3rd Quarter Report of 2019 to the Minister for Business, Enterprise and Innovation detailing the analysis and performance of the SME Credit Guarantee Scheme as at 30th September 2019

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

Contents

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.

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.

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.

	Loans Sanctioned		Loans Drawn	
Year	**Number**	**Value**	**Number**	**Value**
2018	82	€12,572,062	64	€9,863,000
2019	82	€17,475,234	55	€11,988,000
Total	**164****	**€30,047,296**	**119**	**€21,851,000**

***** Note***

As at the date of this Report, SBCI has not received "Sanctioned not Drawn" data from Ulster Bank.

The figure for Q4 will have to be adjusted upon receipt of the relevant data.

As a result of the facilities drawn under the CGS, 496 new jobs have been created and 2,176 jobs have been maintained.

In March 2017 the Minister for Employment and Small Business announced the launch of the new Credit Guarantee Scheme 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.

2 Analysis of the Credit Guarantee Scheme

	Loans Sanctioned		Loans Drawn				
Quarter	Number	Value	Number	Value	Average loan size	Impact on Jobs	
						Increase	Maintain
Q3 2018	38	€5,871,562	30	€4,530,000	€151,000	108	419
Q4 2018	44	€6,870,500	34	€5,333,000	€149,500	125	794
Q1 2019	30	€5,949,000	20	€4,146,000	€211,444	88	343
Q2 2019	39	€7,320,000	18	€3,253,000	€180,722	96	249
Q3 2019	13	€4,036,234	17	€4,589,000	€269,941	79	371
Total	**164**	**€30,047,296**	**119**	**€21,851,000**	**€183,621**	**496**	**2,176**

- Since the launch of the Scheme on 10th July 2018, 164 CGS loans have been sanctioned with a total value of €30,047,296
- Of these, 119 have drawn down facilites with a total value of €21,851,000
- As at 30th September 2019 no claims have been submitted against the guarantee.
- The remainder of this report provides additional analysis on the portfolio of 164 CGS facilities with total value of €30,047,296.
- The report also reviews the loans under Legacy Schemes. These schemes are no longer open to new customers since being replaced by the new CGS in 2018.
- CGS 2017 launched on the 10th July 2018. This report is based on sanctioned and drawn down data received on usage and activity up to 30th September 2019.
- The East and South-West regions account for 78% of all lending sanctioned.
- 57% of lending was to the industry sectors Professional, Scientific & Technical Activities, Arts, Entertainment & Recreation, Construction & Wholesale. The remaining lending was across a further 11 sectors.
- It is expected that 612 new jobs will be created, and 2,599 jobs will be maintained as a result of loans sanctioned under CGS.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 57% of all CGS facilities.
- 51% of the lending sanctioned was to SMEs defined as a Micro Enterprise, 46% provided to Small Enterprises & 4% to those classified as Medium.
- The average loan amount drawn by borrowers is €183,622.

- There have been no claims made under the Scheme to date.

2.1 Activity by Region

	Loans Sanctioned		Loans Drawn			
Region	**Number**	**Value**	**Number**	**Value**	**% by value**	**Average loan size**
East - (Dublin, Kildare, Meath and Wicklow)	95	€17,509,062	71	€12,987,000	59%	€182,915
Mid-West - (Limerick and Clare)	15	€2,210,000	9	€1,270,000	6%	€141,111
South West - (Cork and Kerry)	23	€4,515,000	20	€3,985,000	18%	€199,250
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	12	€1,999,234	4	€590,000	3%	€147,500
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	4	€1,108,000	4	€1,108,000	5%	€277,000
West - (Galway and Mayo)	8	€1,543,000	6	€1,093,000	5%	€182,167
North East - (Cavan, Louth and Monaghan)	3	€480,000	1	€135,000	1%	€135,000
North West - (Donegal, Sligo and Leitrim)	4	€683,000	4	€683,000	3%	€170,750
Total	**164**	**€30,047,296**	**119**	**€21,851,000**	**100%**	**€183,622**

