



Opening Statement

by the SBCI CEO, Mr Nick Ashmore

to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Thursday, 4th May 2017

Chairman, Members of the Committee,

Thank you for your invitation to provide an update on the progress made by the Strategic Banking Corporation of Ireland (SBCI) since we began providing loans to SMEs throughout Ireland in 2015 and specifically our contribution to improving investment opportunities in the wider economy.

Joining me today is my colleague Jillian Mahon, Head of Funding and Strategic Initiatives.

By the end of December 2016, the SBCI has supported over 12,500 SMEs with over €540 million in low-cost loans and other forms of finance.

Our average loan size is €43,000 but our loans have ranged in size from €1,500 to €5 million.

We have been successful in achieving a portfolio that is well balanced in terms of where our borrowers are located and, also in terms of the sectors in which they operate.

A particular feature of note is that 84% of all loans have been used for investment purposes which mean we are supporting the longer-term development of businesses. 11% have been used to meet working capital requirements, whilst 5% have been used to refinance loans owed to banks exiting the Irish market.

In short, we are supporting investment, working capital and refinance lending to SMEs in every part of Ireland and in a range of sectors – agriculture; wholesale/retail; accommodation and food; administration and support; manufacturing; transport; construction and more.

We have achieved this by partnering with eight on-lenders – three banks and five non-bank institutions.

This model has been very effective in helping us to meet our objectives.

The SBCI is the national promotional finance institution akin to similar, albeit much larger institutions in other European countries such as KfW in Germany, ICO in Spain or BPI in France. The SBCI's initial approach has been to provide long-term large-scale liquidity on a low-cost wholesale basis. The SBCI

has sourced over €1.2 billion in low-cost funding from KfW, the German promotional lender; the European Investment Bank; the Council of Europe Development Bank; and domestic sources in the NTMA and the Ireland Strategic Investment Fund.

The role of SBCI on-lending partners is that of retailer using the SBCI's liquidity as raw material for their lending products.

These on-lenders are a mix of smaller, specialist lenders with a focus on specific niches, (Finance Ireland, Merrion Fleet, First Citizen Finance, Bibby and Fexco) and established banks with nationwide footprints who can reach a mass market (AIB, Bank of Ireland and Ulster Bank).

A major benefit of this wholesale lending model is that it facilitates increased competition in the market for credit to SMEs, while giving the SBCI nationwide reach.

Through our involvement, some of the SBCI's on-lending partners have been able to enter new market segments, providing finance or leasing products that they have not provided in the past, bringing additional lending capacity, broader choice and lower interest rates to the SMEs, who need the finance offered.

Through these partners, the SBCI has been able to offer term loans, asset leasing, agricultural leasing, contract hire for vehicles and invoice finance – all at lower rates or more flexible terms than were previously available in the market.

The SBCI is set to continue to expand its liquidity offering as it has a lot more capacity to provide finance to new on-lenders and is in active talks with several potential new on-lending partners. The SBCI expect to have more announcements in this regard in the coming months.

In addition, the SBCI recently commenced a new risk-sharing line of business. Risk-sharing offers the SBCI the opportunity to target new specific SME market segments that may have difficulty in accessing finance. In a first step, the SBCI was appointed in October 2016 as the operator and manager of the Credit Guarantee Scheme (CGS) provided by the Minister for Jobs, Enterprise and Innovation. A new version of this scheme (CGS 2017) will be deployed in the next few months.

This was closely followed by the launch of the Agriculture Cash Flow Support Loan Scheme, in conjunction with the Department of Agriculture, Food and the Marine, the European Commission and the European Investment Fund's COSME programme. This is a ground-breaking policy measure in the Irish market and the first use of the COSME programme, which is also part of the Juncker Plan or European Fund for Strategic Investment. Crucially for the SBCI, it represents the first time that the SBCI itself is taking on risk-sharing with other lenders – in this case, AIB, Bank of Ireland and Ulster Bank.

This initiative has enabled farmers to borrow up to €150,000 at a special rate of 2.95% over periods of up to 6 years to address the difficult market conditions they have faced recently. Based on the data received so far from the three participating banks, we anticipate that some 4,000 farmers will draw down low-cost loans under this scheme.

The SBCI is working to source other European supports and funding with a view to introducing new credit measures to address other market failures in the future, building a central conduit for

European supports to the Irish market. The SBCI also recognises the need to take a counter-cyclical approach so it avoids reinforcing any prospective excessive deployment of credit.

One of the challenges we have faced is generating awareness among SMEs of the benefits SBCI supported finance can bring to them. The SBCI is very much open for business and it is continuing to engage in an intensive SME awareness campaign based around local networking and brand-building events in every region in Ireland. The SBCI has sought to arrange these events in conjunction with local business interest groups such as Chambers of Commerce, third level institutions and business advisory groups or law or accounting firms. We are also aware that we do not operate in isolation but as part of a suite of government supports for SMEs and we look to collaborate with other groups such as Microfinance Ireland, the Credit Review Office, Enterprise Ireland and the Local Enterprise Offices, especially on communication.

The SBCI results show that its efforts have been successful but it is keen to keep building awareness among SMEs of its role and what it can offer and would welcome any assistance you can provide in putting the SBCI in contact with the businesses that it is here to serve.

That concludes my opening remarks. I hope you have found them helpful and we will be happy to answer any questions you may have.