

SBCI 2015

A positive impact
on SME financing



Small businesses. Big plans.
Strategic Banking
Corporation of Ireland

Helping Irish SMEs to get access to better funding:

A guide to the SBCI

“The SBCI is supporting Irish SMEs by introducing new, low-cost SME-friendly financing options to the Irish market. It is delivering this finance through banks and non-bank finance providers as a means to drive competition in the SME lending market.”

Nick Ashmore | SBCI Chief Executive

What the SBCI does

The SBCI was set up by the Irish Government to bring:

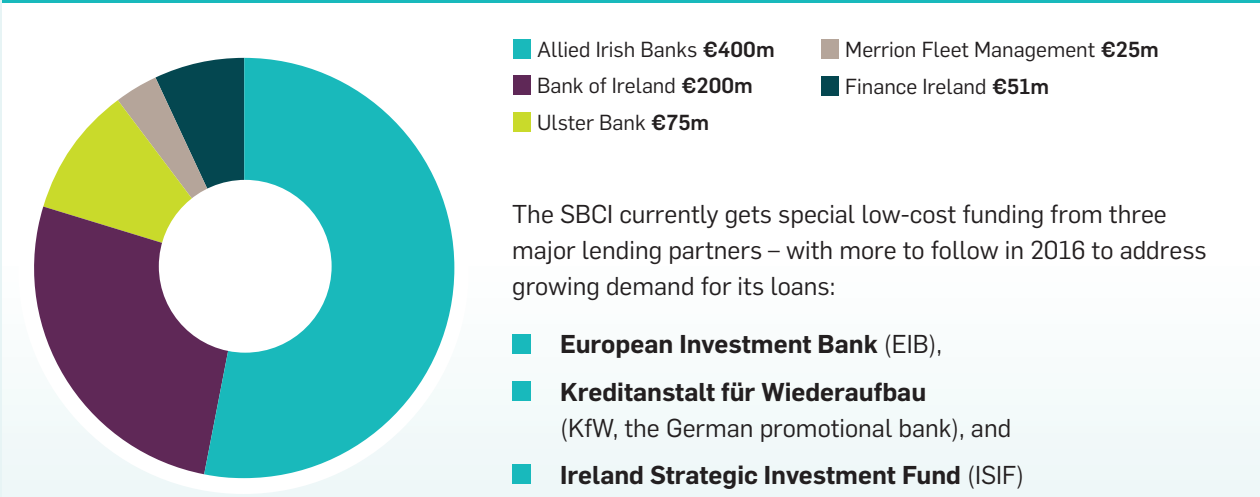
- **Lower-cost funding** to Irish SMEs
- **New loan products** that are more flexible and SME-friendly
- **New lenders** to the Irish SME lending market

The SBCI began offering loans to Irish SMEs in **March 2015**. Our lending partners currently offer:

- Investment and working capital loans
- Agriculture investment loans
- Leasing and Hire Purchase
- Contract Hire Agreements (vehicle leasing)
- Facilities to refinance loans from banks that have exited the Irish market

Who provides SBCI loans

SMEs apply for SBCI loans through SBCI On-lending partners. In 2015 the SBCI had committed **€751m** to SMEs through 5 On-lending partners. The SBCI added one further On-lending partner in 2016 and has an active pipeline of further potential On-lending partners.



SBCI loans – progress to end December 2015

4,619 SMEs

across Ireland have drawn down SBCI loans



€172m

loans drawn by Irish SMEs



%

1.50 percentage points

Average discount on SBCI loans versus market rates for loans <€250,000

17,000 JOBS

In Irish SMEs supported by SBCI loans



What SMEs use SBCI loans for

84% of loans used for investment in growing the business

9% used for working capital

7% used to refinance loans owed to banks exiting the Irish market



€37,000

Average loan size

(all figures cover the period March to December 2015)

