DÁIL ÉIREANN

AN COISTE UM CHUNTAIS PHOIBLÍ

COMMITTEE OF PUBLIC ACCOUNTS

Dé Máirt, 9 Márta 2021

Tuesday, 9 March 2021

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Colm Burke,	Deputy Paul McAuliffe.
Deputy Jennifer Carroll MacNeill,	Deputy Marc MacSharry.
Deputy Matt Carthy,	Deputy Imelda Munster.
Deputy Cormac Devlin,	Deputy Catherine Murphy.
Deputy Alan Dillon,	Deputy Verona Murphy.
Deputy Neasa Hourigan,	Deputy Sean Sherlock.

DEPUTY BRIAN STANLEY IN THE CHAIR.

Mr. Seamus McCarthy (*An tArd Reachtaire Cuntas agus Ciste*) called and examined.

Strategic Banking Corporation of Ireland: Financial Statements 2019

Mr. Ian Black (*Interim Chief Executive Officer, Strategic Banking Corporation of Ireland*) called and examined.

Chairman: I welcome everyone to this online meeting. Due to the current situation regarding Covid-19, only the clerk, support staff and I are in the committee room. Members of the committee are attending remotely from within the precincts of Leinster House. This is due to the constitutional requirement that, in order to participate in public meetings, Members must be physically present within the confines of the place where the Parliament has chosen to sit, namely, Leinster House or the Convention Centre Dublin. I ask that committee members confirm their locations before contributing to ensure they are adhering to this constitutional requirement. The Comptroller and Auditor General, Mr. Seamus McCarthy, is a permanent witness to the committee and is attending remotely.

Before we begin our public engagement, we considered the minutes of our meetings of 18, 23 and 25 February and 2 March at our private meeting last week. Standing Order 107(3) requires that the minutes are agreed in public session. Are the minutes agreed? Agreed. As usual, the minutes will be published on the committee's webpage.

Today we are engaging with officials from the Strategic Banking Corporation of Ireland, SBCI, to examine its financial statements for 2019. We are joined remotely from within the precincts of Leinster House by the following officials from SBCI: Mr. Ian Black, interim CEO, Ms Suzanne Sweeney, head of lending, and Mr. Ray Mangan, head of risk, finance and operations. I welcome them to the meeting and thank them and their staff for the briefing material they have prepared for the committee.

When we begin to engage, I ask that members and witnesses mute themselves when not contributing in order that we will not pick up any background noise or feedback. As usual, I remind all those in attendance to ensure that their mobile phones are switched off or on silent mode.

I wish to explain some limitations to parliamentary privilege and the practice of the Houses as regards references witnesses may make to other persons in their evidence. As they are within the precincts of Leinster House, they are protected by absolute privilege in respect of the presentation they make to the committee. This means they have an absolute defence against any defamation action for anything they say at the meeting. However, they are expected not to abuse this privilege and it is my duty as Chairman to ensure that this privilege is not abused. If, therefore, their statements are potentially defamatory in respect of an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative that they comply with any such direction.

Members are reminded of the provisions within Standing Order 218 that the committee shall refrain from inquiring into the merits of a policy or policies of the Government or a Minister, or of the objectives of such policies. They are also reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

To assist our broadcasting and debates services, I ask that members direct their questions to a specific witness. If the question has not been directed to a specific witness, I ask the witnesses to state their names the first time they contribute.

I invite the Comptroller and Auditor General, Mr. McCarthy, to make his opening statement.

Mr. Seamus McCarthy: The Strategic Banking Corporation of Ireland, SBCI, was established in September 2014 to address difficulties that small and medium sized enterprises, SMEs, were perceived to be experiencing in accessing funding from Irish credit institutions, due to lingering effects of the 2008 banking crisis. Since 2017, SBCI has been tasked to provide assistance to SMEs where access to credit is constrained by specific sectoral or economic market failures, including risks arising due to Brexit. To the best of my recollection, this is the first occasion on which representatives of SBCI have appeared before the committee.

SBCI's operations are financed through a combination of State and European funding. Its borrowings are guaranteed by the Minster for Finance, as provided for under the governing legislation. The initial business model adopted by SBCI was based on providing wholesale finance to intermediate financial institutions that act as on-lenders to deliver low-cost funding to SMEs and to introduce competition to the market. The on-lenders include both mainstream banks and non-bank specialist lenders.

SBCI now delivers services in three ways. It continues to offer long-term, low-cost liquidity facilities to intermediate financial institutions that in turn extend finance to SMEs, provides guarantee and risk-sharing facilities to improve the ability of SMEs to access finance and acts as a service provider to the Minister for Enterprise, Trade and Employment in respect of the credit guarantee schemes.

The risk-sharing model is designed to provide partial credit guarantees to lenders in order to facilitate the advancement of credit to SMEs. SBCI added to its risk-sharing portfolio in June 2019 when it launched the future growth loan scheme. This scheme is designed to assist SMEs in making long-term investments in their businesses by providing loans over terms of eight to ten years. This followed the introduction of other risk-sharing schemes such as the Brexit loan scheme in 2018 and the agriculture cash flow support loan scheme in 2017. Operationally, all potential on-lenders are required to demonstrate to SBCI that they have the necessary financial strength and capability to provide the required level of service to SMEs. SBCI carries out reviews on a cyclical basis to gain assurance that on-lenders continue to operate within the accepted risk parameters.

During the 2019 financial year, SBCI used credit facilities from two international and two national funders to provide funding products to SMEs through six on-lending partners, namely, three bank and three non-bank on-lenders. At the end of the year, SBCI had lending of more than €555 million in issue to its six on-lenders. This represented a net reduction of 11.5% in the level of lending over the year when compared with end 2018 lending of €627 million. SBCI's operating expenses in the year amounted to €9.4 million. This included €2.7 million in respect of salaries paid to SBCI staff. Members may wish to note that the staff are employees of the National Treasury Management Agency seconded to the SBCI. The agency also provides administration supports to SBCI, including premises, HR functions, procurement and financial management services. Costs incurred by the National Treasury Management Agency are recovered from SBCI. Salary costs incurred by SBCI in 2019 include performance-related payments of €103,000 that were awarded to seven SBCI staff members in respect of 2019. The then CEO of SBCI received performance-related pay of €25,000 for that year. Income earned by SBCI in 2019 amounted to €9.3 million. This included net interest of just under €5 million and operating expenses recovered from Departments that fund SBCI's various schemes. For 2019, SBCI incurred a loss of nearly €500,000. I issued an unqualified audit opinion on the 2019 financial statements.

Finally, during 2019, SBCI commissioned an external consultancy firm to perform a strategic review of its operations in the context of the State's range of supports for SMEs. The review noted that the original purpose of SBCI had abated because the SME market no longer faced the same challenges of credit availability as was the case when SBCI was established. Nevertheless, the review found that there remained challenges to be addressed, including ensuring access for SMEs to appropriate credit products promoting competitive credit terms and supporting specific SME sectors. The report went on to make a number of recommendations to be considered as part of SBCI's future strategy, including undertaking more detailed appraisal of the specific market challenges within the SME credit sector in order to assess SBCI's methods of intervention. The subsequent market disruption brought about as a result of the Covid-19 pandemic will need to be considered as part of such appraisals.

The chief executive officer of SBCI will be able to provide an update on the progress achieved in regard to the recommendations made in the external review.

Chairman: I thank Mr. McCarthy. I now invite the CEO of SBCI, Mr. Black, to make his opening statement. I hope he will appreciate that our time is limited and I ask that he keep his statement to five minutes. I will give him a reminder after approximately four minutes.

Mr. Ian Black: I thank the Chairman and members for the invitation to appear before the committee today. I am joined by Ms Suzanne Sweeney, head of lending, and Ray Mangan, head of risk, finance and operations. SBCI is Ireland's promotional financial institution for SMEs and has been in business for a little over six years. In that time, we have provided more than €2.3 billion in low-cost, flexible funding and more than 35,000 individual facilities to Irish SMEs and farmers. More than €1.9 billion of SBCI-supported facilities have been drawn down by SMEs to date. We serve SMEs of all sizes and our individual loan facilities have ranged in size from €5,000 to €4 million. The launch of the Government's Covid-19 credit guarantee scheme has provided an additional €2 billion in guarantee capacity to support the SME finance market. To date, the credit guarantee scheme has provided more than 4,000 SMEs with funding of €264 million.

At the outset, I would like to ask members of the committee who are aware of any constituent who owns or works for an SME and is looking for funding, to please refer them to us. We will point them in the right direction as to the facilities that are most appropriate for them and where they can access those facilities through our on-lending partners. While SME awareness of the supports we offer through our lending partners is relatively high, we would welcome members' help in bringing our services to the attention of their constituents wherever possible.

To date, we have teamed up with 33 on-lenders, comprising the five retail banks operating in Ireland, nine non-bank institutions and 19 credit unions. Those credit unions are located throughout the country. In our early days, we sourced low-cost funding which we lent to partners to allow them to lend to their SME customers at a discount on the prevailing market rate. This gave SMEs access to lower-cost funding that provided both cost savings and cash flow benefits to them. In recent years, our role has evolved to reflect changing market conditions. We began offering risk-sharing schemes through partner on-lenders and we now support SME borrowers through five separate risk-sharing schemes tailored to meet specific challenges facing SMEs. Risk sharing allows lending partners to provide loans without taking all of the credit risk, which facilitates easier access for SMEs to these loans through more attractive security requirements, lending criteria or loan pricing.

SBCI's countercyclical model has allowed it to respond quickly to emerging challenges, including the Covid-19 pandemic and Brexit. The value of SBCI as a ready-made conduit for State support was clearly evidenced by the delivery of the Covid-19 working capital scheme and the Covid-19 credit guarantee scheme as timely responses to the crisis. The provision of risk-sharing schemes was made possible by SBCI acting as Ireland's conduit for Government funding and European SME support schemes, initiated by institutions including the European Investment Bank and the European Investment Fund. These schemes aim to make it easier for SMEs to access finance for working capital and investment purposes. We also operate the Covid-19 credit guarantee scheme, launched last year, on behalf of the Department of Enterprise, Trade and Employment. We have operated a similar credit guarantee scheme to enhance SME access to finance since 2016.

