

BANK LENDING SURVEY

October 2006

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in October 2006, the five Portuguese banking groups inquired maintained broadly unchanged the credit standards applied to the approval of loans to enterprises in the third quarter of 2006, in comparison with the previous quarter. As for loans to households, one institution reported an easing of its criteria in the segment of loans for house purchase, while one other indicated an opposite evolution in the segment of loans for consumption and other purposes.

In line with what was observed in previous quarters, competition within banking institutions remained as the main factor influencing the criteria adopted by banks in the approval of loans, towards an easing of credit policy. Though common to all three segments under analysis, this factor should have reached a particularly significant intensity in the segment of loans to households for house purchase in the third quarter of 2006. In terms of the conditions applied, this has translated most notoriously in reductions in spreads applied to average risk loans. Decreases in non-interest rate charges and the lengthening of maturities have been also mentioned by the inquired institutions.

As factors contributing to a tightening of criteria, banks have reported a less favourable assessment of the risks related to specific industries or firms, to the overall economic activity and to the consumers' creditworthiness. Additionally, a less favourable opinion on the outlook for the housing market was reported for the third quarter of the year.

Globally, loan demand by enterprises and by households should have remained broadly unchanged. For the first of these segments, despite the relative stability reported, demand has been influenced, on the one hand, by smaller financing needs for fixed investment and, on the other hand, by larger financing needs related to mergers/acquisitions and corporate restructuring and to debt restructuring. In the household segment, in addition to a less favourable assessment of the housing market prospects (already observed in the second quarter of the year, though to a smaller extent), consumers' confidence levels have been mentioned in the answers to the survey as factors influencing demand.

For the last quarter of 2006, inquired banks do not anticipate to implement sizable changes on credit approval criteria applied to loans to enterprises or to households in global terms. For the same period, in aggregate terms, slight increases are expected in demand by enterprises (specially by small and medium-sized enterprises) and by households for consumption and other purposes, while it is anticipated a decrease in demand by households for loans for house purchase (in line with was expected in the previous quarter).

II. Presentation of the results**Loans or credit lines to enterprises**

According to the five inquired banking institutions, credit standards applied to loans or credit lines to enterprises should have remained broadly unchanged in the third quarter of 2006, comparing with the previous quarter.

Despite this stability, some factors were pointed out as influencing the criteria. Contributing to their easing, two institutions reported competition among banking institutions, with one of them also mentioning favourable expectations regarding general economic activity. In the opposite direction, one institution referred the cost of capital, while one other highlighted a less favourable industry or firm-specific outlook.

Likewise, despite the reported global stability of criteria, some changes in the conditions applied to loans or credit lines granted to enterprises were identified. Two banks reported a reduction in spreads applied to average risk loans (one of them to a significant extent), which contrast with the increase reported by one other institution. For riskier loans, increases in banks' interest rate margins were reported by two banks. Adding to these changes, one institution pointed out a slight decrease in non-interest rate charges.

In global terms, no significant changes in the demand for loans or credit lines by enterprises were reported, although, for some specific segments (defined both in terms of counterpart dimension and maturity of the operation), some changes were pointed out. This relative stability reflected, on the one hand, smaller financing needs for fixed investment (factor reported by two institutions). On the other hand, and acting in the opposite direction, financing needs for mergers/acquisitions and for corporate and debt restructuring were mentioned.

For the last quarter of 2006, the five banking groups do not intend to change the credit standards underlying the approval of loans or credit lines to enterprises. As far as demand is concerned, one institution anticipates increases in all considered segments (i.e., independently of the size of the counterpart and of the term of the operation), while one other anticipates that an increase will occur only in the small and medium-sized enterprises segment.

Loans to households**For house purchase**

In the third quarter of 2006, only one of the five inquired banking groups reported a slight easing in the credit standards applied to the approval of loans to households for house purchase, with the other four maintaining unchanged their respective criteria.

Competition from banking institutions was the only factor identified as contributing to an easing of credit standards, being reported by four of the five banking groups inquired. Acting in the opposite direction, two institutions reported a perception of increased risks, regarding general economic activity and housing market prospects.

In the third quarter, competition translated, most notoriously, into the reduction of banks' interest rate margins. This evolution was broadly based in the case of average risk loans (in line with what was observed in previous quarters), being more restricted in the case of riskier loans (where it was counterweighted by other banking relationship criteria and by the consideration of the customers' profile). Further, one institution reported an easing in other (non price) conditions, namely in terms of maturity and "loan-to-value" ratio.

