Company Registration No. 01833687

DBW FM LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2022

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley
M Owen
D Staziker
R Hunter
N Maguinness

SECRETARY

J Oates

REGISTERED OFFICE

Unit J
Yale Business Village
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LL13 7YL

BANKERS

Barclays Bank Plc
PO Box 69
Queen Street
Cardiff
CF10 1SG

AUDITOR

Mazars LLP
Statutory Auditor
30 Old Bailey
London
EC4M 7AU

STRATEGIC REPORT

ANNUAL RESULTS

The principal activity of the Company is the provision of fund management services. It also holds some older funds which are fully invested except for the Small Loan Fund, which is able to recycle its investment returns into new investments not eligible for the Development Bank of Wales Group funds. The Development Bank of Wales Group comprises Development Bank of Wales plc and its subsidiaries, which provide financial services to SMEs.

During the year ended 31 March 2022, DBW FM Limited managed fund contracts for the following funds:

- Finance Wales Interim Fund
- Wales JEREMIE Fund
- Wales SME Investment Fund
- Wales Micro-Business Loan Fund
- Wales Property Development Fund I and Fund II
- Help to Buy – Wales Fund I and Fund II
- Wales Capital Growth Fund
- Wales Technology Seed Fund
- Technology Ventures Investment Fund
- Wales Business Fund
- Management Succession Fund
- Local Energy Fund Wales Flexible Investment Fund
- Wales Stalled Site Fund
- Wales Technology Seed Fund II
- Wales Angel Co Investment Fund
- Wales Tourism Investment Fund
- Wales Commercial Property Fund
- Wales Self Build Fund
- Wales Micro Loan Fund
- Covid-19 Wales Business Loan Scheme

The Company also holds funds in respect of Objective 1 and Small Loans Fund. Investment since inception of the Objective 1 Funds, which commenced trading on 2 January 2002, was as follows:

	2022	**2021**
	£'000	**£'000**
Equity	19,060	19,060
Mezzanine	10,006	10,006
Debt	15,234	15,234
	44,300	44,300

In addition to the above, during its lifetime the Small Loan Fund has invested £32.1 million (2021: £32.1 million) and the Community Loan Fund £2.3 million (2021: £2.3 million) in Welsh SMEs.

The Objective 1 Funds were funded by means of a European Regional Development Grant ("ERDF") and borrowing from Barclays Bank Plc. The Barclays facility was repaid in 2011.

The Wales Small Loan Fund continues to provide loans to small and medium-sized enterprises throughout Wales. The fund is used in areas which are not supported by other Development Bank of Wales loan funds. The fund operates in the same way as do all other Development Bank of Wales funds and all loans made are subject to the usual Development Bank of Wales terms.

The results for the year are set out in the profit and loss account on page 17.

STRATEGIC REPORT

ANNUAL RESULTS (continued)

Other administrative expenses have increased by 11% from 2021 to £16m in line with the growth in the Company's infrastructure to manage the growing number of funds under management.

Whilst the fund management activity carried out by the Company continues to generate a profit, the funds domiciled within the Company will inevitably be subject to upward and downward unrealised fair value gains or losses and in some cases impairment.

Bad debts of £0.027m were written off during the year (2021 - £nil).

No investments were made from Wales Small Loans fund during the year (2021 – nil)

There was 1 equity realisation during the year realising a loss of £2.1m (2021 – 1 realisation with a loss of £0.138m).

The financial position of the company at the year-end is set out in the balance sheet on page 19.

The company will, for the foreseeable future, continue to manage the above investment funds with the intention of stimulating commercial activity and economic growth in Wales.

BUSINESS MODEL

As predominantly a fund management entity DBW FM Limited operates to deliver an annual surplus from operating fund management contracts on a profit-making basis thus covering its staff and operating costs. This allows it to grow its fund management activities and retain key investment staff during the cycle of a fund lifetime as noted above.

Each of these funds is managed on behalf of its various capital stakeholders, on a profit-orientated basis to maximise investment returns and drive key economic outputs such as jobs and growth. This allows the fund returns to be re-invested in follow-on funds to support the following generations of Welsh businesses. Investing on a profit-orientated basis ensured that public funds were thereby always invested in a state-aid compliant manner as required by European Commission guidelines. The United Kingdom's exit from the European Union has not change the basis of investment.

The profit or loss generated by the three funds noted on page 2 held within the Company generally relates to whether an impairment is needed on a loan or there is a fair value change in the equity investments held. The investment activity was nil this year and this is expected to be repeated next year as the Development Bank of Wales Group has a full set of funds to invest from.

The Company believes that the funding provided by the Welsh Government, the European Development Fund, Clwyd Pension Fund and the British Business Bank is secure, it is not anticipated that the impact of the Russian forces entering Ukraine, Covid-19 pandemic and the UK's exit from the EU on the Company is likely to be significant or materially increase during the next 12 months.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has identified the following enterprise risk categories pertinent to its strategy and operations and has ascribed a tolerance to each category as follows:

ENTERPRISE RISK CATEGORY	RISK TOLERANCE
Compliance	Negligible
Conduct	Low
Interface	Low
Investment mandate	Low
Funding	Negligible
Operational	Low
Reputational	Low
Strategic	Low

The Board has determined the following principal risks to the achievement of the Development Bank's strategic objectives and assessed whether the risk has decreased, remained unchanged or increased from the prior year or is new in the year. There are four risk ratings: low, moderate, significant or high.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

1. **Failure to deliver the Development Bank's business case and commitments and/or poor alignment/engagement with our stakeholder.**