I would like to brief the committee on the scheduled strategic review undertaken by SBCI, which concluded last year and resulted in the development of a new strategy for the period 2020 to 2025. This review was informed by an external analysis undertaken by EY and was conducted in accordance with the requirement in the legislation establishing SBCI for a periodic review to ensure that it continues to meet its objectives. The key elements of SBCI's strategy for the period 2020 to 2025 include our plans to launch a range of new SME funding options during the period, to be Ireland's conduit for major European SME funding programmes, to explore the potential for supporting new SME energy retrofit schemes, and to explore the potential for supporting new loans to higher-risk, higher-growth SMEs, together with new forms of finance such as mezzanine and junior debt.

I would like to conclude my opening remarks by acknowledging the contribution to SBCI's development over the past six years of Nick Ashmore, who served as CEO from its inception until last month. I was appointed interim CEO by the SBCI board pending the recruitment of a permanent CEO. I will step down when that appointment is made and return to my role as chief financial and operating officer at the National Treasury Management Agency, NTMA. As members are aware, the NTMA provides staffing and infrastructure supports for SBCI. While SBCI is a separate entity with its own board, all SBCI staff are employees of the NTMA. I hope that my opening remarks and the slide presentation we circulated separately have given the committee a better understanding of the work of SBCI. Ms Sweeney, Mr. Mangan and I will do our best to answer any questions members may have.

Chairman: I thank Mr. Black for his statement. The lead committee member today is Deputy Sean Sherlock, who has 15 minutes, followed by Deputy Catherine Murphy, who has ten minutes. I will give Deputy Sherlock a reminder after 12 minutes.

Deputy Sean Sherlock: I thank the Chairman. I thank Mr. Black and his colleagues for attending before the committee today. I want to start with the situation of Ulster Bank, which is a key lender in the SME food sector. In my analysis, it has been seen as the key bank to go to for small to medium-sized food companies seeking to access lending for productive purposes. I want to get a sense from Mr. Black as to, first, whether there is now a high level of exposure for that sector, given the decision of Ulster Bank to pull out of the market, and, second, whether SBCI is aware of this and if it is something that is on its agenda. If we take the two challenges of Covid and Brexit, as well as the importance of the food sector and the recognition of Ulster Bank as being a go-to bank for small to medium-sized food companies that are export driven, is there a consciousness within SBCI of the need to plug that gap in lending? Is this a conversation that is taking place at present? I would like to get that perspective from Mr. Black, if I may.

Mr. Ian Black: We very much regret the phased departure of Ulster Bank from Ireland. That would be my opening comment. In terms of competition, it is not helpful. In regard to our dealings with Ulster Bank, the bank has confirmed that it continues to offer the full range of services to SMEs, including SBCI and Government-backed schemes. There will be no change for the time being. As reported in the media, we are aware of Ulster Bank's discussions and the memorandum of understanding, MOU, signed with AIB, and discussions with Permanent TSB in terms of its commercial and micro-SME loan books. Ulster Bank will require the consent of the SBCI in advance of any transfer of any and all SBCI-supported products or assets. I note that Ulster Bank has capacity under the Covid-19 capital loan and credit guarantee schemes and this will be made available to SME's. It will be there in the short term and will continue to provide those services to SMEs, including those in the food sector. Obviously, the situation will become clearer over the next period in terms of its discussions with AIB and Permanent TSB.

Deputy Sean Sherlock: Is my perception right and is my research solid in saying that there is a strong relationship between food companies and Ulster Bank in particular? I accept that there are strong relationships with other banks. Ulster Bank is, however, the go-to bank for certain entities in the food sector. I refer, for example, to small, mainly family-run start-ups or, perhaps, high potential start-up companies that are scaling up and exporting.

I am seeking comfort from the SBCI on what Mr. Black said about the MOU. Is that Mr. Black's view, insofar as he can speak for Ulster Bank and insofar as we are still going through a process here? I do not want to see a chunk of lending potential slipping off the radar and a chunk of a sector that is vital to Ireland's economic interests finding itself in a position where it has no go-to bank for the type of funding the SBCI provides to the on-lenders. Can Mr. Black give me some level of comfort in that regard? A signal from the SBCI in respect of that matter would give some assurances to people who live, breathe and work in this sector every day.

Mr. Ian Black: I believe the chief executive of Ulster Bank said its preference is that these assets would be transferred to a full-service retail bank. That is my expectation at this point. Again, it is positive to see those negotiations and discussions are ongoing at the moment.

Deputy Sean Sherlock: I understand that the agriculture fund set up by the SBCI was oversubscribed. Is it the view of the SBCI that there is potential for a new funding facility in that sector? Again, this is a vital sector. It is export-driven and faces the headwinds of Covid-19. Obviously, Brexit still hangs above many companies and producers like the sword of Damocles. Is it the intention of the SBCI to look at potential funding in the agriculture sector? It is lending for productive purposes. The fund in question was oversubscribed in the previous round. Mr. Black might also give us his perspective on that.

Mr. Ian Black: That was one of the first schemes. It was a facility with €150 million in funding. It is correct that it was fully subscribed. A number of other schemes have been launched, including the Brexit and Covid-19 working capital schemes that are available to parts of the agriculture sector; not farmers, but other parts. There are also the Covid-19 credit guarantee and future growth loan schemes. All those schemes are available to farmers and non-farmers. We are also looking at future schemes, however. We have set out both schemes that are available in our slide presentation. We are also discussing another scheme, that is, a European guarantee fund, with the European Investment Fund. Again, however, that is planned for later this year.

Deputy Sean Sherlock: Can Mr. Black talk me through the strategic review for the period 2020 to 2025? He referred to new SME funding for the energy retrofit sector. How advanced is that conversation at present? When does Mr. Black see the SBCI moving into that sector for productive lending? How does he propose that those moneys will be disbursed?

Reference was made to the credit unions. To what extent does Mr. Black see credit unions as a viable option for funding into this sector? It very much filters down to the local economy. Where stands the conversation in that regard?

Mr. Ian Black: Funding in respect of the energy retrofit sector is broken into two parts. One is to do with residential retrofit and the other with SME-related retrofit projects. We are working with the Department to assist it in designing a scheme for residential energy retrofit projects. Obviously, funding is only one part of a residential retrofit project. It is looking at a one-stop shop. Given the number of residential homes to be retrofitted, it will be a major undertaking. Those discussions are at the preliminary stage. It is more likely that something might happen next year rather than this year in respect of the residential energy retrofit scheme.

I believe some of the existing and future schemes will be available for the SME retrofit schemes. As the Senator can understand, because of Covid-19 and Brexit, SMEs have paused some of that investment in light of the fact that the priority is to conserve cash and, perhaps, survive. I expect, however, that investment by SMEs in those kinds of schemes will increase once the restrictions are lifted over time.

Deputy Sean Sherlock: Mr. Black mentioned the Department. Obviously, the SBCI is in discussions with the parent Department. Detail is important for people like us in the committee. Is that money proposed to be divested through the SBCI's on-lending partners? What are the entities through which Mr. Black is talking about divesting moneys?

Mr. Ian Black: We are working with the Department of the Environment, Climate and Communications on assisting it in the design of a scheme. We are very much focused on the financing work stream, however. There are many other work streams. Again, the design of the financing will depend on other elements to the whole retrofit scheme and how much of it will be grant-funded rather than a loan fund and if there will be tax breaks, etc. There are many elements involved.

In terms of the "how", as we have done before, we will be working as an on-lender to intermediaries. We are, under our legislative functions, there to encourage competition and increase the diversity of the supply of funding. We would, therefore, absolutely welcome credit unions as well as other funders.

Deputy Sean Sherlock: I will move very briefly on to the issue of pay. Are pay rates for employees set by the NTMA?

Mr. Ian Black: Not quite. The pay rates were set by the SBCI but the employment contracts are with NTMA. All the staff of the SBCI are employees of the NTMA working for the SBCI. The pay rates are determined by the SBCI and, ultimately, by its board.

Deputy Sean Sherlock: They are performance-related pay rates.

Mr. Ian Black: The pay model is similar to that of the NTMA. They are, therefore, individually negotiated contracts. Every employee has a contract with the NMTA. The remuneration is a fixed basic salary and there is a possibility of performance-related pay. Performance is the word and it depends on the economic environment. Given the economic environment we have experienced over the past 12 months, no performance-related pay has been awarded in the Strategic Banking Corporation of Ireland, SBCI, in respect of last year because of the difficult economic times.

Deputy Sean Sherlock: Why were performance-related payments made in 2019, for instance, when SBCI had a loss that year of €408,000?

Mr. Ian Black: There were performance-related payments made then. The company made a loss but SBCI's mandate is not to maximise profits. It is very much to deliver on its objectives. The reason it made a small loss was because of a reduction in, what the Comptroller and Auditor General referred to as, net interest income. As a result of quantitative easing, the level of funding required by the banks has reduced. There is much cash available, meaning, therefore, the funding is not required. Accordingly, our funding from those sources was reduced and, in turn, our income was reduced.

We have a choice. We have charted our services back to the where we design and assist in the design of schemes. We cover that on a cost basis with the relevant lending department.

Deputy Sean Sherlock: If I may please Mr. Black, as I have limited time, I am not being facetious in any way but I want to understand the dynamic or the metrics Mr. Black uses when determining pay rates. Respectfully, I fail to see the link between quantitative easing and the setting of pay scales.

Mr. Ian Black: I was trying to suggest that our mandate is not to maximise profit. We could do that by charging more and not giving the benefit. All of the benefit we derive on our products is passed on to the SMEs. It is really about cost recovery. To the extent that we made a small loss, perhaps we should have charged more to the relevant lending departments or the cost we would charge to the guarantee should be somewhat higher. One has to look at it over the longer term. I think one year would not probably be fair.

Chairman: The Deputy's time is up. If he has a "Yes or No" question, then he can put it.

Deputy Sean Sherlock: There was some mention in the review relating to the abatement and pulling back of SBCI. I would read that language as withdrawing. Is the bank's existence justified at the present time?

Mr. Ian Black: I think that was more about how in the good times one should withdraw and in the bad times one needs to do more. Given Covid and Brexit, it is more than justified. It has been great for the country to have the SBCI in place because we have been able to deliver on the Covid working capital schemes, the Covid credit guarantee schemes, etc. The fact the entity exists enabled us to deliver on those schemes. It is countercyclical. One does more when the economy is suffering and maybe less when there is not so much of a need to do so and the market is working well.

