Company Registration No. 08516240

DBW INVESTMENTS (11) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2019

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley
D Staziker
M Owen
R Hunter (appointed 21 August 2019)
N Maguinness (appointed 21 August 2019)

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

Deloitte LLP
Statutory Auditor
Cardiff
United Kingdom

DIRECTORS' REPORT

The directors present their Annual Report and Financial Statements for the year ended 31 March 2019.

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 principal activity of the Company is the provision of financial services to Small and Medium Enterprises (''SMEs''). During the year the Company made the following investments across each of its funds.

		Value		Number of New Companies	
	Fund Size (£)	2019 £m	2018 £m	2019	2018
Wales Property Fund I	10m	1.903	9.210	-*	7
Wales Property Fund II	32m **	15.193	1.640	25	7
Wales Stalled Site Fund	32m	3.382	-	5	-
Wales Commercial Property Fund	40m	-	-	-	-
Wales Self Build Fund	40m	-	-	-	-
Total		20.478	10.85	30	14

Note: * No new companies supported, funding represents follow on tranches of investment

** Additional £1.55m of funding was received during the current financial year

The directors expect the general level of activity to increase in the forthcoming year following the launch of the following new funds :

- Wales Stalled Sites Fund (£32 million and a further £8m of grant funding)
- Wales Commercial Property Fund (£40 million),
- Wales Self Build Fund (£40 million)

GOING CONCERN

The directors reviewed the Company's working capital requirements and funds available for investment in the 24 month period ending 31 March 2021. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 31 March 2021.

The directors concluded that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 18 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS

The directors of the Company, who served throughout the financial year and subsequently to the date of the report unless stated otherwise, 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.

DIRECTORS' REPORT

POLITICAL DONATIONS

The company made no political donations during 2019 (2018: nil)

SUBSEQUENT EVENTS

There were no subsequent events to 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. The Group has a policy of tendering the external audit every five years. The last time the audit was tendered was in 2016 when the incumbents Deloitte LLP were reappointed.

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

J Oates
Company Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and 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 DBW INVESTMENTS (11) LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of DBW Investments (11) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 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.

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 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW INVESTMENTS (11) LIMITED

Other information (continued)

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 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 these financial statements.

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

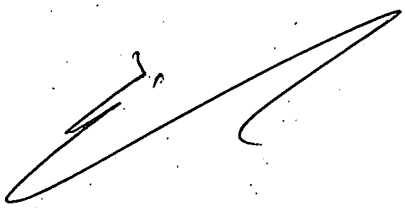
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBW INVESTMENTS (11) LIMITED

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 Rozier (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

25 October 2019

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2019

	Note	2019 £	2018 £
Turnover	4	1,865,198	1,188,958
Administrative Expenses:			
Impairment	5	11,102	-
Other administrative expenses	5	(2,437,133)	(798,687)
Total Administrative expenses		(2,426,031)	(798,687)
(LOSS)/PROFIT BEFORE FINANCE INCOME		(560,833)	390,271
Interest receivable and similar income	7	84,893	464
(LOSS)/PROFIT BEFORE TAXATION		(475,940)	390,735
Tax on (loss)/profit	8	-	-
(LOSS)/PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		(475,940)	390,735

All activities derive from continuing operations.

There have been no recognised gains or 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.

BALANCE SHEET
As at 31 March 2019

	Note	2019 £	2018 £
NON CURRENT ASSETS			
Trade and other receivables	9	20,274,679	8,318,447
CURRENT ASSETS			
Trade and other receivables	9	56,686,165	1,337,772
Cash at bank and in hand		101,083,958	32,168,618
		157,770,123	33,506,390
TOTAL ASSETS		178,044,802	41,824,837
CURRENT LIABILITIES	10	(23,469,326)	(321,421)
NET CURRENT ASSETS		134,300,797	33,184,969
NON CURRENT LIABILITIES	10	(144,085,000)	(30,537,000)
NET ASSETS		10,490,476	10,966,416
CAPITAL AND RESERVES			
Public equity		10,000,000	10,000,000
Called up share capital	12	1	1
Profit and loss account		490,475	966,415
TOTAL SHAREHOLDER'S FUNDS		10,490,476	10,966,416

The financial statements of DBW Investments (11) Limited, registered number 08516240, were approved by the Board of Directors and authorised for issue on 23 September 2019.

