4th Quarter Report of 2016 to the Minister for Jobs, Enterprise and Innovation detailing the analysis and performance of the SME Credit Guarantee Scheme at 31st December 2016

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 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.

Continuing increased usage of the CGS based on the number and value of facilities sanctioned by lenders is welcomed.

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	108	€20,385,050
2016	131	€22,772,000
Total	**401**	**€64,669,894**

As a result of the facilities sanctioned under the CGS to SMEs, 1,543 new jobs have been created and 1,040 jobs have been maintained.

As stated above, the purpose of the SME Credit Guarantee Schemes made under the 2012 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.

Two strategic changes were announced by the then Minister of State for Business and Employment Ged Nash TD to the Credit Guarantee Scheme.

On the 23rd February 2015 the then Minister of State announced legislative changes to 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.

These changes became operational on 16th April 2015.

On the 1st February 2016 the then Minister of State announced legislative changes to allow for:-

- the broadening of the definition of lender in order to cover additional financial product providers such as lessors, invoice discounters and other non-bank financiers
- changing the definition of loan agreements to include non-credit products such as invoice finance and leasing, and to include overdrafts
- re-balancing the level of risk between the State and the extended finance providers, with the State taking an 80% share, up from 75% previously
- enabling State institutions like the Strategic Banking Corporation of Ireland to work with the Minister to enhance the provision of credit to SMEs
- empowering the Minister to give counter-guarantees that will enable the SBCI 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")

The Strategic Banking Corporation of Ireland were appointed by the Department as Operator of the CGS scheme on 16th October 2016.

2 Analysis of the Credit Guarantee Scheme (CGS)

Table 1 Activity Levels

	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned	Impact on Jobs (Live Cases)	
				Increase	Maintain
From 24th October 2012 to 31st December 2012	*6*	*€582,000*	*€97,000*	*33*	*5*
From 1st January 2013 to 31st March 2013	*18*	*€2,549,600*	*€141,645*	*148*	*20*
From 1st April 2013 to 30th June 2013	*23*	*€2,774,500*	*€120,630*	*92*	*90*
From 1st July 2013 to 30th September 2013	*33*	*€5,285,000*	*€160,152*	*81*	*19*
From 1st October 2013 to 31st December 2013	*14*	*€1,498,400*	*€107,029*	*55*	*102*
From 1st January 2014 to 31st March 2014	*16*	*€1,653,000*	*€103,313*	*70*	*19*
From 1st April 2014 to 30th June 2014	*15*	*€2,099,500*	*€139,967*	*22*	*31*
From 1st July 2014 to 30th September 2014	*21*	*€3,795,844*	*€180,754*	*81*	*47*
From 1st October 2014 to 31st December 2014	*16*	*€1,735,000*	*€108,438*	*37*	*-*
From 1st January 2015 to 31st March 2015	*13*	*€2,206,600*	*€169,738*	*27*	*52*
From 1st April 2015 to 30th June 2015	*33*	*€7,080,950*	*€214,574*	*162*	*133*
From 1st July 2015 to 30th September 2015	*32*	*€5,681,500*	*€177,547*	*116*	*17*
From 1st October 2015 to 31st December 2015	*30*	*€5,416,000*	*€180,534*	*27*	*204*
From 1st January 2016 to 31st March 2016	*34*	*€6,805,000*	*€200,147*	*134*	*124*
From 1st April 2016 to 30th June 2016	*43*	*€7,261,000*	*€168,860*	*186*	*106*
rom 1st July 2016 to 30th September 2016	*29*	*€4,337,000*	*€149,552*	*152*	*36*
From 1st October 2016 to 31st December 2016	*25*	*€3,909,000*	*€156,360*	*120*	*35*
Total as at 31st December 2016	**401**	**€64,669,894**	**€161,272**	**1,543**	**1,040**

Status	No. of CGS Facilities	Amount of Lending
CGS loans sanctioned by Lenders since the CGS Launch on 24th October 2012	401	€64,669,894
Declined or Cancelled by the customer	62	€10,615,000
Declined by the lender	3	€180,000
Ineligible	3	€467,000
CGS Facilities at 31st December 2016	333	€53,407,894

- Since the launch of the Scheme on 24th October 2012, €64,669,894 has been sanctioned by the participating lenders through four hundred and one CGS facilities.