Deputy Catherine Murphy: I remember the difficulty with credit for SMEs at a particular time and the importance of using the funds available to ensure the viability of many of them. The Act specified that the finances were to be used for the Irish SME sector and for the benefit of the Irish economy.

I want to focus attention on Bibby Financial Services and whether the moneys are exclusively used for the benefit of Irish entities. Bibby paid its parent company €479,000 in interest in 2014. By 2019, it received almost €300,000 from England which was a substantial swing. Looking at those kinds of numbers, how confident is Mr. Black that the money is exclusively spent in Ireland and that we are not benefiting entities outside of the State? What controls in respect of this does SBCI have in place?

Mr. Ian Black: The money can only be used for eligible purposes which is for lending to SMEs. Details of those loans have to be provided by the on-lender to SBCI to ensure that happens. In addition, we also have third party on-lender reviews. We have an external party, in this case KPMG, doing external reviews of the on-lenders to ensure their loan reporting is correct and agrees with the online records, as well as complying with any covenants or conditions attached to those loans. We are happy and satisfied that the loans are being used only for eligible purposes.

We are not focused on the on-lenders. We are very much focused on delivering benefits to the SMEs and making sure that the benefit in terms of the lower interest rate is being passed on to them.

Deputy Catherine Murphy: Is KPMG SBCI's internal auditor?

Mr. Ian Black: Yes, that is this correct.

Deputy Catherine Murphy: For example, did KPMG look at First Citizen where a sizeable amount of money, €40 million, was paid back early?

Mr. Ian Black: It rotates. All of the on-lenders get reviewed externally. On that particular lender, I will have to ask my colleague Ms Suzanne Sweeney for the details.

Deputy Catherine Murphy: I just want to focus a little bit on that. Davy Corporate Finance was an adviser to this sale. There was a particular individual who was director of both companies. The same signing audit partner was used for both. Would that not be a conflict of interest? That person was KPMG. Would SBCI look for those kind of conflicts? How would they show up if SBCI has the same internal auditor? I know it is a small island, we have the same companies being asked to do work and there are Chinese walls and all the rest of it. When one has the same signing auditor, that would seem like a big conflict of interest, however.

Mr. Ian Black: It is an area where one has a limited number of major accounting firms and they do bump into each other. However, it is an area on which the audit risk committee is focused to ensure conflicts of interest, as well as perceived conflicts of interest, are addressed.

Deputy Catherine Murphy: Can Mr. Black come back to us with a note on that particular case and whether a conflict was identified?

Mr. Ian Black: Yes.

Deputy Catherine Murphy: On the ratio of debtors to turnover and the age of debtors, would SBCI have looked at the health of Bibby in the context of it being a partner?

Mr. Ian Black: Yes. Financial due diligence is what the Deputy is referring to. We would have done that.

Deputy Catherine Murphy: Is that done in many cases?

Mr. Ian Black: We do it on the way in. We do it on a quarterly and a yearly basis. It is ongoing. Given the nature of the facilities, they are reviewed at least once a year. That review goes to a credit committee which is chaired by one of the independent non-executive directors, Richard Pelly, who is a former managing director of the European Investment Fund.

Deputy Catherine Murphy: Okay. On a different topic relating to the auditors, in 2017 there was consideration of a second auditor. What happened in that regard? I believe Deloitte was mentioned. Is the Comptroller and Auditor General the only auditor, and why was that considered at that point?

Mr. Ian Black: The Deputy is correct. Under the Strategic Banking Corporation of Ireland Act, the Comptroller and Auditor General is the appointed auditor. It was a company law question as to whether we needed an additional auditor under company law. It was a query that was raised and the legal advice was that we did not, given the nature of the company.

Deputy Catherine Murphy: It is exclusively the Comptroller and Auditor General.

Mr. Ian Black: That is correct.

Deputy Catherine Murphy: That is fine.

Chairman: Deputy, you have three minutes left.

Deputy Catherine Murphy: I am sorry, but I have paper everywhere. What oversight does SBCI have on Bibby Financial Services Ireland? Does SBCI have access to the transactions that it provides to SMEs? How granular is it?

Mr. Ian Black: Each of our on-lenders is required to provide its loan details through what we call a portal, a loan portal, to SBCI. We have all those details. As I said, that is reported. We also then appoint a third party auditor or, effectively, a reviewer to ensure the accuracy of that reporting to us.

Deputy Catherine Murphy: Is that review for every transaction or is it just a sample?

Mr. Ian Black: To be fair, the auditors do a sample of transactions. It is to cover, at a high confidence level, that they are satisfied the controls are operating as intended. Our focus is to ensure that the financial benefit we are giving is being passed on in full to the SME, and that is through the lower interest rates.

Deputy Catherine Murphy: Has the €70 million that was provided been used fully at this point?

Mr. Ian Black: Not yet. The €70 million is a little like an overdraft limit. It is the total that the company has been approved for in terms of facilities from SBCI. The amount drawn goes up and down as a result of how much invoice discounting, factoring or funding it is providing to its SME clients. That amount has not been fully drawn down. Due to the nature of the product, we have slightly changed it from an operations point of view to allow the company, the on-lender, once a month to repay or draw down additional funding, in line with the level of business it is writing. The reason is that to the extent it has too much funding the money might be left in a bank account, and with negative interest rates it does not make sense for Bibby Financial Services Ireland or any on-lender to have large funds earning negative rates.

Deputy Catherine Murphy: My time is limited. Is Mr. Black satisfied or does he think the controls are there to be satisfied that the funding that has been provided has been exclusively used with respect to the Irish economy and that there have not been any incidents where it has been used outside the jurisdiction? Would he be very confident that the controls are there to ensure that is the case and that there has been no exception to that?

Mr. Ian Black: Yes.

Chairman: The Deputy's time is up. Deputy Hourigan will be late so I call Deputy MacSharry, who has five minutes. I will give you a reminder after four minutes.

Deputy Marc MacSharry: Could I get the names of the guests again? I did not get them earlier.

Mr. Ian Black: My name is Ian Black and I am the interim CEO. I am joined by Ms Suzanne Sweeney, who is the head of lending, and Mr. Ray Mangan, the head of finance, risk and operations.

Deputy Marc MacSharry: I thank Mr. Black. I also wish to discuss Bibby Financial Services Ireland. Mr. Black spoke about the loans and facilities SBCI gives it, between €5,000 and €4 million. Is that the average?

Mr. Ian Black: No, it is not. It depends on the scheme. It is not an average. That was the low end and the top end.

Deputy Marc MacSharry: From what scheme was Bibby Financial Services Ireland getting the cash?

Mr. Ian Black: This is the liquidity funding scheme. We provide liquidity to both banks and non-banks through that scheme. The other schemes we referred to are risk schemes, where up to 80% of the risk is guaranteed to the banks or on-lenders or credit unions.

Deputy Marc MacSharry: What amount of money is SBCI giving out in that type of scheme, on average? Mr. Black said it was between €5,000 and €4 million in that particular scheme for farmers, small businesses and so forth. On the liquidity side, what is the typical range?

Mr. Ian Black: I am conscious of the commercial sensitivities.

Deputy Marc MacSharry: This is the Committee of Public Accounts, so it is okay. I am not asking Mr. Black to name the company.

Mr. Ian Black: I will ask the head of lending, Ms Sweeney, to answer that question.

Ms Suzanne Sweeney: To give an example, we provided Bibby Financial Services Ireland with liquidity of up to €70 million. As the CEO said, not all of that has been drawn. To date, Bibby Financial Services Ireland has provided working capital facilities of up to €135 million using that funding. We are happy the funding is going through to the end SME. As mentioned earlier, we get loan-by-loan details so we can be satisfied that the funding is going to the SMEs. Overall, in the liquidity we provided through the banks and our non-bank on-lenders, the average loan size we would have seen through liquidity was typically about €40,000. Obviously, it differs depending on the type of product each on-lender is giving. For example, some of our non-bank on-lenders provide asset finance on equipment, Bibby Financial Services Ireland provides working capital limits, so they would typically be higher, and the banks at the time were providing term loans.

Deputy Marc MacSharry: Bibby Financial Services Ireland got €70 million, of which it drew down €60 million. Is that right?

Ms Suzanne Sweeney: That is correct.

Deputy Marc MacSharry: It employs 24 people. That is approximately €2.5 million per job. Is that correct?

Ms Suzanne Sweeney: The funding goes towards the SMEs.

Deputy Marc MacSharry: What SMEs?

Ms Suzanne Sweeney: They are Irish SMEs that are eligible for working capital facilities. Typically, the type of-----

Deputy Marc MacSharry: It paid €30 million of that to its UK company.

Ms Suzanne Sweeney: Our funding went directly to SMEs and we got all the loan details so we could be satisfied our funding was used for that.

Deputy Marc MacSharry: I liked the first part of the speech, whereby we are supporting farmers, small companies and so forth. However, SBCI has approved €70 million and given €60 million, and the witness said the average was about €40,000.

Ms Suzanne Sweeney: It is not the average in Bibby Financial Services Ireland. It is the average overall in all our liquidity. We have liquidity out with many on-lenders. The average of €40,000 was across all our liquidity schemes. I will have to revert to the Deputy with the average of what is out with Bibby Financial Services Ireland on each SME.

Chairman: The Deputy has one minute left.

Deputy Marc MacSharry: Did SBCI ever carry out an aged debt analysis on Bibby Financial Services Ireland?

Ms Suzanne Sweeney: We would have done a very thorough due diligence on the Bibby Financial Services Ireland organisation, both in terms of its financial capacity-----

Deputy Marc MacSharry: I am sorry to interrupt, but I asked if an aged debt analysis was ever carried out. The answer is a "Yes" or "No".

Ms Suzanne Sweeney: Does the Deputy mean an aged debt analysis on the underlying SMEs or on Bibby Financial Services Ireland?

Deputy Marc MacSharry: I mean Bibby Financial Services Ireland, because that owes the SBCI the money.

Ms Suzanne Sweeney: Yes, we would have done a thorough financial analysis, including that.

