Senior loan officer Survey on Bank Lending Practices

Summary of the aggregate results of the survey on 2007 H1

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This analysis provides an overview of the MNB survey conducted on the lending practices of banks in July 2007, the tenth occasion that the survey was performed. The questionnaire-based survey was conducted among credit managers in charge of corporate and household loan departments of major banks.

The survey gives us an insight into the views of major banks in respect of how they evaluate market developments, and, relying on the assessment of management and the owners, how they devise their strategies and their lending policies. By aggregating the individual micro-level answers, we aim to infer the direction and trend of market movements. In all cases, the findings of this study reflect the replies of senior loan officers, rather than our own expert opinion.

The questionnaire focuses on two areas: the household and corporate loan segments. In outlining the results in both main loan segments, we follow the structural pattern of the relevant questionnaire. The retrospective questions in the questionnaire pertain to the first half of 2007, for which the second half of 2006 constitutes the base period, while the forward-looking questions provide a projection for the second half of 2007 relative to the trends seen during the previous half year.

To indicate changes, we employ a so-called net change indicator, expressed as a percentage of the banks surveyed. We arrive at this index by deducting the number of respondents projecting a change (tightening / increasing / strengthening) from the number of respondents projecting the opposite (easing / decreasing / weakening), and dividing this result by the number of all respondents (the answers themselves are not rated).

The total amount of loans outstanding in the individual market segments and the share of responding banks are shown in Annex 1, while the detailed presentation of the replies is contained in Annex 2 and Annex 3.

Aggregate results of the questionnaire

1. Household loan market

In the household loan segment, a total of 12 banks were interviewed. Replies to questions relating to housing loans were provided by 8 banks, and replies relating to consumer loans by 11 banks and 5 financial corporations owned by banks (Charts 20 and 21).

In the household segment, banks' wait-and-see approach adopted in response to the government's package of measures was followed by increasing activity during the first half of 2007, both in the housing loan market and in the consumer loan market. While standards remained, the participants introduced looser credit conditions to shore up support for their increasing willingness to provide loans. Although, according to the senior loan officers surveyed, demand for housing loans remained at nearly at the same level as in the previous half of the year, almost all banks (apart from lenders specialised in financing vehicles and goods) observed higher demand in the consumer loan market. The replacement of HUF housing loans by FX general purpose mortgage loans explains an increasing portion of the rise in demand for consumer loans.

Chart 1 Willingness of banks to grant housing loans and consumer loans (Ratio of banks indicating higher versus lower willingness to lend)

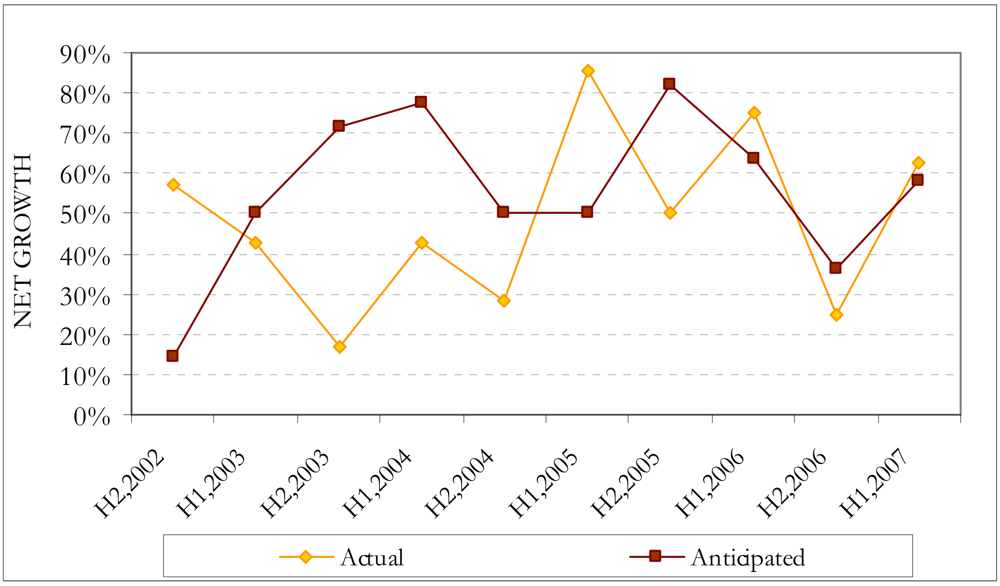
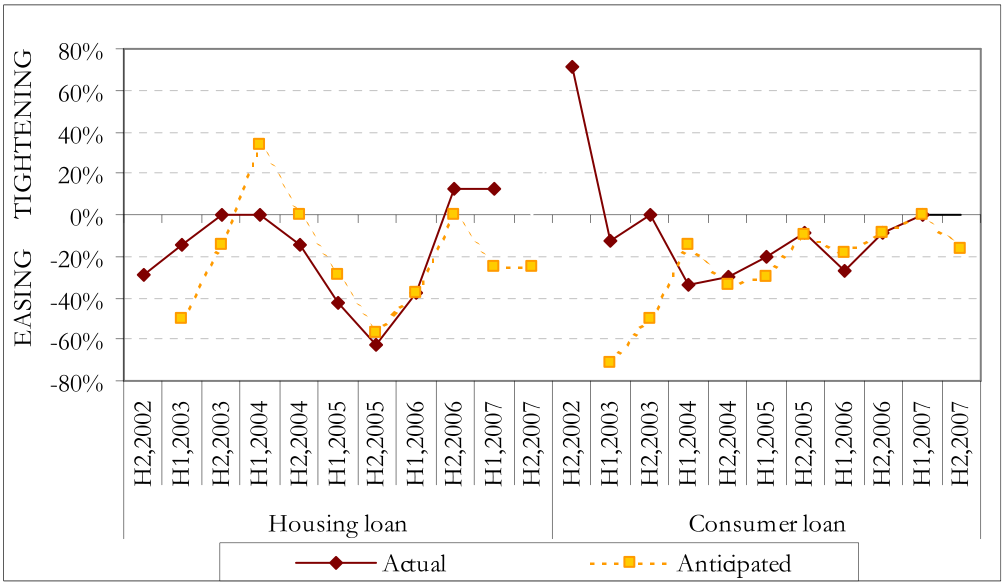


