

**4th Quarter Report of 2018 to the Minister for
Business, Enterprise and Innovation detailing the
analysis and performance of the SME Credit
Guarantee Scheme as at 31st December 2018**

**The Strategic Banking Corporation of Ireland acting as Operator of the
SME Credit Guarantee Scheme**

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1 Credit Guarantee Scheme

The Credit Guarantee Scheme ("CGS") provides a State guarantee through the Department of Business, Enterprise & Innovation (the "Department") to accredited Lenders (Allied Irish Banks, Bank of Ireland and Ulster Bank Ireland) of 80 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 new Credit Guarantee Scheme became operational in July 2018 replacing the previous CGS 2012 and CGS 2015 schemes that had been collectively in operation since 2012 (the "Legacy Schemes"). Henceforth, all references to CGS will relate to the scheme launched in 2018. The Department has appointed the Strategic Banking Corporation of Ireland ("SBCI") as Operator.

Year	Number of Loans	Value of Loans
2018	49	€7,370,500
Total	49	€7,370,500

As a result of the facilities sanctioned under the CGS to SMEs, 191 new jobs have been created and 851 jobs have been maintained.

As stated above, the purpose of the SME Credit Guarantee Schemes made under the 2017 Act was to encourage additional lending to SMEs.

A review of its operation pointed to the need for reforms designed to ensure that Irish SMEs would have at their disposal the full array of avenues to finance available to their competitors in other countries.

In March 2017 the Minister for Employment and Small Business, Mr Pat Breen TD, announced the launch of the new Credit Guarantee Scheme using the new possibilities in the 2016 legislation to carry out the following reforms:

1. Increase the level of risk that the State will take (80% of individual loans), so as to make it more attractive for finance providers to lend to SMEs;
2. Extend the scope to cover other financial product providers too, like lessors, invoice discounters etc.; and
3. Extend the definition of loan agreements to include non-credit products such as invoice finance and leasing, and to include overdrafts.

This new legislation also empowers the Minister to give counter-guarantees that will enable the SBCI (in their capacity as a Promotional Financial Institution) to unlock matching guarantee facilities from EU sources and thus better share the risk across the banks, the SBCI, the Minister and the EU sources. It is envisaged that this counter-guarantee would operate in conjunction with optimal leveraging of EU financial instruments in this area, such as the European Programme for Competitiveness of SMEs ("COSME"), the Horizon 2020 funding earmarked for SMEs; and the European Fund for Strategic Investment administered by the European Investment Bank and European Investment Fund (often referred to as the "Juncker Plan").

Further details on the new Scheme products will be posted on the websites of both the Department and the SBCI.

2 Analysis of the Credit Guarantee Scheme

Period	Number of Loans	Value of Loans	Average Loan Size	Impact on Jobs	
				Increase	Maintain
1 st Jul - 30 th Sep 18	30	€4,530,000	€151,000	108	419
1 st Oct - 31 st Dec 18	19	€2,840,500	€149,500	83	432
Total	49	€7,370,500	€150,418	191	851

- Since the launch of the Scheme on 10th July 2018 SMEs have availed of 49 CGS loans for a total value of €7,370,500.
- As at 31 December 2018 no claims have been submitted against the guarantee.
- The remainder of this report provides additional analysis on the portfolio of 49 CGS facilities with total value of €7,370,500.
- The report also reviews the Legacy Schemes. These schemes are no longer open to new customers since being replaced by the new CGS in 2018.

2.1 Activity by Region

Region	Number of Loans	Value of Loans	% by Value	Average Loan Size
East - (Dublin, Kildare, Meath and Wicklow)	28	€4,175,500	57%	€149,125
Mid-West - (Limerick and Clare)	5	€610,000	8%	€122,000
South West - (Cork and Kerry)	9	€1,600,000	22%	€177,778
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	4	€590,000	8%	€147,500
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	0	€0	0%	€0
West - (Galway and Mayo)	1	€200,000	3%	€200,000
North East - (Cavan, Louth and Monaghan)	1	€135,000	2%	€135,000
North West - (Donegal, Sligo and Leitrim)	1	€60,000	1%	€60,000
Total	49	€7,370,500	100%	€150,418

2.2 Activity by County

Region	Number of Loans	Value of Loans	% by Value	Average Loan Size
Carlow	2	€340,000	5%	€170,000
Cavan	-	-	0%	-
Clare	1	€200,000	3%	€200,000
Cork	8	€1,580,000	21%	€197,500
Donegal	1	€60,000	1%	€60,000
Dublin	24	€3,855,500	52%	€160,645
Galway	1	€200,000	3%	€200,000
Kerry	1	€20,000	0%	€20,000
Kildare	1	€150,000	2%	€150,000
Kilkenny	-	-	0%	-
Laois	-	-	0%	-
Leitrim	-	-	0%	-
Limerick	4	€410,000	6%	€102,500
Longford	-	-	0%	-
Louth	1	€135,000	2%	€135,000
Mayo	-	-	0%	-
Meath	-	-	0%	-
Monaghan	-	-	0%	-
Offaly	-	-	0%	-
Roscommon	-	-	0%	-
Sligo	-	-	0%	-
Tipperary	-	-	0%	-
Waterford	-	-	0%	-
Westmeath	-	-	0%	-
Wexford	2	€250,000	3%	€125,000
Wicklow	3	€170,000	2%	€56,666
Total	49	€7,370,500	100%	€150,418

