

**1st Quarter Report of 2015 to the Minister for
Jobs, Enterprise and Innovation detailing the
analysis and performance of the SME Credit
Guarantee Scheme at 31st March 2015**

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1 Credit Guarantee Scheme

The Credit Guarantee Scheme (CGS) provides a State guarantee through the Department of Jobs, Enterprise & Innovation (the “Department”) to accredited Lenders (Allied Irish Banks, Bank of Ireland and Ulster Bank Ireland) of 75 per cent on eligible loans or Performance Bonds to viable Micro, Small and Medium-sized Enterprises (SMEs). The Guarantee is paid by the State (the “Guarantor”) to the Lender on the unrecovered outstanding principal balance on a Scheme Facility in the event of a Borrower defaulting on the Scheme Facility repayments.

The purpose of the Scheme is to encourage additional lending to SMEs, not to substitute for conventional lending. SMEs are thus enabled to develop a positive track record with the Lender with the objective of returning to standard commercial credit facilities in time. It will also place Irish SMEs on a competitive level-footing relative to other trading competitors who are able to avail of a guarantee in their own countries.

It is important to note that funds provided under the Scheme are neither a grant nor a support for ailing businesses or customers in difficulty. All decision-making at the level of the individual Scheme Facility is fully devolved to the participating Lenders.

The Credit Guarantee Scheme (CGS) became operational on the 24th October 2012.

The usage of the CGS is reducing based on the number and value of facilities sanctioned by lenders when compared on a year on year basis.

| Year | No. Of Facilities Sanctioned | Amount of CGS Facilities Sanctioned |
|--------------|------------------------------|-------------------------------------|
| 2012 | 6 | €582,000 |
| 2013 | 88 | €12,107,500 |
| 2014 | 68 | €9,283,344 |
| 2015 | 13 | €2,206,600 |
| Total | 175 | €24,179,444 |

Due to the low volume of approved CGS facilities it is difficult to highlight emerging trends.

Despite the low volumes currently sanctioned under the CGS to SMEs, 678 new jobs have been created and 387 jobs have been maintained.

On 23rd February 2015 the Minister of State for Business and Employment Gerald Nash TD announced changes to the Credit Guarantee Scheme for the purpose of expanding the scope of the existing Credit Guarantee Scheme.

The changes will allow for the refinancing of loans where an SME's bank is exiting the Irish SME Credit Market and the extension of the maximum length of the guarantee from three to seven years. The Credit Guarantee Scheme 2015 became operational on 16th April 2015.

2 Analysis of the Credit Guarantee Scheme (CGS)

Since the launch of the scheme on 24th October 2012, €24,179,444 has been sanctioned by the participating lenders through one hundred and seventy five CGS facilities.

Table 1 Activity Levels

| | No. of CGS Facilities Sanctioned | Amount of CGS Facilities Sanctioned | Average CGS Facility Sanctioned | Impact on Jobs | |
|---|----------------------------------|-------------------------------------|---------------------------------|----------------|------------|
| | | | | Increase | Maintain |
| <i>From 24th October 2012 to 31st December 2012</i> | 6 | €582,000 | €97,000 | 33 | 5 |
| <i>From 1st January 2013 to 31st March 2013</i> | 18 | €2,549,600 | €141,645 | 148 | 20 |
| <i>From 1st April 2013 to 30th June 2013</i> | 23 | €2,774,500 | €120,630 | 92 | 90 |
| <i>From 1st July to 30th September 2013</i> | 33 | €5,285,000 | €160,152 | 81 | 19 |
| <i>From 1st October to 31st December 2013</i> | 14 | €1,498,400 | €107,029 | 55 | 102 |
| <i>From 1st January to 31st March 2014</i> | 16 | €1,653,000 | €103,313 | 70 | 19 |
| <i>From 1st April 2014 to 30th June 2014</i> | 15 | €2,099,500 | €139,967 | 22 | 31 |
| <i>From 1st July to 30th September 2014</i> | 21 | €3,795,844 | €180,754 | 81 | 47 |
| <i>From 1st October 2014 to 31st December 2014</i> | 16 | €1,735,000 | €108,438 | 67 | - |
| <i>From 1st January to 31st March 2015</i> | 13 | €2,206,600 | €169,738 | 29 | 54 |
| Total as at 31st March 2015 | 175 | €24,179,444 | €138,168 | 678 | 387 |

