

**4th Quarter Report of 2013 to the Minister for
Jobs, Enterprise and Innovation detailing the
analysis and performance of the SME Credit
Guarantee Scheme at 31st December 2013**

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

While the usage of the CGS continues to increase, the overall uptake remains disappointing.

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

A positive outcome of the sanctioned CGS lending to SMEs is that it is expected that 409 new jobs will be created and 236 jobs will be maintained.

2 Analysis of the Credit Guarantee Scheme (CGS)

Since the launch of the scheme on 24th October 2012, €12,689,500 has been sanctioned by the participating lenders through ninety 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 |
| Total as at 31st December 2013 | 94 | €12,689,500.00 | €134,994.68 |

| Status | No. of CGS Facilities | Amount of Lending € |
|---|-----------------------|---------------------|
| CGS loans sanctioned by Lenders since the CGS Launch on 24 th October 2012 | 94 | 12,689,500 |
| Declined by the customer | 18*** | 2,475,000 |
| Ineligible | 1 | 61,000 |
| Customer Consent to Data Sharing outstanding | 3* | 365,000 |
| CGS Facilities at 31st December 2013 | 72** | 9,788,500 |

*Three CGS facilities have been 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 analysis of 72 CGS facilities, two CGS facilities have been repaid in full, one CGS facility repaid in quarter 3 2013 and the other fully repaid in quarter 4 2013.

*** Following a review of one of the CGS facilities previously reported as declined by the customer (30th September 2013), the customer has decided to accept the offer of lending under two separate CGS facilities totalling €390,000.

- Since the launch of the scheme on 24th October 2012, €12,689,500 has been sanctioned by the participating lenders through ninety-four CGS facilities.
- The average loan amount sanctioned by the participating lenders based on the ninety-four CGS loans sanctioned since the CGS was launched is €134,994.68
- Eighteen CGS facilities with a total lending value of €2,475,000 were declined by the borrower and did not proceed.
- 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.
- Two CGS facilities have been repaid in full to date, one CGS facility with lending value of €100,000 was repaid in quarter 3 2013, the other with lending value of €50,000 was repaid in quarter 4 2013.
- Three CGS facilities have been sanctioned by the participating Lenders, however, the SME has not yet consented to data sharing as at 31st December 2013.
- The remainder of this report is based on seventy-two CGS facilities with total lending value of €9,788,500 as noted above two of these facilities were fully repaid in quarter 3 and quarter 4 2013.
- As at 31st December 2013, fifty-nine CGS facilities with a total lending value of €6,258,500 have been fully or partially drawn down by CGS borrowers.

2.1 Activity Levels

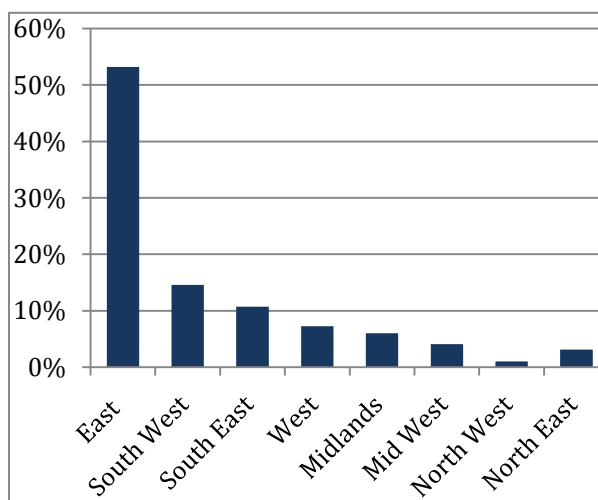
2.1.1 Activity by Region

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) | 28 | €5,207,000 | 53.2% | €185,964 |
| South West - (Cork and Kerry) | 13 | €1,428,400 | 14.6% | €109,877 |
| South East - (Waterford, Wexford, Carlow, Kilkenny and South Tipperary) | 5 | €1,050,000 | 10.7% | €210,000 |
| Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath) | 7 | €712,000 | 7.3% | €101,714 |
| West - (Galway and Mayo) | 8 | €586,100 | 6.0% | €73,262 |
| Mid West - (Limerick, Clare and North Tipperary) | 7 | €400,000 | 4.1% | €57,143 |
| North East - (Cavan, Louth and Monaghan) | 3 | €305,000 | 3.1% | €101,667 |
| North West - (Donegal, Sligo and Leitrim) | 1 | €100,000 | 1.0% | €100,000 |
| Total | 72 | €9,788,500 | 100.0% | €135,951 |

