

**2nd Quarter Report of 2014 to the Minister for
Jobs, Enterprise and Innovation detailing the
analysis and performance of the SME Credit
Guarantee Scheme at 30th June 2014**

**Capita Asset Services (Ireland) Limited acting as Operator of the SME
Credit Guarantee Scheme**

Contents

1	Credit Guarantee Scheme.....	3
2	Analysis of the Credit Guarantee Scheme (CGS).....	4
2.1.1	Activity by Region	6
2.1.2	Activity by Industry Sector	7
2.1.3	Activity by Legal Form	8
2.1.4	Impact on Jobs	9
2.1.5	Exports	9
2.1.6	Market Inefficiencies - Pillar 1 &/or Pillar 2.....	10
2.1.7	Year of Establishment of Borrowing SMEs	10
2.1.8	Term of Facility	11
2.1.9	Purpose of the CGS Facility	11
2.1.10	Classification of SMEs	12
2.1.11	Premium Collection	12
3	Summary.....	13

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. In the two month period ending 31st December 2012 six CGS facilities were sanctioned. In the year 2013 eighty eight CGS facilities were sanctioned. In the first half of 2014 thirty CGS facilities were sanctioned.

The usage of the CGS appears to be slowing down based on the number of facilities sanctioned by lenders in the first half of 2014.

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, 501 new jobs have been created and 286 jobs have been maintained.

2 Analysis of the Credit Guarantee Scheme (CGS)

Since the launch of the scheme on 24th October 2012, €16,422,000.00 has been sanctioned by the participating lenders through one hundred and twenty-four CGS facilities.

Table 1 Activity Levels

	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned
<i>From 24th October 2012 to 31st December 2012</i>	6	€582,000.00	€97,000.00
<i>From 1st January 2013 to 31st March 2013</i>	18	€2,549,600.00	€141,644.44
<i>From 1st April 2013 to 30th June 2013</i>	23	€2,774,500.00	€120,630.43
<i>From 1st July to 30th September 2013</i>	33	€5,285,000.00	€160,151.51
<i>From 1st October to 31st December 2013</i>	14	€1,498,400.00	€107,028.57
<i>From 1st January to 31st March 2014</i>	16	€1,653,000.00	€127,200.00
<i>From 1st April 2014 to 30th June 2014</i>	14	€2,078,026.00	€148,430.43
Total as at 30th June 2014	124	€16,422,000.00	€132,435.48

Status	No. of CGS Facilities	Amount of Lending €
CGS loans sanctioned by Lenders since the CGS Launch on 24 th October 2012	124	€16,422,000
Declined by the customer	22	€3,455,000
Ineligible	1	€61,000
Cancelled by the customer	4	€570,000
Customer Consent to Data Sharing outstanding	6*	€541,000
CGS Facilities at 30th June 2014	91**	€11,795,000

*Six CGS facilities have been sanctioned by the participating Lenders, however the SME have not yet consented to data sharing. No further analysis is available on these six loans for data protection reasons. **Due to data protection reasons the remainder of this report is based on ninety one CGS facilities.

- Since the launch of the scheme on 24th October 2012, €16,422,000 has been sanctioned by the participating lenders through one hundred and twenty four CGS facilities.
- The average loan amount sanctioned by the participating lenders based on the one hundred and twenty four CGS loans sanctioned since the CGS was launched is €132,435.48.
- Twenty two CGS facilities with a total lending value of €3,455,000 were declined by the borrower and did not proceed.
- Four cases were initially accepted but subsequently cancelled by the borrowers for €30,000, €150,000, €300,000 and €90,000 respectively.
- 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
- One CGS facility with total lending value of €61,000 was initially sanctioned by a participating lender but upon review was subsequently deemed ineligible for the CGS and did not proceed.
- Five CGS facilities have been repaid in full to date, one CGS facility with lending value of €100,000 was repaid in quarter three 2013, another with lending value of €50,000 was repaid in quarter four 2013. In the first quarter of 2014 there were three loans repaid with the individual amounts being €50,000, €180,000 and €70,000.
- Six CGS facilities have been sanctioned by the participating Lenders, however, the SME has not yet consented to data sharing as at 30th June 2014.
- As at 30th June 2014, seventy-two CGS facilities with a total lending value of €7,745,000 have been fully or partially drawn down by CGS borrowers.
- The remainder of this report is based on ninety-one CGS facilities with total lending value of €11,795,000. As noted above five of these facilities have been fully repaid.

