

Russell George AM
Chair Economy, Infrastructure and Skills Committee
National Assembly for Wales
Cardiff Bay
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27th January 2020

Dear Russell,

Annual report scrutiny with the Development Bank of Wales

Thank you for the invitation to speak with the committee last year and for your follow up letter. I am pleased to respond with the further information requested below.

Loan book and provisions

When developing a new fund we undertake a detailed modelling exercise to forecast the timing and quantum of bad debts. This exercise is informed by the characteristics of the fund in question and our fund management experience.

Each fund's incidence of bad debts is tracked against the modelled default rate and reported in our monthly management information ("MI") pack and to all meetings of both the Board and the Audit & Risk Committee.

We have a dedicated risk team which provides additional support to those businesses experiencing difficulties and works with them to agree repayment. When businesses are transferred to the risk team a review of the circumstances giving rise to the causes of underperformance is undertaken in order that we identify learnings that may be relevant to our future activities and the businesses that we support.

Development Bank of Wales Plc

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Development Bank of Wales Plc is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at www.developmentbank.wales

At the fund level, we are currently on track to repay all loans due to Welsh Ministers which were provided to the various funds and this is reflected in the Welsh Government and Development Bank of Wales financial statements with no provisions held. Portfolio health and bad debts are regularly reviews and where necessary, investment strategy is adjusted accordingly to ensure each fund remains within its loan defaults.

Clwyd Pension Fund and impact investing

We were very pleased to secure Clwyd Pension Fund as an institutional equity investor in the Wales Management Succession Fund, increasing the size of the Fund to £25m. The pension fund's investment strategy for part of its capital, is to achieve a social impact alongside a commercial return, which we were able to offer, along with the unique position of only investing in Welsh businesses. The diligence process to secure these funds was rigorous and took account of our investment track record, corporate governance and ability to measure impact.

Whilst there is interest in securing further private sector equity investment to meet our aim of diversifying the sources of capital available to Welsh businesses, this is a longer term interest. Our priority for the immediate future is to deliver the Wales Management Succession Fund. While private investors are increasingly interested in social impact measures, they also need to see a commercial return meaning that only certain funds will be suitable for this type of investment.

We also target private sector investment at a deal level and have been very successful in co-investing with a number of private sector sources including institutional equity, debt providers and angel investors.

Job creation gender analysis

Reporting data relating to gender analysis of job creation has to date, been limited to the Wales Business Fund. This is a result of the reporting requirements for ERDF funding. Data is collected by each investee company and these company are required to provide breakdowns by gender and salary band for the total number of jobs created. Accordingly, an analysis of the gender pay gap by investee company is not available, however we hope that the analysis below will be of use to the Committee.

From this FY onwards, this data collection has been broadened to other funds and we anticipate reporting this as part of the Annual Report and Accounts for 19/20.

Sector	Female	Male
Accommodation and food service activities	86.0	90.6
Administrative and support service activities	9.2	31.0
Agriculture, Forestry and Fishing	0.0	0.0
Arts, entertainment and recreation	6.8	0.6
Construction	5.5	35.5
Education	7.2	2.6
Electricity, gas, steam and air con	0.0	2.0
Financial and insurance activities	2.0	1.0
Human health and social work activities	44.7	4.0
Information and communication	43.7	127.5
Manufacturing	86.1	230.5
Mining and quarrying	6.0	7.0
Other service activities	2.8	1.0
Professional, scientific and technical activities	30.7	47.7
Real estate activities	6.0	1.8
Transportation and storage	2.7	1.0
Water supply, sewerage and waste management	0.0	10.0
Wholesale and retail trade	13.6	44.7
Grand Total	352.8	638.5

Brexit

My team have been preparing for any impact of Brexit since June 2016 immediately following the referendum, starting with the development of the £100m Wales Flexible Investment Fund which launched in 2017. Since then, and working closely with the Welsh Government, we have launched £445m of additional funds. Most recently we launched the Brexit Resilience Fund, a blended grant and loan product, delivered in conjunction with Business Wales to support business who require capital investment to mitigate the impact of Brexit. Our role is to ensure liquidity in the market, providing certainty that there is funding available for viable businesses.

We proactively support our investee companies through a dedicated portfolio manager whose role is to add value to the company. This could be through referrals to expert advice such as the Accelerated Growth Programme, or additional funding either from the Development Bank or other funders. We also work closely with Business Wales and have referred companies to their dedicated Brexit Portal for additional support.

Replacement of EU funding

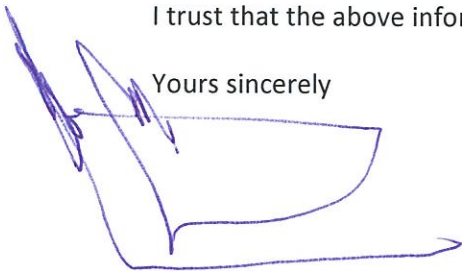
The Development Bank is represented on the Welsh Government group looking at regional investment post EU structural funds with a particular focus on repayable forms of finance and we are supporting the Welsh Government in their plans for the replacement of structural funds.

We have also worked to maximised the contribution of EU funding prior to departing the EU. Since the EU referendum in 2016 DBW has secured an extra £45m ERDF towards the £181m Wales Business Fund which now contains £134m of EU funding. This together with the legacy from the EU funded predecessor the Wales JEREMIE Fund aims to create returns of around £200m which can be reinvested in Welsh businesses.

In addition, we have worked closely with the Welsh Government to develop funds which make use of Financial Transaction Capital. Over £400m of new Funds have been created using this source for Welsh businesses since the launch of DBW.

I trust that the above information will be of use to the committee,

Yours sincerely



Giles Thorley

Chief Executive