Chart 2 Changes in creditworthiness standards regarding housing loans and consumer loans (Positive = tightening)



1.1. Housing loans

(Questions 1-9 of Annex 2)

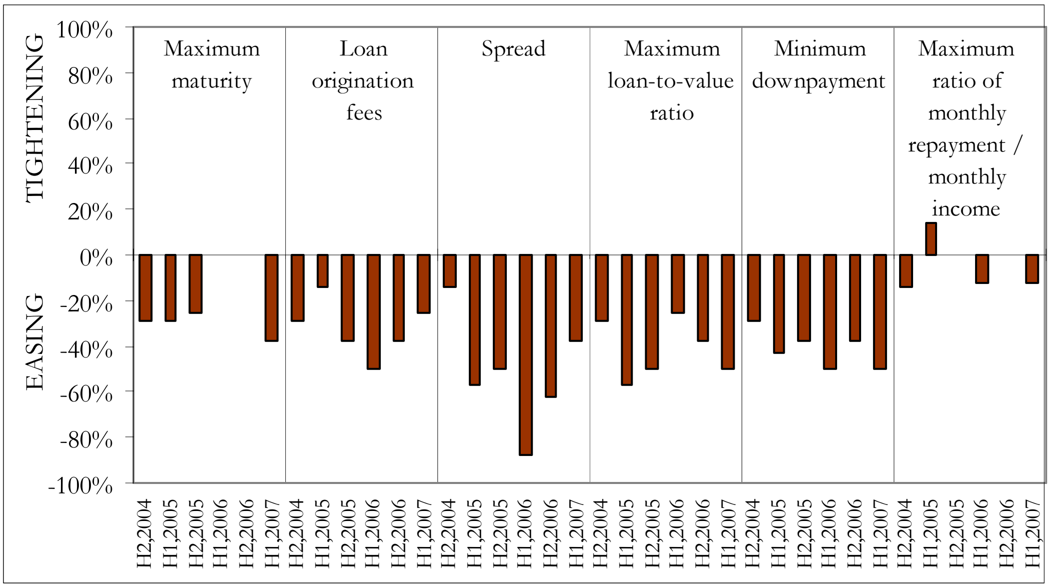
Supply side

After slightly slower growth in the second half of 2006, on the whole the leaders in the housing loan market again substantially increased their willingness to lend during the first half of 2007 relative to the previous half-year period (Chart 1). Five of the respondents indicated more aggressive lending policies, while another three maintained their willingness to lend at the high level reached in earlier periods. Home loan operations remain mainly tied to foreign currency loans.

The higher rate of willingness to lend is manifested mostly in the further easing of credit conditions, while most banks left their creditworthiness standards unaltered – similar to the previous half year. In contrast to the trends seen up until the second half of 2006, when banks continued to loosen their ***creditworthiness standards*** in an effort to increase their market share, in the first half of 2007 there was only one bank which offered even looser credit conditions. At the same time, citing unfavourable prospects in the income position of households and the decreasing creditworthiness of clients, two banks tightened their creditworthiness standards for housing loans (Chart 2). The tightening of standards included a narrowing of the range of properties acceptable as collateral (e.g. eliminating third-party properties), and a more intense focus on signs of deterioration in client creditworthiness.