- Sixty two CGS facilities with a total lending value of €10,615,000 were declined by the borrower and did not proceed.

- Three CGS facilities with a total lending value of €180,000 were initially sanctioned for approval, however the applications were declined by the lender following the receipt of additional information which negatively impacted the borrower's viability.

- Three CGS facilities with total lending value of €467,000 were initially sanctioned by participating lenders but upon review were subsequently deemed ineligible for the CGS and did not proceed.

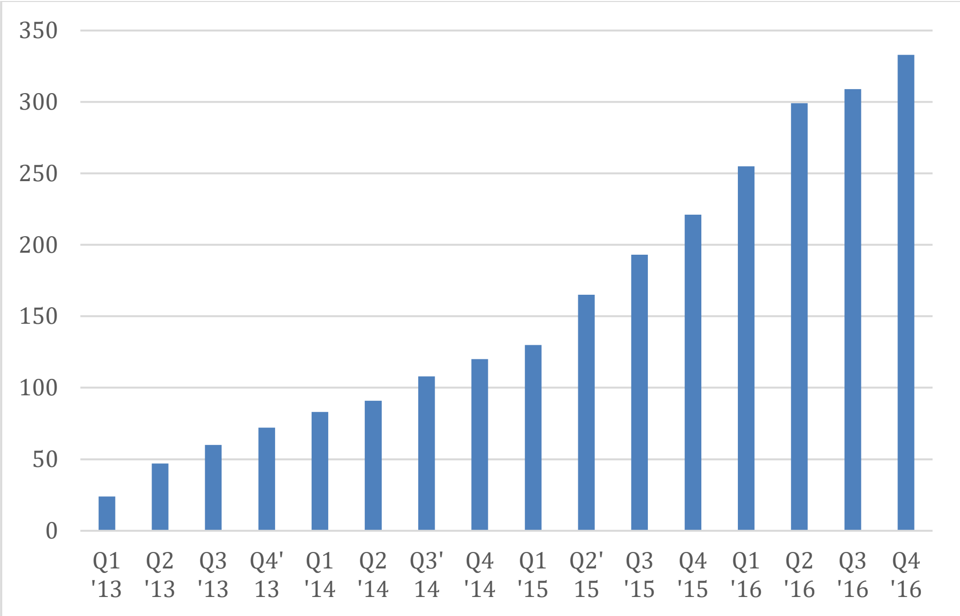
- The average loan amount sanctioned by the participating lenders based on the four hundred and one CGS loans sanctioned since the CGS was launched is €161,272.

- Two claims against the guarantee for €61,950.16 and €26,045.45 were processed and paid to participating lenders in quarter two 2015 and quarter three 2016 respectively.

- The remainder of this report is based on three hundred and thirty three CGS facilities with total lending value of €53,407,894.

