

**BANK LENDING SURVEY**

January 2006

**Results for Portugal****I. Overall assessment**

According to the results of the survey conducted in January 2006 to the five Portuguese banking groups included in the sample, in the fourth quarter of 2005 and compared with the previous quarter, loan approval standards to the non-financial sector should have remained basically unchanged. Only in the segment of long-term loans to enterprises one banking institution reported a slight tightening of its criteria.

The increase in competition within banking institutions, in the segments of enterprises and households for house purchase, should have contributed to an easing of the credit standards. In turn, the perception of higher risks, in all segments, and the increase in the costs related to the bank's capital position, in the segment of enterprises, should have contributed to a tighter credit policy.

Regarding conditions applied in the stated quarter, an increase in spreads on riskier loans in all segments analysed should have been observed, in particular for enterprises. However, in this segment, a decrease in spreads on average risk loans and an easing of non-interest rate charges were also indicated. Regarding households, an increase in maturity was reported on loans for house purchase, while higher collateral requirements were recorded in the segment of loans for consumption and other purposes.

In the fourth quarter of 2005, the demand for loans or credit lines by enterprises should have remained globally unchanged, though there is some dispersion in the reported answers by enterprise segment and contractual maturity. In the segment of households, increases in demand for loans for house purchase and, to a lesser extent, for consumption and other purposes were reported.

For the first quarter of 2006, the participating banks anticipate, in aggregate terms, a slight tightening of the criteria underlying the approval of loans to households and enterprises (which shall be more significant in the segment of small and medium-sized enterprises and for loans with longer maturity). Finally, in general, banks anticipate a slight increase in loan demand by enterprises and households for house purchase and stability in loan demand for consumption and other purposes.

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

In the fourth quarter of 2005, according to the five banking groups that participate in the survey, credit approval standards applied to loans or credit lines to enterprises should have remained basically unchanged vis-à-vis the previous quarter, given that only in the segment of long-term loans one banking institution reported a slight tightening of its criteria.

Among the factors explaining the evolution of credit criteria, four of the five surveyed banking groups reported a less favourable evaluation of risks related to specific industries or enterprises as contributing to a tightening of the criteria. In the same direction, a less favourable evolution of general economic activity was indicated by three institutions. Additionally, one of them also reported risks associated to collateral demanded and the increase in costs related to the bank's capital position. Contributing to an easing of loan approval standards only the competitive environment within bank institutions was pointed out.

Regarding contractual conditions applied to loans in this segment, higher spreads for riskier loans should have been observed, while spreads applied on average risk loans, though with some dispersion in the reported answers, should have recorded a reduction. Furthermore, one institution reported a reduction in non-interest rate charges.

In the last three months of 2005, the demand for loans or credit lines by enterprises should have remained globally unchanged, though there is some dispersion in the answers of the five inquired banks. According to reported answers, it should have been recorded a slight increase in demand for loans in the segments of small and medium-sized enterprises and of short-term loans, a relative stability in demand for long-term loans, and a slight decrease in demand by large enterprises.

According to the five surveyed banking groups, the demand should have been influenced positively by increased financing needs for debt restructuring. Additionally, according to two banking institutions, the increased financing needs for inventories and working capital and the lower use of loans from other banks should have also contributed to a higher demand for credit by enterprises. Conversely, two institutions indicated a decrease in financing needs for investment. Additionally, one of them also pointed the decrease in financing needs for "merge and acquisitions" and corporate restructuring, the increase in internal financing and the issuing of debt securities as contributing negatively to the enterprises credit demand's evolution.

For the first quarter of 2006, within the five surveyed banks only one intends to thighten its credit criteria, in all segments of enterprises and for all maturities. Nevertheless, for small and medium-sized enterprises and for loans with longer maturity one other bank also plans to offer tighter loan approval standards. Finally, banks expect a slight increase in demand by enterprises in the first three months of 2006, precisely by small and medium sized enterprises and for loans with longer maturity.

