



Middle market businesses still looking to borrow

(18 February 2008 – Australia) Forward borrowing intentions in the middle markets suggest a positive outlook for business lending in 2008, despite recent rate rises. However middle market businesses are now increasingly looking to manage their interest rate exposures.

East & Partners' Corporate Banking Markets report for January 2008, part of a biannual research program looking at corporate businesses turning over between A\$20 and 340 million per year, points to an ongoing appetite for debt among Australia's Corporates.

Forward borrowing intentions were firmer in January, with fully 68.1 percent of businesses announcing plans to take on more debt in the next six months. About half of these businesses say new lending will go towards Capital Expenditure, with a further 32.3 percent saying extra borrowings will be used to fund working capital commitments.

Corporates' engagement of core lending products further confirms the healthy appetite for debt. All of the 877 businesses interviewed in January said they engage domestic currency Term Lending. The engagement of Overdrafts is fast approaching the 100 percent mark, with 96.2 percent of Corporates now using the product. These banking products are also consistently ranked first in terms of future demand.

National Australia Bank remains the biggest provider of these core lending products in the Corporate segment. Westpac is the second biggest provider of Overdrafts while the Commonwealth Bank ranks second as a provider of domestic currency Term Lending. ANZ is fourth in both product markets.

The effects of the credit crunch and recent rate rises on Australia's Corporate businesses have, for the most part, been small. Whilst there has been a threefold increase in the share of Corporates reporting their lending rates went up in the six months to January 2008 the majority of businesses – 83.1 percent – reported steady lending rates; a reflection of the traditional preference for fixed rate loans in the Corporate segment.

But as the demand for debt continues to grow in the climate of interest rate rises, an increasing share of Corporates are looking to manage their rate exposures. Fixed Interest Rate Products and Interest Rate Swaps feature prominently as areas of high customer demand.

Engagement of these interest rate management products has gone up during the past six months, but typically only about one in three Corporates actively utilize rate management products. By contrast, the use of rate management products is virtually the norm in the Institutional (Top 500) segment, suggesting the engagement levels in the Corporate market have room to grow further.

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"Optimism and appetite for growth in the middle markets have been consistent themes during 2007. The effects of the credit crunch and interest rate increases in the latter part of the year appear to have had only a minor impact on the fortunes of these businesses early into 2008," said East & Partners financial markets analyst Zoran Knezevic.

"Demand for debt in this part of the market therefore continues to grow," he added.

"While the recent tightening of the monetary policy has had a small immediate impact on the typically fixed rate business lending, it has highlighted the need to manage interest rate exposures. As a result a growing share of corporates are looking for ways to manage their interest rate exposures, a trend we see as continuing," Mr Knezevic said.

About East & Partners' Corporate Banking Markets Report

East & Partners Corporate Banking Markets Report is an ongoing six-monthly research service designed to deliver a range of analytics including bank market share, customer satisfaction, mind share, engagement and appetite for debt, balance sheet and treasury products among companies turning over A\$20 to 340 million per annum. Each report is based on direct interviews with a structured, natural sample of +/- 880 Corporate businesses.

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