SBCI

A POSITIVE IMPACT ON SME FINANCING

FEBRUARY 2019

Here to build business.
Strategic Banking Corporation of Ireland

Innovative funding for SMEs

The Strategic Banking Corporation of Ireland (SBCI) was set up in September 2014 to ensure that Irish SMEs have access to stable, lower-cost, long-term funding options. As a state-owned promotional financial institution and in common with its more established European peers, the SBCI supports the development of an effective market for SME finance.

"The SBCI is lending to more than 26,000 Irish SMEs - which employ almost 142,000 people - by introducing new, lower-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

The SBCI operates three lines of business

Lending

The lending business model of the SBCI is to serve as a wholesale on-lending financial institution. It provides lower-cost, long-term wholesale finance to suitable on-lenders with the benefit of the lower interest cost being passed to SME borrowers. The SBCI's strategy is based on developing a strong pipeline of potential on-lenders to achieve diversity in the market and drive competition while being cognisant of not distorting the market in any lending sector.

Risk Sharing

The risk sharing business model is to provide partial credit guarantees to finance providers to facilitate the advancement of credit to SMEs, including where access to credit is constrained by specific sectoral or economic cycle market failures. The SBCI avails of and leverages risk capacity from State and European supports to design financial instruments which make efficient use of capital and enhance SME access to finance. Examples of risk sharing products include SBCI Agriculture Cashflow Loan Scheme and currently the Brexit Loan Scheme. In Q2 2019, a new long-term investment scheme, the Future Growth Loan Scheme, will also be available.

Service Provision

In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme (CGS) by the Minister for Jobs (now Business), Enterprise and Innovation. This established the SBCI as the primary conduit for risk sharing products (credit guarantees) in Ireland. A revised Credit Guarantee Scheme with enhanced features was launched in July 2018 and is currently on the market.

Key Business Highlights – Progress to date

€1,052m
Total SBCI supported lending

26,061
Total SMEs Supported

SBCI Funded Loans progress to end of 2018

SMEs
21,783
SMEs have secured SBCI loans

Loans
€900m
loans committed to Irish SMEs

Loan size
€41,342
average loan size

SBCI Risk Sharing progress to end of 2018 (Agri Cashflow Support Loan Scheme & Brexit Loan Scheme)