Signed on its behalf by

G Thorley
Director

STATEMENT OF CHANGES IN EQUITY
As at 31 March 2019

	Public equity £	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2017	10,000,000	1	575,680	10,575,681
Total comprehensive income for the year	-	-	390,735	390,735
Balance at 31 March 2018	10,000,000	1	966,415	10,966,416
Total comprehensive income for the year	-	-	(475,940)	(475,490)
Balance at 31 March 2019	10,000,000	1	490,475	10,490,476

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES

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

Basis of accounting

DBW Investments (11) 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. 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, revenue disclosures, standards not yet effective 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 13.

Amendments to IFRSs and the new interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements, with the exception of IFRS 9 'financial instruments - classification and measurement'.

Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 from 1 April 2018 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 Company has assessed its sources of revenue and determined that with the exception of some changes in fees that do not have a material impact there was no change in how each revenue source is recognised compared to the previous treatment under IAS 18; therefore there has been no impact on the financial statements on the adoption of IFRS 15 from 1 April 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (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 Company's financial assets:

Financial Instrument	IAS 39 measurement basis	IFRS 9 measurement basis	IAS 39 carrying amount 31 March 18 £	IFRS 9 carrying amount restated 31 March 18 £
Loans and advances to customers	Amortised cost	Amortised cost	9,651,092	9,651,092
Cash and cash equivalents	Amortised cost	Amortised cost	32,168,618	32,168,618

Classification changes have no impact on the carrying amount.

There were no changes to the measurement of financial assets.

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

Going concern

The directors reviewed the Company's working capital requirements and funds available for investment in the 24 month period ending 31 March 2021. The directors were satisfied that sufficient investment funds were available to meet investment demand forecast to 31 March 2021.

The directors concluded that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 18 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 not the accounting profit.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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.

Turnover

Turnover represents interest receivable on loans, application and arrangement fees. All turnover relates to one class of business and arises in the UK on investments made in Welsh businesses.

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

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.

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 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 Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

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

Effective Interest Method

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Effective Interest Method (continued)

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.

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 11.

Reclassifications

If the business model under which the Company 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 Company's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made.

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment (continued)

The Company 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 3, including details on how instruments are grouped when they are assessed on a collective basis.

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 Company uses its portfolio risk grading system to identify credit-impaired financial assets. Indicators of credit-impairment used by the Company are presented in the portfolio grade descriptors on page 22. 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 Company 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 17 for the Company'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 Company recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates 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 Company needs to consider whether an investment is OCI or not. These are, firstly, where the Company invests through the Rescue and Restructure Fund, and secondly, where the Company has a follow-on investment in a company in which the existing investments are already credit impaired. In both cases the Company 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 Company'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 Company does not consider any of its investments made under these circumstances to be originated credit impaired.

This may well lead to situations where the Company 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 FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial Instruments (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 Company considers the following as constituting an event of default:

- The borrower is unlikely to pay its credit obligations to the Company in full
- The borrower has incurred unauthorised arrears

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See note 3 for more details about forward looking information.

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 Company 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.

Modification

The Company renegotiates and reschedules loans to customers for a number of reasons. The most common reason is to assist customers in financial difficulty in order to maximise our collections and minimise the risk of default. 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).

In practice, the Company 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 FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

De-recognition

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

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 Company after deducting all of its liabilities. Equity instruments issued by the Company 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

Critical Judgements in Applying the Company's Accounting Policies

The directors do not consider there to be any critical accounting judgements that could cause a material difference compared to the figures as disclosed in the Annual Report and 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.

Models and assumptions used

The Company 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 1 and 3 for more details on ECL and note 11 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 3 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 3 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Fair value measurement and valuation process

In estimating the fair value of a financial asset or liability, the Company uses market-observable data to the extent that it is available. Where such Level 1 inputs are not available the Company uses valuation models to determine the fair value of its financial instruments. Refer to note 11 for more details on fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

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

Key Sources of Estimation Uncertainty (continued)

Brexit

The principal activity of the Company is the provision of financial support to Welsh businesses and as such, the Company 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 the Company to continue providing support through this uncertainty.

3. CREDIT RISK

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

Credit risk management

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

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

The internal auditors perform regular audits making sure that the established controls and procedures are adequately designed and implemented

Significant increase in credit risk

As explained in note 1, the Company monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (continued)

Internal credit risk ratings

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

This approach was implemented as part of the portfolio controls in order to ensure appropriate strategies are deployed on assets given their particular circumstances, and in order to ensure those assets requiring a specific provision are identified.