**Loans to households****For house purchase**

In the fourth quarter of 2005, the five banking groups included in the sample did not report sizeable changes in credit standards applied to the approval of loans to households for house purchase.

Despite the global maintenance of credit standards, the surveyed banks indicated some factors in different directions as contributing to their determination. Thus, the increase competition within banking institutions was reported by one banking group as contributing to a slight easing of the criteria, while a less favourable evaluation of general economic activity and of the real estate market were identified as contributing to a tightening of credit standards.

Some changes were reported in the conditions applied to this segment, namely higher spreads on riskier loans, on the one hand, and increases in loans maturity, on the other hand.

In the fourth quarter of 2005, one of the inquired banking groups reported a slight increase in loan demand for house purchase, whereas another pointed out a considerable increase. According to one of the reporting banks, the increase in loan demand for house purchase should have reflected a favourable outlook for the real estate market and a reduction of households' savings. In the same direction, the decrease in loans granted by other banks and new housing credit products were reported by another inquired bank. The reduction in consumers' confidence was pointed out by one of the banks as a potential factor to the decrease in demand.

For the first quarter of 2006, only one of the five banking groups anticipates a slight tightening of the criteria underlying the approval of loans for house purchase and, regarding expectations towards the evolution of demand, the same group foresees a slight increase.

#### **For consumption and other purposes**

In the fourth quarter of 2005, credit approval standards applied to loans for consumption and other purposes should not have verified sizeable changes.

Nevertheless, two factors were identified as contributing to a tightening of credit standards. In fact, two of the inquired banking institutions reported the perception of reduced consumers' creditworthiness, while one of them indicated additionally a less favourable evaluation of general economic activity.

According to reported answers, an increase in spreads applied on riskier loans and higher collateral requirements should have been observed.

In the last quarter of 2005, demand for loans for consumption and other purposes should not have recorded significant changes for four banking institutions, while the remaining institution pointed out a slight increase. Nevertheless, the deterioration of consumers' confidence was reported as a contributing factor to the decrease in demand. In turn, according to one of the inquired banking institutions demand should have been positively influenced by a lower use of consumer savings.

For the first quarter of 2006, only one of the five banking groups anticipates a slight tightening of the criteria underlying the approval of loans for consumption and other purposes. For the same period, no significant changes on demand are expected.

### METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in January 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.

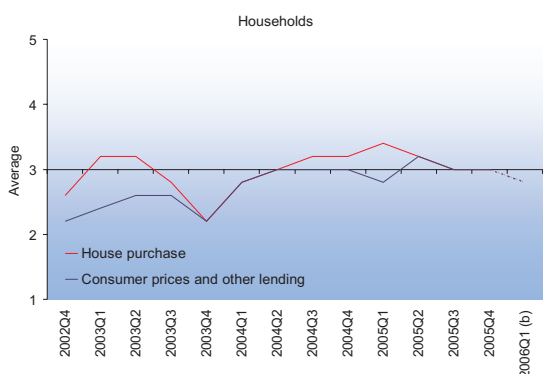
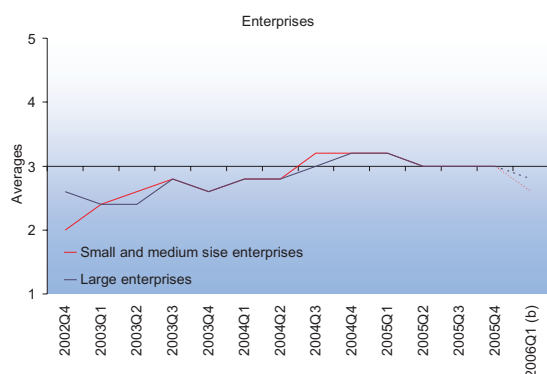
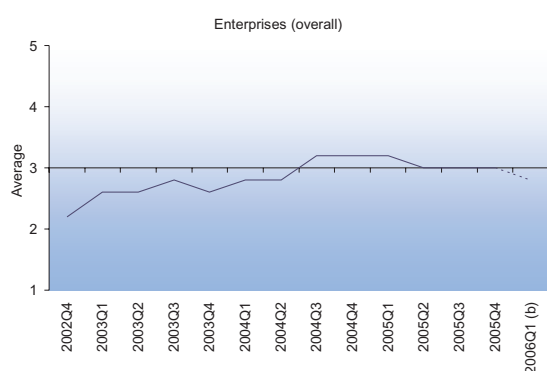
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors 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.

