CAPITA

Asset Services

4th Quarter Report of 2014 to the Minister for Jobs, Enterprise and Innovation detailing the analysis and performance of the SME Credit Guarantee Scheme at 31st December 2014

Capita Asset Services (Ireland) Limited 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. In the two month period ending 31st December 2012 six CGS facilities were sanctioned. In the year 2013 eighty eight CGS facilities were sanctioned. A total of sixty eight CGS facilities were sanctioned in 2014.

The usage of the CGS is reducing based on the number and value of facilities sanctioned by lenders in 2014 when compared to 2013.

Year	No. Of Facilities Sanctioned	Amount oF CGS Facilities Sanctioned
2013	88	€12,107,500
2014	68	€9,283,344

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, 649 new jobs have been created and 333 jobs have been maintained.

2 Analysis of the Credit Guarantee Scheme (CGS)

Since the launch of the scheme on 24th October 2012, €21,972,844 has been sanctioned by the participating lenders through one hundred and sixty two CGS facilities.

Table 1 Activity Levels

	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned	Impact on Jobs	
				Increase	Maintain
From 24th October 2012 to 31st December 2012	6	€582,000.00	€97,000.00	33	5
From 1st January 2013 to 31st March 2013	18	€2,549,600.00	€141,644.44	148	20
From 1st April 2013 to 30th June 2013	23	€2,774,500.00	€120,630.43	92	90
From 1st July to 30th September 2013	33	€5,285,000.00	€160,151.51	81	19
From 1st October to 31st December 2013	14	€1,498,400.00	€107,028.57	55	102
From 1st January to 31st March 2014	16	€1,653,000.00	€103,312.50	70	19
From 1st April 2014 to 30th June 2014	15	€2,099,500.00	€139,966.66	22	31
From 1st July to 30th September 2014	21	€3,795,844.00	€180,754.48	81	47
From 1st October 2014 to 31st December 2014	16	€1,735,000.00	€108,437.50	67	-
Total as at 31st December 2014	**162**	**€21,972,844.00**	**€135,634.84**	**649**	**333**

Status	No. of CGS Facilities	Amount of Lending €
CGS loans sanctioned by Lenders since the CGS Launch on 24th October 2012	162	€21,972,844
Declined by the customer	25	€3,625,000
Ineligible	3	€467,000
Cancelled by the customer	5	€1,020,000
Customer Consent to Data Sharing outstanding	9*	€810,000
CGS Facilities at 31st December 2014	**120****	**€16,050,844**

*Nine 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 nine loans for data protection reasons. **Due to data protection reasons the remainder of this report is based on one hundred and twenty CGS facilities.

- Since the launch of the scheme on 24th October 2012, €21,972,844 has been sanctioned by the participating lenders through one hundred and sixty two CGS facilities.

- The average loan amount sanctioned by the participating lenders based on the one hundred and sixty two CGS loans sanctioned since the CGS was launched is €135,634.84.

- Twenty five CGS facilities with a total lending value of €3,625,000 were declined by the borrower and did not proceed.

- Five case were initially accepted but subquently cancelled by the borrowers for €30,000, €90,000 , €150,000, €300,000, and €450,000 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

- Three CGS facilities with individual lending values of €56,000, €61,000 and €350,000 were initially sanctioned by a participating lender but upon review were subsequently deemed ineligible for the CGS and did not proceed.

- Fourteen CGS facilities have been repaid in full to date.

CGS Loan Repayments			
Quarter	**Year**	**No.**	**€**
Quarter 3	2013	1	100,000
Quarter 4	2013	1	50,000
Quarter 1	2014	3	300,000
Quarter 2	2014	0	0
Quarter 3	2014	3	325,000
Quarter 4	2014	6	1,103,500
Total as at 31st December 2014		14	**€1,878,500**

- Nine CGS facilities have been sanctioned by the participating Lenders, however, the SME has not yet accepted the offer nor consented to data sharing as at 31st December 2014.

- As at 31st December 2014, ninety CGS facilities with a total lending value of €10,250,844 have been fully or partially drawn down by CGS borrowers.

- The remainder of this report is based on one hundred and twenty CGS facilities with total lending value of €16,050,844 . As noted above fourteen of these facilities have been fully repaid.

