SME FINANCE

SME / SMP CONGRESS SCHEVENINGEN

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Basel I & II ; one of the biggest changes in banking

- Basel I; 1988
- Basel II; 2008

Basel I

– 1988: 8% solvency requirement (regulatory capital) on lending regardless of risk profile SME client

– Solvency requirements can be lowered by the use of specific collateral such as residential mortgages, cash, government guarantee.

advantage:

– “simple, straightforward”

disadvantage:

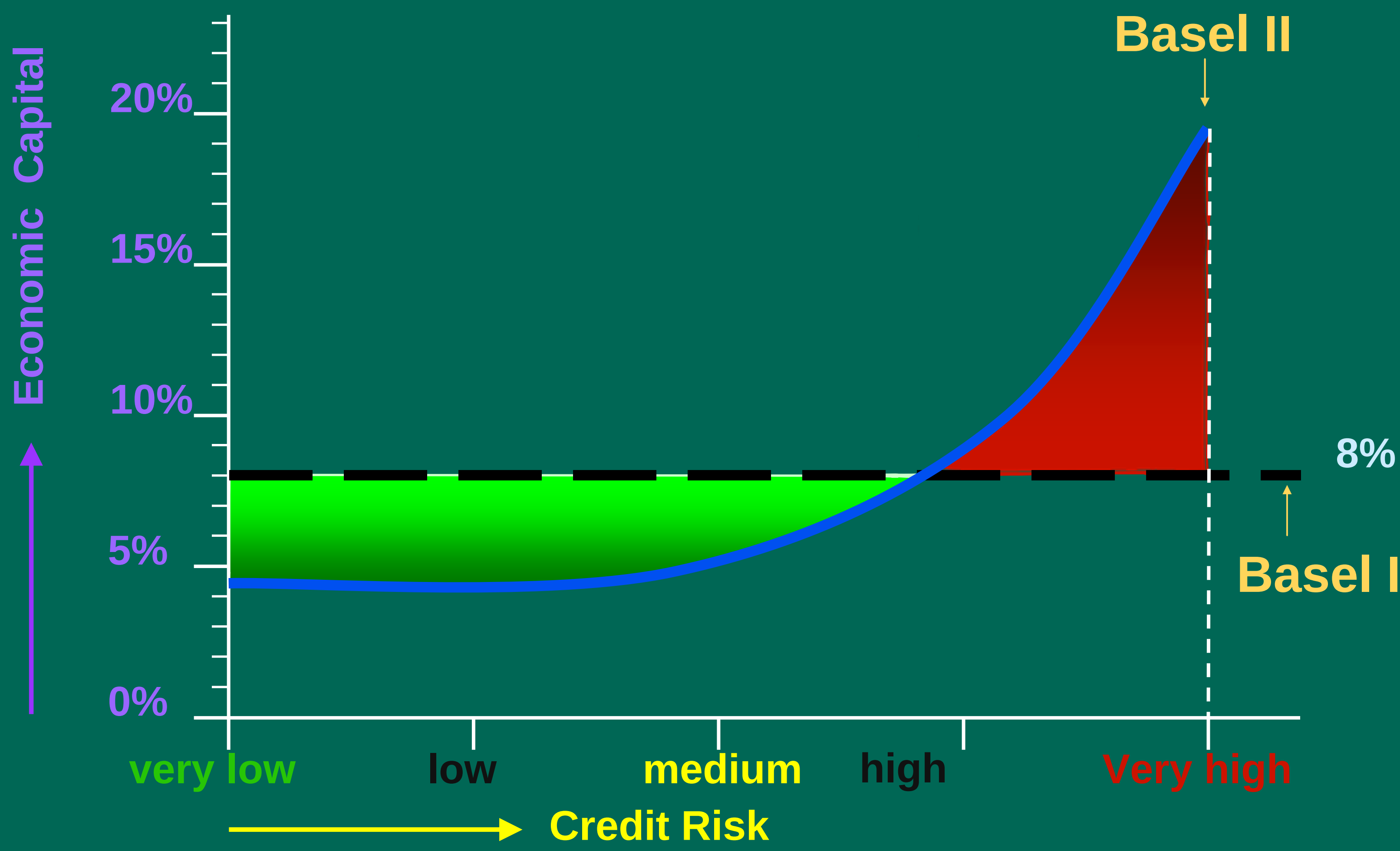
– Too rough

– No differentiation for specific client characteristics

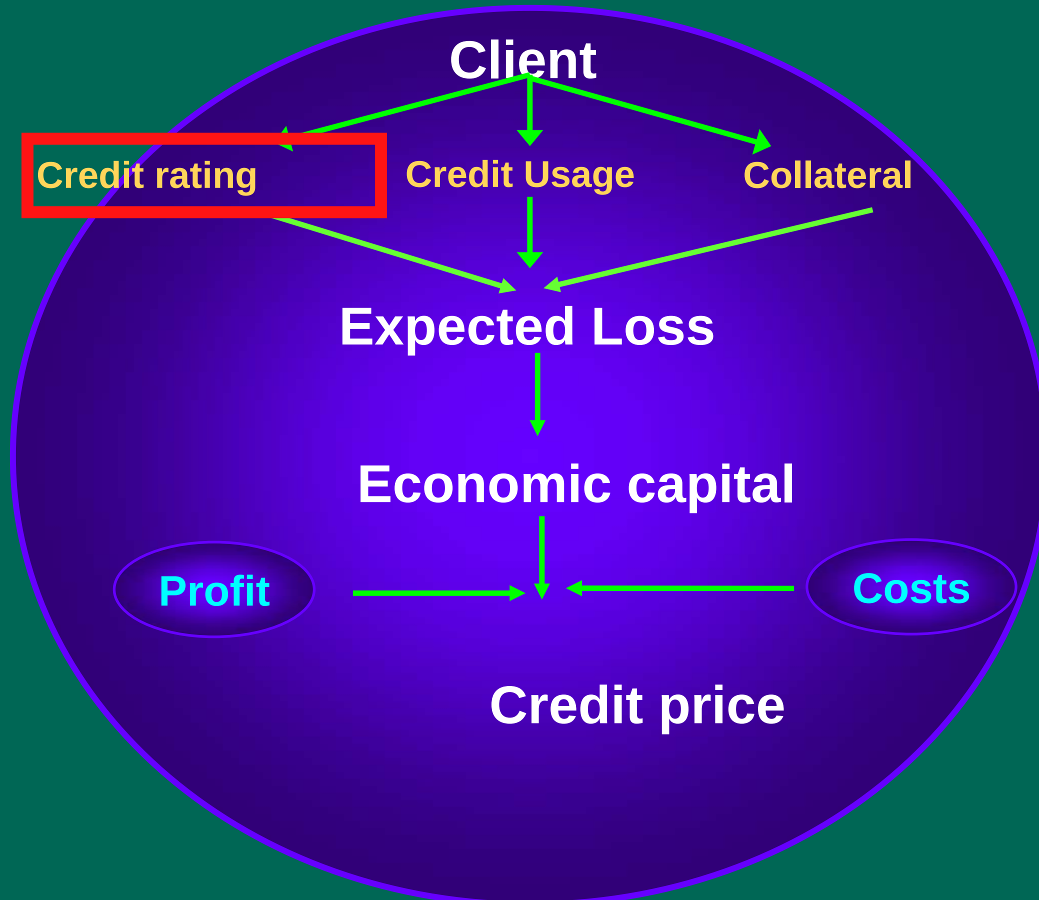
Basel II

- Economic Capital (based on individual loans/borrowers) instead of Regulatory Capital (one size fits all)
- More differentiation on credit risk leads to more differentiation in price
- Operational risks and market risks are part of the new model
- More transparency and better control by the central bank.