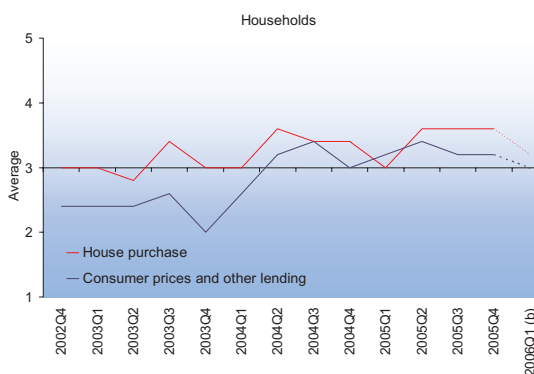
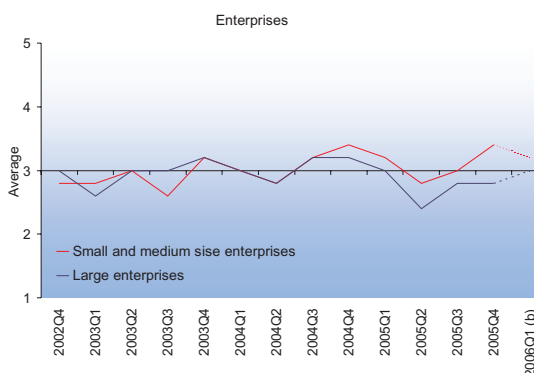
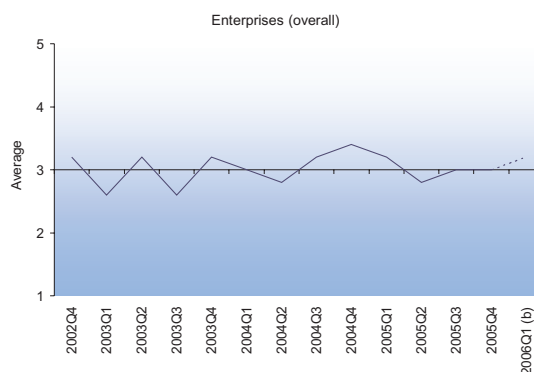
The results of the survey are as follows:

- 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<sup>(a)</sup>



#### CREDIT DEMAND<sup>(a)</sup>



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					1
Remained basically unchanged	5	5	5	5	4
Eased somewhat					
Eased considerably					
Average Jan. 06	3.0	3.0	3.0	3.0	2.8
Oct. 05	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 Jan. 06	Oct. 05
<b>A) Cost of funds and balance sheet constraints</b>								
* 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	2.8
<b>B) Pressure from competition</b>								
* Competition from other banks			3	2			3.4	3.4
* Competition from non-banks			5				3.0	3.0
* Competition from market financing			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		3	2				2.4	2.6
* Industry or firm-specific outlook		4	1				2.2	2.0
* Risk on the collateral demanded		1	4				2.8	2.8

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 Jan. 06 Oct. 05	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	2	2			3.2	3.0
* Your bank's margin on riskier loans		3	2				2.4	2.6
<b>B) Other conditions and terms</b>								
* Non-interest rate charges			4	1			3.2	3.0
* 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			2		1
Remained basically unchanged	5	3	2	4	3
Increased somewhat		2	1	1	1
Increased considerably					
Average Jan. 06	3.0	3.4	2.8	3.2	3.0
Oct. 05	3.0	3.0	2.8	3.0	2.8