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



26% Agriculture



11% Admin & Support



7% Manufacturing Services



14% Accommodation & Food Trade



16% Wholesale & Retail



4% Professional & Scientific



3% Construction Services



3% Transport & Storage

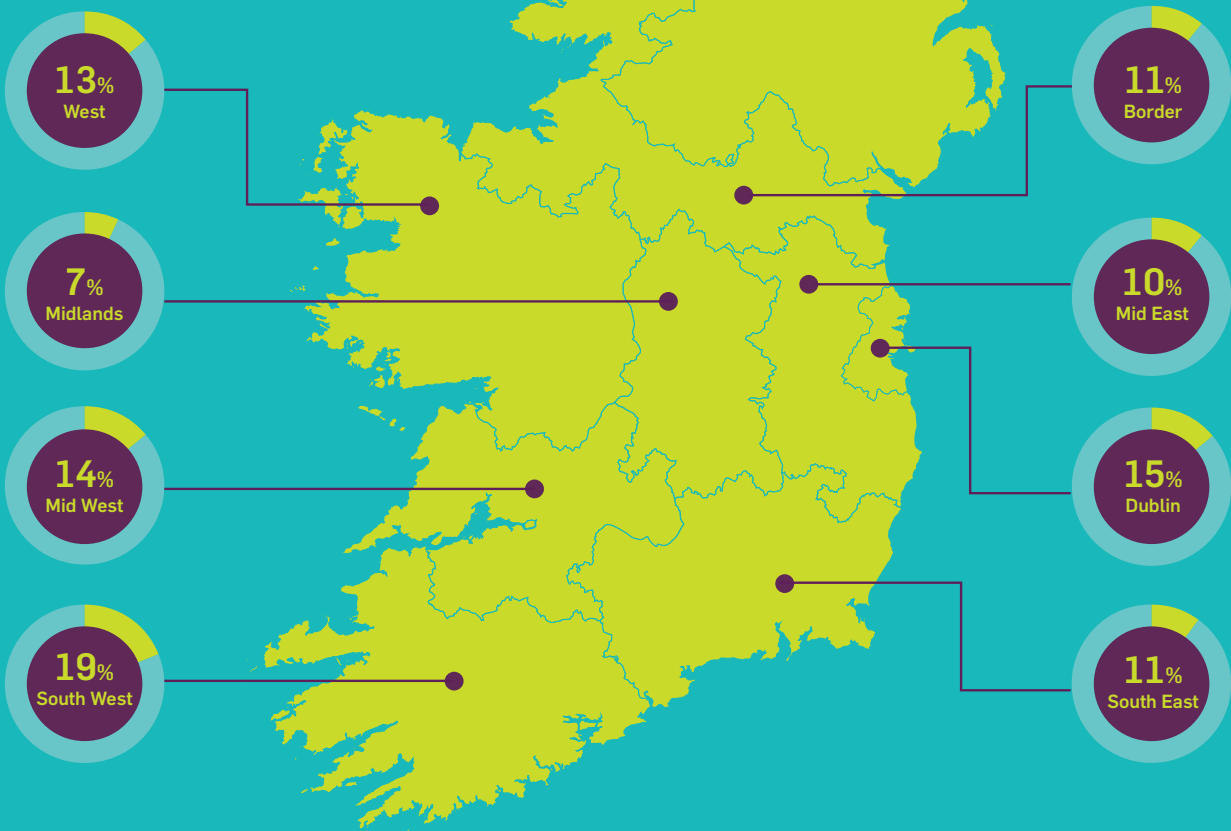


6% Health



10% Other

GEOGRAPHICAL SPREAD



Loan numbers: % by Region

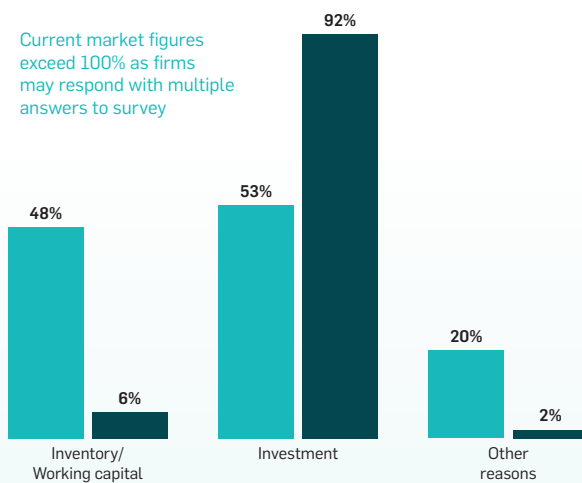


SBCI driving growth in SMEs

SMEs have used SBCI loans to drive growth in their business. Compared to the ECB's SAFE survey, SBCI's lending to firms has been used more for growth and investment purposes than for short-term working capital.

SBCI is driving growth and investment in SMEs

Current market figures exceed 100% as firms may respond with multiple answers to survey



■ Current Market ■ SBCI Loans

Source: ECB & SBCI

Market Overview

SME lending market – some improvement but challenges remain

Irish SMEs remain **heavily reliant on bank lending** ahead of other sources.