2.1 Activity Levels

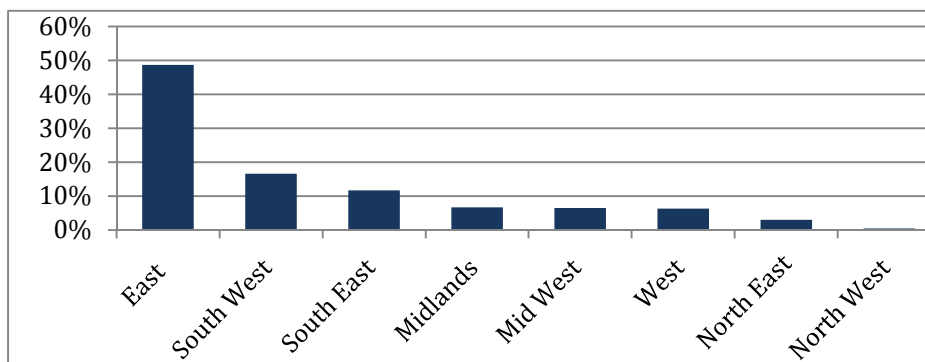
2.1.1 Activity by Region

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)	34	€5,745,000	48.7%	€168,971
South West - (Cork and Kerry)	16	€1,958,400	16.6%	€122,400
West - (Galway and Mayo)	10	€744,600	6.31%	€74,460
Mid West - (Limerick, Clare and North Tipperary)	10	€765,000	6.49%	€76,500
South East - (Waterford, Wexford, Carlow, Kilkenny and South Tipperary)	8	€1,378,000	11.68%	€172,250
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	8	€792,000	6.73%	€99,000
North East - (Cavan, Louth and Monaghan)	4	€355,000	3.00%	€88,750
North West - (Donegal, Sligo and Leitrim)	1	€57,000	0.49%	€57,000
Total	91	€11,795,000	100.0%	€132,011

