

# Banc

BANC DATBLYGU CYMRU  
DEVELOPMENT BANK OF WALES



*Annual report and  
financial statements*

# 2018/19

MONDAY



\*A8ELUX20\*

A08

23/09/2019

#343

COMPANIES HOUSE

# Annual report and financial statements 2018/19

## Officers and professional advisers

### Directors

**Gareth Bullock**  
Chair

**Giles Thorley**  
Chief Executive

**Huw Morgan**  
Non-Executive  
Senior Independent Director

**Iraj Amiri**  
Non-Executive Director

**Carol Bell**  
Non-Executive Director

**Roger Jeynes**  
Non-Executive Director

**Margaret Llewellyn OBE**  
Non-Executive Director

**David Staziker**  
Chief Financial Officer  
(appointed 1 April 2018)

**Company Secretary**  
Judi Oates

### Registered office

Unit J  
Yale Business Village  
Ellice Way  
Wrexham  
LL13 7YL

### Bankers

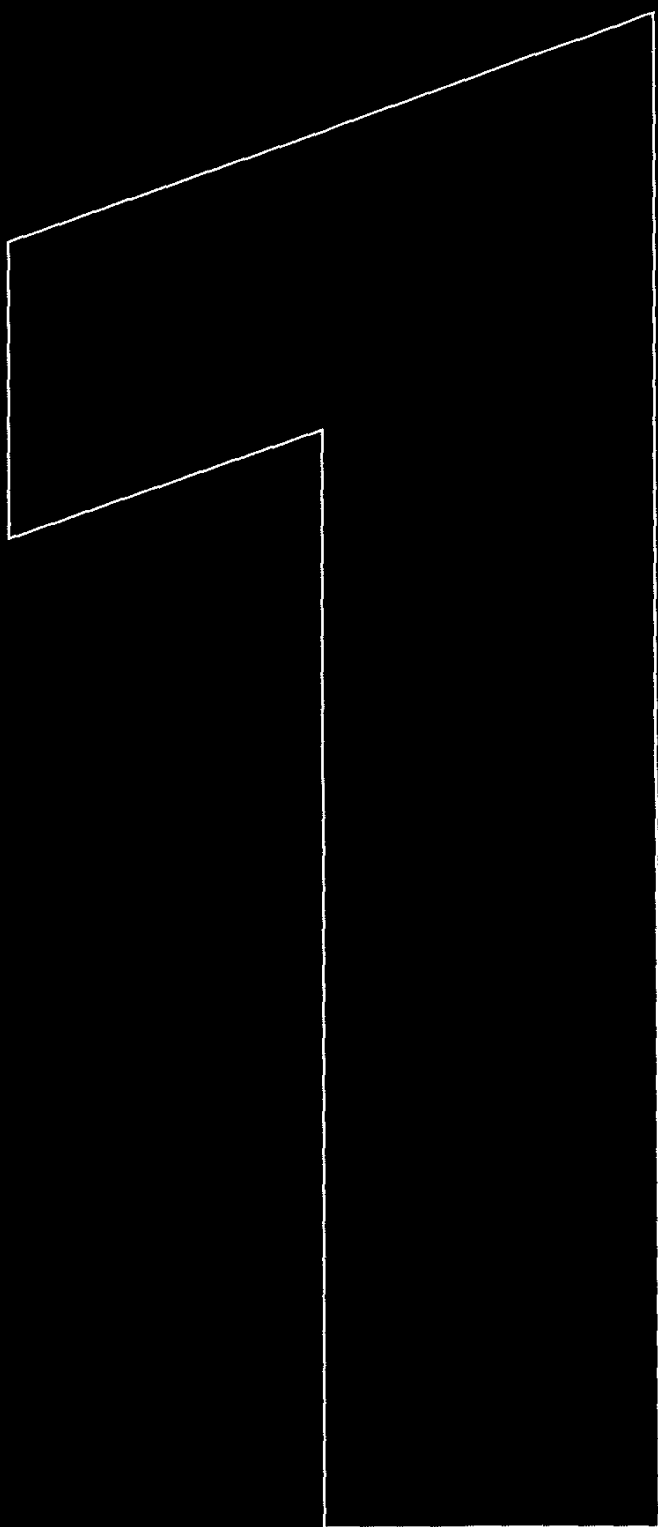
Barclays Bank Plc  
PO Box 69  
Queen Street  
Cardiff

### Auditors

Deloitte LLP  
5 Callaghan Square  
Cardiff  
CF10 5BT

# Contents

<b>Introduction</b>	<b>3</b>	Risk management framework	82
Mission, Vision, Values, Goals	5	Risk culture	83
Five year target	6	Risk tolerance	84
Chair's statement	7	Principal risks	85
Chief Executive's report	9	Lines of defence model	93
Performance highlights	11	Responsible business	95
Our year	13		
Business model	15	<b>Governance</b>	<b>102</b>
Investment Director's report	17	Governance section	103
		Directors' report	104
<b>Investments and other services</b>	<b>19</b>	Directors' biographies	105
Starting a business	21	Corporate Governance statement	112
Growing a business	25	Audit and Risk Committee report	114
Fast-track loans	37	Remuneration Committee Report	119
Developing a tech venture	39	Nomination Committee Report	121
Buying a business	47	Other committees	122
Financing a property development	51		
Angels Invest Wales	53	<b>Financial statements</b>	<b>123</b>
Economic Intelligence Wales	55	Independent auditor's report	125
Help to Buy – Wales	57	Consolidated income statement	139
FW Capital	59	Consolidated statement of comprehensive income	140
		Consolidated statement of changes in equity	141
<b>Funds, people and relationships</b>	<b>63</b>	Consolidated balance sheet	142
Funds	65	Consolidated cash flow statement	144
People	66	Notes to the consolidated financial statements	145
Relationships	67	Company balance sheet	201
Working together with Welsh Government	68	Company statement of changes in equity	202
		Notes to the company financial statements	203
<b>Financial and risk management</b>	<b>69</b>	Appendix A to the annual report and financial statements	211
Chief Financial Officer's report	71		
Risk management and internal control	80		





# INTRODUCTION

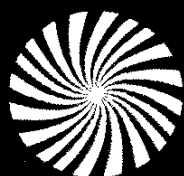
We believe that for Wales to prosper, our businesses need to prosper. When our businesses thrive, they create a higher number of better quality jobs. The people they employ strengthen our communities. When Welsh businesses are strong, Wales is strong. Our purpose is to make it easier for businesses to get the finance they need to start up, strengthen and grow.



## Mission

To unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the market.

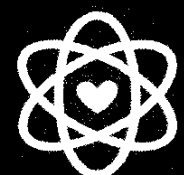
---



## Vision

To be a unique resource for Wales, creating long-term value and enhancing a dynamic, competitive Welsh economy.

---



## Values

Open | Responsible | Partnership

---



## Goals

Become the cornerstone organisation for delivery of public sector financial instruments, supporting micro to medium businesses in Wales and increasing the supply of finance.

---

Deliver key policy objectives by achieving performance targets and providing investment management and support services across the whole of Welsh Government.

---

Promote economic development through an adaptable delivery model that is responsive to market needs whilst providing value for money for public funds.

# Five year targets



**20,000**  
jobs



**1,400**  
businesses  
supported



Minimum  
**£80m p.a.**  
direct investment



**£1bn**  
economic  
impact



Minimum **1:1.15**  
private sector  
investment

# Chair's statement



**Gareth Bullock**  
Chair

**"I am delighted to report on the Development Bank of Wales' activities for its first full year of operation. Our Chief Executive, Giles Thorley, and his team have again done a remarkable job in building momentum and achieving our operating targets."**

---

The Development Bank lent or invested £80m in over 350 Welsh companies, leveraging an additional £126m of private sector capital, resulting in the creation or safeguarding of 3,748 jobs. Over the last five years the Development Bank, through its own funds and the private capital it has leveraged, has invested £720m in Welsh enterprises.

Just 18 months ago the Welsh Government endowed the Development Bank with £233m of investment capital to deploy into the micro to medium enterprise sector, the heart of the Welsh economy.

---

**In this financial year we received a further £197m, tangible evidence of the Welsh Government's continuing commitment to support small Welsh businesses.**

---

With this backing and the private sector capital we leverage we realistically expect to invest a total of about £1bn into the Welsh economy over the next five years.

The capital we receive is the result of detailed discussion and planning with relevant government departments identifying areas of the economy where strategic, long-term funding can overcome obstacles and unlock significant benefits.

The Development Bank uses that capital to create funds targeted at specific sectors or regions, each with tailored investment criteria designed to produce the outcomes agreed with government and informed by the Economic Action Plan.

A good example of this approach has been the residential property sector where two dedicated funds fill the void created by the almost complete withdrawal of conventional commercial bank funding for smaller housebuilding schemes. These have allowed small local house builders to flourish and much needed homes to be built where people want to live. In a new fund we will also be tackling the constrained supply of commercial property and in another those impaired or difficult sites which need some remediation before commercial developers can consider them for new projects. This, I hope, gives a sense of the strategic sectoral approach the Development Bank and the Government's take together, all aligned to the Government's economic priorities.

I am also pleased to report that Economic Intelligence Wales (EIW) commenced its publication of reports which over time aim to create a body of objective insights and clarity about specific sectors of the Welsh economy.

These in turn can inform policy and action. EIW publishes quarterly statistical reports on the Welsh economy and has already issued two bespoke reports on exports and on equity clusters.

---

**The Development Bank is constantly striving to extend its reach to all parts of the Welsh economy.**

To deliver this we must acknowledge the excellent work done by our colleagues at Business Wales in helping entrepreneurs formulate ideas, to support growth plans and to help in more challenging situations. This relationship has seen a three-fold increase in referrals between the Development Bank of Wales and Business Wales in the last year.

At the time of the launch, we made a commitment that we would seek to leverage our experience and performance track record to attract other sources of capital to invest in the Welsh economy. In addition to the private capital of £126m that has been invested alongside the Bank in individual transactions, in January we secured £10m of institutional equity from Clwyd Pension Fund completing the

fundraise into the £25m Wales Management Succession Fund. We are grateful to Clwyd for sharing our enthusiasm for our goals. From this small but ground-breaking start we look forward to attracting significantly more funds from other independent investors over the next few years.

Our commercial services business, FW Capital, continues to be successful, lending £28m to businesses across the North of England. In total, FW Capital manages eight funds totalling £216m, allowing us to enhance the economic flows between the Northern Powerhouse and North Wales.

We have spent much time this year working with Welsh Government and a range of stakeholders in making preparations for any economic disruption that an unplanned departure from the EU might occasion. This is, of course, ongoing and the potential consequences of a disorderly Brexit on different industry sectors are many and varied. We have identified financial resources, policy adjustments and process changes that will enable us to play our part to support the economy in such an eventuality.

---

**It is vital that the Development Bank builds a foundation of capability alongside its increased capital resources so that we can sustain both efficiency and effectiveness for the long-term.**

---

To that end we are investing in both people and processes, the cost of which will be met by the surplus we generate over the next few years. Our staff now number 201 and we operate from four offices providing a nationwide presence in Wales, with our headquarters in Wrexham, and offices in Cardiff, Llanelli and Newtown. We also have a small network of offices across the North of England. In the coming year we will open a further office in North West Wales ensuring that we continue to be accessible to all parts of the country.

Finally I would like to thank all our staff for their dedication and hard work during this extremely busy and rewarding first year. Our continuing success will depend on them and the culture of service and professionalism they are creating.

**Gareth Bullock**  
Chair  
26 June 2019

# Chief Executive's report



**Giles Thorley**  
Chief Executive

**"The year to end March 2019 was one which saw considerable growth at the Development Bank of Wales. This evolution was evident in the range of products and services we deliver, fundraising and the growth of our delivery team. Our business has continued to evolve and we have remained focussed on adding value for customers and stakeholders through our core mission."**



## Delivery

2018/19 was the first full year of operation for the Development Bank of Wales and one in which we continued to increase the levels of financial support to Welsh businesses. When we launched in October of 2017, we committed to increase levels of investment to £80m per annum within five years. I'm pleased to say that a combination of hard work by the team, continued active support by Welsh Government, and an accelerated fundraising programme has meant that we have achieved that figure three years ahead of schedule, investing £80m in the year. A further £126m of private sector money was invested alongside, bringing total investment to £206m. It should be noted that this figure is heavily impacted by a share placing by Creo Medical, the Chepstow-based medical device company, in July 2018. Further detail about investment performance and commentary on market conditions can be found in the Investment Director's report on page 17.



## Scaling up

Fundraising has tracked ahead of schedule with a number of new product launches in the year. May saw the launch of Angels Invest Wales, our new angel investment network, alongside the Wales Angel Co-investment Fund. The network and Fund will work together to facilitate syndicated angel investment, widely seen as a critical success factor in mobilising investment capacity. In June Economic Intelligence Wales, a research collaboration with Cardiff Business School and the Office for National Statistics, published its first quarterly statistical report and has since published two bespoke studies into Welsh exports and equity clusters.

A major milestone was reached in September when we were delighted to announce a £10m investment into the Wales Management Succession Fund by Clwyd Pension Fund. This fundraise is of significant strategic importance for the future and was a key commitment in our first business plan. This marks the first institutional equity investment into one of our funds and this diversification comes at a time when Wales is facing the loss of EU structural funds.

Finally, the end of the year saw £121m of new funds announced, including the £50m Wales Tourism Investment Fund, £55m Wales Commercial Property Fund and £16m for the Wales Micro Loan Fund.



## Organisational growth

At the opening of our new headquarters in Wrexham in September, I spoke about the importance of our face-to-face approach when making investment decisions. This is core to our delivery model and will remain the case as we enhance our offering. Feedback from customers and stakeholders continues to emphasise how much they value working directly with a named individual who takes the time to understand their business. I believe there is no substitute for being embedded in local communities.

For this approach to be sustainable it follows that it is vital for us to be able to recruit and retain the best talent across Wales. With a strong labour market this has been a consistent theme across the year with competition for candidates at the highest level we have seen in some time. Headcount across the business grew from 172 to 201 and there were 32 internal moves, demonstrating our attractiveness as an employer for those keen to develop their career. Further growth and opportunities are anticipated in the year to come.



## Investing in the future

The Development Bank of Wales Group made a deficit of £10.1m in 18/19 compared to a surplus of £4.5m in 17/18. Whilst this may appear disappointing, it is more caused by accounting rule changes requiring short-term changes in values of investments to be reflected in our income statement. We are a patient capital investor and as such, the investments are held for the long-term. Over the period of investment, these values will go up and down in line with the investee's performance. The main difference this year compared to last is a large loss in the fair value of our investment in the Wales Life Science Investment Fund. The accounting rules around recording the performance of our business are complex and we have presented a transparent analysis of this performance in the Chief Financial Officer's report, where it is also explained why this deficit does not affect our longer term viability. See page 71.

**Giles Thorley**  
Chief Executive  
26 June 2019

## Performance highlights

### Delivery

**£80m**  
invested

A total investment of  
**£206m**

**3,745**  
jobs

### Scaling up

**£197m**  
of new funds

### Organisational growth

**201**  
people employed

**55**  
new recruits and  
32 internal moves

# Performance highlights

## Wales investments



**£20m**  
(1/4) to existing  
customers



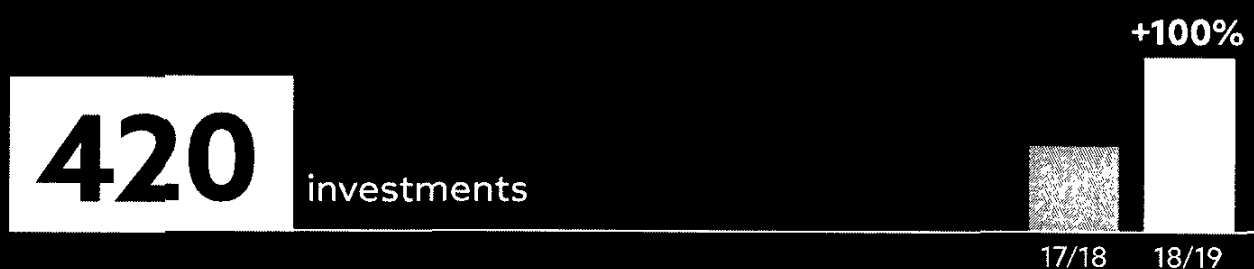
**£12.7m**  
(or 97) loans at a  
term over 5 years



**£23.7m**  
in equity



**£7m**  
(or 1/3) into the emerging  
Cardiff equity cluster



**14**  
inward investment  
deals at £3m



**£24m**  
into property deals  
**320 housing units**  
**8,690 sq. ft. commercial space**



**97**  
loans (or around a quarter  
of the 420) investments  
at a term above 5 years





## £3.2m

of investment facilitated

### Investor base

17/18

Grown from 90 to over 150

18/19

+65%

## FW Capital

FWCapital 

+33%

from 17/18

+20%

from 17/18

+53%

from 17/18

## £28m

invested

## 99

investments

## £55m

private sector  
investment

# Our year



## Angel network launches with new co-investment fund

(May)

Angels Invest Wales launches alongside the £8m Wales Angel Co-investment Fund. The new model prioritises recruitment of business angels, increasing the sources of available capital and offers an online investment platform.

## Minister for Economy and Transport opens new headquarters

(September)

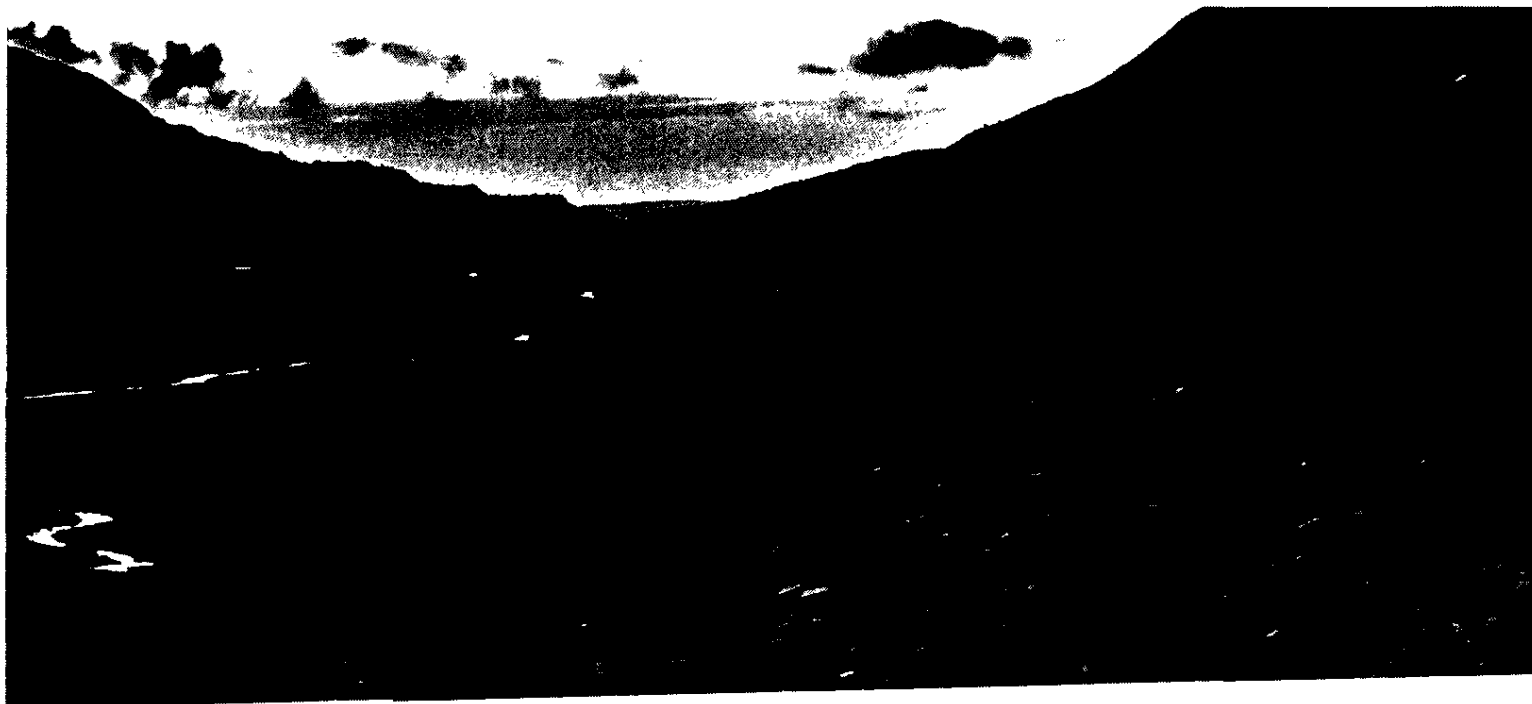
The new headquarters of the Development Bank of Wales is opened in Wrexham by Minister for Economy and Transport, Ken Skates. Over 100 local business leaders attend the opening.

2018

## Economic Intelligence Wales, research partnership launches

(June)

Economic Intelligence Wales, a research partnership with Cardiff Business School and the Office for National Statistics publishes its first quarterly statistical report and follows this with a report looking at Welsh Exports.



### **FW Capital invests £10m into northern businesses**

(January)

FW Capital passes a £10m milestone from the Northern Powerhouse Investment Fund in under a year from the award of the contract by the British Business Bank.

**2019**

### **West Wales businesses secure record investment**

(December)

West Wales hits an investment milestone of £21.3m in loans and equity, twice the investment levels of 2017 with 72 businesses raising capital.

### **New Welsh Government funds announced**

(March)

New funds of £121m to be delivered by the Development Bank of Wales are announced as part of Welsh Government's commitment to helping businesses of all sizes develop and invest for the future as they navigate the challenges of Brexit.

# Business model

## Resources

### Funds

We have £950m of capital available to deploy to support business and property development activity. See page 65.

### People

We employ 201 people at 9 locations across the business. Our team are vital to delivering the face-to-face approach we know small business owners value. See page 66.

### Relationships

Building and nurturing relationships with customers and stakeholders is critical to understanding the market and meeting its needs. See page 67.



## Processes

### Investment activity

Our investment activity covers fund management services such as investing and collecting repayments along with support functions such as finance, marketing and HR.

**Business loans and investments**

### Other services

These services include our research arm, business angel network, management services to Welsh Government of Help to Buy - Wales and our commercial fund management business, FW Capital.

**EIW**

**AIW**

**HTB-W**

**FW  
Capital**

## Impact

**Capital returned  
or reinvested**

**Jobs**

**Private sector  
investment**

**Houses  
built**

**Sq M  
commerical  
property built**

**We create long-term financial and social value by using the capital we raise, the people we employ and our relationships with stakeholders and the business community. We manage these resources in line with our core values which drive our behaviour when delivering against our objectives and towards fulfilling our vision and mission.**

---

Our investment activity and related services, benefit individual businesses by providing the finance they need, and the Welsh economy by encouraging businesses to start up and grow. Welsh society benefits when those businesses create higher numbers of jobs in local communities. Welsh taxpayers benefit when returns on investment are recycled to support more business or returned to the public purse.

We measure this value through direct investment, private sector money invested alongside us, job creation and safeguarding, houses built and commercial premises developed. We are working to further understand and measure the social and macro-economic impacts of our activity.

Individual fund performance is measured by funds invested and capital returned through loan repayments or equity investments exited.

# Investment Director's report



**Mike Owen**

Group Investment  
Director

**2018/19 was a successful year and one in which more Welsh businesses received support from the Development Bank of Wales. We have continued to focus on three core areas: increasing investment levels, increasing the number of businesses we work with and improving the customer experience and wider support that we give to our portfolio.**

## Investment performance

Outside the big headline numbers, there are a number of areas deserving of attention. A priority for the team this year has been a drive to increase investment levels into West Wales and the Valleys, a target derived from our largest fund, the Wales Business Fund (WBF) which is backed by European funds. Total investment into West Wales and the Valleys from all of our funds increased from £38.9m into 175 businesses in 17/18 to £47.3m into 242 businesses, a 21% increase on the previous year.

Equity investment remained steady with £23.7m invested in businesses across Wales. Notable amongst these is Vizolution, a Swansea-based company in which the Development Bank has been an investor since 2012 and which has continued its impressive growth trajectory and attracted significant institutional investment from Santander and the Royal Bank of Scotland during the year. Cardiff is now considered an equity hotspot with 23 companies benefitting from £7.2m of investment from the Development Bank throughout the year.

Wales continues to attract interest from high growth businesses around the UK, and we funded 15 inward investment transactions in the year totalling £6.5m.

One example is Conversant Technologies, a cloud based communications platform providing unified communications technology which chose Cwmbran as the base for its operations and is expected to create 32 jobs. Technology, in particular seed investment remained buoyant with software and scientific research businesses making up 20% of funds invested.

Property development has been the fastest growing sector for us in recent years, both in terms of fundraising and in lending. Overall we invested £24m in property transactions with £20m of the total coming from specialist property funds in the year.

## Creating long-term value

Part of what makes working at the Development Bank of Wales rewarding is the opportunity to support companies for the long-term. In 2018/19 just over £20m of our investment went to existing customers, more than half of which was equity investment. Our ability to follow our initial investment is crucial for technology businesses, in particular those developing new technologies such as Cloud IQ and W2 Global Data Solutions who both completed funding rounds in the year.

Not all of our interventions take the form of cash injections however.

Each of our investments is assigned a dedicated Portfolio Executive, who in many cases will be in contact on a monthly basis. Part of that role is to identify where a business may need some additional support, either for its growth or to meet the challenges it is facing, and that can come in the form of introductions from our network. During the year we have made 143 introductions of non-executive directors, advisory firms and sector specialists to our customers, around one third of which have gone on to be engaged. In certain circumstances we are able to contribute to the cost of these engagements to support our customers. We also run a series of events throughout the year with expert guest speakers, giving our customers an opportunity to network with each other.

## Customer experience

The market as a whole is making great strides in improving customer experience, with greater automation and online service delivery. The challenge for our business is to implement enough automation to make the investment and ongoing relationship as seamless as possible without losing the face-to-face, human approach our customers value. Re-engineering our processes has resulted in significantly improving the time it takes to complete a transaction whilst ensuring that

we continue to deliver value for money with further work planned for the coming years.

## Looking forward

Brexit continues to fuel uncertainty as businesses decide where and when to invest. Recent experience has seen some deals stall or fall away completely and we expect this pattern to continue into 2020. This uncertainty particularly affects businesses involved in import and export who are concerned about tariffs and exchange rates and the property sector in particular is concerned about the availability of materials and skilled labour.

However, in the property sector Wales continues to outperform most other UK regions, both in terms of price growth and transaction volumes, and currently has one of the best sector outlooks of any part of the UK. Blended indices from Savills, Nationwide and the ONS show that the average house price in Wales has grown by 4.4% over the last year, more than double the UK average of 2%.

There are also potential positives of Brexit such as businesses locating part of their business or supply chains to Wales and we have been involved in a number of such transactions here at the Development Bank. In times of uncertainty we can provide certainty that there is funding available.

## Performance highlights

### Investment performance

**£47.1m**

invested into West Wales and the Valleys

**£23.7m**

equity investments

**15 inward**

investment transactions totalling £6.5m

### Creating long-term value

**£20m**

of investments to existing customers





# INVESTMENTS AND OTHER SERVICES

We invest in businesses across Wales to help them to start up, strengthen and grow. Here are a selection of the businesses we have worked with this year.

# Starting a business

Finance from £1,000 up to £5m to help Welsh businesses start up and support their early years.

---

"We are proof that a solid business plan, determination, hard work, passion and patience will pay off in the end and that is something we both truly believe in, but it wouldn't have happened without the help of the Development Bank."

**Quantum Coffee Roasters**



# Quantum Coffee Roasters

Quantum Coffee Roasters is run by architect Katia Fotiadis and her partner Dimitri Metsios who had previously enjoyed a career roasting coffee beans in Greece. The couple also run a popular coffee shop on Bute Street in Cardiff Bay.

The business has used a micro loan to help them expand this year. Quantum has launched a new website which allows them to sell a wide range of coffee beans online. The business is also growing its wholesale market where customers will receive a full service package including purchase of machines, grinders and coffee beans as well as barista training.

Katia explained: "We are passionate about the whole process and the journey the coffee bean takes. If you choose the best green coffee beans, it is vital that the roasting process respects

the hard work of the farmers – you want the subtleties of each bean to shine. Roasting can destroy those flavours before it even gets anywhere near the brewing. This is where we bring craftsmanship and science together.

---

**"We have grown the business a lot in less than a year and we naturally came back to the Development Bank when we needed finance to expand and set up the wholesale side of the business."**

---

"Organically growing is great but sometimes an injection of finance and energy is needed to get to the next stage. We are proof that a solid business plan, determination, hard work, passion and patience will pay off in the end and that is something we both truly believe in. But it wouldn't have happened without the help of the Development Bank."



**Katia Fotiadis**

Co-founder, Quantum Coffee Roasters

**Finance:** Mirco Loan

**Sector:** Food

**Purpose:** Starting a business

**Location:** Cardiff



## How we helped

A micro loan has helped popular café and roastery Quantum Coffee Roasters to launch a new website and online shop.



# Farmers Arms

The popular 18th Century Country Inn located in Waen near St Asaph was purchased by Elaine Molloy and Peter Maull in November 2017. With backing from Barclays Bank and a micro loan from the Development Bank of Wales the business partners have carried out extensive refurbishment of the traditional Welsh inn.

The Farmers Arms which is considered to be at the heart of the Waen community has been sympathetically renovated and the premises now offers bed and breakfast with the addition of three boutique guest suites.

**Elaine said: "The Farmers Arms has been a focal point for the local community for many years. We've focused on retaining the character and charm that both local people and visitors really appreciate."**

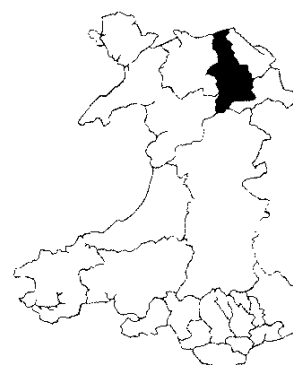
"The support from the Development Bank and Barclays means that we can now open our doors to our first customers knowing that we really can offer great accommodation, high quality tasty meals using local produce and a very warm Welsh welcome."



**Elaine Molloy**

*Owner of Farmers Arms*

**Finance:** Micro loan  
**Sector:** Hospitality  
**Purpose:** Starting a business  
**Location:** St Asaph



## How we helped

A micro loan, alongside investment from Barclays, funded the refurbishment of this historic community pub in St Asaph.

# Larynx Entertainment

Larynx Entertainment is a young music company providing video production services and producing live shows. From its base in the Wrexham Enterprise Hub, it also promotes music artists and runs talent development schemes through educational programmes.

Larynx received a £3,000 start-up micro loan from the Development Bank to enable them to purchase more equipment and help towards supplier and marketing costs.

Larynx Entertainment began as a collective of North Wales-based hip-hop artists known as The Larynx, performing at festivals and live music venues across the UK. Realising there was a gap in the Welsh market to

support emerging talent in that genre they embarked on becoming a multimedia platform for other artists.

Co-Director, Pete Rogers, said: "Hip-hop isn't a genre that's usually associated with Wales. There are plenty of talented artists here, but unlike bigger cities in the UK, the resources aren't available to them. We wanted to help new talent create a record, market their music and film a video right here in Wales to get their music out there."

---

**"We knew we wouldn't be able to approach a traditional bank with our idea, so we spoke to the Development Bank who were open minded and flexible when other routes and loans weren't."**

---



**Peter Rogers**

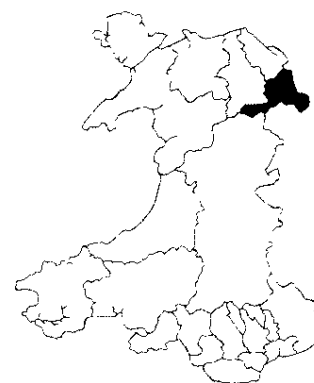
Co-Director, Larynx Entertainment

**Finance:** Micro Loan

**Sector:** Media

**Purpose:** Starting a business

**Location:** Wrexham



## How we helped

Start-up Larynx Entertainment used a £3,000 loan to help buy equipment for their music video and live show production company.

# Growing a business

Through our investment and co-investment with others, we strengthen Welsh businesses and help them achieve their growth plans.

---



"We came back to the Development Bank for funding because they showed they really understood our business and over the years we had built up an amazing relationship with them."

**Mazuma**

# Crwst

Named the Best Rural Start-Up in the 2018 Rural Business Awards, Crwst is run by local couple Catrin and Osian Jones.

They established their micro-bakery making fresh bread, doughnuts, cakes and pastries in 2017 and a year later secured a six-figure loan to expand the business and open a café, deli and restaurant in the centre of Cardigan.

Employing 30 local people, the team genuinely share Catrin and Osian's vision of delightful food and excellent customer service. The eatery is open six days a week, offering brunch and evening menu and now has a licenced bar.

Catrin said: "Running our own business is a dream come true and we wouldn't be where we are today without the support of the Development Bank. The loan that they provided enabled us to take the next growth step which was crucial to us achieving our goal. Crwst is now at the heart of the local community working with over 40 local suppliers and offering the very best of Welsh and local produce.

---

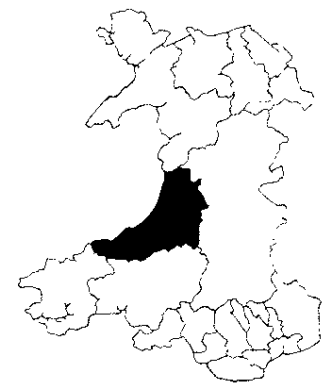
**"I'd recommend any local entrepreneur looking to start up or grow a business to have a chat with the Development Bank. Their support has been fantastic and the team is a pleasure to work with."**

---



**Catrin Jones**

**Finance:** Loan  
**Sector:** Retail  
**Purpose:** Growing a business  
**Location:** Cardigan



## How we helped

A six-figure loan has helped this Cardigan business to expand and open a café, deli and restaurant serving the local community.



OLE  
STRENGTH  
RDL

MOMENT  
traffic

FOX

FOX CARBON

oneplanet



# Oneplanet Adventure

A six-figure finance package from the Development Bank of Wales and HSBC allowed Oneplanet Adventure, a forest visitor centre in North Wales, to buy the site it has leased for the last 13 years.

Co-owners Jim Gaffney and Ian Owen have used the funding to purchase the visitor centre and car parks previously owned by the Church Commissioners of England. The acquisition will allow the business to expand and invest in new trails which will attract even more visitors to the centre and the region.

Located at the heart of the 650-hectare Coed Llandegla Forest, Oneplanet Adventure welcomes 150,000 visitors each year to use its 91 km of mountain biking, walking and running trails.

Jim and Ian began Oneplanet Adventure in 2005 to turn their passion for mountain biking into a commercial business, offering bike rental, workshops and coaching on-site.

---

**Jim said: "By acquiring the premises, we've secured the future of the business and have much more control over our future expansion plans. We're incredibly grateful for the support we have received from our HSBC UK Relationship Manager Denise Gallagher, and Chris Hayward who led the deal for the Development Bank of Wales, both of whom have really understood our business and offered tailored support. Being on the Accelerated Growth Programme (AGP) also helped us bring everyone together to complete the purchase."**

---

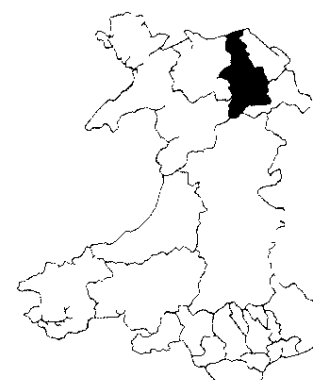
Oneplanet Adventure is a well-established business with a great reputation in the industry. It has helped put North Wales on the map as the outdoor and adventure capital of the UK and is much in demand.



**Jim Gaffney**

Co-owner, Oneplanet Adventure

**Finance:** Loan  
**Sector:** Tourism  
**Purpose:** Growing a business  
**Location:** Llandegla



## How we helped

A six-figure co-investment from us and HSBC allowed Oneplanet Adventure to buy their property lease from the Anglican Church.

# Ffwrnes Pizza

Award-winning makers of authentic Neapolitan pizza Ffwrnes opened a pizza eatery in Cardiff Indoor Market with the help of a £30,000 micro loan from the Development Bank of Wales.

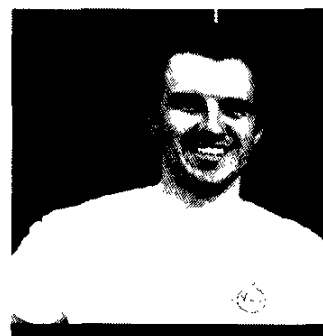
First set up in 2014, Ffwrnes was made from two men's love of Neapolitan pizza, combining traditional Italian dough-making, know how and authentic San Marzano tomatoes with high quality toppings and flavourings sourced from local producers the length and breadth of Wales.

Friends Ieuan Harry and Jeremy Phillips, both from the Llanelli area, began their pizza journey with Smokey Pete, a three wheeled Piaggio van incorporating a pizza oven, which they took to parties and events all over Wales. A little while later they acquired a larger van, also with a pizza oven, which they dubbed Sam Van Tân.

The company's wood fired pizza was voted the 'Best Pizza in Wales' in 2017 and featured in S4C's Bois Y Pizza series when they competed in the Pizza World Championships in Parma in 2018.