Deputy Marc MacSharry: It is a very specific thing, because it is a discount invoicing company. Did the SBCI carry out an aged debt analysis?

Ms Suzanne Sweeney: Yes.

Deputy Marc MacSharry: It might owe in the region of €1 billion. Did the SBCI drill down into that €1 billion to see how much of that was likely to come back?

Chairman: The Deputy's time is up.

Deputy Marc MacSharry: My information is that the SBCI did not. Is the witness certain?

Ms Suzanne Sweeney: We would have looked at the overall group. Our funding is out with Bibby Financial Services Ireland. We carried out a very detailed due diligence in respect of that company and its capacity-----

Deputy Marc MacSharry: I will conclude my questions. I am about to go over time and the Chairman will cut me off. What I am getting from Ms Sweeney is that the SBCI did not carry out an aged debt analysis. That is a very specific term in its business. Unfortunately, my position is that the SBCI was not set up for this purpose. It is bailing out Sir John Bibby and his shipping company. An aged debt analysis was not carried out in respect of that company. What is more, I would question the solvency of Bibby and the fact that the SBCI promoted it and supported it to the tune of €60 million it has drawn down from an approved sum of €70 million. In basic, ordinary day-to-day terms for politicians who vote on legislation to set up things like SBCI, that funding is to support employment and it equates to approximately €2.5 million per job.

Chairman: The Deputy is over time.

Deputy Marc MacSharry: I am just about to conclude. I will do so by making a proposal that the committee consider, under section 748 of the Companies Act, asking the Office of the Director of Corporate Enforcement to examine the support that was given to Bibby and whether the money was used for its intended purpose. Although I am no expert, my reading on this matter recently leads me to believe that Irish taxpayers have dished out €60 million to support Sir John Bibby's commercial enterprises in the UK.

Chairman: I call Deputy Munster.

Deputy Imelda Munster: I wish to begin by asking about the SBCI employees on secondment from the NTMA. Are they civil servants but on a different pay scale and receiving higher base salaries due to their expertise?

Mr. Ian Black: I thank the Deputy. I think we are referred to as public servants. We are not part of the Civil Service. We are public servants. All of the staff of the SBCI or NTMA staff on secondment to the SBCI have the same kind of pay structure as NTMA staff. They are on individual contacts with-----

Deputy Imelda Munster: Do they receive higher base salaries due to their expertise?

Mr. Ian Black: The model is that it was to allow the------

Deputy Imelda Munster: I ask Mr. Black to answer "Yes" or "No".

Mr. Ian Black: They received the market rate for that role. It is not necessarily higher or lower than the market rate.

Deputy Imelda Munster: Do they receive a higher base salary due to their expertise? I ask Mr. Black to answer "Yes" or "No".

Mr. Ian Black: It is difficult to say. One must compare apples with apples. They received the market salary for that role. If one does not pay------

Deputy Imelda Munster: I thank Mr. Black. On the issue of performance-related pay, it made up approximately 5% of remuneration in 2019. These were bonuses, is that correct?

Mr. Ian Black: No, performance-related pay. It is based on the performance of the individual. If the staff member does not perform, the performance-related pay is not awarded.

Deputy Imelda Munster: Yes, so it is a bonus.

Mr. Ian Black: We refer to it as performance-related pay.

Deputy Imelda Munster: Most people would call performance-related pay a bonus. Is it correct to state that within the SBCI bonuses are tightly managed and that they are measured against key performance indicators? They are awarded for exceptional performance, for example?

Mr. Ian Black: Yes, that is correct. Excluding the chief executive, only six people were awarded bonuses in respect of 2019.

Deputy Imelda Munster: Six people. That was for exceptional performance. I know salaries increased somewhat between 2017 and 2019, but bonuses almost doubled in the same period, during which the SBCI went from a profit of €500,000 in 2017 to a loss of €500,000. The bank has gone from profit to loss at a rate of €1 million over two years, so how could it justify bonuses or pay-related bonuses?

Mr. Ian Black: The SBCI is not there to maximise profits, it is there to be a sustainable level-----

Deputy Imelda Munster: I beg Mr. Black's pardon. He stated that the SBCI is not there to maximise profits. If bonuses are tightly managed on the basis of key performance indicators, how can the bank justify awarding bonuses when it lost €1 million over the two-year period to which I refer?

Mr. Ian Black: It reflected the work done and it was agreed by the remuneration committee that this was appropriate in respect of those individuals for 2019.

Deputy Imelda Munster: On what basis? I ask Mr. Black to explain the detail of why it was justified.

Mr. Ian Black: It was based on their individual performance.

Deputy Imelda Munster: As in going from profit to loss?

Mr. Ian Black: That may not be related to the performance of an individual. One looks at the performance of the organisation and the performance of the individual. This is based on the individual's performance.

Deputy Imelda Munster: What sort of bonuses are we talking about in this situation? What is the percentage of the maximum that they would receive?

Mr. Ian Black: The cumulative bonus for the six people was €68,000, so a little over €11,000 per person.

Deputy Imelda Munster: I thought it particularly strange that the bonus for the CEO in the year that the bank went from profit to loss was €25,000. Under what circumstances do people not receive bonuses?

Chairman: The Deputy's time is up.

Mr. Ian Black: Bonuses are not paid every year. I mentioned earlier that bonuses have not been paid to anyone in respect of 2020 in light of Covid, etc. It is for exceptional performance.

Deputy Imelda Munster: But they were given in the period during which the bank was making a loss.

Mr. Ian Black: Yes, but only in respect of six of 23 staff in that year, plus the chief executive.

Deputy Colm Burke: I thank Mr. Black for his presentation. Some of my colleague have raised the issue of Bibby Financial Services Ireland. My understanding is that the SBCI is involved in providing and supporting lending to Irish companies. However, with regard to Bibby Financial Services Ireland, my understanding is that its accounts in 2019 show €299,000 lent to Bibby Line Group, a British shipping and finance company. How does that arise if this funding is mainly aimed at Irish companies?

Mr. Ian Black: I thank the Deputy. Our funding is only used for eligible purposes, that is, to lend to Irish SMEs. In a sense, if the company has other resources, they are not our resources. We are stating clearly that the funding provided by the SBCI can only be used for eligible purposes, which are lending to SMEs and passing on the benefit of this lower-cost lending to those SME businesses.

Deputy Colm Burke: This particular entity is a British shipping and finance company and it received €299,000.

Mr. Ian Black: We are only lending to the Irish operation. It is a big group, as the Deputy stated. We are lending to the Irish operation. As we stated, we have controls in place and we are satisfied with those in the context of ensuring that the lending we are providing is for eligible purposes.

Deputy Colm Burke: My understanding is that it is a British company. This is Irish money which was given to the company here and which was then lent on to the British company.

Mr. Ian Black: No. We encourage competition in the Irish marketplace. As I stated, we regret the departure of Ulster Bank. One of the functions of the Act to encourage and promote new entrants into the Irish market for competition. We encourage that. The point is that we need to ensure that the funding the State is providing is only being provided to eligible Irish SMEs. We are happy that the controls are in place to ensure that this happens.

Deputy Colm Burke: It appears, however, that €299,000 was given to a British company.

Mr. Ian Black: Not all of the funding provided to Bibby Financial Services Ireland comes from the Strategic Banking Corporation of Ireland, SBCI, so we are happy that the funding we are providing is going to Irish small and medium enterprises, SMEs.

Deputy Colm Burke: Mr. Black might come back to me on the specific issue of the €299,000 that went to the British company because that is what is showing up in its accounts.

I have two questions with regard to the second issue I want to ask about. First, is this company that the SBCI is dealing with the only non-bank on-lending partner that provides an invoice financing facility on behalf of SBCI? Second, how does SBCI choose its co-lending partners? What is the process? Is there a procurement process? Is the process open to all financial service providers?

Mr. Ian Black: Yes. At the moment the banks are providing invoice financing to their customers but in terms of the non-banks, Bibby currently is the only non-bank on-lender providing that service.

In terms of the process of being an on-lender, it is open to all and it is fair and transparent. In the slide presentation we provided to the committee we set out that process. What we want to ensure is that the process is fair but also that taxpayers' moneys, and the money of our European partners also, are protected. The most important point is that the benefit of this funding goes to the SMEs. Slides 19 and 20 set out the process for establishing an on-lender partner. As I said, it is open to all. We have a due diligence process in place designed to protect taxpayers' moneys. We have to be happy with the structure proposed, the financial capabilities of the company, its experience in terms of credit and underwriting and also its operational capability to ensure that the benefit goes to the SMEs.

Deputy Colm Burke: I am dealing with a company at the moment that employs 80 people, has had a major downturn because of Covid-19 and has difficulty currently in getting finance even though, in terms of the banks, it is 80% guaranteed by the State. What does the SBCI do with an organisation like that where its own bank is now reluctant to give it additional funding? It needs to keep its 80 employees to keep the operation going. It will have to wait until the market opens up. Can Mr. Black outline what it can do at this stage?

Chairman: I ask Mr. Black to be brief because we have gone over time.

Mr. Ian Black: If a company is not happy with the decision of its bank there is an internal appeals process. There is also the Credit Review Office to ensure that the decision is a fair decision. Obviously, people should shop around, etc. One of the legislative functions is that we have to provide additional credit in a prudent manner. We need to be mindful of that but the Deputy is right. With an 80% guarantee there is or should be a huge incentive to provide that funding.

Deputy Matt Carthy: For the record, I formally second Deputy MacSharry's proposal.

I thank Mr. Black and his colleagues for being here. I have some questions with regard to the agriculture cashflow support loan. Mr. Black mentioned in his opening statement that this scheme is fully subscribed. Would he clarify again the amount of money that was made available under this scheme?

Mr. Ian Black: It was €150 million. I believe €145 million was drawn down. That was the number.

Deputy Matt Carthy: How many individuals or entities would have utilised that scheme?

Mr. Ian Black: I do not have that number to hand. One of my colleagues, Suzanne Sweeney, will respond.

Ms Suzanne Sweeney: There were 4,240 loans made available through that €150 million scheme.

Deputy Matt Carthy: I thank Ms Sweeney. How much of the loans would be still outstanding? In other words, how much would have been repaid at this stage?

Mr. Ian Black: Does Ms Sweeney have that number?