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



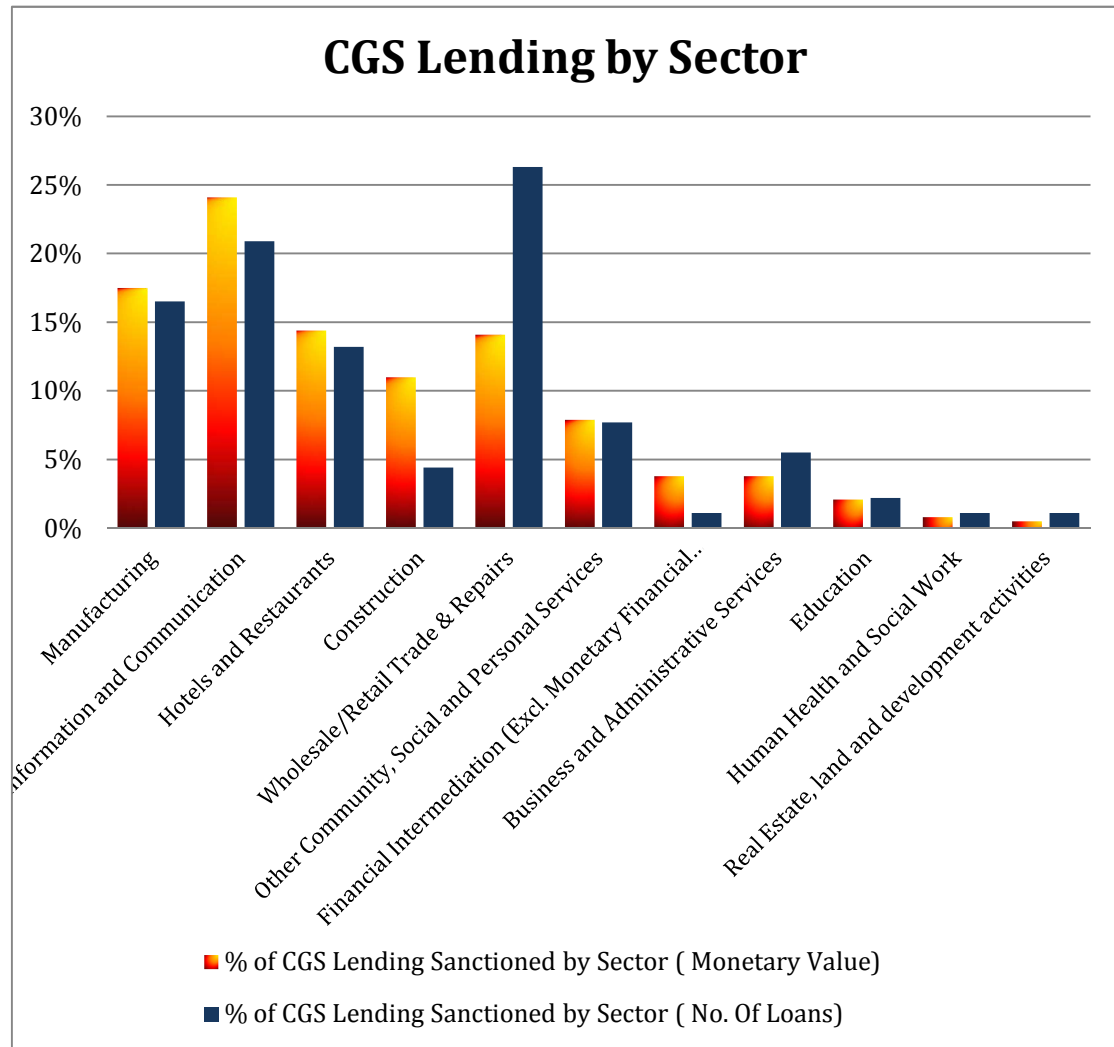
2.1.2 Activity by Industry Sector

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	19	20.9%	€2,833,000	24.1%
Manufacturing	15	16.5%	€2,065,000	17.5%
Hotels and Restaurants	12	13.2%	€1,695,600	14.4%
Wholesale/Retail Trade & Repairs	24	26.3%	€1,655,400	14.1%
Construction (Electrical installation & site preparation)	4	4.4%	€1,305,000	11.00%
Other Community, Social and Personal Services	7	7.7%	€940,000	7.9%
Financial Intermediation (Excl. Monetary Financial Institutions)	1	1.1%	€450,000	3.8%
Business and Administrative Services	5	5.5%	€445,000	3.8%
Education	2	2.2%	€246,000	2.1%
Human Health and Social Work	1	1.1%	€100,000	0.8%
Real Estate, land and development activities	1	1.1%	€60,000	0.5%
Total	91	100%	€11,795,000	100%

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



2.1.3 Activity by Legal Form

Eighty CGS facilities were provided to Private Limited Companies.

Ten CGS facilities were provided to Sole Traders.

One CGS facility was provided to a partnership.

2.1.4 Impact on Jobs

As a result of the CGS lending to SMEs as of 30th June 2014 it is expected that 501 new jobs will be created and 286 jobs will be maintained.