**Jeremy explained: "Our passion for great local produce and traditional Italian taste equals really tasty pizza for food-lovers across South Wales. Smokey Pete and Sam Van Tân are out on the road cooking up a storm and now with the help of the Development Bank, we can also offer the good people of Cardiff an amazing taste of Italy right here in Cardiff Indoor Market. It's a recipe for success."**

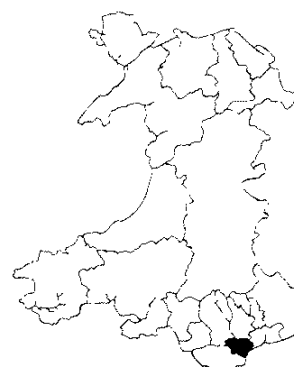
Since then Ffwrnes has won 'best in show' at the 2019 London Pizza Festival.



**Jeremy Phillips**

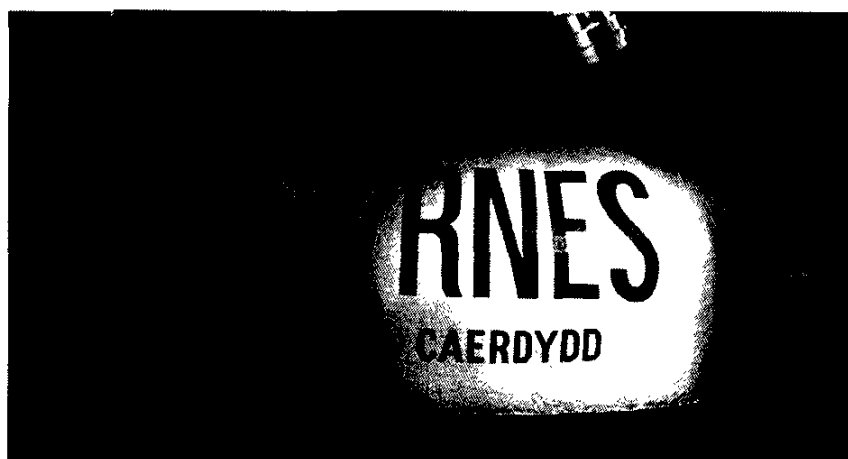
*Regional Director*

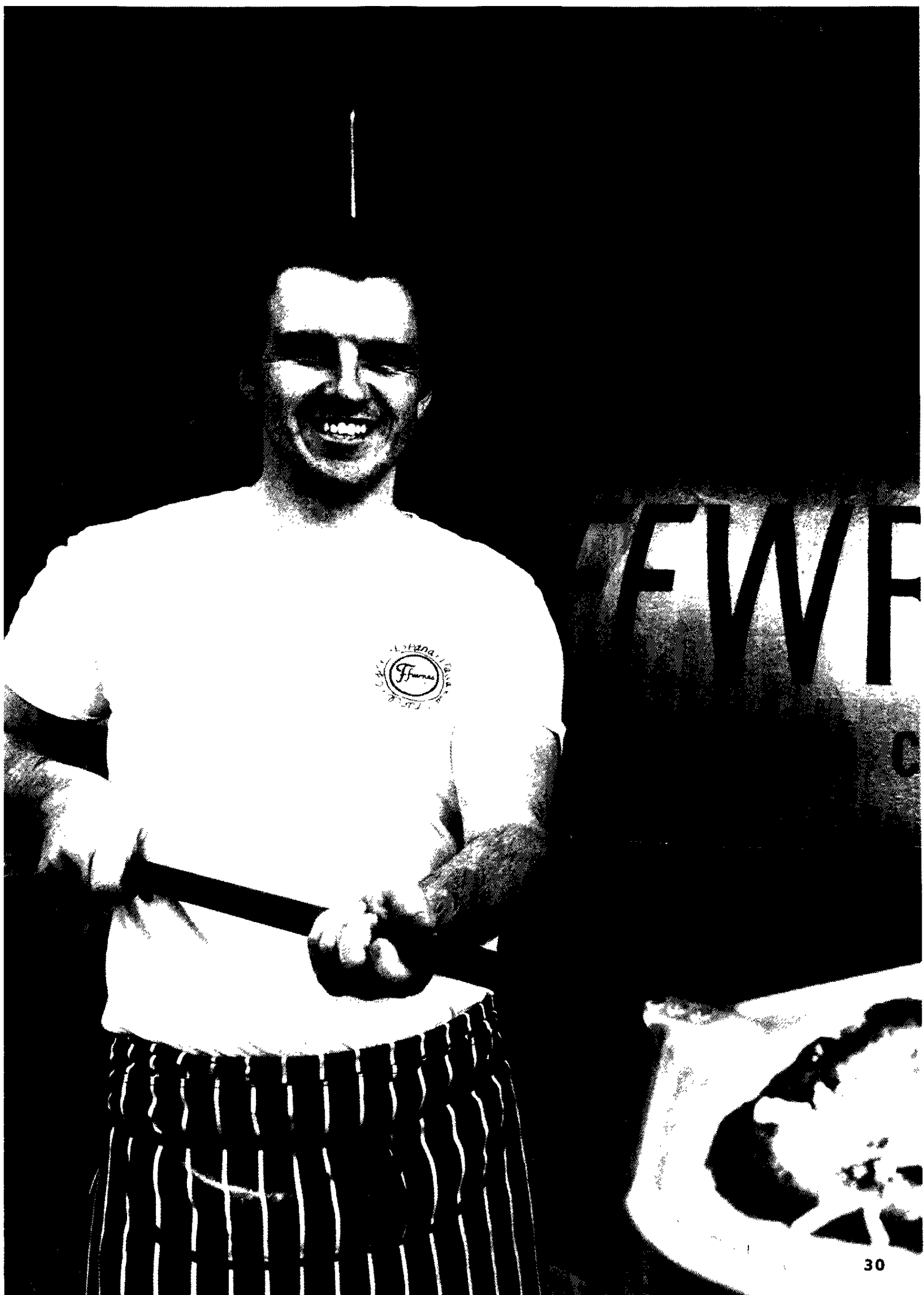
**Finance:** Micro Loan  
**Sector:** Food  
**Purpose:** Growing a business  
**Location:** Cardiff



## How we helped

Neapolitan-style pizza company Ffwrnes opens new eatery in Cardiff Indoor Market thanks to £30,000 loan.



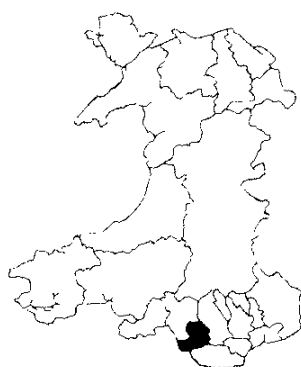




**Sophie Hughes  
and Lucy Cohen**

*Founders*

**Finance:** Loan  
**Sector:** Accountancy  
/ Finance  
**Purpose:** Growing a  
business  
**Location:** Bridgend



## Mazuma

Based in Bridgend, Mazuma is an online accounting and bookkeeping firm providing its services to micro and small businesses across the UK. Sophie Hughes and Lucy Cohen started the company because they felt the industry was missing something very important; a human touch.

Having already used a Development Bank loan to purchase the leasehold of their offices in 2017, the female entrepreneurs came back to ask for a further £190,000 loan to help with refurbishment costs.

Now with the refurbishment completed, the company plans to offer its services to more customers and to take on additional staff.

Lucy said: "Online bookkeeping, accountancy and tax services are really important to small businesses across the UK and we've seen steady, growing demand for our products. We've got big plans to continue to grow the business and this loan has helped us to secure our future."

---

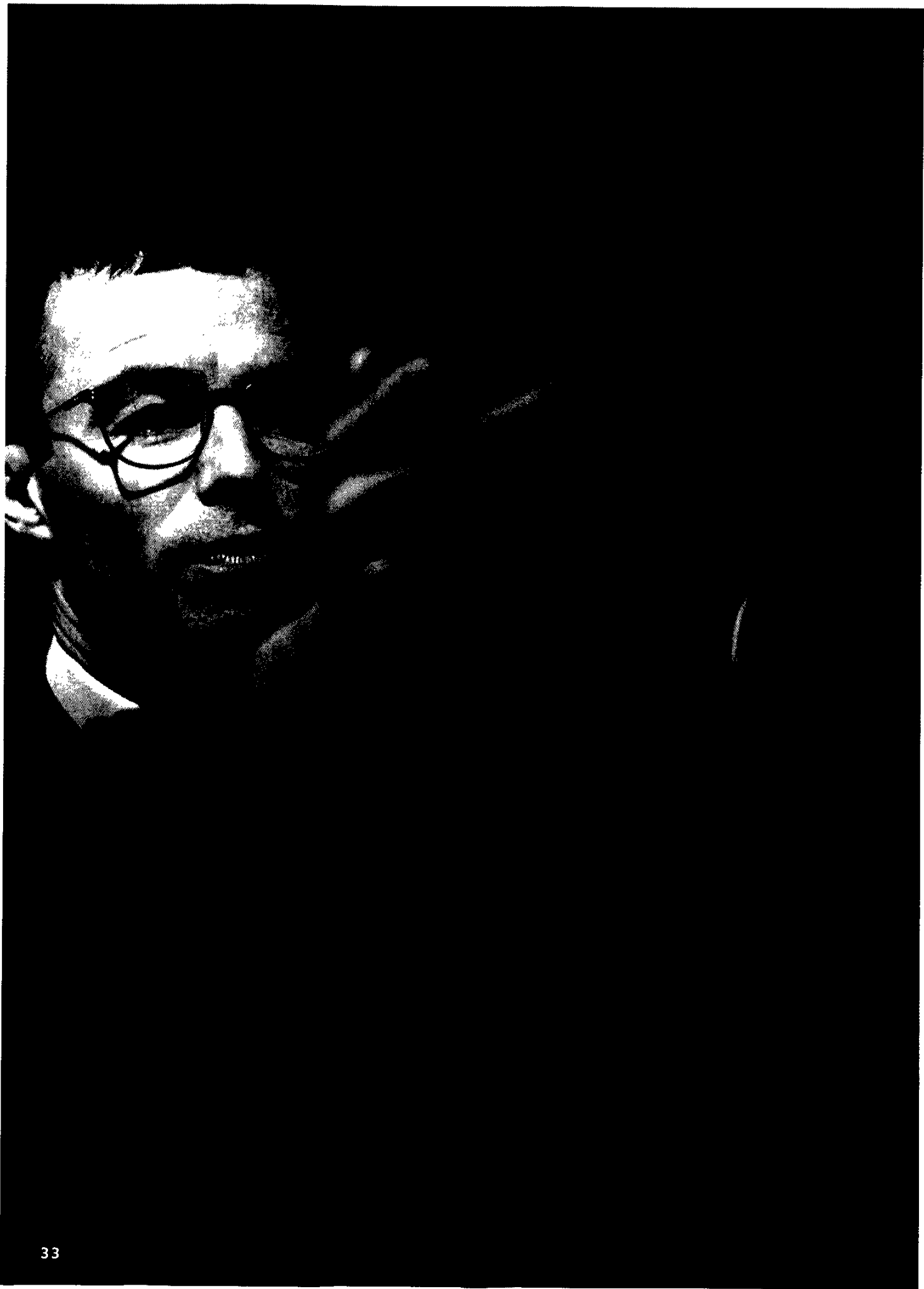
**Sophie said: "We came back to the Development Bank for funding because they showed they really understood our business and over the years we have built up an amazing relationship with them."**

---

### How we helped

A follow-on loan for portfolio company Mazuma has funded office refurbishments, allowing them to hire more staff.





# A1 Eyewear

Local optician Huw Owens has taken over A1 Eyewear on Charles Street, Wrexham, with the help of a £50,000 micro loan from the Development Bank to purchase the business and advice from Business Wales.

Established in 1986, A1 Eyewear was previously owned by Clare Hodgkinson and is one of Wrexham's leading independent opticians offering eye tests, glasses, contact lenses and accessories along with a repair and maintenance service.

As the new owner, Huw now has plans to further develop the range of eye care services available. He said: "A1 Eyewear has a strong reputation for offering our loyal customers the highest possible standards of professional eye care.

"Preventative eye care is so important but it is easy to neglect your eyes because they often don't hurt when there's a problem. Having a regular eye test is an important eye health check that will spot any early signs of eye conditions, many of which can be treated if found early enough.

"We will now be further developing our eye care services and the range of eyewear that we provide including contact lenses, glasses and sunglasses. I'm really looking forward to working with our patients and am very grateful to both the Development Bank of Wales and Business Wales for their excellent support. Buying a business can be a nerve-wracking experience but their thorough and seamless approach meant that I felt totally confident throughout the purchase."

---

**Clive Barnard, Relationship Manager at Business Wales, added: "Helping Huw to agree a business structure and develop a robust business plan has been an excellent example of how important it is for entrepreneurs to obtain appropriate business advice. Working so closely with the Development Bank of Wales provides business owners with the opportunity to benefit from a simple access point to a range of business and funding opportunities."**

---



**Huw Owens**

**Finance:** Micro Loan  
**Sector:** Retail  
**Purpose:** Growing a business  
**Location:** Wrexham



## How we helped

Wrexham optician Huw Owens has bought existing business A1 Eyewear with the help of a £50,000 micro loan.

# Ocean Matters

Based at Penmon on Anglesey, Ocean Matters breeds lumpfish, a fish that feeds off sea lice and helps provides a cleaner growing environment for farmed salmon.

With the help of a £500,000 loan from the development and further backing from HSBC, the business is set to save salmon farmers millions of pounds a year while supporting efforts to improve sustainability.

Trading since 2016 the company plans to double its current lumpfish production to meet growing demand.

Co-founder and managing director Werner Forster said: "We've had great success to date, but the additional investment capital will allow us not only to continue improving existing systems but also support expanded construction that enables us to address the growing needs of our customers.

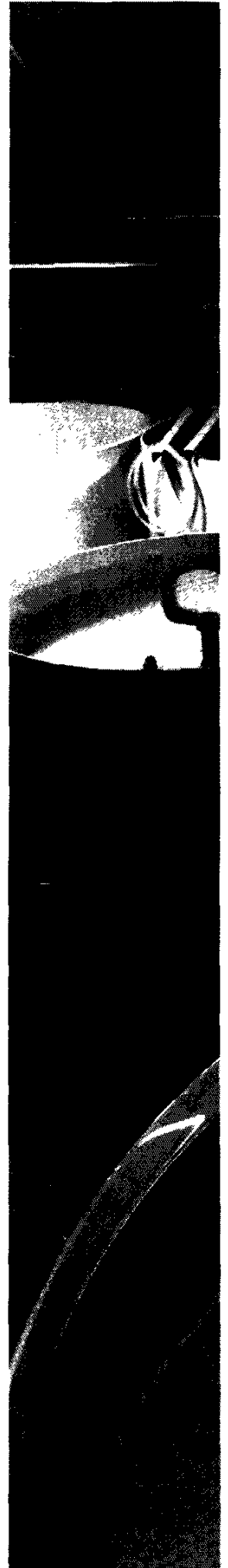
---

**"This next expansion round thanks to the support of Development Bank of Wales brings us to a stage of critical mass where we're going to take on more employees and be in a much better position to meet the demand in the market."**

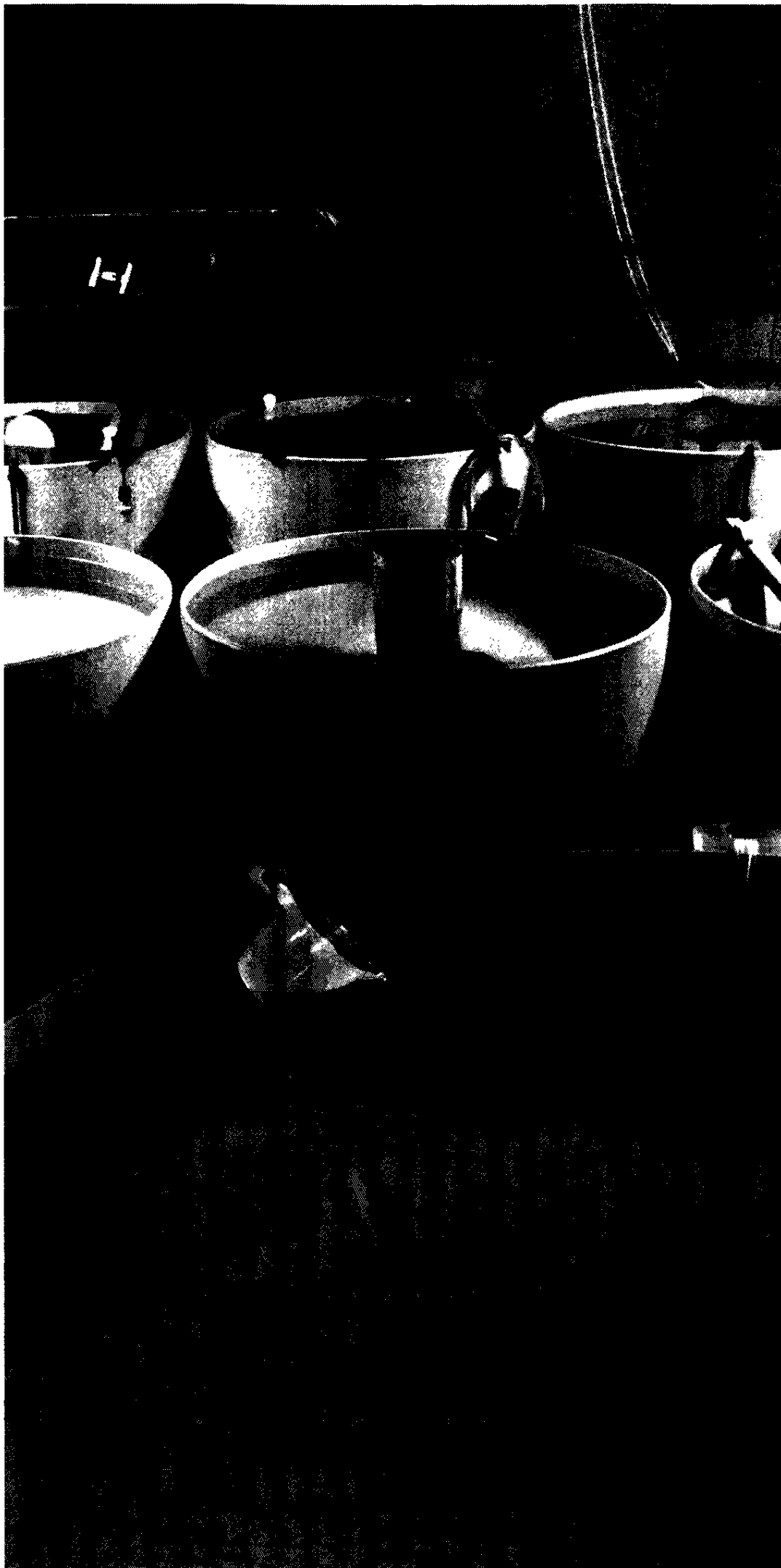
---

The problem of sea lice is one that has grown with the rise of the salmon farming industry. The high density of fish in pens provides a rich environment for parasites, and as their resistance to traditionally-used pesticides has developed, the complications of dealing with sea lice has increased.

Now Ocean Matters aims to provide a natural solution to the sea lice problem. Consumers like it because the fish aren't being treated with unnecessary medicines and chemical treatments, while the environmentalists prefer a more natural approach to animal welfare. It's really something that everyone has been supportive of as a win-win."







**Werner Foster**

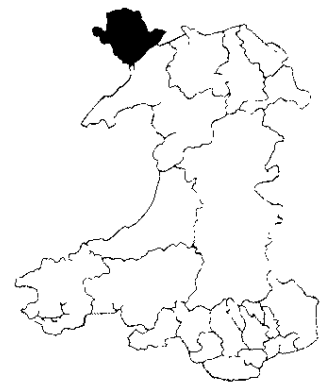
Owner, Ocean Matters

**Finance:** Loan

**Sector:** Marine  
aquaculture

**Purpose:** Growing a  
business

**Location:** Penmon



### How we helped

A £500,000 loan is helping Ocean Matters breed lumpfish, enabling the firm to offer sustainable sea-lice management solutions to the salmon industry.

# Fast-track loans

**Businesses trading for two years or more can get loans with up to £10,000 with minimal paperwork and a decision made in just two working days.**

Loans up to £10,000 are available without a formal business plan and a decision made in just two working days.

Loans of between £10,000 and £25,000 are available with only six months' of bank statements and a statement of assets and liabilities.

## Hardcore Shavers

Ashley runs Hardcore Shavers, a barber shop in Neath. When Ashley had plans to expand he applied for a £5,000 fast-track loan from the Development Bank. This allowed him to refurbish the salon, purchase new equipment and improve the facilities for his customers.

**Finance:** Micro Loan  
**Amount:** £5k  
**Sector:** Barber shop  
**Location:** Glyneath

## The Williams Longboarding Co

Originally set up in 1984 by the Williams family, the Williams Longboarding Co was relaunched in 2015 by Adam Williams. The business which hand crafts bespoke surfboards received a £3,000 fast-track loan to purchase new equipment and improve productivity timescales.

**Finance:** Micro Loan  
**Amount:** £3k  
**Sector:** Surfboard artisan  
**Location:** Swansea

## 1st Platinum Chauffeurs

When the Cardiff-based chauffeur business needed funding to purchase a fourth vehicle to add to its fleet, 1st Platinum Chauffeurs applied to the Development Bank for a fast-track loan of £10,000.

The loan has enabled them to purchase a new vehicle and has saved them on outsourcing costs.

**Finance:** Micro Loan  
**Amount:** £10k  
**Sector:** Chauffeur services  
**Location:** Cardiff

## Performance highlights

**£1m**

fast-track loans invested

**93**

businesses supported

**43%**

increase on previous year

Loans available increased from  
**£10,000 → £25,000**



## Developing a tech venture

**We make seed, early stage and follow-on investments into technology businesses with high growth potential.**

---

"Being able to attract other investors to co-invest with the Development Bank is essential and the Development Bank recognises the importance of co-investment from sophisticated private investors who bring considerable sector experience to the company."

**OpenGenius**

## LIGNIA Wood Company

LIGNIA Wood Company, a producer of legal and sustainable modified wood, secured £7.5m to support the construction of its first commercial production facility in Barry, Vale of Glamorgan.

The sum included £2m from the Development Bank of Wales £3m from London-based investment manager Downing LLP, and £2.5m from an existing investor.

LIGNIA's modified timber is an alternative to hardwoods and is proving popular with their customer base in the UK and internationally. The product is manufactured from pine sourced from legal and sustainably-managed plantations which is impregnated with resin to make a modified timber that has a better appearance, durability, stability and fire resistance than many high value hardwoods such as oak and teak. LIGNIA Wood Company's tech-driven

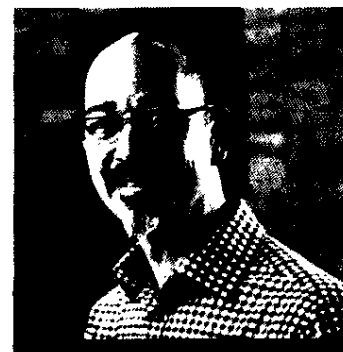
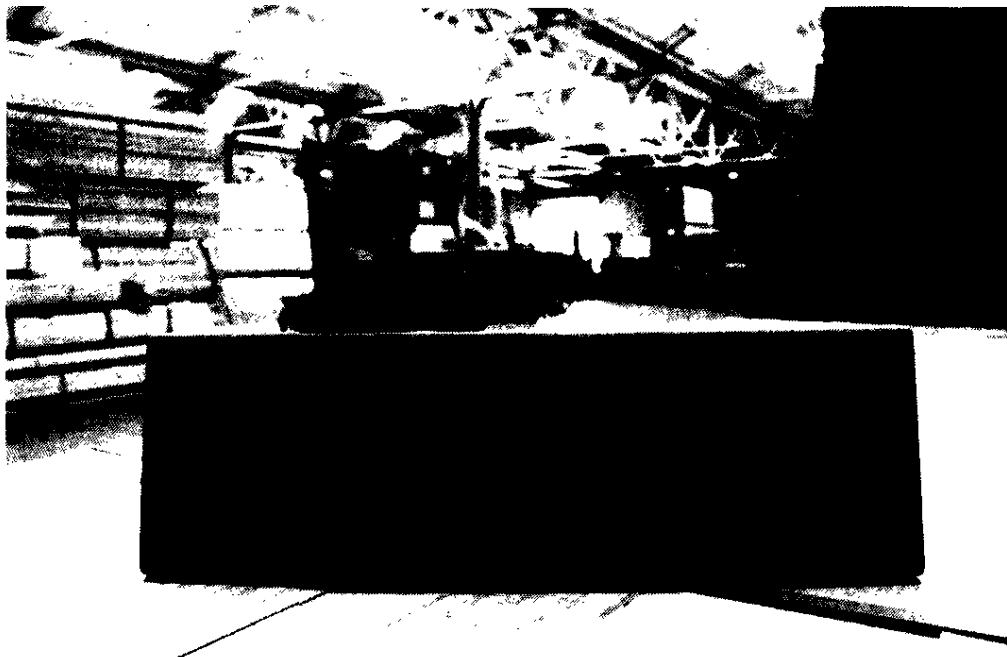
approach is aimed at not just providing beautiful and high-performing timber for the building and marine sectors but is also intended to help preserve the planet's precious tropical rainforest stocks.

The investment will help support the development of LIGNIA Wood Company's first commercial scale production plant, able to produce up to 15,000 cubic metres annually.

---

**Hans Ng, CEO at LIGNIA, said: "With supply of many hardwoods constrained due to regulation, this has opened the market for modified wood, making now an excellent time to expand our business. Our investors have demonstrated great expertise and a track record in investment in sustainability sectors which has made them a logical fit for us and we are very excited to be working with them."**

---



**Hans Ng**

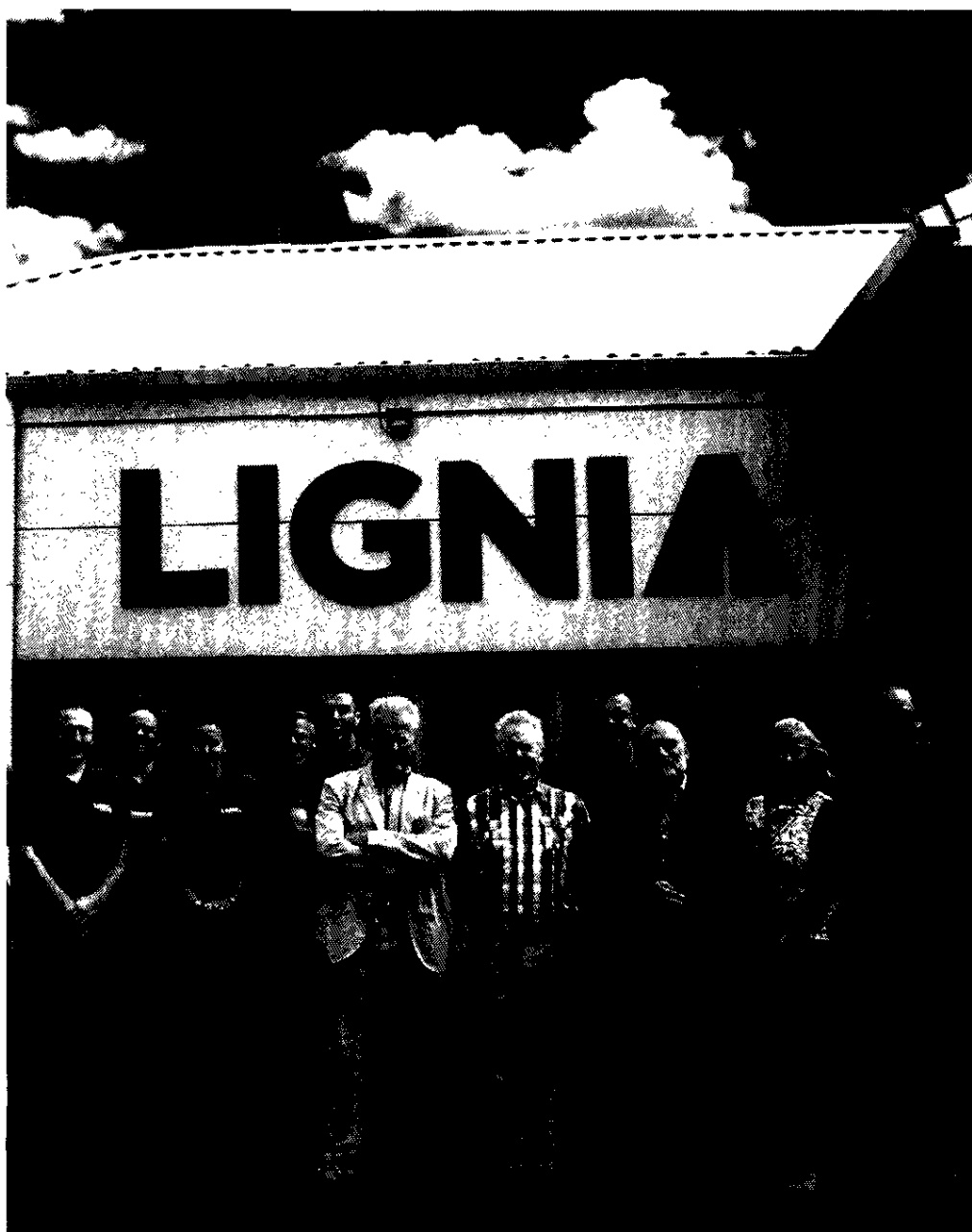
Managing Director, LIGNIA

**Finance:** Equity

**Sector:** Sustainable production

**Purpose:** Technology venture

**Location:** Barry



## How we helped

Sustainable modified wood producers LIGNIA open their first commercial production facility in Barry after a £7.5m equity co-investment.

# OpenGenius

OpenGenius which develops high-tech software for innovators and creative teams has enjoyed increasing growth in recent years. Now, following an initial equity investment package of £500,000 from the Development Bank of Wales and a further £600,000 from private investors, it has its sights on global expansion and stock market flotation.

The Cardiff-based company was founded by Welsh entrepreneur, Chris Griffiths and its headquarters lie in Tec

Marina, a creative workplace in Penarth built to foster an atmosphere of open thinking and entrepreneurship.

Its app, Ayoa, has been used by teams and individuals from Disney, Harvard University, Nike, Ralph Lauren, Coca-Cola and McDonald's to name a few. Ayoa is the world's first tool to combine web-based mind mapping, instant messenger and task management in just one place. Each of these areas is enhanced with unique feature sets, purpose-made



to steer teams towards an innovative work process which utilizes strong ideas, clear communication and effective task management.

Owner and founder Chris Griffiths said: "OpenGenius is excited to gain this investment; it will play a big part in the company's development over the next year as we continue to expand our international customer base.

---

**"We're proud to be based in Wales, and firmly believe that Ayoa can help people improve their work processes around the globe. With this investment we can accelerate the development of Ayoa, and be more aggressive in our marketing. We have our sights set on flotation in the very near future, and this investment takes us one step closer."**

---

Being able to attract other investors to co-invest with the Development Bank is essential and the Development Bank recognises the importance of co-investment from sophisticated private investors who bring considerable sector experience to the company.

In 2017, OpenGenius became the first Welsh company to be selected for the international 'accelerator' training and networking programme (ELITE) at the London Stock Exchange. A scheme which has helped them develop their scalable business model as well as building new strategic partnerships, increasing sales and raising awareness of their brand and pioneering products.

Ayoa brings together the three key stages of innovation to put structure behind the creative work process. Ayoa provides space for teams to incubate their ideas, discuss them with focus and then provides the tools needed to deliver that work on time. It's been developed by OpenGenius with the aim of making everyday innovation tangible. With the addition of the recently launched mind mapping feature, OpenGenius hope their app will be as disruptive to the SaaS market, as it is unique.

This £1.1m investment will provide OpenGenius with the capital it needs to further refine its innovative SaaS platform, and scale up to accelerate its global expansion plans.



**Chris Griffiths**

Owner and founder, OpenGenius

**Finance:** Equity  
**Sector:** Software  
**Purpose:** Technology venture  
**Location:** Penarth



## How we helped

OpenGenius – owners of a creative software app used by Nike and Disney – plan international growth following £1.1m equity round.





# Hexigone

Baglan-based Hexigone Inhibitors has developed an innovative solution to corrosion which has the potential to address the issue on a global scale. The investment package came from the Development Bank of Wales, Angel Invest Wales' angel investors, Phil Buck and Andy Lewis, Innovate UK along with support from investment expert Owen Sennitt and AgorIP.

Corrosion costs the world economy 2.5 trillion dollars every year but its most effective inhibitor, hexavalent chromate, has been banned because of health concerns. Hexigone Inhibitors is able to plug the gap by offering a new additive for metal coatings that is safer and up to ten times more effective than chrome-free alternatives, protecting buildings, cars and aeroplanes for longer.

The technology – Intelli-ion – uses 'chemically intelligent' micro reservoirs that make the coatings responsive to the environment, triggering the release of the inhibitor 'on demand.'

CEO and founder, Dr Patrick Dodds, made the discovery when working at Swansea University on his doctorate. His aim was to research alternatives to hexavalent chromate, which was made infamous by Erin Brockovich in the 1990s.

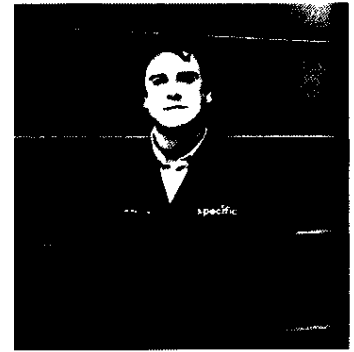
The equity investment will allow the company to achieve full-scale commercialisation and distribution and to deliver their product to a trillion-dollar global market, bringing jobs and further investment into South Wales.

The team is already working with 20 industry partners across four continents, including leading global coating manufacturers. With support from the Welsh Government's Accelerated Growth Programme, Hexigone has grown from one to seven employees, and with financial backing aims to create 40 jobs local jobs.

---

**Industry expert and investor, Phil Buck: "In my 40 years in the industry, we have been searching for a comparable anti-corrosion inhibitor that delivers the same results as lead and chromate complexes. Hexigone are now able to offer the corrosion industry what they have been looking for for a generation."**

---



**Dr Patrick Dodds**

*CEO and founder*

**Finance:** Equity  
**Sector:** Chemical manufacturing  
**Purpose:** Technology venture  
**Location:** Baglan



## How we helped

Angels Invest Wales business angels, alongside the Development Bank and InnovateUK are supporting commercialisation of Hexigone's anti-corrosion technology.



# Vizolution

Vizolution is a market-leading CX tech company that helps enterprises streamline complex customer journeys by replicating the qualities of face-to-face interactions in their remote channels. Its suite of solutions is used by more than 30 global enterprises from the financial services, telecoms and utilities industries, including HSBC, Santander, RBS and O2 (Telefonica).

In a 2018 funding round, Vizolution welcomed new investors Santander Consumer Finance and Royal Bank of Scotland and received reinvestment from the Development Bank and HSBC, together with further funding from private individuals. This round of equity has been used to help Vizolution develop new products and expand its operations in North America and South America.

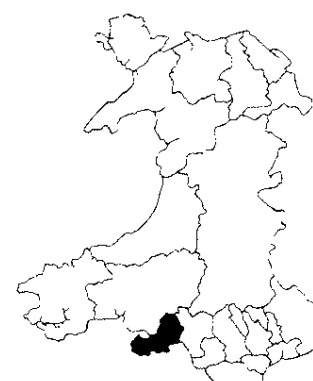
**Bill Safran, CEO of Vizolution said: "We are delighted that the Development Bank of Wales remain supporters of Vizolution and continue to believe in what we do. Their investment, help and guidance over the years has meant a lot and has been a big part of our success. We look forward to many more successful years of working together."**

Headquartered in Port Talbot, Vizolution employs over 150 people and has offices in Bristol, London, Boston, and Toronto. The Development Bank has supported the company since it launched in 2013.



**Bill Safran**

**Finance:** Equity  
Software  
**Sector:** as a Service (SaaS)  
**Purpose:** Technology venture  
**Location:** Swansea



## How we helped

Technology portfolio company Vizolution raised new investment from Santander Consumer Finance and Royal Bank of Scotland alongside reinvestment from the Development Bank and HSBC.

