Strategic Banking Corporation of Ireland

The Role of State Supported Finance in Addressing Energy Efficiency

Nick Ashmore

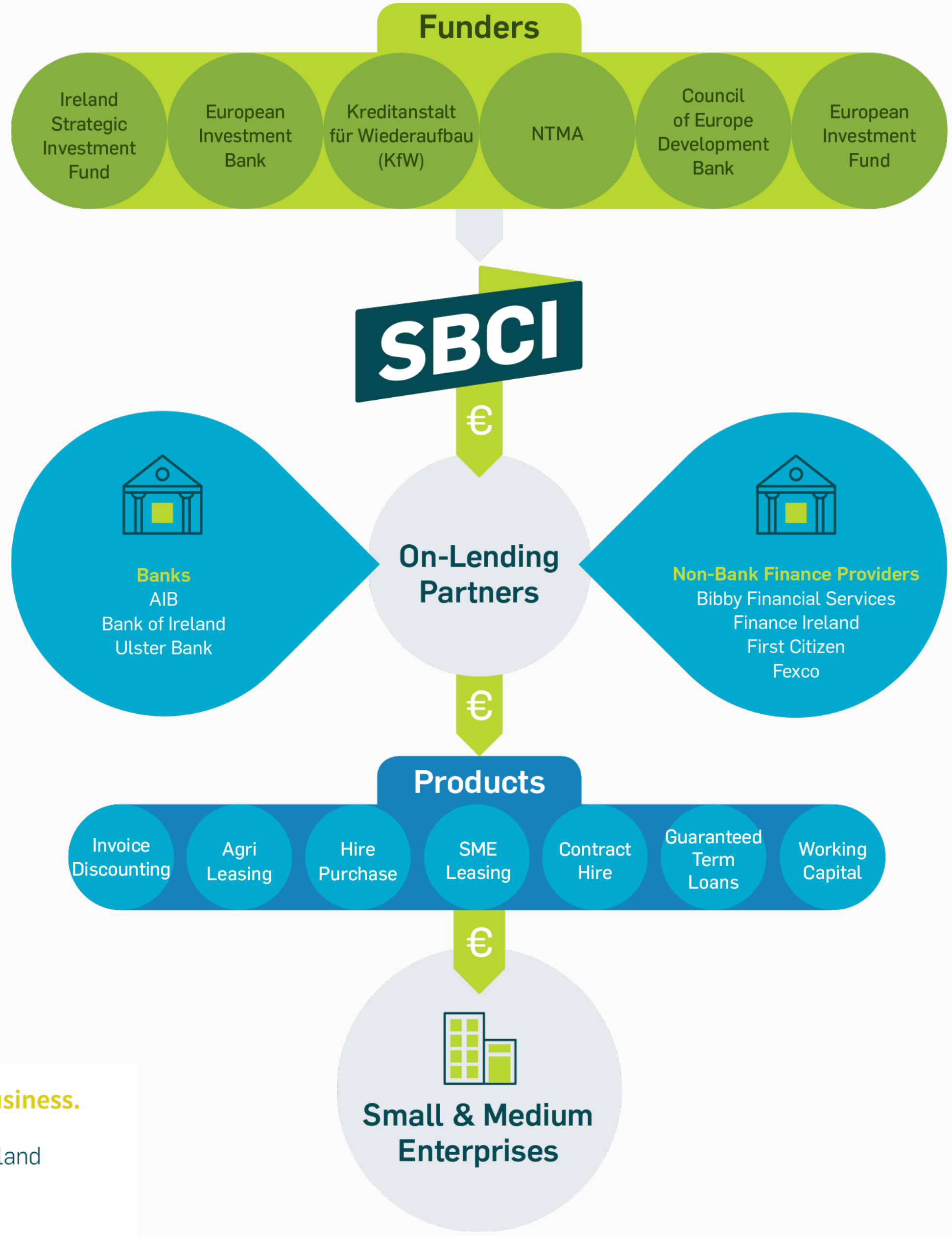
11 October 2018

SBCI

Strategic Banking Corporation of Ireland

Here to build business.

