



## Media Release

### **Demand for balance sheet borrowing falling dramatically among Top 500**

(2 March 2006 – Australia) Demand for plain vanilla lending from Australia's Top 500 Corporate market in Australia continues to drop dramatically, East & Partners' latest research into the segment has found.

East's latest six monthly Corporate Account Penetration Report shows demand for short term domestic debt has plunged almost 11 percent over the past 12 months, with just 78.7 percent of corporates engaging it in December 2005 compared with 88.4 percent a year earlier.

Long term domestic debt has also fallen, with just 70.4 percent of the Top 500 using this form of debt in December 2005 compared with 77.9 percent 12 months earlier.

This lack of appetite for balance sheet based borrowing at the top end of town has been accompanied by falling average shares of wallet for principal lenders to this corporate segment; fully 7.3 percent for the typical primary lender.

"Falling appetite for debt among the Top 500 Corporate segment is now a two year trend," East & Partners principal analyst Paul Dowling said.

"It's a market that has been conservative for some time with a preference to keep debt off the balance sheet and source capital in different ways, often from offshore capital markets," he said.

"The large corporate segment is extremely competitive and tough for the banks right now and lending is definitely not the key to unlocking further business with these companies as it once was," Mr Dowling said.

"Banks have traditionally used lending as a base from which to sell more product to large corporates but these results show that increasingly service providers will need to go to corporates with broader, more compelling and innovative offerings than just well priced lending," he said.

"Margins are slimmer in the corporate market, deals are very visible to all providers and banks often have to tender for whatever business becomes available and, of course, these top end customers are becoming ever more aggressive and sophisticated in the way they look to manage their lending relationships, continually raising the bar for providers," Mr Dowling said.

"In contrast to the Top 500, companies in the SME and Commercial market segments are still looking to grow by taking new debt on their balance sheets which is why banks and other lenders have focussed much of their attention on these businesses over the past 18 months," he said.

***Debt Engagement by Corporates***

	<b>% of Top 500 Using</b>	
	<b>December 2004</b>	<b>December 2005</b>
Short Term Domestic Debt	88.4	78.7
Long Term Domestic Debt	77.9	70.4

Source: East & Partners Corporate Account Penetration Program

***Debt Engagement by Commercials***

	<b>% of Commercials Using</b>	
	<b>July 2004</b>	<b>July 2005</b>
Australian Currency Term Loans	70.9	76.9

Source: East & Partners Commercial Treasury Markets Program

***Debt Engagement by SMEs***

	<b>% of SMEs Using</b>	
	<b>October 2004</b>	<b>October 2005</b>
Australian Currency Term Loans	78.1	82.9

Source: East & Partners SME Banking Markets Program

- Corporate ..... A\$340 million plus
- Commercial..... A\$20-340 million
- SME ..... A\$5-20 million

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