CREDIT OPINION
30 August 2024

Update

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RATINGS

Strategic Banking Corporation of Ireland	
Domicile	Dublin, Ireland
Long Term CRR	Not Assigned
Long Term Issuer Rating	Aa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Farooq Khan +44.20.7772.1638
VP-Senior Analyst - Financial Institutions
farooq.khan@moodys.com

Simon James Robin Ainsworth +44 207 772 5347
Associate Managing Director
simon.ainsworth@moodys.com

Christopher Tucker +44.20.7772.1357
Sr Ratings Associate
christopher.tucker@moodys.com

Strategic Banking Corporation of Ireland

Update following outlook change

Summary

The Aa3 ratings of Strategic Banking Corporation of Ireland (SBCI), which is an Irish development bank reflects its links with the Government of Ireland (Aa3 positive) and the creditworthiness of the government. We rate SBCI using our analytical approach for government-related issuers. We do not assign a Baseline Credit Assessment, as the risks to SBCI's creditors are not driven by its standalone financial performance and metrics.

In the absence of a full, explicit and unconditional guarantee provided by the government, SBCI's ratings reflect (1) its full ownership by the Irish government, (2) SBCI's unique policy function within the country and its key role in supporting the Irish economy, (3) legal supervision and nomination of SBCI's board members by the Irish Minister for Finance, (4) high integration of SBCI with the NTMA[1], and (5) the high extent to which the credit risk exposures assumed by SBCI are largely counter guaranteed. The counter guarantees reduce the risk to SBCI's capital to a level that can be comfortably met by the capital and funding committed by the government, as stated in the relevant legislation[2].

Credit strengths

» Full ownership by the Irish government, with a clear mandate to promote small- and medium-sized enterprise (SME) financing to support the Irish economy

» Low liquidity risk, given that it has good market access and long-term financing

» High integration with the government, with all board members nominated by the government and the NTMA providing shared services and staffing

» Contained asset risk, because SBCI benefits from counter guarantees, with the unguaranteed portion covered by funding from the Department of Agriculture, Food and the Marine; Department of Enterprise, Trade and Employment; and the Department of Environment, Climate and Communications.

Credit challenges

» High dependence on the Irish government and its affiliates

» Wholesale funded, mitigated by guarantees by the Minister for Finance and long tenors

» Modest profitability because of its not-for-profit role and mission

Outlook

The outlook on SBCI is positive, reflecting the positive outlook on the Government of Ireland as well as Moody's expectation that SBCI's mandate as well as the risk, funding and operational support it receives from the Irish government will continue.

Factors that could lead to an upgrade

SBCI's ratings are aligned at the same level as those of the Government of Ireland and any upgrade of the ratings will depend on the upgrade of the sovereign.

Factors that could lead to a downgrade

SBCI's ratings could be downgraded if (1) the credit profile of the bank's guarantor, the Government of Ireland, deteriorates; or (2) Moody's view of the very strong support mechanism weakens, which the agency currently considers to be highly unlikely given the important role SBCI plays in facilitating the economic policy objectives of the government in the SME sector.

Profile

Strategic Banking Corporation of Ireland (SBCI) is a limited finance company that was set up in September 2014 by the Irish government to support the development of a competitive funding market for SMEs. SBCI has a mandate to facilitate the provision of stable, lower-cost, long-term funding to SMEs to be distributed via participating Irish banks and non-bank lenders. SBCI borrows at a preferential rate from the Treasury and European Investment Bank (EIB, Aaa stable), backed by a guarantee from the Minister for Finance.

SBCI is fully owned by the Minister for Finance, which provides funding for its operating budget and nominates its board. In addition, SBCI's staffing and operations are sourced from Ireland's National Treasury Management Agency (NTMA). SBCI is governed by the Strategic Banking Corporation of Ireland Act 2014 (SBCI Act 2014) and is not subject to banking regulatory requirements and does not take deposits.

Recent developments

On 16 August 2024, Moody's changed the outlook on the Government of Ireland to positive from stable. Concurrently, Moody's affirmed Ireland's Long-term Issuer (foreign and domestic currency) and Senior Unsecured ratings at Aa3. We have also affirmed the Senior Unsecured MTN programme rating at (P)Aa3 and the Commercial Paper rating at Prime-1 (P-1).

