

1. Report Overview (Press Release)

General trends in supply and demand:

Trethowan continues to observe that banks are making loans to low/medium risk SMEs and Farms; however he continues to have concerns on the banks' risk appetite for lending to more challenging but still viable businesses, in particular as prospects for the economy improve and the demand for investment and working capital credit will increase.

Lending to such challenged businesses will be essential to support the recovery in the domestic economy, and will require leadership, enterprise and banking skills. Trethowan welcomes the continuing development work being undertaken with bank front line staff, and in particular the new comprehensive SME lending course provided by the Institute of Bankers in Ireland.

Current lending conditions

Over the course of the past few months, Trethowan reports that he has visited business and professional groups and observed criticism not just of banks' lending appetite, but also the borrowing experience of SMEs when applying for loans. He describes the borrowers' experience as being remote and somewhat binary – being geared towards a Yes/No response rather than seeking to identify workable lending solutions.

The continuing successful appeal rate of over 50% of cases coming to the Credit Review Office is evidence that more can be achieved by banks in finding solutions. The main perceptions from SMEs is that the lending process can be summarised in three stages:

- (i) 'Order taking' by sometimes relatively inexperienced front-line business bankers at branch/business centres.
- (ii) A binary 'Yes/No' decision by a remote central credit scoring system..
- (iii) If declined, a standard 'menu driven' letter which does not assist the SME in fully understanding the reason for decline, and which does not enable full consideration of the reasons for the refusal.

Credit Availability – (Banks' €3.5bn sanction targets):

- Both banks have achieved their €3.5bn SME loan sanction targets.
- Over €8bn was sanctioned in 2012; of which @ €2.5bn (27%) was new lending.
- A trend is emerging whereby a slow first half-year of sanctions is followed by a stronger second half with loan sales peaking in October and November in each of the past three years - reflecting pre-Christmas stocking facilities, car stocking loans, and some winter fattening livestock funding.
- The Targets have been achieved by :
 - (i) The Provision of new loans drawn down (27%).
 - (ii) Restructuring existing loans to support many SMEs survival through the downturn.
 - (iii) Refinancing debt from other banks which are no longer active in SME lending. This is a vital element of the performance, as effectively we have only three banks actively making new primary lending available in this market.

- Irish SMEs continue to repay their past debts (deleverage), with the demand for new credit remaining subdued at <40%, as measured by the half-yearly Dept of Finance surveys. Accordingly, both banks have contracted their balance sheets in 2012 cumulatively by approx. €2bn, after net repayment receipts of approx. €4bn of repayments outweighed new credit being advanced and interest charges.

Endorsements of Credit Review Office service this quarter.

Paul Henry, Pinnacle Homes Ltd.

“We are a small construction company with 15 employees at present who are bucking the trend through sheer hard work and determination and we are starting to see that chink of light at the end of the tunnel. However we requested a facility from our bank last August and were duly declined as seems to be the norm. We went the Credit Review Office route and to be honest I had my doubts about this but I'm glad to say that I was wrong.

The level of courtesy, help, guidance and advice received went above and beyond the call of duty and I can only say a massive thank you to all the team involved. I would have absolutely no hesitation in recommending this process to anybody who finds themselves in the situation that I was in. I feel that it's about time the government and the financial services sector stood up and acknowledged the merit of the Credit Review Office.”

Peter Allman, M/D of Brunswick Press Ltd.

“When the service far exceeds your expectations, you have to put pen to paper and say thanks.

We are now a small SME printing company, who have suffered the downfall like many others. Our sales collapsed by about 65% in 2008/9. We were going to put the company into liquidation, but on advice we cut our costs and sought the patience of our creditors, most of whom have now happily been paid, staff numbers fell from about 66 to 12, we are now up to 22 full time staff employed.

Some months ago our bank advised us that they were withdrawing our invoice discount facilities; we had with them from mid 2004. If this had happened it was the end of the company which has been in business since 1734.

