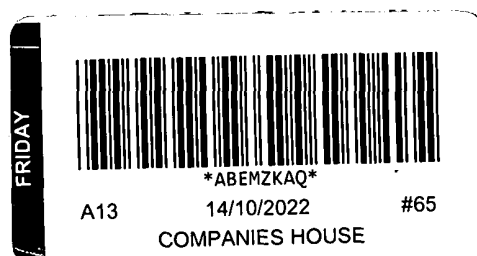


HELP TO BUY (WALES) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2022



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

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	4
Independent auditor's report	5
Profit and loss account	9
Balance sheet	10
Statement of changes in equity	11
Notes to the financial statements	12

HELP TO BUY (WALES) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Staziker
E Jones
G Thorley
M Owen
N Maguinness

COMPANY SECRETARY

J Oates

REGISTERED OFFICE

Unit J
Yale Business Village
Ellice Way
Wrexham
LL13 7YL

BANKERS

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

AUDITOR

Mazars LLP
Statutory Auditor
30 Old Bailey
London
EC4M 7AU

DIRECTORS' REPORT

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

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company provides shared equity loans of up to 20% of the purchase price, to individuals wishing to purchase a property under a Welsh Government initiative similar to those operating in England and Scotland. Help to Buy (Wales) launched in November 2013, with builder registration, and home buyers were able to apply to the scheme from 2 January 2014.

Originally, a £170 million scheme, its aim was to assist in the purchase of 5,000 homes over a two and a half year period. Following the success of the scheme the Welsh Government launched Phase 2 of the scheme in July 2016, enhancing the fund by a further £280 million. This was increased in March 2020 with an additional £36.4m being committed and again in June 2020 with a further £35m. A third phase of the scheme worth £185m was agreed in March 2021, with the final £84m of this commitment received in this financial year.

During the year, the Company made 1,208 (2021: 1,491) investments totalling £53.9m (2021: £65m).

GOING CONCERN

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

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

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

RUSSIAN FORCES ENTERING UKRAINE

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

DIRECTORS

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

DIRECTORS' INDEMNITIES

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

POLITICAL DONATIONS

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

SUBSEQUENT EVENTS

There were no subsequent events to report.

DIRECTORS' REPORT

AUDITOR

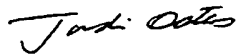
In the case of each of the persons who are directors of the Company at the date when this report is approved:

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

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

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

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



J Oates
Company Secretary
21 September 2022

HELP TO BUY (WALES) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HELP TO BUY
(WALES) LIMITED**

Opinion

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

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HELP TO BUY
(WALES) LIMITED**

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HELP TO BUY
(WALES) LIMITED**

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation and anti-money laundering regulation.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HELP TO BUY
(WALES) LIMITED**

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

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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

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

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

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

Use of the audit report

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



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

HELP TO BUY (WALES) LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 March 2022

	Notes	2022 £	2021 £
Turnover	3	1,355,856	788,531
Administrative expenses	4	(3,396,540)	(2,994,400)
Other operating income:			
Fair value /gain on shared equity assets	6	4,223,434	31,270,987
Realised gain from the disposal of equity investments		11,134,453	4,004,536
OPERATING PROFIT		<u>13,317,203</u>	<u>33,069,654</u>
Interest receivable and similar income	7	227,946	310,725
Fair value /(loss) on amounts payable to parent company held at fair value	8	<u>(15,357,887)</u>	<u>(35,275,523)</u>
LOSS BEFORE TAXATION		<u>(1,812,738)</u>	<u>(1,895,144)</u>
Tax on loss	9	-	-
TOTAL LOSS AND COMPREHENSIVE EXPENDITURE FOR THE FINANCIAL YEAR		<u><u>(1,812,738)</u></u>	<u><u>(1,895,144)</u></u>

All activities derive from continuing operations.

There have been no recognised gains and losses for the current or prior financial year other than as stated in the profit and loss account. Accordingly, no separate Statement of Comprehensive Income is presented.