Capital regime Basel I versus Basel II (depending on risk)



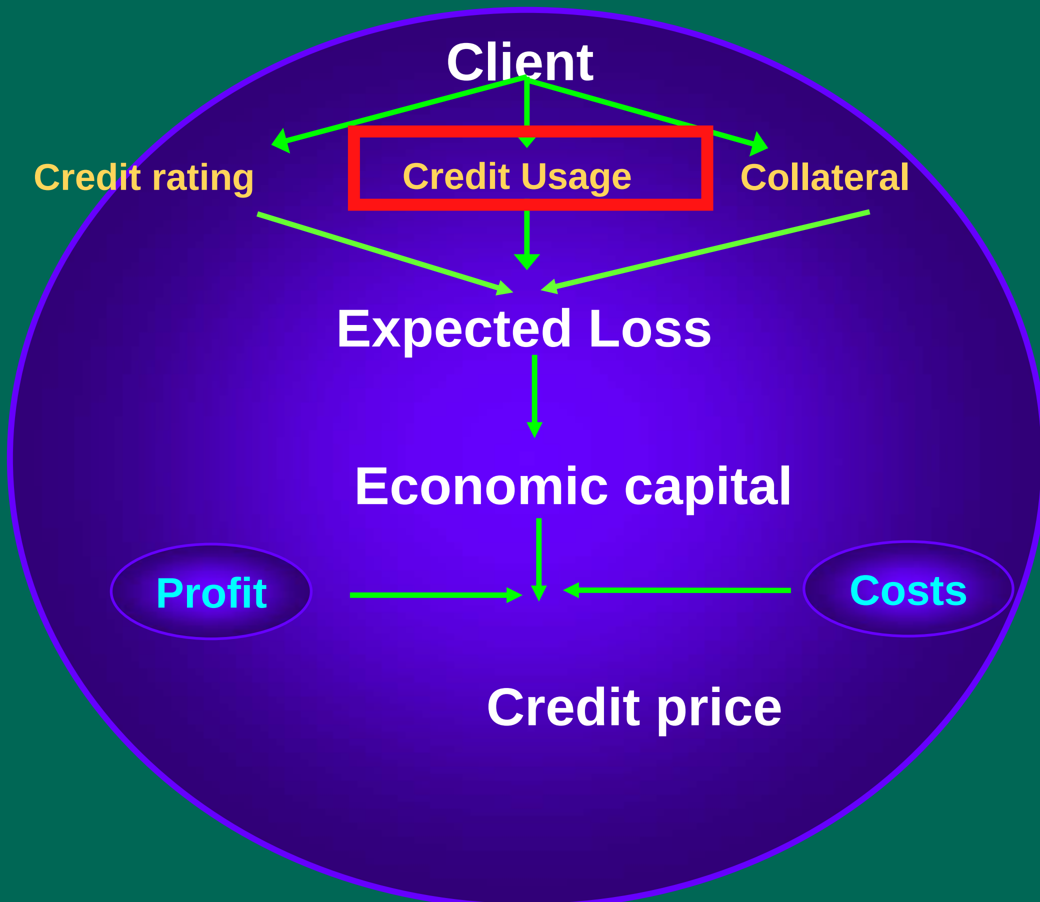
Credit price: what do banks look at ?



Impact credit rating

Accountant	Client
Impact medium	Impact medium
◆ Advise on credit rating ◆ Jannual report stays the same ◆ Priorities may change in anual calendar	◆ Credit rating will play more important role in credit application ◆ Client may influence rating

Credit price: what do banks look at ?



