

DBW INVESTMENTS (11) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2021

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DBW INVESTMENTS (11) LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
MARCH 2021**

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley
D Staziker
M Owen
R Hunter
N Maguinness

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 the audited Financial Statements for the year ended 31 March 2021. 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-sized developers working on residential, mixed-use and commercial development projects in Wales.

The Wales Self Build fund launched in March 2020, this fund provides supported routes into self-build for prospective homeowners and opportunities for SME developers to build quality, custom homes across the country. The Company will work in partnership with the local authorities, responsible for making a series of serviced plots of land ready for development and available to purchase. The general public will be able to apply to local authorities to buy plots and the Development Bank will offer loans to fund the plot purchase and development. The loans will be repaid once the build is complete, and the property mortgaged.

During the year the Company made the following investments across each of its funds.

	Fund Size (£)	Value		Number of New Companies	
		2021 £m	2020 £m	2021	2020
Wales Property Fund I	10m	-	-	-	-
Wales Property Fund II	47m	20.889	20.017	8	11
Wales Stalled Site Fund	55m	22.597	13.560	20	11
Wales Commercial Property Fund	55m	3.140	0.443	3	1
Wales Self Build Fund	40m	0.274	-	1	-
Total	207m	46.9	34.02	32	23

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 Covid-19 pandemic (see below for details) and the UK's exit from the European Union (see below for details). 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.

The Directors concluded that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12-month period from the date of signing this report. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

COVID-19

During the year significant economic and social disruption arose from the Covid-19 pandemic. This situation has continued after the year end and the outlook remains uncertain.

The Company has invoked business continuity plans whilst it seeks to serve and support its managed funds throughout the pandemic while maintaining the safety and well-being of staff. Staff worked from home whilst the UK Government introduced lockdown measures and staff continue to work mainly from home.

The Company took proactive action to help its portfolio companies following the announcement of the Covid-19 lockdowns by seeking approval from investors to provide support for example through the granting of capital repayment holidays.

DIRECTORS' REPORT

COVID-19 (Continued)

During late March 2020, early April 2020, unprecedented levels of business support packages were also unveiled. The UK Government set up £330bn of funding for businesses across the UK including such things as the Coronavirus Business Interruption Loan Scheme (CBILS), the Bounce Back Loan Scheme and a furlough scheme to contribute to employee pay. The UK Government is continuing to support business by extending the furlough scheme to 30 September 2021 to help businesses weather the Covid-19 lockdown. In addition, the Welsh Government announced its setting up of a £500m economic resilience fund in late March 2020.

The Company continues to work with its stakeholders in order to minimise any economic disruption that Covid-19 might occasion. The Company believes that its activities are secure, and it is not anticipated that the impact of the pandemic is likely to be significant or materially increase during the next 12 months.

BREXIT

The Brexit transition period ended on 31 December 2020, with the UK agreeing a trade deal with the European Union. The Company continues to work with its stakeholders in order to minimise any economic disruption that the process might occasion. The Company believes that its activities are secure, and it is not anticipated that the impact of the UK's exit from the EU is likely to be significant or materially increase during the next 12 months.

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.

POLITICAL DONATIONS

The company made no political donations during 2021 (2020: nil).

SUBSEQUENT EVENTS

There were no subsequent events to report.

AUDITOR

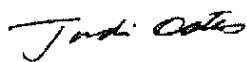
In the case of each of the persons who are directors of the company at the date when this report is approved:

- 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. As a result of the ongoing Covid-19 pandemic, the Group took the decision to extend the external audit contract for a further year. A procurement exercise will therefore be undertaken during the 2022 financial year.

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 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
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 31 March 2021 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 15.

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

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.

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.

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

Other information (continued)

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.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the UK Companies Act 2006; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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

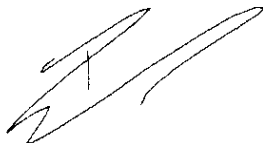
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 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.