In respect of ***credit conditions for housing loans***, on the other hand, conditions were loosened even further, in line with the longer-term trend.[1]

Chart 3 Credit conditions for housing loans
(Difference between banks offering looser or tighter conditions)



- Three banks indicated that last year they increased the maximum term of their housing loans to 35 years.
- Three banks continued to reduce their upfront fees, or even waive them in the framework of promotion campaigns. However, one bank signalled tightening, namely with the introduction of a one-off loan charge, and an increase in its handling charges for clients who have been registered as a non-paying customer in the credit register.
- As far as CHF loans are concerned, the picture is mixed with regard to the charging of the increase in funding costs. While certain participants (3 banks) re-price their contracts on a continuous basis, the majority of the surveyed banks did not charge or only partly charged the increasing costs of FX funds to their customers, or continued to offer the interest rates prior to re-pricing for the first interest period in the framework of

1 Forint and foreign currency loans are handled the same way by almost all banks in terms of creditworthiness standards and conditions, therefore, these findings apply to both types of loans apart from the statement made on spreads.

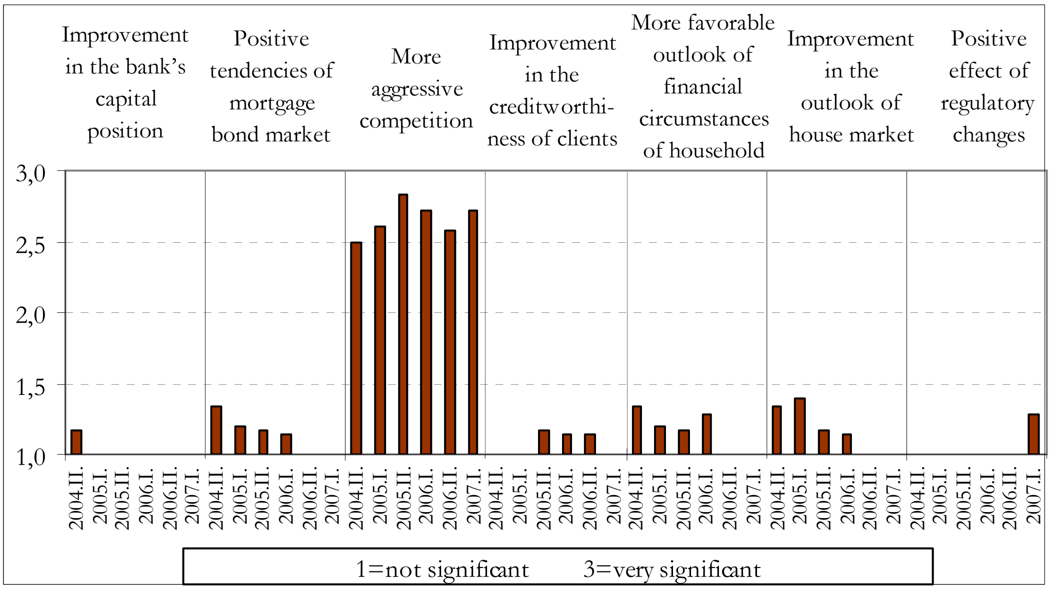
campaigns. However, tightening conditions were observed at one bank compared to the first half of the year, as in the first half of 2007 it charged some of the increase in funding costs during the previous periods in the interest rates of its CHF loans for the first time.

- The required minimum downpayment and the maximum loan to value ratio were further eased by four banks.
- One credit institution indicated its intention to introduce asset-backed financing. However, the majority of participants remain wary of purely asset-backed housing loan constructions.

According to banks' view, strong competition continues to be the factor behind the looser credit conditions. In this aggressive competition, the battle for agents is gaining an increasing role, as real estate agents, as well as insurers and their network of agents play a particularly important role in the housing loan market. Home leasing, however, is merely an auxiliary product for the time being according to the banks surveyed, and does not have the potential to lure away a great number of household customers.

Additionally, the easing of credit conditions was made possible in the case of one bank by better-than-expected risk costs, whereas another cited the wider range of business opportunities permitted, due to the last amendment of Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

Chart 4 Reasons for looser creditworthiness standards and credit conditions in the case of housing loans



Loosening non-price credit conditions was tied to product innovation at several banks. In these cases, banks tend to compensate for the higher risk involved by pricing, or by risk transfer, such as mortgage loan insurance.

According to plans for the second half of 2007, three banks planned further loosening in their creditworthiness standards and conditions, which are particularly driven by customer-oriented purposes, namely to keep their existing clients and bring in new ones. As far as creditworthiness standards are concerned, only one participant plans tightening and this is the effect of the review process that was opened in the first half of 2007.