2.2 Activity by County

	Loans Sanctioned		Loans Drawn			
County	**Number**	**Value**	**Number**	**Value**	**% by value**	**Average loan size**
Carlow	3	€406,000	2	€340,000	2%	€170,000
Cavan**	0	€0	0	€0	0%	€0
Clare	5	€820,000	3	€640,000	3%	€213,333
Cork	20	€3,839,000	18	€3,665,000	17%	€203,611
Donegal	4	€683,000	4	€683,000	3%	€170,750
Dublin	73	€13,677,062	55	€10,282,500	47%	€186,954.55
Galway	7	€1,293,000	5	€843,000	4%	€168,600
Kerry	3	€570,000	2	€320,000	1%	€160,000
Kildare	4	€1,062,500	4	€1,062,500	5%	€265,625
Kilkenny	2	€430,000	0	€0	0%	€0
Laois	1	€208,000	1	€108,000	0%	€108,000
Leitrim	0	€0	0	€0	0%	€0
Limerick	10	€1,390,000	6	€630,000	3%	€105,000
Longford	0	€0	0	€0	0%	€0
Louth	3	€480,000	1	€135,000	1%	€135,000
Mayo	1	€250,000	1	€250,000	1%	€250,000
Meath	5	€902,500	3	€575,000	3%	€191,667
Monaghan	0	€0	0	€0	0%	€0
Offaly	1	€100,000	1	€100,000	0%	€100,000
Roscommon	1	€400,000	1	€400,000	2%	€400,000
Sligo	0	€0	0	€0	0%	€0
Tipperary	2	€468,000	0	€0	0%	€0
Waterford	2	€251,234	0	€0	0%	€0
Westmeath	1	€500,000	1	€500,000	2%	€500,000
Wexford	3	€450,000	2	€250,000	1%	€125,000
Wicklow	13	€1,867,000	9	€1,067,000	5%	€118,556
Total	**164**	**€30,047,296**	**119**	**€21,851,000**	**100%**	**€183,622**

****Note:**

This figure has been adjusted down to zero from last quarters figure of 1 as the On Lender in question changed the facility County from Cavan to Dublin.

2.3 Activity by Industry Sector

	Loans Sanctioned		Loans Drawn			
Industry Sector	**Number**	**% by Number**	**Number**	**% by Number**	**Value**	**% by Value**
Accommodation & Food Services	15	9%	11	9%	€1,623,000	7%
Administrative Services	8	5%	5	4%	€1,020,000	5%
Agriculture	2	1%	2	2%	€750,000	3%
Arts, Entertainment & Recreation	17	10%	13	11%	€2,164,000	10%
Construction	15	9%	14	12%	€2,370,000	11%
Education	1	1%	1	1%	€150,000	1%
Human Health and Social Work	11	7%	7	6%	€1,241,000	6%
Information and Communication	8	5%	6	5%	€932,500	4%
Legal	2	1%	2	2%	€320,000	1%
Manufacturing	9	5%	7	6%	€2,293,000	10%
Other Services	6	4%	1	1%	€250,000	1%
Professional, Scientific & Technical Activities	34	21%	20	17%	€3,165,000	14%
Real Estate	1	1%	1	1%	€150,000	1%
Transportation & Storage	8	5%	7	6%	€990,500	5%
Wholesale/Retail Trade & Repairs	27	16%	22	18%	€4,432,000	20%
Total	**164**	**100%**	**119**	**100%**	**€21,851,000**	**100%**

2.4 Activity by Legal Form

Legal Form	Loans Sanctioned		Loans Drawn	
	Number	% of Total	Number	% of Total
Private Limited Company	138	84%	107	90%
Sole Trader	15	9%	8	7%
Partnership	9	5%	4	3%
Limited Liability Partnership	1	1%	-	-
Other	1	1%	-	-
Total	**164**	**100%**	**119**	**100%**

2.5 Impact on Jobs

To date the number of jobs increased/maintained on drawn down loans is 496 & 2,176 respectively. In the event that all of the sanctioned loans are drawn down by borrowers it would be expected that 612 new jobs would be created and 2,599 jobs maintained.

Number of Jobs Increased	Sanctioned Loans	Drawn Loans
Quarter 3 2018	115	108
Quarter 4 2018	140	125
Quarter 1 2019	116	88
Quarter 2 2019	193	96
Quarter 3 2019	48	79
Total	**612**	**496**
Number of Jobs Maintained	**Sanctioned Loans**	**Drawn Loans**
Quarter 3 2018	488	419
Quarter 4 2018	897	794
Quarter 1 2019	356	343
Quarter 2 2019	648	249
Quarter 3 2019	210	371
Total	**2,599**	**2,176**

2.6 Exports

Of the 164 SMEs currently sanctioned on the CGS Portfolio, 27 of them are Exporters. The table below outlines the various markets they export to.