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

24 November 2021

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2021

	Note	2021 £	Restated* 2020 £
Turnover	4	5,063,560	3,460,969
Administrative Expenses:			
Impairment	5	-	-
Other administrative expenses	5	(4,659,026)	(4,014,839)
Total Administrative expenses		<u>(4,659,026)</u>	<u>(4,014,839)</u>
PROFIT/(LOSS) BEFORE FINANCE INCOME		<u>404,534</u>	<u>(553,870)</u>
Interest receivable and similar income	7	377,055	891,565
Interest payable and similar charges	8	<u>(1,483,750)</u>	<u>(1,365,996)</u>
LOSS BEFORE TAXATION		<u>(702,161)</u>	<u>(1,028,301)</u>
<i>Taxation</i>	9	-	-
LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u><u>(702,161)</u></u>	<u><u>(1,028,301)</u></u>

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 15.

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.

DBW INVESTMENTS (11) LIMITED

BALANCE SHEET As at 31 March 2021

	Note	2021 £	Restated* 2020 £
NON-CURRENT ASSETS			
Trade and other receivables	10	<u>57,066,108</u>	<u>35,464,226</u>
CURRENT ASSETS			
Trade and other receivables	10	459,000	53,478
Cash at bank and in hand		<u>151,460,205</u>	<u>143,245,863</u>
		<u>151,919,205</u>	<u>143,299,341</u>
TOTAL ASSETS		<u>208,985,313</u>	<u>178,763,567</u>
CURRENT LIABILITIES	11	<u>(23,290,656)</u>	<u>(23,850,429)</u>
NET CURRENT ASSETS		<u>128,628,549</u>	<u>119,448,912</u>
NON-CURRENT LIABILITIES	11	<u>(137,315,586)</u>	<u>(108,821,353)</u>
NET ASSETS		<u>48,379,071</u>	<u>46,091,785</u>
CAPITAL AND RESERVES			
Public equity		50,416,065	47,426,618
Called up share capital	13	1	1
Profit and loss account		<u>(2,036,995)</u>	<u>(1,334,834)</u>
TOTAL SHAREHOLDER'S FUNDS		<u>48,379,071</u>	<u>46,091,785</u>

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect adjustments detailed in Notes 1 and 15.

The financial statements of DBW Investments (11) Limited, registered number 08516240, were approved by the Board of Directors and authorised for issue on 24 November 2021.

Signed on its behalf by



D Staziker
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Public equity £	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2019	10,000,000	1	490,475	10,490,476
Restatement	37,426,618	-	(797,008)	36,629,610
Balance at 1 April 2019 restated	47,426,618	1	(306,533)	47,120,086
Total comprehensive loss for the year	-	-	(1,028,301)	(1,028,301)
Sub Total	-	-	(1,028,301)	(1,028,301)
Balance at 31 March 2020 restated	47,426,618	1	(1,334,834)	46,091,785
Total comprehensive loss for the year	-	-	(702,161)	(702,161)
Increase in public equity	2,989,447	-	-	2,989,447
Sub Total	2,989,447	-	(702,161)	2,287,286
Balance at 31 March 2021	50,416,065	1	(2,036,995)	48,379,071

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current and prior financial 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 and on a going concern basis as discussed in the Director's report on page 2. 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 14.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 37	<i>Onerous Contracts -- Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 9 Financial Instruments and IFRS 16 Leases</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

Restatement of Prior Year

Management identified a prior period adjustment during the year resulting in a restatement of the comparative period in the current year financial statements as detailed 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

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

Financial assets 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.

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 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 SPPI on the principal outstanding.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)***Loans and advances to customers (continued)***

Interest income is calculated by applying the effective interest rate to the amortised cost of the asset. Interest recognised is taken as the calculated amount except for those assets deemed to be credit-impaired. 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 carrying value of the asset.

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.

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 12.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)***Impairment***

The Company assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instrument assets carried at amortised cost being 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. At initial recognition, financial assets are categorised as Stage 1 and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL. Financial assets are included in Stage 3 when there is objective evidence that the asset is credit-impaired, with expected credit losses still calculated on a lifetime basis.

