

SME Market Report

2014 H2



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

The Central Bank of Ireland's *SME Market Report* is compiled by economists in the Financial Stability Division and aims to collate information from a wide range of internal and external sources to give an up-to-date picture of developments in the Irish Small and Medium Enterprise (SME) credit market.¹ The Report provides information on credit demand, credit access, loan terms and conditions, loan default, interest rates and credit market concentration. The Report is released twice yearly.

Data used to populate this report come from Central Bank of Ireland *Credit, Money and Banking* and *Retail Interest Rates* aggregate statistics, the Red C *SME Credit Demand Survey*, the European Central Bank (ECB) / European Commission (EC) Survey on the Access to Finance of Small and Medium Enterprises (*SAFE*) and Loan-Level data collected by the Central Bank of Ireland from the Irish domestic banks participating in the 2011 Financial Measures Program. The data sources are detailed in Appendix 1. The definition of an SME used in each data source is detailed in Appendix 2.

Overview

- Section 1 shows that annualised gross new lending to SMEs has increased from €1.9 billion in the previous reporting period (December 2013) to €2.1 billion in the current period (June 2014). The Primary sector (mainly agriculture) received the largest share of new lending, followed by the Wholesale/Retail and Business and Administrative Services sectors. Outstanding credit to the SME sector shows consistent declines, and currently stands at €22.6 billion (down from €24.6 billion in the last report).
- Section 2 shows that rejection rates for bank finance continue to decline and are currently at 14% (down from 19% in the last report). However, the latest data also show that credit demand (application rates for bank finance) is declining, particularly for Micro-SME firms. This decline appears to be driven by reduced applications for loan and overdraft renewals/restructures; applications for new loans and leasing/hire-purchase are increasing. Furthermore, while the majority of credit applications are for 'working capital' requirements, this share has dropped considerably (down from 61% in the last report to 48% in the current report). The share of firms borrowing for 'growth and expansion' continues to increase.
- Section 3 compares credit conditions in Ireland to a set of euro area countries. These data show that access to finance is a 'high' concern for 35% of Irish SMEs. This, however, follows steady improvements over previous surveys and is currently similar to euro area averages. The data also show that borrowing for investment is lower in Ireland, while borrowing for working capital, despite declines, is relatively high. The European data also show a reduction in rejection rates – in the current report, the rejection rate in Ireland (for loans or overdrafts) is 10%, which is similar to euro area averages.
- Central Bank of Ireland Loan-Level Data highlight the extent of defaults in the Irish SME market (Section 4). The default rate is currently 25.4% by loan count and 41.2% by loan balance, which is similar to the previous report (26% and 41.4%). Default rates are highest for SMEs in the Construction and Hotels/Restaurants sectors. Box 1 (pg. 16) presents default rates across the euro area – Ireland shows the third highest rate of default but is also the fifth highest in terms of provisions coverage.
- Section 5 shows that interest rates for small borrowers (lending under €1 million – proxy for SME lending rates) are 1.5 percentage points higher than for larger borrowers (over €1 million), and that this difference appears to be widening.
- Section 6 shows that the Irish SME lending market continues to become more concentrated.

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1 Central Bank of Ireland *Credit, Money and Banking Statistics*

Figure 1 reports the volume of outstanding credit in the non-financial, non-real-estate Small and Medium Enterprise (SME) sector using data from the Central Bank of Ireland's *Credit, Money and Banking* statistics. These data account for 37% of total SME credit in 2014 and exclude firms involved in Financial Intermediation (18% of total) or Real Estate (45% of total). Figure 1 shows that the stock of SME credit has fallen from €33.9 billion in January 2010 to €22.6 billion in June 2014 (33% decline). Since the last report, the stock of credit has reduced by 8% (Q4 2013 versus Q2 2014).

Figure 1. Total Outstanding SME Credit, Q1 2010 - Q2 2014

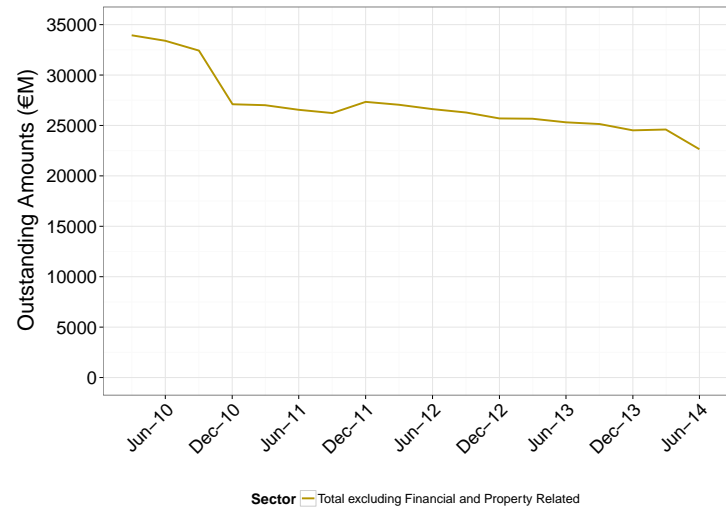


Figure 2 reports the volume of SME credit outstanding for the largest non-financial, non-real-estate sectors. The largest sectors are the Wholesale/Retail, Hotels/Restaurants and Primary (mainly agriculture) sectors, which together account for 63% of outstanding credit in 2014. Between 2010 and 2014, the Construction and Hotel/Restaurant sectors show the largest declines (reduced by 52% and 50% respectively), while the Manufacturing and Primary sectors declined least (reduced by 14% and 24% respectively). Compared to the last report (Q4 2013), the majority of sectors show a decline in outstanding credit.

Figure 2. Sector Outstanding SME Credit, Q1 2010 - Q2 2014

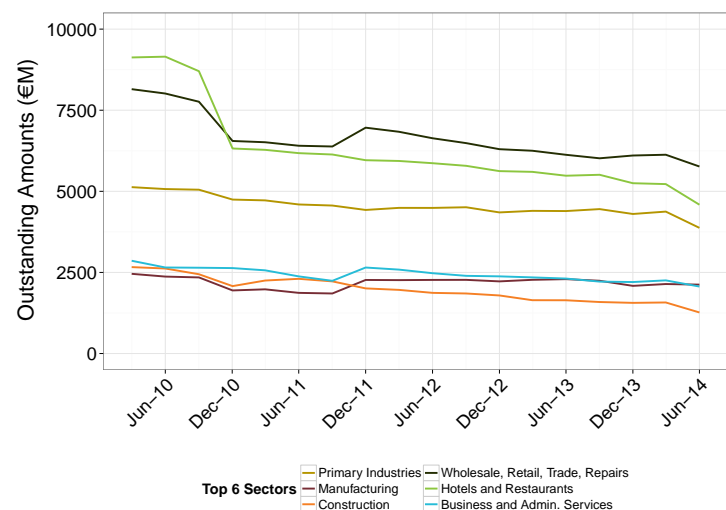


Figure 3. Annual New SME Lending (rolling summation over previous 4 quarters, by quarter), Q4 2010 - Q2 2014