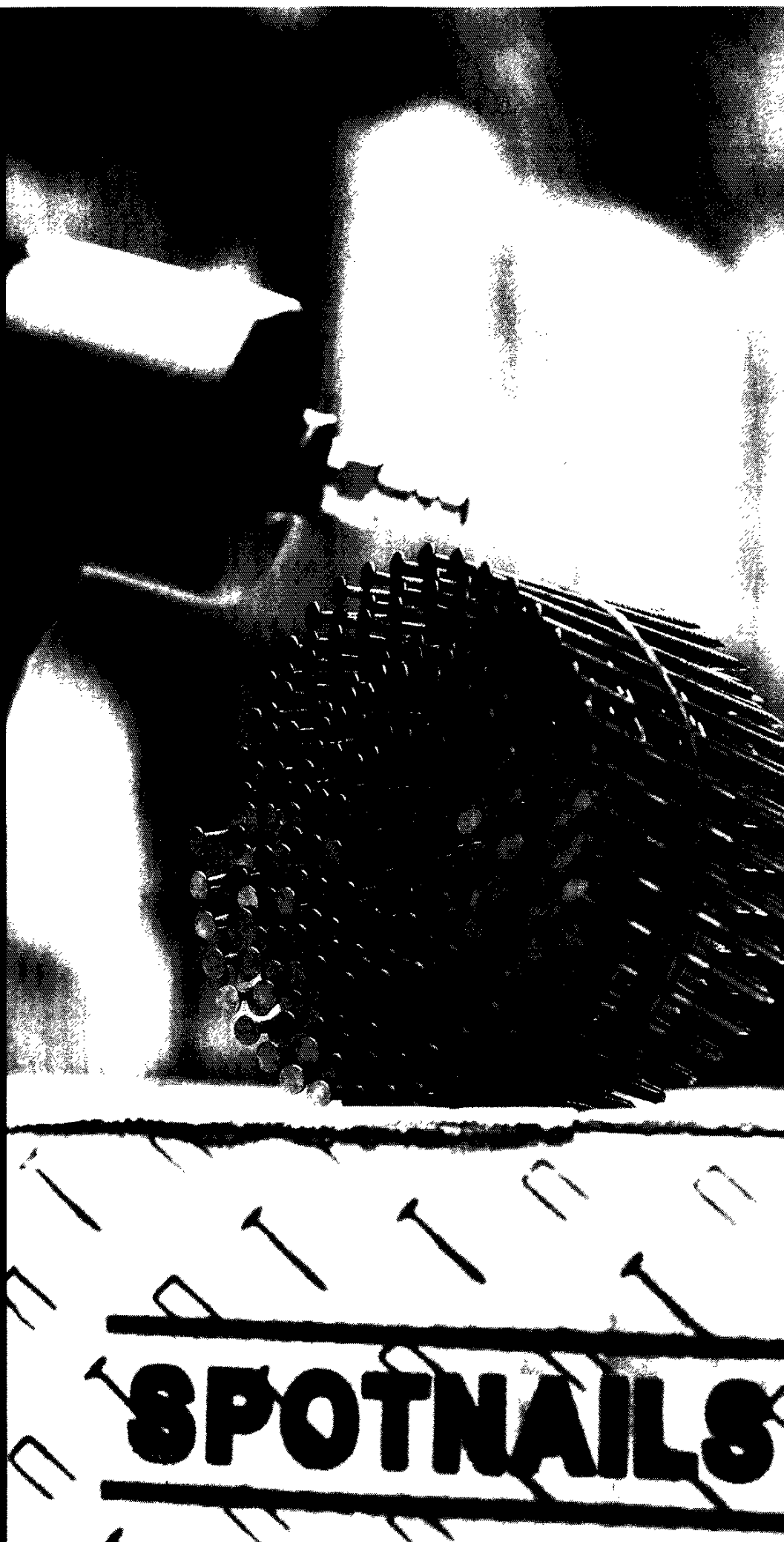
# Buying a business

We aim to support the next generation of business owners by providing funding for management teams to buy an existing business.

---

"I had the vision and the determination. What I needed, like anyone considering a management buy-out, was close support and trusted advice."

ALS



# Spotnails

A multi-million pound equity investment funding package supported a management buy-out (MBO) at fasteners and tools company Spotnails.

Spotnails, based in Bedwas, Caerphilly is a long-standing independent distributor of tools and fastener products to the UK building industry with more than 60 years trading history. It has a national salesforce as well as a manufacturing base with servicing and repair facilities at its Caerphilly headquarters.

Jason Quaife and Craig Bates had been working in the business for a number of years in anticipation of the MBO, pushing the company forward by dealing with new suppliers, increasing sales and by bringing in new business within timber frame manufacturing.

The Development Bank bolstered the existing management team of Sales Manager Jason Quaife and General Manager Craig Bates by bringing on board an experienced Finance Director, John Jeffreys. The management team also invested their money in the business and Ultimate Finance provided an asset-based lending facility.

Jason Quaife said: "I've been with Spotnails now for 12 years and this is Craig's 26th year in the company. I have a sales background and Craig has the tooling background

from his apprenticeship here. The management buy-out is a very attractive opportunity for us both and it gives us a great advantage as most of the technical experts in the industry have retired or are about to retire."

---

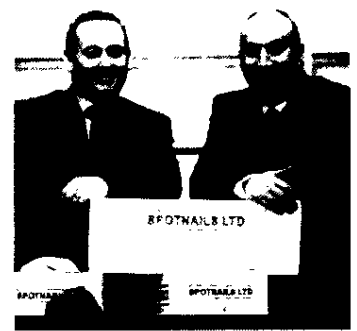
**"We have huge ambitions for the company and the support from the Development Bank of Wales is crucial to achieving these. We are securing relationships and working with several manufacturers with strong brands to sell into the UK. We want to become the largest independent distributor of these types of products with our own branded product range too."**

---

All 24 jobs within the company were safeguarded in the buy-out and plans to introduce new products are likely to provide more jobs in the future.

Funding for the buy-out was provided by Development Bank via its Wales Management Succession Fund, which enables management teams to access equity funding to take over existing businesses.

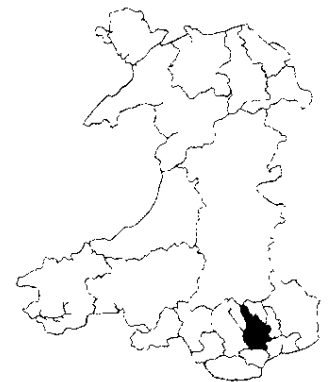
With the new funding and a highly experienced management team the business has strong ambitions and a focus on growth.



**Jason Quaife  
and Craig Bates**

2017-2018

**Finance:** Equity  
**Sector:** Engineering  
**Purpose:** Buying a business  
**Location:** Bedwas



## How we helped

Management at Bedwas-based Spotnails completed a buyout of the company thanks to an equity investment from our specialist succession fund.

# ALS

A combined funding package of more than £1m from the Development Bank of Wales and HSBC enabled the majority shareholders of Pontypool-based ALS Managed Services to exit the business with the Development Bank taking a 20% equity stake in the new company.

The founding partners developed ALS into a leading recruitment firm specialising in the UK wide recycling and warehousing sectors, with a blue-chip customer base including

major national recycling and distribution companies.

ALS's turnover is in the region of £26m and it is one of the fastest growing businesses in the sector. A robust national account management structure features seven permanent staff managing over 1,600 temporary workers each week. These numbers are expected to double over the next two years.

The investment from the Wales Management Succession Fund has

enabled the company to relocate to a new 3,500 sq ft office at Van Road Business Park, Caerphilly.

Chief Executive Officer Steve Lanigan, who led the management buyout, said: "I had the vision and the determination. I had the benefit of a superb management team and I knew that our customer base would remain loyal to our core values and service. What I needed, like anyone considering a management buy-out, was close support and trusted advice."



Steve joined the Natwest Accelerator Programme in May 2017 which helped him greatly. He benefited from the coaching it offered. It gave him confidence whilst helping to develop a clear focus on the business' strategic objectives. After 12 months on the programme, the business plan had been critiqued, the strategy analysed and the funding proposals reviewed. Just over a year later the Development Bank and HSBC funded the buyout.

ALS were crowned winners of the Fast Growth 50 awards in October 2018 and were recently awarded a position on the National Procurement Service framework for public sector temporary labour requirements across Wales.

---

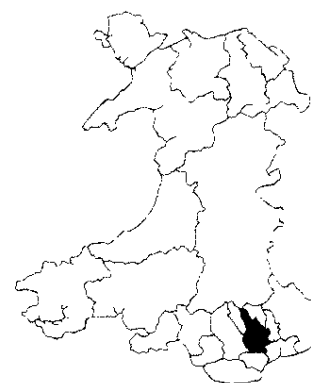
**"The support and guidance from the team at the Development Bank of Wales has been instrumental over the last 18 months. Their experience of providing funding for MBOs coupled with their understanding of our business goals means that we have found an investor that genuinely shares our excitement and passion. That's worth so much more than just the money."**

---



**Steve Lanigan**

**Finance:** Equity  
**Sector:** Recruitment  
**Purpose:** Buying a business  
**Location:** Pontypool



## How we helped

Equity investment from the Wales Management Succession Fund supports management buyout and move to bigger premises for recruitment specialists ALS.

# Financing property developments

**Residential, mixed-use, and commercial property loans from £150,000 – £5m to help small to medium-sized developers.**

"The decision-making process on the loan has been really quick and straightforward, plus we've had the help of a dedicated property development executive to ensure that the finance is tailored to meet our exact needs."

**X-Stream Properties**





# X-Stream Properties

Former All Black and Cardiff Blues rugby captain Xavier Rush received a £1.1m loan from the Development Bank to renovate Grade II-listed Pen-Y-Fal chapel in Abergavenny into six high quality townhouses.

Xavier is no stranger to listed buildings or churches, having been involved in the renovation of award-winning Albert Road Methodist Church in Penarth and Grade II-listed West Aberthaw Barns in the Vale of Glamorgan, which was transformed into a state-of-the-art property and acquired by Orbis Education and Care for the residence of autistic adults.

Xavier established X-Stream Properties in 2016 after he retired from professional rugby. He explained his vision for the Victorian chapel, set within the grounds of the former Pen-y-Fal hospital in Abergavenny: "Spread over three floors, the six townhouses will be perfectly situated in a beautiful parkland setting, yet less than a five-minute walk from the bustling market town of Abergavenny.

**"It is a great location for commuters as there is a train station nearby and swift access to primary road links. Food lovers can also enjoy the internationally renowned food festival and some of the best restaurants in Wales."**

"The loan from the Development Bank will enable us to breathe new life into the chapel to the highest specification, creating accommodation that exceeds the expectations of the most discerning buyers."

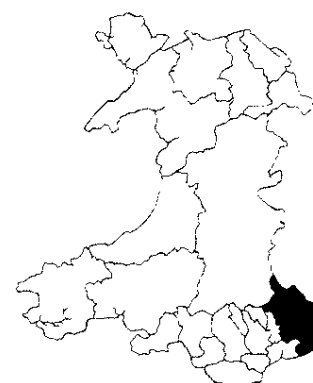
He added: "What's great is that the decision-making process on the loan has been really quick and straightforward, plus we've had the help of a dedicated property development executive to ensure that the finance is tailored to meet our exact needs. We couldn't have asked for more."



**Xavier Rush**

*Xavier is a former Cardiff Blues and All Black.*

**Finance:** Loan  
**Sector:** Property  
**Purpose:** Property development  
**Location:** Abergavenny



## How we helped

X-Stream Properties, led by retired rugby star Xavier Rush, used a £1.1m loan to transform a chapel into six new homes.

## Angels Invest Wales

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

---

"We've been helping syndicates with match-funding from the Wales Angel Co-investment Fund and have funded four deals this year. Also we now have more than 150 business angels registered with us."

**Steve Holt, Director,  
Angels Invest Wales**

## Drone Evolution

The founders of Drone Evolution have benefited from the first investment from the Wales Angel Co-investment Fund, as part of an equity package together with a local South Wales based business angel investor syndicate.

The Development Bank of Wales' Wales Angel Co-investment Fund which launched in May 2018, provided a total of £90,000 of match funding to a syndicate of five business angels, led by Andrew Diplock in the commercial drone services company based in Caerphilly, South Wales.

Drone Evolution which became operational in November 2018 hopes to change the way organisations use drone technology and contribute to their use for public safety.

The investment has allowed the company to purchase state of the art equipment and technology and invest in research and development of novel applications for drones. The company expects to build a team of up to 12-15 staff over the next three years and has its sight on international expansion.

Drone Evolution has specific skills associated with the use of drones for commercial survey work, facility management and public safety applications. However, most commercial drones can only fly for around 20 minutes before their battery runs out and they must be brought down. The company is therefore developing specialised tethered drones which can stay in the air for much longer than standard drones because they can receive power through a cable. This also opens exciting opportunities for secure data transfer utilisation. Potential applications include traffic monitoring, event security and emergency response.

---

**Drone Evolution's lead investor and Chair Andrew Diplock said: "This is a show of faith from the syndicate of angel investors, Angels Invest Wales and the Development Bank of Wales that this is a business that's going places with a growing UK and worldwide market opportunity. We decided to invest based on the experience, passion and dedication shown by the founders Clayton Earney, John Young and Toby Townrow in addition to the compelling business plan they presented to us."**

---

Angels Invest Wales helped the syndicate come together and over the next four years the £8m Wales Angel Co-investment Fund seeks to extend angel investment activity through enhanced angel investment syndicates throughout Wales. The fund is investor led with the Development Bank providing match funding up to a maximum of £250,000 per project. Andrew Diplock is one of only four lead investors currently approved to work with the fund.

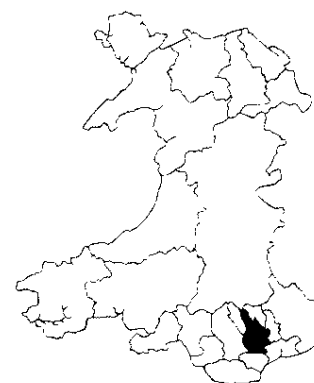
Drone Evolution has gone on to win the Sir Michael Moritz best tech start-up award at the ESTnet Tech awards.



**Andrew Diplock**

*Chairman*

**Finance:** Equity  
**Sector:** Drone technology  
**Purpose:** Starting a business  
**Location:** Caerphilly



## How we helped

£90,000 match-funding from the Wales Angel Co-investment Fund supports business angels syndicated investment in drone technology start-up Drone Evolution.



# Economic Intelligence Wales

**Economic Intelligence Wales collates and analyses data to deliver insight into the supply and demand for finance within the Welsh market and help provide a better understanding of the broader Welsh economy.**

"I see Economic Intelligence Wales as a strategic national asset and a key mechanism that can help shape future policy development within the arena of access to finance."

**Ken Skates, Minister for Economy and Transport**

## Stakeholders

Economic Intelligence Wales is a unique collaboration between the Development Bank of Wales, Cardiff Business School and the Office for National Statistics (ONS).

Cardiff Business School leads on producing the research outputs utilising data from the ONS, StatsWales, the Development Bank of Wales and other data sources. Representatives from the three organisations form the Economic Intelligence Wales Steering Group which reviews and approves research outputs for publication.

## Key objectives

- Track the supply of, and demand for, finance across Wales
- Improve understanding of SMEs and their role within the Welsh economy
- Create innovative ways of measuring, interpreting and tracking SME data
- Identify and address Welsh SME finance data gaps
- Improve understanding of the Development Bank of Wales' wider economic impact



Office for  
National Statistics  
Swyddfa  
Ystadegau Gwladol



## Key highlights

Economic Intelligence Wales launched as a new research collaboration in June 2018 and featured the following key speakers:

**Ken Skates**

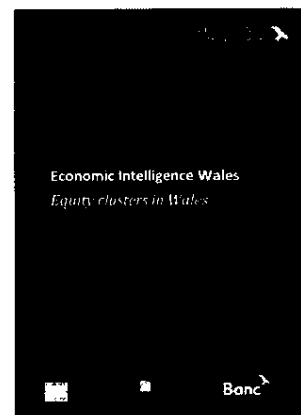
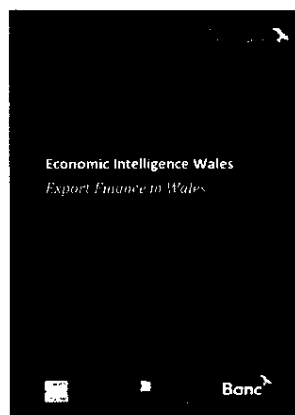
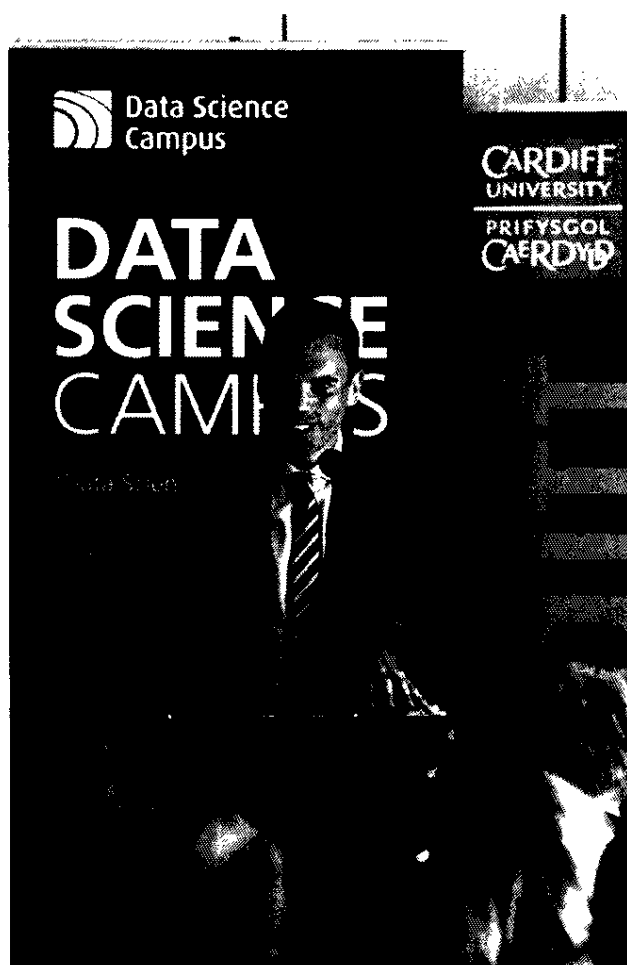
Minister for Economy and Transport

**Tom Smith**

Managing Director of the Data Science Campus, Office for National Statistics

**Professor Andrew Henley**

Professor of Entrepreneurship and Economics, Director of Research Engagement and Impact, Cardiff Business School



Two bespoke reports and accompanying summary infographics have been published

- 'Export finance in Wales' (February 2019) which found that 11% of Welsh SMEs are exporters but a further 13% are considering exporting.
- 'Equity clusters in Wales' (April 2019) which looked in depth at the demand and supply of equity in Wales with Cardiff identified as an emerging equity cluster.

Three quarterly reports have been published.

**EIW Quarterly report June 2018**

**EIW Quarterly report November 2018**

**EIW Quarterly report March 2019**

These reports give an insight into the state of the Welsh economy and Welsh SMEs.

The research highlighted that:

- More Welsh SMEs are using external finance than those elsewhere in the UK.
- Welsh SMEs are more confident than SMEs in the rest of the UK, but
- The proportion of Welsh businesses considered to be 'high risk' has been increasing over the last year.



Cefnogir gan  
Lywodraeth Cymru  
Supported by  
Welsh Government





## Help to Buy - Wales

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

Now in its fifth year the scheme supports the purchase of new build homes up to £300,000 bought through a registered Help to Buy - Wales (HTB-W) builder. The scheme makes new build homes available to all home buyers (not just first time buyers) but may be constrained in doing so.

Support of up to a maximum of 20% of the purchase price is available to buyers through a shared equity loan funded by HTB-W, while buyers are required to provide a deposit of a minimum of 5% of the purchase price.

In total more than £327m has been lent, supporting property sales of £1.65bn.

 Financial year	 Registered builders	 Houses sold	 £ Invested
15/16	139	1,705	£61m
16/17	212	1,836	£69m
17/18	169	1,939	£73.6m
18/19	213*	1,850	£73.6m

\*142 with active sales

"Since the scheme was launched in 2014 8,743 properties have been purchased under the scheme, 76% of which were sold to first time buyers."

**Cenydd Rowlands,  
Property Director**

**£300,000**

maximum purchase price  
for new build homes

**145**

more homes sold  
in three years

**5%**

minimum  
deposit

**£12.6m**

increase in  
investments  
over four years

**£1.65bn**

total of supporting  
property sales

**74**

more registered  
builders in  
three years



**FW Capital delivers contracts in the North of England, extending our network and reputation across the UK. It manages funds for the British Business Bank, Tees Valley Combined Authority, the North East LEP and Santander.**

"The British Business Bank is proud to work with FW Capital, one of the appointed fund managers for the Northern Powerhouse Investment Fund. Working in partnership we are making a real impact on business communities, creating jobs and strengthening regional economies to unlock the North's potential."

**Grant Pegg, Director, British Business Bank**



**Mitesh Dhanak**  
Director

**Finance:** Loan  
**Sector:** Energy  
**Purpose:** Growing a business  
**Location:** Billingham  
Northern  
**Fund:** Powerhouse Investment Fund



Delivered by British Business Bank

## How we helped

Cenergist have hired five new staff following their latest loan from FW Capital. This is the third time we have worked with them.

## Cenergist

Cenergist benefited from a £235,000 loan from NPIF – FW Capital Debt Finance. Cenergist is a specialist energy and water efficiency company working across the UK, Europe, India and the Middle East to help public and private clients achieve energy, water and financial savings.

With this new line of funding, the business was able to expand into turnkey solutions of lighting upgrades to lowcost LED for commercial entities. The company also created five new jobs. However this wasn't the first time FW Capital has backed Cenergist. In 2017 they provided a growth capital injection of £515,000 to help develop its Energy Advisory revenue stream at its Billingham site. Previously the company benefited from a £350,000 mezzanine loan from the North East Growth Plus Fund.





# Aptus Clinical

Aptus Clinical is a clinical contract research organisation specialises in providing biotech companies with drug development expertise, insight and infrastructure.

A £150,000 loan from NPIF – FW Capital Debt Finance, managed by FW Capital has boosted the organisation's expansion plans allowing additional investment in infrastructure, staff and capabilities to better serve the needs of its growing client base.

Founded by three former-AstraZeneca colleagues, Aptus Clinical has grown to a team of 48 people in just four years. With a particular focus in oncology, rare diseases and cellular therapies, Aptus' expertise ensures a client's early clinical development strategies are optimised, and phase I/II studies are innovatively designed and expertly delivered.

To help realise ambitious growth plans, Aptus Clinical has recruited several key hires to its senior leadership team, with the aim of driving the company's four core functions of Commercial, Corporate & Clinical Governance, Clinical Services and Business Services. They have also recently moved within Alderley Park to a significantly larger office suite, to better accommodate current and future growth.

---

**Aptus Clinical CEO Steve McConchie said: "We are delighted with the support from FW Capital and the Northern Powerhouse Investment Fund and the new additions to our team, restructuring and office move to our larger new location in Alderley Park are all a reflection of the incredible work being carried out by our team."**

---




**Steve McConchie**

CEO

<b>Finance:</b>	Loan
<b>Sector:</b>	Clinical research
<b>Purpose:</b>	Growing a business
<b>Location:</b>	Alderley Edge
<b>Fund:</b>	Northern Powerhouse Investment Fund



**NORTHERN POWERHOUSE**  
Investment Fund

 Delivered by British Business Bank



## How we helped

A £150,000 NPIF – FW Capital Debt Finance loan is helping clinical contract research company Aptus Clinical to expand its team and operations.





**Jordan Dargue**  
Group Operations Director

**Finance:** Short-term loan  
**Sector:** Property  
**Purpose:** Property development  
**Location:** Chilton  
North East  
**Fund:** Property Fund

## North East Property Fund



### How we helped

First phase of Homes by Carlton Cathedral Gates development complete thanks to a £1m North East Property Fund loan.

# Homes by Carlton

Homes by Carlton is an award-winning house builder and property developer based in Newton Aycliffe, County Durham, known for the high-quality and prestige of its developments.

The company used a £1m loan from the North East Property Fund to finance the construction of nine family homes, the first phase of the development built on the Cathedral Gates development in Chilton, County Durham. The development of the three and four-bedroom homes will create eight jobs and safeguard jobs in the local supply chain.

Jordan Dargue, Group Operations Director at Homes by Carlton, said: "Cathedral Gates is a wonderful development of new family homes in County Durham. The

homes are designed and built with the quality materials and attention to detail that Homes by Carlton is known for.

"We were very impressed with the FW Capital team's can-do attitude and pragmatic approach and are very grateful to them for the investment that will allow us to build these sought-after homes."

**David Land, Chair of the Investment Board at the North East LEP, said: "Our focus is on driving economic growth and the North East Property Fund is designed to kick-start and support small to medium residential and commercial property developments by unlocking finance. It's great to see companies such as Homes by Carlton applying to the fund and being successful."**



# WHP Engineering

WHP is a Tyneside-based engineering company specialising in the design, construction, integration and maintenance of hygienic cleanrooms, laboratories, containment facilities, sterile processing environments and process plant manufacturing facilities.

Working in conjunction with WHP's bank, HSBC, FW Capital has made two short-term loans totalling £2.5m from the Tees Valley Catalyst Fund. The loans supported advance payment guarantees, performance and warranty bonds in respect of three large contracts to manufacture highly regulated clean facilities helping to create dozens of new jobs in the local economy.

This is its latest round of finance following investment into WHP September 2016 from Enact, the SME Fund

managed by Endless LLP. The resulting appointments to the management team and board have helped the Gateshead-based business to significantly grow turnover and successfully deliver a number of projects for blue chip clients such as Rolls Royce, GSK and Siemens. The business now stands as a 90-strong team of planners, designers, programmers, engineers and highly-skilled, technical experts and support functions.

---

**Caroline Farquhar, WHP Engineering Finance Director, said: "We are delighted to have found a fantastic funding partner in FW Capital. They were helpful and flexible and really understood our business. The investment enabled us to fulfil three major contracts, and we are very grateful to them."**

---



**Caroline Farquhar**

WHP Engineering Finance Director

<b>Finance:</b>	Short-term loan
<b>Sector:</b>	Engineering
<b>Purpose:</b>	Bidding for contracts
<b>Location:</b>	Gateshead
<b>Fund:</b>	Tees Valley Catalyst Fund

**Tees Valley  
Catalyst Fund**



## How we helped

Two short-term loans from the Tees Valley Catalyst Fund allowed WHP Engineering to secure and deliver contracts for Rolls Royce, GSK and Siemens.



# FUND, PEOPLE AND RELATIONSHIPS

Fund raising, recruiting and developing people and forging strong relationships with our stakeholders are vital for successful delivery.

# Funds

The Development Bank of Wales manages funds that provide investment mainly focused at small to medium businesses across the business lifecycle. The Development Bank has worked closely with the Welsh Government to create a suite of products that directly meets market needs, as well as providing

service solutions such as administration of the £454m Help to Buy – Wales scheme. In 2018/19 £197m of new funding was committed which has the potential to create over £300m of impact on the economy with the inclusion of private sector leverage.

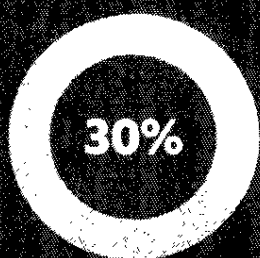
Funds as at 31 March 2019	Funding Amount (£m)	Investment End Date
Wales Life Sciences Fund	50	2018
Help to Buy – Wales	454	2020
TVI Interim Fund	9.5	2020
Wales Capital Growth Fund	25	2021
Wales Angel Co-investment Fund	8	2022
Rescue and Restructuring Fund	11	2023
Wales Business Fund	180.9	2023
Wales Management Succession Fund	25	2023
Wales Flexible Investment Fund	130	2025
Wales Micro Loan Fund	16.2	2025
Wales Technology Seed Fund II	20	2025
Wales Commercial Property Fund	55	2030
Wales Property Development Fund II	32	2032
Wales Stalled Sites Fund	40	2035
Wales Tourism Investment Fund	50	2042
Local Energy Fund	11.3	Ongoing

FW Capital	Funding Amount (£m)	Investment End Date
Northern Powerhouse Investment Fund (Tees Valley and Cumbria)	51	2022
Northern Powerhouse Investment Fund (North West)	51	2022
North East Property Fund	10	2022
Tees Valley Catalyst Fund	10	2023

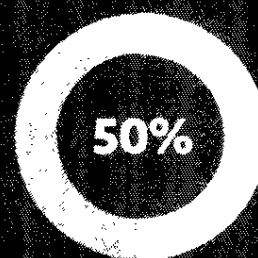
# People

Our people are our greatest strength and work hard to deliver our funds and services for the benefit of Wales. As an employer we offer a proactive training and development strategy alongside a robust wellbeing focus. The Development Bank of Wales Group encourages and supports employees to

develop their career with 15% of people achieving a promotion in 2018/19. In 2019/20 a structured career path development for employees within investment teams will be implemented which will be a key driver in attracting and retaining the right people to deliver the future growth of the organisation.



**Over 30% of total recruitment in Wales** was to the Wrexham HQ which, at 32 staff, is fully on track to meet the Pan Wales Strategy to reach 51 by 2021.



**Training increased by over 50%** to £228k reflecting focus on new recruits and people in new roles and our ongoing commitment to develop our workforce.

## New HR and finance initiatives rolled out

aimed at improving staff experience, removing administrative burden in the production of reports and form filling and reducing the amount of paper used across the Group.



**A dedicated programme aimed at supporting employee wellbeing** was carried out with a specific focus each month.

# 55+

Record recruitment to meet business growth with **55 new recruits and 32 internal moves**.

## Team development and management succession training

aimed at the senior management delivered.

# Relationships

Strong relationships with stakeholders are vital for the successful delivery of our products and services. Our stakeholder constituencies are those who are affected by, or can affect our activity.

Our primary stakeholders include the Welsh Government as our shareholder, other investors in our funds and our employees.

Secondary stakeholders include customers, suppliers, regulators, business organisations and the wider community.

In all cases, we seek to build positive relationships based on our core values of Open, Responsible, Partnership. Across the year we have undertaken over 40 events held jointly with customers and business organisations including FSB

Cymru, Business Wales, ICAEW, RICS and the CBI.

We recognise the importance of working closely with Business Wales to ensure that businesses are able to access the right support at the right time for them. During the year there were 400 referrals between Business Wales and the Development Bank of Wales, three times the number of referrals in the previous year.



Working in partnership for Welsh businesses.



# Working together with Welsh Government



Llywodraeth Cymru  
Welsh Government

The Development Bank of Wales is here to enable the Welsh Government to deliver its policy objectives across Wales. On the one hand, it will serve Welsh businesses, giving them the capital they need to start

up, strengthen and grow. On the other hand, it will serve Welsh Government, by directing public funds to where they can have most impact – on a larger scale, at a faster speed, and in a sustainable way.



**Ken Skates**

**Minister for Economy  
and Transport**

"This has been a landmark year for the Development Bank and I congratulate it on achieving its five year annual investment target of £80m in just eighteen months. I was also delighted to open its new headquarters in Wrexham, which demonstrates my determination that the bank will truly serve the whole of Wales and strengthen our regional economies.

"Other highlights have included launching Angels Invest Wales and Economic Intelligence Wales – two major strategic initiatives which further enhance the Development Bank's wide range of targeted services, working alongside Business Wales."



**Julie James**

**Minister for Housing  
and Local Government**

"The Development Bank is helping us to establish and run some exciting new approaches to homebuilding. Our £40m Stalled Sites fund is helping small and medium businesses unlock stalled sites and build more homes across the country.

"Through Self Build – Wales we will enable more people to overcome barriers to building their own homes and open it up as an affordable option for many. I have been impressed with their willingness to develop new and innovative ways of meeting the challenges we face to build more homes in Wales."

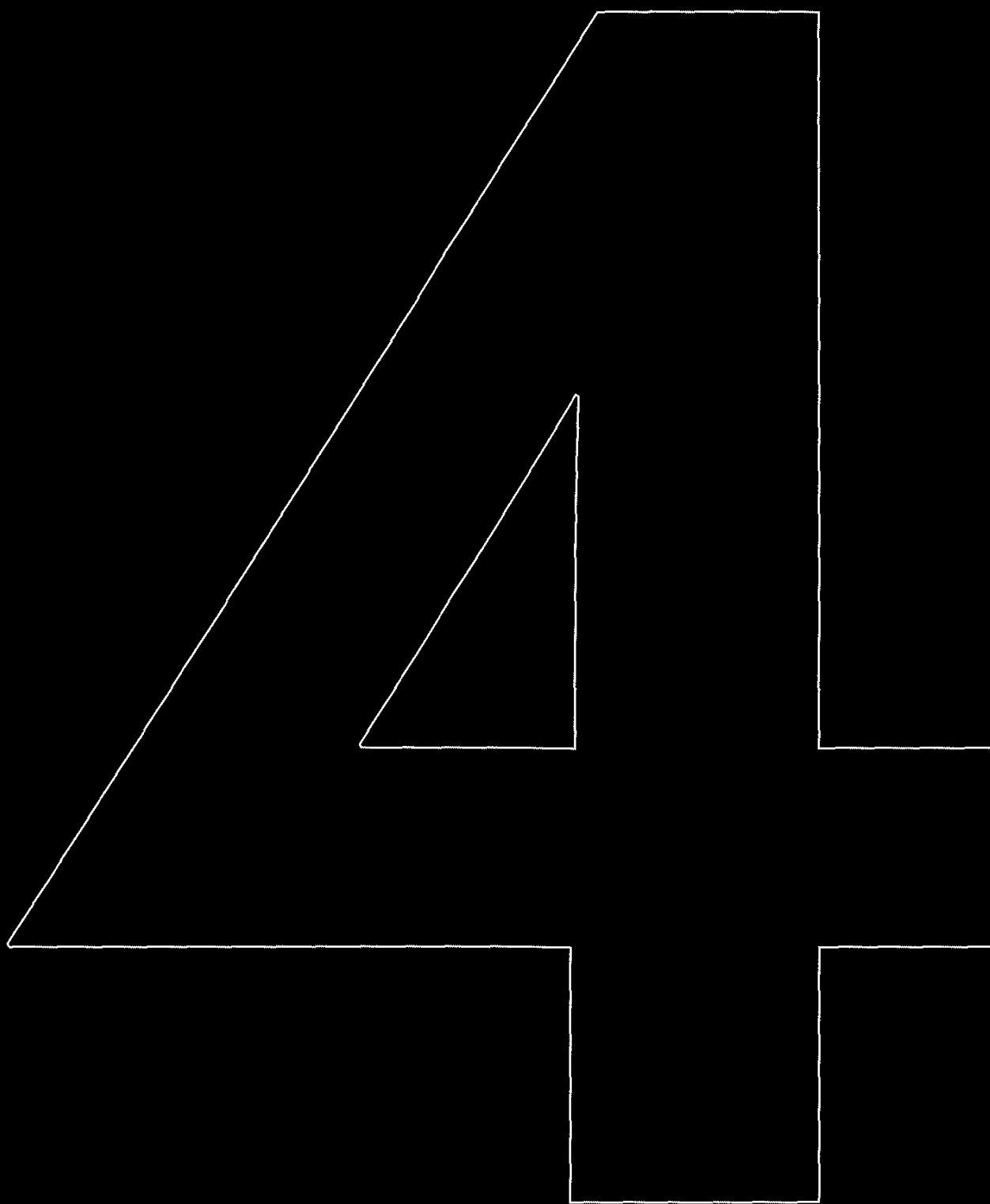


**Rebecca Evans**

**Minister for Finance  
and Trefnydd**

"Having the right financial backing and expertise from an experienced investor is essential for our SMEs, particularly with the ongoing challenges and uncertainties surrounding our exit from the EU.

"Brexit, whatever form it takes, will mean a change to the way Welsh companies conduct their business, and the backing provided by the Development Bank will play a critical role in helping businesses manage, thrive and grow."



# FINANCIAL AND RISK MANAGEMENT

We have developed our policies, frameworks and culture to support our approach to risk management to ensure the effectiveness of our internal control systems.

# Chief Financial Officer's report



**David Staziker**  
Chief Financial  
Officer

## *Our financial year: High-level review*

In last year's annual report we presented a new analysis of the Development Bank of Wales Group's (the Group) financial performance following a request for a more transparent presentation of financial information from the National Assembly for Wales Economy, Infrastructure and Skills Committee. The Committee subsequently acknowledged that it was pleased with this new presentation format and so we will continue to develop financial performance transparency in this and future annual reports.

## **We will continue to use the same format as last year by;**

- Describing the two distinct activities of the Group and how they generate revenues and incur costs;
- Summarising the revenues and costs at a combined level and then showing how these break down between these two activities;
- Comparing performance year-on-year for each activity; and
- Comparing the Group's operating costs with its revenue.

## Group structure at a high level

The Group structure can be simplified at a high level by segregating our activities between two distinct areas, the services business and the funds business.

	Services	Funds
What does this part of the business do?	This includes fund management services such as investing and collecting repayments of the funds business and providing management information for both our own Funds (opposite column) and external party funds. It also includes fund holding services such as facilities, IT, finance, communications and HR. Finally, it includes the support activities of Angels Invest Wales and Economic Intelligence Wales.	The Group has several funds, which are used to provide loans or purchase shares in businesses in Wales and shared equity loans to new home buyers in Wales. These funds are in the main managed by the Services Business.
How does it generate income?	Revenues include fees received for fund management and fund holding services and Welsh Ministers Grant in Aid (FY18 only).	Revenues include fees, interest received on loans, receipts when shares are sold and gains or losses on investments which are revalued at the year end to their current (fair) value.
What costs does it incur?	Costs include; staff, estates and bought in services (such as IT).	Costs include fees paid for fund management services, provisions for losses on investments and fund operating costs like audit fees.
Can business performance be assessed using an annual review?	An annual review will show whether this part of the Group is covering its operational costs.	The duration of each of our funds is variable and can be more than ten years. The profitability and performance of a fund varies from year to year and is dependent on its maturity phase. Implementation of IFRS 9 has introduced additional volatility caused by year on year movements in assets held at fair value which are estimates and unrealised. An annual review of the aggregated position of all our funds is not an effective way of assessing an individual fund's performance.