HELP TO BUY (WALES) LIMITED

BALANCE SHEET As at 31 March 2022

	Note	2022 £	2021 £
NON-CURRENT ASSETS			
Financial Assets at fair value	10	405,675,444	407,947,929
Other debtors	10	-	169,167
		<u>405,675,444</u>	<u>408,117,096</u>
CURRENT ASSETS			
Trade and other receivables	11	273,916	802,638
Cash at bank and in hand		<u>285,572,264</u>	<u>265,811,488</u>
		<u>285,846,180</u>	<u>266,614,126</u>
CURRENT LIABILITIES	12	<u>(2,133,002)</u>	<u>(1,732,401)</u>
NET CURRENT ASSETS		<u>283,713,178</u>	<u>264,881,725</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>689,388,622</u>	<u>672,998,821</u>
NON-CURRENT LIABILITIES	12	<u>(699,242,267)</u>	<u>(681,039,728)</u>
NET LIABILITIES		<u>(9,853,645)</u>	<u>(8,040,907)</u>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Profit and loss account		<u>(9,853,646)</u>	<u>(8,040,908)</u>
TOTAL SHAREHOLDER'S FUNDS		<u>(9,853,645)</u>	<u>(8,040,907)</u>

The financial statements of Help to Buy (Wales) Limited, registered number 08708403, were approved by the Board of Directors and authorised for issue on 21 September 2022.

Signed on its behalf by



M Owen
Director

HELP TO BUY (WALES) LIMITED**STATEMENT OF CHANGES IN EQUITY**
For the year ended 31 March 2022

	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2020	<u>1</u>	<u>(6,145,764)</u>	<u>(6,145,763)</u>
Total comprehensive loss for the year	<u>-</u>	<u>(1,895,144)</u>	<u>(1,895,144)</u>
Balance at 31 March 2021	<u>1</u>	<u>(8,040,908)</u>	<u>(8,040,907)</u>
Total comprehensive loss for the year	<u>-</u>	<u>(1,812,738)</u>	<u>(1,812,738)</u>
Balance at 31 March 2022	<u>1</u>	<u>(9,853,646)</u>	<u>(9,853,645)</u>

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

1. ACCOUNTING POLICIES

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

Basis of accounting

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

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

The financial statements have been prepared on the historical cost basis and on a going concern basis as discussed in the Director's report on page 2, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

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

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of a statement of cash flows, standards not yet effective, revenue disclosures, financial instruments and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Development Bank of Wales plc. The group financial statements of Development Bank of Wales plc are available to the public and can be obtained as set out in Note 15.

Taxation

Current tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

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

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

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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

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

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

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

Current tax and deferred tax for the year

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

Revenue recognition

Revenue represents administration fees and interest receivable on loans. Revenue is recognised over the period to which it relates. Interest does not become payable on the entity's portfolio of shared equity loans until five years following the anniversary of completion.

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is 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.

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments

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

Financial assets

Shared Equity Loans

Shared equity loans are held at fair value through profit and loss (FVTPL) and are measured at fair value as at the balance sheet date.

The fair value gain or loss in respect of shared equity loans and the realised gain or loss in respect of disposals are recognised in the profit and loss and account but are not retained by the Company. The total gain or loss is shown as an amount payable to the parent company and the amount is transferred to the balance outstanding with Welsh Government at each year end.

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

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Shared Equity Loans (continued)

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 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.

More detail on the measurement of shared equity loans can be found in Note 2, Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

Loans and advances to customers

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

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

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.

Impairment of financial assets

The shared equity portfolio is not interest bearing at present and there are no contractual repayments of principal. Impairment of the shared equity book is not directly considered; however, it is indirectly considered as part of the overall valuation of the shared equity book. A number of indicators of impairment are considered and used in the fair value model, notably a level of anticipated forced sales, along with a percentage discount on those forced sales.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Ultimate Parent Company liability

The amount owed to Welsh Government is held at FVTPL.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Related party transactions

In accordance with the exemption conferred by paragraph 8 (j) of FRS 101 "Reduced Disclosure Framework" the Company has not disclosed transactions with other Group companies, where 100% of the voting rights are controlled by the Group.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying the Company's accounting policies

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

Deferred tax

A deferred tax asset has not been recognised on the basis that there is insufficient certainty over the evidence of the recovery of these tax losses in future.

If deferred tax assets were recognised in full this would amount to an asset of £781,889 (2021: £536,573) being recognised before any potential liabilities are taken into account.