We had heard about the “Credit Review Office” and wondered if they could help us? And they did, after we filled in their form and paid their small fee. After that they were a breath of fresh air... I have never found any organisation so helpful, either public or private. They wasted no time whatsoever in dealing with our problem, and I am glad to say they got the bank to reverse their decision, and continue “Invoice Discounting” with the original amount.

I cannot speak highly enough of my dealing with the Credit Review Office. I was so grateful for the quality of their help and service I received, I wrote to the Taoiseach, and Ministers Noonan and Bruton advising them of the fact.”

Charlie McLaughlin, Schnapples Catering Limited t/a Olive Green Espresso Bar

“I had applied to my business bank of 15 years for a €55,000 loan to open a second cafe in the busy Barrow Street/ Grand Canal area. My shop on Baggot Street has demonstrated a very successful model with many unique aspects including the fact that all our food is made by us on the premises.

Despite the fact that my business had paid down a €30,000 loan, cleared the €15,000 overdraft and had been in credit for most of the year, my bank refused to lend me €55,000. I asked for an internal review but was refused again.

Finally with a feeling that I had little to lose as I felt that my bank as a lender was of little use to me, I wrote to the Credit Review Office. I found the process rigorous, the business plan and the financials were tested and quite a deep level of analysis was carried out on my existing business as well as my proposed new business. It was useful for me too, as an outsider's questions help focus your mind on the reality of the proposal.

In all my dealings with the CRO they were professional and courteous. I regard the final report in which my proposal was supported as a vindication of all my preparatory work and research for expansion.

I would urge anyone refused credit by their bank to apply to the Credit Review Office, you will definitely get an unbiased review of your proposal and possibly as in my case get their recommendation to your bank to lend for your project.”

Rebecca Sherry Glennon, owner of Kelly's Bay Montessori School

“From beginning to end we found the help and support given to us by the CRO to be positive and extremely helpful.

Having had a very negative response from the bank regarding the future of our business it was extremely uplifting to receive such positive, clear and structured advice from the CRO. The whole process was made easy and transparent and there was continuous help and support via email and phone calls.

Our business started as a small Montessori School in a house extension and as our reputation grew so did our customer base and there came a time that we were turning parents away as we were continually full.

We saw the potential for expansion and had a waiting list which would significantly increase the number of pupils, we also felt there was a real need for a proper dedicated after school club in the area which was a further service we could offer if we expanded.

Our existing location was restricted both in numbers and opening hours due to planning permission. Based on this we sourced a commercial unit very close by and hoped to expand, increasing employment in the area and also filling a need for quality childcare. The commercial unit had been sitting empty since its build.

On being turned down by the bank and given no alternative means of support we turned to the CRO who were immediately supportive.

We found the process helpful, particularly the discussion with their reviewer who went

through our proposal and business plan and agreed that we did indeed have a viable business with a strong future.

They helped us to source alternative funding and return to the bank with a different proposal which they supported. We feel that it was only due to the support from the CRO that the bank finally part funded our project.

Without the expansion we could not have provided a much needed service in the area, we would have stagnated as a business and we would not have been in a position to provide further employment in the area. Our business is now going from strength to strength, we now employ 5 more staff and we are enabling parents to return to work as we can now offer affordable after school care and a breakfast club.

We feel that the CRO now plays a vital role in the future of small businesses in Ireland due to the current position of the banks and their lending policies.”

James Connolly
Waveware Ltd.

“I just wanted to express my sincere appreciation to the Credit Review Office staff for the support in securing finance for the QVC order. This was a huge thing for my company as I would surely have gone out of business without their intervention. The promotion was a great success and I am hopeful of securing more business. I have purchased new plant so that all future orders will be made in Ireland. I have also repaid the bank loan of €266,000 in full. My company has completely turned around and I am very positive about the future.

I think the Office is providing a vital service in forcing the banks to keep credit lines open to industry.”