SMEs
4,278
have drawn down SBCI loans

Loans
€152m
loans drawn by Irish SMEs

Loan size
€34,148
Agri Cashflow Support Loan Scheme average loan size

Loan size
€230,000
Brexit Loan Scheme average loan size

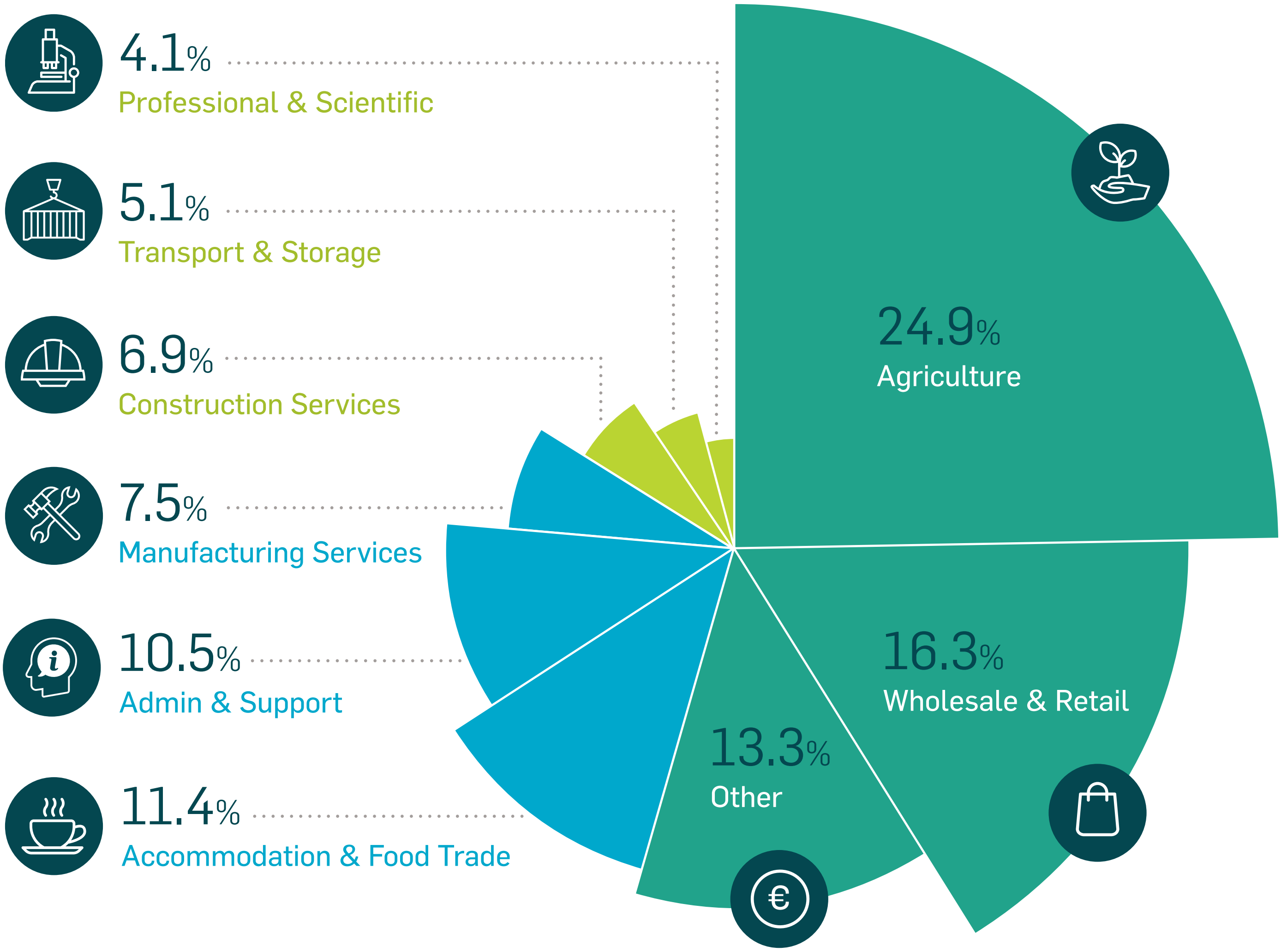
What SMEs use SBCI loans for

(excluding the Agriculture Cashflow Support Loan Scheme)

83% of loans used for investment in growing the business

4% used to refinance loans owed to banks exiting the Irish market

13% used for working capital



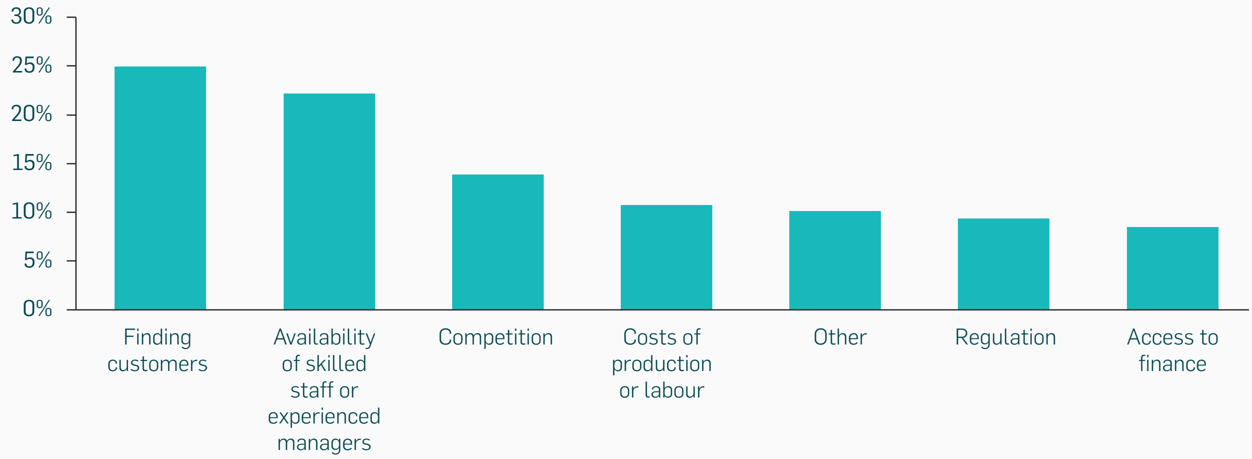
Market Overview

The Irish economy grew strongly in 2018, with 82% of Irish SMEs believing things improved or remain unchanged through the year. Overall, businesses remain optimistic about the general economic environment.