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

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

Risk	How we are managing the risk
The long-term continuity of DBW is to a large extent dependent on the continued willingness of Welsh Government to provide funds to invest. Whilst new fund and product opportunities are continuously being explored there is a risk that failure to capitalise on these will threaten the long-term viability of the business. There is a risk of failure to deliver current or future funds due to detrimental impact on portfolio management requirements and likelihood/scale/timing of further funds from Welsh Government coupled with increased portfolio size due to CWBLS delivery. Area of risk: FUNDING Risk tolerance: Negligible Pre-control rating: High	We draw on our own experience and that of our customers to identify gaps in private sector funding provision and work closely with colleagues in the Welsh Government to develop innovative fund proposals to address market failure, such as with the recently launched Leaseholder Support Scheme. Evidencing continued successful delivery of fund outputs is key to our credibility both as a professional and successful delivery channel for Welsh Government business support initiatives and a fund management business. Accordingly, we closely track fund performance and delivery of the key performance indicators associated with them. We continue to develop new fund opportunities where we identify there to be market failure as part of our strategy to deliver a rolling programme of funds. For example we are working with Welsh Government to deliver a range of funds aligned to the decarbonisation agenda. Our diligent stewardship of existing funds under management seeks to maximise returns to contribute to future fund requirements. Post-control rating: Negligible

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

3. Failure to meet fund performance objectives

Risk	How we are managing the risk
DBW has built a strong track record of successful fund delivery. It is critical to the future of the Bank that this record is enhanced through the continued achievement of fund objectives. There is an ongoing risk of adverse implications on fund performance (both in terms of demand for funds and default rates) due to the long-term impact of Covid-19 and the current challenging economic climate of high inflation increasing interest rates and fragile business and consumer confidence. These risks may translate into DBW funds generating fewer jobs or lower levels of private sector co-investment. There is a risk that impairments exceed anticipated default rates, leading to failure to repay Financial Transaction Capital to Welsh Government, or funds to other stakeholders on time or in full. Area of risk: INVESTMENT MANDATE Risk tolerance: Low Pre-control rating: High	We continue to assess the impact of Covid-19 on our loan and equity portfolios and review developments on a case by case basis as part of our portfolio monitoring activity. This will inform overall performance against fund targets, which is kept under review and remodelled as appropriate. We understand that in these uncertain times the availability of funding from DBW is more important than ever. Accordingly, we continue to raise awareness of the availability of funding to Welsh businesses. We have strengthened our Specialist Portfolio Risk Team in anticipation of more businesses experiencing stress or distress due to the challenging economic climate. The Portfolio Risk Team works closely with businesses to provide tailored support packages, such as forbearance, wherever possible. Post-control rating: Low

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

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

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Risk	How we are managing the risk
Failure to maintain or recover operational effectiveness following disruptive events could impact both the release of funds to customers and collection of repayments from them. Customer service and fund returns could both suffer as a result. The risk that the business takes on too much change or inadequately manages current change programmes. Inefficient or ineffective processes or systems are also likely to result in poor customer service standards and reputational damage to DBW's brand and track record. An inconsistent approach to core investment activity will impact performance in terms of increased impairments, reduced fund returns and increased possibility of the breach of funding agreements. Area of risk: OPERATIONAL Risk tolerance: Low Pre-control rating: High	Security and resilience embedded through the increasing use of Cloud services for our IT estate and applications. Additionally, Business Continuity plans are in place and we run incident scenario exercises. A Project Management Office (PMO) is in place to provide oversight and governance to strategic change. A change function (CMO) has been established to manage the growth of the organisation. 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. Post-control rating: Significant

6. Failure to comply with legal and regulatory requirements

Risk	How we are managing the risk
DBW and its activities are subject to a variety of laws and regulations. Examples of these include; the Financial Conduct Authority (FCA) in respect of consumer credit and the activities of FW Capital Ltd, the procurement of products and services, geographical constraints regarding investment and loan activity, the General Data Protection Regulation (GDPR) and the UK subsidy regime. Breach of these regulations would damage DBW's brand and reputation and could result in fines or other sanctions, including legal action, which could impede the Bank's ability to operate or raise further funds. Area of risk: COMPLIANCE Risk tolerance: Negligible Pre-control rating: High	We are committed to a high level of compliance with relevant legislation and regulation. Internal policies, and corporate governance principles. We have a comprehensive suite of detailed policies and procedures to direct governance supported by a diverse range of mandatory training for all colleagues. New customer onboarding due diligence, e.g. KYC, sanctions screening etc. Ongoing customer due diligence. Suspicious activity reporting procedure The Compliance team undertakes file sampling activity, the results of which are reported to senior management. Our independent internal auditors provide assurance on the design and effectiveness of internal controls across DBW, reporting to the Audit and Risk Committee. They have delivered the internal plan and have categorised DBW's risk management and control processes as "Generally satisfactory with some improvements required". Post-control rating: Low

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Risk	How we are managing the risk
Cyber risk results from IT and communication system(s) failure due to compromise through malicious activity or unintentional user error. Cyber risk is becoming increasingly more prevalent in the financial services sector as institutions become more reliant on technology and data. Additionally the current political climate and international conflict raise this risk further. DBW's IT estate needs to be operationally durable and reliable, resilient to external attack and, in a worst case scenario, configured to overcome denial of service attacks in a timely fashion. Area of risk: OPERATIONAL Risk tolerance: Low Pre-control rating: High	Our IT estate is protected by a range of measures including an industry leading managed cyber security platform that provides automated vulnerability management, cloud and local firewalls, data encryption, multiple layers of antivirus protection, internet content filtering and backups. Penetration tests are carried out annually or at any point of significant change. Specialist third party advice is sought where appropriate. IT support is outsourced to a range of specialist third party suppliers, all of whom are subject to contractually enforceable Service Level Agreements. IT procedures are detailed in our Information Security Policy. Online security and cyber awareness training is delivered on a continuing basis and is mandatory across the Development Bank. We hold the Cyber Essentials Plus governance accreditation and IASME certification. Post-control rating: Significant