| Status | No. of CGS Facilities | Amount of Lending € |
|---|-----------------------|---------------------|
| CGS loans sanctioned by Lenders since the CGS Launch on 24 th October 2012 | 175 | €24,179,444 |
| Declined by the customer | 33 | €4,650,000 |
| Declined by the lender | 1 | €50,000 |
| Ineligible | 3 | €467,000 |
| Cancelled by the customer | 5 | €1,020,000 |
| Customer Consent to Data Sharing outstanding | 3* | €670,000 |
| CGS Facilities at 31st March 2015 | 130** | €17,322,444 |

*Three CGS facilities are sanctioned by the participating Lenders, however the SME has not yet consented to data sharing. No further analysis is available on these three loans for data protection reasons.

**Due to data protection reasons the remainder of this report is based on one hundred and thirty CGS facilities.

- Since the launch of the scheme on 24th October 2012, €24,179,444 has been sanctioned by the participating lenders through one hundred and seventy five CGS facilities.
- The average loan amount sanctioned by the participating lenders based on the one hundred and seventy five CGS loans sanctioned since the CGS was launched is €138,168.25.
- Thirty three CGS facilities with a total lending value of €4,650,000 were declined by the borrower and did not proceed.
- Five case were initially accepted but subsequently cancelled by the borrowers for €30,000, €90,000 , €150,000, €300,000, and €450,000 respectively.
- One CGS facility was initially sanctioned for approval, however this was declined by the lender following the receipt of additional information which impacted the borrower's viability.

- Based on feedback provided, the main reasons for declining CGS approved facilities are:
 - The customer was approved for a lower value commercial loan
 - The customer did not wish to proceed with the CGS facility
 - The customer decided to use internal working capital
 - Business plan changes
 - The customer was unwilling to meet normal lending requirements and
 - Planning permission issues
- Three CGS facilities with individual lending values of €56,000, €61,000 and €350,000 were initially sanctioned by a participating lender but upon review were subsequently deemed ineligible for the CGS and did not proceed.
- Fourteen CGS facilities have been repaid in full to date.

| CGS Loan Repayments | | | |
|---|-----------|-----------|-------------------|
| Year | Quarter | No. | € |
| 2013 | Quarter 3 | 1 | €100,000 |
| | Quarter 4 | 1 | €50,000 |
| 2014 | Quarter 1 | 3 | €300,000 |
| | Quarter 2 | 0 | €0 |
| | Quarter 3 | 3 | €325,000 |
| | Quarter 4 | 6 | €1,103,500 |
| 2015 | Quarter 1 | 0 | €0 |
| Total as at 31st March 2015 | | 14 | €1,878,500 |

- Three CGS facilities have been sanctioned by the participating Lenders, however, the SME has not yet accepted the offer nor consented to data sharing as at 31st March 2015.
- As at 31st March 2015, One hundred CGS facilities with a total lending value of €11,627,444 have been fully or partially drawn down by CGS borrowers.
- The remainder of this report is based on one hundred and thirty CGS facilities with total lending value of €17,322,444 . As noted above fourteen of these facilities have been fully repaid.