2.3 Activity by Industry Sector

Industry Sector	Number of Loans	% by Number	Value of Loans	% by Value
Information and Communication	2	4%	€300,000	4%
Wholesale/Retail Trade & Repairs	6	12%	€508,000	7%
Manufacturing	2	4%	€410,000	6%
Professional, Scientific & Technical Activities	10	20%	€1,610,000	22%
Construction	6	12%	€870,000	12%
Business and Administrative Services	2	4%	€400,000	5%
Human Health and Social Work	1	2%	€7,500	0%
Arts, Entertainment & Recreation	9	18%	€1,534,000	21%
Accommodation & Food Services	4	8%	€523,000	7%
Other Community, Social and Personal Services	1	2%	€250,000	3%
Other Services	1	2%	€147,500	2%
Education	2	4%	€300,000	4%
Transportation and Storage	3	6%	€510,500	7%
Total	49	100%	€7,370,500	100%

2.4 Activity by Legal Form

Legal Form	Number of Loans	% of Total
Private Limited Company	46	94%
Sole Trader	2	4%
Partnership	1	2%
Limited Liability Partnership	0	0%
Other	0	0%
Total	49	100%

2.5 Impact on Jobs

As a result of the CGS lending to SMEs as of 31st December 2018 it is expected that 191 new jobs will be created and 851 jobs will be maintained.

Number of Jobs Increased	2018
Quarter 1	N/A*
Quarter 2	N/A*
Quarter 3	63
Quarter 4	128
Total	191
Number of Jobs Maintained	2018
Quarter 1	N/A*
Quarter 2	N/A*
Quarter 3	211
Quarter 4	640
Total	851

* Note: First loans under CGS were received in Q3 2018.

2.6 Exports

Of the 49 SMEs currently on the CGS Portfolio, 7 of them are exporters. The table below outlines the various markets they export to.

Number of SMEs that Export	Primary Export Markets
1	UK
3	USA
1	EU
1	BRICS
1	OTHER

2.7 Market Inefficiencies - Pillar 1 and/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 have insufficient collateral for the additional facilities or in the case where an SME is seeking to refinance due to its bank exiting the Irish SME credit market there is insufficient collateral available to support this refinancing 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 a viable SME not securing a credit facility through the traditional commercial lending route.

Reason for not securing Normal Credit Facilities				
	Insufficient Collateral	Insufficient Collateral and Higher Risk Model/Sector/Product	Higher Risk Model/Sector/Product	Refinancing from departing Banks
Number	49	0	0	0

2.8 Year of Establishment of Borrowing SMEs

Year of Establishment	Number of Loans	% of Total
2018	1	2%
2017	6	13%
2016	3	7%
2015	1	2%
2014	5	11%
2013	4	9%
2012	2	4%
2011	5	11%
2010	4	9%
2000-2009	8	17%
1945-1999	7	15%
Total	46*	100%

**Note: Three Facilities granted under CGS were to Sole Traders and Partnerships. As such date of establishment is unavailable.*

2.9 Term of Commercial 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 seven years from the date of acceptance of the Lender's offer by the borrower.

Term of Facility	Number of Loans	% of Total
< 1 Year	4	8%
1 < 2 Years	8	16%
2 Years < 3 Years	1	2%
3 Years < 4 Years	4	8%
4 Years < 5 years	2	4%
5 Year	19	39%
> 5 Years	11	22%
Total	49	100%

2.10 Purpose of the CGS Facility

Purpose of Loan	Number of Loans	%	Enterprise Type	Number of Loans	%
Working Capital	32	65%	Micro	11	34%
			Small	21	66%
			Medium	0	0%
Purchase of Equipment	6	12%	Micro	4	67%
			Small	2	33%
			Medium	0	0%
Product or Service Development	3	6%	Micro	3	100%
			Small	0	0%
			Medium	0	0%
Purchase of Premises	1	2%	Micro	0	0%
			Small	1	100%
			Medium	0	0%
Other	7	14%	Micro	4	57%
			Small	2	29%
			Medium	1	14%
Total	49	100%		49	

2.11 Classification of SMEs

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

- A micro enterprise 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.