Assets are classified as grade A to E, with grades A to C representing 'healthy' assets (albeit with grade C showing signs of underperformance), 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 Company does not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.

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 below 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (continued)

Asset Class	Typical Descriptors		
	Calculation of ECL	12 month	Lifetime
A – Healthy	- Good quality financial information submitted on time - Performance exceeding or more or less in line with business plan - Risk position not increased since investment made - Payments made in timely manner - No negative credit alerts	Arrears < 30 days: **Stage 1**	Arrears > 30 days: **Stage 2**
B – Healthy	- Irregular financial information - Perfmormance is broadly in line with business plan - Performance is within covenants - Payments made in a timely manner - No negative credit alerts	Arrears < 30 days: **Stage 1**	Arrears > 30 days: **Stage 2**
Micro	- Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as we do not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.	Arrears < 30 days: Stage 1	Arrears > 30 days: Stage 2
C – Early Warning	- Financial Information difficult to obtain or not available - Business still appears to be viable but difficult to assess the risk - Unauthorised arrears capitalised - Request for authorised repayment holiday - Satisfactory explanation to negative credit alert - Evidence of creditor payments being stretched - Breach of covenant for two consecutive months		**Stage 2**
D – Sick	- Material underperformance - Business changed direction or strategy - Unauthorised arrears - Breach of covenant for more than two consecutive months - No formal Time to Pay agreement in place with HMRC - Payment plans with creditors breached		**Stage 3**
E – Terminal	- No recovery from D - Objective evidence of risk of loss identified warranting a specific provision		**Stage 3**

Overdue accounts

The Company measures investments in arrears in two ways;

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

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (continued)

Overdue accounts (continued)

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 Company uses forward looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as its measurement of ECL. This assessment and its effect on the loss rates used in the Company'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 Company'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 Company'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 Company'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.

Measurement of expected credit loss (ECL)

The portfolio of loans and advances to customers held at amortised cost has been disaggregated into categories of loans with shared credit risks. The Company then uses a loss rate model to calculate the 12-month and lifetime ECL for each category. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (continued)

Measurement of expected credit loss (ECL) (continued)

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.

Credit quality

Class of financial instrument

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

Concentration by fund	2019 £	2018 £
Property Fund	20,288,404	9,651,092

Concentration by category	2019 £	2018 £
Property Fund	20,288,404	9,651,092

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. **CREDIT RISK (CONTINUED)**

Exposure by class, internal rating and stage

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

Loans and advances to customers at amortised cost

				2019 £
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade A-B: Low to fair risk	19,315,082			19,315,082
Grade A-B: Low to fair risk - in arrears		-		-
Grade C: Early warning		561,722		561,722
Grade C: Early warning – in arrears		-		-
Grade D: Significant increase in credit risk and objective evidence of impairment			411,600	411,600
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears			-	-
Grade E: Objective evidence of impairment			-	-
Total Gross carrying amount	19,315,082	561,722	411,600	20,288,404
Loss allowance *	-	-	-	-
Net Carrying amount	19,315,082	561,722	411,600	20,288,404
Provision coverage ratio	0%	0%	0%	0%

*There is no loss allowance because the probability of the loss given default (LGD) is negligible given the nature of the loan portfolio.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (CONTINUED)

Movement of the gross carrying amount during year

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

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 31 March 2018	5,693,516	3,573,728	383,848	9,651,092
Changes in the gross carrying amount				
- Transfers to stage 1	2,592,693			2,592,693
- Transfers to stage 2		(2,592,693)		(2,592,693)
- Transfers to stage 3			-	-
New financial assets originated	13,360,189	163,679	-	13,523,868
Financial assets derecognised in the year	-	-	-	-
Write offs	-	-	-	-
Other changes	(2,331,315)	(582,993)	27,752	(2,886,556)
Gross carrying amount as at 31 March 2019	19,315,083	561,721	411,600	20,288,404

Other changes in the table above predominantly relates to repayments received during the year that have reduced outstanding balances on assets that remain held at year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

3. CREDIT RISK (continued)

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

4. TURNOVER

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

	2019 £	2018 £
Fees	1,009,744	567,582
Loan interest	855,454	621,376
Turnover	1,865,198	1,188,958

5. OPERATING PROFIT

	2019 £	2018 £
Operating profit has been arrived at after crediting:		
Impairment	11,102	-

The credit relates to an IFRS 9 adjustment. There is no loss allowance because the probability of the loss given default (LGD) is negligible given the nature of the loan portfolio. See note 3 for further information.