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

Risk	How we are managing the risk
DBW is required to operate a pay and reward system that is aligned to public sector pay constraints, despite undertaking activities that are aligned with the private sector financial services industry. The inability to recruit and retain colleagues or the loss of key personnel would result in the loss of valuable experience and knowledge, could adversely impact the customer service and our ability to deliver funds effectively. The disruption to working patterns caused by Covid-19 threatens the culture of many businesses and can impact morale. Area of risk: OPERATIONAL Risk tolerance: Low Pre-control rating: High	A succession plan is in place for key posts. DBW operates a performance appraisal process to ensure that strong performance is recognised and that employees are motivated and competent in their roles. Staff development is encouraged and a range of training options are available. Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year. Home working has many benefits, such as improved work/life balance and greater flexibility contributing to improved productivity. However, we are acutely aware of the sense of isolation and being "always on" that can also result. It is for these reasons that we have transitioned to a hybrid working model and most colleagues now chose to split their working time between home and the office. Post-control rating: Low

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

Risk	How we are managing the risk
There is a risk that DBW does not procure, contact with or manage its third-party suppliers effectively. When purchasing goods or services DBW is required to comply with the provisions of the Public Contracts Regulations 2015 and, more generally, to be satisfied those suppliers are operating in accordance with other relevant regulations, such as GDPR. Failure to do so could result in the appointment of unsuitable providers, reputational damage, unbudgeted costs, fines and the need to repeat procurement exercises. Area of risk: INTERFACE Risk tolerance: Low Pre-control rating: High	DBW has in-house specialist procurement and IT services staff with access to external legal advice and consultancy as required. Internal policies and procedures are regularly reviewed and updated to ensure that regulatory requirements are satisfied. Due diligence is performed when engaging with a new third party. Project teams are created when undertaking large procurements and are supported by specialist legal advice as necessary. This approach ensures that the input of all relevant colleagues is obtained, and that detailed consideration is given to the nature of the goods and services being purchased, the contract terms applicable and any specific risks related to the suppliers. Ongoing suppliers are risk rated and periodically reviewed. Post-control rating: Significant

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

10. *Being perceived as having insufficient focus on the Environmental, Social and Governance (ESG) aspects of our activities*

Risks	How we are managing the risk
The enhanced focus on climate change, the transition to a net-zero economy from society, our regulators and the financial and public sector have led to the emergence of new and increasing risks in this important area. Rightly, funders are facing increased scrutiny on climate and boarder ESG-related issues. Accordingly, we face reputational risks if we fail to articulate our commitment to the transition to a low carbon economy, to protect biodiversity and human rights. Failure to recognise the physical and disruptive effects of climate change on the viability of new funding opportunities and existing portfolio businesses alike could result in higher default rates. In addition, reputational damage may arise from funding industries or businesses in some sectors, or where the environmental, social and/or governance credentials of an investee business are poor or not perceived to be in support of the social or environmental agenda. Failure to develop DBW's operational commitment to the ESG agenda may result in loss of relevance as a responsible employer, leading to higher staff turnover. Failure to identify, support and promote ESG credentials of portfolio businesses could result in future fund management opportunities being missed. Area of risk: STRATEGIC Risk tolerance: Low Pre-control rating: High	DBW is committed to managing its business activities and operations in a sustainable manner. The Bank is both a responsible business and an impact investor and has been the catalyst for the creation or safeguarding of thousands of jobs. We recognise that ESG considerations go beyond our established impact measures and ESG considerations are built into policies, procedures and Key Risk Indicators. Bidders' environmental, social and governance arrangements and performance aspects are considered when procuring goods and services as part of any procurement or appraising new funding opportunities. The annual review of DBW's compliance with the UK Corporate Governance Code is reviewed by the Board and identifies areas for improvement. Post-control rating: Moderate

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

J Oates

Company Secretary

30 September 2022

DIRECTORS' REPORT

The directors present their Annual Report and the audited Financial Statements for the year ended 31 March 2022.

BUSINESS REVIEW, PRINCIPAL ACTIVITIES AND EVENTS AFTER THE BALANCE SHEET DATE

As a fund management entity DBW FM Limited operates to deliver an annual surplus from operating fund management contracts on a profit-making basis thus covering its staff and operating costs. This allows it to grow its fund management activities and retain key investment staff during the cycle of a fund lifetime. The principal activity of the Company is carried out in Wales and the North East and North West of England. The Company believes that the funding provided by the Welsh Government (WG), the European Development Fund, Clwyd Pension Fund and the British Business Bank is secure, it is not anticipated that the impact of the Russian forces entering Ukraine, Covid-19 pandemic and the UK's exit from the EU on the Company is likely to be significant or materially increase during the next 12 months. DBW FM Limited also operates the Wales Small Loan Fund which provides loans to small and medium-sized enterprises throughout Wales, in circumstances which are not supported by other Development Bank of Wales's loan funds. No investments were made from the Wales Small Loan Fund during the year. Historically, the Company also operated the Development Bank of Wales Group's first European Regional Development Fund (ERDF) backed investment fund, in the Objective 1 areas of Wales, (West Wales and the South Wales valleys) and a Community Loan Fund.

There have been no significant events since the balance sheet date.

GOING CONCERN

The Directors have made an assessment of going concern, taking into account both current performance and the Company's outlook which considered the impact of the Russian Forces entering Ukraine, Covid-19 pandemic and the UK's exit from the European Union. As part of the assessment of going concern the Directors made enquiries and reviewed forecasts for the Company including considering the recoverability of the outstanding loan investments, undrawn funding commitments and investment repayments made, and the Directors believe there are no material uncertainties that lead to significant doubt on the Company's ability to continue in business over the next 12 months at least.

The going concern assessment for the Group covers all its subsidiaries so all inputs and assumptions used to support our conclusion can be found within the publicly available Group financial statements of Development Bank of Wales. The going concern assessment period covers the period to 30 September 2023, 12 months subsequent to signing the Annual report and financial statements for the year ended 31 March 2022.

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.