## Segmental Group performance analysis

**Table A:** High-level analysis of FY19 and FY18 consolidated income statement

	FY19			FY18		
	Services	Funds	Group	Services	Funds	Group
	£m	£m	£m	£m	£m	£m
Revenue	25.9	37.1	40.4*	24.5	28.6	34.0*
Costs	-23.0	-50.1	-50.5*	-19.8	-28.8	-29.5*
Surplus/(deficit)	2.9	-13.0	-10.1	4.7	-0.2	4.5

\*These Group figures are less than the total of the Services and Funds business figures due to the elimination of transactions between the two. A full reconciliation showing how the transactions between the two have been eliminated on consolidation and between the figures in Table A above, Table B opposite, Table C on page 76 and the consolidated income statement which is included in Appendix A to the annual report and financial statements.

In the consolidated income statement, the Group's surplus is analysed between a £10.5m deficit (FY18 £4.5m surplus) attributable to equity shareholders, the Welsh Ministers, and a £0.4m (FY18 nil) surplus attributable to Non-controlling interest. This represents the share of the funds business's deficit/surplus that is due to Clwyd Pension fund as a result of their equity investment this year into the Wales Management Succession Fund. See Table C and associated note for details.

The £10.1m group deficit (FY18 £4.5m surplus) figure for FY19 includes the £2.9m (FY18 £4.7m) surplus from the services business and a £13.0m deficit (FY18 £0.2m deficit) from the funds business. The surpluses for the services and funds businesses are explained in more detail in Tables (B) and (C) respectively.

Our services businesses are where the operating costs are incurred.

Our services businesses are where the operating costs are incurred.

**Table B:** Services FY19 and FY18 income statement analysis

	<b>FY19</b>	<b>FY18</b>	<b>Commentary</b>
	<b>£m</b>	<b>£m</b>	
Fund management income	25.9	22.8	Increase is primarily a result of either new Funds under management or the full year effect of new funds that came under management during FY18.
Grant in Aid received	0	1.7	Per agreement with Welsh Government, there will be no further Grant in Aid given to the Group in future.
<b>Total revenue</b>	<b>25.9</b>	<b>24.5</b>	
Staff costs	-10.5	-9.2	Increase is primarily a result of increased staffing levels to deliver increased level of funds. The average number of staff employed during FY19 and FY18 was 183 and 165 respectively.
Other costs	-12.5	-10.6	Increase in line with additional infrastructure and operating costs arising from the growth in funds under management.
<b>Total costs</b>	<b>-23.0</b>	<b>-19.8</b>	
Surplus of income over costs	2.9	4.7	

---

## Surpluses and sustainability

It should be recognised that the surplus noted above is not available for distribution. It is already earmarked as part of the Development Bank of Wales Group's build-up of operating cash reserves and £57m contribution requirement between 2020 and 2024 into the Wales Business Fund and Wales Flexible Investment Fund alongside the legacy returns from these funds and other funds in realisation mode such as the Wales JEREMIE fund and the Wales SME fund. These legacy returns from the Wales JEREMIE Fund and Wales SME Fund amount to c. £14m as at 31 March 2019 (£5m as at 31 March 2018).

As shown in Table B, the surplus generated by the service businesses fell by £1.8m (38%) from FY18. A surplus in FY19 of £2.5m was forecast in the Development Bank of Wales Plan and approved by Welsh Ministers to enable the Group to continue to build up operating cash reserves. These reserves will allow the Group to operate without Grant in Aid from the Welsh Government and remain self-funding, a key objective of the Development Bank of Wales and Welsh Ministers. We can forecast the services business income and expenditure with reasonable certainty for the next five years which show the services business remains in a cumulative surplus position and so in the Directors' report we are able to make our long-term viability statement over the next 5 years irrespective of whether our funds business is in surplus or deficit.

The reported £2.9m surplus noted in Table B above is £0.4m higher than planned due to budget profiling. The transformation into the Development Bank of Wales is a three year programme. These associated transformation costs have been incurred later than originally planned including recruitment and investment in ICT Infrastructure.

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

## Performance of our funds business

The Group receives funds from investors (mainly the Welsh Ministers). Our funds business invests these funds, collects repayments, and then either repays the investor or reinvests the repayments in existing or new funds.

The performance reflects the combined results of 16 investment funds the services business manages, the £50m investment into the Wales Life Science Investment Fund (WLSIF) and the Help to Buy -Wales shared equity loan fund.

The year-on-year performance analysis for the funds businesses is presented in Table C.



**Table C:** Funds FY19 and FY18 income statement analysis

	<b>FY19</b>	<b>FY18</b>	<b>Commentary</b>
	<b>£m</b>	<b>£m</b>	
Fees received	3.5	3.0	Increase is in line with the increased size of the debt and equity investment book.
Dividends and interest income	6.9	8.0	The FY19 amount is reduced by £1m after a required non-cash IFRS 9 adjustment which is not reflected in the FY18 amount. There is a corresponding £1m reduction made to FY19 provisions (see below). The change in the HTB-W funding contract (see below) means £0.6m of effective interest rate income was included in FY18 number which is not included in FY19. Therefore a like for like comparison would be a rise from £7.4m in FY18 to £7.9m in FY19 which is in line with the year on year increase in the loan book, set off by a lowering of average interest rates.
ERDF Grant release	25.4	22.0	Increase reflects higher levels of investment, particularly in the West Wales and the Valleys regions for the Wales Business Fund (see note below).
Equity realisations	0.6	0.2	This increase reflects seven full or partial exits in FY19 and one exit in FY18 representing a blended cash on cash return of 1.2 times in FY19 (FY18 1.6 times).
Net treasury	0.7	0.1	Increase reflects growth in funds under management.
Unrealised Loss on HTB-W loans	0	-5.2	Following a contractual change in FY18, any gains or losses are now reflected in the loan balance due to Welsh Ministers (see below). Whilst the financial statements show the unrealised fair value gain of £26.8m (FY18 £3.9m) and the realised gain of £1.4m (FY18 £0.5m) these are offset by a loss on the transfer of these gains to Welsh Ministers of £28.2m (FY18 £9.2m) resulting in a net nil position in the income statement this year.
<b>Total revenue</b>	<b>37.1</b>	<b>28.6</b>	

	FY19	FY18	Commentary
	£m	£m	
Provisions made	-2.3	-14.4	See comment below.
Non-consolidated fund fair value losses	-14.8	0	This loss represents the movement in the fair value of the original £50m investment into the Wales Life Science Investment Fund. See comment below.
Other fair value (losses)	-14.9	0	See comment below.
Fund management fees paid	-17.0	-13.4	Increase reflective of additional funds under management.
Other costs	-1.1	-0.9	Consistent year on year.
<b>Total costs</b>	<b>50.1</b>	<b>28.8</b>	
Deficit	-13.0	-0.2	
Deficit attributable to equity shareholder	-13.4	-0.2	This represents the share of the funds business's deficit due to the shareholder, the Welsh Ministers.
Surplus attributable to non-controlling interest	0.4	0.0	This represents the share of the funds business's surplus that is attributable to Clwyd Pension fund as a result of their equity investment this year into the Wales Management Succession Fund (see note below).
Table C shows that the funds business generated a deficit of £13m this year as compared to a deficit of £0.2m in the prior year. The main reasons for the change in			performance is the impact of adoption of IFRS 9 in FY19 set off against the higher EDRF grant release and no HTB-W losses.

## ERDF grant released

The ERDF grant is released as revenue to the Group's income statement over the seven-year investing period of the Wales Business Fund in line with the level of investments made in a year.

## Provisions – impact of IFRS 9

The FY19 number reflects the adoption of IFRS 9 and relates only to Impairments on loans. The impairment is shown after a reduction of around £1m in relation to the way interest income is now presented (see note on dividend and interest income above). The FY18 figure relates to loans and equity with the equity element amounting to £9.4m. A true comparison would therefore be a cost of £3.3m in FY19 compared to £5.0m in FY18.

Under IFRS 9 loss provisions are based on expectations for future losses and are not comparable to the previous provisioning approach which was based on an incurred loss model. Portfolio health for the loan book has improved during the year from 85% to 86% reflecting the impact of the growth in the low risk property loan deals. This is the principal reason for the reduction in the provisions held.

## Other fair value losses/gains – impact of IFRS 9

Under IFRS 9 movements in the fair value of equity investments are shown in the income statement. In FY18 gains of £10.5m were shown in the consolidated statement of comprehensive income offset by provisions of £9.5m (see note above). A true comparison is a cost of £16.3m in FY19 compared to a gain of £1m in FY18. The main reason for this £17.3m movement is a significant decrease in the value of our holding in Diurnal plc, following a poor clinical trial announcement in the year. As a result of moving to IFRS 9, the FY19 figure also includes the impact of fair valuing all equity investments, convertible loan notes and Development Bank's investment in the Wales Life Sciences Investment fund as noted below.

## Wales Life Sciences Investment Fund ( WLSIF )

Under IFRS 9, the investment in the WLSIF is now held in the financial statements at fair value where as previously it was held at cost less any necessary provision. In valuing the investment in WLSIF in FY19, whilst there has been a large exit which returned a total of £21.7m to the limited partners, the fair value of the remaining portfolio has significantly reduced resulting in a £14.8m loss in the fair value in the investment during FY19. The valuation of the investment in the WLSIF remains a key source of estimation uncertainty as disclosed in note 3 and note 20 to the financial statements. The fair value of the remaining investment in the WLSIF and the repayments received to date amounts to £37m, which represents a loss of £13m compared to the original investment (FY18 £1.8m gain). The FY18 £1.8m gain is included in the £2.8m IFRS 9 transitional adjustments total in consolidated statement of changes in equity. The fair value loss of £14.8m arising during FY19 is the difference between the opening gain of £1.8m and closing shortfall of £13m noted above.

It should be noted that fair value movements are estimates made by experienced investment managers of what may happen in the future. Performance of a fund's investee companies can both improve and worsen which will impact on these estimates and leads to the classic warning that investments can go up and down in value and historic performance will not necessarily reflect future performance. The movement year on year noted above for Non-consolidated Funds Fair Value losses/gains and Other Fair Value losses/gains emphasises this fact.

An important consequence arising from the inclusion of the fair value of equity investments into the consolidated income statement is the Group surplus or deficit will inevitably be much more volatile year on year than seen historically depending on how the valuations of these equity assets changes.

## Help to Buy - Wales shared equity loan fund for new house buyers

During FY18 year, Welsh Ministers agreed to make a change to the investment agreement, which has changed the accounting treatment of the fund.

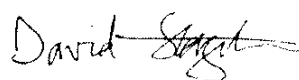
Previously any realised or unrealised fair value changes were recognised in the Group's consolidated income statement. Historically these changes have been gains, most of which are unrealised as they are based on forecast increases in house prices rather than the actual sales of houses.

In FY18, the loss reported in the consolidated income statement of the Group was some £5.2m, which effectively removed all previous gains recognised through the income statement. As a result of the changes in the accounting treatment any fair value changes at year end are now reflected in the loan balance due to Welsh Ministers, hence the nil position shown in the income statement FY19.

From Table C, you will note that there are significant movements in the fair value of these assets which are very sensitive to changes in the house price index and the discount rate used in the calculation. We expect these gains (or losses) will remain volatile moving forward as a small change in either the index or discount rate can cause a significant change in the fair value gain or loss.

## Non-controlling interest

The £10m investment into the Wales Management Succession Fund by Clwyd Pension Fund (of which £2.6m has been drawn down and invested by the fund as at 31 March 2019) is the first external equity investment made into one of the Group's Funds. It matches £10m of funding from Welsh Ministers and £5m of funding from the Group itself. Under accounting rules, this fund is deemed to be controlled by the Group and so must be included in the Group financial statements. Since the fund is not fully funded by the Group, accounting rules require us to disclose the portion of the fund attributable to the external investor in the Consolidated Balance Sheet under the heading "Non-Controlling Interest" within the Equity section. Similarly, we also disclose the profit attributable to the external investor separately in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income.



**David Staziker**  
Chief Financial Officer  
26 June 2019

# Risk management and internal control

The Development Bank of Wales Group (the Group) operates a relatively straightforward business model, delivering generally simple products and services. It operates within the UK retail and commercial financial services market. As a gap funder to support the growth aspirations of predominantly micro to medium-sized businesses and homeowners, the Group accepts a greater degree of investment risk than commercial providers of finance are typically prepared to tolerate.

The Group has developed a Risk Management and Assurance Policy setting out the Group's approach to this important area of governance, key responsibilities, the risk management framework and the assurance framework through which the Board ensures effective design and operational effectiveness of the Group's internal control system.

Due to the nature of its activities the Development Bank of Wales plc is not authorised or regulated by the Financial Conduct Authority (FCA) or the Prudential Regulatory Authority, although three of its subsidiaries with assets representing less than 2% of the portfolio are regulated by the FCA. The rest of the Group is exempt from regulatory supervision.

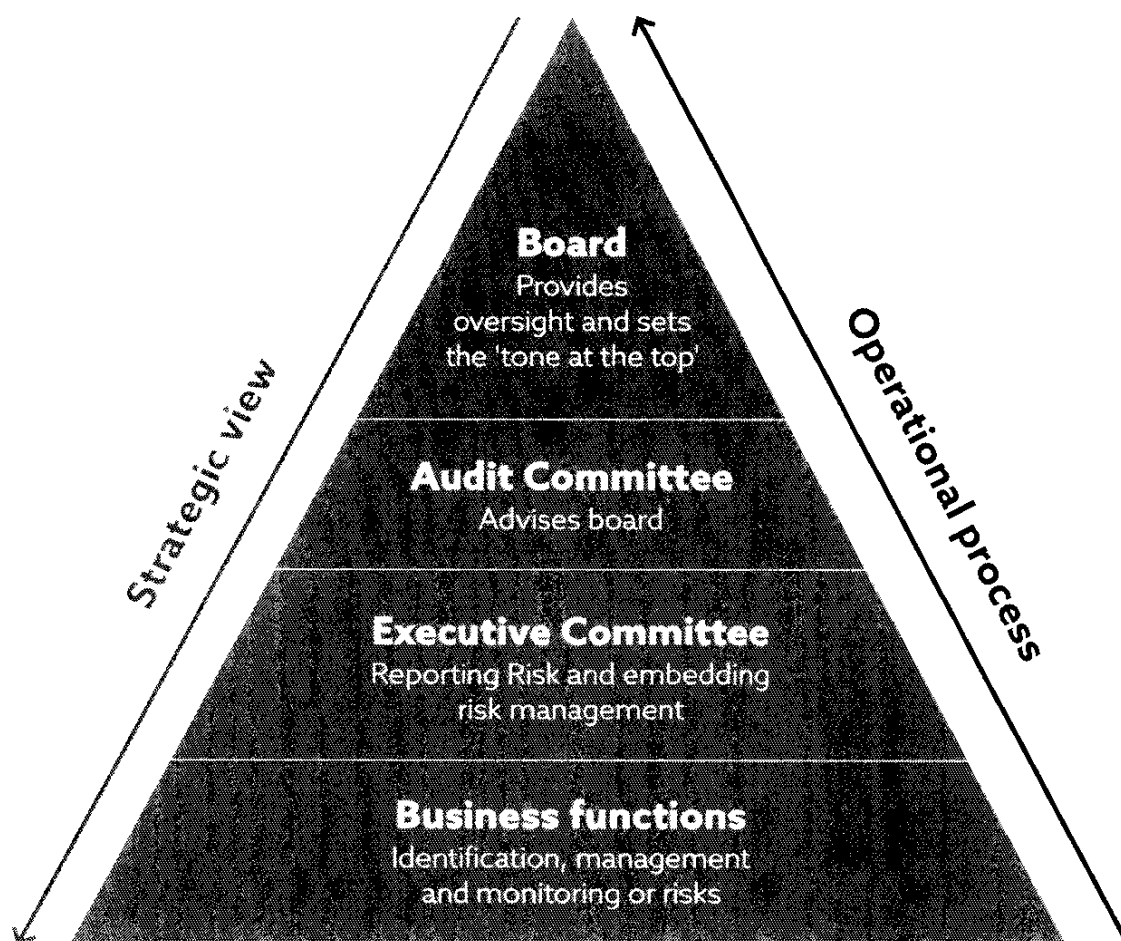
The Development Bank of Wales plc is however subject to other applicable laws and regulations and has a suite of policies and procedures in place to ensure compliance with the regulatory environment, including Financial Crime, Anti Bribery and Corruption, Anti-Fraud, General Data Protection Regulation ("GDPR") and the Freedom of Information Act.

## Role of the Board

The Board has overall responsibility for risk management. The Board's role is to set the culture of the Group, providing entrepreneurial leadership within a framework of prudent and effective control which enables risk to be assessed and managed. The Board is supported by the Audit and Risk Committee in performing this role (see the Audit and Risk Committee Report for details of this committee's purpose and responsibilities with respect to risk management and internal control).

The Board is responsible for ensuring that there is an appropriate mix, both on the Board and within the wider Group, of expertise, knowledge of the business, financial experience, technical knowledge and external perspectives.

The Board sets the Group's risk tolerances to identify and define the types and levels of risks it is willing to accept in pursuit of the Group's strategic objectives and to ensure that there is an appropriate framework for decision making. The Board holds an annual strategy day as a means to identify emerging risks.



## Role of management and staff

The Senior Management Team (SMT) is responsible for implementing the Group's Risk Management and Assurance Policy and for alerting the Board to the emergence of and any material change in the likelihood or impact of principal risks and for embedding effective risk management practice throughout the

Group. It is also responsible for ensuring that the financial and non-financial implications of risk on Group performance are recognised in a prudent and timely basis.

All staff are responsible for the identification, management and mitigation of risks within their area of operation and responsibility.

# Risk management framework

The Development Bank of Wales Group is exposed to a diverse range of risks in the execution of its strategy and in undertaking day-to-day business. Key to its performance to date and future success is a culture where risk is accepted in a measured, reasoned and informed fashion. Moreover, its performance is not solely measured against investment parameters and it is important that other areas of risk including Operational, Liquidity, Compliance, Interface, Reputational and Strategic risks are acknowledged and managed effectively. The Group actively manages the principal risks relating to its activities through a variety of means, including:

- Annual Board assessment of the principal risks to the successful delivery of the Group's strategic plan and review of the Risk Management & Assurance Policy;
- Operating a risk management framework designed to identify and mitigate risk and aligned to the recognised "three lines of defence" model;
- The use of mitigating controls to reduce the probability and/or impact of identified risks;
- Managing risk within risk tolerances as defined by the Board;
- A comprehensive induction programme for new employees and mandatory training for colleagues in key risk areas such as Data Protection, Information Security and combatting money laundering, bribery and corruption;
- The availability of guidance to colleagues via a comprehensive suite of policies available on the Group intranet;
- Horizon scanning to identify forthcoming regulatory, legislative and accounting changes and emergent risks that will have a bearing on Group activities;

To ensure robust effective and consistent investment decision-making within the Group, the Investment Committee operates to Terms of Reference which are regularly reviewed. The Investment Committee is responsible for making larger investment decisions. Authority is delegated to directors and other senior staff in respect of other investment decisions.

These arrangements comprise the Groups Risk Management Framework (RMF) that supports the Board's approach to identifying, assessing, monitoring and controlling the risks the Group faces. The RMF:

- Demonstrates a clear link to the overall strategy and business plan of the Development Bank;
- Is owned by the Risk, Compliance and Legal Director and approved by the Development Bank of Wales plc Board. Any changes to the RMF are recommended by the Audit and Risk Committee to the Board for approval;
- Outlines the risk management vision and objectives, and the approach for evolving the risk management capability of the Group;
- Is reviewed on an annual basis and, if required, more frequently to reflect any significant material changes to the business, economic or regulatory outlook; and

A discussion of how the Group handles its risks in relation to financial instruments is set out in note 20 of the financial statements.

Key elements of our RMF include risk culture, risk tolerance and risk assurance.

# Risk culture

Risk culture supports the Development Bank of Wales Group in achieving its stated purpose and objectives at acceptable risk. It is reflected in behaviours exhibited by the Board and colleagues with regard to risk awareness, risk taking and risk management. The "three lines of defence" model is key to ensuring that risk management is embedded across the Group. Colleagues are encouraged to take ownership of the identification and management of risk falling within their respective business areas.

The "tone from the top" is an essential part of this culture. The Board and senior management act and expect colleagues to act with openness and integrity and to escalate observed non-compliance with policy and procedure. Colleagues are encouraged to report risk incidents and "near misses".

Against this backdrop the Group is well placed to meet its conduct risk responsibilities and ensure the fair treatment of its customers. Conduct risk (the risk of bad customer outcomes) is managed through a variety of means, including:

1 All colleagues undertake mandatory training relevant to their role;

---

2 A Group pricing policy ensures consistency of approach in terms of interest rates, further details of which are available on our website;

---

3 Affordability is a key consideration of all loan applications we appraise;

---

4 Segregation of duties ensures that lending decisions are always subject to review by a "second pair of eyes";

---

5 Customer complaint numbers are monitored closely and all complaints are responded to by senior management;

---

6 File reviews by the Compliance team;

---

7 Review of the design and operational effectiveness of our control environment by our independent internal auditors.



# Risk tolerance

The Group has identified the following enterprise risk categories pertinent to its strategy and operations and in its annual review of risk management arrangements in January 2019 the Board ascribed a tolerance to each category as follows:

Enterprise Risk Category	Risk Tolerance
Compliance	Negligible
Interface	Low
Investment mandate	Low
Liquidity	Negligible
Operational	Low
Reputational	Low
Strategic	Low

The Board has determined the following principal risks to the achievement of the Group's strategic objectives.



Decreased risk



Increased risk

# Principal risks

Failure to deliver the Group's Business Case and commitments and/or poor alignment/engagement with our stakeholder.

Risk and potential issues	How we are addressing the issues	Current status
<p>Delivery of the business case requires continued strong "business as usual" performance whilst improving operational efficiency and growing the business to deliver our challenging targets.</p> <p>Failure to deliver the business case commitments would cause reputational damage.</p> <p><b>Area of risk: STRATEGIC</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>The delivery of individual initiatives is managed through the appointment of project teams, led by senior management, with clearly defined outputs and close monitoring of progress.</p> <p>Tracking of the Group's core business performance is supported by a comprehensive suite of management information.</p> <p>Board members receive regular performance updates in respect of both core business and project work.</p> <p><b>Post-control rating: Significant</b></p>	<p>Our Wrexham Head Office opened on schedule in September.</p> <p>Our ambitious digitalisation project is progressing satisfactorily and will improve our interface with customers and our efficiency in the months and years ahead.</p> <p>We continue to closely monitor the Group's day to day performance to ensure successful delivery of our core business activities.</p>



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

Risk and potential issues	How we are addressing the issues	Current status
<p>The long-term continuity of the Development Bank of Wales is dependent on the continued willingness of Welsh Government to provide funds to invest.</p> <p>There is uncertainty as to the availability of future funds from UK Government in light of the ongoing Brexit debate.</p> <p><b>Area of risk: LIQUIDITY</b></p> <p><b>Risk tolerance: Negligible</b></p> <p><b>Pre-control rating: Significant</b></p>	<p>We draw on our own experience and that of our customers to identify gaps in private sector funding provision and work closely with colleagues in the Welsh Government to develop fund proposals to address market failure.</p> <p>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 fund management business. Accordingly, we track fund performance and delivery of the key.</p> <p><b>Post-control rating: Moderate</b></p>	<p>In the 2018/19 financial year funding from Welsh Government enabled the announcement of £187m of extra funding to support the growth aspirations of Welsh micro to medium businesses.</p> <p>In addition, the Development Bank successfully raised £10m in institutional equity from Clwyd Pension Fund into the Management Succession Fund.</p> <p>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.</p>

Failure to meet fund performance objectives.

Risk and potential issues	How we are addressing the issues	Current status
<p>The Group has built a strong track record of successful fund delivery. It is critical to the future of the Development Bank that this record is enhanced through the continued achievement of fund objectives.</p> <p><b>Area of risk:</b> <b>INVESTMENT MANDATE</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>Each fund we raise is developed in response to a particular area of market failure and has clearly defined target outputs from the outset. These KPIs are closely tracked through detailed management information, enabling new strategies to be developed or remedial action taken as appropriate.</p> <p>We raise awareness of the availability of funding through coordinated marketing and business development activity across a number of channels.</p>	<p>In the past year the Development Bank achieved or exceeded all of its key performance indicator targets for Wales.</p> <p>We undertake awareness raising of the offer through a variety of media and our social media presence continues to develop and improve our contact with the micro business community. We continue to develop our network of intermediaries, including accountancy practices and banks, to identify funding opportunities.</p>
	<b>Post-control rating: Moderate</b>	

Failure to optimise operational effectiveness.

Risk and potential issues	How we are addressing the issues	Current status
<p>Inefficient or ineffective processes and systems are likely to result in poor customer service standards and reputational damage to the Group's brand and track record. An inconsistent approach to core investment activity will impact Group performance in terms of increased impairments, reduced fund returns and increased possibility of the breach of funding agreements.</p> <p><b>Area of risk: OPERATIONAL</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>We have a comprehensive set of procedures 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.</p> <p>We realise that to deliver our stretching targets cost-effectively we must constantly seek out better ways of working.</p> <p>Our ICT Steering Group is populated with colleagues from across the business and is charged with the successful delivery of our digitalisation project to improve the customer experience, facilitate improved flexible working and drive operational efficiency.</p>	<p>The digitalisation project is progressing satisfactorily on a number of fronts.</p> <p><b>Post-control rating: Significant</b></p>
	<b>Post-control rating: Significant</b>	

Failure to engage and communicate effectively with our customers

Risk and potential issues	How we are addressing the issues	Current status
<p>To remain a relevant and effective component of the economic development and business support landscape in Wales it is imperative that we listen to our customers to understand the challenges facing them and how best we can help them achieve their objectives.</p> <p>Just as important is to raise awareness of our activities and products to stimulate demand.</p> <p><b>Area of risk: INTERFACE</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>We welcome any and all feedback on our performance. We undertake satisfaction surveys and host regular dinners across Wales with our customers and the wider business community to understand what we do well and where we must improve. This feedback is considered when scoping our ongoing programme of operational improvements.</p> <p><b>Post-control rating: Moderate</b></p>	<p>Our target turnaround times for investment decisions are published on our website and we track our performance against these closely.</p> <p>The popularity of our streamlined application process in respect of micro finance loans of up to £10,000 for established businesses continues to grow.</p> <p>Our online application form was introduced in October 2017. Virtually all funding applications we receive now come through this channel.</p>

Failure to comply with legal and regulatory requirements.

Risk and potential issues	How we are addressing the issues	Current status
<p>The Group and its activities are subject to a variety of laws and regulations. Examples of these include; the Financial Conduct Authority in respect of consumer credit and the activities of FW Capital, the procurement of products and services, State Aid and geographical constraints regarding investment and loan activity and the General Data Protection Regulation.</p> <p>Breach of these regulations would damage the Groups' brand and reputation and could result in fines or other sanctions, including legal action, which could impede the Groups' ability to operate or raise further funds.</p> <p><b>Area of risk: COMPLIANCE</b></p> <p><b>Risk tolerance: Negligible</b></p> <p><b>Pre-control rating: High</b></p>	<p>We maintain detailed policies and procedures on our intranet and our in-house Compliance team undertakes file sampling activity, the results of which are reported to senior management.</p> <p>Our independent internal auditors provide assurance on the design and effectiveness of internal controls across the Group and recommend areas for improvement to quarterly Audit and Risk Committee meetings.</p> <p>Our external auditors keep us abreast of latest developments in the regulatory environment and test the control environment and report their findings to the Audit and Risk Committee as part of their annual report.</p> <p>Colleagues are required to undertake regular mandatory training in respect of a number of regulatory areas.</p> <p><b>Post-control rating: Significant</b></p>	<p>We monitor our compliance with the legal and regulatory landscape through our internal systems and procedures. In the past year staff have undertaken a range of mandatory training including in respect of FCA Approved Persons, Equality &amp; Diversity, Information Security, Countering Bribery &amp; Corruption and Risk Management.</p> <p>We have recently introduced a new training solution which uses artificial intelligence to provide ongoing compliance and regulatory training, with results reported in real time.</p> <p>We have implemented a detailed action plans to ensure that our GDPR compliance arrangements remain fit for purpose.</p> <p>Our independent internal auditors have delivered the internal audit plan and have categorised the Group's risk management and control processes as Generally Satisfactory with some improvements required.</p>

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

Risk and potential issues	How we are addressing the issues	Current status
<p>The Group's IT estate must be operationally durable and reliable, resilient to external attack and, in a worst case scenario, configured to overcome denial of service attacks in a timely fashion.</p> <p>It is important that IT users act in accordance with best practice so as to minimise the likelihood of data security breaches and the reputational, operational and financial implications that may otherwise arise.</p> <p><b>Area of risk:</b> <b>OPERATIONAL</b></p> <p><b>Risk tolerance:</b> Low</p> <p><b>Pre-control rating:</b> High</p>	<p>Our IT estate is protected by a range of measures including firewalls, encryption and antivirus software, internet content filtering and backups. Specialist third party advice is sought where appropriate.</p> <p>IT support is outsourced to a third party provider and is subject to contractually enforceable Service Level Agreements.</p> <p>IT procedures are detailed in our Information Security Policy. Annual online security training is mandatory across the Group. There are robust breach containment and investigation processes.</p> <p><b>Post-control rating: Significant</b></p>	<p>Our business continuity and disaster recovery arrangements have been reviewed and tested during the year. This exercise has helped us to identify where our resilience can be further improved and a plan to implement our learnings has been implemented.</p> <p>The IT team has been strengthened to ensure that we are adequately resourced to deliver our digitalisation project.</p> <p>Our Cyber Essentials Plus governance accreditation was successfully renewed. This is a government backed, industry supported scheme that enables organisations to demonstrate that essential precautions to mitigate against risks from common cyber-attacks have been taken and that customer and supplier information is being protected.</p>

Managing cultural change and failure to recruit and retain appropriately skilled and experienced colleagues.

Risk and potential issues	How we are addressing the issues	Current status
<p>The Group is required to operate a pay and reward system that is aligned to public sector pay constraints, despite undertaking activities that are aligned with private sector activities in the financial services sector.</p> <p>The opening of the Head Office in Wrexham and the growth in numbers based there makes for a more geographically diverse workforce.</p> <p>The inability to recruit and retain staff or the loss of key personnel would result in the loss of valuable experience and knowledge, could adversely impact customer service and our ability to deliver funds effectively.</p> <p><b>Area of risk: OPERATIONAL</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>A succession plan is in place for key posts. The Group operates a performance appraisal process to ensure that strong performance is recognised and that employees are motivated and competent in their roles.</p> <p>The Group encourages staff development and a range of training options are available.</p> <p>Salaries are benchmarked against market norms and staff turnover levels are monitored by senior management and reported to Board twice a year.</p> <p><b>Post-control rating: Significant</b></p>	<p>The opening of the new Head Office in Wrexham has been well received by colleagues and we are on track to deliver the forecast growth in numbers based at the office.</p> <p>The design of the office reflects our commitment to flexible working, which supports work: life balance and which we see as a key recruitment and retention tool and an important component of our drive to improve both in terms of cost and productivity.</p> <p>Recruitment and retention of some investment-related roles continues to be challenging.</p> <p>Other aspects of our overall employment package include:</p> <ul style="list-style-type: none"> <li>• A comprehensive induction and training package;</li> <li>• Regular performance reviews, staff surveys and well-being events and our online colleague engagement tool "The Exchange";</li> <li>• Competitive annual leave levels and paid access to other benefits such as private health care</li> </ul>



Decreased risk



Increased risk

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

Risk and potential issues	How we are addressing the issues	Current status
<p>The Group is required to obtain external products and services in accordance with the Public Contract Regulations 2015 and to be satisfied that suppliers are operating in accordance with other relevant regulations, such as GDPR. Failure to do so could result in reputational damage, unbudgeted costs, or the need to repeat procurement exercises.</p> <p>Lack of internal knowledge to specify properly required products and services could result in appointment of unsuitable providers, inadequate project management and anticipated benefits not being delivered.</p> <p><b>Area of risk: INTERFACE</b></p> <p><b>Risk tolerance: Low</b></p> <p><b>Pre-control rating: High</b></p>	<p>The Group has in-house specialist procurement and IT Services staff, with access to external legal advice and consultancy as required.</p> <p>PRINCE 2 Project management techniques and the ITIL best practice IT service management framework are operated and suitable training is available for relevant staff.</p> <p><b>Post-control rating: Significant</b></p>	<p>Cyber Essentials Plus accreditation has been renewed successfully. .</p> <p>Internal procedures have been updated and resource increased to ensure that regulatory requirements are satisfied.</p> <p>Where appropriate, staff are appointed specifically to work alongside external contractors to assist in the management of individual projects and to ensure suitable knowledge transfer for internal training purposes following project completion.</p> <p><b>New risk</b></p>



## Sensitivity testing

The Development Bank holds cash reserves sufficient to cover anticipated levels of investment to businesses in Wales for the coming 5 years based on current annual investment rates and the forecast growth in investment activity. There is sufficient funding to cover anticipated commitments in respect of the Help to Buy – Wales scheme until 2021 and discussions are ongoing with our shareholder concerning a further extension of the scheme.

The Development Bank's funding is in the form of long-term loans at zero interest rate or public equity from the Welsh Government or grant from the European Regional Development Fund. Accordingly, the Board considers that there is sufficient capital and liquidity at its disposal to meet the demand placed upon it whilst continuing to operate within its risk tolerance.

## Assurance framework

The Assurance Framework is the means through which the Audit and Risk Committee monitors and evaluates the effectiveness of internal control systems. Assurance is obtained using the "Three Lines of Defence" model.

# Lines of defence model

## First line of defence

Assurance obtained directly from risk owners that the mitigating controls intended to manage the risks for which they have responsibility are adequate and are functioning effectively. This may be derived from the quarterly review of the risk register and annual Assurance Statements by risk owners.

## Second line of defence

Assurance derived from the review of the operation, suitability and effectiveness of controls by a Group employee other than the risk owner and outside the risk owner's department. These reviews may take a variety of forms including; regular review of a comprehensive suite of management information, risk reviews, file sampling, deep dives and scenario analysis.

## Third line of defence

Assurance derived from the findings of reviews undertaken by the Group's independent internal auditors.

At the start of each financial year a scope of work is agreed with the internal auditors, detailing the business areas to be reviewed and the proposed timing and duration of each review. The output of each review is a report to the ARC detailing the scope of work undertaken, examples where controls are operating reliably and areas for improvement and recommendations to address them.

Recommendations arising from internal audit reviews are graded as advisory, low, medium, high or critical priority, dependent on the perceived risk, its likelihood and impact. Management provide responses to recommendations and a deadline for completion of the necessary work.

Each review concludes with a risk classification of low, medium, high or critical dependent on the number and priority of recommendations arising.

Independent assurance is also derived through an annual follow up review of the recommendations arising from previous internal audit reports, to identify progress towards implementation of the recommendations.

Our independent internal auditors have delivered the internal audit plan and have categorised the Bank's risk management and control processes as Satisfactory.

The Group's external auditors provide robust challenge of the key judgements made in the preparation of the financial statements and review the internal control and risk management systems for the purposes of the financial statements. Recommendations to address areas of concern are made to the Audit and Risk Committee and are followed up in subsequent audits.

Group activities are also audited or tested by other independent external bodies, providing further assurance as part of the third line of defence. For example, the Group holds Cyber Essentials Plus accreditation and undergoes annual assessment via on-site penetration testing of the IT perimeter, server estate, computing devices and e-mail platform.

During the year, the Group's delivery of the Wales Business Fund was audited by the European Funds Audit Team (EFAT) following which EFAT commented, "We are pleased to note that a review of the Wales Business Fund operation by the European Funds Audit Team (Audit Authority for Wales – ERDF) resulted in an unqualified report on the overall management and operational arrangements in place, with no recommendations arising."

