

Lending to Small & Medium-Sized Enterprises

Information Booklet

Danske Bank

The Lending to Small and Medium-Sized Enterprises Information Booklet.

Please read this information booklet carefully if you are an existing or prospective borrower. If you are an existing or prospective guarantor, please note carefully the text in section 6 of this guide concerning guarantees.

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1. Introduction

In December 2015, the Central Bank of Ireland published the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium Sized Enterprises) Regulations 2015 (the SME Regulations). The SME Regulations replace the previous Code of Conduct of Business Lending to Small and Medium Enterprises and aims to strengthen protections for SMEs, while also facilitating access to credit, by introducing specific requirements that regulated entities must comply with, including:

- Giving SMEs greater transparency around the application process;
- Providing SMEs with reasons for declining credit, in writing, that are specific to their application;
- Providing greater protections for guarantors;
- Contacting SMEs who have been in arrears for 15 business days;
- Warning SMEs if they are in danger of being classified as not co-operating; and
- Expanding the grounds for appeal and setting up an internal appeals panel.

A copy of the SME Regulations can be found on the Central Bank of Ireland's website: www.centralbank.ie

This information booklet provides some general information about the SME Regulations and certain details that we are required to communicate to you under the SME Regulations.

Please note that the SME Regulations do not apply to:

- a SME not operating in Ireland;
- lending between a SME and Danske Bank and other regulated financial institutions such as in
- syndicated, club or multi-lender transactions;
- special purpose vehicles (SPVs), including SPVs established for the purposes of a particular transaction.

The provisions of the SME Regulations are without prejudice to our regulatory and/or legal obligations and legal rights to enforce any agreement including any security taken in connection with any agreement.

This information booklet is merely for information purposes and does not create legal relations between us and you. It is not a legal document and is not a substitute for legal advice. Accordingly, it should not be relied on as such.

2. Credit Applications

General

When you apply for a credit facility we consider each application for credit on its own merits. As with all banks, an application must satisfy our credit and risk criteria before it will be accepted.

Customers are generally keen to know how long the credit application process will take. Once you provide us with all the documentation and information that we need to assess your application, we will aim to revert to you with a final credit decision within 15 business days. However, we will endeavour to reply to you sooner where possible.

Successful applications

If you have applied for a credit facility from us and your application has been successful, you will be sent a term sheet (together with ancillary documentation, where relevant) in a durable medium. The term sheet confirms the type of credit facility that we are prepared to extend to you and sets out the material terms and conditions that will apply to that facility. You should read this document carefully, paying particular attention to the provisions concerning fees, charges and interest rates. You may also wish to take independent advice on the term sheet at that stage. If you are happy to proceed, you will receive a facility letter. The facility letter sets out, amongst other things, the conditions to be satisfied and the process to follow to draw down the facility, including security (if any) which will be required before drawdown can occur.

Unsuccessful applications

If you have applied for a credit facility from us and your application has been unsuccessful, a letter will be sent to you explaining clearly the reason(s) why your application was declined.

3. Withdrawals or Amendments

Where we have issued a credit facility to you, we only ever withdraw or amend the terms applicable to a credit facility in accordance with the terms and conditions for that credit facility; we will notify you promptly of the proposed withdrawal or amendment and advise you of the reason(s) for same.

Any decision to withdraw/amend credit facilities will be taken on its own merits. We reserve the right to act with all necessary speed to withdraw credit in certain circumstances.

Other amendments

We will inform you in advance of making any changes to the terms, conditions, fees and charges relating to a credit facility of which you have availed.

4. Taking Security: our Collateral Policy

We may seek security for any credit facility that we offer. Typically the security sought will be a mortgage, charge, pledge or assignment of certain property or assets.

In addition, we may request an intercompany guarantee or a personal guarantee. Such security/guarantee reduces the risk arising for us in the context of a particular lending proposition.