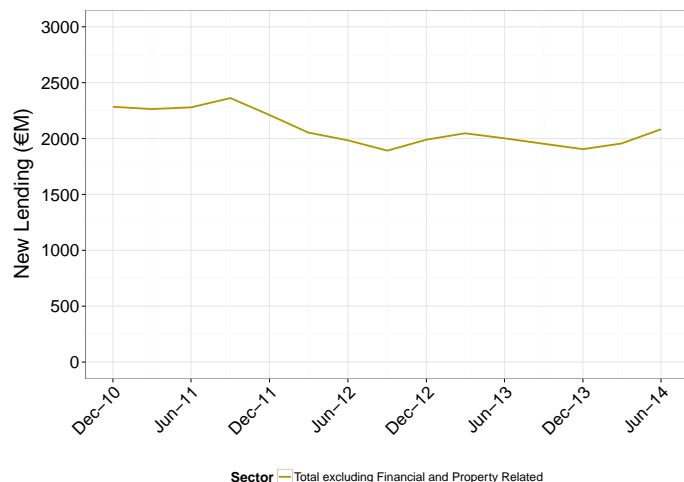


Figure 3 reports annualised gross new lending to non-financial, non-property SMEs. Gross new lending is defined as the ‘amount of new credit facilities drawn-down during the quarter by SME counterparties, i.e. where this credit facility was not part of the outstanding amount of credit advanced at the end of the previous quarter’. Figure 3 shows that new lending has remained steady at about €2 billion since mid-2012, having been close to €2.25 billion in 2011. However, compared to the previous report, the latest data show an increase (€1.9 billion in Q4 2013 to €2.1 billion in Q2 2014).

Figure 4. Annual New SME Lending by Sector (rolling summation over previous 4 quarters, by quarter), Q4 2010 - Q2 2014

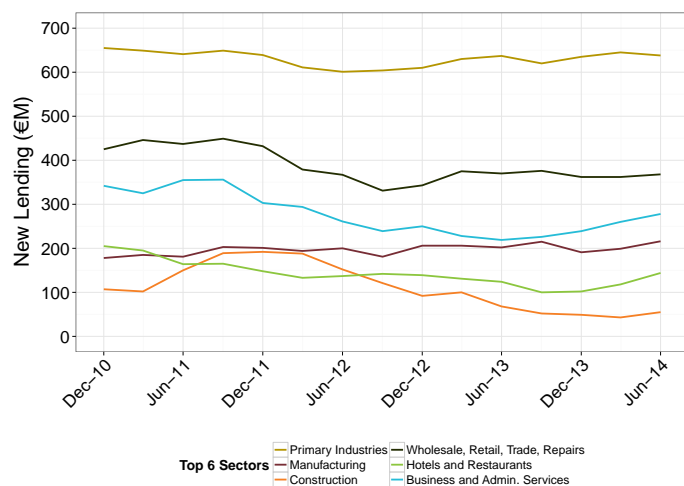


Figure 4 presents gross new lending trends for the main business sectors, again, excluding financial and property-related sectors. The Primary sector has consistently received the largest amount of new lending during the period (about a third of total in 2014), followed by the Wholesale/Retail and Business and Administrative Services sectors. Over the period, the Construction and Hotels/Restaurant sectors show the largest declines (49% and 30%, Q4 2010 versus Q2 2014) while the Manufacturing sector shows the highest increase (21%). Since the last report, the majority of sectors show an increase in new lending.



2 Red C SME Credit Demand Survey

Credit demand is measured by the percentage of respondents applying for bank financing in the previous six months (application rate) as reported by the Red C *SME Credit Demand Survey* (Figure 5). Demand for bank finance has generally decreased over the period. For all SMEs ('Total'), the application rate has reduced from 39% in 2012 to 36% in 2013 and 31% in the latest survey. These declines, while observed across all size categories, are relatively larger for micro firms (declined from 36% in 2012 to 24% in the latest survey). In 2014, credit demand is highest for 'Small' SMEs (38%) followed by 'Medium' (32%) and 'Micro' (24%).

Figure 5. Application Rate for Bank Finance, September 2012 - September 2014

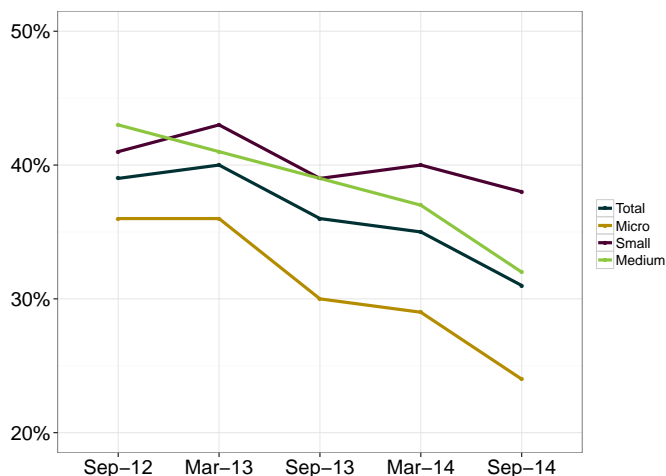
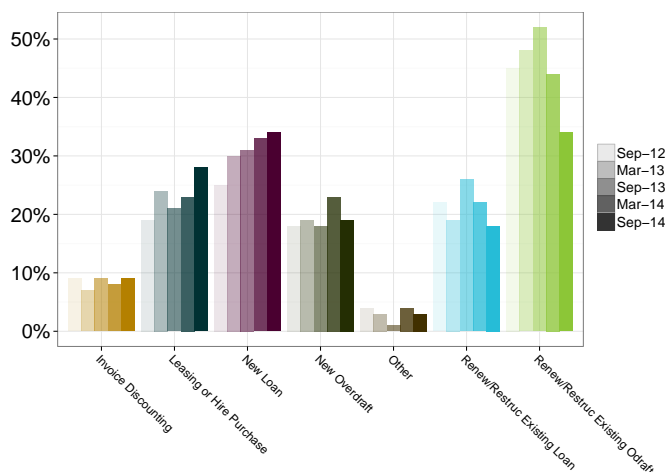


Figure 6 presents application rates across the range of lending products among firms that made one or more finance applications.² The overall declines in credit demand observed in Figure 5 appear to be partly driven by relatively large reductions in applications for renewals/restructures: in the twelve month period to September 2014, overdraft renewals have reduced from 52% to 34% and loan renewals have reduced from 26% to 18%. However, applications for new loans and leasing or hire purchase have shown steady increases over the period, which reflect improving economic and trading conditions during this time.