### First line of defence

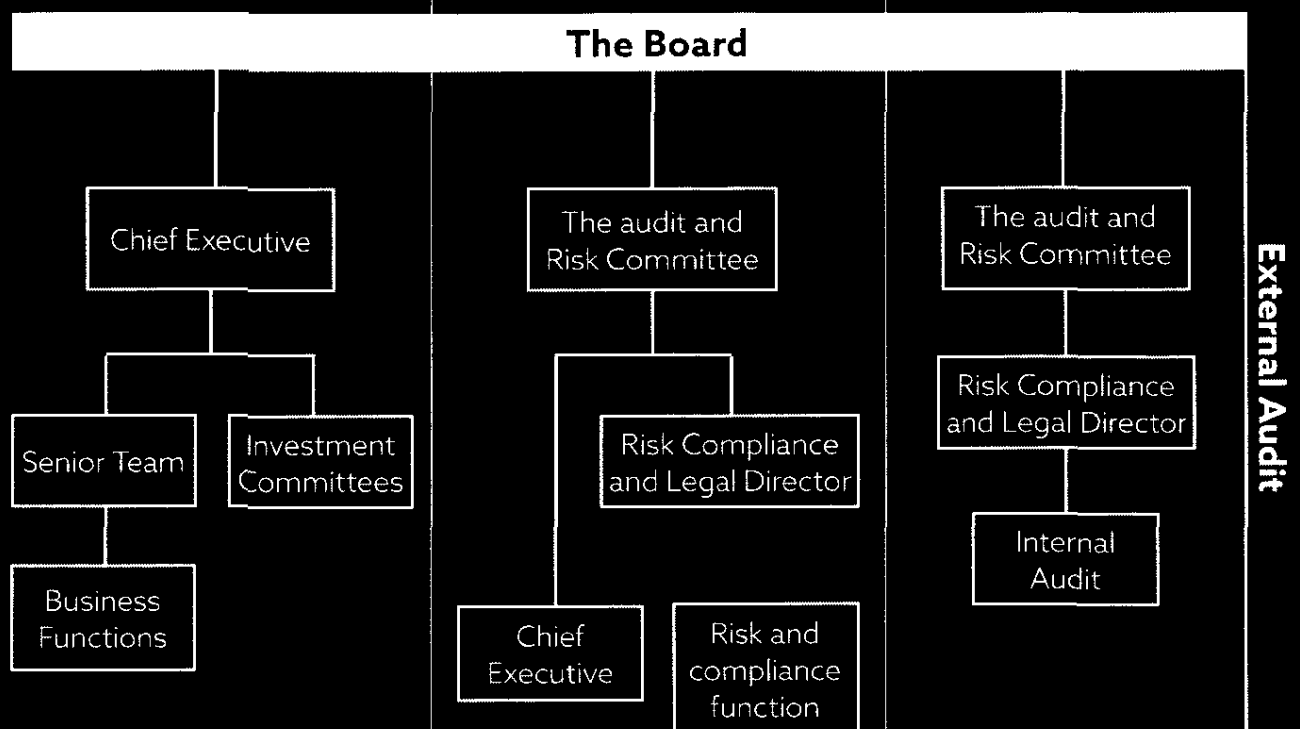
Day to day management and risk ownership

### Second line of defence

Risk policies, methodologies and independent oversight and challenge

### Third line of defence

Independent assurance



**The key principles of this model, as demonstrated by the diagram above, are:**

- 1 The Board has overall accountability and responsibility for the management of risk within the Bank.
- 2 The Board delegates specific risk management roles and responsibilities to the Board Audit and Risk Committee, CEO and the Director, Risk, compliance and Legal.
- 3 The CEO and Risk, Compliance and Legal Director are supported in delivery of these responsibilities through direct reports from the senior team, with the latter also being supported by the Risk and Compliance function in the delivery of their responsibilities.

Approved by the Risk, Compliance and Legal Director

**Neil Maguinness**

Risk, Compliance and Legal Director  
26 June 2019

# Responsible business

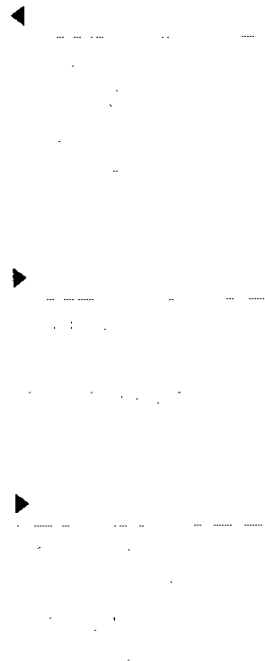
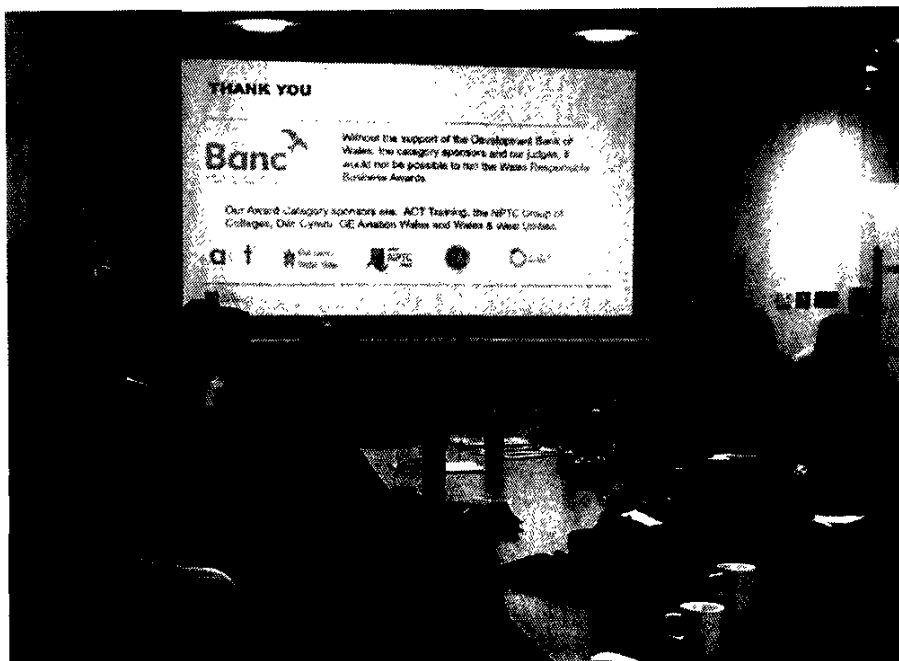
'Responsible' is a core value of the Development Bank of Wales and it will continue to influence our operating model as we will address a number of global challenges outlined by the UN's sustainable development goals. We address the global challenges facing Wales by ensuring the principles of the Well-being of Future Generations (Wales) Act are embedded throughout the Development Bank of Wales.

Responsible business has always been at the core of our activity. We have top level commitment to responsible business and acting on the principles of the Well-being of Future Generations (Wales) Act, driving forward initiatives and developing our responsible business track record.

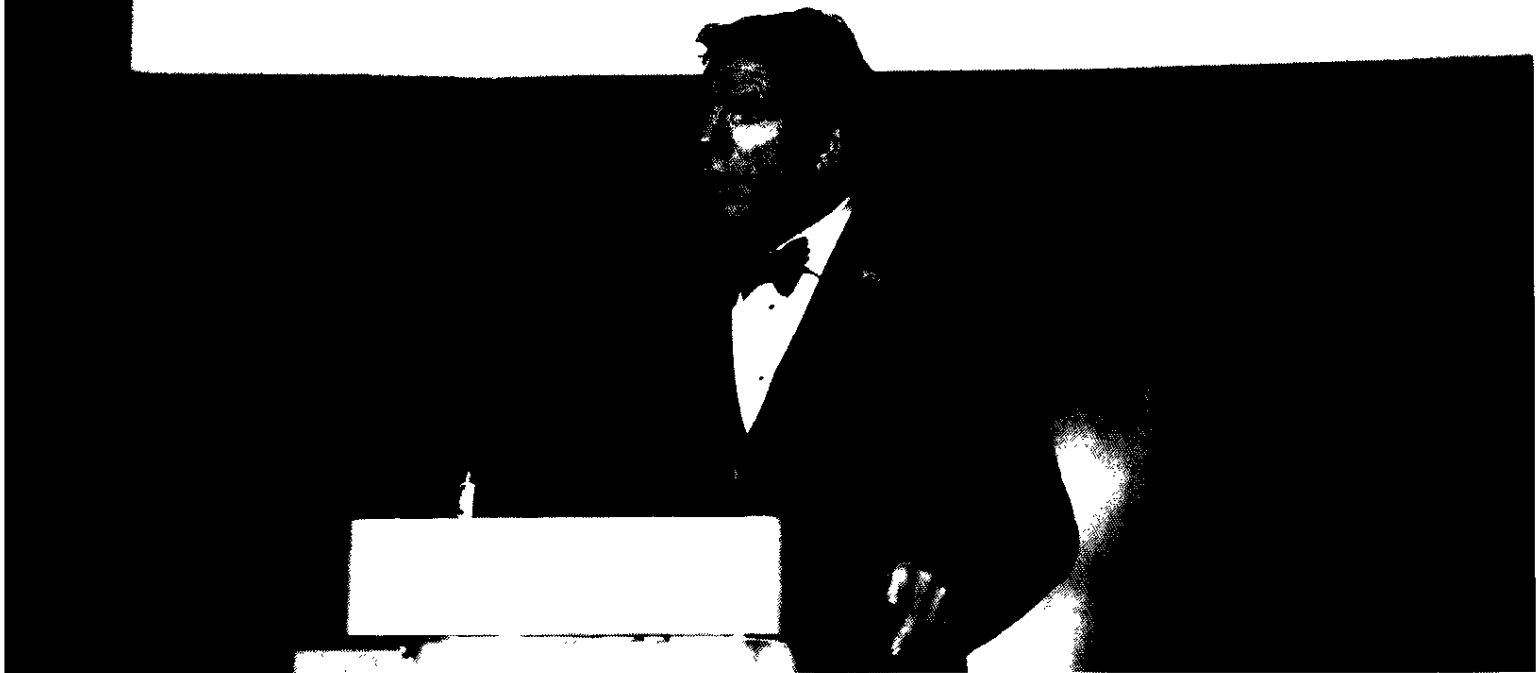
We are long-term members of Business in the Community (BITC) Cymru and proactively use their support to improve our credentials as a responsible business.

We take part in a number of BITC events and initiatives. In March we hosted the judging day for the 2019 Wales Responsible Business Awards, which recognises the positive difference companies across Wales are making to the challenges shared by business and society.

The Group continues to create an impact across its six key pillars of responsible business: delivering impact not only to customers and stakeholders, but also to suppliers and employees, as well as in support of the environment and our community.



# Fast Growth/50



## Our customers

A primary driver for impacting on the goals of the Wellbeing of Future Generations (Wales) Act 2015, we provide responsible customer relations to businesses by investing sustainable and effective finance, complementary to the private sector with strong governance and oversight.

Our investments are the catalyst for our customers to deliver their business plans. This enables our customers to make more sustainable business decisions, creating diverse positive impacts on Wales and its economy.

Throughout the year we work with Business Wales to help more Welsh businesses to make more sustainable businesses decisions by providing on-going support to our customers.

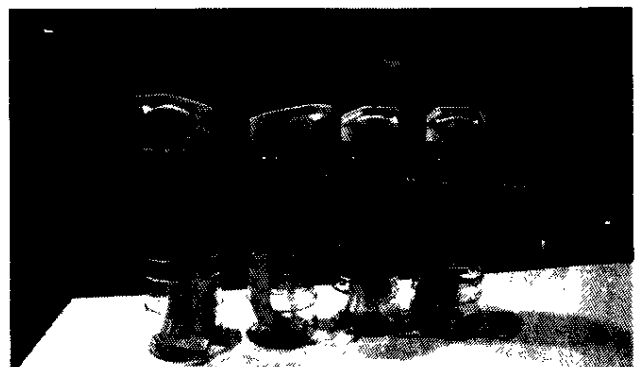
We have hosted and been members of the panel of experts convened to develop a new approach to 'supporting entrepreneurial women in Wales' which was launched by the Minister for Economy and Transport in January 2019.

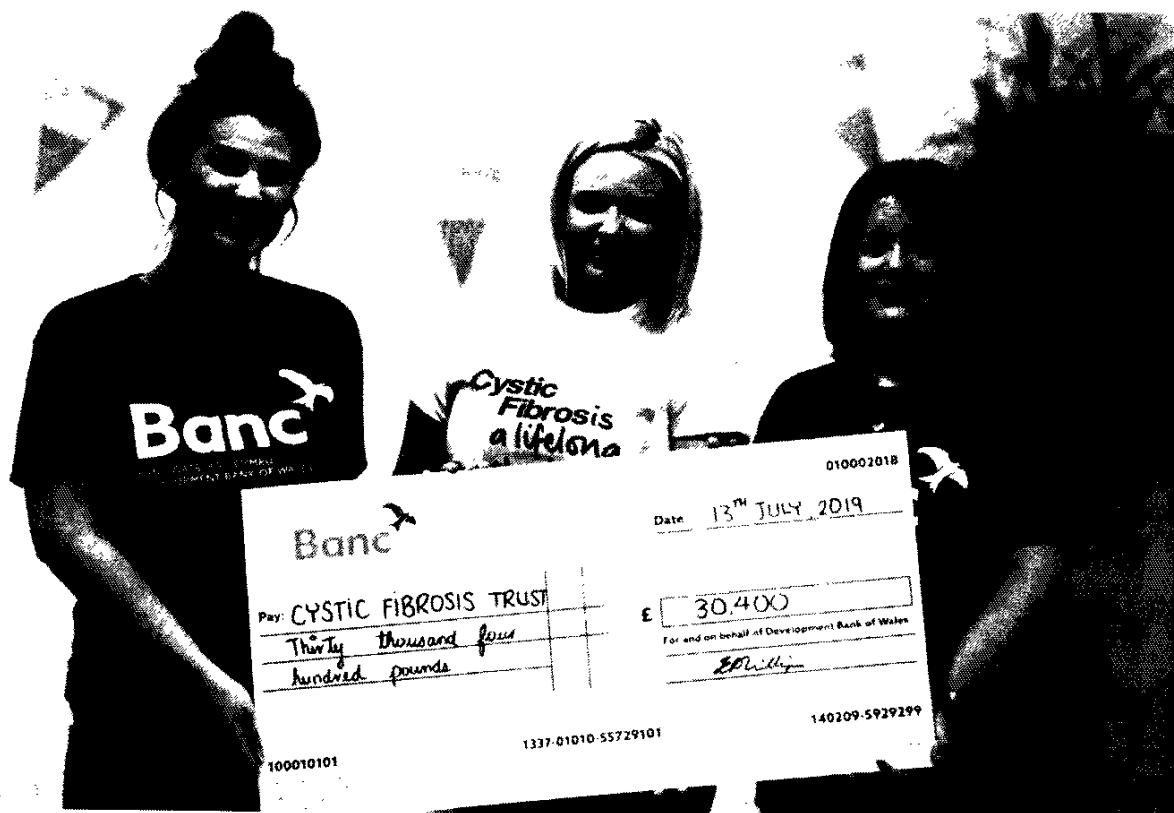
During the year, we have also rolled out unconscious bias training to all staff.

## Our environment

We work to implement measures throughout our offices to minimise energy consumption. Our Cardiff office headquarters is listed as BREEAM very good for its energy and waste efficiency, and our headquarters in Wrexham has a C rating for energy performance. We also we use LG3 and LG7 lighting for efficient lighting of our office space.

We have undergone a process to eliminate paper from our processes, setting a baseline for reducing paper purchases to below an estimated 6KG per employee. In order to reduce the amount of single use plastic we use in our offices, all staff have been provided with reusable water bottles.





## Our communities

Our investments directly contribute towards economic development in the regions we operate in, creating and safeguarding jobs and stimulating local supply chains.

Our charity of the year initiative has raised over £30,000 for the Cystic Fibrosis Trust.

We have a long running community outreach programme and two teams participated in BITC's Action Days 2018. The Cardiff-based team volunteered to improve the playground at Ysgol Gymraeg Casnewydd in Newport, whilst the West Wales team undertook some DIY and gardening at Bryncoch Church in Wales Primary School in Neath.

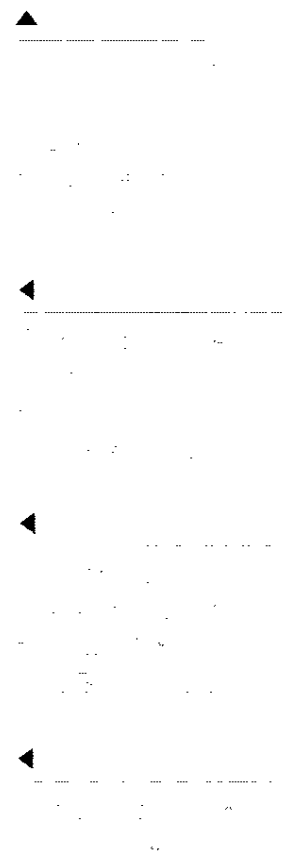
Staff from the Development Bank donated Christmas presents to over 100 children and young adults through the charities NSPCC and Barnardo's, as well as a further 45 Christmas food hampers to families in need.



## Our stakeholders

Working in partnership with stakeholders is a core brand value. An example of working with our stakeholders to bring about real, lasting change is the Economic Intelligence Wales' work on understanding the Welsh economy. This has included Quarterly reports which acts as a health monitor for the Welsh economy and bespoke reports that look at specific Welsh economic, business and finance related issues.

The Development Bank sponsored the Business Award at Womenspire 2018, demonstrating the Bank's support to women entrepreneurs.



## Our suppliers

Responsible selection and management of suppliers allows us to build good relationships and support our suppliers. In Wales we have successfully utilised the Welsh Government procurement portal Sell2Wales throughout the year to source suppliers. We have also utilised government framework contracts to support the growth and digitisation processes we are undergoing. During the year, we became an Approved Signatory of the Prompt Payment Code, thereby supporting the financial sustainability of our suppliers, some of whom are Welsh SMEs.

### Prompt Payment Code

Approved Signatory

**GwerthwchiGymru**  
**Sell2Wales**



## Our employees

















This year there were over 670 days of training and development for staff which averages out at 3.5 days per employee. The following wellbeing training took place:

- Unconscious bias workshops for all staff across the organisation
- Retirement planning
- Financial awareness

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



We have developed a wellbeing calendar which was aligned to our employee assistance programme, BUPA healthcare and national campaigns. This identified monthly focuses which started with promotion of general wellbeing offering, reminding staff what is available and promotion of 'Time to talk' day in February. This complements all the existing wellbeing support offered:

-  Work life balance
-  Flexible working
-  Water stations and water bottles
-  Formation of choirs
-  Charity ball
-  Care First
-  Yoga at your desk
-  Employee loans
-  Free eye tests
-  Discounted gym membership
-  Walk to work
-  Cycle events
-  Cycle to work scheme
-  BUPA health cash plan
-  Bupa select
-  Retirement planning workshops

We have also invested in the growth of the company with a 14% increase in staff over the year. As well as external recruits we have invested in the development of our employees and have internally promoted 34 employees.

We signed up to Chwarae Teg's FairPlay Employer<sup>®</sup> benchmarking service in order to improve recruitment, progression and retention of female staff at the Development Bank of Wales Group, and to improve our employer brand. We achieved a bronze award.





# GOVERNANCE

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

# Governance section

In this section of the annual report, we explain how the governance and risk management framework supports the achievement of the Group's objectives. In particular we disclose how the Company is managed in the interests of its shareholder and other stakeholders, the role and constitution of the Board and its various committees and the risks the Development Bank is exposed

to and how they are managed. These governance processes also ensure that the annual report and financial statements of the Company, when taken as a whole, is fair, balanced, understandable, and provides the information necessary to stakeholders to assess the Group's business model, strategy and performance.

This section includes or refers to the following reports and statements:

Report/Statement	Purpose
Directors' report	Profiles Board members and their experience and includes various statutory performance disclosures required by S417 Companies Act 2006. It also lists the responsibilities of the Directors in the preparation of the annual report and financial statements.
Corporate Governance Statement	Discloses the Company's governance framework, the role and responsibility of the Board of Directors and includes annual reports of the Board's three committees – Nominations, Audit, and Risk and Remuneration. It also records Board/Committee attendance and other operational information.
Risk Management and Internal Control Statement (included in the Strategic Report)	This section details the risks the Development Bank is exposed to and how they are mitigated. It describes the roles of the Board, management and staff, the risk management framework, risk culture and tolerance, principal risks, and the risk assurance framework.

# Directors' report

The Directors present their annual report together with the audited financial statements and independent auditor's report for the Development Bank of Wales plc for the year ended 31 March 2019.

- The following information required by the Companies Act 2006 can be found in the following sections of the annual report; the principal activity of the Group is carried out in Wales and the North East and North West of England and, as such, the Group is exposed to the uncertainties that may be attached to the United Kingdom Brexit process. However, as the Group 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 on the Group is likely to be significant or materially increase during the next 12 months.
- Details of the Group's objectives, future developments and significant events since the balance sheet date are included in the Strategic report; and

- Information about the use of financial instruments by the Group is given in note 20 to the financial statements.

## Dividends

The Directors do not recommend payment of a dividend (2018: £nil).

## Directors

During the year the following individuals served as Directors. The dates of appointment and removal of Directors are set out in the Corporate Governance Statement found on page 112.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Gareth Bullock	Chair	Oct 2015	Sept 2018	Oct 2018	Sept 2021
Giles Thorley	Chief Executive Officer	4 Apr 2016	n/a	n/a	n/a
Huw Morgan	Senior Non-executive director	Nov 2013	Nov 2016	Nov 2016	Nov 2019
Iraj Amiri	Non-executive director	Sep 2016	Aug 2019	n/a	n/a
Carol Bell	Non-executive director	Oct 2014	Sep 2017	Oct 2017	Sep 2020
Roger Jeynes	Non-executive director	Nov 2016	Oct 2019	n/a	n/a
Margaret Llewellyn	Non-executive director	Sep 2012	Aug 2015	Sep 2018	Aug 2021
David Staziker	Chief Financial Officer	1 Apr 2018	n/a	n/a	n/a

# Directors' biographies



**Gareth Bullock**  
Chair

As well as being chair of the Development Bank of Wales Board, Gareth currently holds a number of non-executive directorships and senior advisory roles.

Gareth has over 40 years' experience in the financial services industry. He retired in 2010 from the Board of Standard Chartered plc where he was responsible for Africa, Middle East, Europe and the Americas as well as chairing Risk and Special Assets Management.

He has both wide functional and international experience, having been Head of Corporate

Banking in Hong Kong, CEO Africa, Group Chief Information Officer and Head of Strategy. He also has significant industrial and retail board experience both in the UK and China.

He has also held numerous board positions, inter alia, Tesco PLC, Tesco Personal Financial Group Ltd, Spirax-Sarco Engineering PLC, Fleming Family & Partners Ltd, British Bankers' Association and Global Market Group Ltd (China). He was also a Trustee of the British Council from 2012 to 2018. He is currently Senior Independent Director of Informa PLC.



**Giles Thorley**  
Chief Executive

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

Previously he served as the chief executive of Unique Pub Company. Giles was also a founding member of the Principal Finance Group at Nomura International plc.

He has held non-executive director roles with Esporta,

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

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



**Huw Morgan**  
Non-Executive  
Director

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

A former head of business banking for the UK for HSBC, he is currently a non-executive director of ICICI bank UK plc, where he chairs the risk and credit committees. He also chairs two Cardiff based businesses in ActiveQuote Ltd and Inspiretec Ltd.

He has previously sat on the Welsh Government Boards: The Financial Services Panel for Wales and the Central Cardiff Enterprise Zone. Huw also supports the Universities of Aberystwyth and Cardiff; the former as a member of the Development Advisory Board, the latter on the Industrial Advisory Board.



**Iraj Amiri**  
Non-Executive  
Director

Iraj Amiri is a pioneer in the governance and assurance field, combining detailed and authoritative knowledge of the subject with its practical application.

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

Throughout his career he has worked closely with major British and European banking institutions and investment companies. He spent over a decade heading up FTSE 100 company Schroders plc's internal audit department.

Iraj was also head of the Wellcome Trust's internal

audit team – overseeing the management of more than £18bn in investments. He developed the enterprise risk service line for Deloitte, where he was a partner, taking the unit from its early beginnings to a team of over 600 staff. Iraj has extensive experience of working at board and trustee level.

He is a trustee of the National Employment Savings Trust (NEST). Iraj is a recognised global expert and authority on internal audit and assurance functions, and a regular speaker at internal audit conferences. He is a NED at Coventry Building Society, chairs their Audit Committee and is a member of their Risk Committee.

# Directors' biographies



**Carol Bell**  
Non-Executive  
Director

An experienced industrialist and financier, Carol started her career in the oil and gas industry before moving into banking where she held senior posts at Credit Suisse First Boston, JP Morgan and Chase Manhattan Bank.

Carol is the Vice President of National Museum Wales and is also a board member of companies and organisations both in Wales and internationally.

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



**Roger Jeynes**  
Non-Executive  
Director

Roger Jeynes is an independent non-executive director for the Development Bank of Wales and is a member of its investment committee.

He is an independent non-executive director of an LSE-listed Venture Capital Trust (Downing Three VCT plc), chair of AIM-listed software company ZOO Digital plc, chair of mobile application software developer Mapway Limited, and a trustee of the Lloyd Reason Foundation charity.

His early career included a number of senior technical, marketing and general management roles at IBM, EMC and Pyramid Technology in the UK, Italy and the USA. From 1997 to 2006 he was chief operating officer

of Interregnum plc, the technology merchant bank. In this role he managed the deployment of substantial investment capital into a wide range of early-stage companies, and served as a non-executive director on the boards of more than a dozen investee companies. He has also been a director of three other VCTs: The AIM Distribution Trust plc, Pennine AIM 6 VCT plc, and Downing Distribution VCT plc.

A mathematics graduate of Sheffield University and Fellow of the RSA, Roger holds a certificate in investment management from IIMR, and was Professor of Management Practice at Anglia Ruskin University from 2008 to 2017.





**Margaret Llewellyn**  
**OBE**  
Non-Executive  
Director

Margaret is a non-executive director and Chair of the Remuneration Committee.

Margaret's 30 year career has seen her own and operate a container shipping line, port terminals and road haulage fleet. For 9 years she was Deputy Chair of the Port of Dover and Chair of the Dover Harbour Board Pension Fund. She is a Director of SeaPort Development and has held a number of senior positions in shipping, transport and logistics. She is a fellow of the Chartered Institute of Logistics and Transport and former Welsh Woman of the Year.

Margaret is currently Chair of the Network Rail Supervisory Board and was previously Chair of the Tourism Advisory Board for Wales and Vice Chair of the Welsh Development Agency. In 2004 she received an OBE for services to economic development in Wales. Margaret is currently a Board member for the Haven Waterway Enterprise Zone, and a Panel Member of the Williams Rail Review on behalf of the Department for Transport.



**David Staziker**  
Chief Financial  
Officer

David leads the Development Bank of Wales' internal finance and administration teams.

He joined the company in 2002 and held a number of management roles in the investments side of the business before being appointed Chief Financial Officer in 2018.

Prior to the Development Bank, David worked at PricewaterhouseCoopers and Gambit Corporate Finance.

David has a degree and PhD in applied mathematics, is a fellow of the institute of Chartered Accountants in England and Wales and also holds their corporate finance qualification.

David also sits on our investment committee and externally is a non – Executive Director of the Pobl Group and Vice Chair of their Treasury and Investment Committee.

## **Directors' responsibilities in respect of the preparation of the annual report and financial statements**

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards ("IAS") and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

### ***In preparing the Group's financial statements, International Accounting Standard 1 requires that Directors:***

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

### ***In preparing the parent Company financial statements, the Directors are required to:***

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

## **Directors' responsibilities in respect of accounting records and internal control**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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.

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

***The Directors confirm that to the best of their knowledge:***

- The financial statements, prepared in accordance with the relevant financial reporting framework, taken as a whole give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

**Going concern**

The Directors who served during the year have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the accounting policies note in the financial statements.

**Long-term viability statement**

The Development Bank of Wales plc is owned by the Welsh Ministers and its continuation as an entity is ultimately at the discretion of the Welsh Government that is in power. The Board assumes that the Group has and will continue to have Welsh Government support and that its funding arrangements, which represents 100% of the Group's repayable funding, will remain in place. The Board undertakes a business planning exercise each year to update the five year corporate plan for the organisation.

The Board believes it is possible to form a reasonable expectation of the long-term viability over the five years' covering the corporate plan taking into account the principal risks faced by the Group (as listed on pages 85-91) and its key objectives (as listed on pages 5 and 6).

The Company has a framework document in place with the Welsh Ministers that sets out governance requirements. In 2018/19, the Group has raised £197m (2018: £233m) in funding from the Welsh Government, European Regional Development Fund and Clwyd Pension Fund which together with existing funds covers the expected funding demand over the next five years and beyond. The Board assumes that, subject to Welsh Government policy, the shareholder will continue to support the Group with new and replacement funds in the future.

**Corporate and social responsibility**

Details of the Group's policies, activities and aims in this area can be found in our Responsible Business report on page 95.

**Political donations**

The Group made no political donations during 2019 (2018: £nil).

## Gifts and hospitality

No gifts were made by the Group. The cumulative value of gifts and hospitality received by staff was less than £20,000 during 2019 (2018 less than £20,000).

## Severance payments

The cumulative severance payments made in the year by the Group was less than £300,000 (2018: less than £300,000).

## Loan losses/losses disposal of equity disclosure

There were no loan write offs made by the Group and approved by the Shareholder during the year. Loss on disposal of equity shares in the year amounted to £2,056,000 (2018 £nil).

## Director's Remuneration

Details of the Directors' remuneration are disclosed in note 7 of the financial statements.

## Directors' indemnities

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

## Auditors

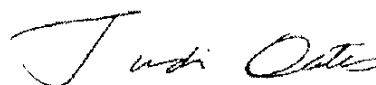
The auditor, Deloitte LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the forthcoming Annual General Meeting.

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 has 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 are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



**Judi Oates**

Company Secretary  
26 June 2019

# Corporate Governance statement

The constitution of the Development Bank of Wales plc consists of its Articles of Association and a Framework Document between the Development Bank of Wales plc and Welsh Ministers.

The Directors recognise the importance of sound corporate governance and the Development Bank of Wales plc complies, so far as is practicable, with the provisions of the UK Corporate Governance Code, relating to governance and reporting

The UK Corporate Governance Code is available from the Financial Reporting Council. The UK Corporate Governance Code provides guidance on a range of issues to ensure effective Board practice.

Apart from those set out in this annual report, the Board is not aware of any deviations from the relevant aspects of the Code in the period since 1 April 2018 insofar as it applies to the Development Bank of Wales plc.

For the Development Bank of Wales, good corporate governance is about ensuring that the Group is aligned with its shareholder's objectives and that the execution of the strategy adopted will ensure the Group is sustainable and is able to reinvest the returns from its funds, which alongside other new funds and investors, will enable the Group to continue investing in the long-term.

## Role and responsibility of the Board of Directors of the Company

The Development Bank of Wales plc is led by the Board of Directors which, collectively, is responsible for the long-term sustainability of the Group and, in consultation with Welsh Ministers, the remit and strategy of the Group.

The Board is comprised of eight Directors including six who are independent non-executive directors.

Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. The Board considers that the Chair was independent on appointment and that all non-executive directors are independent for the purposes of the Code. The Welsh Ministers have the right to appoint an Observer to attend Board meetings as their representative.

The Board reviewed the schedule of matters reserved for the Board in November 2018 as part of agreeing a new framework document with the Welsh Ministers. The matters reserved for the Board include strategy, company structure and capital, financial reporting and controls, risk management and internal controls, Board membership and other appointments, remuneration, delegation of authority, corporate governance, appointment of professional advisors, litigation and insurance.

Our non-executive directors scrutinise the performance of management in meeting agreed objectives. The Remuneration Committee is responsible for setting appropriate levels of remuneration for executive directors and staff in consultation with Welsh Ministers. This is further explained in the Remuneration Committee Report on page 119.

The Chair is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive leads the Executive in the day to day running of the business and the implementation of strategy and is supported in this by the Senior Management Team.

As an organisation funded by public finances the Bank is required to comply with the principles set out in Managing Welsh Public Money: <https://gov.wales/managing-welsh-public-money>.

The Chief Executive is the Accounting Officer. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances.

The Senior Independent Director ("SID") is Huw Morgan. The SID's responsibilities are to work closely with the Chair, act as an intermediary for other Directors as and when necessary and meet with other Non-executive Directors to review the Chair's performance.

The exercise to appraise the performance of the Chair was conducted by a questionnaire. The results were discussed among the non-executive directors led by the SID and communicated to the Chair.

## Appointment and removal of Directors of the Company

The Framework Document provides that the appointment of the Chair and Chief Executive require written confirmation of the Director General of the Group's sponsor department, currently Economy, Skills and Natural Resources.

During the period Gareth Bullock, was re-appointed for a term of three years commencing September 2018. Margaret Llewellyn OBE was also re-appointed for a term of three years commencing in September 2018 on the understanding that this will be the final term.

Following a successful procurement process, Robert Half was appointed as the independent search consultant for the appointment of

a new finance director, to replace Kevin O'Leary. From 1 April 2018. David Staziker was appointed as the Chief Financial Officer. The full biographies of all Board members can be found at: <https://developmentbank.wales/about-us/people-and-teams>.

All appointments to the Board, the Board Committees and the Executive Committees are based on the diversity of contribution, experience and required skills, irrespective of gender, race or any other criteria.

## Annual Director election and re-election

At the 2018 Annual General Meeting David Staziker was elected, Gareth Bullock and Margaret Llewellyn OBE were re-elected in accordance with the requirements of the Articles of Association.

## Board information

All Directors are provided with updates on corporate governance developments, legislative and regulatory changes, and relevant industry and technical information. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further information is readily available to all Directors. Since 2018 the Board has received board papers and information electronically, to increase efficiency, confidentiality and sustainability.

## Board Committees

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

# Audit and Risk Committee report

The Audit and Risk Committee has primary responsibility for ensuring the integrity of the Group's financial statements and the effectiveness of our risk management and internal controls. It also provides assurance to the Shareholder in respect of governance, risk management and control arrangements.

## Membership composition, skills and meetings

The Development Bank of Wales Group Audit and Risk Committee comprises three non-executive directors:

- Iraj Amiri (Chair)
- Margaret Llewellyn OBE
- Huw Morgan

The Board considers that the Chair is the Committee's financial expert and has recent and relevant financial services sector experience necessary for the role. He is a professionally qualified accountant. The Board also considers that the other members of the Committee are competent in financial matters and have knowledge and experience relevant to the sectors in which the Development Bank of Wales Group operates. Biographies of the Committee members can be found on pages 105 to 108 which give more detail of their skills and background.

The Audit and Risk Committee meets quarterly. It is attended by Development Bank of Wales plc's Chief Executive, Chief Financial Officer and Director of Risk, Compliance and Legal, together with the internal and external auditors, and an observer from the Welsh Government. The internal and external auditors have direct access to the Chair of the Audit and Risk Committee and meet the Committee without management present at least once a year.

## Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the Group's financial reporting arrangements, the effectiveness of its internal controls and risk management framework, the internal and external audit processes and the Group's probity and whistle-blowing policies. The Chair of the Committee acts as the contact point if the whistle-blowing concern relates to the Executive Management Team. The Committee reports to the Board on its activities and makes recommendations to the Board, all of which have been accepted during the year.

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

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

Report/ Statement	Purpose
Financial reporting	<ul style="list-style-type: none"> <li>• Monitor integrity of the financial statements and review critical accounting policies.</li> <li>• Assess and challenge where necessary the accounting estimates and judgements by management in preparing the financial statements.</li> <li>• Consider and challenge the going concern assessment prepared by management.</li> <li>• Review and monitor any significant adjustments arising from the external audit.</li> <li>• Review the annual report and financial statements and other financial reporting. Advise the Board on whether, taken as a whole, it is fair, balanced and understandable.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>• Oversee the relationship with the external auditor, including remuneration, terms of engagement and consider the effectiveness, independence and objectivity.</li> <li>• Agree the policy for the provision of non-audit services. Challenge and agree to the external audit plan.</li> <li>• Make recommendations to the Board concerning the reappointment and removal of the external auditor.</li> <li>• Review audit findings and consider management's responses to any finding or recommendations.</li> </ul>
Internal controls and risk	<ul style="list-style-type: none"> <li>• Oversee management's arrangements for ensuring the adequacy and effectiveness of internal controls, financial management reporting and risk management and management's approach to addressing control weaknesses.</li> <li>• Review and approve the internal control, risk management and other assurance statements in the annual report.</li> </ul>
Probity including whistle-blowing	<ul style="list-style-type: none"> <li>• Review the whistle-blowing arrangements and receive reports on instances of whistle-blowing.</li> <li>• Review the Gifts and Hospitality register and arrangements.</li> <li>• Review executive expenses?</li> </ul>
Internal audit	<ul style="list-style-type: none"> <li>• Approve the selection and appointment of internal auditors.</li> <li>• Approve the annual work plan and receive reports on individual areas of work.</li> <li>• Monitor management's responses to findings and recommendations.</li> <li>• Monitor the effectiveness of the internal audit function.</li> </ul>
Welsh Government	<ul style="list-style-type: none"> <li>• An observer from the Welsh Government attends all meetings and is kept fully informed on all aspects of the Committee's work.</li> <li>• An annual report is submitted to Welsh Government Corporate Governance Committee setting out details of the Committee's work and providing assurance as to the adequacy of the audit arrangements and also on the assurances provided by CEO and the senior management team in respect of governance and control arrangements.</li> </ul>



## Significant Financial Statement reporting issues

In undertaking its role of monitoring the financial statements of the Group, the Committee reviewed whether suitable accounting policies had been adopted and whether management had made appropriate accounting estimates and judgements. With support from the external auditor, the Committee considered a number of significant issues in relation to the financial statements for the year ended 31 March 2019, which are set out below. The majority of these issues are recurring and are therefore considered by the Audit and Risk Committee on an on-going basis.

### Valuation of Help to Buy - Wales loan portfolio

The Committee considered and challenged the key assumptions applied by management in calculating the fair value of the Help to Buy - Wales loan portfolio and is satisfied that it is appropriate.

### Implementation of IFRS 9

The Group implemented IFRS 9 on 1 April 2018. This required changes to its accounting policies for the classification and measurement of financial assets and for the recognition of impairment.

The Committee has reviewed the key judgements regarding classification and measurement, determining a significant increase in credit risk and using alternative economic scenarios to calculate expected losses. It has reviewed the oversight arrangements adopted by management and reviewed the conclusions of the external auditor and internal audit in relation to IFRS 9 implementation. The Committee has also considered the disclosures made in the year-end financial statements in respect of adopting IFRS 9. The Committee was satisfied that the new reporting standard has been implemented appropriately.