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

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

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the performance of the borrower. The Company uses its portfolio risk grading system (grades A to E) to identify credit-impaired financial assets. Indicators of credit-impairment used by the Company are presented in the portfolio grade descriptors on page 21. Assets classified within grade D and E are considered to be credit-impaired.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date. See page 16 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 an 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 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 contrast to this, no loss allowance is recognised for OCI financial assets at initial recognition 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

*Financial Instruments (continued)**Originated credit-impaired (OCI) (continued)*

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.

Definition of default

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

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

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

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).

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2021****1. ACCOUNTING POLICIES (continued)****Financial Instruments (continued)*****Modification (continued)***

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 or loss.

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 of 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 or 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 being recognised in profit or loss.

Financial Liabilities and Equity

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

Financial Liabilities

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

Equity Instruments

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

Embedded Derivatives

Embedded derivatives that are not closely related will be separated from host contracts in accordance with IFRS 9, where a separate derivative is recorded it will be held at FVTPL.

Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

1. ACCOUNTING POLICIES (continued)

Related party transactions

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

Public equity

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

This non-repayable 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. Additional public equity arises where the Company receives loans from its parent company and relate to amounts received from the Welsh Government at below market rates as described below.

Welsh Government Loans

The Welsh Government has also provided funding to the parent company which are passed to the Company via interest free loans, these loans are specific to each created with repayment levels linked to the performance of the fund.

Initial recognition

On initial recognition the financial liability is recognised at fair value, calculated in accordance with IFRS 13, with the difference between fair value and the transaction value (funds received) being treated as a capital contribution. In line with previous capital contributions, we will include this in 'Public Equity' within equity on the Balance Sheet.

As it is not possible to identify market transactions involving similar financial instruments and apply a market approach, the Company uses the income approach and a present value technique which uses the future cashflows associated with the loan discounted to give the present value of these cashflows and the fair value of the liability. The key inputs to this technique are the expected cashflows associated with the loan and the discount rate applied to those cashflows. See Note 2 for further information.

Subsequent treatment

Loans are held at amortised cost with a notional interest charge being recorded in each period to reflect the unwinding of the initial discount using the EIR of each loan.

In the event of a revision to expected repayments, the Company shall adjust the amortised cost of a financial liability to reflect the revised estimated contractual cash flows. The amortised cost of the financial liability will be recalculated as the present value of these cash flows using the original EIR of the loan, any adjustment will be recognised in the profit or loss as income or expense.

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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical Judgements in Applying the Company's Accounting Policies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (continued)**Critical Judgements in Applying the Company's Accounting Policies (continued)*****Welsh Government Loans***

Under IFRS 9, financial instruments are initially to be recorded at fair value with adjustments for transaction costs in certain circumstances. As described in Note 1, the Company has received from its parent company, interest free loans received from the Welsh Government where in some instances full repayment of the loan principal is not contractually required, as such the initial fair value of the liability recognised is not equal to the transaction value i.e. the loan principal.

IFRS 9 states that ordinarily the difference between the transaction value and the fair value should be recognised as an expense or reduction of income unless it qualifies for recognition as another type of asset however, treatment of the below-market rate element of an intercompany loan is not directly addressed by IFRS 9. IAS 20 deals with government loans at a below-market rate of interest with the difference treated as a government grant however it does not address the situation where the government entity is a related party.

Whilst the loans provided by the Welsh Government are intended to support their policy objectives, Management's view with reference to the IASB's Conceptual Framework for Financial Reporting is that the substance of these transactions is that a subsidy has been given by a parent company to its subsidiary. This interest subsidy should be recognised as a component of equity in the subsidiary i.e. a capital contribution in the financial statements of the Company. If the interest subsidy had instead been treated as a grant, this would have been recognised in profit or loss on a basis that reflected the substance of that grant.

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 £5,121 (2020 restated: £259,533) being recognised before any potential liabilities are taken into account.