We will always look for security appropriate to the risk that we may incur by providing a credit facility. In this regard, the Bank takes account of the nature, liquidity and value of the collateral offered against the level of credit being sought.

We do not seek to impose unreasonable collateral requirements for the provision of credit or unreasonable personal guarantee requirements.

It is our policy to enforce our rights under any loan, security or guarantee documentation to the fullest extent possible. This includes seeking accrued interest and other charges arising, as well as legal, selling and other related costs. Where liquidation of collateral is not sufficient to discharge the entirety of the debt our policy, unless otherwise agreed with a borrower/guarantor in writing, is to pursue a borrower/guarantor for the balance of the obligations arising. This may include, but is not limited to, the commencement of bankruptcy or insolvency proceedings.

Offering security or a guarantee for a loan needs serious consideration. The various forms of security and guarantees are each subject to their own terms and conditions and to applicable law. Ultimately, if a borrower defaults on a facility, the end-result invariably is that some or all of the collateral may never be returned to the borrower or guarantor.

We recommend that borrowers and guarantors take independent advice, including but not limited to independent legal advice, before agreeing to offer collateral as security for a loan and/or to act as guarantor.

When it comes to enforcement of mortgages on a consumer's principal private residence in Ireland and personal guarantees secured over a guarantor's principal private residence in Ireland, we adhere to the Central Bank of Ireland's Code of Conduct on Mortgage Arrears. Please ask a staff member for further details if required.

5. Return of Security

When all facilities for which security is given have been repaid in full, we will at your request, promptly return any security that we held for those facilities. To avoid misunderstanding, we ask that any such request should be in writing.

6. Guarantees

On occasion we will request a personal guarantee in respect of a credit facility. A guarantor may also be asked to provide collateral by way of security. So, for example, the guarantor may be requested to provide a mortgage over their principal private residence by way of security against the credit facility which the guarantor is guaranteeing. Such guarantees and collateral arrangements reduce the risk arising for us in the context of a particular lending proposition. Guarantees and collateral arrangements also enable us to provide borrowers with a more competitively priced credit facility. We never seek to impose what we consider to be unreasonable personal guarantee requirements.

7. Interest

The details of the basis of your interest calculation are contained in the particular terms and conditions applicable to your credit facility. For details of charges applicable see our "Clear and Simple Business Fees and Charges Explained" and "Corporates & Institutions" - Fees & Charges brochure, a copy of which can be found on our website [www.danskebank.ie]. Where we change the interest margin on a credit facility, we will notify you promptly of that change. Where an interest rate has increased, we will notify you of this change.

8. Offer of Annual Review

We offer all existing SME customers to whom we provide a credit facility in Ireland the option of an annual review meeting with us which will include a review of all credit facilities, any alternative arrangements and any security arrangements in place. Should you wish to avail of this offer, please contact us.

9. Financial Difficulties

Our key objective in dealing with customers in financial difficulty is to help customers resolve their financial difficulty. If you are already in financial difficulty or anticipate that you may not be able to meet future commitments the most important step is to contact us as early as possible so that we can assist you in this matter. We also recommend that you obtain an appropriate level of support from your accountant and/or professional advisers to advise you, whether or not there any meetings are planned and gather all information necessary to allow us work with you and fully assess your circumstances.

Without appropriate co-operation and engagement from you we will be unable to assist you in addressing your financial difficulties and demand may ultimately issue on your facilities.

General – Financial Difficulties

The SME Regulations define Financial Difficulties as:

- (a) your credit facility is in arrears for three consecutive months;
- (b) the approved limit on your overdraft facility is exceeded and remains exceeded for 90 consecutive days.
- (a) If you are in Financial Difficulty we will work with you and endeavour to agree an approach that will assist you to address this.