## Provisions for impairment of the loan book

The Committee considered and challenged the provisioning methodology applied by management including the results of statistical loan losses to support the impairment provision and was satisfied that the estimation methods were appropriate.

The Committee considered and challenged the impairment provision which has been recognised in the financial statements and the basis for calculating expected credit losses under IFRS 9. This included the method for determining a significant increase in credit risk, and the application of management judgement relating to specific provisions. The sensitivity of the provision calculation to various assumptions was considered, including the impact of forward looking economic scenarios. The Committee was satisfied with the adequacy, on a prudent basis, of the provisions recorded within the financial statements. The disclosure relating to the impairment provision is set out in note 15 to the financial statements.

### Valuation of equity investments

The implementation of IFRS 9 requires all equity investments to be held at fair value in accordance with IFRS 13. The Committee considered and challenged how management had applied the International Private Equity and Venture Capital (IPEV) Guidelines and was satisfied that they had been applied appropriately. The disclosures relating to the fair value adjustment are set out in notes 14 and 20 to the financial statements.

### Consolidation of limited partnerships

The Committee considered and challenged the key judgements made in deciding the need to consolidate under IFRS 10 the various limited partnership the Group manages either through its regulated fund management business FW Capital or has invested in. The Committee was satisfied that the treatment to consolidate or not was appropriate for each limited partnership.

## Investment in the Wales Life Science Investment Fund ("WLSIF")

The Committee noted that a material exit from an investment in Simbec Orion had been achieved in the year at a 1.9 multiple return with potential to rise to 2.2 multiple over the next two years. Of the remaining eight portfolio companies, three are listed on AIM and so their share price as at 31 March 2019 was used as fair value. The fair value of the five remaining portfolio companies, all of which were in the form of unlisted preferred shares, was calculated either with reference to the net assets of the company per its most recent publicly available financial information or by an independent valuation specialist, appointed by the fund manager, who determined the valuation at 31 December 2018 which was then rolled forward to the 31 March 2019 by the fund manager. The independent auditors' report to the partners of the Wales Life Science Investment Fund Limited Partnership confirmed that they had audited the financial statements and concluded that in their opinion the financial statements give a true and fair view of the statement of the partnership's affairs as at 31 March 2019 and of its loss and cash flows for the year then ended. The Committee reviewed and considered the key fair value assumptions and concluded that the stated fair value of the investment in the fund and associated disclosures were appropriate.

## Revenue recognition

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

## Regularity

The Committee is satisfied that there are appropriate controls in place to ensure that the Group's expenditure complies with the requirements of the Management Arrangement as set out by the Welsh Ministers.

## Going concern

The Committee considered and challenged the assumptions set out in a paper prepared by management on working capital requirements and funds available for investment in the 18 months ending 30 September 2020. The Committee was satisfied that sufficient investment funds were available to meet investment demand forecast to 30 September 2020 and that there are no performance issues with any of the Group's fund management contracts. The Committee was also satisfied that there would be sufficient surplus generated by the services business and associated working capital to cover all operating expenses to 30 September 2020.

The Committee was satisfied that it was appropriate to prepare the financial statements on a going concern basis.

## FCA rules

There are three subsidiaries in the Development Bank of Wales Group that are authorised and regulated by the Financial Conduct Authority. These are FW Capital Limited, DBW Investments (10) Limited and Help to Buy (Wales) Limited.

The Committee sought assurance from management that there were controls in place to ensure the regulations were complied with and that staff received the appropriate training. The Committee was satisfied that the appropriate controls were in place and necessary training is provided.

## European funding rules

The largest fund operated by the Group is partly funded by European Regional Development Fund and has specific criteria for eligibility of investments. The Committee sought assurance from management that all investments made meet the criteria. The Committee was satisfied that appropriate controls were in place to ensure that funds were invested in eligible businesses.

## Review of the annual report and financial statements

The Audit and Risk Committee met on 10 June 2019 to carry out a detailed review of a draft of the annual report and financial statements, prior to the final draft being presented to the Board on 26 June 2019. Following these discussions, the Committee advised the Board that the annual report and financial statements, taken as a whole are fair, balanced and understandable and recommended their approval to the Board.

## Audit and Risk Committee's performance

The performance of the Audit and Risk Committee is reviewed annually by means of a questionnaire sent to all Directors and senior management. The results are reviewed and where necessary an action plan is agreed to address any matters raised. The assessment concluded that the Committee had been effective during the year.

## External Audit

The external auditor and the Group both have safeguards to ensure the independence and objectivity of the external audit. The Group has a policy to ensure that the non-audit services provided by the external auditors are appropriate. The policy sets out the nature of work the external auditor may undertake with any assignments with fees above a defined limit requiring prior approval from the Audit and Risk Committee. The total amount paid to the external auditor in 2019 is set in note 6 to the financial statements.

The members of the Audit and Risk Committee meet at least once a year without management being present, with the external auditor. The Committee also carries out a formal assessment of the external auditors' performance each year. In 2019 no significant issues were raised and their performance was considered to be satisfactory.

The Group has a policy of tendering the external audit every five years. A detailed procurement exercise was undertaken during the 2016 financial year, and the incumbents, Deloitte, were reappointed.

## Internal audit

During 2018, following a successful procurement exercise, PricewaterhouseCoopers were appointed as our independent internal auditors to conduct our internal audit function. The appointment is until the end of June 2022, with an option to break at the third anniversary. The Audit and Risk Committee reviews the Internal Audit Plan and ensures that the auditors have appropriate access to information to enable them to perform their audit activities effectively, and in accordance with the relevant professional standards. All findings are reviewed promptly and management's response to the findings and recommendations is regularly monitored. The Audit and Risk Committee meet privately at least once a year with the internal auditors without management being present to discuss their remit and any issues arising from the internal audit reviews carried out.

In their annual report to the Audit and Risk Committee on 10 June 2019 our Internal Auditors' gave a 'Generally Satisfactory with some improvements required' opinion as to our governance, risk management and control arrangements, stating:

"We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

We have completed our programme of work agreed with you and we believe that there are adequate and effective governance, risk management and control processes to enable the related risks to be managed and objectives to be met."

Approved by the Chair of the  
Audit and Risk Committee



**Iraj Amiri**

Chair of the Audit and Risk Committee

# Remuneration Committee report

Our Remuneration Committee adopts a fair and responsible approach to rewarding our employees, ensuring that the link between pay and performance encourages the right behaviours, whilst enabling us to attract and retain the right people.

## Committee membership and attendance

The Group Remuneration Committee comprises two non-executive directors:

**Committee Chair:** Margaret Llewellyn OBE

**Membership:** Huw Morgan

The Committee is appointed by the Chair of the Board and must consist of at least two non-executive Directors.

Our Chief Executive, Director of Strategy and HR Manager are normally in attendance except when their own remuneration is being discussed.

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

## Committee purpose and responsibilities

Key responsibilities include:

- Formulation and approval of the strategy and policy for the remuneration of the Group's Directors, Executive Management team and staff in accordance with the Framework Document.
- Ensuring the members of the Executive Management team are provided with appropriate incentives to encourage enhanced performance and rewarding them for individual contributions to the success of the organisation.
- Approval of the structure of the annual incentive scheme and any payments under this scheme.
- Overseeing major changes in employee benefit structures.

Development Bank of Wales, whilst owned by the Welsh ministers, operates in the financial services sector. In order to execute its business strategy the Company requires staff with specialist banking and investment skills and experience. We therefore have to compete for such talent with other financial institutions. Over time as public sector and private sector compensation norms are governed by different factors, the Board recognises that the continuing ability to provide competitive compensation is a key business risk.

## Key achievements and priorities 2018/19

To meet the increased scale of the organisation during the year we recruited for 87 positions which led to 55 new recruits and 32 internal moves.

Over 30% of total recruitment in Wales was to the Wrexham HQ which, at 32 staff, is fully on track to meet the Pan Wales Strategy to reach 51 by 2021.

Training increased by over 50% to £228k reflecting focus on new recruits and people in new roles and our ongoing commitment to develop our workforce.

Following a competitive tender process Mercer were appointed to undertake job evaluations across the Group. Between January and March they provided a benchmarking report for 22 roles which will be used to inform the pay policy.

A series of specific team development and management succession training aimed at the senior management team took place.

2018/19 saw a number of HR and finance initiatives rolled out aimed at improving staff experience, removing administrative burden in the production of reports and form filling and reducing the amount of paper used. These included the introduction of the Cascade system, the exchange ideas system and implementation of electronic pay slips.

A dedicated programme aimed at supporting employee wellbeing was carried out with a specific focus each month.

## Key activities and priorities 2019/20

As the Group has grown to over 200 employees, it will be very important to maintain the positive culture and high standards of delivery across the Group as it meets the challenges of delivering new and existing funds and services.

A continued focus on recruitment, induction and training will be required to ensure we attract talented and diverse new starters to meet the increasing demands of the business.

A People Strategy and employer brand will be developed and published to help with recruitment and retention of talent.

Further job evaluations will be carried out by Mercer with the aim of ultimately ensuring the pay across the Group is transparent and fair and reflects the industry within the limitations agreed within our pay protocol.

The Development Bank will fully engage with the Welsh Government's review of pay and conditions across all arm's length bodies.

Work towards fairness, inclusion and equal opportunity throughout the organisation, working closely with Chwarae Teg to support gender equality.

Develop a programme of support in order to empower a broader group of leaders in the organisation.

Enhance the "employee voice" via the employee consultation group in order to preserve the organisational culture as we expand and develop new ways of working.

Create an employer brand in order to attract new talent.

Approved by the Chair of the Remuneration Committee



**Margaret Llewellyn OBE**

Chair of the Remuneration Committee

# Nomination Committee report

The Nomination Committee is chaired by Gareth Bullock. All the non-executive directors were members of the Committee throughout the year. Attendance can be found on the following page.

## Committee purpose and responsibilities

The purpose of the Nomination Committee is to consider succession planning, review the leadership needs of the organisation and identify and nominate Board members.

During the financial year 2018/19, the Committee discussed and considered succession planning for members of the Senior Leadership Team, the re-appointment of an existing non-executive director, membership of the Board's Committees, and a review of the Committee's Terms of Reference.

The Board is committed to ensuring the diversity of its membership. The Nomination Committee's duties include regularly reviewing the structure, size and composition (including diversity) of the Board and making recommendations to the Board with regard to any changes. Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board.

# Other committees

The Bank has a number of Executive Committees including an Investment Committee, a Risk Committee and an IT strategy steering group.

The Board, the Board Committees, and the Executive Committees have been structured to provide robust governance. The Board Committees and Executive Committees have Terms of Reference which set out respective duties and responsibilities.

## Board and Committee attendance

The table below sets out the attendance of Directors since 1 April 2018 who attended each Board and Committee.

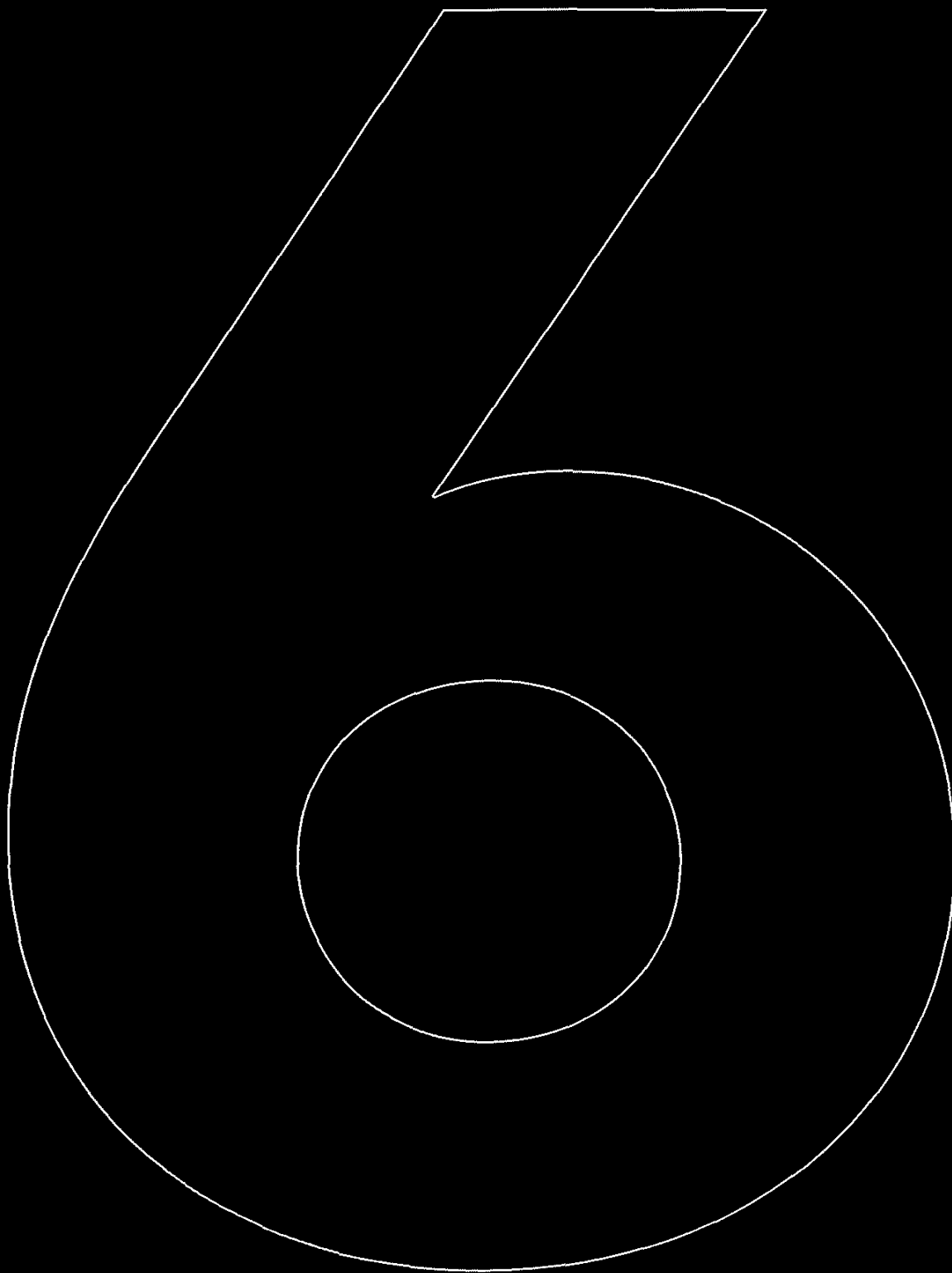
## Conflicts of interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Board believes that outside interests can be beneficial for the Executive and has authorised the outside interests of the Chief Executive Officer and the Chief Financial Officer as listed in their biographies in the Directors' report.

## Board performance

The Group is committed to ensuring that the Board and its committees operate effectively and are continually improving. In Jan 2019 the Board conducted an internal evaluation led by the Chair. A report detailing findings and suggested improvements has been accepted by the Board and an action plan has been established for implementing key recommendations during 2019/20. Overall the review concluded that the Board and its committees operate effectively.

Board member	Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Gareth Bullock	5/6*	n/a	n/a	2/2
Giles Thorley	6/6	n/a	n/a	n/a
Huw Morgan	6/6	4/4	2/2	2/2
Iraj Amiri	6/6	4/4	n/a	2/2
Carol Bell	5/6	n/a	n/a	2/2
Roger Jeynes	6/6	n/a	n/a	2/2
Margaret Llewellyn	6/6	4/4	2/2	2/2
David Staziker	6/6	n/a	n/a	n/a





# FINANCIAL STATEMENTS

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

## **Report on the audit of the financial statements**

### **Opinion**

#### ***In our opinion:***

- the financial statements of Development Bank of Wales plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### ***We have audited the financial statements which comprise:***

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our

audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"><li>• Valuation of Help to Buy – Wales portfolio</li><li>• Valuation of equity investments</li><li>• Loan loss provisions</li><li>• Audit of regularity – Welsh Government funding</li><li>• Accounting for the Management Succession Fund LP</li><li>• Valuation of the Wales Life Sciences Investment Fund</li></ul> <p>These key audit matters were also identified in the previous audit year, with the exception of Accounting for the Management Succession Fund LP and Valuation of the Wales Life Sciences Fund which are new risks in the current year.</p>
<b>Materiality</b>	<p>The materiality that we used for the Group financial statements was £10.7m which was determined on the basis of 1% of total assets.</p>
<b>Scoping</b>	<p>We have included all subsidiary entities within the scope of our Group audit to support the Group audit opinion.</p>
<b>Significant changes in our approach</b>	<p>There have been no fundamental changes in our audit approach in the current year. We have identified new key audit matters due to the new Limited Partnership arrangement in the current year and the level of judgment involved in valuation of the Wales Life Sciences Investment Fund loans.</p>

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

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified two new key audit matters in the current year. Firstly due to the new arrangement in respect of the Management Succession Fund Limited Partnership, for which judgment is applied to determine whether the Group exercises control such that the Partnership requires consolidation. Secondly, due to the levels of judgment involved in valuation of the Wales Life Sciences Investment Fund loans, which are now held at Fair Value Through the Profit and Loss under IFRS 9.

## Valuation of Help to Buy – Wales portfolio



### Key audit matter description

The Help to Buy portfolio, shown as shared equity assets within Financial Assets at fair value, was valued at £334m as at 31 March 2019 (2018: £251m).

Help to Buy – Wales shared equity loans are held at Fair Value ("FV") under the recognition and measurement provisions of IFRS 9. Management applies significant judgement in determining assumptions influencing the FV of the portfolio, building a model to incorporate the underlying variable inputs present in the valuation of these shared equity loans.

These inputs are subject to significant estimation uncertainty and require judgments to be made by management.

## Valuation of Help to Buy – Wales portfolio (continued)



### Key audit matter description (continued)

We have identified that the valuation of the Help to Buy – Wales portfolio is most sensitive to changes in forecast HPI and discount rates, noting these are not market observable and therefore we focus our key audit matter and direct our audit efforts towards these two key inputs. Given the level of management judgement applied to determining these assumptions, we also consider there to be an inherent risk of potential fraud in financial reporting through manipulation of this balance.

This key audit matter is included in the Audit Committee report on page 116. The relevant accounting policy relating to shared equity loans is shown in note 2 to the financial statements, while critical accounting estimates and key sources of estimation uncertainty are discussed in note 3. The key note giving the financial impact of these loans is note 20 to the Group financial statements.



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

We have performed a walkthrough of management's process for determining the value of the Help to Buy portfolio. We evaluated the design and determined the implementation of review controls for key assumptions used in the valuation model.

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

We have performed a sensitivity analysis on the HPI growth forecast and discount rate inputs.

We have tested management's model and ensured formulaic accuracy, recalculating the key outputs where applicable.

We have corroborated all assumptions to supporting data.

We have benchmarked the forecast HPI and discount rate assumptions used against comparable assumptions used within the industry and other available third party sources.

We have independently derived an estimate of the discount rate.

We have tested the completeness and accuracy of the data used within the model.

We have reviewed the financial instruments disclosures within note 20 of the financial statements for appropriate disclosure in respect of these significant inputs.



### Key observations

We did not identify any misstatements in relation to the fair value of the Help to Buy – Wales portfolio, therefore we can conclude that the balance is appropriately stated.

We identified that judgements and estimates applied were towards the middle of the acceptable range.

## Valuation of equity investments



### Key audit matter description

As at 31 March 2019, the Group held total equity investments of £81m (2018: £81m).

Equity investments are held at fair value under IFRS 9. Given Development Bank of Wales invests largely in early stage companies there is limited observable data available to support the estimation of the fair value.

The key judgement in relation to equity investments relates to the selection of appropriate benchmark entities and final multiple to be applied in valuations of investments under the multiples approach. Given the level of management judgement applied to the calculation of the fair values, we also consider there to be an inherent risk of potential fraud in financial reporting through manipulation of this balance.

This key audit matter is included in the significant issues section of the Audit Committee Report on page 116. Management's associated accounting policies are detailed in note 2. The key note giving the financial impact of these investments is note 20 to the Group financial statements.



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

We have performed a walkthrough of management's process for determining fair values of equity investments. We evaluated the design and determined the implementation and operating effectiveness of controls surrounding the review of the fair value of investments.

We have reviewed the internal policy related to the determination of fair values for equity investments to ensure this is compliant with relevant accounting standards.

For a sample of valuations under the multiples approach, we have tested the mechanical calculation and completeness and accuracy of information used in the calculation.

We have challenged the appropriateness of multiples selected by management and utilised independent sources to identify whether there was any contradictory evidence in respect of the multiples that have been selected by management the multiples that have been selected by management.



### Key observations

From our testing performed, we conclude that the valuation of equity investments is appropriately stated.

We concluded that the judgements taken in respect of applying uplifts to equity investments are typically towards the middle of an acceptable range.

## Loan loss provisions



### Key audit matter description

Development Bank of Wales adopted IFRS 9 for the first time for the year ended 31 March 2019. Total loan loss provisions recognised as at 31 March 2019 were £32.3m (2018: £26.6m).

Loan loss provisions are calculated using a model based on the loss rate approach of IFRS 9. The appropriateness of the model's results is predicated on the accuracy of the data input, most notably the correct allocation of loans into each IFRS 9 stage. The stage allocations are driven by the internal risk grades used by management. Judgement is required by management to determine such risk grades and it is this judgement that we consider to be a key audit matter.

Given the level of management judgement applied to the calculation of provisions, we also consider there to be an inherent risk of potential fraud in financial reporting.

This key audit matter is referred to in the significant issues section of the Audit Committee Report on page 116. The key accounting policies relating to loan loss provisions are included in note 2 and key areas of critical accounting estimate and estimation uncertainty are disclosed in note 3. The key note giving the financial impact of these loans is note 15 to the Group financial statements.



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

We have performed a walkthrough of the key business cycle relating specifically to the monitoring of investments and recognition of loan loss provisions. We have evaluated the design, determined the implementation and tested the operating effectiveness of controls surrounding the investment monitoring and provisioning cycle.

We have challenged management on the trigger events considered in classifying an investment at the relevant grades. We have performed a detailed analysis on a sample of grade 'C-E' loans and challenged management on whether the risk grade classification is appropriate (and in the case of stage 3 loans, whether the valuation of the provision is appropriate).

We have performed tests of details on a sample of the 'good book' grade 'A-B' loans by verifying the level of arrears and assessing the recoverability by considering post year-end payments.

We have reviewed the methodology of the loans loss provisioning methodology in accordance with IFRS 9.

We have corroborated the logic of each calculation and recalculated each provision, testing the completeness and accuracy of the input data.



### Key observations

We did not identify any misstatements in relation to the provisions held against loans, therefore we can conclude that the balance is appropriately stated.

## Audit of regularity – Welsh Government Funding



### Key audit matter description

Development Bank of Wales obtains a significant proportion of its funds for investment from the Welsh Assembly Government.

Development Bank of Wales plc is required to comply with the regulatory requirements set out by the Welsh Government as part of their funding arrangements. Non-compliance with these requirements could result in withdrawal of such funding which will subsequently have significant going concern implications for the Group, and therefore we consider this to be a key area of audit focus.

Compliance with these funding requirements means the Group is required to invest in companies that meet the investment operating guidelines (IOGs) of each fund as set by the relevant public sector body. We consider there to be some element of judgement involved in determining whether an investee company meets the requirements of the IOGs and thus our key audit matter focusses specifically on this aspect of the requirements. We consider there to be a risk of fraud, in respect of investing in ineligible business to meet investment targets.

This key audit matter is included in the significant issues section of the Audit Committee Report on page 117. Details of the contribution received from the Welsh Government are disclosed in note 5.



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

We have performed a walkthrough of the process surrounding new drawdowns and evaluated the design and determined the implementation of key controls, specifically in relation to the provision of new investments.

We have reviewed a sample of investments made in the year, independently verifying the industry and geographical location of the company.

We have performed an analysis of the investment operating guidelines applicable to each fund and verified that, for the sample of investments made in the year, these were in line with the criteria set out the applicable guidelines.



### Key observations

From the work performed, we did not identify any instances of non-compliance with the investment operating guidelines in the current period.



## Accounting for the Management Succession Fund LP



### Key audit matter description

The Development Bank of Wales Group are fund managers and general partners for the Management Succession Fund LP, whilst also being an investor into the fund through DBW Investments 12 Ltd. As a result, the limited partnership has been consolidated into the Group.

There is accounting judgment in applying accounting policies given the complexities of the limited partnership agreements, specifically considering the requirements of IFRS 10 and determination of whether the Management Succession Fund LP is controlled by the Group.

*There is a risk that the accounting treatment is inappropriate in respect of consolidation and Group financial reporting.*



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

We have performed a walkthrough of management's process for determining control and the accounting considerations. We evaluated the design and determined the implementation of controls in respect of determining control and the resulting accounting treatment.

We have reviewed Management's paper, outlining the rationale and conclusions reached in respect of the accounting treatment.

We have challenged the applicable elements of judgement throughout management's own assessment and performed an independent review of the IFRS 10 requirements, in order to determine whether control exists.

We have assessed the accounting treatment in respect of consolidation of the limited partnership given control by the Group has been determined.



### Key observations

We conclude that the Development Bank of Wales Group exercise control over the limited partnership and we concur with the consolidation of the limited partnership into the Group financial statements.

## Valuation of the Wales Life Sciences Investment Fund



### Key audit matter description

The Group historically invested in the Wales Life Sciences Investment Fund LP, which is held at Fair Value ("FV"), as these balances fail the contractual cash flow test under the recognition and measurement provisions of IFRS 9. These are held at £16.6m as at 31 March 2019 (2018: £51.3m).

The Wales Life Sciences Investment Fund LP sits outside the Group and make equity investments from this investment fund. The valuation of the Group's investment is dependent on the valuation of the underlying fund's investments. The fund is made up of listed and unlisted equities and we identify judgment and estimation uncertainty in valuing these equities. We focus our key audit matter and direct our audit efforts towards the valuation of a significant investment where the recent observable price is not based on a recent orderly market transaction.

This key audit matter is included in the Audit Committee report on page 117. The relevant accounting policy relating to assets held at FVTPL is shown in note 2 to the financial statements, while critical accounting estimates and key sources of estimation uncertainty are discussed in note 3.



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

We have performed a walkthrough of management's process for determining appropriate accounting treatment and valuation of the loans. We evaluated the design and determined the implementation of controls in respect of determining the valuation of the loan to the Wales Life Sciences Investment Fund LP.

We have reviewed the internal policy related to the classification of the investment and determination of fair value to ensure this is compliant with relevant accounting standards.

We have consulted with valuation specialists to determine whether the valuation approach taken in respect of this underlying investment is appropriate given the absence of recent market activity.

We have challenged the appropriateness of judgments taken by Management and vouched information to supporting documents utilised in the valuation, including evaluating any contradictory evidence identified.



### Key observations

From our testing performed, we conclude that the valuation of the underlying investment and therefore the Group's investment in the Wales Life Sciences Fund Investment LP are appropriately stated.

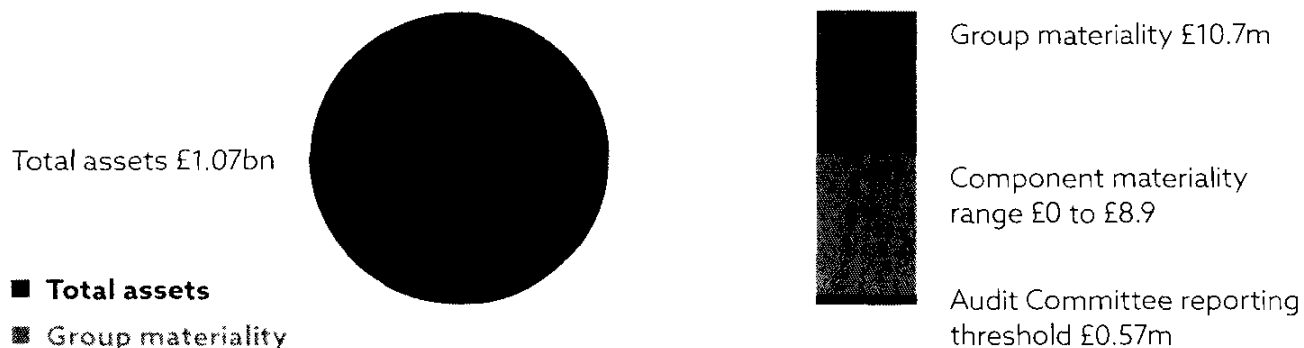
## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£10.7m (2018: £6.8m)	£368k (2018: £136k)
<b>Basis for determining materiality</b>	1% of total assets (2018: 1%)	5% expenses (2017: 5%)
<b>Rationale for the benchmark applied</b>	We determined materiality based upon the value of total assets. The value of loan and equity investments is critical to the long-term success of the Group as it generates income through interest income and equity realisations. Furthermore, the equity and loan investment portfolios represent key performance indicators to the Group.	Development Bank of Wales plc as a parent company covers the administrative expenses for the Group which it recovers through recharges. It does not have any external operation of its own and as such, we consider this to be the most appropriate basis for materiality.

## Our application of materiality (continued)



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £530k (2018: £340k) for the Group, as well as differences below that threshold that, in our view, warranted

reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### *An overview of the scope of our audit*

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. As in the prior year, our Group audit scope involved performing full audits on the Group's parent and main subsidiaries which accounted for more than 99% (2018: 99%) of the Group's net assets, revenue and profits before tax. We note that there were seven new subsidiaries incorporated in the period. Each of these were included within the scope of the Group audit.

These audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £nil to £8.9m (2018: £nil to £6.7m).

At the Group level we tested the consolidation process and performed analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining subsidiaries not subject to audit or audit of specified account balances.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.**

### Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)**. This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

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

#### ***Adequacy of explanations received and accounting records***

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

#### ***Directors' remuneration***

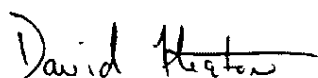
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

**We have nothing to report in respect of these matters.**

## Report on other legal and regulatory requirements (continued)

### Use of our report

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



**David Heaton (Senior  
statutory auditor)**

For and on behalf of Deloitte LLP  
Statutory Auditor  
Manchester, UK  
08 July 2019

## Consolidated income statement

For the year ended 31 March 2019

	Note	2019	2018
		£	£
<b>Revenue</b>	<b>5</b>	<b>13,746,045</b>	<b>14,693,592</b>
<b>Operating expenses:</b>			
Impairment	6	(2,464,580)	(14,297,018)
Other administrative expenses		(18,326,889)	(15,068,498)
<b>Total operating expenses</b>		<b>(20,791,469)</b>	<b>(29,365,516)</b>
<b>Other operating income:</b>			
Release of ERDF grant income	5	25,388,761	21,980,230
Contribution towards administrative expenses from principal shareholder	5, 10	-	1,740,000
Fair value gain on shared equity assets		26,785,103	3,878,097
Fair value loss on non-consolidated funds		(14,785,538)	-
Fair value loss on financial assets		(14,966,475)	-
Realised gains from the disposal of shared equity assets	5	1,421,799	542,605
Realised gain from the disposal of financial assets		571,670	152,693
<b>Total other operating income</b>		<b>24,415,320</b>	<b>28,293,625</b>
<b>Operating profit</b>	<b>6</b>	<b>17,369,896</b>	<b>13,621,701</b>
Interest receivable	8	713,299	294,911
Finance costs	9	(30,000)	(207,229)
Loss on amounts owed to principal shareholder held at fair value	20	(28,206,902)	(9,159,229)
<b>(Loss)/profit before taxation</b>		<b>(10,153,707)</b>	<b>4,550,154</b>
Tax	11	-	-
<b>(Loss)/profit for the financial year</b>		<b>(10,153,707)</b>	<b>4,550,154</b>
(Loss)/profit attributable to equity shareholders		(10,518,282)	4,550,154
Profit attributable to non-controlling interest	21	364,575	-
<b>(Loss)/profit for the financial year</b>		<b>(10,153,707)</b>	<b>4,550,154</b>

All activities derive from continuing operations.



**Consolidated statement of comprehensive income**  
**For the year ended 31 March 2019**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		£	£
(Loss)/Profit for the financial year		(10,153,707)	4,550,154
Available-for-sale financial assets			
- Gains arising during the year		n/a	10,258,310
Actuarial gain/(loss) on defined benefit pension schemes	18	1,380,000	800,000
<b>Total comprehensive income for the year</b>		<b>(8,773,707)</b>	<b>15,608,464</b>
Total comprehensive income attributable to equity shareholder		(9,138,282)	15,608,464
Total comprehensive income attributable to non-controlling interest	21	364,575	-
<b>Total comprehensive income for the year</b>		<b>(8,773,707)</b>	<b>15,608,464</b>

n/a : not applicable following the implementation of IFRS 9

## Consolidated statement of changes in equity

For the year ended 31 March 2019

Note	Public equity	Share capital	Capital reserve	Retained Profit	Non-Controlling Interest	Total
	£	£	£	£	£	£
<b>Balance at 31 March 2017</b>	<b>112,240,780</b>	<b>12,500</b>	<b>10,100</b>	<b>13,298,067</b>	<b>-</b>	<b>125,561,447</b>
Profit for the financial year	-	-	-	4,550,154	-	4,550,154
Gain on revaluation of available-for-sale investments taken to equity	-	-	-	10,258,310	-	10,258,310
Actuarial gain on defined benefit pension schemes	18	-	-	800,000	-	800,000
Reduction in public equity	(60,000)	-	-	-	-	(60,000)
<b>Balance at 31 March 2018</b>	<b>112,180,780</b>	<b>12,500</b>	<b>10,100</b>	<b>28,906,531</b>	<b>-</b>	<b>141,109,911</b>
IFRS 9 Transitional adjustments	-	-	-	2,775,576	-	2,775,576
<b>Balance at 1 April 2018</b>	<b>112,180,780</b>	<b>12,500</b>	<b>10,100</b>	<b>31,682,107</b>	<b>-</b>	<b>143,885,487</b>
Profit for the financial year	-	-	-	(10,518,282)	364,575	(10,153,707)
Actuarial gain on defined benefit pension schemes	18	-	-	1,380,000	-	1,380,000
Increase in public equity	4,970,237	-	-	-	-	4,970,237
Non-controlling interest capital contribution	21	-	-	-	2,608,408	2,608,408
<b>Balance at 31 March 2019</b>	<b>117,151,017</b>	<b>12,500</b>	<b>10,100</b>	<b>22,543,825</b>	<b>2,972,983</b>	<b>142,690,425</b>

# Consolidated balance sheet

As at 31 March 2019

	Note	2019	2018
		£	£
<b>Non-current assets:</b>			
Intangibles	12	173,660	-
Property, plant and equipment	13	517,086	355,862
Financial Assets at fair value	14	436,492,837	330,878,049
Trade and other receivables	15	73,624,779	108,665,434
		<b>510,808,362</b>	<b>439,899,345</b>
<b>Current assets:</b>			
Trade and other receivables	15	23,702,952	19,795,454
Cash and cash equivalents	16	477,641,068	259,243,453
		<b>1,012,152,382</b>	<b>718,938,252</b>
<b>Total assets</b>			
<b>Current liabilities:</b>			
Trade and other payables	17	(39,343,623)	(5,374,902)
Deferred income	19	(8,867,203)	(4,682,629)
		<b>453,133,194</b>	<b>268,981,376</b>
<b>Net current assets</b>			
<b>Non current liabilities:</b>			
Trade and other payables	17	(821,201,131)	(566,360,810)
Retirement benefit obligations	18	(50,000)	(1,410,000)
		<b>(869,461,957)</b>	<b>(577,828,341)</b>
<b>Total liabilities</b>			
<b>Net assets</b>		<b>142,690,425</b>	<b>141,109,911</b>

## Consolidated balance sheet (continued)

As at 31 March 2019

	Note	2019	2018
		£	£
<b>Equity:</b>			
Public equity		117,151,017	112,180,780
Share capital	21	12,500	12,500
Capital reserve		10,100	10,100
Retained profit		22,543,825	28,906,531
Non-controlling interest	21	2,972,983	-
<b>Total equity</b>		<b>142,690,425</b>	<b>141,109,911</b>

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 26 June 2019.

Signed on its behalf by



G Thorley  
Director

# Consolidated cash flow statement

For the year ended 31 March 2019

	Note	2019	2018
		£	£
<b>Net cash (outflow)/inflow from operating activities</b>	<b>23</b>	<b>(78,724,586)</b>	<b>121,011,838</b>
<b>Investing activities:</b>			
Interest received		713,299	294,911
Purchases of fixed assets and investments		(531,583)	(376,406)
<b>Net cash received from investing activities</b>		<b>181,716</b>	<b>(81,495)</b>
<b>Financing activities:</b>			
Interest paid		(10,000)	(127,233)
Repayments of borrowings		-	(3,600,000)
Public equity received		4,970,237	-
Public equity (repaid)		-	(60,000)
Non-controlling interest		2,608,408	-
Cash received in relation to Deferred Income		29,573,840	21,461,808
FTR Funding received		259,798,000	-
<b>Net cash received from financing activities</b>		<b>296,940,485</b>	<b>17,674,575</b>
Net increase in cash and cash equivalents		218,397,615	138,604,918
Cash and cash equivalents at beginning of year		259,243,453	120,638,535
<b>Cash and cash equivalents at end of year</b>		<b>477,641,068</b>	<b>259,243,453</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 1. General information

Development Bank of Wales plc is a company incorporated in England and Wales under the Companies Act 2006. The nature of

the Group's operations and its principal activities are set out in the Strategic Report.