Ms Suzanne Sweeney: We do not have the exact number. I would have to come back to the Deputy but many of those loans were repaid earlier. I see that my colleague, Ray Mangan, has it.

Mr. Ray Mangan: I might add to that. The current outstanding balance is in the region of €35 million.

Deputy Matt Carthy: That is a good repayment record by the looks of it. Are there plans to reopen the scheme?

Mr. Ian Black: Not at this point. We have a number of schemes open and we are looking at a further scheme with the European guarantee fund that would be available to farmers also. That will be a €330 million scheme that we are looking to put in place in the second half of this year.

Deputy Matt Carthy: To give us a sense of this scheme, which appears to have been a success in that it is almost fully utilised in terms of drawdown and participants seem to have had a very good record of paying back, why fix something that is not broken? Why not reinvest the money that has been paid back into a similar type of loan scheme?

Mr. Ian Black: Obviously, the scheme was funded by the Department of Agriculture, Food and the Marine so in a sense we need to work with the relevant Department in terms of funding for those schemes. One of the attractions of that scheme was that it had a very attractive interest rate. I believe it was 2.95%, which was very attractive at the time. That is why it was so over subscribed. We are constantly looking at our existing schemes and looking for new schemes. We are working towards a new scheme later in the year. Again, they are in the slide presentation but the schemes are shown in order of term so there is a working capital facility, which is typically three years; the Covid credit guarantee scheme, which is five and a half years; and the future growth loan scheme, which is seven to ten years. We are trying to design the schemes with that purpose in mind, whether it is for working capital or investment purposes.

Deputy Matt Carthy: Looking through those different types of schemes, there are different types of farms in Ireland, as the witnesses know, and one that is in a particularly perilous situation would be what are broadly described as family farmers as opposed to corporate entities. I would argue that the agriculture cashflow support loan scheme seemed to be very appropriate to that cohort of farmers, perhaps moreso than some of the other schemes. Mr. Black mentioned the potential for new schemes. Will they be based on the same type of model as the agriculture cashflow support loan scheme or will they be more reflective of the future growth loan scheme and others like that?

Mr. Ian Black: We have to work with our European partners. They would have objectives. To the extent that we can get funding from Europe to match with the scheme requirements, the terms have to reflect what the funding from Europe wants but I hear what the Deputy is saying and we will engage further with the relevant Department.

Deputy Matt Carthy: My final question relates to the Brexit adjustment reserve, the famous €1 billion about which we had many discussions. Has Mr. Black's organisation been in any discussions with regard to ring-fencing some of that for its own purposes?

Mr. Ian Black: Not at this stage, no.

Deputy Cormac Devlin: I welcome our witnesses. I thank them for their presentation and the slides they provided in advance of today's meeting. I have a few questions on foot of that. Based on when SBCI was initially established I understand that a loss of more than €5.2 million has been incurred up to 2019. Is there a bad debt provision for the SBCI and if not, why not?

Mr. Ian Black: There are two questions there. The loss to date reflected the set-up costs and in terms of the establishment costs of getting the company up and running before the schemes were put in place so we had the staffing systems in place. In terms of the question about a bad debts provision, the accounts are prepared in accordance with accounting standards, in this case FRS 102. One is required, under that accounting standard, to carry out an impairment review at least once a year. In terms of what we have, we have loans to banks, loans to non-banks and the risk sharing schemes. In 2019, an impairment review was carried out and there was not a need to make a bad debt provision or an impairment provision at that time. There was no objective evidence of impairment. We lend our money to the banks and they lend on to the SMEs. I do not expect to get a bad debt. For that to happen the banks would have to fail. That is unlikely.

Deputy Cormac Devlin: That is not going to happen.

Mr. Ian Black: Never say never but not in the next 12 months .

Deputy Cormac Devlin: I understand what Mr. Black is saying about the establishment costs but the ongoing expenses for SBCI, in terms of premises, financial management, procurement, HR and administration, are all linked with the NTMA. Surely the costs being incurred are quite minimal unless the SBCI is being billed for those *pro rata*.

In his opening remarks, Mr. Black mentioned he used intermediaries to get lending out to market but I note that the SBCI also spent €1 million on advertising. Given the link between the intermediaries and their promotion of the SBCI, why is there a need to spend so much money?

Mr. Ian Black: Our strategy is SME-first so we want to make sure the funding gets to the SMEs and they utilise it. A criticism might be that the deployment speed could be faster. The advertising spend is about creating awareness within SMEs of the various schemes and how to apply for them to ensure they get the benefit of the funding. This funding is provided by Government and European partners so if it is not used it is not a good thing from an SME point of view. We are trying to ensure that awareness is increased.

Deputy Cormac Devlin: Those establishment costs, given the connection to the NTMA, are surely not that much, are they?

Mr. Ian Black: This goes back to 2014 or 2015. The costs have to be allocated fairly. With regard to people working in the business of SBCI, which they were doing once the company was established, those costs correctly have to be charged to that entity. Otherwise we would have a problem with the Comptroller and Auditor General. I think it is-----

Deputy Cormac Devlin: How long can an entity, be it an SME in Ireland or a subsidiary from another jurisdiction, be established before it can apply and approach SBCI for funding?

Mr. Ian Black: Is this with reference to an Irish SME?

Deputy Cormac Devlin: An Irish SME or maybe a subsidiary from another jurisdiction but for all intents and purposes it is an Irish SME. How long does it have to be established before it can approach the SBCI for funding?

Mr. Ian Black: They approach one of our on-lenders and we make the funding available through that on-lender. Provided it is for an eligible purpose, as soon as they are eligible they should apply.

Deputy Cormac Devlin: What makes them eligible? Do they have to be trading for two years, one year or five months? Are there criteria there?

Mr. Ian Black: There are not. Will Ms Sweeney answer?

Ms Suzanne Sweeney: There are certain eligibility criteria for SMEs and it is scheme specific. Typically, they must fall within the definition of SME, which is 250 employees or less, and have certain balance sheet assets or turnover. As long as they meet that criteria, which is available on our website, they should be eligible to go to one of our on-lending partners to apply for our loan. For a lot of our schemes-----

Deputy Cormac Devlin: There is no requirement on trading time, is there?

Ms Suzanne Sweeney: There is not.

Deputy Cormac Devlin: I thank Ms Sweeney and Mr. Black.

Deputy Jennifer Carroll MacNeill: I thank the witnesses for joining us. I will focus on the feedback I am getting from businesses about the availability of SBCI funding during the Covid period. I am hearing clearly that SBCI is not the problem. SBCI is processing the applications diligently and being helpful but the difficulty is getting funding, particularly from the pillar banks. Where somebody approaches the pillar banks, even having been through the SBCI, it is not "flying" with the relationship manager. That significantly impedes businesses which need credit getting the credit that is available. It is suggested that some banks identify preferred accounts to give extra liquidity or finance to. We hear that enough to warrant me asking if the SBCI has any concerns of that sort, which I relay on behalf of businesses in my area.

Mr. Ian Black: I have not heard that feedback yet. We have heard that demand for some of the Covid and Brexit schemes has been muted as a result of the Covid pandemic. People are drawing down on other grant supports rather than loan supports first. It is a credit decision. The State provides an 80% guarantee, which is considerable. The banks are at risk for the 20%.

Deputy Jennifer Carroll MacNeill: Exactly. There are circumstances where they are not minded to take on that 20% risk, even where the State has put all that credit behind providing the additional liquidity to businesses which need it. That sense is coming back strongly. Perhaps this is the first time Mr. Black has heard it but it is something I hear consistently from small and medium enterprises. I also hear that the process the banks are going through is so long after the SBCI. I am talking six, seven or eight months to give a slow "Yes" or a slow "No", which can be as damaging to the SME as a quick, initial decision.

I will go back to the KfW model and go into a bit of detail about that. When did KfW exit the Irish market?

Mr. Ian Black: KfW was a funder to the SBCI at the start. It provided funding, which was provided initially to the banks and then to the non-banks. During 2018, that facility was repaid. There was cheaper funding from other parties and it was not required. We still have a relationship with KfW so, if required, we can go back to KfW. We have funding lines in place with the European Investment Bank, EIB, the Council of Europe Development Bank, the Ireland Strategic Investment Fund and the NTMA. That is purely from a cost point of view, but the relationship with KfW still exists.

Deputy Jennifer Carroll MacNeill: What was the relative cost? How much higher was it?

Mr. Ian Black: It was higher. I would not like-----

Deputy Jennifer Carroll MacNeill: By approximately what proportion was it higher? Was it 2%, 20% or what proportion?

Mr. Ian Black: I do not have the number in front of me but it was materially higher. We are dealing with small numbers. If one is dealing with ten basis points and then goes to 20 basis points, that is 100%. It is commercially sensitive.

Deputy Jennifer Carroll MacNeill: The model KfW had was about trying to keep funding going directly to SMEs. The quotes at the time were to the effect that we want to support Irish SMEs, not Irish banks. This is not about banks, either. This-----

Chairman: The Deputy has one minute left.

Deputy Jennifer Carroll MacNeill: I thank the Chair. The KfW model was very much about getting funding to SMEs, not giving additional funding to banks. What decision was made by the board to move away from that model? Can Mr. Black give me more information on that? I am sorry I have so little time.

Mr. Ian Black: There is no decision. We are funding ourselves from other banks, including the EIB, and lending to on-lenders but only to the extent that they are lending to SMEs. We are not funding the banks for their own purposes. It has to be used for eligible purposes to fund SME loans. The benefit of the cheaper funding we get from others is being passed on to the SMEs.

Deputy Jennifer Carroll MacNeill: How will the SBCI be able to follow up on what I have said about the experience of Irish business and pillar banks? Will there be a review mechanism with the banks to see how they have operated the scheme?

Mr. Ian Black: I will follow up on that but for individual cases there is a review or appeal process internally and there is the Credit Review Office. I will also follow up independently of that.

Deputy Jennifer Carroll MacNeill: I thank Mr. Black.

Deputy Verona Murphy: I would like to be associated with Deputy MacSharry's proposal. I know it has been seconded but I would certainly like to endorse it.

Deputy Jennifer Carroll MacNeill asked about KfW. It might be more appropriate for Mr. Mangan to answer. I am interested in this point. KfW left the SBCI scheme. Is that correct? These are going to be "Yes" or "No" answers, particularly because of the time limitation.