Business Model – On-Lending and Risk Sharing



SBCI Key Business highlights @ end 2017

€920m
Total SBCI supported lending

22,962
Total SMEs Supported

SBCI Funded Loans progress to end of 2017

SMEs
18,716
SMEs have secured SBCI loans

Loans
€775m
loans committed to Irish SMEs

Jobs
113,499
jobs supported

Loan size
€41,401
average loan size

SBCI Risk Sharing progress to end of 2017

SMEs
4,246
have drawn down SBCI Agri Cashflow loans

Loans
€145m
loans drawn by Irish SMEs

Jobs
5,893
jobs supported

Loan size
€34,130
average loan size

Market overview – *Outlook positive but challenges remain*

Irish SMEs are more optimistic about the general economic outlook - 40% believe things improved through 2017 versus only 23% for the EU.

Brexit is weighing on Irish SME decisions. Around three quarters of firms consider uncertainty about the future as a concern.

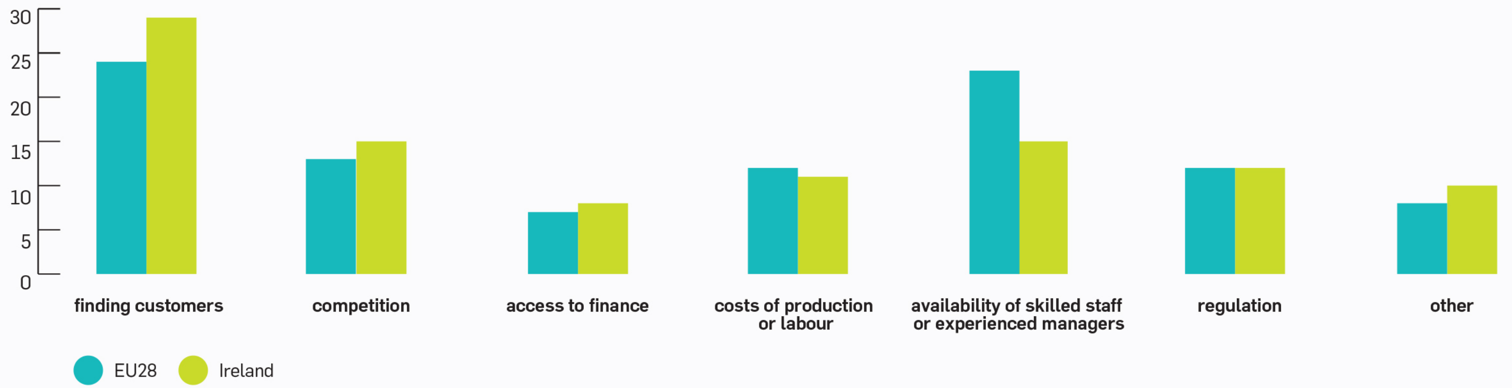
Other chief concerns for Irish SMEs are finding skilled staff and new customers. Access to finance has become less of an issue for Irish SMEs – falling from 12% to 8%. However, it remains elevated compared to EU counterparts.

31% of Irish firms surveyed by the EIB reported they are content with using internal funds – compared to 16% of EU firms.

According to the EIB, 21% of Irish firms surveyed reported "investing too little" in 2017 well above the EU average of 15%. This lack of investment could result in a competitiveness gap emerging between Irish SMEs and their EU counterparts.

Market overview – Outlook positive but challenges remain

Chief Concerns facing Irish SMEs



Lending flows continue to improve for the SME sector. New lending increased by 13% to €3.7bn in 2017.

Gross New Lending has increased in the majority of sectors in the economy. Agriculture and Wholesale & Retail Trade, the largest recipients, accounted for €1.8bn combined.

Loan rejection rates for SMEs in Ireland are still above the EU average. SME loan rejection rates increased to 13.9% in September 2017 from 8.2% in March 2017, remaining above the EU average of 5%.

Interest rates for SMEs fell in 2017 but remain elevated compared to EU counterparts.