Interest rates for SMEs starting to **trend downwards** in 2016, albeit slowly.

Demand for borrowing by SMEs falling.

The Irish SME sector has been **deleveraging since 2010** – by approximately €20bn.

Irish banks are declining fewer applications from SMEs.

Irish banks are becoming faster in reaching a decision on SME applications.

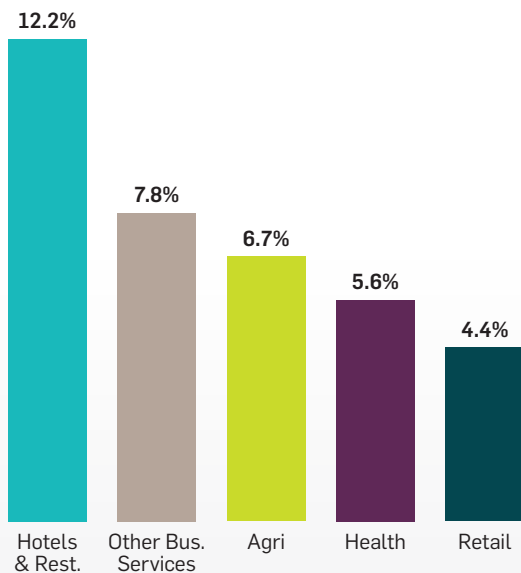
Lending flows are improving for the SME sector.

New lending flows increased 24% to €3.4bn in the year to December 2015.

(Source: study by NTMA Economics Unit, April 2016)

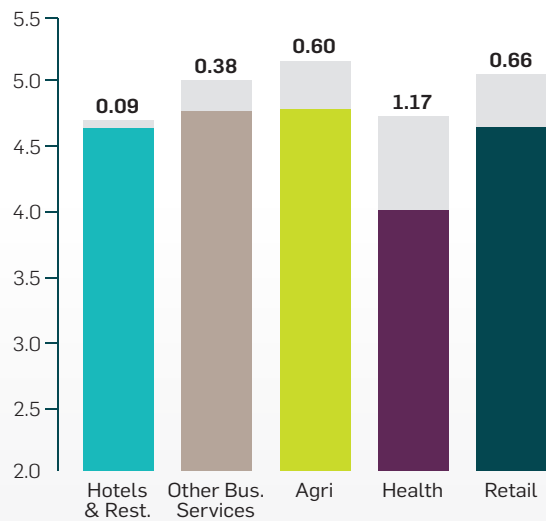
SBCI is bringing more lending and cheaper funding to Irish SMEs across the country

SBCI's top five sectors 2015



SBCI% Market Share

SBCI interest rate in selected sectors



□ Saving Vs Market

Source: CBI, SBCI

- ✓ Two-thirds of the SBCI's €172m in new lending occurred in five sectors.
- ✓ SBCI accounted for **9% of new lending in these sectors** from March to December 2015.
- ✓ SBCI's loan rates were lower than market rates across all 5 sectors.

Employment



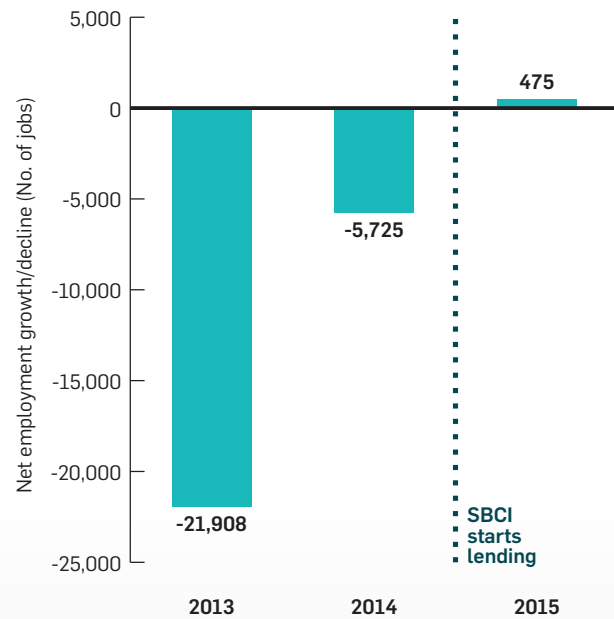
17,000 jobs

SBCI lending supported 17,000 jobs in the SME sector

SME employment increased in 2015 for the first time since the crisis. SBCI's lending to SMEs supported 17,000 jobs in 2015.