2.1 Activity Levels

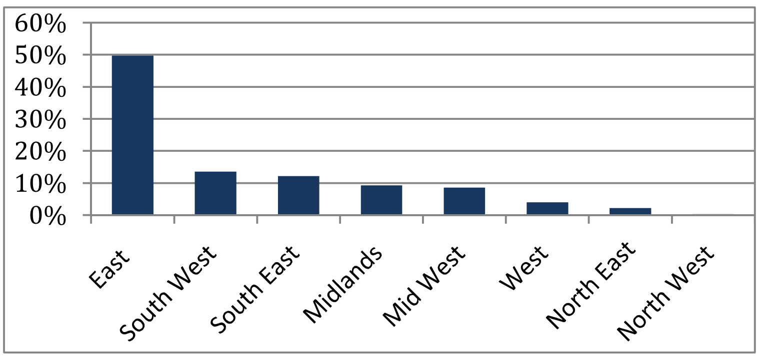
2.1.1 Activity by Region

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)	49	€7,983,000	49.7%	€162,918
South West - (Cork and Kerry)	19	€2,178,400	13.6%	€114,652
South East - (Waterford, Wexford, Carlow, Kilkenny and South Tipperary)	10	€1,953,000	12.2%	€195,300
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	11	€1,497,000	9.3%	€136,090
Mid West - (Limerick, Clare and North Tipperary)	17	€1,382,844	8.6%	€81,343
West - (Galway and Mayo)	9	€644,600	4.0%	€71,622
North East - (Cavan, Louth and Monaghan)	4	€355,000	2.2%	€88,750
North West - (Donegal, Sligo and Leitrim)	1	€57,000	0.4%	€57,000
Total	**120**	**€16,050,844**	**100.0%**	**€133,757**

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



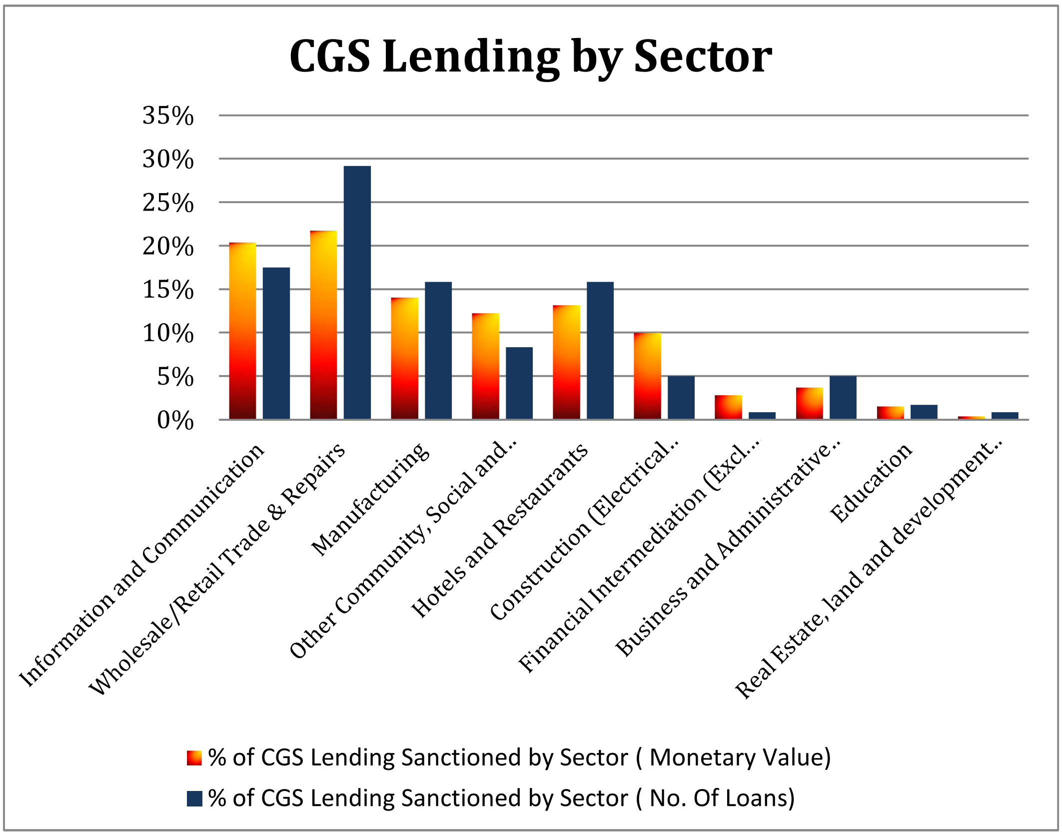
2.1.2 Activity by Industry Sector

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)
Wholesale/Retail Trade & Repairs	35	29.17%	€3,488,244	21.73%
Information and Communication	21	17.50%	€3,271,000	20.38%
Manufacturing	19	15.83%	€2,255,000	14.05%
Hotels and Restaurants	19	15.84%	€2,115,600	13.19%
Other Community, Social and Personal Services	10	8.33%	€1,965,000	12.24%
Construction (Electrical installation & site preparation)	6	5.00%	€1,605,000	10.00%
Business and Administrative Services	6	5.00%	€595,000	3.71%
Financial Intermediation (Excl. Monetary Financial Institutions)	1	0.83%	€450,000	2.80%
Education	2	1.67%	€246,000	1.53%
Real Estate, land and development activities	1	0.83%	€60,000	0.37%
Total	**120**	**100%**	**€16,050,844**	**100%**