Finding customers and accessing new markets continue to be a concern for Irish SMEs. Conversely, access to finance has become less of an issue for SMEs, with 8.5% considering financing as a significant concern.

As the economy reaches full employment the main concern for Irish SMEs is finding skilled staff. 22% of firms see it as their biggest issue, a noticeable jump from 15% in 2017.

Chief concerns facing Irish SMEs in 2018



Source: European Commission and European Central Bank, "Survey on the Access to Finance of Enterprises (SAFE). Results 2018"

Lending flows continue to improve for the SME sector. New Lending increased by 8.5% in the first three quarters of 2018 compared to 2017, especially in Construction, Real Estate activity and Hotel & Restaurants.

However, 29% of Irish firms surveyed by the EIB reported they are content with using internal funds – compared to 16% of EU firms.

A combination of economic uncertainty (including Brexit) together with legacy issues continues to weigh on investment decisions for Irish SMEs.

According to the EIB, over three quarters of Irish firms consider uncertainty about the future as a real concern. The EIB also states that 19% of Irish firms are not intending to invest in the next three years versus just 10% in the EU as a whole. At the same time, 21% of Irish firms surveyed reported "investing too little" in 2018 well above the EU average of 16%. This lack of investment could result in a competitiveness gap emerging between Irish SMEs and their EU counterparts.

Interest rates remain high for Irish SMEs. There is on average a 300bps difference between the rates paid by Irish SMEs compared to EU counterparts on loans less than €250k. The introduction of risk sharing schemes, such as the Brexit Loan Scheme (max rate 4%), are helping to address this gap.

SBCI progress to date

December 2014
€200m to Bank of Ireland

2015

February 2015
€200m to Allied Irish Banks

October 2015
€51m to Finance Ireland

November 2015
Additional €200m of funds to Allied Irish Banks

November 2015
€25m to Merrion Fleet (closed July 2017)