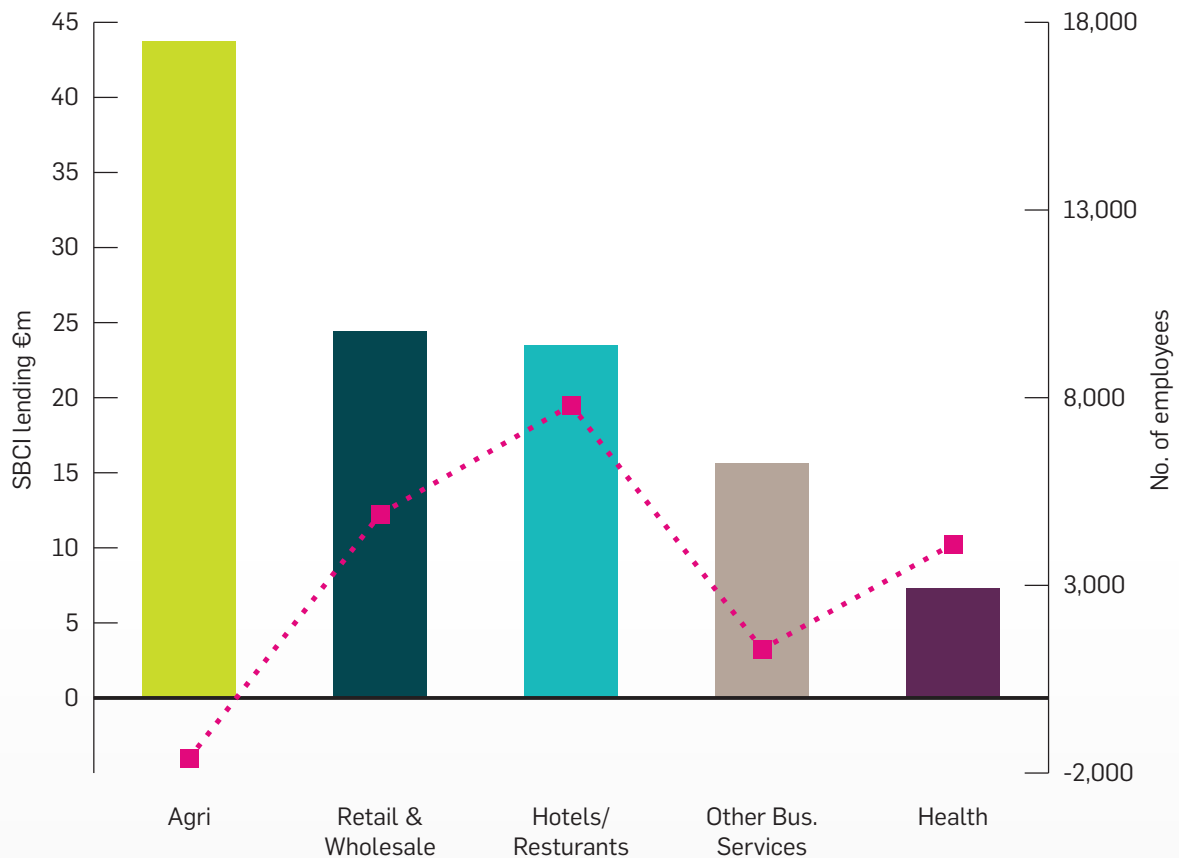
The top five sectors to which SBCI has lent have seen net employment growth in the region of 16,500 jobs from end-Q1 2015 to end Q4 2015 (seasonally adjusted).

SBCI helps SMEs to employ more people



Source: CSO

SBCI lending and its impact on employment in the Irish economy (€m)



Source: SBCI, CSO

■ Employment change 2015 Q1-Q4 (RHS)

Interest rates

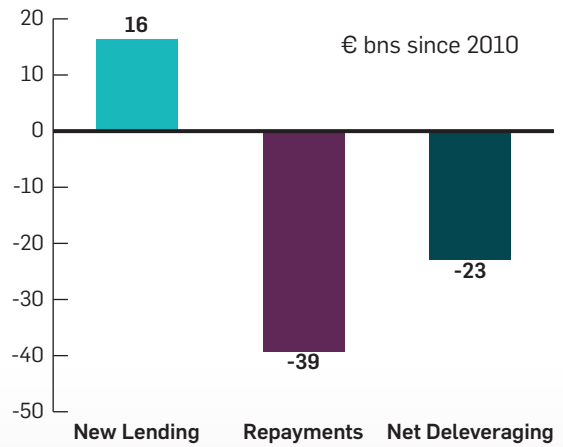
Developments in the Irish SME lending market

- The SME sector has been deleveraging since 2010. The level of indebtedness fell by €23 billion - €10 billion of which was property related.
- Lending flows have improved. €3.4bn of new SME lending was approved in 2015. That is a 24% increase on 2014.
- Excluding financial intermediation and property related sectors, new lending was a healthy €2.6bn – a 10% increase.