Credit Usage

- Economic Capital: Potential usage is calculated and used instead of only the actual credit usage

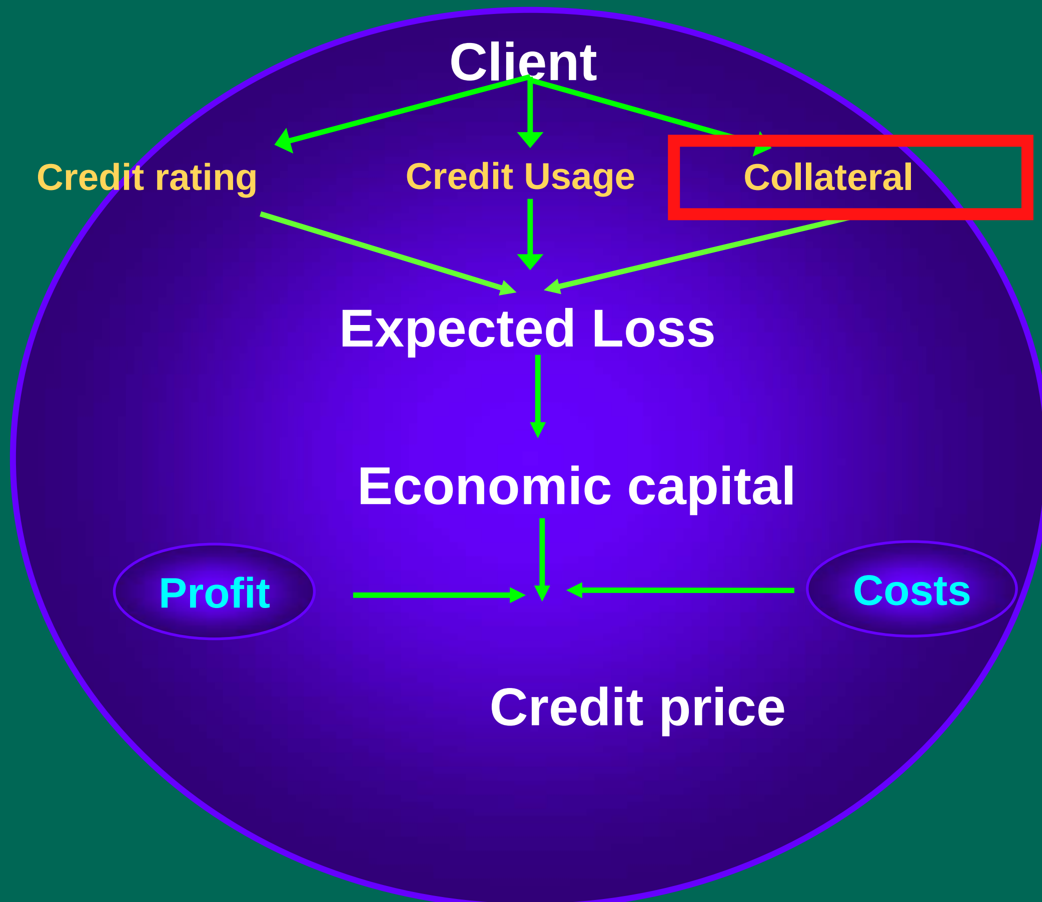
Impact:

Also the unused credit exposure (credit limit) requires economic capital. Credit lines that are not fully used become more expensive to banks. Excellent liquidity planning by client pays off.

Impact Credit Usage:

Accountant	Client
Impact medium	Impact high
◆ Determine credit need of client ◆ Importance of excellent liquidity planning will grow	◆ Both credit limit and liquidity management need more attention ◆ Unused credit lines may be priced

Credit price: what do banks look at ?