Figure 6. Bank Finance Products Requested, September 2012 - September 2014



²Total responses sum to greater than 100% as firms may apply for more than one product in a six-month period



Figure 7. Reasons Declared for Credit Application, March - September 2014

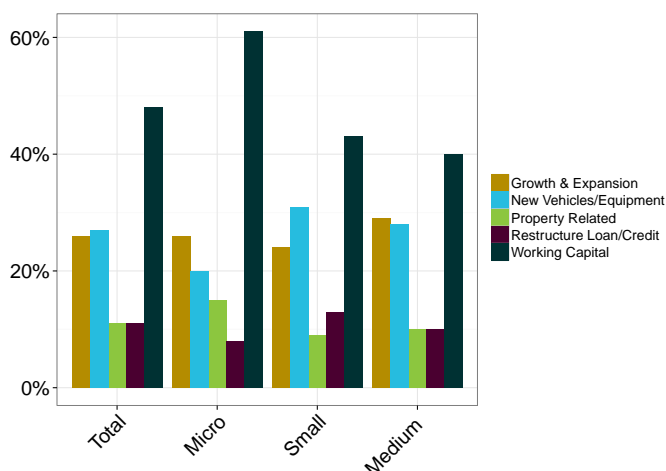


Figure 7 reports the reasons given by SMEs for applying for credit in the latest Red C survey. ‘Working capital’ is cited by 48% of firms, and this is considerably higher for Micro firms (61%) than for Small or Medium firms (43% and 40%).³ For ‘growth and expansion’, responses across firm size are similar (26% overall), but are slightly higher for Medium firms (29%). Furthermore, borrowing for ‘new vehicles/equipment’ is highest among Small and Medium firms (31% and 28%) and lowest for Micro firms (20%). The remaining categories (‘property related’ and ‘restructure loan/credit’), are cited by 11% of SMEs.

Figure 8. Reasons Declared for Credit Application, September 2012 - September 2014

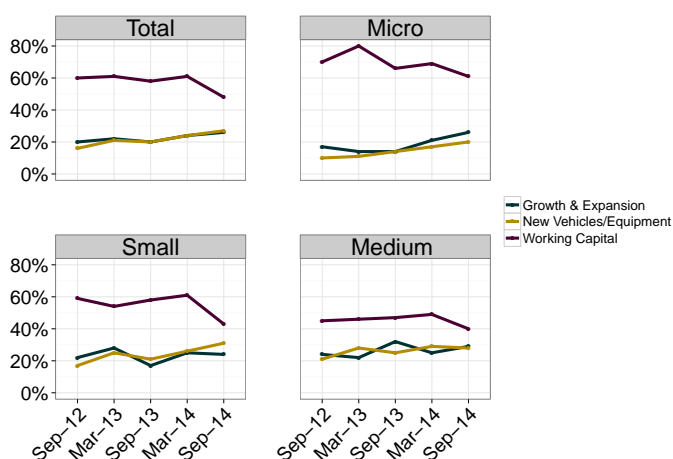


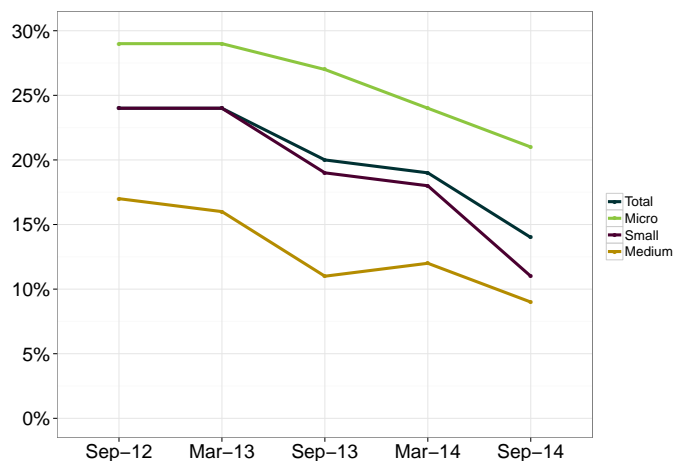
Figure 8 shows how the reasons for credit demand have changed over the previous five surveys. Across all SMEs (‘Total’), a sharp decrease in the share of firms applying for working capital is observed (down 13 percentage points in the latest survey). Furthermore, applications for ‘growth and expansion’ and for ‘new vehicles/equipment’ both show steady increases over the period, and have increased from 20% to 26% and from 16% to 27% respectively (September 2012 versus September 2014). Some noticeable differences across firm size are apparent. For example, Small firms show the highest increases in ‘new vehicle/equipment’ and decreases in ‘working capital’, while Micro firms show the highest increase in ‘growth and expansion’.

³‘Working capital’ refers here to requests for the purposes of cash flow management, decline in business revenues, delayed customer payments, increased supplier costs and increased bad debts. Totals sum to greater than 100% as firms may respond with multiple reasons for requesting bank finance



Credit conditions are measured in the Red C data by observing the rejection rate on credit applications. The data in Figure 9 show a consistent and large improvement, with rejection rates falling from 24% in September 2012 to 14% in September 2014.⁴ While improvements are observed across all firm sizes, Small and Medium firms show relatively larger reductions than Micro firms. Currently, the rejection rates for Micro firms (21%) are about twice as high as for Small and Medium firms (11% and 9% respectively).

Figure 9. Rejection Rates, September 2012 - September 2014



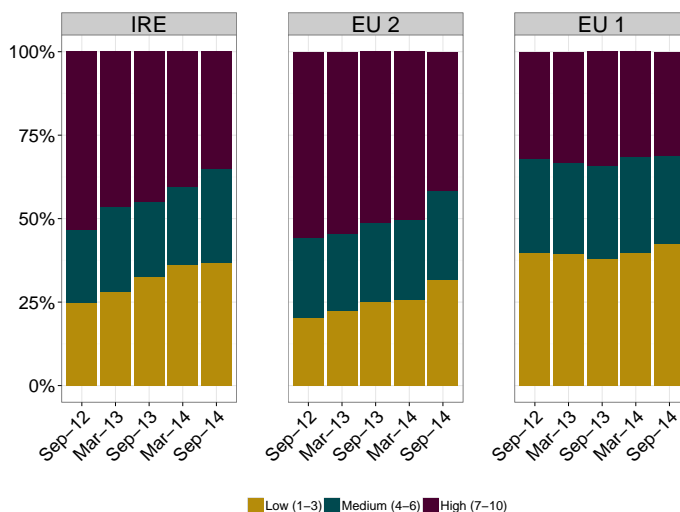
⁴Rejection rates shown are for those SMEs applying for credit and having received a decision in the last six months.