Number of SMEs that Export - Sanctioned Loans	Number of SMEs that Export - Drawn Loans	Primary Export Markets
11	10	UK
6	5	USA
6	4	EU
1	1	BRICS
3	2	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 commercially viable businesses.

Target groups are commercially viable SME businesses that have insufficient collateral for the additional facilities 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 - Sanctioned	164	-	-	-
Number - Drawn Down	119	-	-	-

2.8 Year of Establishment of Borrowing SMEs

Year of Establishment	Loans Sanctioned		Loans Drawn	
	Number	% of Total	Number	% of Total
2019	5	3%	3	3%
2018	13	8%	10	8%
2017	12	7%	8	7%
2016	7	4%	5	4%
2015	9	5%	4	3%
2014	10	6%	9	8%
2013	8	5%	5	4%
2012	8	5%	6	5%
2011	19	12%	14	12%
2010	6	4%	4	3%
2000-2009	29	18%	25	21%
1945-1999	13	8%	11	9%
Unknown *	25	15%	15	13%
Total	**164**	**100%**	**119**	**100%**

Note: 25 facilities sanctioned under CGS were to Sole Traders and Partnerships. As such year 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 is seven years from the date of acceptance of the Lender's offer by the borrower.

2.10 Purpose of the CGS Facility

Sanctioned Facilities:

Purpose of Loan	Number of Loans	%	Enterprise Type	Number of Loans	%
Working Capital	94	57%	**Micro**	41	25%
			Small	49	30%
			Medium	4	2%
Purchase of Equipment	18	11%	**Micro**	11	7%
			Small	6	4%
			Medium	1	1%
Product or Service Development	7	4%	**Micro**	5	3%
			Small	2	1%
			Medium	0	0%
Purchase of Premises	1	1%	**Micro**	0	0%
			Small	1	1%
			Medium	0	0%
Other	44	27%	**Micro**	26	16%
			Small	17	10%
			Medium	1	1%
Total	**164**	**100%**		**164**	**100%**

Drawn Facilities:

Purpose of Loan	Number of Loans	%	Enterprise Type	Number of Loans	%
Working Capital	68	57%	**Micro**	25	21%
			Small	39	33%
			Medium	4	3%
Purchase of Equipment	14	12%	**Micro**	8	7%
			Small	5	4%
			Medium	1	1%
Product or Service Development	6	5%	**Micro**	4	3%
			Small	2	2%
			Medium	0	0%
Purchase of Premises	1	1%	**Micro**	0	0%
			Small	1	1%
			Medium	0	0%
Other	30	25%	**Micro**	17	14%
			Small	12	10%
			Medium	1	1%
Total	**119**	**100%**		**119**	**100%**

2.12 Premium Collection

SMEs availing of the CGS must pay a premium of 0.5% per annum 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**
2019	€20,024	€30,828	€35,309	€0	**€86,161**
Total premium collected					**€107,233**

**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**
2019	€91,031	€59,759	€88,328	€0	**€239,118**
Total premium collected					**€2,320,358**

2.13 Contingent Liabilty

Contingent Liability: CGS

Year	Total Portfolio Value	Maximum Exposure	Total Value of Claims Submitted	Maximum Exposure on Claims against Remaining Live Lending as at 30 September 2019
2018	€9,863,000	€1,025,752	€0	€1,025,752
2019	€11,988,000	€1,246,752	€0	€1,246,752
Totals	**€21,851,000**	**€2,272,504**	**€0**	**€2,272,504**

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 Lender. Once a Lender's defaults have reached the 13% cap, any further losses from loans in that portfolio must be borne by the Lenderr and will not be eligible to have 80% of them reclaimed.

Claims under CGS 2017: -

To date there have been no claims under CGS 2017 and Lenders advise that as at the date of this report none were pending.

Contingent Liability: Legacy Schemes

Year	Allocation Request of CGS Legacy Portfolio	Loans Sanctioned	Lending Accepted by the Borrower re 2012 Portfolio Year Sanctions	Max Exposure on Claims against Accepted Lending	Total Original Scheme Amount on Remaining Live Loans	Max Exposure on Claims against Remaining Live Lending as at 31 March 2019
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	€6,664,344	€499,826	€375,000	€281,250
2015	N/A	€20,630,050	€16,590,050	€1,244,254	€7,205,500	€842,570
2016	N/A	€22,217,000	€16,878,000	€1,265,850	€9,471,000	€1,084,058
2017	N/A	€20,411,700	€15,787,450	€1,184,059	€12,825,450	€1,184,059
2018	N/A	€8,614,500	€5,694,500	€427,088	€4,554,500	€331,434
Totals	**N/A**	**€93,846,094**	**€68,022,844**	**€5,101,715**	**€34,431,450**	**€3,723,371**

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 Lender's defaults have reached the 10% cap, any further losses from loans in that portfolio must be borne by the lender.