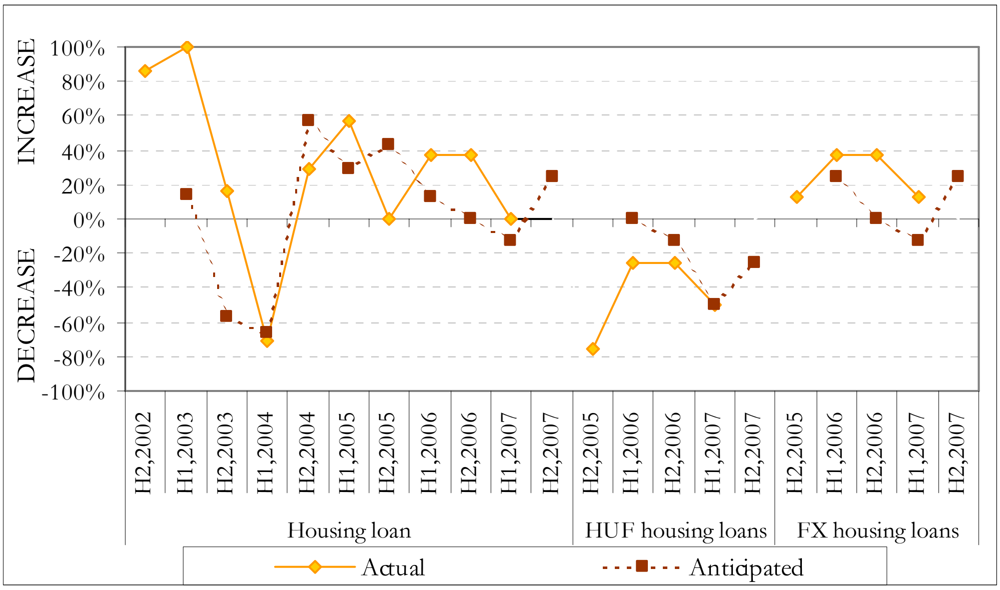
Demand side

In the interviews conducted in January 2007, the expectations of market participants ranged within a very broad spectrum, depending on their views regarding the impact of the package of government measures on the housing market: three forecasted increasing demand and four expected decreasing demand for the first half of 2007. As it turned out, banks proved to be somewhat pessimistic in their expectations. The majority of participants (four banks) did not notice any change in demand compared to the previous half year (apart from seasonal impacts), two banks felt an increase in demand while another two considered it weaker. One of the banks that detected lower demand emphasised that the negative impact of the government measures was felt mostly in the lower income segment.

An increase in the number of loan applications was seen only for foreign currency loans. More and more banks see a good opportunity in offering foreign currency loans with instalment payments fixed for a specific period. In spite of the appreciation of the forint during the first half of 2007 relative to the previous half year, the banks surveyed did not indicate any notable rise in demand for this particular product. Half of those surveyed saw demand for HUF housing loans shrink even further since the previous half year period.

In assessing longer-term developments in demand, it can be pointed out that the growth in demand seen in 2006 came to stop in the first half of 2007.

Chart 5 Developments in demand for housing loans
(Difference between banks indicating higher or lower demand)



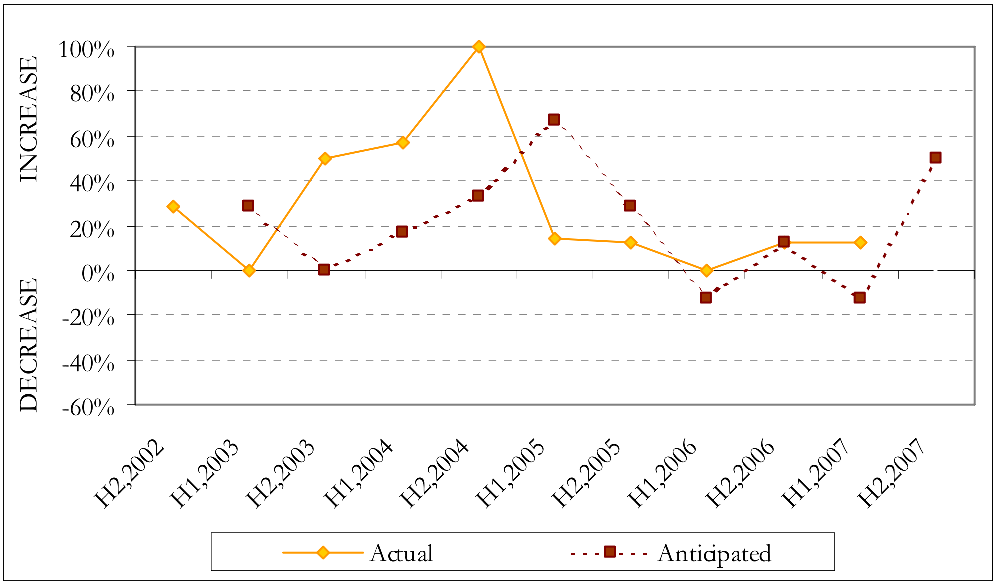
As for demand in the upcoming half-year period, three participants appear optimistic, and only two foresee a decline in demand. The respondents continued to feel that growth is possible only with regard to foreign currency loans.

Nominal house prices

Relying on the database at their disposal, the banks surveyed noticed modest growth in the real estate market on the whole. There was a significant difference in the perceived movement of prices for new and used houses. In the new house market, three banks saw a slight increase in nominal prices, whereas for used houses, banks perceived that housing prices remained unchanged, apart from two banks which were of the opinion that prices dropped slightly (only one, relatively small, bank perceived a drop in both segment of the house market).