Positive trends in 2015

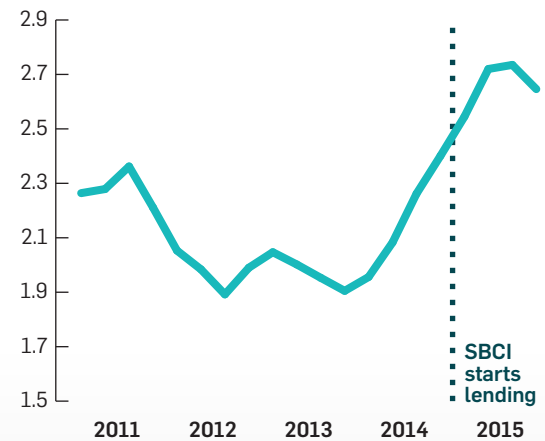
- New lending flows increased to SMEs in nearly every sector of the economy.
- Decline rates fell from March to September.
- Application turnaround time decreased.
- SME perceptions of banks' willingness to lend improved.
- Banks were more likely to approve applications for expansion purposes rather than for working capital.
- SBCI Helping to bring down interest rates for SMEs.

Reduction in SME loans outstanding (€bn)



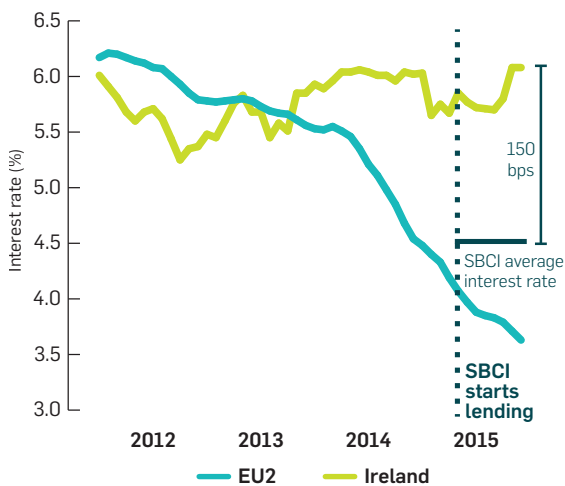
Source: CBI

New Lending excl. Fin Intermediation & Property (€bn)



Source: CBI

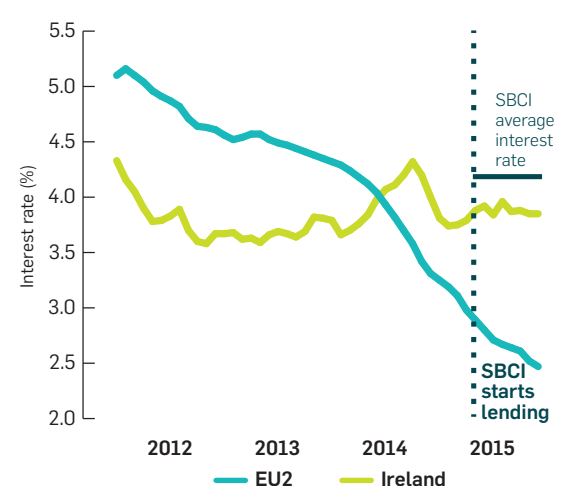
Interest rate on NFC loans <€250K, 3m average