Claims under CGS 2012 - 2015:-

To date six claims against the guarantee have been processed and paid since the schemes' inception.

The values of these claims and the dates they were paid are:

Q1 2015 - €61,950 & €26,045
Q2 2017 - €367,934 & €39,442
Q4 2017 - €169,792
Q1 2018 - €80,654

SBCI has been advised that a further three claims are pending with one Lender.

They have advised that the value of one of the claims is for the sum of €98,006.43 but they have not, as yet, been in a position to provide SBCI with the values of the remaining two as they are currently in liquidation .

As soon as this information come to hand, SBCI will instruct D/BEI accordingly**.**

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 30th September 2019.
- Since the launch of the Legacy Schemes, €93,214,094 has been sanctioned by the participating lenders through 586 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.
- Premium collection, which partially covers the cost of providing the guarantee, amounted to just under €2.3m from inception in October 2012 to 30th September 2019.

4 CGS 2012–2015 – Project to Migrate to SEPA DD

In order to affect greater control over the collection cycle of Premia due on the Legacy Schemes, the SBCI has in tandem with Bank of Ireland undertaken a project to migrate all remaining live loans under CGS 2012 – 2015 from Standing Order to Direct Debit

This involves more than 138 individual loans.

We have written to the customers requesting that they complete SEPA Direct Debit Mandates and return to SBCI.

We expect to have these SEPA DDM's back within the coming weeks. We will then in turn instruct the Bank to cancel the pre-existing standing orders and implement to Direct Debits instead

An additional 66 Schemes will be written where the Loans have 12 months or less to run.

We will be instructing them to submit one more payment to us at the old rate of 2% and then cancel the Standing Order. Given the rate has been reduced to 0.5%, the last Premia paid will clear down the last annual Premia due.

5 SBCI – CGS Marketing Engagements

July 2019

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	**2**	**3**	**4**	5	6
7	**8**	9	10	11	**12**	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

August 2019

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	**5**	6	7	8	9	10
11	12	13	14	15	16	17
18	19	**20**	21	22	23	24
25	26	27	28	29	30	31

September 2019

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	**10**	11	12	13	14
15	16	**17**	**18**	**19**	20	21
22	**23**	**24**	**25**	**26**	27	28
29	**30**					

NOTES:

01-Jul	Irish Tax Institute (Members' Tour) - Sligo morning
01-Jul	Irish Tax Institute (Members' Tour) - Galway afternoon
02-Jul	Irish Tax Institute (Members' Tour) - Athlone morning
02-Jul	Irish Tax Institute (Members' Tour) - Dundalk afternoon
03-Jul	Irish Tax Institute (Members' Tour) - Dublin (The Alex) morning
04-Jul	Getting Ireland Brexit Ready Event - Cavan
08-Jul	Getting Ireland Brexit Ready Event - Monaghan
12-Jul	SME and Entrepreneurship Strategy Conference - Dublin (Aviva Stadium)

Speaking / Exhibiting
SBCI events
Milestones
European events
Attendees

NOTES:

05-Aug	Bank holiday
20-Aug	Leo South Co Dublin - Leopardstown

Speaking / Exhibiting
SBCI events
Milestones
European events
Attendees

NOTES:

10-Sep	IRDG Event - Cork
17-Sep	National Ploughing - Carlow (17/09 to 19/09)
23-Sep	DBEI Brexit Event - Dundalk
24-Sep	Ulster Bank Brexit Event - Letterkenny (Co. Donegal)
25-Sep	Ulster Bank Brexit Event - Cootehill (Co. Cavan)
26-Sep	InterTrade Ireland Funding Advisory Workshop - Dublin
26-Sep	Bank of Ireland FGLS Event - Avoca, Dunboyne
30-Sep	Irish Tax Institute Brexit Event - Dublin

Speaking / Exhibiting
SBCI events
Milestones
European events
Attendees