Table 4 Activity by Industry Sector

Number of Jobs Increased	2012	2013	2014
<i>Quarter 1</i>	N/A	148	70
<i>Quarter 2</i>	N/A	92	22
<i>Quarter 3</i>	N/A	81	N/A
<i>Quarter 4</i>	33	55	N/A
Total as at 30th June 2014	501		

Number of Jobs Maintained	2012	2013	2014
<i>Quarter 1</i>	N/A	20	19
<i>Quarter 2</i>	N/A	90	31
<i>Quarter 3</i>	N/A	19	N/A
<i>Quarter 4</i>	5	102	N/A
Total as at 30th June 2014	286		

2.1.5 Exports

- Thirty-one CGS facilities were granted to SMEs who are exporters.
 - Twenty of the CGS facilities were granted to SMEs primarily exporting to the United Kingdom of Great Britain and Northern Ireland.
 - Nine 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 5 Market Inefficiencies

Reason for not securing Normal Credit Facilities			
	<i>Insufficient Collateral</i>	<i>Insufficient Collateral and Higher Risk Model/Sector/Product</i>	<i>Higher Risk Model/Sector/Product</i>
Total as at 30th June 2014	69	11	11

2.1.7 Year of Establishment of Borrowing SMEs

Table 6 Year of SME Establishment

Year of Establishment	Number of CGS Loans as at 30th June 2014
2013	7
2012	9
2011	7
2010	6
2000-2009	46
1951-1999	16
Total	91

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 7 Term of Facility

Term of Facility	Number of CGS Loans as at 30 th June 2014
< 1 Year	10
> 1 < 2 Years	8
2 Year	1
3 Year	26
4 Year	4
5 Year	32
> 5 Years	10
Total	91

2.1.9 Purpose of the CGS Facility

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

Table 8 Purpose of CGS Facility

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities
Working Capital	37
Cost of Acquisition	17
Purchase of Equipment	16
Renovation/Maintenance of Premises	8
Purchase of Premises	3
Development of Visitor Centre/Museum and retail shop	2
Supplier Guarantee	2
Research and Development	1
Product or Service Development	1
IT improvements	1
Franchise Set up	1
To Fit out Premises	1
Performance Bond	1
Total	91

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 9 Profile of SME

	<i>Micro Enterprise</i>	<i>Small Enterprise</i>	<i>Medium Enterprise</i>
Total as at 30th June 2014	42	44	5
Total Lending Sanctioned as at 30th June 2014	€3,432,500	€6,672,500	€1,690,000
Percentage of Total €11,795,000	29.1%	56.6%	14.3%

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 30th June 2014 €149,212.84 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 10 Premium Payments Received

Premium Payments Received	212	2013	2014
<i>Quarter 1</i>	N/A	€8,852.00	€30,544.95
<i>Quarter 2</i>	N/A	€14,306.67	€35,608.32
<i>Quarter 3</i>	N/A	€26,935.00	N/A
<i>Quarter 4</i>	€2,410.00	€30,555.90	N/A
Total for Year	€2,410.00	€80,649.57	€66,153.27
Total as at 30th June 2014	€149,212.84		

3 Summary

- As at 30th June 2014 the CGS has been operationally live for twenty months.
- Usage of the CGS remains disappointing and lower than anticipated.
- Since the launch of the scheme on 24th October 2012, €16,422,000 has been sanctioned by the participating lenders through one hundred and twenty-four CGS facilities.
- The majority of the lending has been sanctioned in the east and south-west with these two regions combining to account for 65.3% of lending currently live or repaid.
- The approved lending is dominated by four industry sectors, Information and Communication 24.1%, Manufacturing 17.5%, Hotels and Restaurants 14.4% and Wholesale/Retail Trade & Repairs 14.1%.
- Of the SMEs currently participating in the CGS 50.5% were established during the period 2000-2009 and 56.6% of the lending sanctioned was provide to SMEs defined as a small enterprise.
- The average loan amount sanctioned by the participating lenders is €132,435.48.
- Twenty-six CGS facilities, with total lending value of €4,025,000 were cancelled or declined by the SME and did not proceed.
- Five CGS facilities have been repaid in full as at 30th June 2014 with a total value of €450,000.
- As a result of the sanctioned CGS lending to SMEs, as of 30th June 2014, it is expected that 501 new jobs will be created and 286 jobs will be maintained.