In aggregate terms, loan demand for house purchase should not have recorded sizable changes in the third quarter, in general terms, with regard to the previous quarter (while one group reported a slight increase, one other pointed out the opposite evolution). According to the reporting institutions, demand was negatively influenced by less favourable housing market prospects and by a reduction in consumers' confidence.

For the last quarter of 2006, four of the five banking groups do not intend to change the criteria applied to the approval of loans to households for house purchase. Only one intends to introduce some easing of its criteria. As for demand, there is some dispersion in the answers: while one institution foresees a slight increase, two other predict the opposite evolution (one of them to a significant extent).

For consumption and other purposes

In the third quarter of 2006, four of the five participating banks maintained broadly unchanged their credit standards applied to loans to households for consumption and other purposes. Only one banking group introduced slight changes, towards some tightening of criteria.

Two factors were highlighted as influencing the criteria. Contributing to an easing of the criteria, two institutions pointed out the pressure from competition from other banks; in the opposite direction, i.e., contributing to a tightening of the criteria, a perception of greater risks, related to consumers' creditworthiness, was also reported by two institutions.

Changes in conditions applied occurred, in the quarter under scrutiny, at the price level (interest rate margins). In the average risk loans segment, two institutions reported slight decreases in the interest rate margins. One of these institutions has also reported a similar move in the riskier loans segment. However, in the latter segment a third institution reported a change in the opposite direction, adopting higher margins.

From the five inquired groups, only one indicated a slight change in the demand for loans for consumption and other purposes, during the third quarter of 2006, namely an increase. Nevertheless this relative stability, banks have reported as influencing factors the increase in spending on durable consumer goods, in the context of a reduction of the recourse to savings, and a decreased in consumers' confidence (this last factor contributing to a reduction in demand).

For the last quarter of 2006, banks do not expect changes in the credit standards. For the same period, only one institution foresees a slight increase in demand, while the remaining institutions do not anticipate relevant variations.

METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in October 2006. Two sets of tables are included in the survey: the first set is about loans and credit lines to non financial corporations while the second one is on loans to households.

In the case of corporations two sort of segmentations have been undertaken: small and medium sized (SME) versus large enterprises, and short term versus long term loans. For households, a distinction between loans for house purchase and consumer credit and other lending has been made.

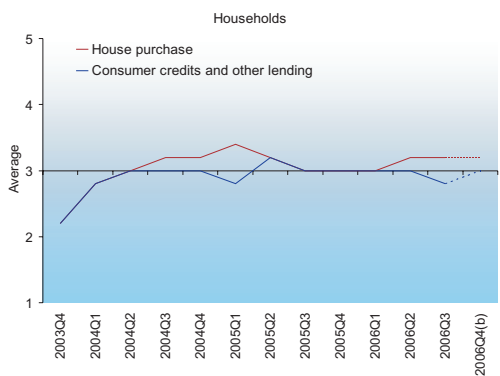
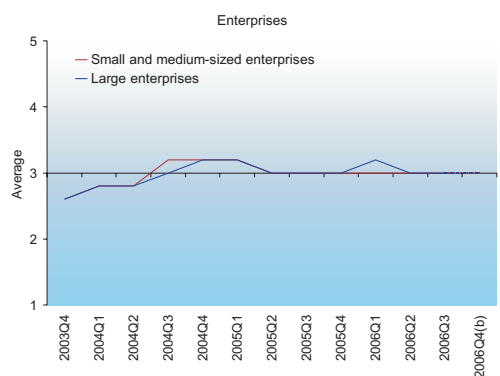
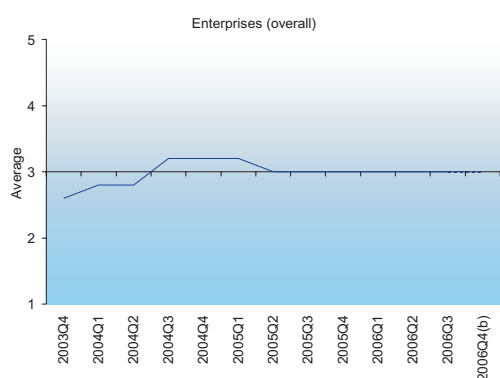
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors affecting standards, conditions and terms (tables 2, 3, 9, 10, 11 e 12), and those behind demand developments (tables 5, 14 e 15).

Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including NA (not applicable) — according to their contribution to either supply or demand conditions.