We will:

- write to you advising you that you are now classified as being in "Financial Difficulty" and we will apply the SME Regulations to your case
- designate a person for you to contact during the period of financial difficulties and provide contact details of that person
- offer you a review meeting to discuss your financial difficulties at which you may employ a third party advisor to accompany you
- outline details of the information required from you in order to assess your circumstances
- explore alternative arrangements to address your financial difficulties giving consideration to your full circumstances
- complete an assessment to consider if an alternative repayment arrangement is suitable for you
- write to you with the decision regarding an alternative repayment arrangement within 15 business days of receipt of all of the information required from you.

Information required from you

The complexity of your business generally determines the detail and volume of financial information required by the Bank. These requirements typically include:

- Signed Statements of Assets and Liabilities and Income and Expenditure Statements for both the principal debt and/or any guarantor that may be a party to the borrowing and must be a "Declaration of Full Disclosure" providing details of all borrowings.
- Audited Accounts or Unaudited Accounts (where applicable).
- Management Information – such as:
 - P&L and Balance Sheet,
 - Projected P&L and Balance Sheet,
 - Cash Flow Forecasts,

- Aged Debtor/Aged Creditor Lists,
- Stock Lists.

For agricultural customers, sufficient information is normally required for the Bank to complete a Farmers Capital Statement and Gross Margin Analysis.

For customers with lending exposures relating to property, signed and dated rent roll statements are to include updated valuations, residual debt levels and mortgagee details.

Further information may be requested which is considered to be relevant to your specific circumstances.

Arrangements

Where we offer you an alternative repayment arrangement, we will advise you in writing of the details, including the timeframe to avail of the revised arrangement. Where we have assessed that an alternative repayment arrangement is not appropriate then we will write to you advising you of the reason(s).

Please note that there may be circumstances where it will not be appropriate to offer an alternative repayment arrangement.

Where an alternative repayment arrangement comes to an end, we will promptly assess your situation and will consider if you should continue to be treated as a financial difficulties case.

Assessment

We will assess your financial situation on the specific facts of your case. We may offer you an alternative repayment arrangement if you meet our criteria. The assessment will take into account your full circumstances including:

- information provided by you
- level of indebtedness
- links with personal debt of the owners of the business that impacts on the business of the borrower
- business debt related to property or other investments
- current and future repayment capacity
- previous repayment history
- viability of the business

Throughout the assessment process we will work with you to develop a sustainable solution of the business where possible. All reasonable options will be considered by us before we will require you to dispose of assets essential to your business.

10. Not Co-operating

In order for us to engage with you in relation to your financial circumstances, it is essential that you engage and co-operate with us. If you do not co-operate you will be classed as

‘not co-operating’ as set out in the SME Regulations and in the Glossary section of this booklet.

If you are classed as ‘not co-operating’ this may impact our consideration of the following:

- an offer of an alternative repayment arrangement on any accounts you have with us.
- our exercise of any existing legal or contractual rights to enforce security. Please note that where security is realised you will remain liable for any outstanding debt.

11. Appealing a Decision

If for whatever reason you are not happy with our decision regarding:

- refusal of a credit application
- a special term or condition which is required by us to grant you credit
- our requirements in relation any security or guarantee an offer of an alternative repayment arrangement
- the withdrawal or refusal of credit or an alternative repayment arrangement
- your classification as not co-operating,

You can submit an appeal in writing to your relationship manager or business advisor within 20 business days of receipt of the decision. We will endeavour to provide you with a written response within 15 business days of receiving your appeal.

12. Consequences of Arrears

You should be aware of the following consequences should your credit facility(ies) be in arrears:

- you may incur fees or charges if you default on your existing facilities. Our brochures entitled “Clear & Simple Business Fees & Charges explained” and “Corporates & Institutions – Fees & Charges” will outline any charges that may apply. These charges may be avoided in the future if you avail of and adhere to the terms of any alternative repayment arrangement that may be put in place.
- your other accounts may be negatively impacted, for example, if you fail to meet commitments on any one account you may be considered to have breached the terms of other borrowings.
- details of arrears may be shared with credit reference

agency and put on credit registers and your credit rating may be negatively impacted which may affect your ability to secure borrowings in the future.