RUSSIAN FORCES ENTERING UKRAINE

On 24 February 2022 Russian forces entered Ukraine, resulting in Western Nation reactions including announcements of sanctions against Russia and Russian interests worldwide and an economic ripple effect on the global economy. The directors have carried out an assessment of the potential impact of Russian forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and have concluded that the greatest impact is expected to be from the economic ripple effect on the global economy. but it is not currently possible to determine the amount of potential impairment to investments.

FINANCIAL RISK MANGEMENT OBJECTIVES AND POLICIES

The principal business of the company is the provision of fund management services to the Development Bank of Wales Group. The key financial risk is the loss of fund management contracts either through expiry and non-replacement or removal on performance grounds. These risks are an inherent feature of this activity, and it is not anticipated that this risk will materially increase in the next 12 months.

The other, minor, business of the company is investment and, as such, exposure to and management of portfolio risk is an inherent feature of this activity, particularly given the area of the market in which the company operates. It is not anticipated that this risk will materially increase during the next 12 months.

The company's activities expose it to a number of financial risks including credit risk and liquidity risk.

DIRECTORS' REPORT

Credit risk

The Company's financial assets are bank balances and cash, loan receivables and investments.

The Company's credit risk is primarily attributable to its loan receivables. For further information in respect of credit risk see Note 3.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and companies.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses its cash balances available.

The company has no financial derivative instruments in place.

FUTURE DEVELOPMENTS

DBW FM Limited will continue to work with Welsh Government and regional economic boards to develop collaborative investment services where required. Profitability is anticipated to be maintained at the level experienced in the current and prior year.

DIVIDENDS

The directors did not declare a dividend in the current year (2021 - nil).

DIRECTORS

The directors of the Company, who served throughout the financial year unless stated otherwise and subsequent to the date of this report are as shown on page 1.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are disclosed in Note 6 of the financial statements.

DIRECTORS' INDEMNITIES

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

POLITICAL DONATIONS

The company made no political donations during 2022 (2021: nil)

AUDITOR

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Development Bank of Wales plc (the "Group") of which the Company is a subsidiary, undertook a procurement exercise for external audit services during the 2022 financial year and Mazars LLP were subsequently appointed.

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

J Oates (Company Secretary)
30 September 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 Company and of the profit or loss of the company for that period.

In preparing these 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 applicable UK Accounting Standards 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW FM LIMITED

Opinion

We have audited the financial statements of DBW FM Limited (the 'company') for the year ended 31 March 2022 which comprise the profit and loss account, balance sheet, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW FM LIMITED

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.
- 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 company and its 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW FM LIMITED

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 12 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 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 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 the 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 company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation and anti-money laundering regulation.

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:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW FM LIMITED

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 posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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

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

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.

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

Use of the audit report

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

Pauline Pélissier
(Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU
30 September 2022

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2022

	Note	2022 £	2021 £
Revenue	4	22,557,316	20,174,240
Operating expenses:			
Impairment	5	(1,326,255)	621,756
Other administrative expenses		(16,042,974)	(14,464,350)
Total operating expenses		(17,369,229)	(13,842,594)
Other losses:			
Fair value loss on financial assets	5	3,741,073	(197,868)
Realised loss from the disposal of financial assets	5	(2,053,588)	(137,748)
Total other losses		1,687,485	(335,616)
OPERATING PROFIT		6,875,572	5,996,030
Interest receivable	7	158,356	190,049
Finance costs	8	(10,000)	(10,000)
PROFIT BEFORE TAXATION		7,023,928	6,176,079
Tax on profit	9	-	-
PROFIT FOR THE FINANCIAL YEAR		7,023,928	6,176,079

All activities derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2022

	Note	2022 £	2021 £
Profit for the financial year		7,023,928	6,176,079
Items that may be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension schemes	15	1,210,555	259,445
Other comprehensive income for the year		1,210,555	259,445
Total comprehensive income for the year		8,234,483	6,435,524

Other comprehensive income is stated net of tax effects

BALANCE SHEET
As at 31 March 2022

	Note	2022 £	2021 £
NON-CURRENT ASSETS			
Intangibles	10	-	281,413
Financial Assets at fair value	11	1,691,528	4,042
Trade and other receivables	12	11,007,602	12,456,054
Retirement benefit	15	690,000	-
		13,389,130	12,741,509
CURRENT ASSETS			
Trade and other receivables	12	1,292,998	3,468,914
Cash at bank and in hand		36,462,560	26,300,632
		37,755,558	29,769,546
TOTAL ASSETS		51,144,688	42,511,055
CURRENT LIABILITIES	13	(3,773,188)	(3,013,483)
NET CURRENT ASSETS		33,982,370	26,756,063
TOTAL ASSETS LESS CURRENT LIABILITIES		47,371,500	39,497,572
RETIREMENT BENEFIT LIABILITIES	15	-	(360,555)
NET ASSETS		47,371,500	39,137,017
CAPITAL AND RESERVES			
Public equity		19,665,747	19,665,747
Called up share capital	16	10,000	10,000
Profit and loss account		27,695,753	19,461,270
TOTAL SHAREHOLDERS' FUNDS		47,371,500	39,137,017

The financial statements of DBW FM Limited, registered number 01833687, were approved by the Board of Directors and authorised for issue on 30 September 2022.