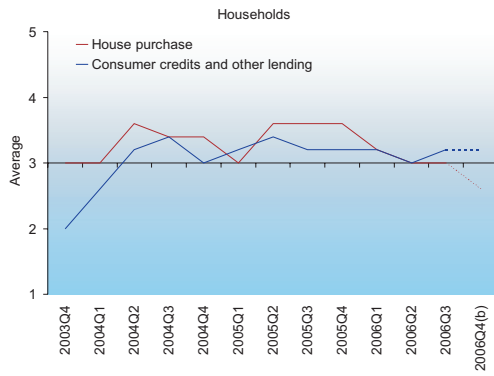
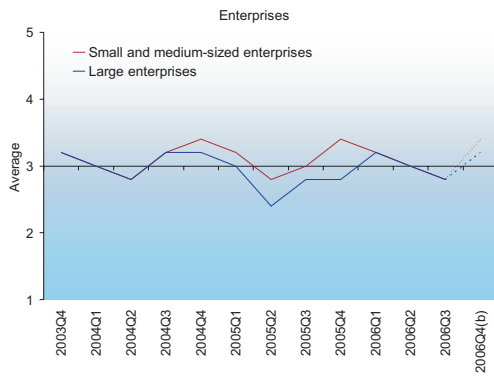
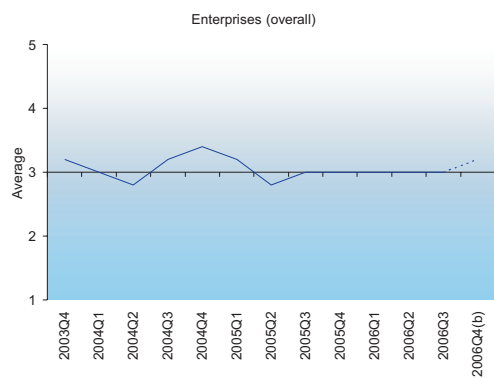
The results of the survey are as follows:

- The number of banks answering for each option;
- The weighted average of the options chosen by the banks, calculated using a scale (from 1 to 5) to aggregate individual replies, whereas 3 corresponds to "remained basically unchanged". An average figure below 3 means tightening standards, conditions and terms for approving loans (or factors contributing to developments in this way), or, as concerns demand, a decline: 2 corresponds to "somewhat" and 1 to a "considerable" change (thus, as average is closer to 3, closer to "no change" will be the overall banks' appraisal). On the contrary, if average is above 3, standards, conditions and terms applied for loans approval will be easing (or factors contributing to this way) or, concerning demand, growing: "somewhat", in the case of 4, and "considerably", in case of 5.

CREDIT SUPPLY^(a)



CREDIT DEMAND^(a)



Notes: (a) In questions regarding credit supply, values below 3 should be interpreted as tighter standards applied on loan approval vis-à-vis the previous quarter. In turn, values above 3 imply an easing of credit standards. In questions regarding credit demand, values above 3 represent an increase in demand.

(b) Banks's expectations.

I. Loans or credit lines to enterprises

1. Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably					
Tightened somewhat					
Remained basically unchanged	5	5	5	5	5
Eased somewhat					
Eased considerably					
Average Oct. 06	3.0	3.0	3.0	3.0	3.0
July 06	3.0	3.0	3.0	3.0	3.0

2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises (as described in question 1 in the column headed "Overall")? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- ° = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Oct. 06	July 06
A) Cost of funds and balance sheet constraints								
* Costs related to your bank's capital position		1	4				2.8	2.8
* Your bank's ability to access market financing (e.g. money or bond market financing)			5				3.0	3.0
* Your bank's liquidity position			5				3.0	3.0
B) Pressure from competition								
* Competition from other banks			3	2			3.4	3.2
* Competition from non-banks			5				3.0	3.0
* Competition from market financing			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity			4	1			3.2	3.0
* Industry or firm-specific outlook		1	4				2.8	2.8
* Risk on the collateral demanded			5				3.0	3.0

3. Over the past three months, how have your bank's **conditions** and terms for approving **loans or credit lines to enterprises** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	2	1	1		3.4	3.6
* Your bank's margin on riskier loans		2	3				2.6	2.8
B) Other conditions and terms								
* Non-interest rate charges			4	1			3.2	3.2
* Size of the loan or credit line			5				3.0	3.0
* Collateral requirements			5				3.0	3.0
* Loan covenants			5				3.0	3.0
* Maturity			5				3.0	3.0

4. Over the past three months, how has the **demand for loans or credit lines to enterprises** changed at your bank, apart from normal seasonal fluctuations?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat		1	1		1
Remained basically unchanged	5	4	4	4	4
Increased somewhat				1	
Increased considerably					
Average Oct. 06 July 06	3.0 3.0	2.8 3.0	2.8 3.0	3.2 3.0	2.8 3.0