Key Sources of Estimation Uncertainty

There are no key assumptions concerning the future, or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK

Credit risk management (continued)

- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

As part of their three-year internal audit plan, audits are performed to ensure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk (SICR)

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

Internal credit risk ratings

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

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

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

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

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

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

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

The table below shows a summary of the descriptors for each 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK (continued)

Internal credit risk ratings (continued)

Asset Class	Typical Descriptors		
	Calculation of ECL	12 month	Lifetime
A – Healthy	<ul style="list-style-type: none"> -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	<ul style="list-style-type: none"> -Irregular financial information. -Performance is broadly in line with business plan. -Performance is within covenants. -Payments made in a timely manner. -No negative credit alerts. 	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
Micro	Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as we do not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
CWBS	Assets in the CWBS classification are not initially allocated a specific portfolio grade as we did not have sufficient regular information to accurately grade these investments. These cases are therefore graded 'CWBS'. These loans are graded A-E once sufficient information has been obtained through management information and payment history.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
C – Early Warning	<ul style="list-style-type: none"> -Financial information difficult to obtain or not available. -Business still appears to be viable but difficult to assess the risk. -Unauthorised arrears capitalised. -Request for authorised repayment holiday. -Satisfactory explanation to negative credit alert. -Evidence of creditor payments being stretched. -Breach of covenant for two consecutive months. 	Stage 1*	Stage 2
D – Sick	<ul style="list-style-type: none"> -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	<ul style="list-style-type: none"> -No recovery from D. -Objective evidence of risk of loss identified warranting a specific provision. 		Stage 3

*Some Covid-19 business loans classified as Grade C do not show indicators of SICR and remain in Stage 1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK (continued)

Overdue accounts

The Company measures investments in arrears in two ways:

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

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days past due. Assets in Stage 1 which are over 30 days past due are flagged as having a significant in credit risk and moved to Stage 2.

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

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

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

Incorporation of forward-looking information

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

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

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

During the year the Company moved from using historic incurred loss rates alongside overlay adjustments which draw on current market conditions to using external data for probability of default which is a forward-looking measure based on current market conditions as discussed in more detail below.

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 different risk profiles have been identified: micro loans, property loans, rescue and restructure loans and mainstream loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK (continued)

Measurement of expected credit loss (ECL)(continued)

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

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

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

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

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

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

Groupings based on shared characteristics

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

- Portfolio grade; and
- Investment type.

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

*Credit quality**Class of financial instrument*

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

	2021	2020
	£	£
Concentration by category		
Property Fund	57,515,477	35,476,696

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

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

	2021			
	£			
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	40,416,459	-	-	40,416,459
Grade A-B: Low to fair risk - in arrears	-	-	-	-
Grade C: Early warning	3,140,246	8,033,312	-	11,173,558
Grade C: Early warning – in arrears	-	-	-	-
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	5,925,460	5,925,460
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	-	-
Grade E: Objective evidence of impairment	-	-	-	-
Total Gross carrying amount	43,556,705	8,033,312	5,925,460	57,515,477
Loss allowance *	-	-	-	-
Net Carrying amount	43,556,705	8,033,312	5,925,460	57,515,477
Provision coverage ratio	0%	0%	0%	0%

*There is no loss allowance because the probability of the loss given default (LGD) being greater than nil is negligible given the nature of the loan portfolio where significant security is held on all facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK (continued)

Exposure by class, internal rating and stage (continued)

Loans and advances to customers at amortised cost

				2020 £
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	33,046,153	-	-	33,046,153
Grade A-B: Low to fair risk - in arrears	-	-	-	-
Grade C: Early warning	-	306,965	-	306,965
Grade C: Early warning – in arrears	-	-	-	-
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	2,123,578	2,123,578
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	-	-
Grade E: Objective evidence of impairment	-	-	-	-
Total Gross carrying amount	33,046,153	306,965	2,123,578	35,476,696
Loss allowance *	-	-	-	-
Net Carrying amount	33,046,153	306,965	2,123,578	35,476,696
Provision coverage ratio	0%	0%	0%	0%