Signed on its behalf by

Michael Owen

M Owen
Director

STATEMENT OF CHANGES IN EQUITY
As at 31 March 2022

	Note	Public equity £	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2020		19,665,747	10,000	13,025,746	32,701,493
Profit for the year		-	-	6,176,079	6,176,079
Actuarial gain on defined benefit pension schemes	15	-	-	259,445	259,445
Total comprehensive income for the year		-	-	6,435,524	6,435,524
Balance at 31 March 2021		19,665,747	10,000	19,461,270	39,137,017
Profit for the year		-	-	7,023,928	7,023,928
Actuarial gain on defined benefit pension schemes	15	-	-	1,210,555	1,210,555
Total comprehensive income for the year		-	-	8,234,483	8,234,483
Balance at 31 March 2022		19,665,747	10,000	27,695,753	47,371,500

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of accounting

DBW FM Limited is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The Company is a private Company limited by shares and is registered in England & Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 2 to 9.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) '*Reduced Disclosure Framework*' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis and on a going concern basis as discussed in the Director's report on page 10. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability of market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis. In addition, for financial reporting purposes fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the Group financial statements of Development Bank of Wales plc. The Group financial statements of Development Bank of Wales plc are available to the public and can be obtained as set out in Note 17.

Taxation

Current Tax

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 by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. **ACCOUNTING POLICIES (continued)**

Taxation (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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 Company 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. Dividend income is recognised within revenue in the statement of profit and loss.

Foreign Currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the company operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. **ACCOUNTING POLICIES (continued)**

Retirement benefits

The Company operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taff 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 in the period in which they are due.

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.

Financial Instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company 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 fair value through profit and loss (FVTPL)) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

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

Specifically:

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

Loans and advances to customers

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. 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 Company 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 Company 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 Company 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 profit or loss. Fair value is determined in the manner described in Note 13.

Impairment

The Company assesses on a forward-looking basis, the expected credit losses (ECLs) 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.

1. **ACCOUNTING POLICIES (continued)**

Financial instruments (continued)

Impairment (continued)

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 Company under the contract and the cash flows that the Company expects to receive, arising from discounting the cash flows at the asset's EIR.

More information is provided in Note 3, including details on how instruments are grouped to assess the correct inputs for the ECL calculation.

Significant increase in credit risk (SICR)

The Company 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 Company 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 Company 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 Company's historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See Note 3 for more details about forward-looking information.

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 Company uses its portfolio risk grading system (grades A to E) to identify credit-impaired financial assets. Indicators of credit-impairment used by the Company are presented in the portfolio grade descriptors on page 29. 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 Company assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date.

Definition of default

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

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

- the customer has incurred significant unauthorised arrears as a result of overdue contractual repayments (see Note 3 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 Company 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 Company recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. **ACCOUNTING POLICIES (continued)**

Financial instruments (continued)

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 Company renegotiates and reschedules loans to customers for a number of reasons. The most common reason is to assist customers in financial difficulty in order to maximise our collections and minimise the risk of default. The revised terms in most cases include an extension of the maturity of the loan or changes to the timing of the cash flows of the loan (principal and interest repayment). On modification the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate.

An assessment needs to be made at the time of modification as to whether the modification warrants the financial asset being de-recognised and a new financial asset originated. A change is deemed to be substantial if the movement in NPV due to modification is >10%. In these cases, the original financial asset will be de-recognised and, where appropriate, a new financial asset originated at the date of modification. Where a loan is de-recognised and a new loan originated, a gain or loss being the difference between the fair value of the new loan recognised and the carrying amount of the original loan de-recognised (including the cumulative loss allowance) will be recognised in the profit and loss account. 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 Company would also de-recognise a financial asset where the modification of that financial asset would lead to any of the following scenarios:

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

Write-off

Loans and equity investments are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company 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 Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains being recognised in profit or loss.

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, 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 Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Related party transactions

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.

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.

The funding is to invest in the long-term sustainability of Development Bank of Wales and, within the Welsh Government's own accounting arrangements, the funds are regarded as being an investment.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

The following is the critical judgement, that the directors have made in the process of applying the Company's accounting policies and that has the most significant effect on the amounts recognised in the financial statements.

Deferred tax

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 a liability of £45,045 (2021: asset of £170,156) being recognised before any potential liabilities are taken into account.

Key sources of estimation uncertainty

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

Fair value measurement and valuation process

In estimating the fair value of a financial asset or liability, the Company uses market-observable data to the extent that it is available. Where such level 1 inputs are not available the Company 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 judgement and estimates the extent of which depends on the complexity of the instrument.

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

Further details of the Company's level 3 financial instruments and the valuation techniques used are set out in Note 14.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK

Credit risk is the risk that a customer will default on their contractual obligations resulting in financial loss to the Company. The Company'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 Company's Risk and Compliance team is responsible for managing the Company's credit risk by:

- Ensuring the Company has appropriate credit risk practices, including an effective system of control, to consistently determine adequate allowances in accordance with the Company's stated policies and procedures, and IFRS.
- Identifying assessing and measuring credit risk across the Company, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Company 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 Company'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 Company's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method to measure ECL.
- Ensure that the Company 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 Company in the management of credit risk.

As part of a 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 1 the company 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 Company will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Company operates a portfolio grading system that categorises asset exposure according to the degree of risk of default. The Company'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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. **CREDIT RISK (continued)**

Internal credit risk ratings (continued)

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

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

Assets in grades D and E show a further increase in credit risk with objective evidence of impairment and are, therefore, regarded for IFRS 9 as Stage 3 assets.

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

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.

3. CREDIT RISK (continued)

Overdue accounts

The Company 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 in credit risk and moved to Stage 2.

Within IFRS 9 there is a rebuttable trigger for assets which are over 90 days past due to be moved to Stage 3. Assets in Stages 1 and 2 which are over 90 days past due will already have been reviewed and assessed within our grading procedures. The asset may have been modified and rescheduled and payments may now be in line with the revised schedule, but the grading will also have been reviewed and if it is appropriate and there is objective evidence of impairment will have been moved to either a grade D or E and therefore be in Stage 3.

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

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

Incorporation of forward-looking information

The Company uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as its measurement of ECL.

An initial assessment was made to discover if there is a correlation between any of the principal macroeconomic indicators and the Company's default rate. The principal macroeconomic indicators considered were the Bank of England base rate, the unemployment rate, the Consumer Prices Index measure including owner occupiers housing costs (CPIH) annual rate, Gross Domestic Product (GDP) quarter on quarter growth, and the annual house price rates of change for all UK dwellings. It was considered that whilst all these indicators might have an influence, there is no direct correlation between them and the Company's default rate which could be established.