2.1 Activity Levels

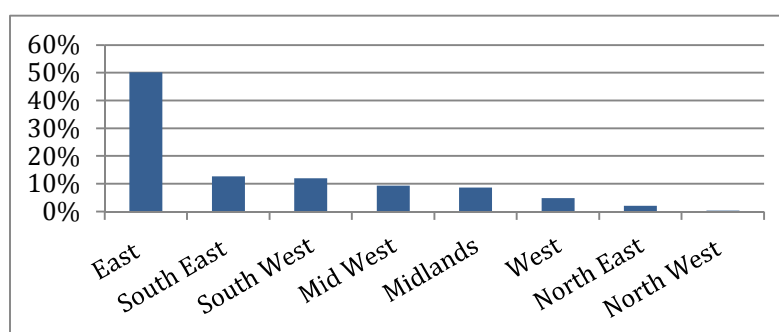
2.1.1 Activity by Region

CGS Facilities were sanctioned to SMEs in the following regions:

Table 2 Activity by Region

| Region | No. of CGS Facilities Granted | CGS Lending Sanctioned | Percentage of CGS Lending Sanctioned by Region (Monetary Value) | Average Loan Amount Sanctioned |
|---|-------------------------------|------------------------|---|--------------------------------|
| East - (Dublin, Kildare, Meath and Wicklow) | 53 | €8,683,000 | 50.13% | €163,830 |
| South East - (Waterford, Wexford, Carlow, Kilkenny and South Tipperary) | 12 | €2,198,000 | 12.69% | €183,167 |
| South West - (Cork and Kerry) | 19 | €2,075,000 | 11.98% | €109,211 |
| Mid West - (Limerick, Clare and North Tipperary) | 18 | €1,612,844 | 9.31% | €89,602 |
| Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath) | 11 | €1,497,000 | 8.63% | €136,091 |
| West - (Galway and Mayo) | 12 | €844,600 | 4.88% | €70,383 |
| North East - (Cavan, Louth and Monaghan) | 4 | €355,000 | 2.05% | €88,750 |
| North West - (Donegal, Sligo and Leitrim) | 1 | €57,000 | 0.33% | €57,000 |
| Total | 130 | €17,322,444 | 100.0% | €133,250 |

Figure 1 Percentage of CGS Lending Sanctioned by Region (Monetary Value)