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



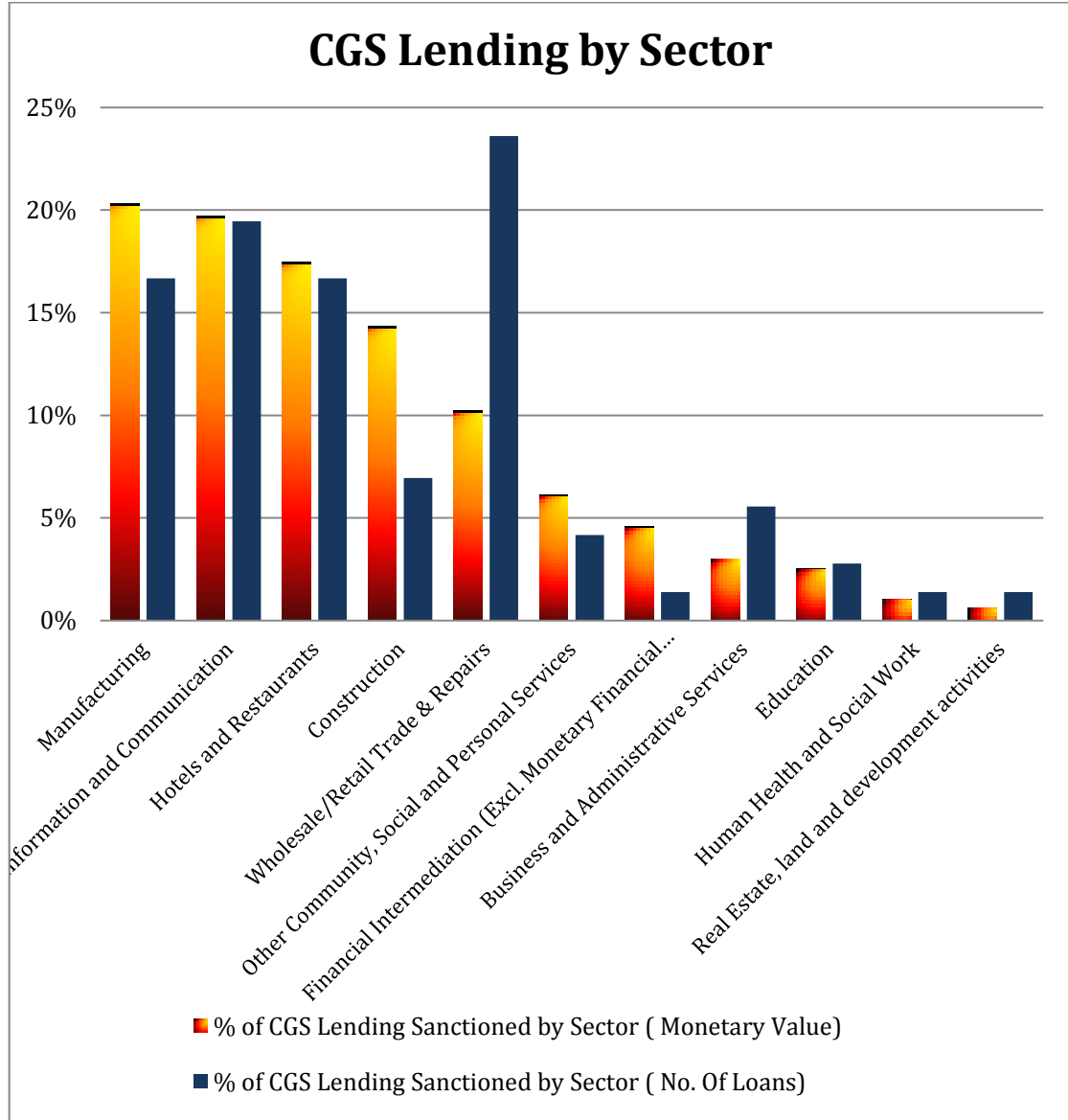
2.1.2 Activity by Industry Sector

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) |
|--|------------------|---|------------------------|---|
| Manufacturing | 12 | 16.7% | €1,990,000.00 | 20.4% |
| Information and Communication | 14 | 19.4% | €1,930,000.00 | 19.7% |
| Hotels and Restaurants | 12 | 16.7% | €1,710,600.00 | 17.5% |
| Construction | 5 | 6.9% | €1,405,000.00 | 14.4% |
| Wholesale/Retail Trade & Repairs | 17 | 23.6% | €1,000,400.00 | 10.2% |
| Other Community, Social and Personal Services | 3 | 4.2% | €601,500.00 | 6.1% |
| Financial Intermediation (Excl. Monetary Financial Institutions) | 1 | 1.4% | €450,000.00 | 4.6% |
| Business and Administrative Services | 4 | 5.6% | €295,000.00 | 3.0% |
| Education | 2 | 2.7% | €246,000.00 | 2.5% |
| Human Health and Social Work | 1 | 1.4% | €100,000.00 | 1.0% |
| Real Estate, land and development activities | 1 | 1.4% | €60,000.00 | 0.6% |
| Total | 72 | 100% | €9,788,500 | 100% |

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



2.1.3 Activity by Legal Form

Sixty-one 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 31st December 2013 it is expected that 409 new jobs will be created and 236 jobs will be maintained.