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

Measurement of expected credit loss (ECL)

The portfolio of loans and advances to customers held at amortised cost has been disaggregated into categories of loans with shared credit risks. The Company then uses a loss rate model to calculate the 12-month and lifetime ECL for each category. Previously, four categories of loan with different risk profiles have been identified: micro loans, property loans, rescue and restructure loans, and mainstream loans.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Measurement of expected credit loss (ECL) (continued)

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

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

At the point of ECL measurement, loans are summarised by portfolio grade and the loss rates for each portfolio grade (either 12-month or lifetime, as appropriate) within each of the six categories is applied and the ECL calculated. The calculation is on a discounted cash flow basis where the cash flows are discounted by the original EIR of the loan.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Groupings based on shared characteristics

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

- Portfolio grade; and
- Investment type.

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

Credit quality

Class of financial instrument

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

Loans and advances to customers at amortised cost.

Concentration by category	**2022**	**2021**
		£
Small loan fund	1,138,911	1,136,303
	1,138,911	1,136,303

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Exposure by class, internal rating and stage

An analysis of the Company's 'credit risk exposure per class of financial asset, internal rating and 'stage' is provided below:

Loans and advances to customers at amortised cost

				2022
				£
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade A-B: Low to fair risk	937,722	-	-	937,722
Grade Micro: Low to fair risk	-	-	-	-
Grade A-B: Low to fair risk - in arrears	-	191,350	-	191,350
Grade C: Early warning	-	232	-	232
Grade C: Early warning – in arrears	-	-	-	-
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	20,000	20,000
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	-	-
Grade E: Objective evidence of impairment	-	-	1,370,250	1,370,250
Total Gross carrying amount	937,722	191,582	1,390,250	2,519,554
Loss allowance	(2,310)	(3,825)	(1,374,508)	(1,380,643)
Net Carrying amount	935,412	187,757	15,742	1,138,911
Provision coverage ratio	0.2%	2.0%	98.9%	54.8%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Exposure by class, internal rating and stage (continued)

Loans and advances to customers at amortised cost

				2021
				£
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	817,621	-	-	817,621
Grade Micro: Low to fair risk	-	-	-	-
Grade A-B: Low to fair risk - in arrears	-	275,389	-	275,389
Grade C: Early warning	-	-	-	-
Grade C: Early warning – in arrears	-	-	-	-
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	10,232	10,232
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	-	-
Grade E: Objective evidence of impairment	-	-	1,452,761	1,452,761
Total Gross carrying amount	817,621	275,389	1,462,993	2,556,003
Loss allowance	(5,519)	(11,834)	(1,402,347)	(1,419,700)
Net Carrying amount	812,101	263,555	60,646	1,136,303
Provision coverage ratio	0.7%	4.3%	95.9%	55.5%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Movement of loss allowance during year

The table below analyses the movement of the loss allowance during the year per class of asset:

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Loss allowance as at 1 April 2021	5,519	11,834	1,402,347	1,419,700
Changes in the loss allowance:				
New financial assets originated	987	-	-	987
Transfers to Stage 1	1,209	(1,209)	-	-
Transfers to Stage 2	(11)	70	(59)	-
Transfers to Stage 3	-	-	-	-
Increase/(decrease) due to change in credit risk	(5,394)	(6,870)	(811)	(13,075)
Financial assets derecognised in the year	-	-	-	-
Write offs	-	-	(26,969)	(26,969)
Loss allowance as at 31 March 2022	2,310	3,825	1,374,508	1,308,643

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Movement of the gross carrying amount during year

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance is provided in the table below:

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 April 2021	817,621	275,389	1,462,993	2,556,003
Changes in the gross carrying amount:				
New financial assets originated	405,314	-	-	405,314
Transfers to Stage 1	58,660	(58,660)	-	-
Transfers to Stage 2	(1,014)	1,246	(232)	-
Transfers to Stage 3	-	-	-	-
Financial assets derecognised in the year	-	-	-	-
Write offs	-	-	(26,969)	(26,969)
Other changes	(342,859)	(26,393)	(45,542)	(414,794)
Gross carrying amount as at 31 March 2022	937,722	191,582	1,390,250	2,519,554

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 year end.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil (2021: £nil).

Modified financial assets

As a result of the Company'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 FINANCIAL STATEMENTS
For the year ended 31 March 2022

4. REVENUE AND OTHER OPERATING INCOME

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

	2022 £	2021 £
Revenue		
Fees	277,941	186,112
Dividends	44,548	-
Loan interest	2,160	3,081
Management Fees	22,232,667	19,985,047
	22,557,316	20,174,240

5. OPERATING PROFIT

	2022 £	2021 £
Operating profit has been arrived at after charging/(crediting):		
Staff costs (see Note 6)	11,148,627	10,778,881
Impairment	1,326,255	(621,756)
Fair value loss on financial assets	(3,741,073)	197,868
Realised loss from the disposal of financial assets	2,053,588	137,747
Amortisation (see Note 10)	-	82,368

Auditor's remuneration

	2022 £	2021 £
Fees payable to the Company's auditor for the audit of the Company's financial statements	18,461	18,002
Tax compliance	-	8,523

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2022 £	2021 £
Aggregate payroll costs (excluding company directors)		
Wages and salaries	9,026,176	8,715,332
Social security costs	947,559	911,485
Pension costs	1,174,892	1,152,064
	11,148,627	10,778,881
Remuneration of highest paid director	210,929	216,264

	No.	No.
Average number of persons employed (excluding company directors)		
- Fund Management	193	183

Two directors were members of the defined benefit pension scheme (2021 - two).

