

BANK LENDING SURVEY

July 2007

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in July 2007 to the five Portuguese banking groups included in the sample, credit standards applied by banks on the approval of loans to firms and households remained broadly unchanged when compared to the previous quarter.

Even though credit standards remained broadly unchanged, the inquired banks identified some factors which have exerted some influence in their definition. Prompting for an easing in lending standards, banks mentioned, broadly across the different segments, competition among financial institutions (in line with what was observed since mid-2004) and favourable expectations regarding general economic activity. In contrast, and in line with previous surveys, reporting institutions pointed out less favourable assessments concerning consumers' creditworthiness and housing markets prospects.

Regardless of the stability in bank loan standards, banks introduced some changes in financing conditions. In fact, although in a context of some dispersion in the answers, banks have globally reinforced the differentiation between average risk and riskier loans in terms of interest rate spreads, namely in the segments of enterprises and of households loans for consumption and other purposes. Further, they reduced non-interest rate charges and, as for households, allowed for increases in maturities.

Loan demand has increased in all segments under consideration, though more evidently so in the case of loans to households for house purchase. According to one of the inquired institutions, this increase was in line with the evolution of consumer confidence. As for enterprises, the slight increase in demand should be associated to higher financing needs for purposes other than fixed investment (which, in turn, continues to contribute to depress loan demand).

Reporting banking groups do not intend to change considerably credit standards applied in loan approval during the third quarter. Only in the segment of loans to enterprises, credit standards are expected to become slightly tighter. Also for this market segment, a slight increase in demand is expected, while for households no significant change in demand is predicted.

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

In the second quarter of 2007, credit standards applied in the approval of loans to enterprises remained broadly unchanged, with reference to those of the first quarter. Still, the reporting institutions identified some factors influencing these standards, prompting for easier credit standards: in addition to competitive pressures among banks, improved outlooks concerning general economic activity and specific firms and industries were also reported.

As for the conditions applied on loans, two banks narrowed the spreads on average risk loans, while two other increased them for riskier loans. Further, one institution reduced non-interest rate charges while, in the opposite sense, increased requirements in terms of covenants were reported by one other.

According to the sample of institutions, demand should have remained broadly unchanged in global terms in the second quarter of the year, with only one bank reporting a slight increase. Nevertheless, for specific segments, some institutions pointed out some minor changes in the demand.

Two institutions pointed out the positive influence of higher financing needs for purposes other than fixed investment. One of them has also mentioned the decrease in the use of alternative finance as inducing increased demand. In turn, depressed financing needs to fixed investment continued to be reported as a factor contributing to depress loan demand by enterprises.

Bank's credit standards are foreseen to remain broadly unchanged in the course of the third quarter of 2007. Only one of the reporting banks intends to tighten somewhat its standards, on a broad basis (with the exception of the large enterprises segment). This institution is the only one expecting loan demand by enterprises to increase somewhat, namely by small and medium-sized enterprises and in the long-term loans segment.

Loans to households**For house purchase**

In the second quarter of 2007, banks kept unchanged the credit standards applied in loans to households for house purchase. This stability is reported in a context of increased competitive pressures, of improved expectations regarding general economic activity but also of not so favourable housing market prospects.

Even though credit standards applied in housing loans did not change significantly when compared to the previous quarter, banks reported several changes in loan conditions, some of them in opposing directions. On one hand, two banks decreased the spreads applied in average risk loans, while two other reported the opposite action. On the other hand, there were changes, prompting for looser conditions, in terms of maturity and of non-interest charges.

According to the surveyed banks, loan demand for house purchase increased again in the second quarter of 2007. This evolution took place in a context of worst prospects for the housing market and of interest rate increases. Consumer confidence and transfers received from other credit institutions have favoured the observed evolution of demand.

Banks do not expect to considerably change the standards applied in the approval of loans for house purchase during the third quarter of 2007. Likewise, demand is expected to remain broadly unchanged, in the sense that while one of the banks expects an increase, one other expects the opposite evolution.

For consumption and other purposes

In general terms, none of the reporting banks made sizeable changes in credit standards applied in the approval of loans to households for consumption and other purposes. Nevertheless, competitive pressures and improved expectations regarding general economic activity were reported as influencing these standards, in the sense of looser criteria. In turn, consumers' creditworthiness was reported by one institution as contributing somewhat to the tightening of credit standards.

In global terms, looser conditions were applied to loans in this segment, namely in terms of narrower interest rate margins on average risk loans, of increased maturities and of reduced non-interest rate charges.