#### Basis of Preparation

The financial statements for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee as adopted by the European Union and applied in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments at fair value. The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, other than the adoption of IFRS 9 and IFRS 15, are outlined opposite.

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

#### Going Concern

The directors reviewed the Group's working capital requirements and funds available for investment in the 24 month period ended March 31 2021. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to March 31 2021 and that there were no performance issues with any of the Group's fund management contracts. The directors were also satisfied that there would be sufficient surplus generated by the services business and associated working capital to cover all operating expenses for the same period.

The directors concluded that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 21 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 1. General information (continued)

### Adoption of New and Revised Standards

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective:

<b>IFRS 16</b>	Leases
<b>IFRS 17</b>	Insurance contracts

The directors anticipate that the adoption of these standards and interpretations in future periods, will not have a material impact on the financial statements of the Group.

### Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 from 1 April 18 has resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, comparative figures have not been restated and comparative period notes disclosures repeat those made in the prior year.

### Adoption of IFRS 15 Revenue from contracts with customers

The Group has assessed its sources of revenue and determined that with the exception of some changes in fees/carried interest that do not have a material impact there was no change in how each revenue source is recognised compared to the previous treatment under IAA 18; therefore there has been no impact on the financial statements on the adoption of IFRS 15 from 1 April 18.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 1. General information (continued)

### IFRS 9 Financial Instruments - Impact of adoption

On transition to IFRS 9 management has assessed both the business models for managing financial assets and the cash flow characteristics of the assets.

This has resulted in the following classifications and measurements for the group's financial assets:

Financial Instrument	IAS 39 measurement basis	IFRS 9 measurement basis	IAS 39 carrying amount 31 Mar 18 (£)	IFRS 9 carrying amount restated 31 Mar 18 (£)
Equity shares in non-associates	FVOCI	FVTPL	80,333,084	80,333,084
Shared equity loans to customers	FVTPL	FVTPL	250,527,108	250,527,108
Creative fund investments	FVTPL	FVTPL	17,857	17,857
Wales Life Science Investment Fund (WLSIF)	Amortised cost	FVTPL	49,508,539	51,273,370
Convertible loan notes - debt element	Amortised cost	FVTPL	1,567,018	1,567,018
Convertible loan notes - embedded derivative	FVTPL		-	-
Loans and advances to customers	Amortised cost	Amortised cost	76,665,068	77,675,308
Cash and cash equivalents	Amortised cost	Amortised cost	259,243,453	259,243,453

All changes to the carrying amount of the financial assets are due to changes in impairment provisioning. Classification changes have no impact on the carrying amount.

The principal change in classification is in respect of equity shares in non-associates, which were reclassified from Fair value through other comprehensive income (FVOCI) to Fair value through profit and loss (FVTPL).

These assets have been classified as such as there are no contractual cash flows associated with these assets nor are they held for sale. The impact of this change in the prior year financial statements is set out in the table opposite.

There were no changes to the classification and measurement of financial liabilities.



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 1. General information (continued)

The following table reconciles the periods closing balances measured in accordance

with IAS 39 to those measured in accordance with IFRS 9 as at 31 March 2018.

	IAS 39 balances 31 Mar 18	Impairment adjustment on loans and advances to customers	Fair value adjustment in respect of WLSIF	Presentation of FV adjustment of equity in non-associates	IFRS 9 balances 31 Mar 18
	£	£	£	£	£
P&L for the year to 31 March 18	4,550,154	1,010,240	1,764,831	10,258,310	17,585,535
Other comprehensive income for the year to 31 March 18	11,058,310	-	-	(10,258,310)	800,000
Total comprehensive income for year to 31 Mar 18	15,608,464	1,010,240	1,764,831	-	18,383,535
Net Assets	141,109,911	1,010,240	1,764,831	-	143,884,982

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 2. Accounting policies

### Basis of Consolidation

The consolidated financial statements comprise Development Bank of Wales plc (the Company) and its subsidiary undertakings, as listed in note 29 of the company financial statements.

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

### Property, Plant and Equipment

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

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

<b>Fixtures and fittings</b>	3 to 4 years
<b>Computer equipment</b>	3 to 5 years

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

### Intangibles

Intangible assets are shown in the balance sheet at their historical cost less accumulated depreciation. 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.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 2. Accounting policies (continued)

### Investments in Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Management regularly reviews a range of factors to determine whether significant influence over an investee exists. Amongst others, key factors include: reliance on funding from the Group by the investee; exchange of key management personnel or provision of technical expertise; and the ability to significantly influence investee Board decisions through presence of executive or non-executive Group management at the investee Board.

The Group has taken a scope exemption available in IAS 28 Associates for accounting for associates held by venture capital organisations, mutual funds, unit trusts and similar entities for the associate to be measured at fair value through profit and loss. The Group's risks arising from investments in associates are similar to investments in other equity investments that have not been classified as associates where significant deterioration in the value of the investment could reduce Group net assets. No financial guarantees are given or borrowing restrictions established with investee companies.

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

Investments in associates are designated as at fair value through profit and loss.

Measurement of associates at fair value through profit and loss is consistent with the Group's documented Risk Management and Investment Strategy.

### Revenue Recognition

Revenue represents interest receivable on loans, and fund management fees which are each recognised in the period in which they arise.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income and loan arrangement fees are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Fund management fees are recognised over the lifetime of the fund in the period in which they arise.

### Dividends

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### European Regional Development Fund ("ERDF") Grant Income

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

Where grants for the partial funding of investments are received in advance of defrayal, a liability to repay the grants is recognised until such time as the cash is utilised in accordance with the terms of the offer documentation.

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

#### Financial Instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

#### Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL'), which are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets classified as FVTPL are recognised immediately in profit or loss.

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.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 2. Accounting policies (continued)

### **Loans and advances to customers**

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

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

Contractual cash flows that are SPPI are consistent with basic lending arrangements.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

Interest income is calculated by applying the effective interest rate to the gross cost of the asset. Interest recognised is taken as the calculated amount except for those assets for which specific provisions for impairment are recognised. In the case of these assets interest recognised is reduced to the amount which would be calculated by applying the effective interest rate to the amortised cost of the asset, the reduction being applied to the impairment account.

### **Loan Commitments**

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

### **Effective Interest Method**

Interest income in relation to customer loans and advances is calculated using the effective interest rate method (EIR). The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount of the financial asset. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

For purchased or originated credit impaired assets (POCI), the EIR reflects the ECLs in determining future cash flows expected to be received from the financial asset.

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

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### **Financial Assets at FVTPL**

Financial assets at FVTPL are:

- assets with contractual cash flows that are not solely payments of principal and interest;
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated as FVTPL using the fair value option.

These assets are measured at fair value, with any gains / losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 20.

#### **Shared Equity Loans**

Shared equity loans are held at FVTPL and are measured at fair value as at the balance sheet date.

More detail on the measurement of shared equity loans can be found in Note 20, Financial Instruments.

#### **Reclassifications**

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

#### **Impairment**

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL;

- Loans and advances to customers.

No impairment loss is recognised on equity investments.

IFRS 9 outlines a three stage model for impairment based on changes in credit quality since initial recognition. Each stage represents a change in the credit risk of a financial instrument since origination. Credit risk is measured using probability of default (PD), exposure at default (EAD) and loss given default (LGD). If a significant increase in credit risk (SICR) since initial recognition is identified but the asset is not yet deemed to be credit impaired, the financial instrument is moved from Stage 1 to Stage 2. Financial instruments that are deemed to be credit impaired are moved to stage 3.

With the exception of Originated Credit Impaired assets, ECL's are measured through a loss allowance at an amount equal to:

1. 12 months Expected Credit Losses for Stage 1;
2. Full lifetime Expected Credit Losses for assets categorised as stage 2 or 3.

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

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information is provided in Note 4, including details on how instruments are grouped when they are assessed on a collective basis.

# Notes to the consolidated financial statements

## For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### ***Credit impaired financial assets***

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the performance of the borrower. The Group uses its portfolio risk grading system to identify credit-impaired financial assets. Indicators of credit-impairment used by the Group are presented in the portfolio grade descriptors on page 164. Assets classified within grade D and E are considered to be credit-impaired.

It may not be possible to identify a single discreet event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date.

A loan is considered credit-impaired when forbearance of more than 30 days is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the forbearance the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where forbearance is contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. See page 155 for the Group's definition of default.

#### ***Purchased or originated credit-impaired (POCI) financial assets***

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates and impairment gain.

#### ***Originated credit impaired (OCI)***

The IFRS 9 definition of credit-impaired acknowledges that a financial asset may be credit-impaired at initial recognition when the purchase or origination of a financial asset is at a deep discount that reflects the incurred credit losses.

Without a deep discount reflecting incurred credit losses at origination, it would not be appropriate to account for a new (modified) financial asset as an originated credit-impaired (OCI) financial asset. This is because OCI financial assets are an exception from the general model for impairment that requires a loss allowance to be recognised at initial recognition in accordance with IFRS 9:5.5.1. In contrast to this, no loss allowance is recognised for OCI financial assets at initial recognition in accordance with IFRS 9:5.5.13, because the deep discount already reflects the incurred credit losses.

There are two circumstances where the Group needs to consider whether an investment is OCI or not. These are, firstly, where the Group invests through the Rescue and Restructure Fund, and secondly, where the Group has a follow-on investment in a company in which the existing investments are already credit impaired. In both cases the Group is investing in a company which is in financial difficulty and events may have already occurred which would normally be considered objective evidence of impairment.

However, under all the Group's funds' Investment Guidelines, the Investment Committee is obliged to consider all the risks of the investment and only to sanction investments where there is a reasonable prospect of a return given the risk profile and investment parameters of the fund making the investment. As such, the Group does not consider any of its investments made under these circumstances to be originated credit impaired.

This may well lead to situations where the Group has some older investments in a client which are credit impaired whereas a new investment in the same client is not credit impaired. This is considered consistent with IFRS 9.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### **Definition of default**

Critical to the determination of Expected Credit Loss ('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 lifetime ECL, as default is a component of the probability of default ('PD') which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

The Group considers the following as constituting an event of default:

- The borrower is unlikely to pay its credit obligations to the Group in full;
- The borrower has incurred unauthorised arrears;

#### **Significant increase in credit risk**

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See note 3 for more details about forward looking information.

#### **Modification and De-recognition of a Financial Asset**

Modification of a financial asset is considered to have occurred under IFRS 9 if the contractual cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of a financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The change to the original contractual terms must be legally binding and enforceable by law.

Additionally, an assessment needs to be made at the time of modification as to whether the modification warrants the financial asset being de-recognised and a new financial asset originated. The Group makes this assessment either on the basis of:

- The extinguishing of the contractual rights to the cash flows from the assets, or
- By a substantial change to the contractual terms of the assets.

In practice, the Group deems a financial asset to have been modified if the net present value (NPV) of the rescheduled asset has changed by more than 10%. The NPV of the modified loan is calculated using the EIR of the pre-modified loan. However, because, under normal circumstances, when rescheduling the interest rate remains unchanged and interest continues to accrue on a daily basis, the NPV of the asset will be substantially unchanged and so not deemed to have been modified under IFRS 9.

Where the movement in NPV is >10% it will be deemed to have been modified and in such cases a gain or loss will be recognised in profit and loss.



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 2. Accounting policies (continued)

### Modification

The Group renegotiates and reschedules loans to customers for a number of reasons. The most common reason is to assist customers in financial difficulty in order to maximise our collections and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most cases include an extension of the maturity of the loan or changes to the timing of the cash flows of the loan (principal and interest repayment).

### De-recognition

The Group would de-recognise a financial asset where the modification of that financial asset would lead to any of the following scenarios:

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

A change is deemed to be substantial if the movement in NPV due to modification is >10%. In these cases the original financial asset will be de-recognised and, where appropriate, a new financial asset originated at the date of modification. The assessment of the credit risk of the new financial asset will start again and the ECL will initially be calculated on a 12 month basis.

Where a loan is de-recognised and a new loan originated, a gain or loss being the difference between the fair value of the new loan recognised and the carrying amount of the original loan de-recognised (including the cumulative loss allowance) will be recognised in profit and loss.

### Write-off

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

### Financial Liabilities and Equity

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

### Equity Instruments

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

### Financial Liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL or other financial liabilities.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

#### 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.

#### Public Equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within DBW FM Limited (Small Loans Fund), DBW Investments (3) Limited (Rescue and Restructuring Fund I and II, Wales Capital Fund, TVI Interim Fund, Tech Seed Funds I & II, Wales Angel Co-Invest Fund, Wales Flexible Investment Fund and Local Energy Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund and Wales Tourism Investment Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Welsh Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund and Wales Micro Loan Fund), DBW Investments (11) Limited (the Wales Property Fund, Wales Stalled Sites Fund, Wales Commercial Property Fund and Wales Self Build Fund), DBW Investments (12) Limited (Wales Management Succession Fund) and DBW Investments (14) Limited (Wales Business Fund).

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 Minister's own accounting arrangements the funds are regarded as being an investment.

#### Related Party Transactions

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group is a lessor under operating leases only.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

#### Operating Profit

Operating profit is stated before net finance costs.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 2. Accounting policies (continued)

### Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements, and the tax base. Deferred tax assets are recognised only to the extent that *it is probable that future taxable profits will be available against which the temporary differences can be utilised*. Deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date, and is expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement, except where it relates to items recognised through OCI, in which case it is recognised through OCI.

### Retirement Benefits

The Group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taf County Borough Council. The Group financial statements for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the Group's notional share of the total fund assets *measured at market value at each balance sheet date* and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The Group's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately 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 Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council. Employer contributions in relation to this scheme are accounted for within other administrative expenses in the period in which they are due.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

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

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### Critical Judgements in Applying the Group's Accounting Policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately opposite), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### *Basis of Consolidation*

The directors use their judgement to make an assessment of whether the Group controls an enterprise by considering the Group's power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. They also consider the Group's ability to use its power to direct the relevant activities of an enterprise and the Group's exposure to the variability of returns. The judgement has a significant impact on the Group's consolidated balance sheet, income statement and cash flow: any enterprise that is controlled requires the financial statements of the enterprise to be included in the Group consolidated financial statements and, where an entity is not controlled, consolidation is not required.

In preparing these financial statements, the directors have considered the relationship the Group has with the Wales Life Science Investment Fund ("WLSIF") and the eight funds managed by FW Capital Limited and specifically as to whether the Group controls those funds. As the Group is a limited partner investor in the WLSIF and does not take part in the management of the WLSIF, this does not meet the definition of control and the WLSIF has therefore not been consolidated into these financial statements. With regard to seven of the FW Capital Limited managed funds, the directors note that while FW Capital in its role as fund manager and NE Growth 500 LP Limited, TVUPB Limited, FW Development Capital (North West) GP Limited, NW Loans Limited, TVC Loans NPIF GP Limited, North West Loans NPIF GP Limited and North East Property GP Limited in their roles as general partner to their respective funds all exercise power over the activities of the respective funds they do not have sufficient exposure to the variability of returns from the funds to meet the definition of control and therefore act as agents rather

## Notes to the consolidated financial statements

For the year ended 31 March 2019

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

than principals of the funds. Accordingly the funds have not been consolidated into these financial statements. During the year the Wales Management Succession Fund Limited Partnership (WMSF LP) was established between the Development Bank of Wales and Clwyd Pension Fund and the associated fund is managed by FW Capital Limited. Following a detailed review of the relationship the directors decided that the control tests under IFRS 10 were met and therefore the results for the WMSF LP have been consolidated into the Group financial statements.

#### Key Sources of Estimation Uncertainty

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

#### **Help to Buy - Wales Shared Equity Loans**

Shared equity loans drawn since inception of the fund are held as FVTPL. The fair value model used to calculate the fair value of the portfolio uses a number of judgemental assumptions, notably a forecast for future House Price Index and a discount rate based on a comparable housing bond. These judgements have a significant impact on the fair value of the book. See note 20 Financial Instruments for more detail.

#### **IFRS 9 Loan loss provision calculation sensitivity**

The sensitivity of the loan loss provision was considered and an increase or decrease of 10% in the loss rate utilised would increase or decrease the provision by £771,736 respectively. The result was not considered to have a material impact on the calculation.

#### **Models and assumptions used**

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 2 and 4 for more details on ECL and note 20 for more details on fair value measurement.

#### **Probability of default**

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 4 for more details.

#### **Loss given default**

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. See note 4 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

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

#### **Fair value measurement and valuation process**

In estimating the fair value of a financial asset or liability, the Group uses market-observable data to the extent that it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 20 for more details on fair value measurement.

#### **Fair value of the investment in the Wales Life Science Investment Fund ("WLSIF")**

In February 2013, the Group invested, as a limited partner, £50m of funds received from the Welsh Ministers into the WLSIF. The investment was previously held at amortised cost but following the implementation of IFRS 9, it is held at FVTPL and in accordance with its accounting policy in respect of the valuation of financial assets, the Group considers the value of its investment as at the balance sheet date with any gains / losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 20.

Arix Capital Management Limited (which changed name from Arthurian Life Sciences Limited ("ALS") on 20 June 2018) ("ACM") are the procured fund manager for the WLSIF. During 2016, ALS was acquired by Arix Bioscience plc ("Arix"). During 2017, Arix made a £5.3m investment into the WLSIF. The fund has a total of nine portfolio companies, three of which are listed, one has been exited in the year with the remainder unlisted and therefore the WLSIF does not have a readily determinable value. This portfolio comprises of companies that are at an early stage of their lives and their valuations can change rapidly as they reach or miss milestones.

#### **Fair value of the investment in the Wales Life Science Investment Fund ("WLSIF") (continued)**

In the WLSIF Limited partnership annual report and financial statements 2019 for the year ended 31 March 2019, ACM also disclose their judgements, estimates and assumptions in assessing the fair value of its investments, which have been considered in the independent auditors' report.

#### **Deferred Tax**

The Group has tax losses of £95m available for offset against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate likely future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the balance sheet date, no deferred tax asset has been recorded.

#### **Brexit**

The principal activity of the Group is the provision of financial support to Welsh businesses and as such, the Group is exposed to the uncertainties that may be attached to the United Kingdom Brexit process. The Group has worked with Welsh Government and a range of stakeholders during the year in making preparations for any economic disruption that an unplanned departure from the EU might occasion. This work is ongoing and the potential consequences of a disorderly Brexit on different industry sectors are many and varied. The Group has identified financial resources, policy adjustments and process changes that will enable it to continue providing support through this uncertainty.

# Notes to the consolidated financial statements

## For the year ended 31 March 2019

### 4. Credit risk

Credit risk is the risk that a customer will default on their contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is

lending to customers and therefore credit risk is a principal risk. Credit risk arises from loans and advances to customers.

#### **Credit risk management**

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

- Ensuring the Group has appropriate credit risk practices, including an effective system of control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, and IFRS.
- Identifying assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method to measure ECL.
- Ensure that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal auditors perform regular audits making sure that the established controls and procedures are adequately designed and implemented.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 4. Credit risk (continued)

#### **Significant increase in credit risk**

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

#### **Internal credit risk ratings**

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

This approach was implemented as part of the portfolio controls in order to ensure appropriate strategies are deployed on assets given their particular circumstances, and in order to ensure those assets requiring a specific provision are identified.

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 a significant increase in credit risk, and grade E carrying a specific provision.

Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as the Group does not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.

The portfolio grading approach is now well embedded in the various portfolio teams, with several controls in place to ensure grading is appropriate.

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

We consider that grade A, B and MICRO assets are low risk and healthy and remain with the portfolio team. Together, in IFRS 9 terms, they are regarded as Stage 1. 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. Management has undertaken analysis and determined that grades A and B are categorised as stage 1, with modelling input analysis based on a combination of both grades.

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.



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 4. Credit risk (continued)

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

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 4. Credit risk (continued)

#### Overdue accounts

The Group measures investments in arrears in two ways;

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

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days or 90 days past due.

Assets in stage 1 (grades A & B) which are over 30 days past due are flagged and automatically included in stage 2. This is in line with the requirements of IFRS 9.

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 (grades A, B, C and Micro) 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. However, there will also be assets where the review process indicates that there is not objective evidence of impairment despite the gross arrears in excess of 90 days and that a grade D or E is not appropriate. Such assets will remain in stage 2 and the 90 day trigger considered to have been rebutted.

#### Incorporation of forward looking information

The Group uses forward looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as its measurement of ECL. This assessment and its effect on the loss rates used in the Group's ECL calculations is made by the quarterly Risk Committee.

An initial assessment was made to discover if there is a correlation between any of the principal macroeconomic indicators and the Group's default rate which drives the ECL calculation. The principal macroeconomic indicators considered were the Bank of England base rate, the unemployment rate (aged 16 and over, seasonally adjusted), CPIH annual rate, GDP quarter on quarter growth, and the annual house price rates of change for all UK dwellings.

It was considered that whilst all these indicators might have an influence, there is no direct correlation between them and the Group's default rate which could be established. Additionally, there are other ad hoc factors which can influence the credit risk of DBW's investment portfolio which need to be taken into account. For example, the failure of a major employer could have a significant impact on business in the local area and beyond. Such events are not necessarily identifiable in the macroeconomic indicators but must always be included in the Risk Committee's assessment of the forward looking macroeconomic conditions.

The historic loss rates calculated for each category of the Group's portfolio with shared credit risks will be reviewed by the quarterly Risk Committee in the light of both the principal macroeconomic indicators and any other factors likely to affect the Welsh economy, such as sector or region specific information, and will be flexed to reflect this forward looking view. These flexed loss rates will then be used in all the ECL calculations.

### 4. Credit risk (continued)

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

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

Different approaches have been considered in the disaggregation of the portfolio including investment type, industry sector and geographical region, and investment type with four categories of risk profile is considered the most appropriate at this time. The disaggregation will be reconsidered from time to time and amended to fit the risk profiles apparent at that time.

Historical loss rates have then been calculated for each portfolio grade within each category which shows the 12-month and lifetime percentage loss rates for each grade. These loss rates are updated each year to incorporate the most up to date data.

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 four 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 ECLs are then amended and finalised by incorporating the findings of the

Quarterly Risk Committee in their review of forward looking information, regional or sectoral information as described above.

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 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 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.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 4. Credit risk (continued)

### Credit quality

#### Class of financial instrument

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

<b>Loans and advances to customers at amortised cost</b>		
<b>Concentration by category</b>	<b>2019</b>	<b>2018</b>
	£	£
Rescue and restructure fund	1,002,227	1,391,076
Property Fund	20,288,404	9,531,995
Micro loan fund	7,747,815	6,580,854
Mainstream loans	59,792,527	59,962,874
	<b>88,830,973</b>	<b>77,466,800</b>
<b>Loans and advances to customers at FVTPL</b>		
<b>Concentration by category</b>	<b>2019</b>	<b>2018</b>
	£	£
Creative fund	-	17,857
Help to Buy - Wales shared equity loans	333,802,414	250,527,108
	<b>333,802,414</b>	<b>250,544,965</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 4. Credit risk (continued)

### Exposure by class, internal rating and stage

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

Loans and advances to customers at amortised cost				2019
	Stage 1	Stage 2	Stage 3	£
Grade A-B: Low to fair risk	68,414,660			68,414,660
Grade A-B: Low to fair risk – in arrears		1,692,644		1,692,644
Grade C: Early warning		12,993,738		12,993,738
Grade C: Early warning – in arrears		952,237		952,237
Grade D: Significant increase in credit risk but no objective evidence of impairment			3,874,017	3,874,017
Grade D: Significant increase in credit risk but no objective evidence of impairment – in arrears			4,074,579	4,074,579
Grade E: Objective evidence of impairment			29,109,430	29,109,430
<b>Total Gross carrying amount</b>	<b>68,414,660</b>	<b>15,638,619</b>	<b>37,058,026</b>	<b>121,111,305</b>
Loss allowance	(1,180,099)	(1,911,389)	(29,188,844)	(32,280,332)
<b>Net Carrying amount</b>	<b>67,234,564</b>	<b>13,727,230</b>	<b>7,869,182</b>	<b>88,830,973</b>
Provision coverage ratio	1.7%	12.2%	78.8%	26.7%

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 4. Credit risk (continued)

#### Movement of loss allowance during year

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

Loans and advances to customers at amortised cost				
	2019			
	£			
	Stage 1	Stage 2	Stage 3	Total
<b>Loss allowance as at 31 March 2018</b>	<b>4,914,105</b>	<b>2,629,568</b>	<b>27,197,052</b>	<b>34,740,725</b>
Restatement of the prior year	(3,717,792)	(440,351)	3,147,903	(1,010,240)
Opening balance adjustment re CLN	-	(157,113)	(6,939,389)	(7,096,502)
<b>Loss allowance as at 1 April 2018</b>	<b>1,196,313</b>	<b>2,032,104</b>	<b>23,405,566</b>	<b>26,633,983</b>
<b>Changes in the loss allowance:</b>				
Transfers to stage 1	(49,803)	-	-	(49,803)
Transfers to stage 2	-	(210,447)	-	(210,447)
Transfers to stage 3	-	-	533,445	533,445
Inc / (dec) due to change in credit risk	(538,329)	(508,746)	4,085,962	3,038,887
New financial assets originated	575,493	609,504	1,246,010	2,431,007
Financial assets derecognised in the year	(3,575)	(11,026)	(82,139)	(96,740)
Write offs	-	-	-	-
<b>Loss allowance as at 31 March 2019</b>	<b>1,180,099</b>	<b>1,911,389</b>	<b>29,188,844</b>	<b>32,280,332</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 4. Credit risk (continued)

### Movement of the gross carrying amount during year

More information about the significant changes in the gross carrying amount of financial assets during the period

that contributed to changes in the loss allowance is provided in the table below:

Loans and advances to customers at amortised cost				
	2019			
	£			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount as at 31 March 2018</b>	<b>48,498,301</b>	<b>23,255,587</b>	<b>39,787,938</b>	<b>111,541,826</b>
Restatement of the prior year	-	-	-	-
Opening balance adjustment re CLN	-	(1,289,101)	(7,533,702)	(8,822,803)
<b>Gross carrying amount as at 1 April 2018</b>	<b>48,498,301</b>	<b>21,966,486</b>	<b>32,254,236</b>	<b>102,719,023</b>
<b>Changes in the gross carrying amount:</b>				
Transfers to stage 1	802,992	-	-	802,992
Transfers to stage 2	-	(4,693,745)	-	(4,693,745)
Transfers to stage 3	-	-	3,890,753	3,890,753
New financial assets originated	38,926,609	4,778,213	2,964,429	46,669,251
Financial assets derecognised in the year	(73,897)	(85,000)	(200,784)	(359,681)
Write offs	-	-	-	-
Other changes	(19,739,345)	(6,327,335)	(1,850,608)	(27,917,288)
<b>Gross carrying amount as at 31 March 2019</b>	<b>68,414,660</b>	<b>15,638,619</b>	<b>37,058,026</b>	<b>121,111,305</b>

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil (FY18: £nil).

### Modified financial assets

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

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 5. Revenue and other operating income

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

	2019	2018
	£	£
<b>Revenue:</b>		
Fees	6,815,308	6,673,583
Dividends	94,422	124,075
Loan interest	6,836,315	7,895,934
	<b>13,746,045</b>	<b>14,693,592</b>
<b>Other Operating Income:</b>		
European Regional Development Fund ("ERDF") grant income	25,388,761	21,980,230
Contribution from the principal shareholder	-	1,740,000
Fair value gain on shared equity assets	26,785,103	3,878,097
Fair value loss on non-consolidated funds	(14,785,538)	-
Fair value loss on other financial assets	(14,966,475)	-
Realised gains from the disposal of shared equity assets	1,421,799	542,605
Realised gains from the disposal of other financial assets	571,670	152,693
<b>Total revenue and other operating income</b>	<b>38,161,365</b>	<b>42,987,217</b>



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 6. Operating profit

	2019	2018
	£	£
<b>Operating profit has been arrived at after charging/(crediting):</b>		
Depreciation of property, plant and equipment	196,669	303,060
Directors emoluments and staff costs (see note 7)	10,518,990	9,200,742
Impairment	2,464,580	14,297,018

	2019	2018
	£	£
<b>Auditor's remuneration:</b>		
Fees payable to the Company's auditor for the audit of the Company's financial statements	66,490	40,100
Fees payable to the Company's auditor for other services to the Group:		
Audit of the Company's subsidiaries	144,940	119,140
<b>Total audit fees</b>	<b>211,430</b>	<b>159,240</b>
	£	£
Tax compliance	72,049	67,410
Other taxation advisory services	49,378	35,795
<b>Total non-audit fees</b>	<b>121,427</b>	<b>103,205</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 7. Information regarding directors and employees

	2019	2018
	£	£
<b>Directors' emoluments:</b>		
Wages and salaries	527,306	424,797
Pension costs	29,916	5,721

<b>Remuneration of highest paid director</b>	<b>200,349</b>	<b>193,333</b>
--	----------------	----------------

One director (2018: one) of the Company and three directors (2018: four) of

subsidiary companies were members of the defined benefit pension scheme.

	2019	2018
	£	£
<b>Aggregate payroll costs (excluding directors):</b>		
Wages and salaries	8,081,445	7,066,492
Social security costs	901,142	788,227
Pension costs	979,180	915,505

<b>Directors Emoluments and Staff Costs</b>	<b>10,518,990</b>	<b>9,200,742</b>
---	-------------------	------------------

#### The monthly average number of persons employed (excluding directors and agency temps):

Administration	51	44
Funds Management	132	121
	<b>183</b>	<b>165</b>

# Notes to the consolidated financial statements

## For the year ended 31 March 2019

### 8. Interest receivable

	2019	2018
	£	£
Bank interest	713,299	294,911

### 9. Finance costs

	2019	2018
	£	£
Interest on bank loans and overdrafts	-	167,229
Net cost of pension scheme	30,000	40,000
	30,000	207,229

### 10. Contribution by principal shareholder

The Welsh Ministers (principal shareholder and ultimate parent undertaking) acting through the Welsh Government, have ceased contributing towards the administrative expenses of Development Bank of Wales plc (the Company),

(2018: £1,740,000). This contribution was previously treated as grant income and was released to the income statement as it was incurred. These amounts were non-interest bearing and were non-repayable.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 11. Tax

2019	2018
£	£

### Current taxation:

<b>UK corporation tax charge for the year</b>	-	-
---	---	---

The difference between the current taxation shown above and the amount calculated by

applying the standard rate of UK corporation tax to the (loss)/profit before tax is as follows:

2019	2018
£	£

<b>(Loss)/profit on ordinary activities before tax</b>	<b>(10,153,707)</b>	<b>4,550,154</b>
--	---------------------	------------------

Tax at 19% (2018: 19%) thereon	(1,929,203)	864,530
--------------------------------	-------------	---------

### Factors affecting charge for the year:

Expenses not deductible	7,986,398	1,854,658
Deferred tax not recognised	1,288,217	2,030,143
Partnership Share	260,527	15,289
Non-taxable income	(7,605,939)	(4,792,720)
Chargeable gains	-	28,100

<b>Total taxation charge</b>	<b>-</b>	<b>-</b>
------------------------------	----------	----------

A deferred tax asset of £5,379,227 (2018: asset of £6,791,823) has not been recognised in respect of timing differences relating to non-trade financial losses, excess management expenses, accrued pension costs and impairments in respect of investments in associates. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

From 1 April 2017, the main rate of corporation tax reduced to 19%. In March 2016, the Government announced further reductions in the main rate of corporation tax to 17% from 1 April 2020. These changes were substantively enacted in September 2016. The reduction in rate is not anticipated to materially affect the future tax charge of the Group.

The Group has made an overall loss of £10,153,707 during the period (2018: profit of £4,550,154).

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 12. Intangibles

Group	2019	2018
	£	£
<b>Software:</b>		
Cost		
At 1 April	-	-
Additions	173,660	-
Disposals	-	-
<b>At 31 March</b>	<b>173,660</b>	<b>-</b>
<b>Accumulated depreciation:</b>		
At 1 April	-	-
Charge for the year	-	-
Disposals	-	-
<b>At 31 March</b>	<b>-</b>	<b>-</b>
<b>Net book value:</b>		
<b>At the end of the financial year</b>	<b>173,660</b>	<b>-</b>
At the beginning of the financial year	-	-

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 13. Property, plant and equipment

Group and Company	2019	2018
	£	£
<b>Fixtures and fittings:</b>		
Cost		
At 1 April	1,647,037	1,471,179
Additions	357,923	255,433
Disposals	(39,701)	(79,575)
<b>At 31 March</b>	<b>1,965,259</b>	<b>1,647,037</b>
<b>Accumulated depreciation:</b>		
At 1 April	1,291,175	1,067,690
Charge for the year	196,699	303,060
Disposals	(39,701)	(79,575)
<b>At 31 March</b>	<b>1,448,173</b>	<b>1,291,175</b>
<b>Net book value:</b>		
<b>At the end of the financial year</b>	<b>517,086</b>	<b>355,862</b>
At the beginning of the financial year	355,862	403,489

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 14. Financial assets at fair value

	2019	2018
	£	£
Share equity assets	333,802,414	250,527,108
Equity investments	81,096,672	30,524,259
Investments in non-consolidated funds	16,885,968	49,808,828
Convertible loan notes	4,707,783	-
Creative IP fund investment	-	17,854
	<b>436,492,837</b>	<b>330,878,049</b>

Shared equity loans relate to those agreements entered into under the Help to Buy – Wales ("HTB-W") scheme and further information in respect of the carrying value can be found in Note 20.

Investments in non-consolidated Funds includes the Group's investment in the Wales Life Science Investment Fund held at fair value of £16,585,679 (2018: £49,508,539).

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 15. Other financial assets

Trade and other receivables	2019	2018
	£	£
<b>Current assets:</b>		
Trade debtors	32,814	133,015
Loans receivable carried at amortised cost	27,914,879	21,081,058
Impairment	(12,708,685)	(3,224,403)
	<b>15,206,194</b>	<b>17,856,655</b>
Amounts owed by principal shareholder	1,548,000	-
Other debtors	6,508,538	1,372,754
Prepayments	407,406	433,030
	<b>23,702,952</b>	<b>19,795,454</b>
<b>Non-current assets:</b>		
Loans receivable carried at amortised cost	101,733,428	140,361,275
Impairment	(28,108,649)	(32,044,323)
	<b>73,624,779</b>	<b>108,316,952</b>
Other debtors	-	348,482
	<b>73,624,779</b>	<b>108,665,434</b>

The Group enters into agreements to advance loans to businesses in Wales. The average term of loans entered into is five years (2018: Five years). The interest rate inherent in the loans is fixed at the contract date for all of the loan term. The average effective interest rate contracted is approximately 7.3% per annum (2018: 8.23%).

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

Before accepting any new customer, the Group follows its investment operating guidelines to assess the potential customer's credit quality and define customer acceptance. Recoverability of loans advanced is reviewed monthly.

Loans receivable disclosed above include amounts which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) continue to be considered recoverable.

Other debtors includes an amount of £3,250,000 in respect of a committed investment held in ESCROW over the year end. The investment has subsequently completed post year end.



## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 16. Cash and cash equivalents

These comprise cash in hand and deposits held at call with banks. The carrying amount of these assets approximates their fair value.

	2019	2018
	£	£
<b>Cash and cash equivalents</b>	<b>477,641,068</b>	<b>259,243,453</b>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 3 months or less. The carrying amount of these assets is approximately equal to their fair value.

Cash at bank and in hand is restricted to making investments in accordance with the Company's principal investing activities.

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

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 17. Other financial liabilities

Trade and other payables	2019	2018
	£	£
<b>Current liabilities:</b>		
Trade payables and accruals	(3,954,352)	(3,012,967)
Taxation and social security	(362,200)	(201,680)
Other creditors	(1,448,265)	(881,493)
Amounts owed to principal shareholder	(33,578,806)	(1,278,762)
	<b>(39,343,623)</b>	<b>(5,374,902)</b>
<b>Non-current liabilities:</b>		
Amounts owed to principal shareholder held at amortised cost	(413,185,000)	(273,437,000)
Amounts owed to principal shareholder held at fair value	(408,016,131)	(292,759,229)
Other creditors	-	(164,581)
	<b>(821,201,131)</b>	<b>(566,360,810)</b>

The directors consider that the carrying amount of trade payables approximates their fair value.

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

Amounts owed to the principal shareholder relate to Financial Transaction Reserve funding. The current balances in respect of Financial Transaction Reserve funding are repayable by 31 March 2040. These borrowings are non-secured and are non-interest bearing.

The significant increase in amounts due to the principal shareholder reflect the increase in funds under management during the year in respect of the Wales Commercial Property Fund (£55m), Wales Self Build Fund (£40m), Wales Tourism Investment Fund (£50m) and the Wales Micro Loan Fund (£9.2m).

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 17. Other financial liabilities (continued)

Reconciliation of changes in liabilities  
arising from financing activities:

	2019	2018
	£	£
Balance at the beginning of the year	558,196,229	337,700,000
Cashflows	234,798,000	211,337,000
<b>Non Cash changes:</b>		
Fair Value changes	28,206,902	9,159,229
<b>Balance at the end of the year</b>	<b>821,201,131</b>	<b>558,196,229</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 18. Retirement benefit schemes

#### Group and Company

Development Bank of Wales Group operates both a defined contribution and a defined benefit pension plan.