PLEASE CONTACT THE CREDIT REVIEW OFFICE HELPLINE ON 1850211789 IF YOU WOULD LIKE CONTACT DETAILS FOR ANY OF THE ABOVE

2. Progress Update - The Quarterly Report

General progress since last report

The Review of the Credit Review Office:

As part of the Action Plan for jobs 2012, the Department of Finance commissioned Grant Thornton to review the effectiveness of the Credit Review Office. Grant Thornton reported their findings in November. They found:

1. That the CRO, through its general activities and day to day operations since establishment, is contributing to ensuring that credit is not refused to viable businesses with valid credit propositions;
2. That the CRO through its focus on monitoring the banks progress on meeting lending targets, its operations, activities, observations and recommendations and its regular interaction with Government is going a long way to assisting the Minister of Finance in facilitating the availability of credit;

Recommendations:

1. Review the CRO application process;
2. CRO initiated review of certain cases following the bank internal appeals process;
3. Increased proactive profile raising and stakeholder support of CRO;
4. Leveraging the visibility/expertise of the CRO;
5. Revise the CRO quarterly reports;
6. Expand the number of participating banks; and
7. Increase the resources of the CRO to meet its expanded remit.

I have accepted all of the proposals and my team is working with our stakeholder partners to implement these proposals where possible.

Trends in the supply and demand for credit - The challenge for Banks and SMEs in a recovering economy:

This is the first of my reports where there is a backdrop of a sense of emerging optimism on economic prospects. My past reports have attempted to profile the structural supply and demand elements of SMEs lending. This report looks forward to what will be required to support economic recovery.

At present the emerging optimism is manifesting itself mainly in demand for credit from larger businesses, for acquisitions, and in more activity in the commercial property market.

I know that everyone will hope that this permeates down to the lower levels of the domestic economy, particularly to the SME sector which remains challenged by subdued domestic demand. Again, in recent weeks there are some signs of consumers beginning to spend more and some stability returning to the domestic property market.

It is acknowledged again in this report that the three banks active in SME lending continue to lend to low/ medium risk businesses. It will however be challenging, but vital, that those banks supporting SME lending are not found wanting when an economic upturn results in an increased demand for credit for working capital and new investment.

In my previous reports I have highlighted concerns on the low number of providers in the SME sector, and also the challenging business fundamentals of many of our SMEs after the severe downturn since 2008. It will require creativity, banking skill and enterprise risk taking to ensure that our banks are fully supporting the recovery.

At the same time, all banks lending into the SME sector continue to deal with huge problems in their legacy loan books, with many of their experienced senior people diverted to resolving the future of these businesses, and minimising the impact on the banks own capital.

Over the course of 2013 we should see more long term resolution of SME business debts either in lending solutions which allow SMEs legacy debts to be dealt with and viable core businesses recapitalised, in particular the unbundling of failed property investments by many SMEs; or through the liquidation of those non-viable SMEs which have gone past the point of no return. Whilst the latter may sound harsh, it is not in the interests of the productivity of the national economy for inefficient businesses to be propped up by a perceived right to bank lending – particularly as the economy begins to strengthen.

Current Lending Conditions - The Borrowing Experience:

At the end of November, Ireland joined in EU wide celebrations of 20 years in the open market, by holding a conference themed ‘SMEs working in Europe’, which was attended by SMEs, Trade Bodies and Government Departments. As part of this conference I chaired a workshop on ‘Access to Credit’ which allowed SMEs to discuss their experiences in accessing credit. The feedback highlighted the poor experience SMEs have when seeking credit from their banks. I have written to the CEOs of the three main banks to outline the difficulties reported in this workshop.

The overall view is that banks need to be more responsive to their SME customers, particularly at the branch / business centre interface, whereby the mood expressed in the workshop was that it is not a customer orientated experience, but rather a ‘remote’ process, - an experience which neither the SME nor the banker appear to enjoy at present.

Most business in Ireland is transacted on a basis of a relationship and trust, and the meeting regretted the passing of traditional relationship banking on which Irish Banking was founded and thrived, and which was also a vital part of the wider national business culture. Whilst it is acknowledged that banks have their own internal prudential and cost challenges to resolve, local ‘core business’ SME relationship banking was not the main driver of the problems the banks have encountered.