Mr. Ian Black: No, they were a funder to SBCI. KfW is no longer funding.

Deputy Verona Murphy: Despite the terms of the agreement, as far as I am aware, they left it after four years, even though they were entwined for six. Is that correct?

Mr. Ian Black: They left it during 2018. That is correct.

Deputy Verona Murphy: They left it after four years. Is that correct?

Mr. Ian Black: I believe so.

Deputy Verona Murphy: They joined in 2014 and left in 2018. That is four years. If they left it, why did their logo still appear on the website for two years and why was it only removed when that was questioned?

Mr. Ian Black: Because we still have an ongoing relationship with them and they could be a future-----

Deputy Verona Murphy: SBCI did not have their money, did it?

Mr. Ian Black: We did not have their money.

Deputy Verona Murphy: SBCI had people under the illusion that they were still part of this contribution but they had received all of their money back. Is that not correct?

Mr. Ian Black: That is correct, yes.

Deputy Verona Murphy: I cannot understand why SBCI would display a logo for a bank. Did they not question that? Did KfW not question it?

Mr. Ian Black: No.

Deputy Verona Murphy: Why did they withdraw their money?

Mr. Ian Black: They did not. We repaid them because it was more expensive.

Deputy Verona Murphy: They did not request repayment. SBCI just gave them their money back after four years.

Mr. Ian Black: It is because we were able to source cheaper funding. It made economic sense. From the State's point of view, it resulted in a benefit that we could use to supply cheaper funding to SMEs. It made sense to repay it.

Deputy Verona Murphy: SBCI gave them back €150 million, if I am not mistaken, and it sourced that somewhere else. Was that a decision made by the board and was the Minister for Finance consulted on that?

Mr. Ian Black: I would have thought it would have been made by the board.

Deputy Verona Murphy: As there is limited time, can Mr. Black come back and clarify that, please? There was no press release and it was not made public at that time. Was there any reason for that?

Mr. Ian Black: Not to my knowledge. Our focus is very much on SMEs, not on our funders or the on-lenders.

Deputy Verona Murphy: Despite how the money was raised, SBCI appeared in front of the finance committee but it did not disclose that KfW had left or that it still had their logo on its website. Was there some reason for that? Why did SBCI remove the logo? If what Mr Black is saying is true, why did SBCI remove the logo when it was questioned why it was there, when they were no longer funding this, or part-funding this?

Mr. Ian Black: We have a relationship with KfW but if it is going to cause confusion, it is better not to have the logo on the website. That is the only background to it. We have a good relationship with KfW.

Deputy Verona Murphy: Why did SBCI take down the logo?

Mr. Ian Black: Again, I think it is causing confusion.

Deputy Verona Murphy: I think the confusion is why, when they were paid back, SBCI left it up. That is the question that needs answering. One does not tally with the other. If SBCI left it up for two years and then took it down because a freedom of information, FOI, request was made, that does not make sense. The relationship has not changed, has it? Did the relationship change in that time?

Mr. Ian Black: No, we still have a relationship.

Deputy Verona Murphy: To me, it does not make a whole lot of sense that SBCI removed it because it received an FOI request as to why it was still there. Is that the reason SBCI removed it?

Mr. Ian Black: I think it was causing confusion so, just to avoid confusion and to avoid this conversation-----

Deputy Verona Murphy: Who was it causing confusion to?

Mr. Ian Black: I do not know. As the Deputy said, we had this request.

Deputy Verona Murphy: Mr. Black does not know but SBCI still removed it, even though he does not know.

In regard to the eligibility criteria that Ms Sweeney mentioned, it is initially an online application to access SBCI funding. Is that correct?

Mr. Ian Black: Because we are giving state aid, it is an online application to ensure applicants are eligible to receive state aid. That is correct.

Deputy Verona Murphy: It does not actually mean that people will receive funding. It just means they are entitled to apply.

Mr. Ian Black: That is correct. It is that they are eligible for state aid.

Chairman: The Deputy's time is up.

Deputy Verona Murphy: I have one more question. Could we have some insight in writing in regard to the review of that process? Like Deputy Carroll MacNeill, I have many constituents who were eligible but who were not given funding. There was nothing. One of the applications was deemed to be too strong and too good. I would like to see in writing what form of complaints process there was and the statistics in regard to applications granted versus applications refused.

Chairman: Thank you. Before I call Deputy McAuliffe, I want to acknowledge the presence of Deputy Dillon.

Deputy Paul McAuliffe: I thank the witnesses for being with us today. On the process of invoice discounting, does Mr. Black believe that is where SBCI should be in terms of providing additional liquidity to the Irish market or are the loans offered by the pillar banks a better option? Was there consideration of why invoice discounting should be supported?

Mr. Ian Black: I thank the Deputy. In our slideshow, slide 3 sets out our legislative functions, and one of our functions is to promote competition through promoting diversity of funding. This was a source of funding that SMEs were not getting, in that all SMEs were not getting funding to fund their invoices or customer debtor books. It is a new source of funding and it made sense for us to partner with Bibby Financial Services to provide this funding.

Deputy Paul McAuliffe: In establishing it, I presume SBCI had a mechanism where it sought that partner. Did it have criteria for those partners and how did it advertise or tender for it?

Mr. Ian Black: We did not. What we are really saying is that the process is open and people can apply for that process. In a sense, we encourage people to apply, and slides 19 and 20 show the process for applying to be an on-lender and the due diligence required. We are trying to provide lower-cost funding to SMEs and that advantage has to be passed on to those SMEs.

Deputy Paul McAuliffe: We are also trying to protect the taxpayer.

Mr. Ian Black: 100%.

Deputy Paul McAuliffe: Was the existence of a special purpose vehicle, SPV, for this type of partnership with an invoice discounter considered and what sort of equity was it considered that it must be able to present to SBCI?

Mr. Ian Black: Again, we have on-lenders with SPVs and on-lenders with no SPVs. Indeed, credit unions and banks do not have SPVs, so we lend to counter-parties - to on-lenders - and we have to satisfy ourselves with the financial structure. Structures are different, and the Deputy is correct that we need to ensure we protect the taxpayers and our European funders' interests. At the same time, we need to deliver the benefit to SMEs and be happy that the on-lender has the capability to do what it said it can do. That is the due diligence process.

Deputy Paul McAuliffe: Therefore, an SPV or an equity stake was not a requirement to partner with SBCI in regard to this service.

Mr. Ian Black: We do not have a yes-no for SPVs, and we look at them on a case-by-case basis. However, we look at credit enhancement in terms of whether there is equity or other credit enhancement, or, potentially, a parent guarantee as well. In terms of the structure, we are looking at all of those.

Deputy Paul McAuliffe: SBCI is in a very difficult area. It is trying to ensure that risk is minimal but, at the same time, it is trying to make credit available, and I accept that is a difficult situation. Mr. Black said there are ongoing reviews and we have spoken a lot about Bibby today. Is he concerned that the net value of the Bibby line group has dropped between 2013 and 2019? Does that pose a risk to the Irish taxpayer?

Mr. Ian Black: We are aware of it. We are mindful of it but we are focused on the Irish operation and ensuring that the Irish operation is delivering benefit to SMEs, and that, from an Irish taxpayer's point of view, the structure is appropriate. We were satisfied and, having reviewed it, we are still satisfied with that from an Irish perspective.

Deputy Paul McAuliffe: Whether it is these invoice discounters or the pillar banks, is there a concern that while SBCI money sits in the banks, they are effectively leveraging that so that it frees them up in other areas? In other words, the money may not be used for anything other than small businesses but the benefit of having access to that is that it allows them to leverage and make other financial changes to their model. In the case of Bibby, the concern might be that SBCI money is bolstering the Irish arm and it allows the overall group to make changes which may have a risk to us.

Mr. Ian Black: With banks charging negative interest rates on deposits, it is not attractive to have money on deposit. The second point, as I think I said earlier, is that we looked at that structure, which operated more like a term loan, and we have revised it for invoiced financing to allow repayments once a month, so that as the level of loans to SMEs reduces, the loan from the SBCI can reduce and, vice versa, as the level of drawing from SMEs increases, the loan from the SBCI can increase. The loan has been restructured.

Deputy Paul McAuliffe: If there is an opportunity to speak about the pillar banks later, I would appreciate it.

Chairman: We will try to get the Deputy back in later. The Comptroller and Auditor General has indicated that he would like to speak.

Mr. Seamus McCarthy: On the question Deputy Verona Murphy had about publicly stating the repayment of KfW funding, members might want to note that in the business review section of the SBCI's annual report for 2018, the repayment in full of KfW funding was noted.

Deputy Neasa Hourigan: I apologise if my question has already been asked already but I have been attending a meeting of the Joint Committee on Disability Matters. I will try to be quick because I know many Deputies want to speak after me. I have a question about the First Citizen Finance account. It received a €40 million facility in May 2016 that was repaid in October 2018. The cost of that was originally €35,000. Was the cost of the early repayment €35,000 and were the legal and assessment costs incurred more than that? If so, were those costs recovered? On a similar matter, Merrion Fleet finance was repaid early in 2017. The original assessment was for €15,000. Was it €15,000 or were the legal and assessment costs higher? If they were, were those costs recovered from First Citizen Finance?

In my short time here this morning, there has been a discussion about due diligence. Will the witnesses outline what would trigger a fresh due diligence process for a lender? It is proposed that Permanent TSB will buy a large portion of Ulster Bank loans, possibly doubling its current size. Is this a situation where fresh due diligence would have to be carried out to ensure its continued stability as a lender?

Mr. Ian Black: I ask Ms Sweeney to talk about the first two questions and I can address the last point.

Ms Suzanne Sweeney: First Citizen Finance repaid our facilities earlier as it had raised funding through Deutsche Bank, which is public knowledge. That was positive because it was able to raise a wider range of funding to fund a wider range of products. We were a catalyst to enable it to get up and running with that. With all our on-lenders, we incur due diligence and legal costs. We recoup those from the on-lenders once they get through that process.

Deputy Neasa Hourigan: Is it the SBCI's position that it recouped the legal and assessment costs from First Citizen Finance?

Ms Suzanne Sweeney: I would have to come back to the Deputy about the specifics. We recoup all our costs.