5. Over the past three months, how have the following **factors** affected the **demand for loans or credit lines to enterprises** (as described in question 4 in the column headed "Overall")? Please rate each possible factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- ° = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Financing needs								
* Fixed investment		2	3				2.6	2.8
* Inventories and working capital			5				3.0	3.0
* Mergers/acquisitions and corporate restructuring			3	2			3.4	3.2
* Debt restructuring			3	2			3.4	3.6
B) Use of alternative finance								
* Internal financing			5				3.0	3.2
* Loans from other banks		1	4				2.8	3.0
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			5				3.0	3.0
* Issuance of equity			5				3.0	3.0

6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat					
Remain basically unchanged	5	5	5	5	5
Ease somewhat					
Ease considerably					
Average Oct. 06	3.0	3.0	3.0	3.0	3.0
July 06	3.0	3.0	3.0	3.0	3.0

7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations)?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decrease considerably					
Decrease somewhat					
Remain basically unchanged	4	3	4	4	4
Increase somewhat	1	2	1	1	1
Increase considerably					
Average Oct. 06	3.2	3.4	3.2	3.2	3.2
July 06	3.2	3.2	3.0	3.2	3.2

II. Loans to households

8. Over the past three months, how have your bank's credit standards as applied to the approval of loans to households changed?

	Loans for house purchase	Consumer credit and other lending
Tightened considerably		
Tightened somewhat		1
Remained basically unchanged	4	4
Eased somewhat	1	
Eased considerably		
Average Oct. 06	3.2	2.8
July 06	3.2	3.0

9. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- ° = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
* Competition from other banks			1	3	1		4.0	3.6
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	3.0
* Housing market prospects		1	4				2.8	3.0

10. Over the past three months, how have your bank's **conditions** and terms for approving **loans to households for house purchase** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			1	4			3.8	3.8
* Your bank's margin on riskier loans			4	1			3.2	2.8
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			4	1			3.2	3.0
* Maturity			4	1			3.2	3.0
* Non-interest rate charges			5				3.0	3.0

11. Over the past three months, how have the following **factors** affected your bank's credit standards as applied to the approval of **consumer credit and other lending to households** (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- ° = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
* Competition from other banks			3	2			3.4	3.4
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity			5				3.0	3.0
* Creditworthiness of consumers		2	3				2.6	2.6
* Risk on the collateral demanded			5				3.0	3.0

12. Over the past three months, how have your bank's **conditions** and terms for approving **consumer credit and other lending to households** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			3	2			3.4	3.2
* Your bank's margin on riskier loans		1	3	1			3.0	3.0
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* Maturity			5				3.0	3.0
* Non-interest rate charges			5				3.0	3.0

13. Over the past three months, how has the **demand for loans to households** changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably		
Decreased somewhat	1	
Remained basically unchanged	3	4
Increased somewhat	1	1
Increased considerably		
	Average Oct. 06 July 06	
	3.0	3.2
	3.0	3.0

14. Over the past three months, how have the following **factors** affected the **demand for loans to households for house purchase** (as described in question 13)? Please rate each factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- ° = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Financing needs								
* Housing market prospects		2	3				2.6	2.8
* Consumer confidence		1	4				2.8	3.0
* Non-housing related consumption expenditure			5				3.0	3.0
B) Use of alternative finance								
* Household savings			5				3.0	3.0
* Loans from other banks		1	4				2.8	3.0
* Other sources of finance			5				3.0	3.0

15. Over the past three months, how have the following **factors** affected the **demand for consumer credit and other lending to households** (as described in question 12)? Please rate each factor using the following scale:

- = responsible for considerable decrease
- = responsible for decrease
- ° = responsible for neither decrease nor increase
- + = responsible for increase
- ++ = responsible for considerable increase
- NA = Not Applicable

	--	-	°	+	++	NA	Average Oct. 06 July 06	
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)			4	1			3.2	3.4
* Consumer confidence		1	4				2.8	3.0
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving			4	1			3.2	3.0
* Loans from other banks		1	4				2.8	3.2
* Other sources of finance			5				3.0	3.2

16. Please indicate how you **expect** your **bank's credit standards as applied to the approval of loans to households** to change over the next three months.

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		
Tighten somewhat		
Remain basically unchanged	4	5
Ease somewhat	1	
Ease considerably		
Average Oct. 06 July 06	3.2 3.0	3.0 3.0

17. Please indicate how you **expect demand for loans to households** to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase	Consumer credit and other lending
Decrease considerably	1	
Decrease somewhat	1	
Remain basically unchanged	2	4
Increase somewhat	1	1
Increase considerably		
Average Oct. 06 July 06	2.6 2.8	3.2 3.2