#### Defined contribution plan

A defined contribution plan is a pension arrangement under which the benefits are linked to the contributions made and the performance of each individual's chosen investments.

Contributions are paid into an independently administered fund. We employ the services of an independent third party to report to us on an annual basis as to the performance of the fund and also as to whether the default investment fund continues to be fit for purpose.

The total cost charged to income of £479,970 (2018: £385,613) represents contributions payable to this scheme by the Group at rates specified in the rules of the schemes. As at 31 March 2019, contributions of £41,529 (2018: £Nil) due in respect of the current reporting period had not been paid over to the schemes.

#### Defined benefit plan

A defined benefit plan is a pension arrangement under which participating members receive a pension benefit at retirement determined by the plan rules dependent on factors such as age, length of service and pensionable pay. It is not just dependent upon actual contributions made by the Group or members.

The Group's defined benefit plan is part of the Local Government Pension Scheme, which is a multi-employer funded scheme providing pensions and related benefits on a final salary basis. This plan was closed to new entrants on 28 February 2010. The assets of the scheme are held separately from the assets of the Group and are administered by Rhondda Cynon Taf County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis.

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

In the event of the withdrawal of the Group from the scheme the resulting surplus or deficit would be allocated to the Group.

The Company and subsidiary undertaking DBW FM Limited both participate in the Local Government Pension Scheme and disclosures regarding the Company's and DBW FM Limited's defined benefit pension schemes are required under the provisions of IAS 19 Retirement Benefits, and these are set out opposite.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 18. Retirement benefit schemes (continued)

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

	2019	2018
	£	£
Development Bank of Wales plc	130,000	(480,000)
DBW FM Limited	(180,000)	(930,000)
<b>Net deficit</b>	<b>(50,000)</b>	<b>(1,410,000)</b>

The last actuarial valuation was carried out at 31 March 2016 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19.

The major assumptions used for the actuarial valuation of both the Development Bank of Wales plc and DBW FM Limited pension schemes were:

Key Assumptions	2019		2018	
	Development Bank of Wales plc	DBW FM Ltd	Development Bank of Wales plc	DBW FM Ltd
Rate of increases in salaries	3.35%	3.35%	3.25%	3.25%
Rate of increases in pensions in payment	2.10%	2.10%	2.00%	2.00%
Rate of increase to deferred pensions	2.10%	2.10%	2.00%	2.00%
Discount rate	2.50%	2.50%	2.60%	2.60%
Inflation assumption RPI	3.20%	3.20%	3.10%	3.10%
Inflation assumption CPI	2.10%	2.10%	2.00%	2.00%

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 2019	31 March 2018	31 March 2019	31 March 2018
Member aged 65 at accounting date	22.2	22.9	24.1	25.0
Member aged 45 at accounting date	23.9	25.1	25.9	27.3

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 18. Retirement benefit schemes (continued)

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

Asset Allocation	Asset split 2019 %	Asset split 2018 %
Equities	64.5	74.8
Property	6.9	5.4
Government bonds	13.5	8.5
Corporate bonds	11.6	9.4
Cash	3.5	1.9
<b>Total market value</b>	<b>100.0</b>	<b>100.0</b>

Reconciliation of Funded Status to Balance Sheet	Development Bank of Wales plc		DBW FM Limited	
	2019 £	2018 £	2019 £	2018 £
Fair value of assets	9,520,000	8,550,000	15,060,000	13,100,000
Present value of funded defined benefit obligation	(9,390,000)	(9,030,000)	(15,240,000)	(14,030,000)
Surplus/(deficit) recognised on the balance sheet	130,000	(480,000)	(180,000)	(930,000)
Deferred tax liability	-	-	-	-
<b>Net surplus/(deficit)</b>	<b>130,000</b>	<b>(480,000)</b>	<b>(180,000)</b>	<b>(930,000)</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 18. Retirement benefit schemes (continued)

Amounts recognised in income statement	Development Bank of Wales plc		DBW FM Limited	
	2019 £	2018 £	2019 £	2018 £
<b>Operating costs:</b>				
Current service cost	170,000	200,000	540,000	540,000
Past service cost	-	-	-	-
<b>Total operating charge</b>	<b>170,000</b>	<b>200,000</b>	<b>540,000</b>	<b>540,000</b>
<b>Financing Cost:</b>				
Interest on net defined benefit liability/(asset)	10,000	10,000	20,000	30,000
<b>Pension expense recognised in profit and loss</b>	<b>180,000</b>	<b>210,000</b>	<b>560,000</b>	<b>570,000</b>

Amounts recognised in other comprehensive income	Development Bank of Wales plc		DBW FM Limited	
	2019 £	2018 £	2019 £	2018 £
Asset gains arising during the period	630,000	200,000	980,000	300,000
Liability (losses)/gains arising during the period	(500,000)	(40,000)	(190,000)	340,000
<b>Total actuarial gain / (loss) before deferred tax</b>	<b>130,000</b>	<b>160,000</b>	<b>790,000</b>	<b>640,000</b>
Deferred tax	-	-	-	-
<b>Total actuarial gain / (loss)</b>	<b>130,000</b>	<b>160,000</b>	<b>790,000</b>	<b>640,000</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 18. Retirement benefit schemes (continued)

Changes to the present value of the defined benefit obligation	Development Bank of Wales plc		DBW FM Limited	
	2019 £	2018 £	2019 £	2018 £
Opening defined benefit obligation	9,030,000	8,600,000	14,030,000	13,590,000
Current service cost	170,000	200,000	540,000	540,000
Interest expense on defined benefit obligation	230,000	220,000	370,000	340,000
Contribution by participants	50,000	60,000	170,000	170,000
Actuarial losses/ (gains) on liabilities	40,000	40,000	190,000	(340,000)
Net benefits paid out	(130,000)	(90,000)	(60,000)	(270,000)
Past service cost	-	-	-	-
Closing defined benefit obligation	9,390,000	9,030,000	15,240,000	14,030,000
Deferred tax liability	-	-	-	-
<b>Closing defined benefit obligation net of deferred tax</b>	<b>9,390,000</b>	<b>9,030,000</b>	<b>15,240,000</b>	<b>14,030,000</b>

Changes to the fair value of assets	Development Bank of Wales plc		DBW FM Limited	
	2019 £	2018 £	2019 £	2018 £
Opening fair value of assets	8,550,000	7,950,000	13,100,000	12,110,000
Interest income on assets	220,000	210,000	350,000	310,000
Re-measurement gains on assets	630,000	200,000	980,000	300,000
Contributions by employers	200,000	220,000	520,000	480,000
Contributions by participants	50,000	60,000	170,000	170,000
Net benefits paid out	(130,000)	(90,000)	(60,000)	(270,000)
<b>Closing fair value of assets</b>	<b>9,520,000</b>	<b>8,550,000</b>	<b>15,060,000</b>	<b>13,100,000</b>
<b>Net surplus/(deficit)</b>	<b>130,000</b>	<b>(480,000)</b>	<b>(180,000)</b>	<b>(930,000)</b>



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 19. Deferred income

	2019	2018
	£	£
Balance at 1 April	4,682,629	6,941,051
Grant received in the year	29,573,335	21,461,808
Grant released to income statement in the year	(25,388,761)	(23,720,230)
<b>Balance at 31 March</b>	<b>8,867,203</b>	<b>4,682,629</b>

	Current		Non-current	
	2019	2018	2019	2018
	£	£	£	£
Deferred income	8,867,203	4,682,629	-	-

The deferred revenue above relates to grants received by Development Bank of Wales plc from the ERDF and the Welsh Ministers which Development Bank of Wales plc has passed onto its subsidiary – DBW Investments (14) Limited – to invest within the criteria of the grants. The creditors recognise Development Bank of Wales plc's liability to repay to the

ERDF and the Welsh Ministers any grant received not properly invested within the prescribed time limit. The creditors are matched by corresponding debtors due from DBW Investments (14) Limited (see note 32) for the uninvested grant income. Both the creditors and debtors are reduced when DBW Investments (14) Limited makes a qualifying investment.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 20. Financial instruments

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

#### Capital risk management

The capital structure of the Group consists of debt, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

#### Gearing ratio

The gearing ratio at the year-end is as follows:

	2019	2018
	£	£
Cash and cash equivalents	(477,641,068)	(259,243,453)
Net funds	(477,641,068)	(259,243,453)
Equity	142,690,425	141,109,911
<b>Net debt to equity ratio</b>	<b>(3.35)</b>	<b>(1.84)</b>

#### Categories of financial instruments

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

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

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

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 20. Financial instruments (continued)

Carrying value as at 31 March 2019 (£)	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities designated at FVTPL	Total
<b>Assets:</b>				
Cash and cash equivalents		477,641,068	-	477,641,068
Financial assets:				
Measured at market price	i	-	27,841,024	27,841,024
Measured at fair value using other methods	ii	-	74,849,399	74,849,399
Loans to customers	iv	88,830,973	-	88,830,973
Shared-equity loans	vi	-	333,802,414	333,802,414
Other receivables	iv	8,496,758	-	8,496,758
<b>Total financial assets</b>		<b>574,968,799</b>	<b>436,492,837</b>	<b>1,011,461,636</b>
Non-financial assets				690,746
<b>Total assets</b>				<b>1,012,152,382</b>
<b>Liabilities:</b>				
Amounts due to principal shareholder at amortised cost	v	446,763,806	-	446,763,806
Amounts owed to principal shareholder at fair value	vi	-	408,016,131	408,016,131
Trade and other payables	v	5,764,817	-	5,764,817
Retirement benefit obligations	v	50,000	-	50,000
<b>Total financial liabilities</b>		<b>452,578,623</b>	<b>408,016,131</b>	<b>860,594,754</b>
Non-financial liabilities				8,867,203
Reserves				142,690,425
<b>Total reserves and liabilities</b>				<b>1,012,152,382</b>

During the current year, no assets were within Level 2 of the fair value (2018 – £nil)

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 20. Financial instruments (continued)

Carrying value as at 31 March 2018 (£)	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available- for-sale	Financial assets and liabilities designated at FVTPL	Total
<b>Assets:</b>						
Cash and cash equivalents		259,243,453				259,243,453
Investments in associates						
Measured at fair value using other methods	ii	-	-	-	-	-
Other investments						
Measured at market price	i	-	-	38,783,281	-	38,783,281
Measured at fair value using other methods	ii	-	-	27,651,144	-	27,651,144
Measured at cost less credit risk adjustment	iii	-	-	13,916,516	-	13,916,516
Loans to customers	iv	-	126,173,607	-	-	126,173,607
Shared-equity loans	vi	-	70,262,631	-	179,463,136	249,725,767
Other receivables	iv	-	2,287,281	-	-	2,287,281
Derivative financial assets	vi	-	-	-	801,341	801,341
<b>Total financial assets</b>		<b>259,243,453</b>	<b>198,723,519</b>	<b>80,350,941</b>	<b>180,264,477</b>	<b>718,582,390</b>
Non-financial assets						355,862
<b>Total assets</b>						<b>718,938,252</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 20. Financial instruments (continued)

Carrying value as at 31 March 2018 (£)	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at FVTPL	Total
<b>Liabilities:</b>						
Amounts due to principal shareholder at amortised cost	v	273,437,000	-	-	-	273,437,000
Amounts owed to principal shareholder at fair value	vi	-	-	-	292,759,229	292,759,229
Trade and other payables	v	5,539,483	-	-	-	5,539,483
Retirement benefit obligations	v	1,410,000	-	-	-	1,410,000
<b>Total financial liabilities</b>		<b>280,386,483</b>	<b>-</b>	<b>-</b>	<b>292,759,229</b>	<b>573,145,712</b>
Non-financial liabilities						4,682,629
Reserves						141,109,911
<b>Total reserves and liabilities</b>						<b>718,938,252</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 20. 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 overleaf).

ii. **Non-consolidated funds**

Included within the balance of investments in non-consolidated funds is the Group's investment in the WLSIF held at fair value. This fair value is derived from the amounts entitled to the Group from the WLSIF as at 31 March 2019 based on its Net Asset Value (level 3 hierarchy as defined below).

A valuation of the WLSIF's underlying portfolio companies has been provided by ACM, WLSIF's fund manager, within the WLSIF financial statements showing a fair value at 31 March 2019 of £17.5m (2018: £62.4m). During the year, one of the portfolio companies was exited which resulted in a distribution to partners of £21.7m. The remainder of the year on year movement has resulted from reductions in the fair value of the underlying portfolio companies. These companies are at an early stage of their lives and their valuation generally changes as milestones are reached. This makes the valuation sensitive to performance against milestone targets as illustrated by the change in fair value noted above.

The WLSIF Limited Partnership financial statements note that the portfolio valuation was calculated by ACM as follows:

- updating the share price for the three listed securities
- reflecting anticipated deferred proceeds relating to the single disposal during the year
- all the remaining investments are unlisted preferred shares. None of these companies had a recent investment round or recent offer which could be used as a basis for valuation. The fair value of investments have been valued either with reference to the net assets per the portfolio company's most recent publicly available financial information or using the mid point from a range of values per an expert's valuation report.

The independent auditors' report to the partners of the Wales Life Science Investment Fund Limited Partnership confirmed that they had audited the financial statements and concluded that in their opinion the financial statements give a true and fair view of the statement of the qualifying partnership's affairs as at 31 March 2019 and of its loss and cash flows for the year then ended.

As a result of the review of the disclosures made in the WLSIF Limited Partnership's annual report and audited financial statements, the review of the expert's valuation report and the absence of any further portfolio company information, the directors conclude that the fair value of the Group's investment in the WLSIF as at 31 March 2019 is £16,585,679. The directors note that the fair value of the WLSIF can change rapidly as its portfolio of nine early stage companies reach or miss milestone deadlines.

# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 20. Financial instruments (continued)

### Equity Investments

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

- a number 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).

The table below summarises the fair value measurements:

	2019	2018
	£	£
Multiples	10,716,572	-
Discounted Cash flows	670,326	-
Net asset Value	204,673	-
Price of recent investment	41,664,072	27,651,144
<b>Balance at 31 March</b>	<b>53,255,643</b>	<b>27,651,144</b>

Unlisted equity investments of £13,916,516 were measured at cost less credit risk adjustment in 2018 as per note iii on page 195.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 20. Financial instruments (continued)

- iii. In the prior year where the fair value of a financial asset could not be reliably estimated, the fair value of the financial asset was approximated at cost adjusted for credit risk (see note 2, Financial Instruments, Impairment of Financial Assets).
- iv. 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.
- v. The fair value of amounts owed to our principal shareholder, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date. Financial Transaction Reserve (FTR) funding is not carried at fair value (see Liquidity Risk Management section for fair value consideration of FTR funding)
- vi. The fair value of the HTB-W loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate funding rate. A number of observable inputs have been used in the calculation of the fair value which has resulted in a £26,785,103 gain (2018: £3,878,097 gain) on the fair value of the shared equity loan book. The model does however, use the House Price Index (HPI) as a key input. There is no observable data for the HPI for the 25 year duration of the model. Sensitivity analysis on this input indicates a range of possible outcomes, and highlights the sensitivity of this particular input on the result. A movement of 1% above or below the HPI rate used could result in an increase in value of £22.429m

or a decrease in value of £20.168m. The 1% would equate to approximately 33% of the HPI rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity calculation. The discount factor used is based on a comparable housing bond and sensitivity analysis on this input also indicates a range of possible outcomes, and highlights the sensitivity of this input. A movement of 1% above or below the discount rate used could result in a decrease in value of £20.827m or an increase in value of £23.598m. The 1% would equate to approximately 33% of the discount rate utilised in the model and was considered by the directors to be a reasonable figure on which to base the sensitivity analysis.

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

Level	Hierarchy for fair value disclosures
1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
3	Inputs for the asset or liability that are not based on observable market data. Investments in non-quoted securities are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser.



# Notes to the consolidated financial statements

For the year ended 31 March 2019

## 20. Financial instruments (continued)

### Reconciliation of Level 3 measurements of financial assets

	FVTPL Shared-equity loan book		FVTPL Other Financial Assets	
	2019 £	2018 £	2019 £	2018 £
Balance 1 April	180,264,477	111,159,332	41,567,660	32,866,942
Additions	73,934,788	73,527,927	17,491,639	19,109,028
Disposals	(17,444,585)	(8,300,879)	(2,899,913)	(150,000)
Revaluations	26,785,103	3,878,097	(16,403,743)	(10,258,310)
Transfers into Level 3	70,262,631	-	35,093,756	-
<b>Balance 31 March</b>	<b>333,802,414</b>	<b>180,264,477</b>	<b>74,849,399</b>	<b>41,567,660</b>

#### Other price risks

The Group is exposed to equity price risks arising from equity investments. The shares included above represent investments in quoted equity securities that present the Group with opportunity for return through dividend income and trading gains.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The majority of financial liabilities are amounts owed to the principal shareholder and relate to Financial Transaction Reserve Funding (FTR). The current balances in respect of FTR funding are repayable by 31 March 2040. These borrowings are non-secured and non interest bearing.

#### Market risk

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

#### Financial Transaction Reserve Funding

Financial Transaction Reserve Funding (FTR) is provided by the Welsh Government on an interest free basis and is held at amortised cost in the balance sheet. If you were to fair value the borrowings using a discount rate equivalent to an external borrowings rate of 3.75% (2018:4.06%) it would be £455,119,351 (2018:£192,470,334) which represents an increase of £41,934,351 (2018: decrease £80,966,666) in comparison to the carrying value.

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 21. Capital and reserves

#### Called up share capital – Group and Company

	2019	2018
	£	£
<b>Authorised and allotted:</b>		
50,000 ordinary shares of £1 each	50,000	50,000
<b>Called up, allotted and part paid:</b>		
50,000 ordinary shares, 25p part paid	12,500	12,500

The Company has one class of £1 ordinary shares which carry no right to fixed income. All shares have equal rights in terms of voting and dividends.

#### Non-Controlling Interest

Movements during the year were

	2019	2018
	£	£
Balance at the beginning of the year	-	-
Non-Controlling Interest Capital Contribution	2,608,408	-
Share of profit for the year	364,575	-
<b>Balance at the end of the year</b>	<b>2,972,983</b>	-

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

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 22. Operating lease arrangements

Group and Company	2019	2018
	£	£
Payments under operating leases recognised as an expense in the year	1,012,320	415,820

At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of office properties which fall due as follows:

	2019	2018
	£	£
Within one year	572,090	518,535
In the second to fifth years inclusive	1,878,024	1,984,728
After five years	2,295,261	2,749,759
	<b>4,745,375</b>	<b>5,253,022</b>

The operating lease payments represent rentals payable by the Group for its office properties. None of the figures in the above table has been discounted to present value

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 23. Notes to the consolidated cash flow statement

	2019	2018
	£	£
<b>(Loss)/Profit for the year</b>	<b>(10,153,707)</b>	<b>4,550,154</b>
<b>Adjustments for:</b>		
Investment revenues	(713,299)	(294,911)
Other gains and losses	-	5,281,132
Finance costs	30,000	207,229
Depreciation of property, plant and equipment	196,699	303,060
Loss/(gain) on sale of available-for-sale financial assets	-	(615,724)
Reversal of deferred income revenue	(25,388,761)	(21,980,230)
IFRS 9 Transitional adjustments	2,775,071	-
Impairments against loans and receivables	-	4,724,905
Impairments against financial assets classified as available-for-sale	-	8,928,740
Impairments/(reversals) against financial assets classified as fair value through profit or loss	-	504,374
<b>Operating cash flows before changes in net operating assets</b>	<b>(33,253,997)</b>	<b>1,608,729</b>
Increase in receivables	31,133,157	(735,782)
Increase in payables	29,011,042	218,861,519
Proceeds on disposal of available-for-sale investments	-	845,299
Acquisition of investment in available-for-sale financial asset	-	(18,696,083)
Net loans made	(105,614,788)	(80,871,844)
<b>Cash (consumed)/generated during operations</b>	<b>(78,724,586)</b>	<b>121,011,838</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2019

### 24. Related party transactions

Transactions between the Company and its Directors are disclosed in note 7, Information Regarding Directors and Employees.

Transactions between the Company and its principal shareholder are disclosed in note 17, Other Financial Liabilities.

#### Transactions with Subsidiaries

The Company has taken advantage of the exemption conferred by paragraph 25 of IAS 24 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries. Transactions between the Company and its subsidiaries, have been eliminated on consolidation.

Transactions between the Group and its subsidiaries, which are not 100% owned, during the year are as follows:

During the year the investments held in the Management Succession fund were transferred into the newly created Management Succession (Wales) Limited Partnership. Assets with a carrying value of £5,272,023 were transferred for consideration of £4,281,000 giving rise to a loss on disposal in DBW Investments (12) Limited of £991,023 and a corresponding gain in Management Succession (Wales) Limited Partnership.

Since this transfer fund management fees have been charged totalling £62,500 (2018: £nil), these fees are charged at the Group's usual prices.

#### Transactions with Associates

Transactions between the Group and its associates during the year are as follows:

Sale of services		Interest Charged		Loans to related parties		Equity investments in associates	
2019	2018	2019	2018	2019	2018	2019	2018
£	£	£	£	£	£	£	£
9,600	19,200	91,252	109,192	1,306,223	1,489,151	630,220	628,360

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

The amounts owed above all relate to one associate, at 31 March 2019 these balances were 100% provided due to impairment (2018: 100%).

### 25. Ultimate controlling party

The ultimate parent and controlling party and the smallest and largest group in which the results of Development Bank of Wales plc are included is Welsh Ministers. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays

Park, Cardiff, CF10 3NQ. The consolidated financial statements of Development Bank of Wales plc may be obtained from its registered address, Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL.

## Company balance sheet

As at 31 March 2019

	Note	2019	2018
		£	£
<b>Fixed assets:</b>			
Tangible assets	13	517,086	355,862
Investments	29	545,875,204	566,481,621
		<b>546,392,290</b>	<b>566,837,483</b>
<b>Current assets:</b>			
Debtors: due within one year	30	2,669,527	546,876
Cash at bank and in hand		120,613,936	92,818,582
		<b>123,283,463</b>	<b>93,365,458</b>
Creditors: amounts falling due within one year	31	(154,222,122)	(189,085)
<b>Net current (liabilities)/assets</b>		<b>(30,938,659)</b>	<b>93,176,373</b>
<b>Total assets less current liabilities</b>		<b>515,453,631</b>	<b>660,013,856</b>
Creditors: amounts falling due after more than one year	32	(424,941,203)	(574,613,006)
<b>Net assets excluding pension liability</b>		<b>90,512,428</b>	<b>85,400,850</b>
Pension surplus/(liability)	18	130,000	(480,000)
<b>Net assets including pension liability</b>		<b>90,642,428</b>	<b>84,920,850</b>
<b>Capital and reserves:</b>			
Public equity		117,151,017	112,180,780
Called up share capital	21	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(26,531,189)	(27,282,530)
<b>Shareholders' funds</b>		<b>90,642,428</b>	<b>84,920,850</b>

The Company reported a profit for the financial year ended 31 March 2019 of £161,341 (2018: profit of £389,173).

The financial statements of Development Bank of Wales plc, registered number 04055414, were approved by the Board of Directors on 26 June 2019.

Signed on its behalf by



G Thorley  
Director

**Company statement of changes in equity**  
**For the year ended 31 March 2019**

	Public equity	Share capital	Capital reserve	Profit and loss account	Total
	£	£	£	£	£
<b>Balance at 31 March 2017</b>	<b>112,240,780</b>	<b>12,500</b>	<b>10,100</b>	<b>(27,831,703)</b>	<b>84,431,677</b>
Profit for the financial year	-	-	-	389,173	389,173
Actuarial gain for the year	-	-	-	160,000	160,000
Decrease in Public equity	(60,000)	-	-	-	(60,000)
<b>Balance at 31 March 2018</b>	<b>112,180,780</b>	<b>12,500</b>	<b>10,100</b>	<b>(27,282,530)</b>	<b>84,920,850</b>
Profit for the financial year	-	-	-	161,341	161,341
Actuarial gain for the year	-	-	-	590,000	590,000
Increase in Public Equity	4,970,237	-	-	-	4,970,237
<b>Balance at 31 March 2019</b>	<b>117,151,017</b>	<b>12,500</b>	<b>10,100</b>	<b>(26,531,189)</b>	<b>90,642,428</b>

## Notes to the company financial statements

For the year ended 31 March 2019

### 26. Accounting policies

#### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention and under the going concern assumption. Further details of the directors' considerations in relation to going concern are included in the Director's report on page 110.

Development Bank of Wales plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and registered in Wales. The address of the registered office is given on page 1.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council and prepares its financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework'.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash-flow statement, standards not yet effective and certain related party transactions.

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

#### Investments

Equity investments are treated as fixed assets and stated in the balance sheet at cost less any provision for impairment. Accounts identified as being in difficulty are specifically provided and a general provision is made on all other financial statements.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Tangible fixed assets are depreciated on a straight-line basis over their expected useful economic lives. The rates of depreciation are as follows:

Assets	Depreciation Period
Fixtures and fittings	3 to 4 years
Computer Equipment	3 to 5 years

#### Revenue Recognition

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



# Notes to the company financial statements

For the year ended 31 March 2019

## 26. Accounting policies (continued)

### European Regional Development Fund ("ERDF") Grant Income

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

Where grants for the partial funding of investments are received in advance of defrayal, a liability to repay the grants is recognised until such time as the cash is utilised in accordance with the terms of the offer documentation.

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

### Taxation

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

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

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

## Notes to the company financial statements

For the year ended 31 March 2019

### 26. Accounting policies (continued)

#### Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within DBW FM Limited (Small Loans Fund), DBW Investments (3) Limited (Rescue and Restructuring Fund, Capital Growth Fund, TVI Interim Fund, Tech Seed Funds I & II, Wales Co-Invest Fund, Wales Flexible Investment Fund and Local Energy Fund), DBW Investments (4) Limited (the Creative Industries Fund), DBW Investments (5) Limited (the Interim Fund), DBW Investments (6) Limited (the JEREMIE Fund), DBW Investments (8) Limited (The Wales SME Investment Fund), DBW Investments (9) Limited (the Welsh Life Sciences Fund), DBW Investments (10) Limited (the Wales Micro-business Loan Fund), DBW Investments (11) Limited (the Wales Property Fund and Wales Stalled Sites Fund), DBW Investments (12) Limited (Wales Management Succession Fund) and DBW Investments (14) Limited (Wales Business Fund).

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 Minister's own accounting arrangements the funds are regarded as being an investment.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### Retirement Benefits

The Group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taf County Borough Council. The Group financial statements for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the Group's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The Group's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately 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 Group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taf County Borough Council. Employer contributions in relation to this scheme are accounted for within other administrative expenses.

# Notes to the company financial statements

## For the year ended 31 March 2019

### 27. Information regarding directors and employees

	2019	2018
	£	£
<b>Directors' emoluments:</b>		
Emoluments	527,306	424,797
Pension costs	29,917	5,721

<b>Remuneration of highest paid director</b>	<b>200,349</b>	<b>193,333</b>
--	----------------	----------------

One director of the company and three directors of subsidiary companies were members of the defined benefit pension scheme (2018: one and four).

#### Aggregate payroll costs (excluding directors):

Wages and salaries	1,774,201	1,687,765
Social security costs	233,045	213,698
Pension costs	215,460	234,022
	<b>2,222,706</b>	<b>2,135,485</b>
	<b>No.</b>	<b>No.</b>

The monthly average number of persons employed (excluding directors) – administration	51	44
---	----	----

## 28. Profit for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year

amounted to £161,341 (2018: profit of £389,173). Auditor's remuneration for audit services for the Company was £66,490 (2018: £40,100) and for other taxation advisory services for the Company was £12,257 (2018: £45,045).

## Notes to the company financial statements

For the year ended 31 March 2019

### 29. Investments

	Shares in subsidiary undertaking	Investments in and loans to subsidiary undertakings	Total 2019	Total 2018
	£	£	£	£
At 1 April	155,027	566,326,594	566,481,621	430,325,417
Additions	-	272,152,811	272,152,811	138,401,256
Disposals	-	(292,759,228)	(292,759,228)	(2,245,052)
<b>At 31 March</b>	<b>155,027</b>	<b>545,720,177</b>	<b>545,875,204</b>	<b>566,481,621</b>

The Company's investments in group companies relate to:

	Principal place of Business	Holding
<b>Direct Subsidiaries:</b>		
DBW Holdings Limited	United Kingdom	£1 ordinary shares
DBW Services Limited	United Kingdom	£1 ordinary shares
DBW Managers Limited	United Kingdom	£1 ordinary shares

# Notes to the company financial statements

For the year ended 31 March 2019

## 29. Investments (continued)

	Principal place of Business	Holding
<b>Indirect Subsidiaries:</b>		
DBW FM Limited	United Kingdom	£1 ordinary shares
DBW Investments (2) Limited	United Kingdom	£1 ordinary shares
DBW Investments (3) Limited	United Kingdom	£1 ordinary shares
DBW Investments (4) Limited	United Kingdom	£1 ordinary shares
DBW Investments (5) Limited	United Kingdom	£1 ordinary shares
DBW Investments (6) Limited	United Kingdom	£1 ordinary shares
DBW Investments (8) Limited	United Kingdom	£1 ordinary shares
DBW Investments (9) Limited	United Kingdom	£1 ordinary shares
DBW Investments (10) Limited	United Kingdom	£1 ordinary shares
DBW Investments (11) Limited	United Kingdom	£1 ordinary shares
DBW Investments (12) Limited	United Kingdom	£1 ordinary shares
DBW Investments (14) Limited	United Kingdom	£1 ordinary shares
Management Succession Fund (GP) Limited	United Kingdom	£1 ordinary shares
Help To Buy (Wales) Limited	United Kingdom	£1 ordinary shares
Angels Invest Wales Limited	United Kingdom	£1 ordinary shares
Economic Intelligence Wales Limited	United Kingdom	£1 ordinary shares
FW Capital Limited	United Kingdom	£1 ordinary shares
TVUPB Limited	United Kingdom	£1 ordinary shares
FW Development Capital (North West) GP Limited	United Kingdom	£1 ordinary shares
NW Loans Limited	United Kingdom	£1 ordinary shares
North West Loans Limited	United Kingdom	£1 ordinary shares
TVC Loans NPIF GP Limited	United Kingdom	£1 Ordinary shares
North West Loans NPIF GP Limited	United Kingdom	£1 ordinary shares
FWC Loans (NW) Limited	United Kingdom	£1 ordinary shares
FWC Loans (TVC) Limited	United Kingdom	£1 ordinary shares
NE Growth 500 LP Limited	United Kingdom	£1 ordinary shares
North East Property GP Limited	United Kingdom	£2 ordinary shares
Management Succession (Wales) Limited Partnership	United Kingdom	See on page 209

## Notes to the company financial statements

For the year ended 31 March 2019

### 29. Investments (continued)

The registered office of the subsidiaries noted above is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL except for Help To Buy (Wales) Limited whose registered office is 1 Capital Quarter, Tyndall Street, Cardiff, CF10 4BZ.

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

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

Summarised financial information in relation to WMSF LP:

	2019
	£
Turnover	126,632
Operating Loss	(79,625)
Profit for the period	911,438
<b>Profit Attributable to non-controlling interest</b>	<b>364,575</b>
Fixed Assets	910,324
Current Assets	7,064,250
Creditors: Amounts falling due within one year	(173,723)
Net Assets	7,800,851
<b>Accumulated non-controlling interest</b>	<b>2,972,983</b>

# Notes to the company financial statements

For the year ended 31 March 2019

## 30. Debtors

	2019	2018
	£	£
<b>Debtors due within one year:</b>		
Trade debtors	8,873	9,053
Amount owed by group undertakings	745,632	60,000
Other debtors	-	52,961
Prepayments and accrued income	367,022	424,862
Amounts owed by principal shareholder	1,548,000	-
	<b>2,669,527</b>	<b>546,876</b>

## 31. Creditors: amounts falling due within one year

	2019	2018
	£	£
Amounts owed to group undertakings	119,748,000	-
Amounts owed to principal shareholder	33,000,000	-
Trade creditors	75,818	58,331
Other taxes and social security	91,155	55,640
Other creditors	23,058	75,114
Accruals	1,284,091	-
	<b>154,222,122</b>	<b>189,085</b>

## 32. Creditors: amounts falling due after more than one year

	2019	2018
	£	£
Amounts owed to group undertakings	2,889,000	2,889,000
Amount due to principal shareholder	413,185,000	566,196,229
Deferred income	8,867,203	5,527,777
	<b>424,941,203</b>	<b>574,613,006</b>

Amounts owed to the principal shareholder relate to Financial Transaction Reserve funding and is repayable by 31 March 2040. These borrowings are non-secured and are non-interest bearing.

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

## Appendix A to the annual report and financial statements

Table A: high-level analysis of 2019 and  
2018 consolidated income statement:

	2019			
	Services	Funds	Consolidation adjustment	Group (per the financial statements)
	£m	£m	£m	£m
Revenue	25.9	37.1	(22.6)	40.4
Costs	(23.0)	(50.1)	22.6	(50.5)
Surplus	2.9	(13)	0	(10.1)
2018				
Revenue	24.5	28.6	(19.1)	34.0
Costs	(19.8)	(28.8)	19.1	(29.5)
Surplus	4.7	(0.2)	0	4.5

The third column in the above table shows the consolidation accounting adjustments made. When we present group financial statements, we need to adjust to eliminate any trading between group subsidiaries. Eliminating figures due to trading between subsidiaries is a standard accounting practice. This adjustment is invisible

in our group financial statements presented later in this report, but we have included it here to show how our services businesses interacts with our funds businesses. This adjustment removes £22.6m (FY18: £19m) from our services businesses revenue accounts and from our funds and services businesses costs financial statements.



## Appendix A to the annual report and financial statements (continued)

The revenue total in Column 4 of Table A reconcile back to the Consolidated Income

Statement ("CIS") on page 139 as follows:

	2019	2018
	£m	£m
<b>All revenue items below are on the face of the CIS:</b>		
Revenue	13.7	14.8
Release of ERDF Grant income	25.4	22.0
Contribution from shareholder	-	1.7
(Losses)/gains from the disposal of equity investments	0.6	(0.5)
Investment revenue	0.8	0.3
Finance costs	(0.1)	(0.2)
Fair value gains on shared equity loans	-	(4.1)
<b>Total revenue per Table A</b>	<b>40.4</b>	<b>34.0</b>

The costs and surplus total in Column 4 of Table 4 ties back directly to the

Total administrative expenses and profit shown in the CIS on page 139.

## Appendix A to the annual report and financial statements (continued)

Table B: Services 2019 and 2018  
Income statement analysis:

	2019	2018	Reference
	£m	£m	
Fund management income	25.9	22.8	Note (i) after Table C
Grant in Aid received	-	1.7	Page 171 note 5
<b>Total revenue</b>	<b>25.9</b>	<b>24.5</b>	<b>Table (A)</b>
Staff costs	(10.5)	(9.2)	Page 173 note 7
Other costs	(12.5)	(10.6)	Note (ii) after Table C
<b>Total costs</b>	<b>(23.0)</b>	<b>(19.8)</b>	<b>Table (A)</b>
Surplus	2.9	4.7	Table (A)

**Table C: Funds 2019 and 2018**  
Income statement analysis:

	<b>2019</b>	<b>2018</b>	<b>Reference</b>
	£m	£m	
Fees received	3.5	3.0	Note (i) below
Dividends and interest income	6.9	8.0	Page 171 note 5
ERDF Grant release	25.4	22.0	Page 171 note 5
Equity realisations	0.6	0.2	Page 171 note 5
Net Treasury	0.7	0.1	Page 174 sum of amounts shown in notes 8 and 9
Unrealised loss on HTB-W loans	-	(5.2)	Consolidated income statement page 139
<b>Total Revenue</b>	<b>37.1</b>	<b>28.6</b>	<b>Table (A)</b>
Non consolidated fund fair value (losses)/gains	(14.8)	0	
Other fair value (losses)/gains	(14.9)	0	
Provisions made	(2.3)	(14.4)	Page 172 note 6 – sum of the three impairment costs
Fund Management fees paid	(17.0)	(13.4)	Note (ii) below
Other costs	(1.1)	(0.9)	Note (ii) below
<b>Total Costs</b>	<b>(50.1)</b>	<b>(28.8)</b>	<b>Table (A)</b>
(Deficit)	(13)	(0.2)	Table (A)

**Note (i)**

Fees shown in Note 5 on page 171 of the Development Bank of Wales Group financial statements is the sum of the Fund Management income per Table B less the consolidation adjustment plus the funds' fees per Table C.

**Note (ii)**

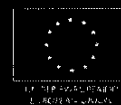
Other administrative expenses shown in the consolidated income statement on page 139 of the Development Bank of Wales Group financial statements is the sum of staff and other costs per Table B plus Fund Management Fees and Other Costs per Table C less the consolidation adjustment.



BANC DATBLYGU CYMRU  
DEVELOPMENT BANK OF WALES

[bancdatblygyu.cymru](http://bancdatblygyu.cymru)  
[developmentbank.wales](http://developmentbank.wales)

Development Bank of Wales Plc (Banc Datblygu Cymru eidd) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers, and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at [developmentbank.wales](http://developmentbank.wales)



**Cronfa Datblygu  
Rhanbarthol Ewrop  
European Regional  
Development Fund**