Deputy Neasa Hourigan: Similarly, I would be interested in whether we recouped the Merrion Fleet costs because the increase in costs seems considerable.

Ms Suzanne Sweeney: I will check those specific cases but would say that we recoup all legal and due diligence costs from on-lenders.

Mr. Ian Black: The Deputy asked about the potential sale of Ulster Bank loans to Permanent TSB. We will always act in the best interest of the SMEs. In the case of Ulster Bank transferring its loans to another financial institution, it depends on how that would take place. Under the Central Bank Act 1971, which related to banks amalgamating, one bank can transfer loans to another bank with the consent of the Minister for Finance. We have the interest of the SMEs at heart and would be guided by that. People would like for these SME customers to end up with a full service banking offer.

Deputy Neasa Hourigan: For clarity, what would trigger a due diligence process in that context?

Mr. Ian Black: I am not sure. These loans have been-----

Deputy Neasa Hourigan: In the case of Permanent TSB or any bank or financial institution taking over the Ulster Bank loans, is there a specific parameter that the SBCI has that would trigger a due diligence process?

Mr. Ian Black: The loans have to be qualifying but for the transfer to be effective, they need our consent. Ulster Bank would need our consent for the transfer to be allowed.

Deputy Neasa Hourigan: What does the SBCI's consent hinge on?

Mr. Ian Black: We would be guided by what we believe is the best interest of the SMEs and whether it makes sense for the SMEs to be transferred from Ulster Bank, as it winds down, to AIB, Permanent TSB or another entity.

Deputy Neasa Hourigan: That is not especially clear to me.

Chairman: The Deputy's time is up. I have a couple of questions. Ms Sweeney mentioned due diligence that is carried out prior to engagement with on-lenders. Is the requirement for a special purpose vehicle a requirement for all on-lenders?

Ms Suzanne Sweeney: It is not. We judge each on-lender proposal on a case-by-case basis to ensure that they have the financial strength and operational capacity to deliver the loans while we protect the taxpayers' funds.

Chairman: It is not a requirement.

Ms Suzanne Sweeney: It is not a requirement.

Chairman: Was it required in the case of Bibby? My understanding is that it was not.

Ms Suzanne Sweeney: I cannot speak to individual cases. We judge every on-lender on a case-by-case basis based on their financial strength.

Chairman: In the case of Bibby, the witnesses were talking about €70 million. Surely the company and the people in charge of credit control would know whether a special purpose vehicle was set up or not in the case of Bibby.

Ms Suzanne Sweeney: We would have done thorough due diligence in the case of Bibby with regard to the Irish entity to ensure that our funds would be provided to SMEs and that we would be able to tightly control and monitor those funds to make sure that they went out to SMEs.

Chairman: On due diligence and tight controls, was the SBCI aware that, prior to the crash, Bibby provided finance to 465 companies, 70% of which were either dissolved or liquidated? Did the SBCI discover that as part of its due diligence?

Ms Suzanne Sweeney: No. That is not information that we would have. Is this in the context of SMEs that it provided loans to which went out of business?

Chairman: Some 70% of the companies that it provided finance to were either dissolved or liquidated. That does not tally with the figures that I have. I will have to go back and check our records-----

Chairman: I ask Ms Sweeney to come back to us on that.

Ms Suzanne Sweeney: -----but we would have done a very thorough due diligence with Bibby to look at its current loan book and the risk it takes on that loan book.

Chairman: Can I ask that before the end of the meeting Ms Sweeney clarifies whether there was a requirement for a single purpose vehicle, SPV, in respect of Bibby?

The other questions I have are for Mr. Black. On the Brexit loan scheme, the take-up seems to be very low. Some €58 million in loans has been approved. I know that the interest rates are up to 4.5%, which is quite high. It is the same with the Covid-19 working capital loan and credit guarantee schemes, and the loans. In the case of the Covid schemes, a facility of up to €2 billion is available but, as I understand it, only €264 million has been approved. Again, the interest rates are quite high. When the schemes were put together, many SMEs and companies, particularly those in economic difficulty, said that the last thing they needed was more finance. Is the interest rate a problem? Also, what interest rate is the SBCI paying for that money?

Mr. Ian Black: The maximum interest rate on the Brexit or Covid working capital loan schemes is 4%. That 4% is for anything up to three years, and loans of up to €0.5 million are unsecured. In my view, getting unsecured money, without providing any personal guarantees, at an interest rate of 4% for up to three years, is an attractive rate. The reason for the slow uptake has been uncertainty with regard to Brexit, and Covid has meant that there has been limited demand. People are conserving their cash and taking grant supports such as the employee wage subsidy scheme and the tax warehouse scheme, etc. I think we will see-----

Chairman: On the interest rates, what interest rate is the SBCI paying for that money?

Mr. Ian Black: We are not supplying the funding there; we are supplying a guarantee.

Therefore, as part of the guarantee-----

Chairman: I understand that.

Mr. Ian Black: -----at 80%-----

Chairman: What is the interest rate-----

Mr. Ian Black: The funding is being provided by the-----

Chairman: Let me ask the question. What is the interest rate that that money is being accessed at?

Mr. Ian Black: It is whatever the average cost of funds for the bank or the on-lender is. Given that rates are low, it is certainly below 4%. It is a blended rate of what they are paying the depositors and, as the Chairman knows, the deposit rates are very low.

Chairman: Could we return for a moment to the issue of the bonus? As I understand it, there are 23 employees in the SBCI, and six of them got a bonus in the year €0.5 million was lost, in 2019. Mr. Black clarified that. I believe five or six people got the bonus. Can I ask-----

Mr. Ian Black: Yes. It was six, plus the chief executive.

Chairman: Plus the chief executive. Could Mr. Black clarify that the chief executive got €25,000, roughly one quarter of that money?

Mr. Ian Black: Yes.

Chairman: The chief executive got one quarter of it, so that left roughly three quarters of it to be split between five other individuals. Were those five individuals senior people within the company?

Mr. Ian Black: There were six names. A number of them would have been senior people in the company.

Chairman: I ask Deputies wishing to speak again to raise their hands, and I will come to them in order. I ask them to stick to the two-minute time limit, because I want to bring in as many members as possible. The first member with his hand raised was Deputy Sherlock. He has two minutes.

Deputy Sean Sherlock: I appreciate the Chair for letting me back in. I have an example of an SME that is operating in the tourism, leisure and outdoor sector. The owner made approaches to Close Brothers and KBCI in respect of SBCI funding. When he contacted KBCI, he was informed that it was using the SBCI future growth loan scheme fund, but it was, and I quote from the email, "only offering loans to businesses registered with a professional body". I ask the SBCI to carry out an examination of that interaction internally. I can give the witnesses the name of the company following the meeting. None of us wants to see unnecessary impediments being put in the way of SMEs if they happen to be seeking funding in a sector of the economy that might not pass muster with "banking types". I might be a little unkind in my use of language. The application is somewhat left field, but nonetheless, it is worth further examination. The owner seems to have to jump through hoops with the SBCI in order to pass muster. The main point that I am making is that certain sectors of the economy should not be discounted on the basis that they are not deemed to be fashionable or *de rigueur*.

Mr. Ian Black: I ask the Deputy to send us the details and we will follow up with that SME customer. The same applies to other members. If they know of SME customers that are experiencing issues, I ask them to contact us and we will follow up with them.

Chairman: I call Deputy Devlin. He has two minutes.

Deputy Cormac Devlin: I thank the Chair for allowing be back in. I wish to ask Mr. Black and his colleagues about the strategic review. How is it proceeding and what elements of it is the SBCI proceeding with in 2021? That is my first question. I will ask my second question if there is time.

Mr. Ian Black: The review was to confirm whether it made sense to continue with the SBCI. The review confirmed that and made a number of suggestions. One related to the model, which is an on-lender model, whereby we do not lend directly to SMEs. That was considered in the review, and it was decided that the model was the appropriate one to continue with. The focus is more on SME innovation. SME first is the core of this. We are looking at doing more in respect of innovation products and climate action. Recommendations were made in those two areas.

Deputy Cormac Devlin: Were any internal recommendations made about processes within the organisation and how clients and portfolios are handled?

Mr. Ian Black: Obviously, we should look at making the process as simple as possible, and constantly improving it. It was recommended that we look at that. In respect of product development, it was recommended that we do more in-house research into what SMEs really require. Rather than just launching schemes, we must ensure that those schemes are fit for purpose. That is what we have taken on board.

Deputy Cormac Devlin: On internal controls, for instance, I note that the SBCI has an audit and risk committee, a credit committee, a remuneration committee, and others. Without having to name members, what organisations are represented on those committees to ensure proper oversight?

Chairman: I ask Mr. Black to answer briefly.

Mr. Ian Black: As I said, the chairman of the credit committee is Mr. Richard Pelly, former chief executive of the European Investment Fund. All members are listed in the annual report. Ms Barbara Cotter is the chairwoman of the board, Mr. A. J. Noonan is the chairman of the remuneration committee, and Mr. Tom McAleese is chairman of the audit and risk committee.

Deputy Catherine Murphy: The strategic review commissioned by the SBCI and done by EY was obviously an independent review. However, EY also had client companies for whom it acted as auditor. In respect of independence, how can it be assured that the review is independent? EY's reputation precedes it, because it was the auditor to Anglo Irish Bank and we know how that worked out. Does SBCI consider looking to companies outside of the State when it is seeking to conduct an independent review, so that there are not those conflicts of interest, in the same way, for example, that Sport Ireland had to look outside of the State when it commissioned KOSI to do some work on the FAI? How confident can the SBCI be that it is independent when it has a dual arrangement?

Mr. Ian Black: With regard to the EY review, we must follow public procurement, which is an open, fair and transparent process. We have safeguards and contractual obligations to ensure there are no conflicts of interest. In terms of the EY review, it worked with its colleagues in Scotland who had carried out a similar review to leverage the expertise and knowledge from that review in our review.

Chairman: Deputy Verona Murphy has two minutes.

Deputy Verona Murphy: I will return to KfW. The reason I am asking my question is that we find ourselves in difficulty in the last few days with regard to our reputation, given what is happening in Davy Group and the exit of the banks. We are going to be left with a duopoly. It is paramount that there is integrity in what we do. Did KfW raise any concerns before SBCI paid it back about how the money was being distributed in SBCI?