My Reviewers report that in many of the cases examined by the Credit Review Office, more could be done to help the SME access credit by the branch/business bankers – beyond getting the data into the banks’ systems. My Reviewers also report that in many instances when they engage directly with the Borrower they get important new information that has not been sought by the Bank. This may

due to the lack of experience on the part of the bank official dealing with the credit request, or due to the bank not proactively seeking information beyond what is provided by the customer.

The Reviewers also confirm that the decline letters sighted are less than informative; and make a more general observation that the end to end credit process is taking too long.

This borrowers' poor experience may explain why one bank reports that some customers who have recently received loans have responded that 'their bank is not lending' in subsequent surveys.

I know that banks do appreciate that new business lending is good for their own business prospects, however they have much work to do in this area of service quality in the borrowing experience to regain credibility

On the positive side, I welcome the announcement by AIB to devolve some lending authority of up to €25,000 to their branches. All Banks are continuing to invest in their business bankers through internal training, and I have spoken at two more intensive SME lending courses conducted by the Institute of Bankers in Ireland.

Key Overall Developments / trends in the Quarter:

(i) Credit Availability = Banks' €3.5bn Sanction targets:

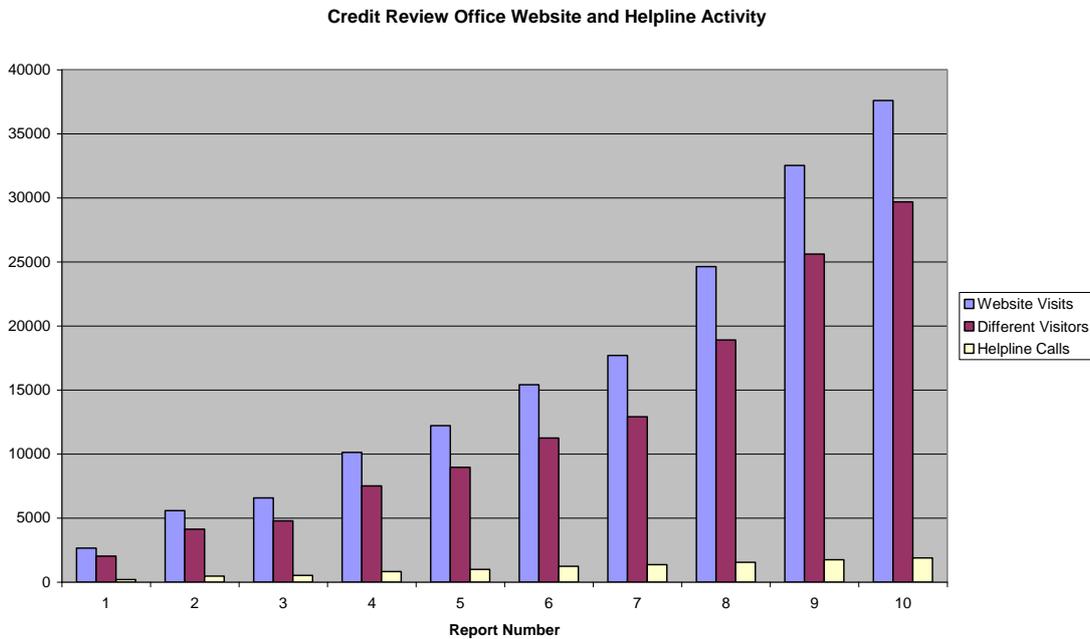
The Pillar banks (Allied Irish Banks and Bank of Ireland), were each set lending targets of €3.5bn for sanctions to SMEs in 2012. This has been increased by the Minister for Finance to €4bn sanctioning targets for 2013.