Overview of SBCI Schemes (to date and pipeline)

Scheme	Date	Sector	Target	Size €
		To Date		
Credit Guarantee Scheme 2012/2017	2011 Revised 2017	SME	Declined Business Loans	Ongoing
Agriculture Cashflow Support Loan Scheme	2017	Agriculture	Working Capital	€146m
Brexit Loan Scheme	2018	SMEs and Small Mid Cap's impacted upon by Brexit	Working Capital	€300m
		Pipeline		
Future Growth Loan Scheme	2019	SME & Agriculture	Long-Term Investment loans	Up to €300m

SBCI Here to build business. Strategic Banking Corporation of Ireland

SBCI Loan Schemes in the market

Credit Guarantee Scheme 2017

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.

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

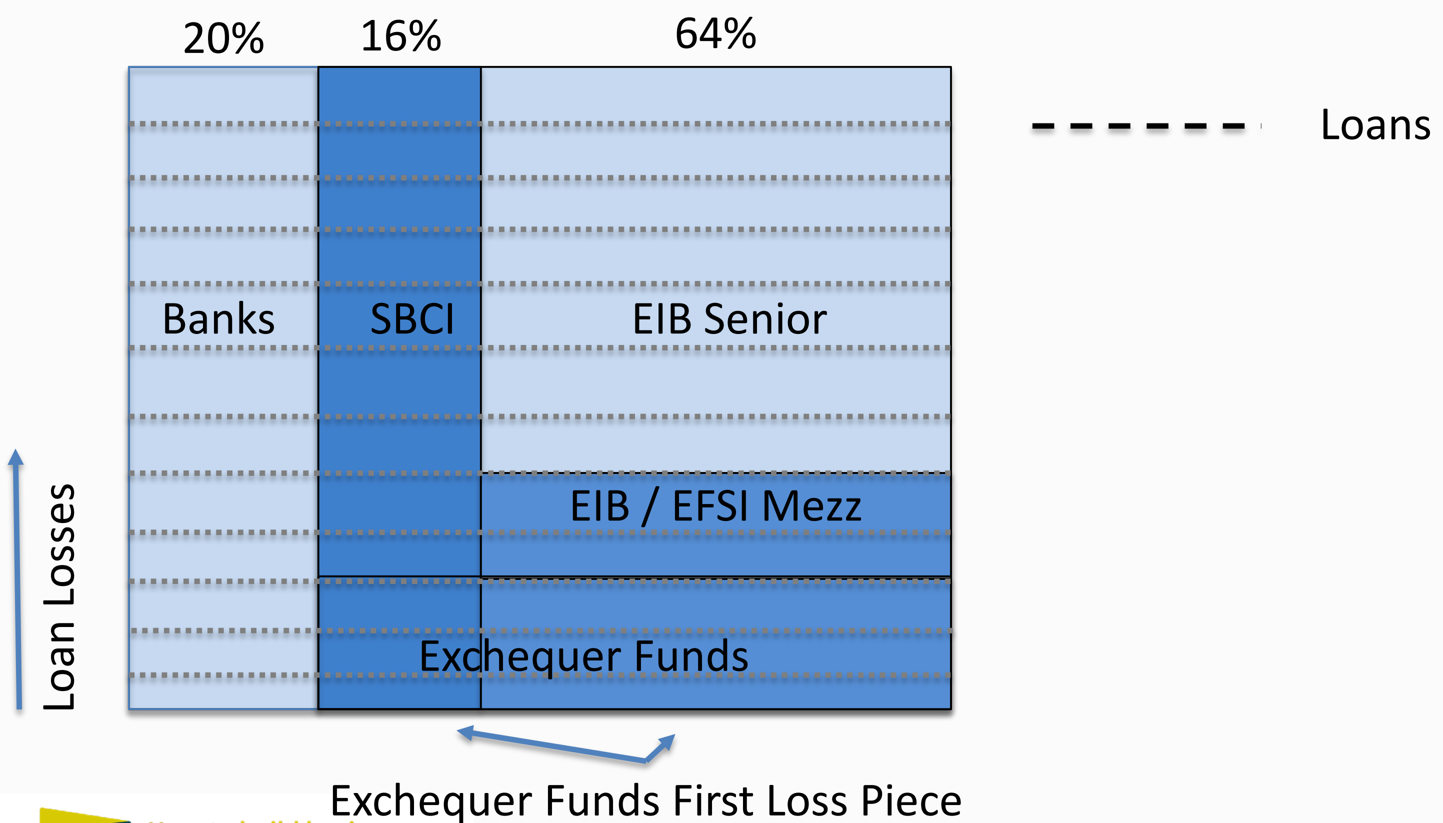
- €25,000 to €1,500,000 per eligible enterprise;
- Maximum interest rate of 4%;
- Term ranging from 1 year to 3 years;
- Unsecured loans up to €500,000;
- Optional interest-only repayments provided at the start of the loans.