Detailed credit considerations

Full ownership by the government, with a unique policy function within the country to support the Irish economy

The Irish government established SBCI as a limited finance company, with a 100% ownership by the Minister for Finance and a mandate to facilitate the provision of stable, low-cost, long-term funding primarily to SMEs, and more recently to consumers. The SBCI borrows at a preferential-rate from the Treasury, as well as from the EIB, and in the past from Council of Europe Development Bank (CEB, Aaa stable) and Kreditanstalt fuer Wiederaufbau (KfW, Aaa stable) backed by a guarantee from the Irish Minister for Finance. As a result, SBCI has a strategic alignment with the government's political and policy objectives and has a key role in supporting the Irish economy.

SBCI facilitates its policy objective through its long-term liquidity offering and several risk sharing schemes: the Brexit Impact Loan Scheme (BILS), the Future Growth Loan Scheme (FGLS), the Covid-19 Loan Scheme (CLS), the Covid-19 Credit Guarantee Scheme (CCGS), the Ukraine Credit Guarantee Scheme (UCGS), the Energy Efficiency Loan Scheme (EELS), and the Home Energy Upgrade Loan Scheme (HEULS). Additionally, the bank operates the Credit Guarantee Scheme (CGS) on behalf of the Minister for Enterprise, Trade and Employment (DETE) and the Department of Agriculture, Food and the Marine (DAFM).

- **Long-term liquidity:** SBCI's business model is based on borrowing at a preferential rate from the Treasury and public institutions (such as EIB with government guarantee), with maturities up to 10 years. The benefit of the lower interest rate is then passed to SME borrowers via participating Irish banks and non-bank lenders. The loans are available to eligible SMEs for working capital and investment purposes.

- **Home Energy Upgrade Loan Scheme (HEULS):** The scheme supports energy efficiency and renewable energy upgrades on residential properties, where those works are also being grant-aided by the Sustainable Energy Authority of Ireland (SEAI). Loans are unsecured and range from €5,000 to a max. €75,000 per property (max. loan amount of €225,000 per applicant if borrowing for more than one property). Terms range from 1 to 10 years and will be available up to 31 December 2026. Loans are currently available through AIB, BOI and PTSB, with additional finance providers being announced shortly and rates will vary between finance providers but will be reduced from standard rates.

- **Growth and Sustainability Loan Scheme (GSLS)**: The scheme provides SMEs and Small Mid-Caps with long term financing to either encourage growth and resilience of their enterprise or invest in climate action and environmental sustainability measures. Loan amounts from €25,000 to a max. €3 million per borrower. Loans are unsecured up to €500,000; loans above €500,000 may be secured. Loan terms range from 7 to 10 years and are available up to 30 June 2026 or until scheme has been fully subscribed. Eligibility criteria apply. Rates vary between participating on-lenders but are reduced from standard rates.

- **Ukraine Credit Guarantee Scheme (UCGS):** Provides viable SMEs and Small Mid-Caps, impacted by economic challenges arising from the conflict in Ukraine with access to low-cost financing. Loan amounts between €10,000 to €1 million per borrower with repayment terms between 3 months to up to 6 years. Loan amounts less than €250,000 will be unsecured and loan amounts greater than this may be secured. Loans will be available up to the 31 December 2024 until the scheme has been fully subscribed. All eligible loans under the scheme are 80% guaranteed by the DETE and 20% by the on-lender.

- **BILS provides affordable working capital finance and medium-term finance to eligible businesses that are impacted by Brexit:** It was launched in October 2021 to replace the previous Brexit Loan Scheme (BLS) and to provide support for businesses. Operated by the SBCI, it provides low-cost funding with support from the European Investment Fund (EIF, Aaa stable), to businesses that are innovating in response to the challenges that Brexit poses. BILS will cover loans ranging from €25,000 to €1.5 million, with loans of up to €500,000 being unsecured. The maximum rate for this scheme will be significantly lower than the matrix of rates currently available to businesses on loans less than €250,000. The scheme closed to new applicants on 31 December 2022.

