes to the Company financial statements

For the year ended 31 March 2024

28. Investments (continued)

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 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 and Wales. 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:

	2024	2023
	£000s	£000s
Investments in non-consolidated funds	400	400
Other debtors	237	315
	637	**715**

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.

29. Other financial assets

	2024	2023
	£000s	£000s
Debtors due within one year:		
Trade debtors	18	27
Amount owed by group undertakings	1,685	-
Other debtors	79	151
Prepayments and accrued income	696	922
	2,478	**1,100**

Notes to the Company financial statements

For the year ended 31 March 2024

30. Other current financial liabilities

Trade and other payables	2024	2023
	£000s	£000s
Trade creditors	599	823
Taxation and social security	1,670	396
Other creditors	87	31
Accruals	1,030	1.142
Amount owed to principal shareholder	34,307	-
	37,693	**2,392**

31. Other non-current financial liabilities

	2024	2023
	£000s	£000s
Amounts owed to group undertakings	2,889	2,889
Amount owed to principal shareholder	678,876	703,446
	681,765	**706,335**

Amounts owed to the principal shareholder relate to FTR and core capital funding and is repayable by 31 March 2049. These borrowings are non-secured and are non-interest bearing.

There are no trade payables past due and the trade payables and other creditors will be settled within the credit period offered by the counterparty.

Appendix A

The following tables do not form part of the audited financial statements. For further explanation of the tables please refer to the Chief Financial Officer's Report on page 15.

Table A: High-level analysis of 2024 and 2023 pre-tax consolidated income statement (CIS)

	Services	Funds	Consolidation adjustment	Group (per the financial statements)
2024				
	£m	£m	£m	£m
Revenue	49.0	88.4	-42.9	94.5
Operating costs	-42.8	-32.6	42.9	-32.5
Provisions made	-	-18.2	-	-18.2
Changes in fair value	-	-0.1	-	-0.1
Notional interest charge on WG loans	-	-2.9	-	-2.9
Taxation	-1.3	-1.5	-	-2.8
Profit after taxation	4.9	33.1	0	38.0
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)
Taxation	-	-	-	-
Profit/(loss) after taxation	3.5	(27.6)	-	(24.1)

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 £42.9million (2023: £36.1million) 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 125 as follows:

	2024	2023
All revenue items below are on the face of the CIS	£m	£m
Revenue	32.2	29.1
Release of ERDF and other grant income	20.5	20.3
Other interest income	41.8	12.8
Total revenue per Table A	**94.5**	**62.2**

The costs and profit after taxation total in Column 4 of Table A ties back directly to the total administrative expenses and profit shown in the CIS on page 125.

Table B: Services 2024 and 2023 pre-tax income statement analysis

	2024	2023	Financial statements reference
	£m	£m	
Fund management income	49.0	41.4	Note (i) after Table C below
Total revenue	49.0	41.4	Table (A)
Staff costs	(20.6)	(18.7)	Pg 152 Note 7
Other costs	(22.2)	(19.2)	Note (ii) after Table C below
Total costs	(42.8)	(37.9)	Table (A)
Taxation	(1.3)	-	Table (A)
Profit after taxation	4.9	3.5	Table (A)

Table C: Funds 2024 and 2023 pre-tax income statement analysis

	2024	2023	Financial statements reference
	£m	£m	
Fees received	3.8	5.0	Note (i) below
Dividends and interest income	19.2	14.6	
Notional interest on CWBLS loans	3.1	4.2	
Total dividends and interest income	**22.3**	**18.8**	Pg 151 Note 5 Revenue less fees
ERDF Grant release	20.0	20.3	Pg 151 Note 5
Release of other grant income	0.5	0	Pg 151 Note 5
Bank interest received	41.8	12.8	Pg 152 Note 8
HTB-W fair value changes: - Realised /gain on disposal -Unrealised /(loss) in year - /Decrease in amount owed to principal shareholder	 7.9 34.8 (42.7)	 13.6 (50.6) 37.0	CIS Pg 125
Net HTB-W fair value change shown in CIS	0	0	
Total net income	88.4	56.9	Table (A)
Provisions /(charged)	(18.2)	(16.8)	CIS Pg 125
Other fair value /(losses)	(0.1)	(30.4)	CIS Pg 125
Non-consolidated fund fair value (loss)	0	(0.1)	CIS Pg 125
Fund management fees paid	(30.8)	(26.0)	Note (ii) below
Other costs	(1.8)	(1.9)	Note (ii) below
Notional interest on WG loans	(2.9)	(9.3)	CIS Pg 125
Total costs	(53.8)	(84.5)	Table (A)
Taxation	(1.5)	0	Table (A)
Profit/(loss) after taxation	33.1	(27.6)	Table (A)

Note (i) – Fees shown in Note 5 Pg 151 of the DBW Group financial statements is the sum of the fund management income per Table B less the consolidation adjustment plus the funds' fees per Table C.

Note(ii) – Other administrative expenses shown in the CIS on Pg 125 of the DBW Group financial statements is the sum of staff and other costs per Table B plus fund management fees and other costs per Table C less the consolidation adjustment.

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