Any steps such as those identified or others taken in such circumstances are without prejudice to our legal and/or regulatory obligations and/or our legal rights arising. They are also dependent on your co-operation in meeting any requests which we may make of you. With regard to the recovery of debt from you, we may engage one or more agents, such as solicitors or debt-collection agencies, to do so and we reserve the right at any time to assign, transfer or otherwise dispose of our interest in the facilities without your consent.

13. Complaints

We seek to provide you with the best possible service. However, sometimes complaints arise. In the event that you wish to make a complaint, please contact us at Complaints, Danske Bank, 3 Harbourmaster Place, IFSC, Dublin 1 in the first instance. Where possible we seek to remedy complaints within 5 business days. However, sometimes this is not possible.

In such instances, we will:

- (1) issue you an acknowledgement of your complaint within 5 business days of the complaint being received;
- (2) provide you with the name of one or more individuals appointed by us to be your point of contact in relation to the complaint until the complaint is resolved or cannot be processed further;
- (3) provide you with a regular update on the progress of the investigation of the complaint at intervals not greater than 20 business days;
- (4) attempt to investigate and resolve your complaint within 40 business days of having received same;
- (5) where 40 business days have elapsed and the complaint has not been resolved, inform you of the anticipated timeframe within which we hope to resolve the complaint;
- (6) advise you, within 5 business days of the completion of the investigation of the complaint, of the outcome of the investigation and, where applicable, explain the terms of any offer or settlement being made.

If you are unhappy with the decision you may have the right to refer the matter to the Financial Services Ombudsman, 3rd floor, Lincoln House, Lincoln Place, Dublin 2.
www.financialombudsman.ie
Telephone 1890 88 20 90 or 01 6620899.

Glossary

In this document the following terms bear the following meanings:

“Credit Product” means any of the following credit products when provided by Danske Bank within Ireland to a SME Customer operating in Ireland:

- (i) an overdraft;
- (ii) a loan;
- (iii) a term loan;
- (iv) invoice discounting.

“SME Customer” means a customer which falls within the definition of “micro-small and medium-sized enterprise” under the SME Regulations. A micro-small and medium-sized enterprise is defined as under the SME Regulations as “an enterprise that employs fewer than 250 persons and which has an annual turnover not exceeding €50 million and/or an annual balance sheet total not exceeding €43 million”.

An SME Customer comprises “micro and small enterprises” and “medium-sized enterprises” which are defined by the SME Regulations as follows:

A micro and small enterprise is an enterprise which has less than 50 employees AND has an annual turnover of ≤ €10,000,000 AND/OR has an annual balance sheet total of ≤ €10,000,000.

A medium-sized enterprise is an enterprise which is not a micro and small enterprise and: has less than 250 employees AND has an annual turnover of ≤ €50,000,000 AND/OR has an annual balance sheet total of ≤ €43,000,000.

Not co-operating is a situation in which:

- a. the borrower has failed to make a full and truthful disclosure to us of the information required by us to assess the borrower’s financial situation, within the timeframe specified and,
- b. the warning letter outlining the action or actions required to be carried out by the borrower within specified time frame has been issued and,
- c. the borrower has not carried out the specified action or actions within the time frames specified in the warning letter.

“we”, “us”, “our” means Danske Bank A/S trading as Danske Bank in the Republic of Ireland

“you”, “your”, “borrower” means a SME Customer

Danske Bank A/S is a plc registered in Copenhagen, CVR-no. 61126228, at the Danish DCCA. Registered branch in Ireland Company No. 905623 with office at 3 Harbourmaster Place, IFSC, Dublin 1. Registered office in Denmark: 2-12, Holmens Kanal, DK-1092, Copenhagen K, Denmark.

Danske Bank A/S (trading as Danske Bank) is authorised by The Danish FSA in Denmark and is regulated by the Central Bank of Ireland for conduct of business rules.

Details of all Danske Bank A/S directors can be viewed at its registered offices.