2.1 Activity Levels

Figure 1 Number of Sanctioned CGS Facilities



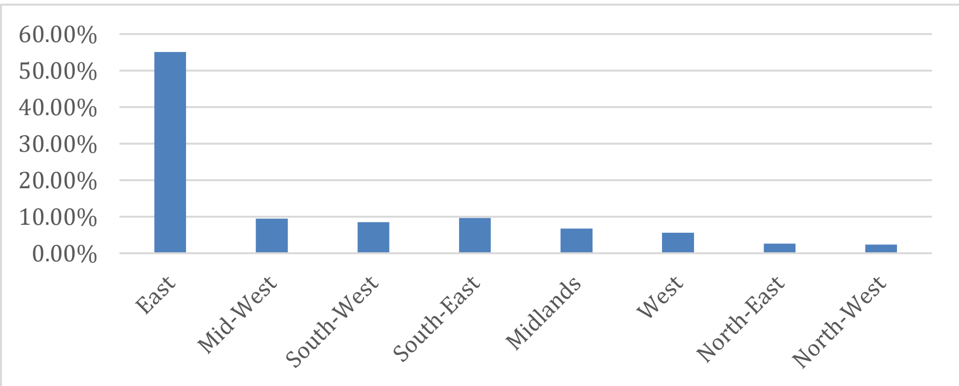
2.1.1 Activity by Region

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)	169	€29,423,000	55.09%	€174,101
Mid West - (Limerick and Clare)	41	€5,042,344	9.44%	€122,9841
South West - (Cork and Kerry)	40	€4,558,000	8.53%	€113,950
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	25	€5,152,000	9.65%	€206,080
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	20	€3,593,950	6.73%	€179,698
West - (Galway and Mayo)	23	€2,974,600	5.57%	€129,330
North East - (Cavan, Louth and Monaghan)	10	€1,410,000	2.64%	€141,000
North West - (Donegal, Sligo and Leitrim)	5	€1,254,000	2.35%	€250,800
Total	**333**	**€53,407,894**	**100%**	**€160,384**