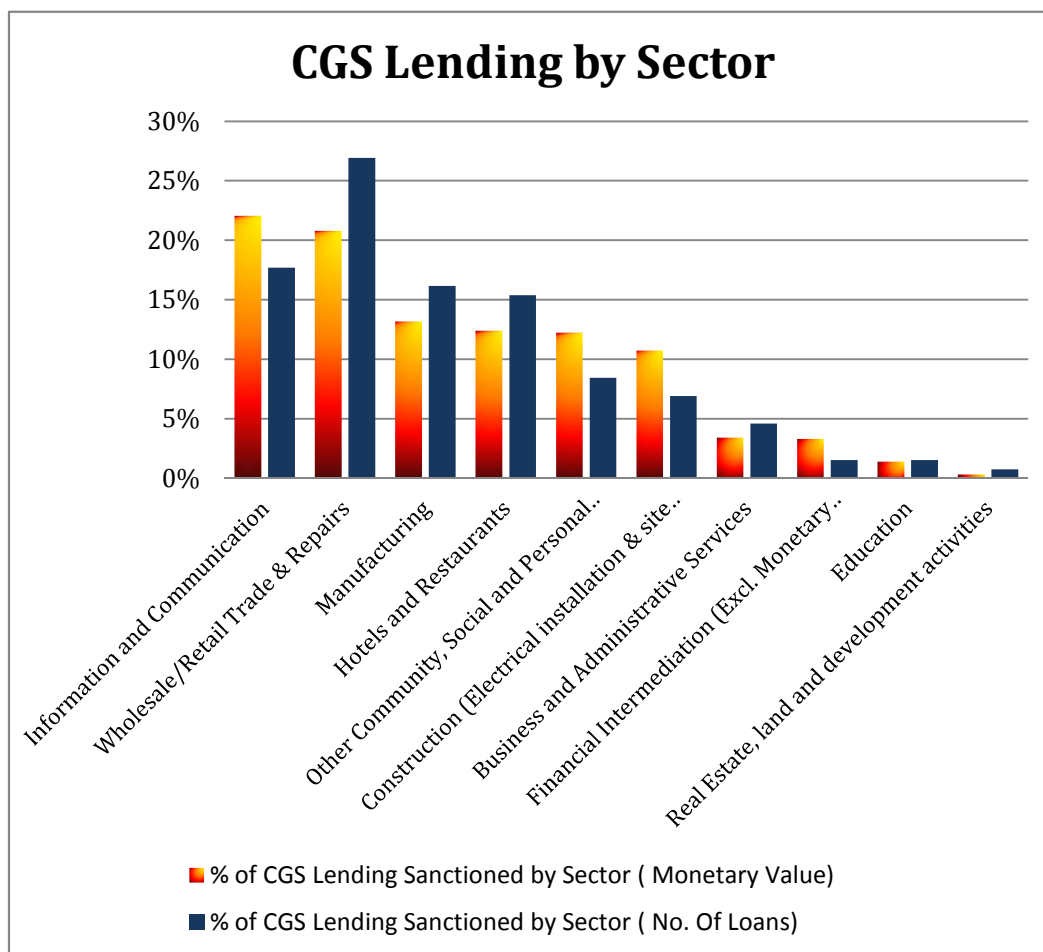
2.1.2 Activity by Industry Sector

CGS facilities were sanctioned to SMEs in the following Industry Sectors:

Table 3 Activity by Industry Sector

| Industry Sector | No. of CGS Loans | % of CGS Lending Sanctioned by Sector (No. Of Loans) | CGS Lending Sanctioned | % of CGS Lending Sanctioned by Sector (Monetary Value) |
|--|------------------|---|------------------------|---|
| Information and Communication | 23 | 17.69% | €3,821,000 | 22.06% |
| Wholesale/Retail Trade & Repairs | 35 | 26.92% | €3,603,244 | 20.80% |
| Manufacturing | 21 | 16.15% | €2,285,000 | 13.19% |
| Hotels and Restaurants | 20 | 15.38% | €2,150,600 | 12.42% |
| Other Community, Social and Personal Services | 11 | 8.46% | €2,125,000 | 12.27% |
| Construction (Electrical installation & site preparation) | 9 | 6.92% | €1,861,600 | 10.75% |
| Business and Administrative Services | 6 | 4.62% | €595,000 | 3.43% |
| Financial Intermediation (Excl. Monetary Financial Institutions) | 2 | 1.54% | €575,000 | 3.32% |
| Education | 2 | 1.54% | €246,000 | 1.42% |
| Real Estate, land and development activities | 1 | 0.78% | €60,000 | 0.35% |
| Total | 130 | 100% | €17,322,444 | 100% |

Figure 2 Percentage of CGS Lending Sanctioned by Sector (Monetary Value)



2.1.3 Activity by Legal Form

Table 4 Activity by Legal Form

| Legal Form | Number of Loans by Legal Form | % by Number of Loans by Legal Form |
|-------------------------|-------------------------------|------------------------------------|
| Private Limited Company | 116 | 89.23% |
| Sole Trader | 13 | 10.00% |
| Partnership | 1 | 0.77% |
| Total | 130 | 100% |

2.1.4 Impact on Jobs

As a result of the CGS lending to SMEs as of 31st March 2015 it is expected that 678 new jobs will be created and 387 jobs will be maintained.

Table 5 Impact on Jobs

| Number of Jobs Increased | 2012 | 2013 | 2014 | 2015 |
|---|------------|------|------|------|
| <i>Quarter 1</i> | N/A | 148 | 70 | 29 |
| <i>Quarter 2</i> | N/A | 92 | 22 | N/A |
| <i>Quarter 3</i> | N/A | 81 | 81 | N/A |
| <i>Quarter 4</i> | 33 | 55 | 67 | N/A |
| Total as at 31st March 2015 | 678 | | | |

| Number of Jobs Maintained | 2012 | 2013 | 2014 | 2015 |
|---|------------|------|------|------|
| <i>Quarter 1</i> | N/A | 20 | 19 | 54 |
| <i>Quarter 2</i> | N/A | 90 | 31 | N/A |
| <i>Quarter 3</i> | N/A | 19 | 47 | N/A |
| <i>Quarter 4</i> | 5 | 102 | 0 | N/A |
| Total as at 31st March 2015 | 387 | | | |