Loans can be used for

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

Outline of Scheme Structure (cost to exchequer) – utilising the Future Growth Loan Scheme

A similar scheme structure may be developed for the energy efficiency sector incorporating the provision of lower cost loans alongside advisory support to energy efficiency investments. An example would be the EIB SFSB programme.



Considerations in creating energy initiatives in the SME sector

- Competing **Government priorities** in an environment of limited Government resources.
- **Government Policy** requirements.
- **Behaviour change** and market awareness at end user level.
- Use of a loan as part of a **package of measures**.
- Creating a scheme that meets the consequent **demand of end users**.
- Creating a scheme that make a **significant impact** in achieving climate targets.

National Development Plan 2018-2027

- Investment in energy efficiency, with home upgrades increasing from 30,000 to 45,000 pa from 2021 to achieve a minimum BER Rating ‘B’

- Investments in energy efficiency of existing commercial and public building stock with a target of least one-third to BER Rating ‘B’

- Supports for changing out oil-fired boilers to heat pumps, along with the provision of roof solar, in at least 170,000 homes

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

E **NAshmore@sbci.gov.ie**

www.sbci.gov.ie

SBCI

Strategic Banking
Corporation of Ireland
Here to build business.

EIB Smart Finance for Smart Building

<u>**Main objectives:**</u>

Promote investments in Energy Efficiency and Renewable Energy projects *to be made by households, individuals and SMEs in Ireland by:*

(1) **Supporting Irish** Financial Institutions that invest in Energy Efficiency in buildings **under both: consumer financing and mortgage**;

(2) **Providing financial instruments** for both household and SMEs in order for them to invest/finance their Energy Efficiency projects;

(3) **Stimulate Energy Efficiency demand in MS:** by providing a technical assistance managed by the EIB Group under the ELENA Program.

Energy Efficiency for SMEs – EIB Smart Finance for Smart Buildings (SFSB) Pilot scheme

The SFSB Pilot Phase is being tested in 5 main EU markets: Malta, France, Spain, Netherlands and Portugal, in addition preliminary discussion are starting in Poland and Ireland. A summary of the structures being tested are presented below:

SFSB Programme (2018-2023) 5 transactions under discussion

	EU countries	EUR (m) volume programme	Product Type	Main markets covered	Implementation stage
1	SFSB Malta	100	Capped Guarantee	Consumer, Mortgage and SMEs	Under negotiation expected FC end 2018
2	SFSB Spain	400	Uncapped Guarantee	Consumer, HOA	Uncapped guarantee FC expected in Q1 2019
3	SFSB France	400	Uncapped Guarantee	HOA	Uncapped guarantee FC expected in Q1 2019
4	SFSB NL	350	Loan Fund	Consumer, HOA	Deployment expected in Q1 2019
5	SFSB Portugal	200	Casa Eficiente	Consumer	Loan deployed + Uncapped Guarantee under discussion
	Total estimated volume EURm	1,450			

HOA stands for Home Owner Associations

The market feedback from banks and Managing Authorities is positive. The first guarantee products are expected to be signed end of 2018 – first quarter 2019