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



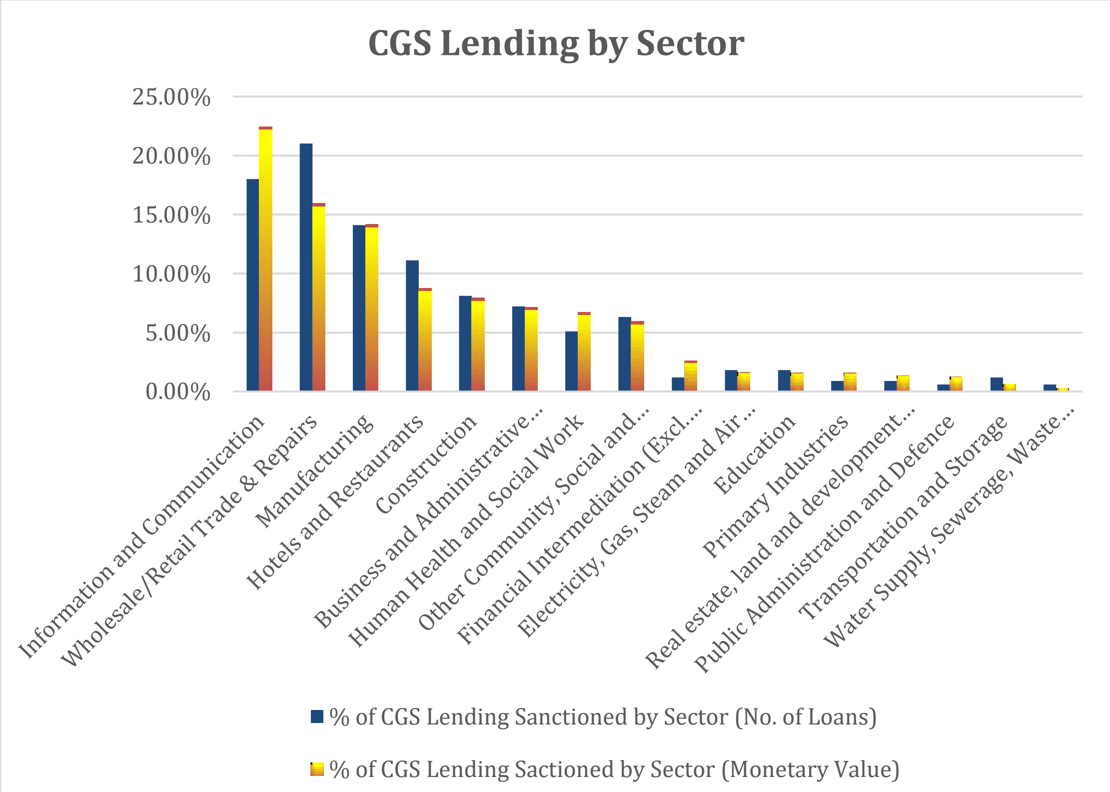
2.1.2 Activity by Industry Sector

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	60	18.02%	€11,996,000	22.46%
Wholesale/Retail Trade & Repairs	70	21.02%	€8,514,194	15.94%
Manufacturing	47	14.11%	€7,564,000	14.16%
Hotels and Restaurants	37	11.11%	€4,680,100	8.76%
Construction	27	8.11%	€4,237,600	7.93%
Business and Administrative Services	24	7.21%	€3,823,000	7.16%
Human Health and Social Work	17	5.11%	€3,592,000	6.73%
Other Community, Social and Personal Services	21	6.31%	€3,185,000	5.96%
Financial Intermediation (Excl. Monetary Financial Institutions)	4	1.20%	€1,400,000	2.62%
Electricity, Gas, Steam and Air Conditioning Supply	6	1.80%	€870,000	1.63%
Education	6	1.80%	€851,000	1.59%
Primary Industries	3	0.90%	€850,000	1.59%
Real estate, land and development activities	3	0.90%	€710,000	1.33%
Public Administration and Defence	2	0.60%	€660,000	1.24%
Total	**333**	**100%**	**€53,407,894**	**100%**

Figure 3 Percentage of CGS Lending Sanctioned by Sector



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	313	94.0%
Sole Trader	15	4.5%
Partnership	4	1.2%
Limited Liability Partnership	1	0.3%
Total	**333**	**100.0%**

2.1.4 Impact on Jobs

As a result of the CGS lending to SMEs as of 31st December 2016 it is expected that 1,423 new jobs will be created and 1,005 jobs will be maintained.

Table 5 Impact on Jobs

Number of Jobs Increased	2012	2013	2014	2015	2016
Quarter 1	N/A	148	70	27	134
Quarter 2	N/A	92	22	162	186
Quarter 3	N/A	81	81	116	152
Quarter 4	33	55	37	27	120
Total			**1,543**		

Number of Jobs Maintained	2012	2013	2014	2015	2016
Quarter 1	N/A	20	19	52	124
Quarter 2	N/A	90	31	133	106
Quarter 3	N/A	19	47	17	36
Quarter 4	5	102	0	204	35
Total			**1,040**		

2.1.5 Exports

- One Hundred and Four CGS facilities were granted to SMEs who are exporters.
  - Sixty nine of the CGS facilities were granted to SMEs primarily exporting to the United Kingdom of Great Britain and Northern Ireland.
  - Fifteen CGS facilities were granted to SMEs primarily exporting within the European Union.
  - Ten CGS facilities were granted to SMEs that primarily export to the United States of America.
  - Seven CGS facilities were granted to SMEs that primarily export to regions other than those listed above.
  - Three CGS facilities were granted to SMEs that primarily export to Brazil, Russia, India, China and South Africa (BRICS)

2.1.6 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.

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	**295**	**13**	**25**

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 December 2016	% by year of establishment
2016	*13*	3.9%
2015	*14*	4.2%
2014	*28*	8.4%
2013	*18*	5.4%
2012	*28*	8.4%
2011	*30*	9.0%
2010	*26*	7.8%
2000-2009	*114*	34.2%
1945-1999	*62*	18.6%
Total	**333**	**100.0%**

2.1.8 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.

Table 8 Term of Facility

Term of Facility	Number of CGS Loans as at 31st December 2016	%
< 1 Year	49	14.7%
1 < 2 Years	30	9.0%
2 Year<3 Years	13	3.9%
3 <4years	61	18.3%
4 Years<5years	19	5.7%
5 Year	127	38.1%
> 5 Years	34	10.2%
Total	**333**	**100.0%**

2.1.9 Purpose of the CGS Facility

Table 9 shows the main reasons for the CGS Borrower seeking finance.

Table 9 Purpose of CGS Facilities

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
Working Capital	219	65.8%
Purchase of Equipment	35	10.5%
Product or Service Development	25	7.5%
Purchase of Premises	16	4.8%
Cost of Acquisition/Business Expansion	16	4.8%
Renovation/Maintenance of Premises	9	2.7%
To Fit out Premises	3	0.9%
Purchase of Vehicles	2	0.6%
Refinance of Existing Bank Debt	1	0.3%
Franchise Set up	1	0.3%
Supplier Guarantee	1	0.3%
Development of Visitor Centre/Museum and retail shop	1	0.3%
IT improvements	1	0.3%
Purchase of Stock	2	0.6%
Research and Development	1	0.3%
Total	**333**	**100.0%**

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

	Micro Enterprise	*Small Enterprise*	*Medium Enterprise*
Number as at 31st December 2016	**142**	**160**	**31**
Total Lending Sanctioned	**€16,752,944**	**€29,847,000**	**€6,807,950**
Percentage of Total €	**31.4%**	**55.9%**	**12.7%**

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, up to, seven year life of the guarantee based on the annual contracted principal balance.