- Both banks have achieved their €3.5bn SME loan sanction targets.
Over €8bn was sanctioned in 2012; of which approx. €2.5bn (27%) is new lending drawn down.
- A trend is emerging whereby a slow first half-year of sanctions is followed by a stronger second half with loan sales peaking in October and November (e.g. Pre-Christmas retail stocking, new car stocking loans and a secondary Agri Peak for winter stocking).
- The Targets have been achieved by:
 - (i) The Provision of new credit (27%)
 - (ii) Restructuring existing loans
 - (iii) Refinancing debt from other banks which are no longer active in SME lending. This is a vital element of the performance, as effectively we have only three banks actively making new primary lending available in this market.
- Irish SMEs continue to repay their past debts (deleverage) with the demand for new credit remaining subdued at <40%, as measured by the half yearly Dept of Finance surveys.
Both banks have contracted their balance sheets in 2012 cumulatively by approx. €2bn, after net repayment receipts of approx. €4bn have outweighed new credit being advanced and interest charges.

- I have observed no geographic region or trade sector being relatively adversely affected by this contraction in these two banks. This may be due to restructuring their own legacy books and refinancing other banks' lending as the Central Bank reports show contraction in drawdowns in some sectors such as hospitality and retail.

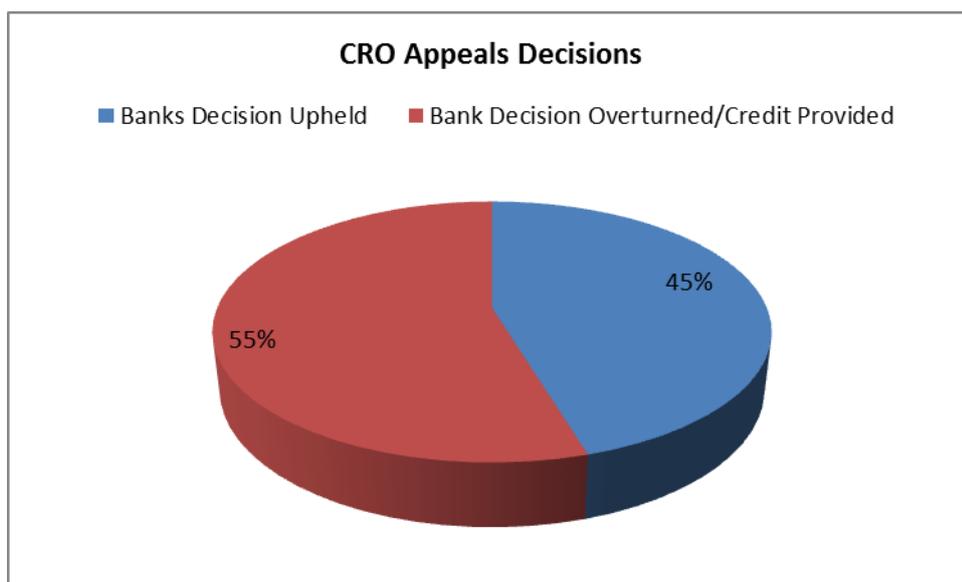
(ii) Credit Review Office activity

Helpline/ Web Activity



- The helpline has taken 1880 calls to date.
- The website has had 29,692 different web visitors. These web visitors have made 37,596 visits to the website.