For the upcoming half-year period, the majority expect stagnation or a slight increase in prices. Expectations of an upturn on the real estate market remain limited to new homes, where five banks forecast an increase. As for used homes, according to six banks no changes are expected in prices, one bank envisions a slight increase, and another predicts a slight decrease.

Chart 6 Nominal home prices according to credit managers (Difference between banks indicating higher or lower prices)



Several survey participants mentioned that the development in house prices differs considerably in the various regions. Accordingly, a bank's view on new house prices, for instance, is strongly dependent on where it finances housing real estate projects.

1.2. Consumer and other loans

(Questions 10-16 of Annex 2,)

The questions pertaining to consumer lending policies are broken down by the following product types: general purpose mortgage loans (8 banks participating), personal loans (9 banks participating), vehicle loans (2 banks and 5 bank-owned financial corporations participating), hire purchase loans (4 banks participating) and credit cards (9 banks participating). Long-term data series for the different product types are not available, therefore, our ability to demonstrate the developments in this particular segment of the market in this depth is limited to the previous year.

Supply side

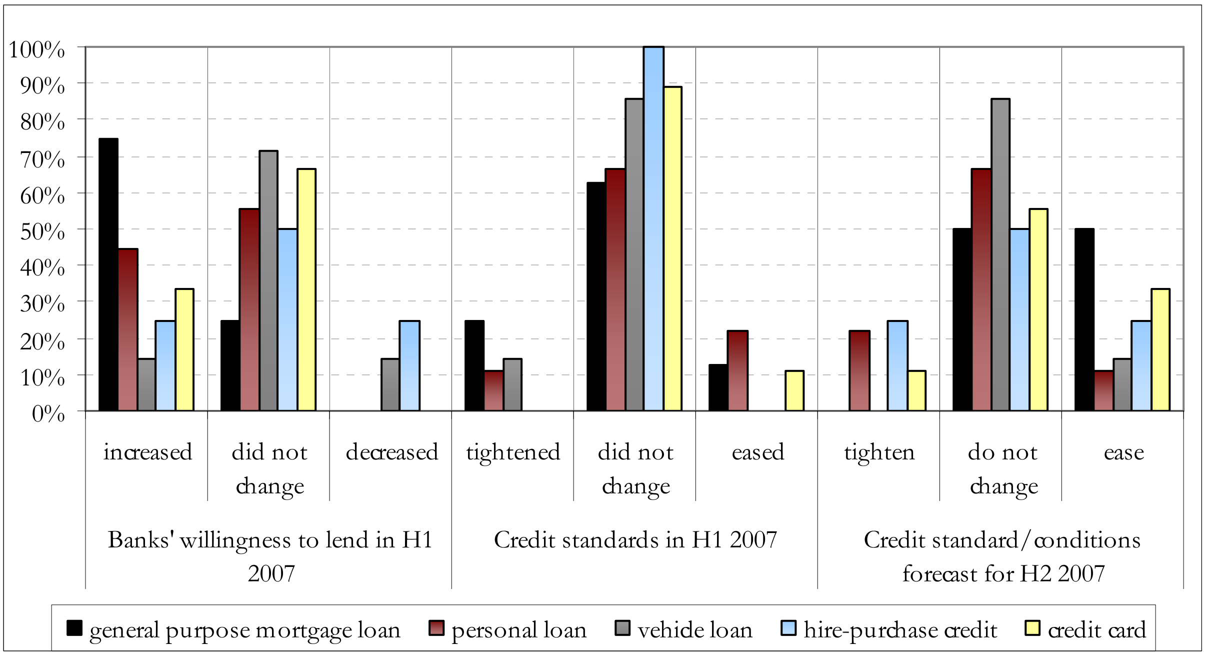
Similarly to the housing loan market, ***banks' willingness to lend*** again received a great boost in the consumer loan market after the temporary hesitation during the second half of 2006 (Chart 1). The growth in willingness was particularly spectacular in mortgage-backed personal loans, with two banks indicating a major rise and four others reporting a slight increase in their willingness to lend.

The increasing willingness to lend did not imply an easing of ***creditworthiness standards***[2] (Chart 2), and participants limited their actions to altering their credit conditions to the extent

[2] Banks are inclined to change their creditworthiness standards for general purpose mortgage loans in conjunction with the standards for housing loans, accordingly, in the two banks where stricter conditions were introduced it materialised in a narrower spectrum of real estate properties acceptable as collateral and in more intense focusing on signs of decreasing creditworthiness of clients.
As for personal loans, two participants indicated more lenient conditions, one of which is attributed to outside factors (loss of access to database).

required to keep up with competition. Furthermore, marketing campaigns were ascribed an important role, similarly to cross-sales of credit cards with other banking products, and co-branded products with service providers active in other sectors.

Chart 7 Willingness to lend and creditworthiness standards for different consumer loan products
(Ratio of banks giving different answers)



As for ***credit conditions***, on the whole and in line with the long lasting trend, minor changes towards more lenient conditions were the typical course of action, while the only tightening introduced pertains to the creditworthiness requirements at some banks (Chart 22).