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 Jan. 06 Oct. 05	
<b>A) Financing needs</b>								
* Fixed investment		2	3				2.6	2.6
* Inventories and working capital			3	2			3.4	3.0
* Mergers/acquisitions and corporate restructuring		1	4				2.8	2.8
* Debt restructuring				5			4.0	3.8
<b>B) Use of alternative finance</b>								
* Internal financing		1	4				2.8	3.0
* Loans from other banks			3	2			3.4	3.0
* Loans from non-banks			4			1	3.0	3.0
* Issuance of debt securities		1	4				2.8	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+	1	2	1	1	2
Remain basically unchanged	4	3	4	4	3
Ease somewhat					
Ease considerably					
Average Jan. 06 Oct. 05	2.8 2.8	2.6 2.6	2.8 2.8	2.8 2.8	2.6 2.6

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	4	5	5	3
Increase somewhat	1	1			2
Increase considerably					
Average Jan. 06 Oct. 05	3.2 3.0	3.2 3.0	3.0 3.0	3.0 3.0	3.4 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		
Remained basically unchanged	5	5
Eased somewhat		
Eased considerably		
Average Jan. 06 Oct. 05	3.0 3.0	3.0 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
- o = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = Not Applicable

	--	-	o	+	++	NA	Average Jan. 06 Oct. 05	
<b>A) Cost of funds and balance sheet constraints</b>			5				3.0	3.0
<b>B) Pressure from competition</b>								
* Competition from other banks			4	1			3.2	3.6
* Competition from non-banks			4			1	3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		1	4				2.8	2.6
* 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	
							Jan. 06	Oct. 05
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			5				3.0	3.2
* Your bank's margin on riskier loans		1	4				2.8	2.8
<b>B) Other conditions and terms</b>								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			5				3.0	2.8
* Maturity			3	2			3.4	3.4
* 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	
							Jan. 06	Oct. 05
<b>A) Cost of funds and balance sheet constraints</b>			5				3.0	3.0
<b>B) Pressure from competition</b>								
* Competition from other banks			5				3.0	3.4
* Competition from non-banks			5				3.0	3.2
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		1	4				2.8	2.6
* 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	
							Jan. 06	Oct. 05
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			5				3.0	3.0
* Your bank's margin on riskier loans		1	4				2.8	3.0
<b>B) Other conditions and terms</b>								
* Collateral requirements		1	4				2.8	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		
Remained basically unchanged	3	4
Increased somewhat	1	1
Increased considerably	1	
	Average Jan. 06	3.2
	Oct. 05	3.2
	3.6	3.2
	3.6	3.2

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	
							Jan. 06	Oct. 05
<b>A) Financing needs</b>								
* Housing market prospects			4	1			3.2	2.8
* Consumer confidence		1	4				2.8	2.6
* Non-housing related consumption expenditure			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household savings			4	1			3.2	3.0
* Loans from other banks			4	1			3.2	3.2
* 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	
							Jan. 06	Oct. 05
<b>A) Financing needs</b>								
* Spending on durable consumer goods, such as cars, furniture, etc.)			5				3.0	2.8
* Consumer confidence		1	4				2.8	2.6
* Securities purchases			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household saving			4	1			3.2	3.2
* Loans from other banks			5				3.0	3.0
* Other sources of finance			5				3.0	3.0

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	1	1
Remain basically unchanged	4	4
Ease somewhat		
Ease considerably		
Average Jan. 06 Oct. 05	2.8 3.0	2.8 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		
Decrease somewhat		
Remain basically unchanged	4	5
Increase somewhat	1	
Increase considerably		
Average Jan. 06 Oct. 05	3.2 2.8	3.0 2.6