Key sources of estimation uncertainty

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

Help to Buy-Wales shared equity loans

The fair value of the shared equity loan book has been calculated by setting out anticipated future cash flows and discounting these at an appropriate rate. A number of observable inputs have been used in the calculation which results in a £4.2m gain (2021: £31.3m gain) on the fair value of the shared equity loan book. This calculation uses a number of judgemental assumptions, notably a forecast for future house price movement and a discount rate based on a risk free rate and comparable housing bonds.

House price forecasts

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

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

Base case scenario

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

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Help to Buy - Wales shared equity loans (continued)

Upside scenario

This scenario shows similar growth to the base case over the next reporting period. Although growth slows in subsequent years it remains positive before returning to a long term steady growth rate from FY27. If this forecast was used to model fair value it would result in an overall gain of £17.9m, a £13.9m increase on the reported fair value.

Downside scenario

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

HPI sensitivity scenarios

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

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

Discount rate

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

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

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

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

All other inputs have been tested for sensitivity and do not have a material impact on the valuation of the shared equity book. Actual gains and losses on the portfolio are transferred back to Welsh Government so the overall impact to the Group is limited.

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

3. TURNOVER

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

	2022 £	2021 £
Fees	111,342	107,261
Loan interest	1,108,189	681,270
Other income	136,325	-
	<u>1,355,856</u>	<u>788,531</u>
Turnover		

4. OPERATING PROFIT

Operating profit has been arrived at after charging:

	2022 £	2021 £
Impairment	<u>-</u>	<u>-</u>
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<u>29,000</u>	<u>29,000</u>
Tax compliance	<u>-</u>	<u>2,841</u>

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any emoluments from the Company in the current or prior financial year. It is not practicable to allocate their remuneration between their services as directors of this Company and other Group companies. Further details of directors' remuneration are presented in the financial statements of Development Bank of Wales plc and DBW FM Limited.

The directors were the only employees of the Company during the current and prior financial year.

6. FAIR VALUE GAIN

	2022 £	2021 £
Fair value gain on assets held at fair value	<u>4,223,434</u>	<u>31,270,987</u>

Information regarding the measurement of fair value is contained in Note 2.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2022 £	2021 £
Interest receivable:		
- Bank deposits	<u>227,946</u>	<u>310,725</u>

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

8. FAIR VALUE (LOSS) ON AMOUNTS PAYABLE TO PARENT COMPANY HELD AT FAIR VALUE

	2022 £	2021 £
Fair value (loss) on amounts payable to parent company held at fair value	(15,357,887)	(35,275,523)

The fair value gain or loss in respect of shared equity loans and the realised gain or loss in respect of disposals are recognised in the profit and loss and account but are not retained by the Company. The total gain or loss is shown as an amount payable to the parent company and the amount is transferred to the balance outstanding with Welsh Government at each year end.

Information regarding the measurement of fair value is contained in Notes 2 & 13.

9. TAX

	2022 £	2021 £
Current taxation		
Total tax charge for the year	-	-
The charge for the year can be reconciled to the loss in the profit and loss account as follows:		
	£	£
Loss before tax	(1,812,738)	(1,895,144)
Tax on loss at standard UK corporation tax rate of 19% (2021: 19%)	(344,420)	(360,077)
Effects of:		
Deferred tax not recognised	344,420	3,171
Effect of Group Relief/other reliefs	-	356,906
Total taxation charge	-	-

A net deferred tax asset of £781,889 (2021: £536,573) has not been recognised in respect of deductible temporary differences and unused tax losses.

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

10. FINANCIAL ASSETS AT FAIR VALUE

	2022 £	2021 £
Shared equity assets	405,675,444	407,947,929

The Company enters into agreements to shared-equity loan agreements with buyers of new build homes in Wales. The average term of loans entered into is twenty-five years. Interest is charged from the sixth anniversary of the date the loan is drawn. Interest in year 6 is charged at 1.75% and rises by RPI + 1% in subsequent years.

Information regarding the measurement of fair value is contained in Notes 2 & 13.

Before accepting any new customer, the Company follows its investment operating guidelines to assess the affordability of the shared equity loan to the customer.