2.1.5 Exports

- Forty-two CGS facilities (%) were granted to SMEs who are exporters.
 - Thirty two of the CGS facilities were granted to SMEs primarily exporting to the United Kingdom of Great Britain and Northern Ireland.
 - Eight CGS facilities were granted to SMEs primarily exporting within the European Union.
 - Two CGS facilities were granted to SMEs that primarily export to the United States of America.

2.1.6 Market Inefficiencies - Pillar 1 &/or Pillar 2

The main purpose of the Credit Guarantee Scheme is to address specific market failures that prevent lending to some commercially viable businesses.

Target groups are commercially viable SME businesses that cannot secure credit facilities due to the following two market inefficiencies; insufficient collateral for additional facilities and/or the SME is a growth/expansionary SME and due to its sector, market or business model is perceived to be higher risk under the participating banks current credit risk evaluation practices.

Based on statistical information relating to CGS borrowers, insufficient collateral remains the primary reason for an SME not securing a credit facility through the traditional commercial lending route.

Table 6 Market Inefficiencies

| Reason for not securing Normal Credit Facilities | | | |
|--|-------------------------|--|----------------------------------|
| | Insufficient Collateral | Insufficient Collateral and Higher Risk Model/Sector/Product | Higher Risk Model/Sector/Product |
| Total as at 31st March 2015 | 104 | 12 | 14 |

2.1.7 Year of Establishment of Borrowing SMEs

Table 7 Year of SME Establishment

| Year of Establishment | Number of CGS Loans as at 31st March 2015 | % by year of establishment |
|-----------------------|---|----------------------------|
| 2014 | 9 | 6.9% |
| 2013 | 8 | 6.2% |
| 2012 | 11 | 8.5% |
| 2011 | 11 | 8.5% |
| 2010 | 10 | 7.7% |
| 2000-2009 | 62 | 47.7% |
| 1945-1999 | 19 | 14.5% |
| Total | 130 | 100% |

2.1.8 Term of Facility

The term or duration of each facility is decided by the participating Lender. However, irrespective of the term of the facility, the maximum period for which the Guarantee is available on the facility is three years from the date of acceptance of the Lender's offer by the borrower.

Table 8 Term of Facility

| Term of Facility | Number of CGS Loans as at 31 st March 2015 | % |
|------------------|---|-------------|
| < 1 Year | 19 | 15% |
| > 1 < 2 Years | 10 | 8% |
| 2 Year | 3 | 2% |
| > 3 /<4years | 30 | 23% |
| > 4 Year/<5years | 6 | 4% |
| 5 Year | 48 | 37% |
| > 5 Years | 14 | 11% |
| Total | 130 | 100% |

2.1.9 Purpose of the CGS Facility

Table 8 shows the main reasons for the CGS Borrower seeking finance.

Table 9 Purpose of CGS Facility

| Purpose of Credit Guarantee Scheme Facility | Number of CGS Facilities | % |
|--|--------------------------|-------------|
| Working Capital | 62 | 47% |
| Purchase of Equipment | 18 | 14% |
| Product or Service Development | 17 | 13% |
| Renovation/Maintenance of Premises | 8 | 6% |
| Cost of Acquisition | 7 | 5% |
| Purchase of Premises | 6 | 5% |
| Business Expansion | 5 | 4% |
| Franchise Set up | 2 | 2% |
| Supplier Guarantee | 1 | 0.8% |
| To Fit out Premises | 1 | 0.8% |
| Development of Visitor Centre/Museum and retail shop | 1 | 0.8% |
| IT improvements | 1 | 0.8% |
| Performance Bond | 1 | 0.8% |
| Total | 130 | 100% |

2.1.10 Classification of SMEs

Micro, Small and Medium-sized enterprises (SME) are defined according to their staff headcount and turnover or annual balance-sheet total.