- **CLS provides affordable working capital finance and medium-term finance to eligible businesses impacted be the coronavirus:** It was launched in July 2022 following the closure of CCGS and benefits from the guarantee provided by the EIF which covers 56% of the maximum portfolio of €315 million. CLS covers loans ranging from €25,000 to €1.5 million, with loans of up to €500,000 being unsecured. This scheme was closed to new applicants on the 31 December 2021.

- **FGLS amounts to €800 million and supports Irish businesses including those in the agriculture and seafood sector**: It is designed to support the development of SMEs and agriculture businesses and was launched in April 2019. The SBCI scheme funds capital spending and promotes business investment through low-cost loans, with terms ranging from seven to 10 years, secured with an 80% guarantee from the SBCI. As a participant institution, banks are offering low-cost, long-term loan facilities through SBCI to aid businesses in their development through structural and market change. This was increased by an additional €500 million to €800 million in July 2020. The loans were available through Allied Irish Banks, p.l.c (AIB, A1 positive, baa1[3]), Bank of Ireland (BOI, A1 positive, baa1[4]), KBC Ireland, Permanent TSB p.l.c. (PTSB, A2 positive, baa3[5]), Ulster Bank Ireland DAC and Close Brothers Limited (A1 negative, a3[6]). The scheme closed to new applicants on 31 March 2023.

- **COVID-19 CGS**: In 2020, the SBCI announced a new €2 billion COVID-19 CGS. The scheme was provided by the Government of Ireland to facilitate lending to micro and SMEs adversely impacted by the pandemic. The COVID-19 CGS facilitated the provision of liquidity and working capital to businesses. The SBCI is the operator of the scheme on behalf of the Minister for Enterprise, Trade and Employment. Unlike the SBCI's other schemes, the Government provides the guarantee directly to the participating finance providers. As operator, the SBCI engages with the participating finance providers in the operational and management elements of the scheme. The scheme offered up to €2 billion of additional credit capacity, supported by a Government guarantee distributed through a network of banks, non-bank finance providers and Credit Unions. The scheme closed to new applications on 30 June 2022.

- **Energy Efficiency Loan Scheme (EELS):** Loan guarantee scheme supports qualifying viable Irish businesses and primary producers by providing access to affordable long-term financing to enable investment in the energy efficiency of their business. The scheme benefits from a guarantee provided by COSME[7] and the European Fund for Strategic Investment (EFSI). Loan amounts range between €10,000 to €150,000 and have terms between one and 10 years. Loans may be secured only by the asset being funded and can only be used for the purpose of upgrading the energy efficiency of the business. In 2022, €1.7 million of funding had been approved under the scheme. The scheme closed to new applicants on 31 December 2023.

Currently, SME lending is dominated by two main banks[8]. Through the SBCI scheme, we expect further diversification in SME lenders, as smaller banks and non-bank lenders utilise the available funds. Unlike the three large banks[9], the smaller banks and non-banks might not have the same level of wholesale funding access. Furthermore, there is suppressed demand for SME credits, and SMEs are focused on short-term credit instead of five to 10 years' funding. As a result, the large banks with very strong liquidity have been meeting these demands. However, following SBCI's programmes, there is more competition in SME lending.

Low liquidity risk, with good market access and long-term financing

SBCI's business model is based on borrowing at a preferential rate from the Treasury and public institutions (such as EIB with government guarantee), with maturities up to 10 years. The benefit of the lower interest rate is then passed to SME borrowers via participating Irish banks and non-bank lenders.

Legal supervision and nomination of board members by the Irish Minister for Finance

SBCI is highly integrated with the Irish government, which provides funding for its operating budget and nominates its board members. In addition, SBCI's staffing and operations are sourced from Ireland's NTMA and are housed at the same premises. NTMA provides service functions in terms of Finance, Human Resources, IT, Legal, Compliance, Risk, Procurement and Internal Audit. NTMA charges SBCI for these services on a cost-recovery basis. SBCI's team comprises 43 staff, the majority of which are staff of NTMA and are assigned to SBCI. NTMA executes the Treasury function for SBCI, but decisions are made by SBCI.