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

11. TRADE AND OTHER RECEIVABLES

	2022 £	2021 £
Trade and other receivables		
Current assets		
Trade debtors	80,589	67,151
Less impairment	<u>(57,678)</u>	<u>(67,953)</u>
	22,911	(802)
 Other debtors	 <u>251,005</u>	 <u>803,440</u>
	<u>273,916</u>	<u>802,638</u>
 Non-Current assets		
Other debtors	 <u>-</u>	 <u>169,167</u>
	<u>-</u>	<u>169,167</u>

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

12. FINANCIAL LIABILITIES

	2022 £	2021 £
Trade and other payables		
Current liabilities:		
Trade creditors	963	459
Accruals	42,039	41,942
Amounts owed to parent company	<u>2,090,000</u>	<u>1,690,000</u>
	<u>2,133,002</u>	<u>1,732,401</u>
 Non-Current Liabilities:		
Amounts owed to ultimate parent company	<u>699,242,267</u>	<u>681,039,728</u>

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

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

Amounts owed to ultimate parent company is in relation to Financial Transaction Reserve money received from the Welsh Government and is held at fair value. No formal repayment terms are in place with the Welsh Government at present; however, there is no expectation that this will be repaid within the next 25 years. This amount is not interest bearing.

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

13. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Capital risk management

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

Categories of financial instruments

The Company's financial instruments comprise shared equity loans to individuals on behalf of the Welsh Government under the Help to Buy Wales scheme and trade receivables and payables arising from its operations.

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.

Carrying value as at 31 March 2022 £	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities at FVTPL	Total
Assets				
Cash and cash equivalents		285,572,264	-	285,572,264
Shared equity loans	i	-	405,675,444	405,675,444
Other receivables	ii	273,916	-	273,916
Total financial assets		<u>285,846,180</u>	<u>405,675,444</u>	<u>691,521,624</u>
Non-financial assets				-
Total assets				<u>691,521,624</u>
Liabilities				
Amounts due to ultimate parent at fair value	iii	-	701,332,267	701,332,267
Trade and other payables	iii	43,002	-	43,002
Total financial liabilities		<u>43,002</u>	<u>701,332,267</u>	<u>701,375,269</u>
Reserves				<u>(9,853,645)</u>
Total reserves and liabilities				<u>691,521,624</u>

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

13. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2021 £	Note	Financial assets and liabilities at amortised cost	Financial assets and liabilities at FVTPL	Total
Assets				
Cash and cash equivalents		265,811,488	-	265,811,488
Shared equity loans	i	-	407,947,929	407,947,929
Other receivables	ii	971,805	-	971,805
Total financial assets		<u>266,783,293</u>	<u>407,947,929</u>	<u>674,731,222</u>
Non-financial assets				-
Total assets				<u>674,731,222</u>
Liabilities				
Amounts due to ultimate parent at fair value	iii	-	682,729,728	682,729,728
Trade and other payables	iii	42,401	-	42,401
Total financial liabilities		<u>42,401</u>	<u>682,729,728</u>	<u>682,772,129</u>
Reserves				<u>(8,040,907)</u>
Total reserves and liabilities				<u>674,731,222</u>

The carrying value of the Company's financial instruments is considered to approximate fair value and hence a separate disclosure of carrying value versus fair value is not presented. The method of valuation of each financial instrument is described overleaf. The following methods and assumptions have been applied in determining fair values.

Note:

- 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. See Note 2 for further information.
- Other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IFRS 9.
- The fair value of amounts owed to our ultimate parent, other third parties and share capital are assumed to approximate to their carrying amount at the balance sheet date.

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

Level Hierarchy for fair value disclosures

- Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- Inputs for the asset or liability that are not based on observable market data. For investments in non-quoted securities, the observable inputs are derived from recent transactional events, where these are considered reliable. These methods include using a recent valuation of the business for a funding round or using a recent offer from a prospective purchaser.

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

13. FINANCIAL INSTRUMENTS (continued)

Reconciliation of level 3 measurements of financial assets

	FVTPL	
	Shared-equity loan book	
	2022	2021
	£	£
Balance 1 April	407,947,929	345,995,504
Additions	53,891,760	64,976,116
Disposals	(60,387,679)	(34,294,628)
Revaluations	4,223,434	31,270,937
Balance 31 March	<u>405,675,444</u>	<u>407,947,929</u>

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The deterioration in the Company's result is not seen as a risk but as part of the normal pattern for businesses involved in making long-term investments.

No analysis of ageing has been provided as the capital element of the shared equity loans is not due for repayment until 25 years from inception.

14. CALLED UP SHARE CAPITAL

	2022	2021
	£	£
Authorised and allotted		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

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

15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

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