Strategic Banking Corporation of Ireland (SBCI)

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Irish Financing Market Challenges 2014 …..

How can SBCI Make a Difference?

1. Security – need for personal guarantees vs skin in the game
2. Risk – credit appetite still impacted by crisis
3. Process – still slow and iterative
4. Distribution – limited options relationship vs online
5. Cost – relative to other market segments and European peers
6. Product – ‘not a fit for my business’
The SBCI – A National Promotional Institution

Structure

• The Strategic Banking Corporation of Ireland (“SBCI”) is a limited company
• Owned by the Minister of Finance
• Governed by an independent Board of Directors
• Managed by its own dedicated team, seconded from the National Treasury Management Agency (NTMA)
• Set up to source low cost long term finance from multilateral finance providers and State resources

Strategic Objectives

Financial

• Targeted measures to address specific market failures
• Flexible platform to access support from Europe

Competition

• Greater diversity of Finance offerings
• Create a new arena for competition in the use of SBCI Funds
Business Model - Funding and On-Lending

FUNDERS

ISIF  EIB  KFW  OTHER

POTENTIAL

FUNDERS

SBCI

LENDING

PARTNERS

CURRENT

RETAIL BANKS

IN IRELAND

NEW ENTRANTS

INTO THE

SME LENDING

MARKET

SMES

Small businesses. Big plans.
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Corporation of Ireland

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SBCI On Lending to end 2016

€544m
loans drawn by Irish SMEs

67,150
JOBS
In Irish SMEs supported by SBCI loans

12,593
SMEs
across Ireland have drawn down SBCI loans

GEOGRAPHICAL SPREAD

- 13.1% West
- 6.3% Midlands
- 14.4% Mid-West
- 17.8% South-West
- 12.3% Border
- 10.1% Mid-East
- 15.2% Dublin
- 10.8% South-East

Loan numbers: % by Region

SBCI funding is benefiting a wide range of sectors (% of loans by value)

- 22.9% Agriculture
- 10% Admin & Support
- 7.7% Manufacturing Services
- 4.5% Professional & Scientific
- 4.2% Construction Services
- 4.2% Transport & Storage
- 13.6% Accommodation & Food Trade
- 18.4% Wholesale & Retail
- 14.5% Other
SBCI Impact: Interest Rate Comparison

**Interest rate on NFC loans <€250K, 3m average**

- 2012: 8.5%
- 2013: 8.0%
- 2014: 7.5%
- 2015: 7.0%
- 2016: 6.5%

**Interest rate on NFC loans >€250K, <€1m, 3m average**

- 2012: 5.5%
- 2013: 5.0%
- 2014: 4.5%
- 2015: 4.0%
- 2016: 3.5%

Source: ECB, SBCI

NFC: non-financial corporation

**SBCI**

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SBCI Strategy 2017- 2018

Lines of Business – Current and potential products

Lending
- On-Lending Banks
- On-Lending Non Banks
  - Leasing
  - Invoice Discounting
- New Lending Products

Risk Sharing
- Agriculture Cash Flow Support Loans
- Export related Working Capital Guarantee
- Potential Brexit Product Solutions
- Innovative Company Lending
- Larger SME & Mid Cap Lending Support

Service Provider
- Credit Guarantee Scheme
Risk Sharing / Loan Guarantees

• No history in Guarantees/ Mutual Guarantee Co.'s in Ireland
• Impact on Access to Finance
• Reduction in security required – (Personal Guarantees)
• Better Flexibility of Lending
• Discounted lending through reduced credit margins driven by capital relief
• Conduit for better use of European Financial Instruments and more targeted impact
  • EIF COSME
  • EIF Innovfin
  • Investment Platform

Bank

• 20% of 1st Loss

SBCI

• 40% of 1st loss

• 40% of 1st loss
Risk Sharing: Credit Guarantee Scheme 2012/2015
Example of SBCI as Conduit to the Market on behalf of DJEI

- Government backed guarantee of up to 75%
- Covers loans from €10,000 to €1m
- 2% premium
- Addresses 3 barriers to lending
  - Inadequacy of collateral
  - Refinance of exiting bank debt/inadequacy of collateral
  - Growing business operating in sectors perceived as higher risk under current credit risk evaluation practices
- The 2016 Credit Guarantee Scheme Act has extended the Guarantee to 80%.

Risk Sharing: Agriculture Cashflow Support Loan Scheme
Example of SBCI in role as Principal Risk Share Support

- €150m Scheme
- Fixed Interest rate of 2.95% (Interest rate subsidy)
- For SMEs involved in primary agricultural sector (Exceptional aid for livestock sector broadened to provide loans to tillage farmers under de minimis criteria
- Unsecured loan amounts up to €150,000
- Loan duration of up to a maximum of 6 years
- Can be used for Working Capital or as an alternative to merchant credit
- Supported by COSME Counter-Guarantees, EU special aid, matching national funds and SBCI capital
Future Risk Sharing and Use of Central EU Financial Instruments

Central Financial Instruments / EFSI:

**COSME Counter-Guarantee** - an extension to the initial COSME facility is under consideration by EIF

**InnovFin Counter-Guarantee** - an application has been submitted for its potential use as counter-guarantee for credit market solutions being considered for delivery later in 2017

- Brexit impacted businesses both as short term working capital support and for longer term investment loan product
- Identified European market failures – generational change, innovative scaling companies etc.,

**EIB & EFSI:**
Exploring with EIB use of Investment Platforms for various forms of lending to support investment for both SME and Mid Caps

**European Investment Advisory Hub**
The SBCI signed an MOU with the EIAH in 2016 and is currently considering development of the State’s SME Online website to meet advisory needs of Irish businesses facing the impact of Brexit and wider global trading market uncertainties

The EIB has recently opened an office in Dublin and is working closely with Government and state agencies such as the SBCI in delivery of financing solutions
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