3 ECB/EC SAFE Survey

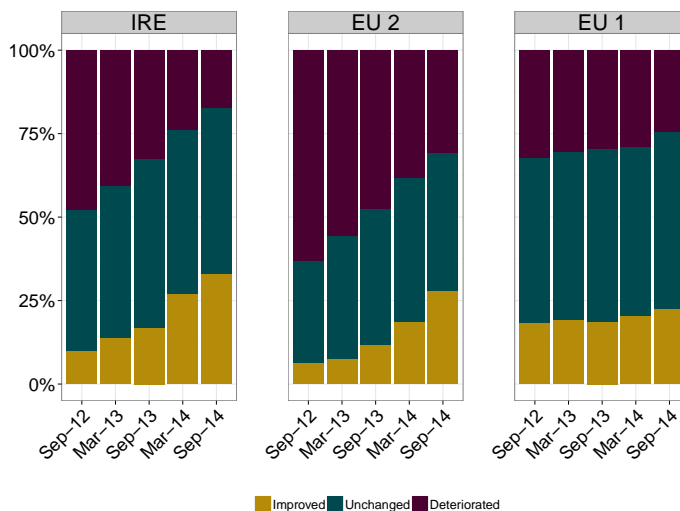
The ECB/EC's *Survey of Access to Finance of Small and Medium Enterprises (SAFE)* is conducted bi-annually and is used to explore credit conditions across the euro area. Figure 10 describes how 'pressing' a problem access to finance is for SMEs.⁵ Ireland shows a steady improvement, with declining numbers of SMEs reporting a 'high' concern and increased numbers reporting a 'low' concern. While this trend is also observed in the EU2 group of countries (Portugal, Italy, Spain and Greece), the current SME outlook in Ireland is now similar to the EU1 group of countries (Austria, Belgium, Germany, Finland, The Netherlands and France).

Figure 10. SME Concerns on Access to Finance, April 2012 - September 2014



In the SAFE surveys, SMEs are asked about bank willingness to provide credit (Figure 11). As with Figure 10, an improving situation is evident in Ireland. The share of Irish SMEs reporting a 'deterioration' has reduced from 48% in 2012 to 17% in 2014 and the share reporting an 'improvement' is up from 10% to 33%. While this trend is also observed in EU2, the improvement is more apparent in Ireland. Furthermore, in the last two surveys, Ireland is the only country where the share of 'improvements' is higher than the share of 'deteriorations'.

Figure 11. SME Perceptions of Bank Willingness to Provide Credit, April 2012 - September 2014



⁵Responses range from 10 ('extremely pressing') to 1 ('not at all pressing')



Figure 12. Application and Discouraged Borrower Rates for Loans and/or Overdrafts, April 2014 - September 2014

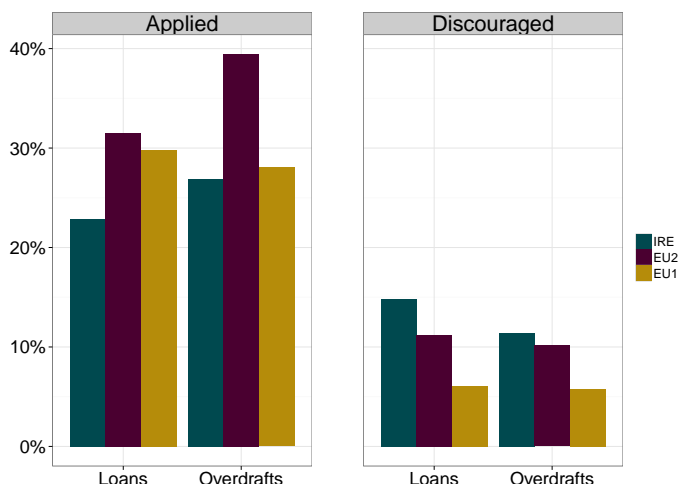


Figure 12 presents application rates and discouraged borrower rates (SMEs that did not apply because of fear of rejection) for loans and overdrafts. Loan application rates are low in Ireland – in the most recent SAFE survey, 23% of SMEs applied for a loan compared to 30% in EU1 and 32% in EU2. For overdrafts, application rates in Ireland (27%) are similar to EU1 (28%) but behind EU2 (39%). The number of discouraged borrowers is, however, higher in Ireland, with rates of 15% for loans and 11% for overdrafts. These shares are above the EU1 average (6%) and slightly ahead of EU2 averages.

Figure 13. Outcome for Loan and/or Overdraft Applications, April 2012 - September 2014

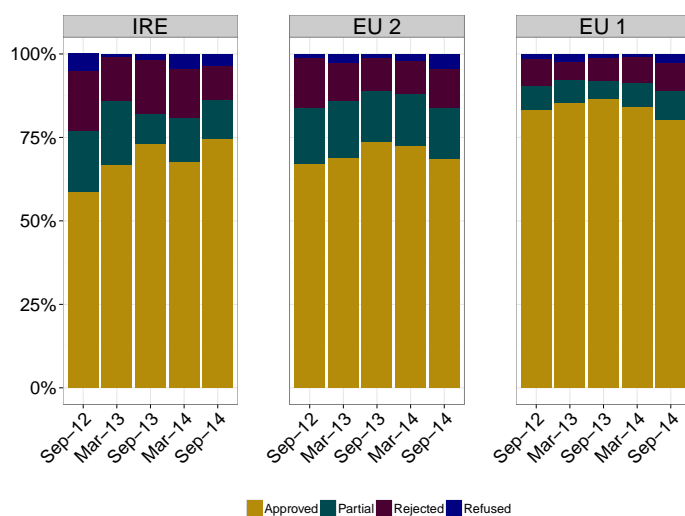


Figure 13 displays the outcomes of SME finance applications. There has been an increase in approval rates in Ireland.⁶ The current rate (75%) is higher than that observed in EU2 countries (69%) but below that in EU1 countries (80%). Rejection rates in Ireland, which were high up until March 2014, are now in line with euro area averages – in the latest survey, rejection rates in Ireland (10.4%) are slightly below EU2 (11.7%) and above EU1 (8.6%).

