Press Release
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How Borrowing Conditions are Affecting European Business

The *European Association of Corporate Treasurers* (EACT) is a grouping of 18 national associations representing treasury and finance professionals from 17 countries of the European Union.

The EACT conducted a pan-European survey during June and July 2009 to establish how borrowing conditions and banking relationships for companies have changed in the current financial crisis since September 2008. 381 answers were received from 12 countries. The distribution of the responses – which came from all major countries in the European Union – is shown below[1].

The key messages coming from the survey are:

- ***Half of the companies surveyed have experienced at least one bank reducing existing credit lines***
- ***Nearly 30% of the companies have had at last one bank cancel credit lines***
- ***Banks have increased margins charged for the overwhelming majority (80%) of the companies surveyed***
- ***Margin increases have been at least 0.5% for one third of the companies***
- ***Banks have been relatively supportive in agreeing to increases in committed credit lines – 36% of the companies had made this request and in 64% of the cases the response was positive***
- ***Nearly half those surveyed do not see an end to the crisis earlier than 2011***

Commenting on the survey results, EACT Chairman Richard Raeburn said:

"We can see clearly how corporate Europe continues to be affected by the banks' actions in increasing the margins they charge on lending to companies. At a time when all businesses are struggling to survive and if possible grow - despite the recession - increased borrowing costs add to their burden.

Many companies face reduced availability of credit and sadly the survey shows that this is impacting a high proportion of European business.

The survey also confirms what has been known anecdotally for some time – which is that continued lending by banks is accompanied with increasingly tight covenant and other financial conditions.

European business – and the people whose livelihoods depend on the prosperity of small and large companies – continues to pay the price for the failure of the banking system and its regulators to ensure that risk was being properly priced and controlled".

Detailed analysis of the survey results is attached.

[1] Responses by country : France : 83; Italy : 44; Spain : 53; Belgium : 23; Luxemburg : 1; Czech Republic : 17; Netherlands : 42; Germany : 74; Ireland : 17; Poland : 10; Sweden : 15; United Kingdom : 2

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Analysis of Survey Results

<u>Company turnover of respondents:</u>
Less than 100 million euros: 9%
Between 100 and 500 million euros: 29%
Between 500 million and 1 billion euros: 17%
Between 1 and 2 billion euros: 16%
More than 2 billion euros: 29%

Participation in the survey was well spread between large companies (more than 1 million euro turnover) and smaller companies (turnover less than 500 million euros).

<u>One or several banks have reduced the existing credit lines?</u>
Yes: 47%
No: 53%

Almost one bank out of two has reduced existing credit lines.
In a similar survey run in March 2009 in France only 27% had experienced a reduction in bank lines.

<u>One or several banks have cancelled the existing credit lines?</u>
Yes: 29%
No: 71%

Nearly one third of the companies experienced at least one of its banks cancelling existing lines.

Companies with a turnover less than 500 million euros (38% of the sample) reported that only 21% had seen cancellation of a bank line – a result that suggests some grounds for believing that banks are showing greater sensitivity towards smaller companies.

<u>Changes in conditions</u>
Some of your bankers have changed the reference rate applied to your credits (for instance, they apply Euribor instead Eonia)?
Yes: 43%
No: 57%

Some of your bankers have changed the spread applied to your short term credits?
Yes: 80%
No: 20%

Here too, banks appear to be less aggressive towards companies with a turnover less than 500 million euros: the percentages are 32% (vs 43%) and 66% (vs 81%).

If yes, the increase of the spread on short term credits is:
Less than 0.50%: 33%
From 0.50% to 1%: 44%
More than 1%: 23%

Some of your bankers have changed the spread and / or commissions applied to your committed lines of credit?
Yes: 55%
No: 45%

Compared to the results of the March 2009 survey in France (28% of the banks had changed these conditions) there is an indication that banks are putting increasing pressure on pricing.

If yes, the increase of the spread on committed lines of credit is:
Less than 0.50%: 33%
From 0.50% to 1%: 40%
More than 1%: 27%

Spreads charged to companies have increased for 4 companies out of every 5 (short term credits) and for close to 60% of companies for committed lines of credit. The level of these increases has exceeded 0.50% for two thirds of the respondents to the survey.

New lines
Have you asked your bankers to increase the short term lines of credit?
Yes: 34%
No: 66%

If yes, your bankers:
Accepted: 61%
Refused: 39%

Have you asked your bankers to increase the committed lines of credit?
Yes: 36%
No: 64%

If yes, your bankers:

Accepted: 64%
Refused: 36%

When there is a request for an increase of credit lines (committed or not), banks accepted in almost 2 cases out of 3.

For companies with a turnover under 500 million euros, the results are mixed: 64% of banks accepted to increase the short term lines of credit (61% for the global answers) and 57% for committed lines of credit (64% for the global answers).

Do you think the financial crisis will end:
The second half of 2009: 5%
In 2010: 49%
After: 46%

Roughly half of the survey respondents thinks that the financial crisis will end until 2011 at the earliest.

Comments from respondents on treatment by banks

There were two recurring themes in comments in relation to the maintenance of credit lines (or negotiation of increases):
- the pressure from banks to accept tougher financial covenants and other preconditions (more guarantees and collateral provision, upward adjustment of financial covenants, market disruption clauses etc)

- the efforts of Central Banks to reduce interest rates have not proved effective for corporates.

Respondents were asked about the opportunities of this crisis

Core themes that came through were:
- improvement in internal processes: cost cutting, working capital control, centralisation

- those who are well prepared will come out even stronger – but only the strong will survive with market consolidation, more demanding competition coming into play

- underlining the importance of knowing which banks you really can rely on

- an overall case for getting 'back to basics'

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