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



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	108	90.00%
Sole Trader	11	9.17%
Partnership	1	0.83%
Total	**120**	**100%**

2.1.4 Impact on Jobs

As a result of the CGS lending to SMEs as of 31st December 2014 it is expected that 649 new jobs will be created and 333 jobs will be maintained.

Table 5 Impact on Jobs

Number of Jobs Increased	2012	2013	2014
Quarter 1	N/A	148	70
Quarter 2	N/A	92	22
Quarter 3	N/A	81	81
Quarter 4	33	55	67
Total as at 31st December 2014	**649**		

Number of Jobs Maintained	2012	2013	2014
Quarter 1	N/A	20	19
Quarter 2	N/A	90	31
Quarter 3	N/A	19	47
Quarter 4	5	102	0
Total as at 31st December 2014	**333**		

2.1.5 Exports

- Thirty-eight CGS facilities (18%) were granted to SMEs who are exporters.
  - Twenty-seven 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 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 as at 31st December 2014	**94**	**12**	**14**

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 2014	% by year of establishment
2014	8	6.7%
2013	8	6.7%
2012	12	10.0%
2011	11	9.1%
2010	9	7.5%
2000-2009	53	44.2%
1945-1999	19	15.8%
Total	**120**	**100%**

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 8 Term of Facility

Term of Facility	Number of CGS Loans as at 31st December 2014	%
< 1 Year	16	13%
> 1 < 2 Years	10	8%
2 Year	3	3%
> 3 <4years	30	25%
> 4 Year<5years	6	5%
5 Year	41	34%
> 5 Years	14	12%
Total	**120**	**100%**

2.1.9 Purpose of the CGS Facility

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

Table 9 Purpose of CGS Facility

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
Working Capital	58	47%
Purchase of Equipment	16	13%
Product or Service Development	12	10%
Cost of Acquisition	10	8%
Renovation/Maintenance of Premises	8	7%
Purchase of Premises	5	4%
Supplier Guarantee	2	2%
Franchise Set up	2	2%
To Fit out Premises	2	2%
Research and Development	2	2%
Development of Visitor Centre/Museum and retail shop	1	1%
IT improvements	1	1%
Performance Bond	1	1%
Total	**120**	**100%**

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*
Total as at 31st December 2014	**57**	**58**	**5**
Total Lending Sanctioned as at 31st December 2014	**€5,428,344**	**€9,112,500**	**€1,510,000**
Percentage of Total €16,050,844	**33.8%**	**56.8%**	**9.4%**

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 2014 €237,434.55 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
Quarter 1	N/A	€8,852.00	€30,544.95
Quarter 2	N/A	€14,306.67	€35,608.32
Quarter 3	N/A	€26,935.00	€42,860.19
Quarter 4	€2,410.00	€30,555.90	€45,361.52
Total for Year	**€2,410.00**	**€80,649.57**	**€154,374.98**
Total as at 31st Decemeber 2014	**€237,434.55**		

3 Summary

- As at 31st December 2014 the CGS has been operationally live for two years and two months.
- Usage of the CGS remains disappointing and lower than anticipated.
- Since the launch of the scheme on 24th October 2012, €21,972,844.00 has been sanctioned by the participating lenders through one hundred and sixty two CGS facilities.
- The majority of the lending has been sanctioned in the east and south-west with these two regions combining to account for 63.3% of lending currently live or repaid. This is down from 64.2% in quarter three of 2014 but can be attributed to an increase in lending in the south east, mid-west and the midlands regions.
- The approved lending is dominated by six industry sectors accounting for 92% of the total lending.
- Of the SMEs currently participating in the CGS, 44.2%, were established during the period 2000-2009 and 56.8% of the lending sanctioned was provided to SMEs defined as a Small Enterprise, down 1.3% from quarter three.
- The average loan amount sanctioned by the participating lenders is €135,364.84.
- Thirty three CGS facilities, with total lending value of €5,112,000 were cancelled or declined by the SME and did not proceed.
- Fourteen CGS facilities have been repaid in full as at 31st December 2014 with a total value of €1,878,500.
- As a result of the sanctioned CGS lending to SMEs, as of 31st December 2014, it is expected that 649 new jobs will be created and 333 jobs will be maintained.