Four employees of the company (2021: four) act as statutory directors for numerous subsidiary companies of the Development Bank of Wales Group but are not directors of DBW FM Limited. Their emoluments are paid by DBW FM Limited and total £591,913 (2021: £568,334) and all were part of the defined benefit pension scheme. It is not practicable to allocate their remuneration for their services as directors between the numerous subsidiary companies within the Development Bank of Wales plc Group for which they are directors.

7. INTEREST RECEIVABLE AND SIMILAR EXPENSES

	2022 £	2021 £
Interest receivable:		
- Bank deposits	158,356	190,049
Total interest receivable	158,356	190,049

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2022 £	2021 £
Interest payable:		
- Net loss on pension scheme	10,000	10,000
Total interest payable	10,000	10,000

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

9. TAX

	2022	2021
	£	£
Current taxation		
UK corporation tax charge for the year	-	-

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	£	£
Profit before tax	7,023,928	6,176,079
Tax on profit at standard UK corporation tax rate of 19% (2021: 19%)	1,334,546	1,173,455
Effects of:		
Expenses not deductible for tax purposes	320,623	(642)
Deferred tax not recognised	(228,613)	88,148
Income not taxable for tax purposes	(97,140)	-
Rolled over gains	-	697
Effects of group relief/other reliefs	(1,329,416)	(1,261,658)
Total taxation charge	-	-

A net deferred tax liability of £467,927 (2021: asset of £169,388) has not been recognised in respect of timing differences, unused tax losses and accrued pension costs.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

10. INTANGIBLE ASSETS

	2022	2021
	£	£
Software		
Cost		
At 1 April	411,829	411,829
Additions	-	-
Transfer on reclassification	(411,829)	-
At 31 March	-	411,829
Accumulated amortisation		
At 1 April	130,416	48,048
Charge for the year	-	82,368
Transfer	(130,416)	-
At 31 March	-	130,416
Net book value		
At the end of the financial year	-	281,413
At the beginning of the financial year	281,413	363,781

During the current year, previously capitalised software implementation costs were reclassified as Software as a Service arrangements and therefore transferred out of intangible assets.

11. FINANCIAL ASSETS AT FAIR VALUE

	2022	2021
	£	£
Equity investments	1,691,528	4,042
	1,691,528	4,042

Further information in respect of the carrying value can be found in Note 14.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables

	2022	2021
	£	£
Current Assets		
Loans receivable carried at amortised cost	1,822,663	376,953
Impairment	(1,305,489)	(7,704)
	517,174	369,249
Other debtors	751,161	3,050,520
Prepayments and accrued income	24,663	49,145
	1,292,998	3,468,914
Non-Current Assets		
Loans receivable carried at amortised cost	696,891	2,179,050
Impairment	(75,154)	(1,411,996)
	621,737	767,054
Amounts owed by parent company	2,889,000	2,889,000
Amounts owed by other Group companies	7,496,865	8,800,000
	11,007,602	12,456,054

The Company enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is five years. The interest rate inherent in the loans is fixed at the contract date for all of the loan term. There were no investments made during the year. (2021: no investments made).

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

Before accepting any new customer, the Company 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 Company 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.

Amounts owed by parent company are interest free and no formal repayment terms are in place.

Amounts owed by Group companies relate to loans to DBW Investments (5) Limited and DBW Investments (12) Limited. Interest is paid quarterly and is charged at 1.88% and 1.65% respectively. No formal repayment terms are in place. As a result of the Company's recoverability assessment, an impairment of £1,303,135 in respect of its loan to DBW Investments (5) Limited has been recognised during the year (2021: £nil).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

13. FINANCIAL LIABILITIES

	2022	2021
	£	£
Current Liabilities:		
Trade creditors and accruals	2,791,405	2,196,638
Taxation and social security	267,329	250,712
Amounts owed to parent company	638,983	262,777
Other creditors	75,471	303,356
	3,773,188	3,013,483

The Company's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors approximates their fair value.

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

Amounts owed to the immediate parent company are unsecured, interest-free and repayable on demand.

14. 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 1 to the financial statements.

Categories of financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS (continued)

Carrying value

as at 31 March 2022 £	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities at FVTPL	Total
Assets				
Cash and cash equivalents		36,462,560	-	36,462,560
Other investments				
Measured at market price	i	-	1,662	1,662
Measured at FV using other methods	ii	-	1,689,866	1,689,866
Loans to customers	iii	1,138,911	-	1,138,911
Amount due from parent	iii	2,889,000	-	2,889,000
Amount due from other group companies	iii	7,496,865	-	7,496,865
Other receivables	iii	775,824	-	775,824
Retirement benefit	iv	690,000	-	690,000
Total financial assets		49,453,160	1,691,528	51,144,688
Non-financial assets				-
Total assets				51,144,688
Liabilities				
Amounts due to ultimate parent	iv	638,983	-	638,983
Trade and other payables	iv	3,134,205	-	3,134,205
Total financial liabilities		3,773,188	-	3,773,188
Reserves				47,371,500
Total reserves and liabilities				51,144,688

Carrying value

as at 31 March 2021 £	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities at FVTPL	Total
Assets		26,300,632	-	26,300,632
Cash and cash equivalents				
Other investments				
Measured at market price	i	-	4,042	4,042
Loans to customers	iii	1,136,303	-	1,136,303
Amount due from parent	iii	2,889,000	-	2,889,000
Amount due from other group companies	iii	8,800,000	-	8,800,000
Other receivables	iii	3,099,665	-	3,099,665
Total financial assets		42,225,600	4,042	42,229,642
Non-financial assets				281,413
Total assets				42,511,055
Liabilities				
Amounts due to ultimate parent	iv	262,777	-	262,777
Trade and other payables	iv	2,750,706	-	2,750,706
Retirement benefit obligations	iv	360,555	-	360,555
Total financial liabilities		3,374,038	-	3,374,038
Reserves				39,137,017
Total reserves and liabilities				42,511,055

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

14. 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) Unlisted equity investments are valued using different techniques in accordance with the Company's valuation policy and International Private Equity and Venture Capital Guidelines. Depending on the circumstances of the investment, unlisted equity valuations are based on multiples, discounted cash flows, net asset values or price of recent investment, which can be either the price of recent funding round or cost in the case of a new direct investment.