⁶The 'Approved' category includes applicants that received 75% or more of their finance request and the 'Partial' category includes applicants that received 1-74%. The 'Refused' category indicates that the SME refused because the 'cost was too high'.



The most recent SAFE data provide information on the purpose of external financing applications.⁷ In line with Figures 7 and 8, borrowing for working capital purposes is common in Ireland (56% of SMEs), particularly so relative to EU1 (34%). Furthermore, borrowing for investment purposes (40%), while similar to EU2 (37%), lags considerably behind EU1 (51%). Borrowing for hiring, research/development and refinancing is low across all regions.

Figure 14. Purpose of External Financing, April 2014 - September 2014

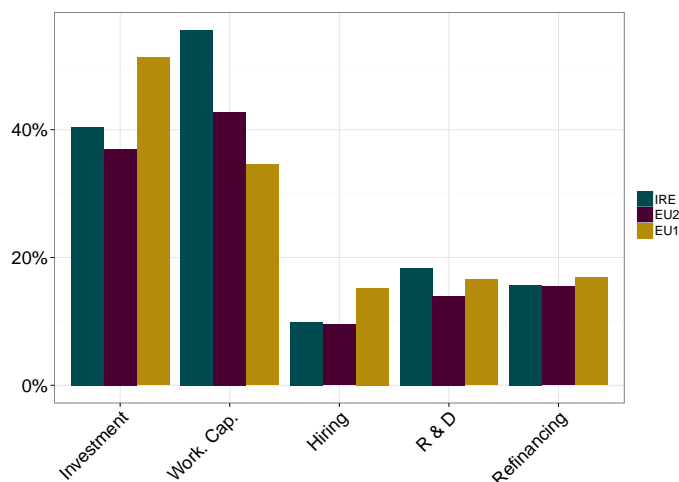
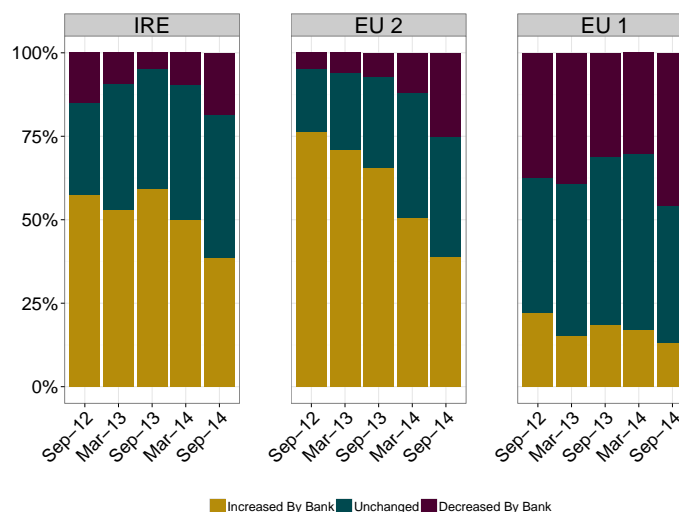


Figure 15 presents changes in interest rates as reported by SMEs. While more SMEs report ‘decreased’ interest rates than ‘increased’ in EU1 in every survey, the opposite is evident in both Ireland and EU2. However, this trend is improving – the share of SMEs reporting interest rate increases has reduced in Ireland and EU2 over the sample period.

Figure 15. Change in Credit Conditions: Interest Rates, April 2012 - September 2014



⁷ Although this information was explored in previous surveys, the format of the question changed considerably and is therefore not comparable. In Figure 14, ‘Investment’ refers to investment in property, plant, machinery or equipment, ‘Work. Cap.’ refers to inventory or working capital, ‘Hiring’ refers to hiring and training of employees, ‘R & D’ refers to developing and launching new products or services and ‘Refinancing’ refers to refinancing or paying off obligations.



Figure 16. Change in Credit Conditions: Loan Size, April 2012 - September 2014

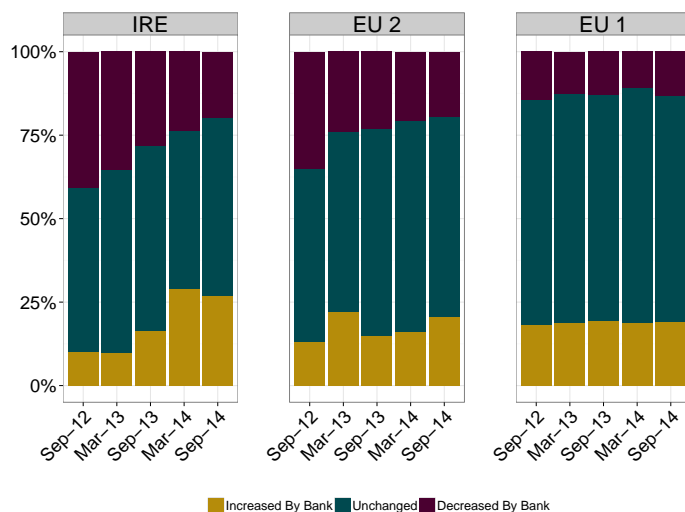


Figure 16 presents changes in loan size availability as reported by SMEs. While most SMEs report an ‘unchanged’ situation in all regions, improvements are evident in Ireland, with declining shares reporting ‘decreased’ loan size availability (from 41% in 2012 to 20% in 2014) and higher shares reporting increases (10% to 27%). This improvement, while also evident in EU2, appears to be stronger in Ireland. In EU1, the situation appears more stable, with the majority of SMEs reporting no change in each survey.

Figure 17. Change in Credit Conditions: Collateral, April 2012 - September 2014

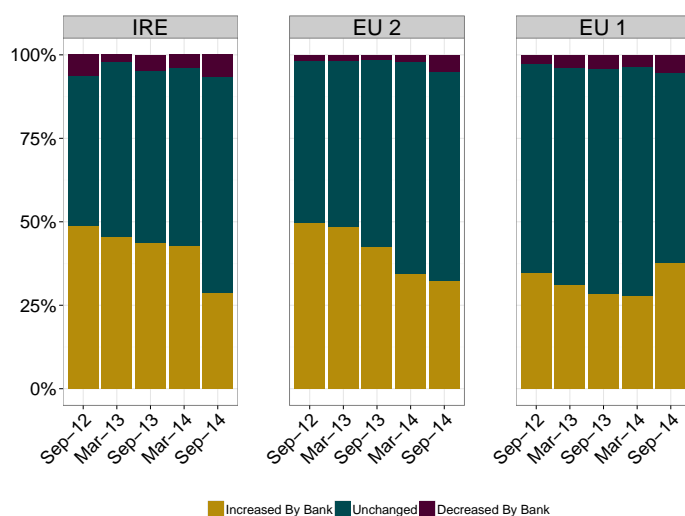


Figure 17 presents changes in collateral requirements across the euro area. In each survey and region, the majority of SMEs report either an increase in collateral requirements or an unchanged situation. The share of increases has, however, declined in Ireland – from 50% in 2012 to 29% in the latest survey. Similar trends are observed in the EU2 group of countries.