*There is no loss allowance because the probability of the loss given default (LGD) being greater than nil is negligible given the nature of the loan portfolio where significant security is held on all facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. CREDIT RISK (continued)

Movement of the gross carrying amount during year

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

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 April 2020	33,046,153	306,965	2,123,578	35,476,696
Changes in the gross carrying amount:				
New financial assets originated	46,899,590	-	-	46,899,590
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(5,993,829)	5,993,829	-	-
Transfers to Stage 3	(182,915)		182,915	-
Financial assets derecognised in the year	-	-	-	-
Write offs	-	-	-	-
Other changes	(30,212,294)	1,732,518	3,618,967	(24,860,809)
Gross carrying amount as at 31 March 2021	43,556,705	8,033,312	5,925,460	57,515,477

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

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil (2020: £nil).

Modified financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

4. TURNOVER

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

	2021 £	2020 £
Fees	1,803,685	1,567,310
Loan interest	3,259,875	1,893,659
Turnover	<u>5,063,560</u>	<u>3,460,969</u>

5. OPERATING PROFIT

	2021 £	2020 £
Operating profit has been arrived at after crediting:		
Impairment	-	-

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

	2021 £	2020 £
Fees payable to the Company's auditor for the audit of the Company's financial statements	<u>12,799</u>	<u>6,800</u>
Tax compliance	<u>3,661</u>	<u>3,553</u>

6. 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.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £	2020 £
Interest receivable:		
- Bank deposits	<u>377,055</u>	<u>891,565</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £	Restated 2020 £
Interest payable:		
Notional interest on Welsh Government loans	1,483,681	1,365,963
Overdrawn interest	69	33
	<u>1,483,750</u>	<u>1,365,996</u>

9. TAX

	2021 £	Restated 2020 £
Current taxation		
UK corporation 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	<u>(702,161)</u>	<u>(1,028,301)</u>
Tax on loss at standard UK corporation tax rate of 19% (2020: 19%)	(133,411)	(195,377)
Effects of:		
Expenses not deductible	11,526	-
Amounts not recognised	5,121	259,533
Group relief/other reliefs	<u>116,764</u>	<u>(64,156)</u>
Total taxation charge	<u>-</u>	<u>-</u>

The main rate of corporation tax is 19%. The UK Budget on 3 March 2021 provided the main rate of corporation tax to rise to 25% from 1 April 2023 in Finance Bill 2021. This legislation was substantively enacted on 24 May 2021. As the date of substantive enactment was after the balance sheet date the 25% rate has not been used to calculate deferred tax in these financial statements.

10. FINANCIAL ASSETS

Trade and other receivables	2021 £	2020 £
Current assets		
Loans receivable carried at amortised cost	449,369	12,470
Other debtors	<u>9,631</u>	<u>41,008</u>
	<u>459,000</u>	<u>53,478</u>
Non-current assets		
Loans receivable carried at amortised cost	<u>57,066,108</u>	<u>35,464,226</u>
	<u>57,066,108</u>	<u>35,464,226</u>

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 6.4% per annum (2020: 6.7%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

10. FINANCIAL ASSETS (continued)

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.

11. FINANCIAL LIABILITIES

	2021	Restated 2020
Trade and other payables	£	£
Current liabilities		
Trade creditors	27,678	104,531
Accruals	103,997	369,770
Amounts owed to parent company	23,000,000	23,000,000
Other creditors	158,981	376,128
	<u>23,290,656</u>	<u>23,850,429</u>
Non-current liabilities		
Amounts owed to parent company	137,315,586	108,821,353
	<u>137,315,586</u>	<u>108,821,353</u>

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 (FTR) and Core Capital funding 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.

12. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

12. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2021		Financial assets and liabilities at amortised cost	Total
£	Note		
Assets			
Cash and cash equivalents		151,460,205	151,460,205
Loans to customers	i	57,515,477	57,515,477
Amounts owed by parent company	ii	-	-
Other receivables	i	9,631	9,631
Total financial assets		<u>208,985,313</u>	<u>208,985,313</u>
Non-financial assets		-	-
Total assets			<u>208,985,313</u>
Liabilities			
Amount owed to parent company	ii	160,315,586	160,315,586
Trade and other payables	ii	290,656	290,656
Total financial liabilities		<u>160,606,242</u>	<u>160,606,242</u>
Reserves			48,379,071
Total reserves and liabilities			<u>208,985,313</u>

Restated Carrying value as at 31 March 2020		Financial assets and liabilities at amortised cost	Restated Total
£	Note		
Assets			
Cash and cash equivalents		143,245,863	143,245,863
Loans to customers	i	35,476,696	35,476,696
Amounts owed by parent company	ii	-	-
Other receivables	i	41,008	41,008
Total financial assets		<u>178,763,567</u>	<u>178,763,567</u>
Non-financial assets		-	-
Total assets			<u>178,763,567</u>
Liabilities			
Amount owed to parent company	ii	131,821,353	131,821,353
Trade and other payables	ii	850,429	850,429
Total financial liabilities		<u>132,671,782</u>	<u>132,671,782</u>
Reserves			46,091,785
Total reserves and liabilities			<u>178,763,567</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

12. 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. Financial Transaction Reserve (FTR) and Core Capital funding is not carried at fair value (see Liquidity Risk Management for fair value consideration of FTR and Core Capital funding).

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 respect of FTR and Core Capital funding 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.

13. CALLED UP SHARE CAPITAL

	2021 £	2020 £
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 2021

14. 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.

15. PRIOR YEAR ADJUSTMENT

The previous year has been restated for the following:

Historically the Company recognised the loans received from Welsh Government via its ultimate parent company, Development Bank of Wales plc in line with their cashflows i.e. recognising a liability equal to the cash received and no interest charge through the income statement as these loans are issued at 0%. As these loans have been issued at a below market rate, they are subsidised loans between parent and subsidiary and should have been recognised at their initial fair value with any difference in the loan value and fair value shown as a capital contribution increasing Public Equity reserves rather than as part of the liability.

Subsequently, the WG loan liabilities shown as amounts owing to parent company in Note 11 are held at amortised cost with interest being charged based on the initial discount rate and any change to the estimated repayable amount as a result of the link between contractual repayments and the performance of underlying investments. Where non-closely related derivatives exist within the loan contract these are separately recognised as described in Note 1. The accounting treatment of these loans and critical judgement in applying accounting policies are discussed in more detail in Notes 1 and 2 respectively.

The 2020 financial statements have been restated to reflect the accounting described above, resulting in a £1.4m expense impact on profit for that year and an increase an increase in net assets of £35.2m.

PROFIT AND LOSS ACCOUNT – Restated Lines	Previously Reported 2020 £	Impact of Adjustment £	Restated 2020 £
Finance costs	(33)	(1,365,963)	(1,365,996)
PROFIT/(LOSS) BEFORE TAXATION	337,662	(1,365,963)	(1,028,301)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	337,662	(1,365,963)	(1,028,301)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021
15. PRIOR YEAR ADJUSTMENT (continued)

BALANCE SHEET – Restated Lines	Previously Reported 31 March 2020 £	Impact of Adjustment £	Restated 31 March 2020 £
NON-CURRENT LIABILITIES			
Trade and other payables	(144,085,000)	35,263,647	(108,821,353)
NON-CURRENT LIABILITIES	(144,085,000)	35,263,647	(108,821,353)
TOTAL LIABILITIES	(167,935,429)	35,263,647	(132,671,782)
NET ASSETS	10,828,138	35,263,647	46,091,785
EQUITY			
Public equity	10,000,000	37,426,618	47,426,618
Retained profit	828,137	(2,162,971)	(1,334,834)
TOTAL EQUITY	10,828,138	35,263,647	46,091,785