Source: ECB, SBCI

NFC: non-financial corporation

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



Source: ECB, SBCI

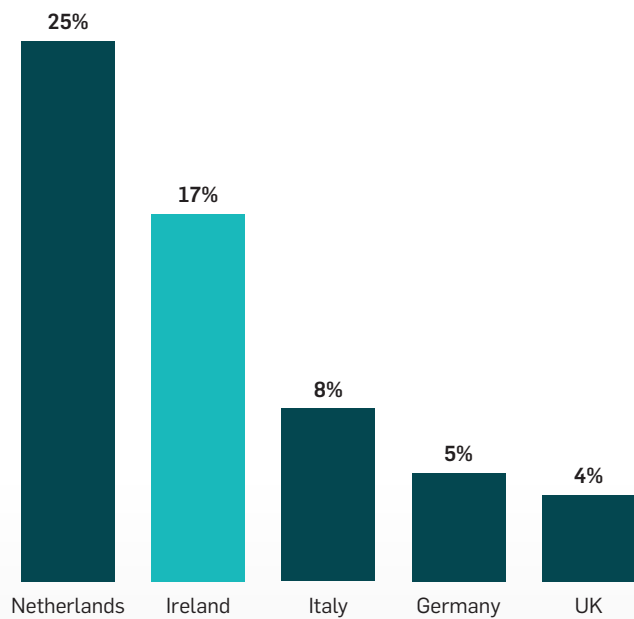
Credit Conditions



SME credit conditions have been constrained

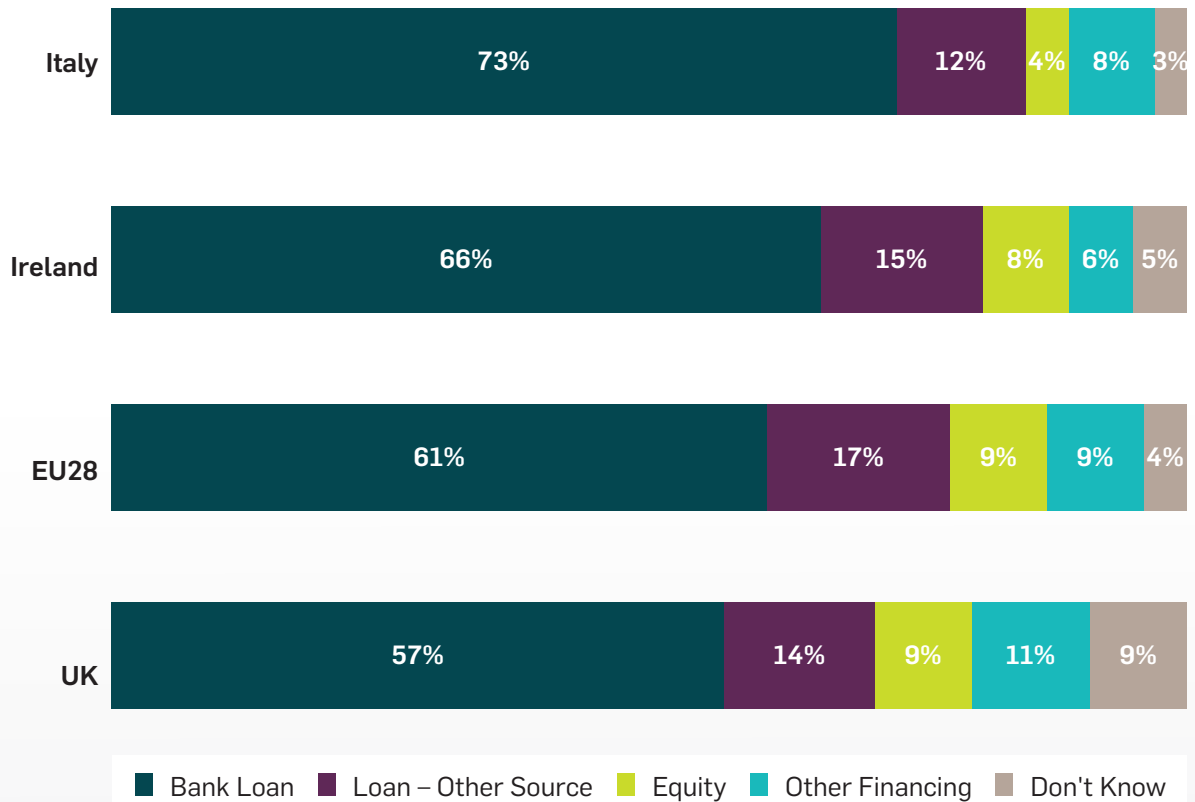
Similar to other Euro Area peers, Irish SMEs financing relies heavily on loans. However, rejection rates of bank loan applications of SMEs still ranked second highest in Ireland across the EU but are falling in 2016.

Rejection rates of bank loans



Source: ECB

Types of financing source preferred by SMEs



Source: ECB