4 Central Bank of Ireland Loan-Level Data

Loan-Level data on the population of SME loans held by domestic credit institutions provide insight into loan performance in Ireland (see Appendix 1 for description). Figure 18 reports that there were loans of €20.7 billion in the SME lending data set at June 2014, a slight decrease on the previous period (€21 billion). The average and median loan size is currently €67,423 and €9,897, respectively, both showing slight declines on the previous period. The overall default rate in the Irish SME loan books is 25.4% by loan count and 41% by loan balance, where loan default is defined in accordance with Basel II guidelines.

Figure 18. Central Bank SME Loan Data Description

	Dec. 2013	Jun. 2014
Total Balance (€M)	21,042	20,684
Average Balance (€)	71,102	67,423
Median Balance (€)	9,954	9,897
Average Interest Rate (%)	6.41	6.50
Default Rate by Count (%)	26.05	25.37
Default Rate by Balance (%)	41.38	41.22

Figure 19 shows transition rates between performing and default status between December 2013 and June 2014. The data show that 2.8% of the performing stock of loans in December 2013 had transitioned into default status by June 2014 (7,530 loans). However, by loan balance, these loans represent a higher share (4.6% or €520 million), indicating that these defaulting loans have a higher balance, on average. The data also show that 2.9% of the December 2013 default stock (2,049 loans) are performing in June 2014.

Figure 19. Transition between Performing and Default by Count and Balance

	Performing Jun '14	Default Jun '14	Total
By Count	%	%	Number
Performing Dec '13	97.2	2.8	267,907
Default Dec '13	2.9	97.1	70,653
By Balance	%	%	€M
Performing Dec '13	95.4	4.6	11,298
Default Dec '13	2.9	97.1	8,070



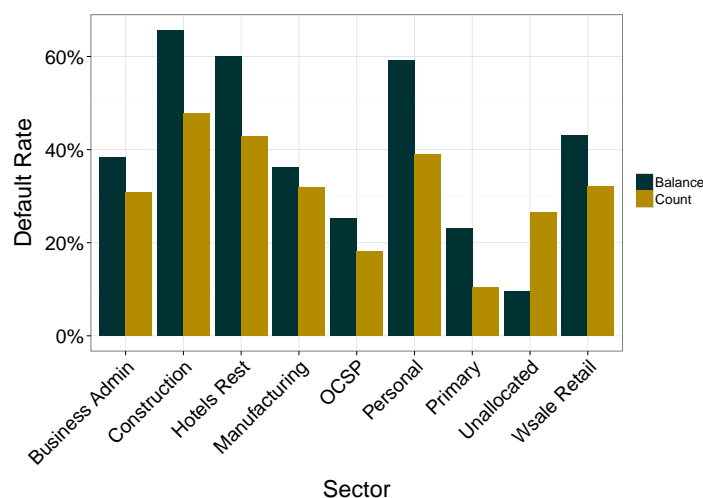
Figure 20. SME Default by Sector, June 2014

Figure 20 presents default rates across the main economic sectors, by loan count and by loan balance.⁸ In all sectors, the balance-adjusted default rate is higher than the share of defaults. Default rates are highest in the Construction, Hotels/Restaurants and Wholesale/Retail sectors and lowest in the Primary, Other Community, Social and Personal Services (OCSP) and Manufacturing sectors.

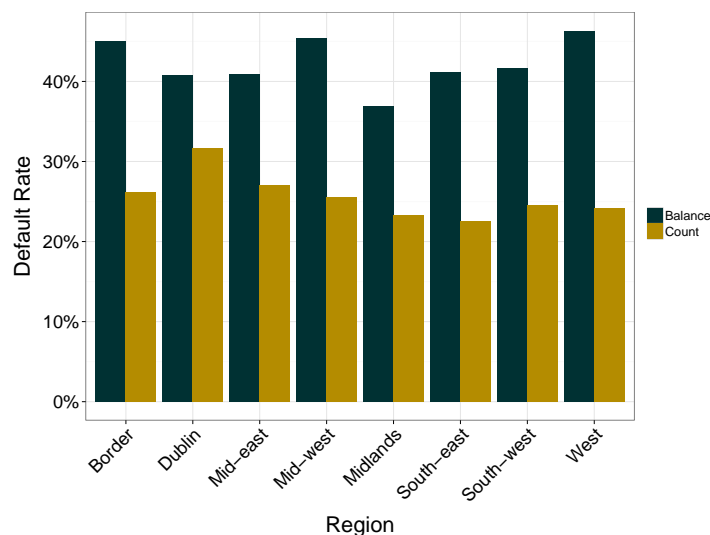
Figure 21. SME Default by NUTS Region, June 2014

Figure 21 reports default rates by region.⁹ By loan balance, default rates are highest in the West (46%), Mid-West (45%) and Border (45%) regions and lowest in the Midlands (37%). However, by loan count, default rates are highest in Dublin (32%) Mid-East (27%) and Border (26%) regions and lowest in South-East and Midlands (both 23%).

⁸Sectors with small exposures are subsumed into larger sectors for exposition purposes. The Electricity, Gas, Steam and Air Conditioning Supply, and Water Supply, Sewerage, Waste Management and Remediation Activities sectors are included with the Manufacturing sector; the Transportation and Storage sector is included with Wholesale and Retail; the Human Health and Social Work, and Education sectors are included with the Other Community, Social and Personal sector; the Information and Communication sector is included with Business and Administrative Services. The Personal sector involves lending for the purposes of house purchase, property investment and consumer lending that is managed in the business banking units of the subject banks.

⁹Nomenclature of Territorial Units for Statistics (NUTS) regions - 'Border': Cavan, Donegal, Leitrim, Louth, Monaghan, Sligo; 'Mid-East': Kildare, Meath, Wicklow; 'Mid-West': Clare, Limerick,; 'Midlands': Laois, Longford, Offaly, Westmeath; 'South-East': Carlow, Kilkenny, Tipperary, Waterford, Wexford; 'South-West': Cork, Kerry, 'West': Galway, Mayo, Roscommon.



Figure 22 presents default rates by loan size. The SME book is divided into 100 percentiles of outstanding balance, with the default rate plotted for each percentile. The figure exhibits a U-shaped pattern whereby the smallest and the largest loans carry a higher default risk than those in the middle of the size distribution. Among the largest loans, the SME default rate is 50%.