Mr. Ian Black: No.

Deputy Verona Murphy: There was no correspondence from KfW.

Mr. Ian Black: No.

Deputy Verona Murphy: Mr. Black is happy that it had nothing to do with the process for how the money was being distributed.

Mr. Ian Black: Yes.

Deputy Verona Murphy: The vice president of KfW, Christian Krämer, said: "We want to support Irish SMEs, not Irish banks. This is not about banks creaming off something for themselves; the advantage has to reach the end customer."

Chairman: The Deputy has one minute left.

Deputy Verona Murphy: That was his statement. Mr. Black is happy that this was happening and that it did not cause an issue for KfW.

Mr. Ian Black: That is correct.

Deputy Verona Murphy: Did we replace it with another funder?

Mr. Ian Black: The Deputy has seen it in our report. We took funding in from the Council of Europe Development Bank.

Deputy Verona Murphy: Did that come in at the same time in 2018?

Mr. Ian Black: Yes, it was around the same time.

Deputy Verona Murphy: Was it cheaper?

Mr. Ian Black: Yes, it would have been.

Deputy Verona Murphy: How much?

Mr. Ian Black: It is better if I refer back to the Deputy in writing. I do not have the figures with me.

Deputy Verona Murphy: If Mr. Black is referring back in writing, can he tell me what the interest rate was for KfW, what the funder replacement was and what its interest rate was? It is really what the differential was when we replaced KfW.

Chairman: The Deputy's time is up.

Deputy Verona Murphy: I am happy with that, but I would like that information to be sent to the committee.

Chairman: Deputy McAuliffe has two minutes.

Deputy Paul McAuliffe: I will return to the issue of the pillar banks. Like other Deputies, I have been receiving comments that the approval process with the pillar banks has been very slow. There is also the communications element. People or small businesses that do not have a relationship are dealing with call centre staff, some of whom do not have the professional diploma in financial advice qualifications, and they are simply not being advised that the SBCI is available. That is either a deliberate action on the part of the banks to avoid it, or it is being done because there is not the correct structure. Will Mr. Black comment on that?

Second, there are the arrangement fees that are being applied to the loans by Ulster Bank and AIB. Has there been any guidance or discussion on that? It appears to add additional cost to a Government-backed loan.

Mr. Ian Black: If SME customers are unhappy, they should appeal it by following the internal process and through the Credit Review Office. I have also told Deputies to reach out to SBCI and we will follow up on their behalf with the pillar banks on why there are those delays. I will separately follow up with the pillar banks in terms of the delays the Deputy mentioned as well.

As regards arrangement fees, I am not familiar with the detail. There is a maximum interest rate which should include the amortisation of that arrangement fee.

Deputy Paul McAuliffe: Additional arrangement fees would not be in keeping with the SBCI scheme.

Mr. Ian Black: I will follow up on that.

Deputy Paul McAuliffe: Has SBCI carried out any audits to see if that is taking place?

Mr. Ian Black: I do not have the details in front of me so I will have to refer back to the Deputy on it. Does Ms Sweeney wish to add to that?

Ms Suzanne Sweeney: With regard to the arrangement fees, they should only be charging what has been approved by the Central Bank for their fees, and no more than that. They should also only charge the maximum interest rate. As we said earlier, we carry out audits on our on-lenders to check that they are only applying those interest rates and fees.

Deputy Paul McAuliffe: The witnesses might make that information available to the committee, if they can.

Chairman: We will wait for that response. Deputy Munster has two minutes.

Deputy Imelda Munster: Mr. Black said in his opening statement that SBCI would be Ireland's conduit to major European SME funding programmes. Out of curiosity, is SBCI involved in any conversations regarding the distribution of the Brexit adjustment reserve fund or is it involved in that?

My other question relates to the German bank, KfW, that has left SBCI. My understanding is the KfW charges an interest rate of 1.2% for SME loans, as opposed to the SBCI interest rate of 4%. Is there anything that would preclude SBCI from offering interest rates similar to KfW's rates?

Mr. Ian Black: I think the rate the Deputy is quoting is for KfW loans in Germany, not Ireland. It is certainly not providing that type of funding directly to SMEs in Ireland.

On the question of the Brexit funding, that is not being made available to us. That is a different scheme.

Deputy Imelda Munster: On the interest rate, is there anything that would preclude SBCI from offering that type of interest rate?

Mr. Ian Black: In order to get that, we would have to subsidise the banks to do it. We need the money from the Exchequer, either from the Department of Agriculture, Food and the Marine or the Department of Enterprise, Trade and Employment, and it is state aid. It is a subsidy and we need to comply with state aid rules. It is subject to that.

Deputy Jennifer Carroll MacNeill: Returning to KfW, who made the decision to refund the money early? It is clear from freedom of information requests that there are no board minutes of this decision. Why was there no co-ordinating to clear this decision? In addition, what is SBCI's forecast profit or loss for 2021 and 2022?

Mr. Ian Black: On KfW, it would have been made by the chief executive or board. The board would have been informed. I do not have the minutes in front of me so I cannot-----

Deputy Jennifer Carroll MacNeill: Is Mr. Black saying that the chief executive made the decision and informed the board?

Mr. Ian Black: No, let me double check and refer back to the Deputy about the minute and the approval process. It would have been made with the knowledge of the board.

Deputy Jennifer Carroll MacNeill: Would that have been minuted? We do not see it in the minutes.

Mr. Ian Black: I have to check the minutes.

Deputy Jennifer Carroll MacNeill: Can the witness refer to the forecast profit and loss for 2021 and 2022?

Mr. Ian Black: I will ask Mr. Mangan to reply to that.

Mr. Ray Mangan: Our financial statements for 2020 are under review at present. They are not finalised. They have to be audited by the Comptroller and Auditor General and they have not been approved by the board. However, to give the Deputy an indicative figure, we expect a loss in the region of €1.7 million for 2020.

Deputy Jennifer Carroll MacNeill: What is the forecast for 2021 and 2022, which was my question?

Mr. Ray Mangan: In the 2021 budget for the year, it would be a loss in the region of €2 million.

Deputy Jennifer Carroll MacNeill: What about 2022?

Mr. Ray Mangan: It is on similar lines.

Chairman: I understand Deputy MacSharry wishes to speak again. It should be brief because we are up against the clock.

Deputy Marc MacSharry: I understand that. I had to step out for a second, but I understand Ms Sweeney said that Bibby Financial Services Ireland has been funding invoices of €135 million. Is that correct?

Ms Suzanne Sweeney: It has provided funding limits to Irish SMEs of €135 million to date.

Deputy Marc MacSharry: That is approximately €30 million per year.

Ms Suzanne Sweeney: I would have to check our details for that.

Deputy Marc MacSharry: Give or take €30 million per year, which sounds like big money to the average punter and, indeed, me. The money has been turned around. To fund €30 million in invoices per year, €5 million is needed every 60 days. Some €1 million goes out and €1 million comes in, for example. If the €60 million we have provided was to fund discounted invoices, it should have funded somewhere in the region of €1 billion to €1.5 billion. This further bears out my point that it was only every using for discount invoicing €5 million or €6 million of the €60 million we provided of the €70 million approved. The rest was for Sir John over in England.

Ms Suzanne Sweeney: It does not fund individual invoices the way the Deputy described it. It funds debtor books. It gives a commitment to an SME of a limit for a two-year period. An SME can draw up to that limit and draw up and down. That is how this facility works. The lender must have funding to fund such facilities because of the way invoices come in and out on debtor books. It is not funding on an individual invoice basis.

Deputy Marc MacSharry: There is money coming in constantly. A lender does not give €20 million and tell someone to pay it back in two years' time. Bibby Financial Services is not saying that-----

Ms Suzanne Sweeney: It has given commitments to SMEs that it can use limits of up to €135 million for two years. That usage can fluctuate, but Bibby Financial Services has done that with the benefit of using €60 million of our funding to date.

Chairman: Time is up.

Deputy Marc MacSharry: I hope that the committee will proceed with the proposal, which was seconded and I believe was supported by others.

Chairman: Since some members are not present, I ask that the Deputy put the proposal to the committee formally at our next meeting. I do not have any problem with it being proposed, but we should be fair to the other members and put it formally so that all members can consider it. We will take it at the next meeting, if that is okay.

Deputy Marc MacSharry: I am okay with that. The clerk might circulate the exact wording, which I sent him, to all members and we can decide on Thursday.

Chairman: I will ask him to do that so that all members will have an opportunity.

There is just one minute left, but I have a question for Mr. Black. When the SBCI was established, it was needed and there was a role for it because SMEs could not access finance in the years after the crash. I am looking for a brief answer, although I know it will be unfair to make him reply so quickly. Could there be a role for the SBCI as a publicly owned bank in future? We are unusual in Europe. German banks have been referenced at this meeting. In Germany, many banks are publicly owned. As a publicly owned bank, could the SBCI become a major player, perhaps even a third force, in Irish banking?

Mr. Ian Black: That is a decision for the Minister in that it is a policy matter. We have a shareholder expectation letter that sets out the way we must operate, that is, through the on-lender model.

Chairman: I know it is a decision for the Minister, but speaking as CEO, could Mr. Black see the SBCI fitting into the role?

Mr. Ian Black: Again, it is a decision for the Minister. We have been effective in what we have been asked to do. For example, the recent risk-sharing schemes relating to Covid and Brexit, for example, the Covid credit guarantee scheme, have been effective. There is a need for an entity like the SBCI. It was fortuitous that it existed during the past year and a bit.

Chairman: I thank Mr. Black for his reply. I thank the three witnesses for participating and for the information they provided. I also thank the Comptroller and Auditor General and his staff for participating and assisting the committee. Is it agreed to ask the clerk to seek any follow-up information and to carry out any agreed action arising from the meeting? Agreed. Is it also agreed that we note and publish the opening statements and briefings provided for today's meeting? Agreed. The committee will adjourn until 2 p.m. on Thursday, 11 March when it will meet in private session. The next public meeting is on Tuesday, 23 March when the committee will consider correspondence it has received and that members wish to deal with in public.

The witnesses withdrew.

The committee adjourned at 11.35 a.m. until 9.30 a.m. on Tuesday, 23 March 2021.