Auditor's remuneration

	2019 £	2018 £
Fees payable to the Company's auditor for the audit of the Company's financial statements	6,000	3,150
Tax compliance	2,678	2,600

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any emoluments from the Company in the current or the 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 the prior financial year.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £	2018 £
Interest receivable:		
- Bank deposits	84,893	464

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

8. TAX

	2019 £	2018 £
Current taxation		
UK corporation tax charge for the year	-	-

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

	£	£
(Loss)/Profit before tax	(475,940)	390,735
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2018: 19%)	(90,429)	74,240
Effects of:		
Expenses not deductible	187,863	-
Group relief / other reliefs	(97,434)	(74,240)
Total taxation charge	-	-

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 Company.

9. FINANCIAL ASSETS

Trade and other receivables	2019 £	2018 £
Current assets		
Loans receivable carried at amortised cost	13,725	1,332,645
Amounts owed by parent company	56,548,000	-
Other debtors	124,440	5,127
	56,686,165	1,337,772
Non current assets		
Loans receivable carried at amortised cost	20,274,679	8,318,447
	20,274,679	8,318,447

The Company enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is two 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 6.6% per annum (2018: 7.0%).

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

Before accepting any new customer, the Company follows its investment operating guidelines to assess the potential customer's credit quality and define customer acceptance. Recoverability of loans advanced is reviewed monthly.

Loans receivable disclosed above include amounts which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) continue to be considered recoverable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

10. FINANCIAL LIABILITIES

	2019	2018
Trade and other payables	**£**	**£**
Current liabilities		
Trade creditors	28,814	26,596
Accruals	27,028	32,229
Amounts owed to other Group undertakings	-	122,960
Amounts owed to parent company	23,000,000	-
Other creditors	413,484	139,636
	23,469,326	321,421
Non current liabilities		
Amounts owed to parent company	144,085,000	30,537,000
	144,085,000	30,537,000

The Company's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors approximates their fair value. There are no trade creditors past due and the trade creditors and other creditors will be settled within the credit period offered by the counterparty.

Amounts falling due to parent company relates to amounts due to Development Bank of Wales plc in relation to Financial Transaction Reserve money received from the Welsh Government. 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. These amounts are not interest bearing.

11. 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, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

11. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

The Company's financial instruments comprise investments in SMEs in the form of loans, and trade receivables and payables arising from its operations. The purpose of the instruments is to raise finance for the Company, and to invest in SMEs in Wales. The accounting policy note describes how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by class of financial instrument to which they are assigned and by the measurement basis.

Carrying value as at 31 March 2019 £	Note	Financial assets and liabilities at amortised cost	Total
Assets			
Cash and cash equivalents		101,083,958	101,083,958
Loans to customers	i	20,288,404	20,288,404
Amounts owed by parent company	ii	56,548,000	56,548,000
Other receivables	i	124,440	124,440
Total financial assets		178,044,802	178,044,802
Non-financial assets			-
Total assets			178,044,802
Liabilities			
Amount owed to parent company	ii	167,085,000	167,085,000
Trade and other payables	ii	469,326	469,326
Total financial liabilities		167,554,326	167,554,326
Reserves			10,490,476
Total reserves and liabilities			178,044,802

Carrying value as at 31 March 2018 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Total
Assets				
Cash and cash equivalents		32,168,618	-	32,168,618
Loans to customers	i	-	9,651,092	9,651,092
Other receivables	i	-	5,127	5,127
Total financial assets		32,168,618	9,656,219	41,824,837
Non-financial assets				-
Total assets				41,824,837
Liabilities				
Amount owed to parent company	ii	30,537,000	-	30,537,000
Amount owed to Group undertakings	ii	122,960	-	122,960
Trade and other payables	ii	198,461	-	198,461
Total financial liabilities		30,858,421	-	30,858,421
Reserves				10,966,416
Total reserves and liabilities				41,824,837

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

11. FINANCIAL INSTRUMENTS (continued)

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 value.

Note:

i) 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.

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

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

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

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 majority of financial liabilities are amounts owed to parent company and relate to amounts due to Development Bank of Wales plc in relation to Financial Transaction Reserve money received from the Welsh Government. 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.

12. CALLED UP SHARE CAPITAL

	2019 £	2018 £
Authorised and allotted		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

13. 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 ultimate controlling party.