Figure 22. SME Default by Loan Size Percentile, June 2014

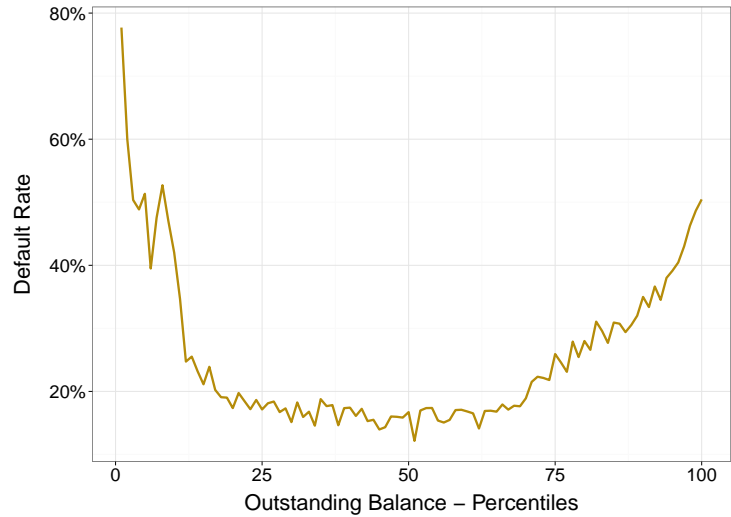


Figure 23 displays the originating balance distribution for amortising loans issued between January and June 2014. Loans over €200,000 are omitted for exposition purposes (411 of 26,094 loans issued in the six month period until June 2014). The median loan balance (€16,740) is significantly lower than the mean (€35,377), highlighting the rightward skew in the data.

Figure 23. Originating Loan Balance Distribution, January to June 2014

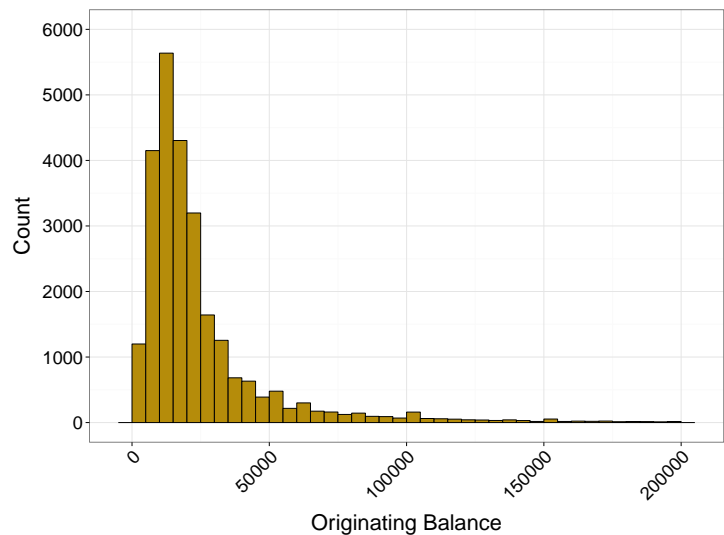


Figure 24 displays new lending (originating loan balance) percentiles and means for amortising loans between 2011 and 2014. The median loan balance shows declines between 2011 and 2013 but remains stable in 2014. The data are right-skewed, with mean balances approximately twice the median in each year. The mean loan balance drops between 2011 and 2012 but recovers thereafter.

Figure 24. Originating Loan Balance Percentiles and Mean by Year, 2011 to 2014

	Percentiles			Mean
	50%	90%	99%	
2011	€19,116	€64,229	€297,536	€39,013
2012	€17,000	€55,000	€234,451	€32,751
2013	€16,000	€54,000	€250,197	€36,288
2014	€16,740	€53,069	€257,951	€35,377



5 Central Bank of Ireland *Retail Interest Rates Data*

The Central Bank of Ireland publishes monthly interest rates on new loans to non-financial corporations. Figure 25 presents interest rates for loans greater than and less than €1 million (for floating rate loans or fixed rate loans of up to one year) and the three-month Euribor. Given the mean loan balance of €20,741 in the Loan-Level data (Section 4), we use rates on loans under €1 million as a proxy for the SME cost of credit. While rates for SMEs and larger firms were similar pre-crisis, a noticeable gap has emerged since – SME rates are 1.5 percentage points higher than rates for larger firms (average, over the last 24 months). Since the last report, this gap has widened.

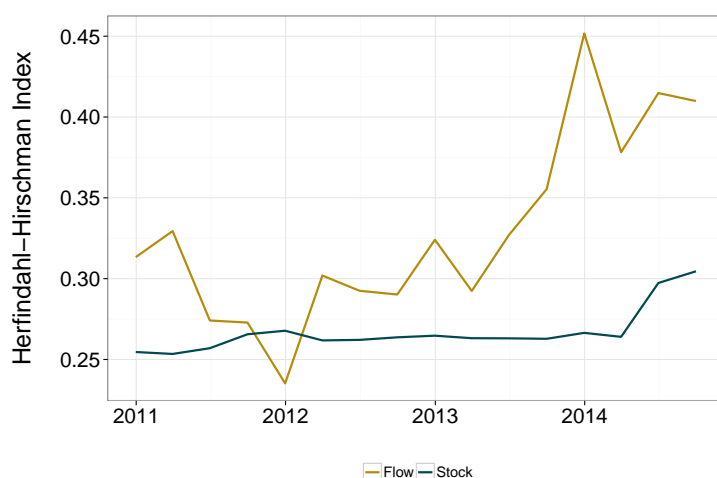
Figure 25. Interest Rates on New Lending to Non-Financial Corporations, Jan 2003 - Aug 2014



6 Credit Market Concentration

The concentration of SME lending markets is measured using bank-level data on SME outstanding balances (“stock”) and gross new lending (“flow”). Figure 26 reports the movement in the Herfindahl-Hirschman Index, which measures the concentration of lending stocks and flows for non-financial, non-property-related SMEs. Since the last report, there has been a slight increase in the concentration of lending stocks. This is expected given the sharp increase in flow concentration since 2013.

Figure 26. Herfindahl-Hirschman Index for Non-Financial, non-property-related SME lending, 2010Q4 - 2014Q3



Box 1: European Banking Authority Stress Tests - Default Data

The publication of results of the 2014 EU-wide stress test by the European Banking Authority (EBA) has provided a substantial quantity of data on the balance sheets of 123 European banks. The exercise was carried out on a sample of banks covering at least 50% of the national banking sector in each Member State, as expressed in terms of total consolidated assets as of end of 2013. As such, this data provides an informative source for cross country comparisons.