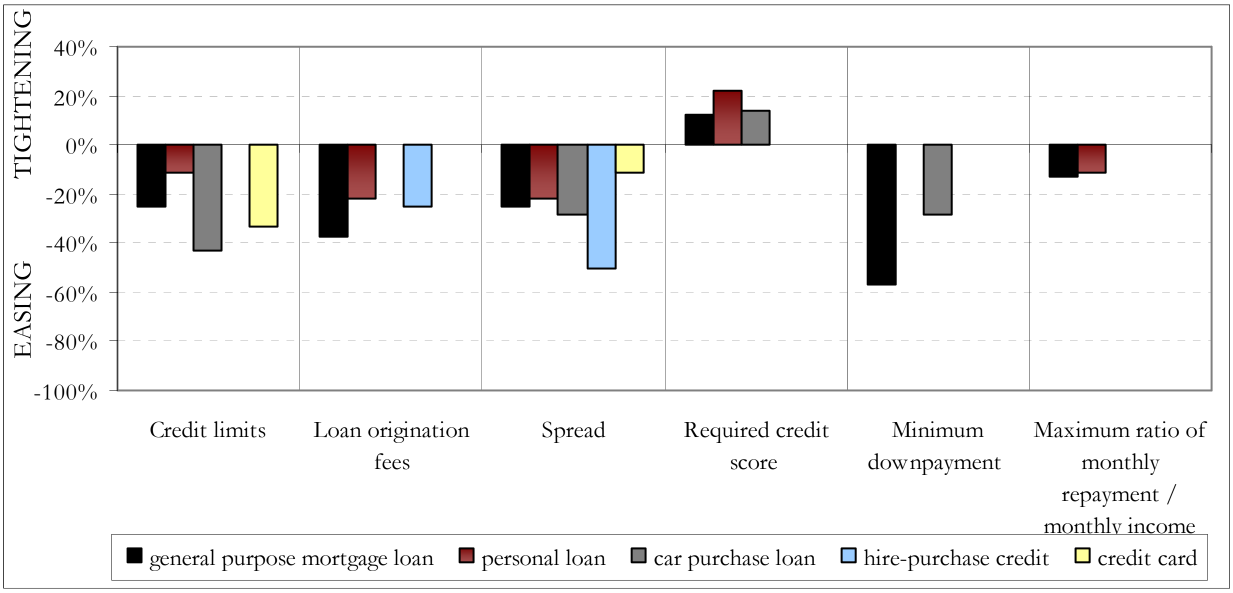
Easing was introduced in the following conditions:

- The credit limit was increased moderately by three banks and considerably by another three for all products, exclusive of hire purchase loans.
- In respect of upfront fees, five banks lowered fees and one raised. Some of these charges were waived under some form of promotion – similar to the previous period – in connection with general purpose mortgage loans, personal loans and hire purchase loans.
- Similar to housing loans, some banks continued the practice of not charging all or some of the increase in funding costs into the interest rates of foreign currency loans. On the other hand, a few banks increased interest rates in connection with certain products to compensate partly for the narrowing spread in the previous periods.
- Of the banks surveyed, three eased the required minimum downpayment and the loan-to-value ratio significantly, and two others more moderately. This change applies to general purpose mortgage loans and, in one case, to car loans; because for hire purchase loans the amount of required minimum downpayment did not change.
- Additionally, several banks increased the maximum term of secured and unsecured personal loans, and one survey participant increased the maximum age of vehicles eligible for financing in connection with car loans.

It is important to point out that some of the respondents limited their new, more lenient conditions to clients with a credit history: in other words, they provide different conditions to existing and new customers.

Tightening was introduced by some banks with regard to the minimum creditworthiness requirements in connection with personal loans, general purpose mortgage loans and car loans.

Chart 8 Changes in credit conditions for different types of consumer loans (Difference between banks offering looser or tighter conditions)



Almost without exception, the banks participating in the survey continued to cite increasing competition with other banks and non-bank financial intermediaries as the primary reason for looser conditions. In this regard, they highlighted the role of agents, which substantially contributed to the growth in refinancing arrangements across banks. On the other hand, apart from car loans and hire purchase loans, banks tend to look upon financial corporations with less trepidation in terms of competition, as for the time being they operate in a different segment of the market and target different groups (Chart 23).