Enterprise size:	Micro	Small	Medium
Number as at 31 st December 2018	21	27	1
Total Loan Value	€2,470,000	€4,600,500	€300,000
Number of Jobs - Increased	48	116	27
Number of Jobs - Maintained	109	555	187
Percentage of Total by Value	34%	62%	4%

2.12 Premium Collection

SMEs availing of the CGS must pay a premium of 1% per annum (2% on the 2012 - 2015 Legacy Schemes) to the Department of Business, Enterprise and Innovation which partially covers the cost of providing the guarantee. The premium is collected monthly, quarterly or annually in advance throughout the, up to, seven year life of the guarantee based on the annual contracted principal balance.

Premium Payments Received - CGS					
Year	Q1	Q2	Q3	Q4	Total for Year
2018	N/A	N/A	N/A	€21,072	€21,072
Total premium collected					€21,072

**Note: Premium payments due on loans advanced in Q3 2018 were collected in Q4 2018.*

Premium Payments Received - Legacy Schemes					
	Q1	Q2	Q3	Q4	Total for Year
2012	N/A	N/A	N/A	€2,410	€2,410
2013	€8,852	€14,306	€26,935	€30,555	€80,648
2014	€30,544	€35,608	€42,860	€45,361	€154,373
2015	€49,632	€49,633	€62,726	€96,485	€258,476
2016	€83,094	€121,749	€137,738	€160,521	€503,102
2017	€138,332	€159,577	€160,591	€138,043	€596,543
2018	€123,323	€114,144	€138,953	€109,268	€485,688
Total premium collected					€2,081,240

2.13 Contingent Liability

Contingent Liability: CGS

Year	Total Portfolio Value	Maximum Exposure	Total Scheme Value less Matured Loans	Maximum Exposure on Claims against Remaining Live Lending as at 31 December 2018
2018	€7,370,500	€766,532	€7,170,500	€745,732

The Minister's liability under CGS is based upon an 80% guarantee on individual loans and is subject to a 13% portfolio cap with each finance provider. Once a finance provider's defaults have reached the 13% cap, any further losses from loans in that portfolio must be borne by the finance provider and will not be eligible to have 80% of them reclaimed.

Contingent Liability: Legacy Schemes

Year	Allocation Request of CGS Legacy Portfolio	Loans Sanctioned	Lending Accepted by the Borrower in respect of 2012 Portfolio Year Sanctions	Maximum Exposure on Claims against Accepted Lending	Total Original Scheme Amount on Remaining Live Loans	Maximum Exposure on Claims against Remaining Live Lending as at 31 December 2018
2012	€5,000,000	€967,000	€362,000	€27,150	€0	€0
2013	€85,000,000	€12,345,500	€6,046,500	€453,488	€0	€0
2014	N/A	€8,660,344	€6,432,344	€482,426	€575,000	€431,250
2015	N/A	€20,630,050	€13,885,050	€1,041,379	€8,560,500	€673,445
2016	N/A	€22,217,000	€11,966,000	€897,450	€6,811,000	€715,658
2017	N/A	€20,036,700	€14,452,450	€1,083,934	€11,728,450	€1,083,934
2018	N/A	€8,614,500	€5,969,500	€447,713	€3,626,500	€367,059

The Minister's liability under the Legacy Schemes is based upon a 75% guarantee on individual loans and is subject to a 10% portfolio cap.

Once a finance provider's defaults have reached the 10% cap, any further losses from loans in that portfolio must be borne by the finance provider and will not be eligible to have 75% of them reclaimed.

3 Update on Legacy Schemes

- The Legacy Schemes commenced on the 24th October 2012 and closed for new loans in June 2018 when they were replaced by the CGS. This report is based on data received on usage and activity up to 31st December 2018.
- Since the launch of the Legacy Schemes, €93,386,094 has been sanctioned by the participating lenders through 587 CGS facilities.
- Most of the lending has been sanctioned in the East, South and Mid-West with these three regions combined accounting for 83% of lending currently live or repaid.
- Approved lending is dominated by eight industry sectors accounting for 91% of the total lending.
- 2,338 new jobs were created and 1,328 jobs were maintained.
- Of the SMEs who participated in the CGS, 53% were established during the period 2010-2018.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 66% of all Legacy Schemes.
- 51% of the lending sanctioned was provided to SMEs defined as a Small Enterprise.
- The average loan amount sanctioned by the participating lenders is €159,136.
- Five claims against the guarantee for €61,950, €26,045, €367,934, €39,442 and €169,792 were processed and paid to participating lenders in quarter 2 2015, quarter 3 2016, two in quarter 4 2017 and one in quarter 1 2018 respectively.
- Premium collection, which partially covers the cost of providing the guarantee, amounted to just over €2.1m from inception in October 2012 to 31st December 2018.

The Strategic Banking Corporation of Ireland (SBCI) is the Operator of the CGS on behalf of the Department of Business, Enterprise and Innovation.