The data can be used to compare SME exposures for each country's banking system. For each country, total SME exposures are calculated as the aggregate exposures of all banks in that country where the exposure type is either 'Corporates – of which SME', 'Retail – Secured on real estate property – of which: SME' or 'Retail – Other Retail – of Which: SME' as defined by the EBA in their methodology.¹⁰

Figure 27 presents the default rate for SME exposures across the euro area. As at December 2013, Ireland had the third highest default rate of SME exposures for all countries which took part in the EBA stress test.¹¹ However, Irish banks also have a high share of provisions (76.5% coverage ratio for defaulted stock) – see Figure 28.

Figure 27. SME Default Rate (Balance) by Country, December 2013

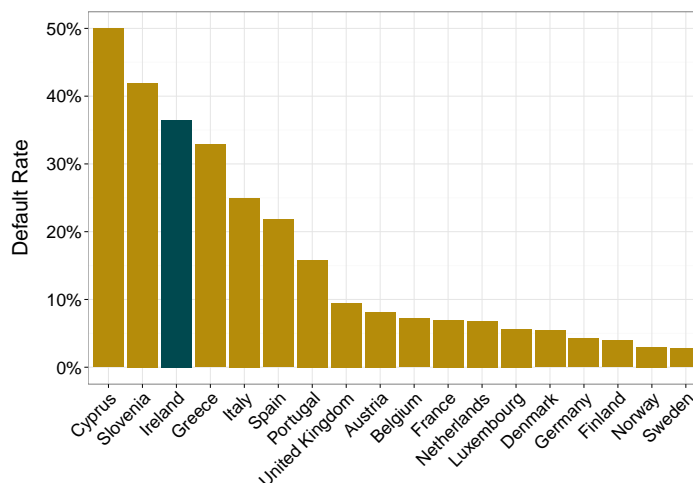
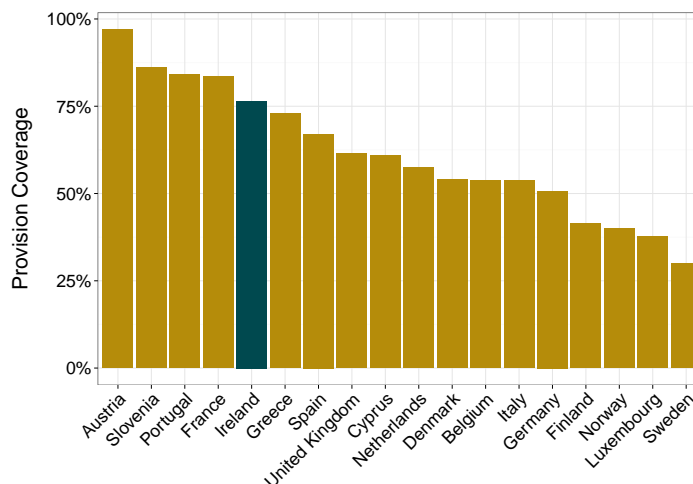


Figure 28. Provision Coverage of Defaulted SME Exposures by Country, December 2013



¹⁰ Asset classes for the EBA stress test purposes are defined as per the EU's Common reporting (COREP) definitions and Regulation (EU) No 575/2013 (CRR). We have excluded countries with total SME exposures less than €2 billion (Hungary, Malta and Latvia)

¹¹ The default rate for Ireland (36.5%) is below that observed in Section 4 as the EBA data employed also includes national banks foreign exposures. The total exposure for Ireland in the EBA data is €37 billion while in the Loan-Level data of Section 4 the total exposure is €21 billion (and a default rate of 41%). Excluding foreign exposures for Ireland in the EBA data, however, gives similar values – total exposure of €22 billion and a default rate of 43%.



Appendix 1: Data Sources

Information from the following sources is used:

- Outstanding balance and gross new lending data from the Central Bank of Ireland aggregate *Credit, Money and Banking* statistics to 2013 Q4.
- Red C SME Credit Demand Survey, April 2011 to March 2014. This nationally representative survey of 1,500 Irish SMEs is carried out on behalf of the Department of Finance on a six-monthly basis, and seeks information on a range of economic and financial factors including firms' demand for credit, their success in applying for credit, their trading performance and their views on Government interventions in the SME credit market.
- European Central Bank (ECB) / European Commission (EC) Survey on the Access to Finance of Small and Medium Enterprises (SAFE), April 2011 to March 2014. The Irish component of this European survey contains information for 500 SMEs. The cross-country nature of the survey allows credit conditions faced by Irish SMEs to be placed in an international context. In this report, Ireland is compared to two groups of EU countries: EU2 is comprised of Portugal, Spain, Italy and Greece while EU1 is comprised of Austria, Germany, Belgium, Finland, The Netherlands and France.
- Central Bank of Ireland loan-level data at December 2013. This data set provides information on a wide range of loan characteristics including outstanding balances, sector of activity and loan repayment for the population of enterprise loans outstanding at Allied Irish Banks, Bank of Ireland and Permanent TSB. 'Default' is defined as loans greater than 90 days past due, or deemed unlikely to repay without giving up collateral (Basel II).
- Interest rate data from the Central Bank of Ireland's *Retail Interest Rates* statistical release. Interest rates on floating rate loans and loans with a fixed rate period of under 1 year are used.
- Herfindahl-Hirschman Indices are calculated using the bank-level lending data used to compile the Central Bank of Ireland's quarterly *Credit, Money and Banking* statistics.

Appendix 2: Classification of SMEs

For the purposes of the Central Bank of Ireland aggregate statistical series and the Red C survey data, an SME counterparty is defined as any entity engaged in an economic activity, irrespective of legal form (i.e. corporation, partnership, sole-trader, etc.), which employs fewer than 250 persons and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million. This is the standard EU definition of an SME, and is consistent with that applied in the Code of Conduct on SME Lending and by the Credit Review Office.

In the SAFE survey data, SMEs are defined solely by their employment size. Three categories of SME are analysed: Micro firms, with less than 10 employees, Small firms with 10 to 49 employees, while Medium firms are those with 50 to 249 employees. All firms with more than 250 employees are considered to be Large firms and are removed from the analysis.

The Central Bank of Ireland loan-level data do not contain the relevant information on borrowing firms to define SMEs in a similar fashion. Rather, SMEs are separated from Large borrowers in the data in a manner similar to that used by the current EBA/SSM Asset Quality Review. All firms whose exposures are managed in retail and business banking units of the subject banks are modelled as SMEs, while all exposures managed in corporate banking divisions are considered to be Large firms and excluded from the analysis.