- A number of multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to current market-based multiple, (level 3 hierarchy as defined below).
- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, discounted using rates appropriate to the specific investment, (level 3 hierarchy as defined below).
- Net asset values are adjusted to take into account differences in the fair value of underlying net assets to their carrying values, (level 3 hierarchy as defined below).
- The price of recent funding round or cost of investment provide observable inputs into the valuation of an individual investment. However, subsequent to the funding round or initial investment, the Directors are required to reassess the carrying value of investments at each year end, which result in unobservable inputs into the valuation methodology, (level 3 hierarchy as defined below).

iii) Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IFRS 9.

iv) The fair value of retirement benefits, amounts owed to our ultimate parent, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date.

The Company 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. For investments in non-quoted securities, the observable inputs are derived from recent transactional events, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, using a recent offer from a prospective purchaser.

Reconciliation of level 3 measurements of financial assets

	2022 £	2021 £
Balance 1 April	4,042	340,000
Disposals	-	(137,747)
Revaluations	1,685,823	(198,211)
Balance 31 March	1,689,865	4,042

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS (continued)

Other price risks

The Company is exposed to equity price risks arising from equity investments. The shares included at market value above represent investments in unlisted equity securities that present the Company with opportunity for return through dividend income and trading gains. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

Market risk

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company 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.

15. RETIREMENT BENEFIT SCHEMES

DBW FM Limited 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 £672,166 (2021: £608,792) represents contributions payable to this scheme by the Company at rates specified in the rules of the schemes. As at 31 March 2022, nil contributions (2021: nil) were due in respect of the current reporting period and 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 company or members.

The Company'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 Company 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 Company is not aware of any specific risks to which the scheme is exposed, details of asset allocation are set out below.

The Company participate in the Local Government Pension Scheme and disclosures regarding the Company's defined benefit pension schemes are required under the provisions of IAS 19 *Retirement Benefits,* and these are set out below.

DBW FM Limited's pension scheme surplus/(deficit):

	2022	2021 £
Net surplus/(deficit)	690,000	(360,555)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

15. RETIREMENT BENEFIT SCHEMES (continued)

The last actuarial valuation was carried out on 31 March 2019 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The major assumptions used for the actuarial valuation of DBW FM Limited pension schemes were:

Key Assumptions	**2022**	**2021**
Rate of increases in salaries	4.15%	3.85%
Rate of increases in pensions in payment	2.9%	2.6%
Rate of increase to deferred pensions	2.9%	2.6%
Discount rate	2.7%	2.1%
Inflation assumption CPI	2.9%	2.6%

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

Mortality Assumptions	**Males**		**Females**	
	31 March 2022	**31 March 2021**	**31 March 2022**	**31 March 2021**
Member aged 65 at accounting date	21.6	21.8	23.9	24.1
Member aged 45 at accounting date	22.6	22.8	25.4	25.6

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

Reconciliation of Funded Status to Balance Sheet	**2022 £**	**2021 £**
Fair value of assets	22,050,000	21,579,445
Present value of funded defined benefit obligation	(21,340,000)	(21,940,000)
Surplus/(Deficit)	710,000	(360,555)
Unrecognised asset	(20,000)	-
Net surplus/(deficit)	690,000	(360,555)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

15. RETIREMENT BENEFIT SCHEMES (continued)

Amounts recognised in income statement

	2022	2021
	£	£
Operating costs		
Current service cost	900,000	610,000
Past service cost	-	-
Total operating charge	900,000	610,000
Financing Cost		
Interest on net defined benefit liability	10,000	10,000
Pension expense recognised in profit and loss	910,000	620,000

Amounts recognised in other comprehensive income

	2022	2021
	£	£
Asset (loss)/gain arising during the period	(769,445)	5,269,445
Liability gain/(loss), arising during the period	2,000,000	(5,010,000)
Adjustment in respect of unrecognised asset	(20,000)	-
Total actuarial gain	1,210,555	259,445

Changes to the present value of the defined benefit obligation

	2022	2021
	£	£
Opening defined benefit obligation	21,940,000	15,890,000
Current service cost	900,000	610,000
Interest expense on defined benefit obligation	460,000	370,000
Contribution by participants	200,000	190,000
Actuarial /loss on liabilities	(2,000,000)	5,010,000
Net benefits paid out	(160,000)	(130,000)
Closing defined benefit obligation	21,340,000	21,940,000

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

15. RETIREMENT BENEFIT SCHEMES (continued)

Changes to the fair value of assets

	2022 £	2021 £
Opening fair value of assets	21,579,445	15,160,000
Interest income on assets	450,000	360,000
Re-measurement /gain on assets	(769,445)	5,269,445
Contributions by employers	750,000	730,000
Contributions by participants	200,000	190,000
Net benefits paid out	(160,000)	(130,000)
Closing fair value of assets	22,050,000	21,579,445

16. CALLED UP SHARE CAPITAL

	2022 £	2021 £
Authorised, allotted, called up and fully paid		
10,000 ordinary shares of £1 each	10,000	10,000

The Company has one class of ordinary shares which carry no right to fixed income.

17. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate parent undertaking is DBW Managers Limited, a company incorporated in the United Kingdom. Development Bank of Wales plc is the smallest group within which the Company is a member, and for which consolidated financial statements are prepared. Welsh Ministers is the largest group within which the Group results are consolidated. The registered office address of Development Bank of Wales plc is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL. Copies of the Group financial statements of Development Bank of Wales plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays Park, Cardiff, CF10 3NQ.

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