Collateral

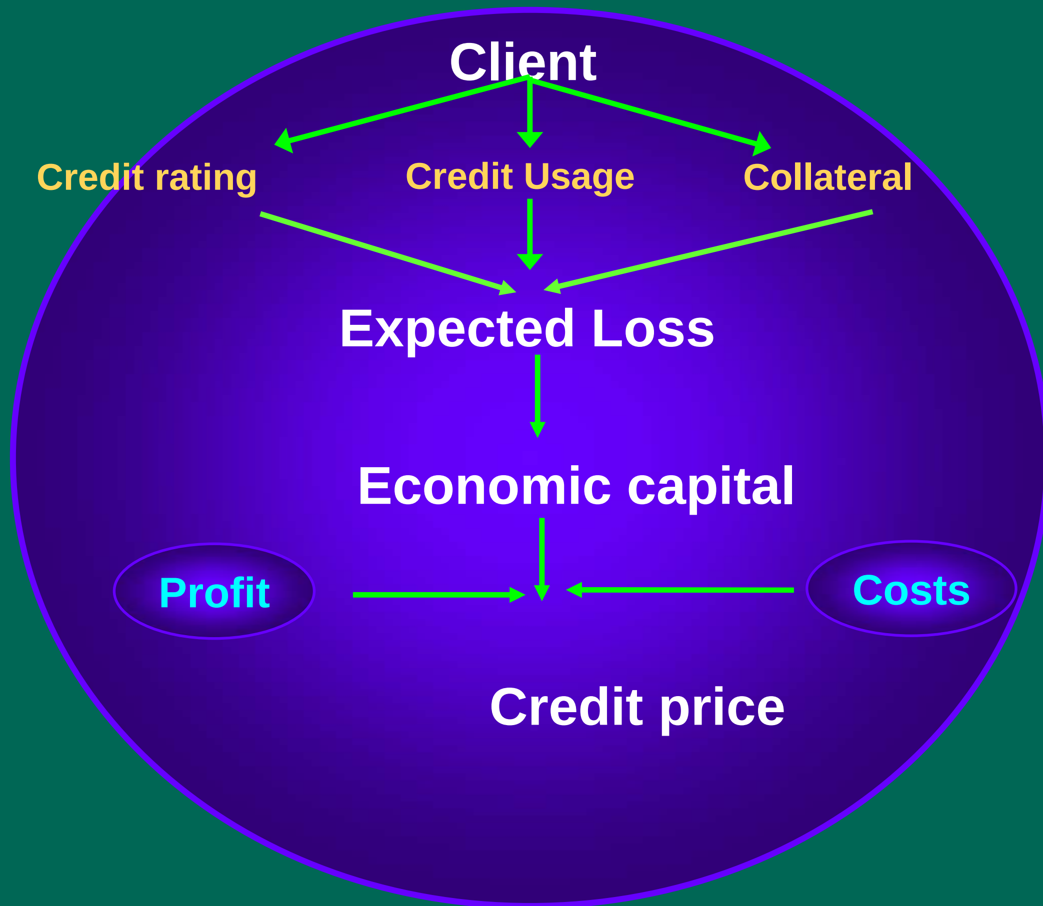
Collateral reduces the expected loss

Cash collateral, guarantees & Real Estate have the largest impact

Impact collateral:

Accountant	Client
Impact low	Impact high
◆ Advising on credit structure ◆ Valuate collateral	◆ More influence on credit structure and credit pricing

Credit price: what do banks look at ?



Impact Basel II:

Accountant	Client	Bank
Impact medium	Impact high	Impact high
◆ Advise will change ◆ Different priorities possible ◆ Importance liquidity planning increases	◆ Client can influence credit price ◆ Price will adjust iff risk profile changes ◆ Comparison of credit prices is more difficult	◆ Translate changes towards market ◆ Major changes in banking systems, credit pricing and tools

Role accountants more specific

- Yearly figures processed by accountant are the basic input for the bank's rating model; therefore crucial!
- Banking taxonomies: standards for exchanging data between accountants and banks lead to faster processes

Power to Grow
Research 2007
Expertgroup
Assigned by the Minister

Conclusions

- 85% of SME companies show a slow growth path. In general they have no problem in finding the right finance; No Finance Gap
- 15% of SME growth “to fast”; they have a Finance Gap
- The finance Gap becomes smaller the longer a company exist
- More specific; the newer SME companies (<5 year) have the largest problems in getting the appropriate credits

Specific actions AAB to close the gap




- Groei facility
- Techno desks
- BBMKB (government guarantee)
- SOB (specialists Buy Outs and Acquisitions)
- Informal investment services
- Balance risk and reward

Questions ?

Thank you for your attention