Loan demand for consumption remained globally unchanged in the second quarter of 2007, with only one of the banks reporting a slight increase. This relative global stability was justified on the basis that, in opposition to a favourable development in consumer confidence, there was some reduction in the financing needs associated with spending on durable consumer goods.

In the third quarter of 2007, there should be no significant changes in this segment both at the level of the criteria applied to the approval of loans and in terms of total demand.

METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in April 2007. 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.

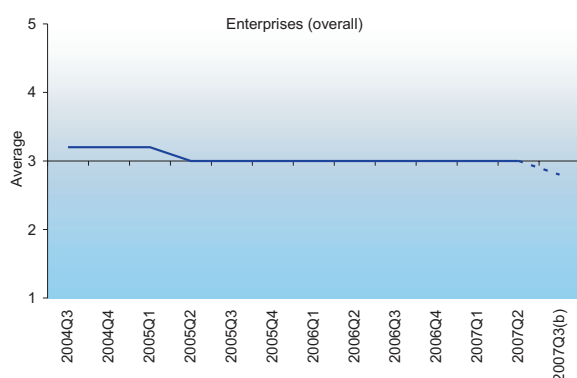
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors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

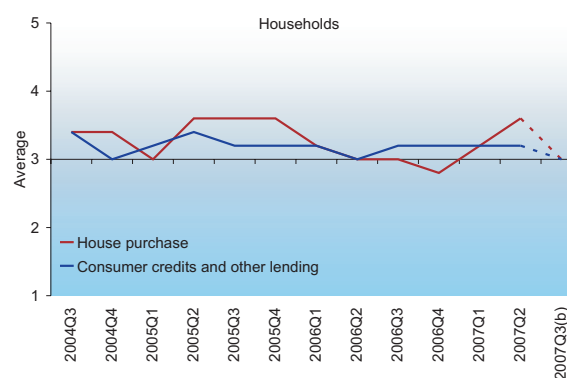
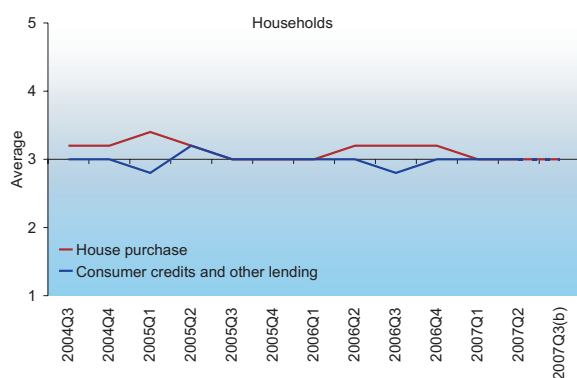
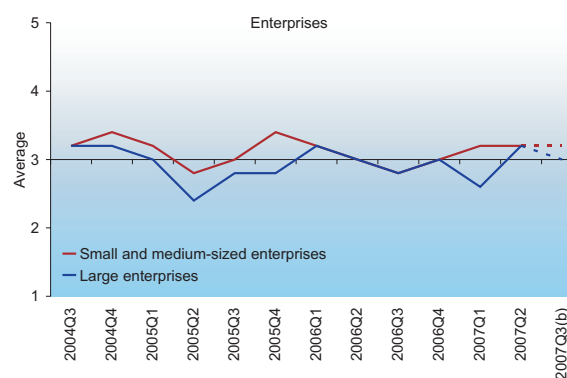
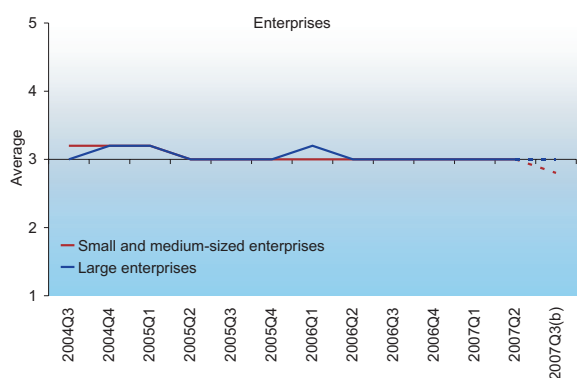
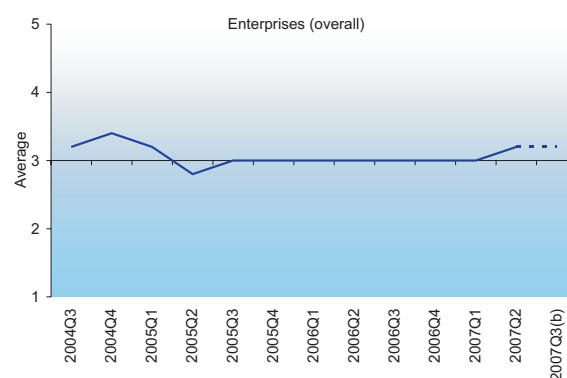
The results of the survey are as follows:

- 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' 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 Jul. 07	3.0	3.0	3.0	3.0	3.0
Apr. 07	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
- 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	
							Jul. 07	Apr. 07
A) Cost of funds and balance sheet constraints								
• Costs related to your bank's capital position			5				3.0	3.0
• 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	3.4
• 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	3.2
• Industry or firm-specific outlook			4	1			3.2	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	
							Jul. 07	Apr. 07
A) Price								
• Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			3	2			3.4	3.0
• Your bank's margin on riskier loans		2	3				2.6	2.4
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		1	4				2.8	3.0
• Maturity			5				3.0	3.2

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
Remained basically unchanged	4	4	2	5	3
Increased somewhat	1	1	2		1
Increased considerably					
Average Jul. 07	3.2	3.2	3.2	3.0	3.0
Apr. 07	3.0	3.2	2.6	3.0	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	
							Jul. 07	Apr. 07
A) Financing needs								
• Fixed investment		2	2	1			2.8	2.6
• Inventories and working capital			3	2			3.4	3.0
• Mergers/acquisitions and corporate restructuring			4	1			3.2	3.0
• Debt restructuring			3	2			3.4	3.4
B) Use of alternative finance								
• Internal financing			5				3.0	3.0
• Loans from other banks			5				3.0	3.0
• Loans from non-banks			4	1			3.2	3.2
• Issuance of debt securities			4	1			3.2	3.2
• Issuance of equity			4	1			3.2	3.2

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	1		1	1
Remain basically unchanged	4	4	5	4	4
Ease somewhat					
Ease considerably					
Average Jul. 07	2.8	2.8	3.0	2.8	2.8
Apr. 07	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	4	5	5	4
Increase somewhat	1	1			1
Increase considerably					
Average Jul. 07	3.2	3.2	3.0	3.0	3.2
Apr. 07	3.2	3.2	3.0	3.0	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 Jul. 07	3.0	3.0
Apr. 07	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
- ° = 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	
							Jul. 07	Apr. 07
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
• Competition from other banks			2	3			3.6	3.6
• Competition from non-banks			4	1			3.2	3.0
C) Perception of risk								
• Expectations regarding general economic activity			4	1			3.2	3.0
• Housing market prospects		2	3				2.6	2.6

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	
							Jul. 07	Apr. 07
A) Price								
• Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		2	1	2			3.0	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	2.8
• "Loan-to-value" ratio			5				3.0	3.2
• Maturity			3	2			3.4	3.2
• Non-interest rate charges			2	3			3.6	2.8

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	
							Jul. 07	Apr. 07
A) Cost of funds and balance sheet constraints			5				3.0	3.2
B) Pressure from competition								
• Competition from other banks			3	2			3.4	3.6
• Competition from non-banks			4	1			3.2	3.2
C) Perception of risk								
• Expectations regarding general economic activity			4	1			3.2	3.0
• Creditworthiness of consumers		1	4				2.8	2.8
• 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	
							Jul. 07	Apr. 07
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			5				3.0	3.2
B) Other conditions and terms								
• Collateral requirements			5				3.0	3.0
• Maturity			3	2			3.4	3.0
• Non-interest rate charges			3	2			3.4	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	2	4
Increased somewhat	3	1
Increased considerably		
Average Jul. 07	3.6	3.2
Apr. 07	3.2	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	
							Jul. 07	Apr. 07
A) Financing needs								
• Housing market prospects		3	2				2.4	2.4
• Consumer confidence			4	1			3.2	2.8
• Non-housing related consumption expenditure			5				3.0	3.2
B) Use of alternative finance								
• Household savings			5				3.0	2.8
• Loans from other banks			5				3.0	2.6
• 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	
							Jul. 07	Apr. 07
A) Financing needs								
• Spending on durable consumer goods, such as cars, furniture, etc.)		1	4				2.8	3.0
• Consumer confidence			4	1			3.2	2.8
• Securities purchases		1	3	1			3.0	3.0
B) Use of alternative finance								
• Household saving			5				3.0	3.0
• Loans from other banks		1	4				2.8	2.8
• 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		
Remain basically unchanged	5	5
Ease somewhat		
Ease considerably		
Average Jul. 07	3.0	3.0
Apr. 07	3.0	3.2

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	1	1
Remain basically unchanged	3	3
Increase somewhat	1	1
Increase considerably		
Average Jul. 07	3.0	3.0
Apr. 07	3.0	2.8