Low asset risk because the credit risk exposures assumed by SBCI are to varying degrees covered by counter guarantees and reserves

Under SBCI's risk-sharing schemes, SBCI assumes 80% of the credit risk, with 20% being assumed by lenders. However, the claims paid out by SBCI are capped at 15% on a portfolio basis in ACSLS and EELS, with no cap in the case of BILS, CWCS, GSLS and HEULS. SBCI does not retain the full amount of its share of credit risk, offsetting its risk exposure.

SBCI uses the EIF to counter guarantee its exposure at 50% in BLS[10]/CWCS[11], at 70% for BILS and at 80% in FGLS, GSLS and HEULS. Furthermore, funds from various sponsoring government entities (DAFM, DETE or the DECC[12]) cover the remaining 50% by providing cash reserves, which are provided upfront to ensure that the amount received is sufficient to cover SBCI's share of expected losses.

Modest profitability because of its not-for-profit role and mission, but strong capital base and maximum principal amounts provide a solid loss buffer against residual risk

SBCI operates with a profit target to meet its cost base. The entity had shareholders' equity of €74.9 million equivalent to leverage (expressed as tangible common equity/total assets) of 24.7% and total borrowed funds of €111.8 million as of year-end 2022. This compares favourably with the amount stated in SBCI ACT 2014, which provides an ample capacity for further growth.

Notwithstanding its modest profitability and good leverage, we view SBCI's solvency as very strong, reflecting the very low risk to its own capital. This is because SBCI facilitates its policy objective through the assumption of 80% of the credit risk under the various programmes Irish bank lenders can participate in.

Environmental, social and governance considerations

In line with our general view for the banking sector, SBCI has a low exposure to environmental risks and moderate exposure to social risks. See our Environmental and Social heat maps for further information.

In terms of social considerations, SBCI's role to promote the Irish economy and high integration with the government makes it susceptible to politically and socially motivated decisions that could affect its financial profile. Given its public policy role, profit maximisation is not a bank's primary goal, and its profitability has traditionally been very modest compared with the Irish banking system. Likewise, policy considerations can lead the bank to issue riskier loans, impairing its asset risk. Nevertheless, SBCI's loans are credit insured and guaranteed by the European Investment Fund and various sponsoring government entities for the most part. As a result, SBCI is able to support the borrowers in current weaker operating environment, while its balance sheet is shielded from the rising credit risk from the borrowers.

Governance is highly relevant for SBCI, as it is to all banks in the industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for SBCI, we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

The alignment of SBCI's issuer ratings with the sovereign rating is in accordance with the SBCI Act 2014, which governs SBCI and allows it to draw down additional callable capital, at its discretion, from the Minister for Finance up to a total of €165 million (or up to €1 billion if the Minister for Finance so determines). SBCI notifies the Minister for Finance about its guaranteed borrowing and, so far, SBCI has not borrowed externally without government guarantee. SBCI could borrow, at its discretion, up to a principal amount of up to €4 billion, which is the maximum principal amount stated in the SBCI Act 2014. Given the importance of subsidised funding to SBCI's operating model, the likelihood that it would borrow without government guarantee is low.

Methodology and scorecard

The principal methodology we used in rating SBCI was our Government-Related Issuers rating methodology, published in January 2024. SBCI's standalone financial performance and metrics do not reflect the credit risk faced by bondholders. The key driver for SBCI's ratings is the likelihood of the government providing liquidity or capital support to SBCI, if required. Therefore, SBCI is rated under our analytical approach for government-related issuers without a Baseline Credit Assessment.

Ratings

Exhibit 1

Category	Moody's Rating
STRATEGIC BANKING CORPORATION OF IRELAND	
Outlook	Positive
Issuer Rating	Aa3
ST Issuer Rating	P-1

Source: Moody's Ratings

Endnotes

1 National Treasury Management Agency

2 Strategic Banking Corporation of Ireland Act 2014

3 Deposit rating, BCA

4 Deposit rating, BCA

5 Deposit rating, BCA

6 Deposit rating, BCA

7 Europe's programme for small and medium-sized enterprises

8 AIB and BOI

9 AIB, BOI and PTSB

10 Brexit Loan Scheme which was replaced by the BILS in October 2021

11 Covid-19 Working Capital Loan Scheme which closed for new eligibility applcations in July 2021

12 With regards to the HEULS

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454