December 2015
€75m to Ulster Bank

2016

May 2016
€40m to First Citizen Agri Finance

June 2016
€45m to Bibby Financial Services Ireland

November 2016
€70m to Fexco Asset Finance

2017

January 2017
Launch of ACSL Scheme

March 2017
ACSL Scheme fully allocated

June 2017
Completion of Bank on-lending

October 2017
BLS announced in budget speech

2018

March 2018
Launch of BLS

May 2018
Additional €25m to Bibby Financial Services Ireland

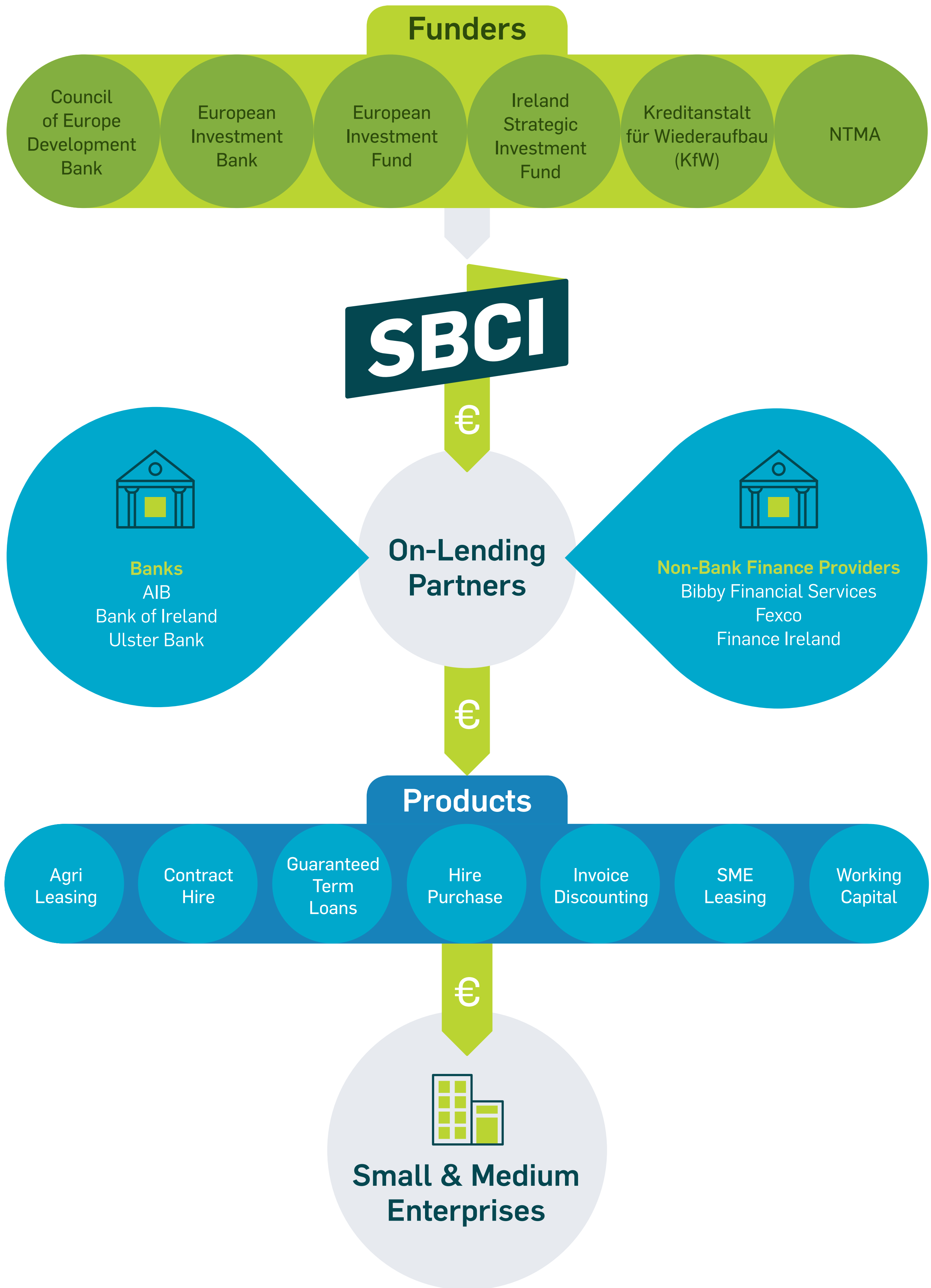
July 2018
Launch of revised CGS

October 2018
FGLS announced in budget speech

December 2018
Additional €75m to Finance Ireland

ACSL – Agri Cashflow Support Loan Scheme
CGS – Credit Guarantee Scheme
BLS – Brexit Loan Scheme
FGLS – Future Growth Loan Scheme

How the SBCI Works



SBCI Loan Schemes

Rialtas na hÉireann
Government of Ireland

Brexit Loan Scheme

Who can apply?

To be eligible, a business must meet the following criteria:

1. Be a viable business with up to 499 employees (SMEs and small mid-caps);
2. Be Brexit impacted;
3. Meet the scheme criteria (Brexit related criteria and InnovFin criteria).

Key features of the Scheme

- €25,000 to €1,500,000 per eligible enterprise;
- Maximum interest rate of 4%;
- Term ranging from 1 year to 3 years;
- Unsecured loans up to €500,000;
- Optional interest-only repayments provided at the start of the loans.

Loans can be used for

Future working capital requirements to fund innovation, change or adaptation of the business to mitigate the impact of Brexit.

Credit Guarantee Scheme

Who can apply?

To be eligible, a SME must meet the following criteria:

1. Be involved in a commercial activity;
2. Be a sole trader, partnership, franchise, co-operative or limited company;
3. In the lender's opinion have a viable business proposal;
4. Able to repay the facility.

Key features of the Scheme

- Facilities of €10,000 to €1,000,000;
- Maximum 2% annual premium (in addition to the interest rate/fee charged by the bank);
- Term of up to 7 years;
- Term Loans, Demand Loans and Performance Bonds.

The scheme has been designed to address 3 barriers to lending

1. Inadequate collateral;
2. Novel business market, sector or technology which is perceived by finance providers as higher risk under current credit risk evaluation practices, or
3. Need for refinancing caused by the exit of a lender from the Irish market.

Future Growth Loan Scheme

NEW FOR 2019

The €300m scheme will be available to eligible Irish businesses including the primary agriculture and seafood sectors to support long-term investments at a rate of 4.5% or less.

Key features of the Scheme

- Loans from €100,000 up to €3,000,000 for eligible SMEs;
- Loans from €50,000 up to €3,000,000 for eligible businesses in the primary agriculture sector;
- Term ranging from 8 years to 10 years;
- Unsecured loans up to €500,000.

SBCI
Here to build business.
Strategic Banking Corporation of Ireland

Strategic Banking Corporation of Ireland
Treasury Building, Grand Canal Street, Dublin 2, D02XN96, Ireland

T 01 238 4000 | www.sbci.gov.ie