Table 4 Activity by Industry Sector

| Number of Jobs Increased | 2012 | 2013 |
|--|------------|------|
| <i>Quarter 1</i> | N/A | 148 |
| <i>Quarter 2</i> | N/A | 92 |
| <i>Quarter 3</i> | N/A | 81 |
| <i>Quarter 4</i> | 33 | 55 |
| Total as at 31st December 2013 | 409 | |

| Number of Jobs Maintained | 2012 | 2013 |
|--|------------|------|
| <i>Quarter 1</i> | N/A | 20 |
| <i>Quarter 2</i> | N/A | 90 |
| <i>Quarter 3</i> | N/A | 19 |
| <i>Quarter 4</i> | 5 | 102 |
| Total as at 31st December 2013 | 236 | |

2.1.5 Exports

- Twenty-one CGS facilities were granted to SMEs who are exporters.
 - Sixteen of the CGS facilities were granted to SMEs primarily exporting to the United Kingdom of Great Britain and Northern Ireland, and
 - Five CGS facilities were granted to SMEs primarily exporting within the European Union.

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 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 31st December 2013 | 55 | 10 | 7 |

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 September 2013 |
|-----------------------|---|
| 2013 | 2 |
| 2012 | 9 |
| 2011 | 9 |
| 2010 | 5 |
| 2000-2009 | 37 |
| 1951-1999 | 10 |
| Total | 72 |

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 30th September 2013 |
|------------------|---|
| < 1 Year | 12 |
| < 2 Years | 3 |
| 2 Year | 1 |
| 3 Year | 20 |
| 4 Year | 2 |
| 5 Year | 25 |
| > 5 Years | 9 |
| Total | 72 |

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 | 29 |
| Purchase of Equipment | 11 |
| Renovation/Maintenance of Premises | 8 |
| Product or Service Development | 7 |
| Purchase of Premises | 4 |
| Cost of Acquisition | 3 |
| To Fit out Premises | 2 |
| Development of visitor centre/Museum and retail shop | 2 |
| Supplier Guarantee | 2 |
| IT improvements | 1 |
| Research and Development | 1 |
| Franchise Set up | 1 |
| Performance Bond | 1 |
| Total | 72 |

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 31st December 2013 | 36 | 32 | 4 |
| Total Lending Sanctioned as at 31st December 2013 | €3,105,500 | €5,293,000 | €1,390,000 |
| Percentage of Total €9,788,500 | 31.7% | 54.1% | 14.2% |

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 December 2013 €83,059.57 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.

As at 31st December 2013 four CGS loans were in arrears on their premium payments to the amount totalling €34.94.

The arrears were as a result of a timing issue relating to the receipt of funds from Credit Guarantee Scheme borrowers to the segregated bank account held in trust for the Minister for Jobs, Enterprise and Innovation.

Table 10 Premium Payments Received

| Premium Payments Received | 2012 | 2013 |
|--|-------------------|-------------------|
| <i>Quarter 1</i> | N/A | €8,852.00 |
| <i>Quarter 2</i> | N/A | €14,306.67 |
| <i>Quarter 3</i> | N/A | €26,935.00 |
| <i>Quarter 4</i> | €2,410.00 | €30,555.90 |
| Total for Year | €2,410.00 | €80,649.57 |
| Total as at 31st December 2013 | €83,059.57 | |

3 Summary

- As at 31st December the CGS has been operationally live for 14 months.
- Usage of the CGS remains disappointing and lower than anticipated.
- Since the launch of the scheme on 24th October 2012, €12,689,500 has been sanctioned by the participating lenders through ninety-four CGS facilities.
- The average loan amount sanctioned by the participating lenders is €134,994.68.
- Eighteen CGS facilities, with total lending value of €2,475,000 were declined by the SME and did not proceed.
- Two CGS facilities have been repaid in full as at 31st December 2013.
- As a result of the sanctioned CGS lending to SMEs, as of 31st December 2013, it is expected that 409 new jobs will be created and 236 jobs will be maintained.