- A microenterprise is defined as an enterprise which employs fewer than 10 people and whose annual turnover and/or annual balance sheet total does not exceed €2 million.
- A small enterprise is defined as an enterprise which employs between 10 and 49 persons and whose annual turnover and/or annual balance sheet total does not exceed €10 million.
- A medium-sized enterprise is defined as an enterprise which employs between 50 and 249 persons and whose annual turnover does not exceed €50 million or whose annual balance-sheet total does not exceed €43 million.

Table 10 Profile of SME

| | <i>Micro Enterprise</i> | <i>Small Enterprise</i> | <i>Medium Enterprise</i> |
|--|-------------------------|-------------------------|--------------------------|
| Total as at 31st March 2015 | 61 | 64 | 5 |
| Total Lending Sanctioned as at 31st March 2015 | €5,714,944 | €10,097,500 | €1,510,000 |
| Percentage of Total €17,322,444 | 33% | 58% | 9% |

2.1.11 Premium Collection

SMEs availing of the CGS must pay a premium of 2% per annum to the Department of Jobs, Enterprise and Innovation which partially covers the cost of providing the guarantee. The premium is collected annually or quarterly in advance throughout the three year life of the guarantee based on the annual contracted principal balance.

Between 24th October 2012 and 31st March 2015 €287,067.01 of premium payments were paid by Credit Guarantee Scheme Borrowers into a segregated bank account held in trust for the Minister for Jobs, Enterprise and Innovation.

Table 11 Premium Payments Received

| Premium Payments Received | 2012 | 2013 | 2014 | 2015 |
|---|--------------------|-------------------|--------------------|-------------------|
| <i>Quarter 1</i> | N/A | €8,852.00 | €30,544.95 | €49,632.46 |
| <i>Quarter 2</i> | N/A | €14,306.67 | €35,608.32 | N/A |
| <i>Quarter 3</i> | N/A | €26,935.00 | €42,860.19 | N/A |
| <i>Quarter 4</i> | €2,410.00 | €30,555.90 | €45,361.52 | N/A |
| Total for Year | €2,410.00 | €80,649.57 | €154,374.98 | €49,632.46 |
| Total as at 31st March 2015 | €287,067.01 | | | |

3 Summary

- As at 31st March 2015 the CGS has been operationally live for two years and five months.
- Usage of the CGS remains disappointing and lower than anticipated.
- Since the launch of the scheme on 24th October 2012, €24,179,444 has been sanctioned by the participating lenders through one hundred and seventy five CGS facilities.
- The majority of the lending has been sanctioned in the east and south-west with these two regions combined accounting for 62.1% of lending currently live or repaid.
- The approved lending is dominated by six industry sectors accounting for 92% of the total lending.
- Of the SMEs currently participating in the CGS, 47.7%, were established during the period 2000-2009 and 58% of the lending sanctioned was provided to SMEs defined as a Small Enterprise.
- The average loan amount sanctioned by the participating lenders is €138,168.25.
- Thirty eight CGS facilities, with total lending value of €5,670,000 were cancelled or declined by the SME and did not proceed.
- Fourteen CGS facilities have been repaid in full as at 31st March 2015 with a total value of €1,878,500.
- As a result of the sanctioned CGS lending to SMEs, as of 31st March 2015, it is expected that 678 new jobs will be created and 387 jobs will be maintained.
- As previously mentioned on 23rd February 2015 the Minister of State for Business and Employment Gerald Nash TD announced changes to the Credit Guarantee Scheme for the purpose of expanding the scope of the existing Credit Guarantee Scheme. The changes will allow for the refinancing of loans where an SME's bank is exiting the Irish SME Credit Market and the extension of the maximum length of the guarantee from three to seven years.