Credit appeals to the Credit Review Office

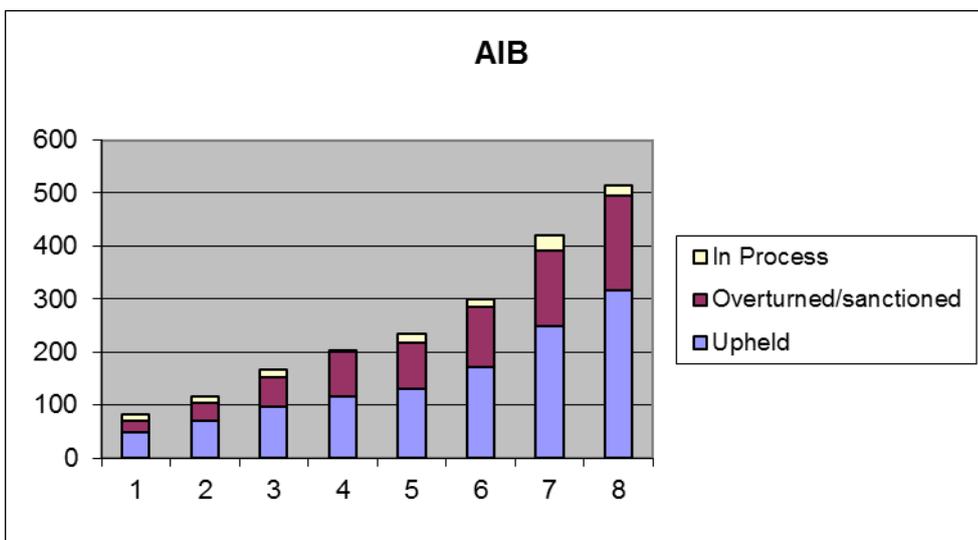
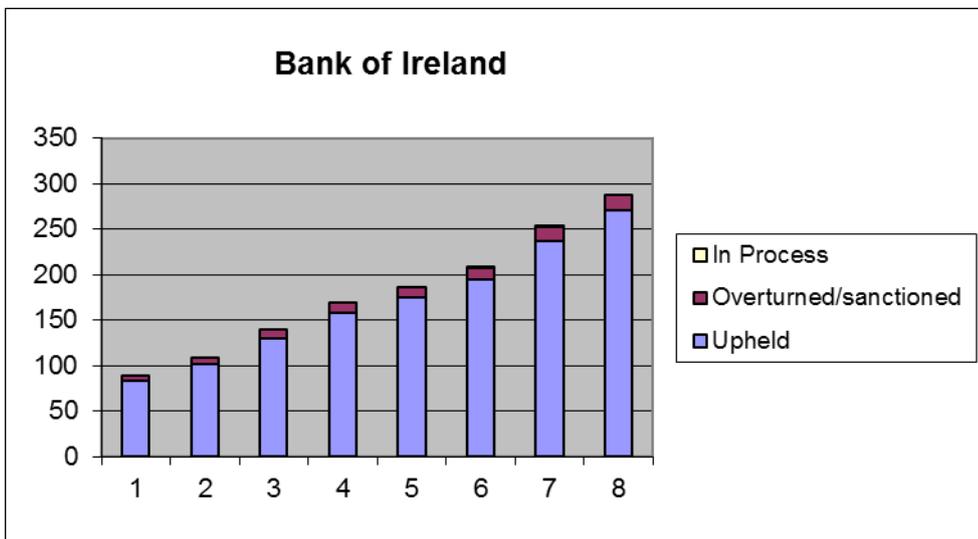


- 323 applications for appeals have been received.

- Of these, 251 were progressed by the borrower.
- In 93 cases (44.1%), the banks' decision to decline was upheld.
- In 118 cases (55.9%), the Credit Review Office upheld the credit appeal.
- The upheld appeals have resulted in €13M credit being made available to SMEs and farms, protecting 1,102 jobs.
- 16 cases are work in progress, and further 24 cases require further work to be completed by the borrower and/or the bank.

Banks' Internal Appeals

2010-2012	Cases Reviewed	Decision Upheld	Decision Overturned	% Overturned
AIB Bank	496	316	180	36%
BOI	288	271	17	6%
Total	784	587	197	25%



Other Credit Review Office activity during the quarter

As part of the Offices activities, in order to gain feedback from all stakeholders and SME's, the following groups were met with, or their member conferences and seminars addressed/attended in the last quarter:

- Dublin Chambers Small Business Group
- Irish Hotel Federation Funding conference
- Advisory Group on Small Business
- Oireachtas Jobs Enterprise and Innovation Committee
- Forfas
- Department of Jobs Enterprise and Innovation
- Microfinance Ireland
- Troika
- Irish Banking Federation Conference
- Institute of Bankers – SME credit training course
- EU Single Market Access to Finance workshop
- Chartered Accountants Ireland Annual Practice Forum

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