Between 24th October 2012 and 31st December 2016 €999,015.46 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**	**2016**
Quarter 1	*N/A*	*€8,852.00*	*€30,544.95*	*€49,632.46*	*€83,094.85*
Quarter 2	*N/A*	*€14,306.67*	*€35,608.32*	*€49,633.17*	*€121,749.23*
Quarter 3	*N/A*	*€26,935.00*	*€42,860.19*	*€62,726.12*	*€137,738.03*
Quarter 4	*€2,410.00*	*€30,555.90*	*€45,361.52*	*€96,485.98*	*€160,521.07*
Total for Year	**€2,410.00**	**€80,649.57**	**€154,374.98**	**€258,477.73**	**€503,103.18**
Total as at 31st December 2016	**€999,015.46**				

3 Summary

- CGS commenced on the 24th October 2012. This report is based on usage and activity up to 31st December 2016
- Increased usage of the CGS has continued since quarter one 2015 and based on feedback from the participating lenders the increase in the number of facilities since quarter one 2015 can be attributed to the improving economic conditions and the expanded scope of the Credit Guarantee Scheme
- Since the launch of the Scheme on 24th October 2012, €64,669,894 has been sanctioned by the participating lenders through four hundred and one CGS facilities
- The majority of the lending has been sanctioned in the East and Mid West with these two regions combined accounting for 65% of lending currently live or repaid.
- The approved lending is dominated by eight industry sectors accounting for 93% of the total lending
- As a result of the sanctioned CGS lending to SMEs, as of 31st December 2016, it is expected that 1,543 new jobs will be created and 1,040 jobs will be maintained
- Of the SMEs currently participating in the CGS, 47%, were established during the period 2010-2016
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 65.8% of all CGS facilities
- 56% of the lending sanctioned was provided to SMEs defined as a Small Enterprise
- The average loan amount sanctioned by the participating lenders is €161,272
- Sixty Eight CGS facilities, with total lending value of €11,262,000 were cancelled, deemed ineligible, declined by the SME or borrower or the guarantee offer period ceased and did not proceed
- Two claims against the guarantee for €61,950.16 and €26,045.45 were processed and paid to participating lenders in quarter two 2015 and quarter three 2016 respectively. The Operator anticipates that this will increase due to usage based on default and arrears activity which is in line (or below) expectations
- Premium collection which partially covers the cost of providing the guarantee amounted to just under €1m from inception in October 2012 to 31st December 2016
- Strategic changes to the Scheme came into effect on the 16th April 2015 to facilitate:
    - the refinancing of loans where an SME's bank is unwilling or unable to extend credit (as its exiting the Irish SME Credit Market) and
    - the extension of the maximum length of the guarantee from three to seven years
- These changes became operational on 16th April 2015
- Further improvements to the Credit Guarantee Scheme are anticipated to be in place and operational from Q2 2017. These will include:
    - the broadening of the definition of lender to "Finance Provider" in order to cover additional financial product providers such as lessors, invoice discounters and other non-bank financiers
    - changing the definition of loan agreements to include non-credit products such as invoice finance and leasing, and to include overdrafts

    - re-balancing the level of risk between the State and the extended finance providers, with the State taking an 80% share, up from 75% previously
    - enabling State institutions like the Strategic Banking Corporation of Ireland to work with the Minister to enhance the provision of credit to SMEs
    - empowering the Minister to give counter-guarantees that will enable the SBCI 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")
- Some of the amendments will require market failure to be identified and new Finance Providers and products for delivery, so are likely to take longer to bring to market
- Capita Asset Services term as Operator ended on 16th October 2016.

The Strategic Banking Corporation of Ireland (SBCI) are now the Operator / Manager of the CGS on behalf of the Department of Jobs, Enterprise and Innovation.