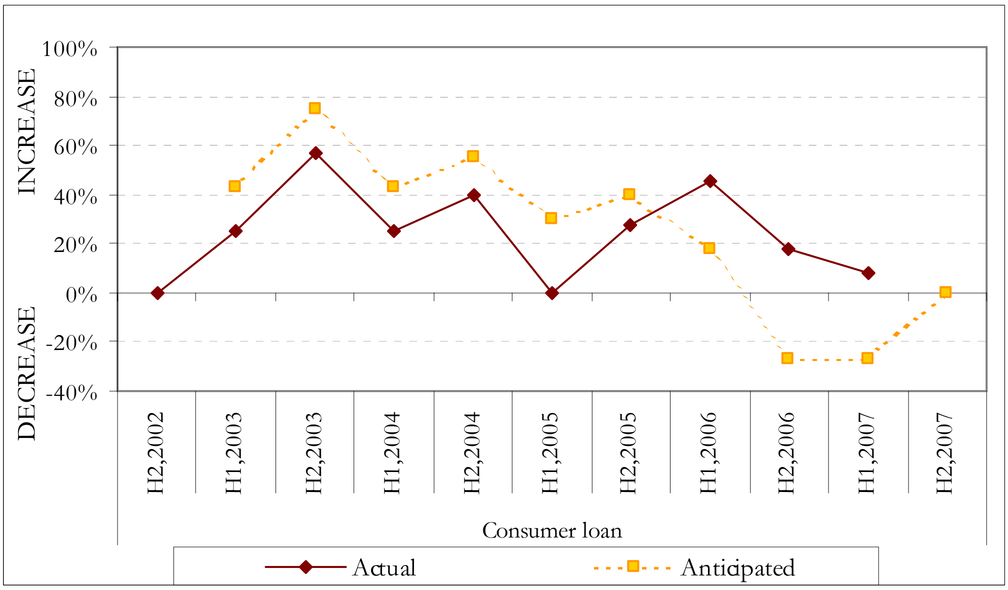
Where more stringent conditions were introduced, this development was blamed on the decreasing credit quality of clients and/or on unfavourable developments in their income position, and on increasing risks related to collateral.

Relying on the aggregate replies of the banks surveyed, conditions are expected to be eased even slightly more in the second half of 2007. The widest scale of changes was projected – as before – with regard to general purpose mortgage loans, which is largely attributed to the increasing activity of agents (Chart 7).

Demand side

In the previous survey, the expectations of those surveyed ranged within a very broad spectrum: four participants predicted higher demand, while another four projected a drop in the number of applications for new loans. Overall, the demand seen in the first half of 2007 was higher than expected and, apart from participants specialising in car loans and hire purchase loans, practically all banks experienced some growth in demand compared to the second half of 2006.

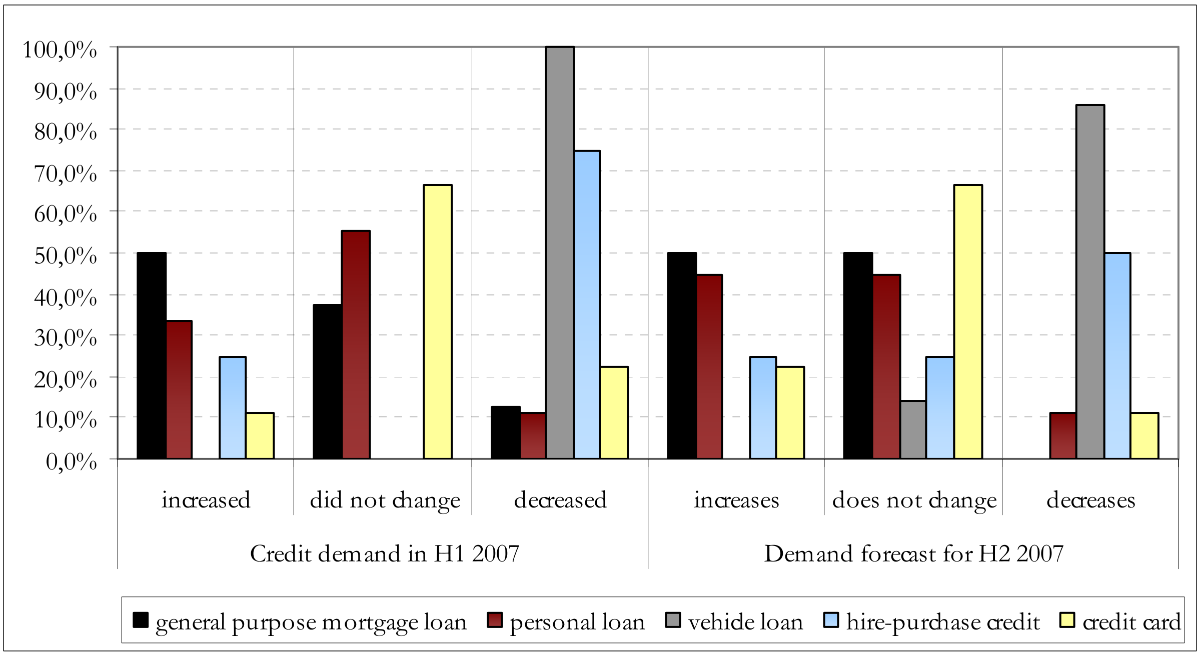
Chart 9 Demand for consumer loans
(Ratio of banks indicating higher minus those indicating lower demand)



The modest overall growth in demand appeared in various ways in the different product groups:

- In the car loan sector, demand started to decline in the second half of 2006 and continued on this path, on account of which all participants reported a drop in new loan applications for the first half of 2007.
- There was a significant drop in hire purchase loans as well, and some of this could be attributed to certain client segments' preference for credit cards.
- The popularity of credit cards did not grow as expected, and demand was reported unchanged by most respondents.
- Demand increased marginally for personal loans, due to some extent to consumption smoothing, amongst other things.
- Participants reported substantial growth in demand for general purpose mortgage loans, with loans denominated in foreign currencies taking the lead. At the same time, however, a substantial part of stronger demand for these products does not in fact constitute an actual increase of demand for household loans, as they are merely intended to refinance existing HUF housing loans. As regards certain participants, the majority of new loans are extended to refinance existing loans, in which the more intense activities of agents have a major role. Several banks voiced some reservations in connection with the increasing role of agents, related in part to the commission war for the agents, and in part due to agents' attitude of focusing more on the commissions than on the customer's interests.

Chart 10 Changes in demand for various consumer loan products
(Share of banks giving different answers)



Looking forward to the second half of 2007, the banks surveyed are somewhat more optimistic, apart from the car loan market. The majority of respondents predict further growth in general purpose mortgage loans and personal loans.

2. Corporate loans

The questionnaire was filled out by a total of seven banks, accounting for an 85% share in the corporate loan market and a 92% share in the commercial real estate loan market (Charts 24 and 25).

In the corporate loan market, banks are looking to finance small and micro enterprises, since there is no room to grow in the market of large and medium-sized companies. The majority of the banks surveyed made only fine tuning adjustments in the credit rating system for corporate loans, but two banks moved to introduce stricter creditworthiness standards. This tendency appears to be intensifying, based on the plans for the next half-year period. As far as credit conditions are concerned, participants are inclined towards tighter conditions, and in this regard they are increasingly making changes in price conditions as well. The revision processes connected to Basel II rules largely influenced the tightening of standards and credit conditions. Credit demand during the first half of 2007 remained at nearly the same level in the large and medium-sized company segment, while considerable growth was reported in the micro- and small enterprise segment. Loans requested during this period were aimed mostly to finance liquidity, whereas demand for investment loans was limited to some special segments.

The replies provided by banks active in the financing of commercial real estate differ significantly regarding willingness to lend and demand, and therefore, there is no clear trend which can be identified. As for creditworthiness standards, participants reported major changes towards tighter conditions in connection with housing projects, consistent with the risk assessment of this particular segment.

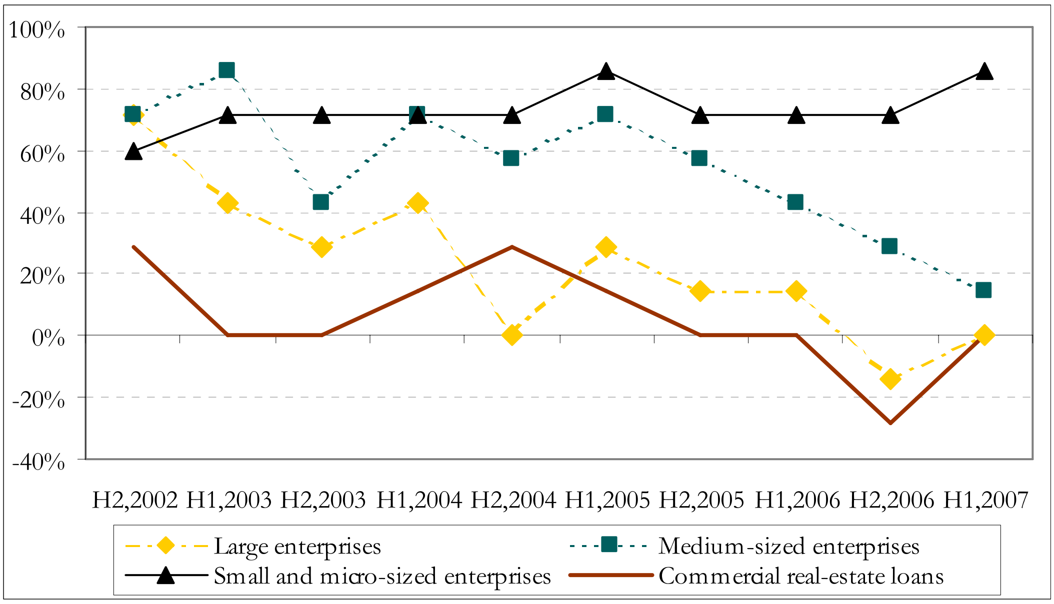
Corporate loans without commercial real estate financing

(Question 1-9 of Annex 3)

Supply side

In the first half of 2007, the majority of the banks surveyed maintained their **willingness to lend** to the corporate sector at the high level reached in earlier periods.

Chart 11 Willingness of banks to lend in the various sectors
(Ratio of banks reporting higher vs. lower willingness to lend)

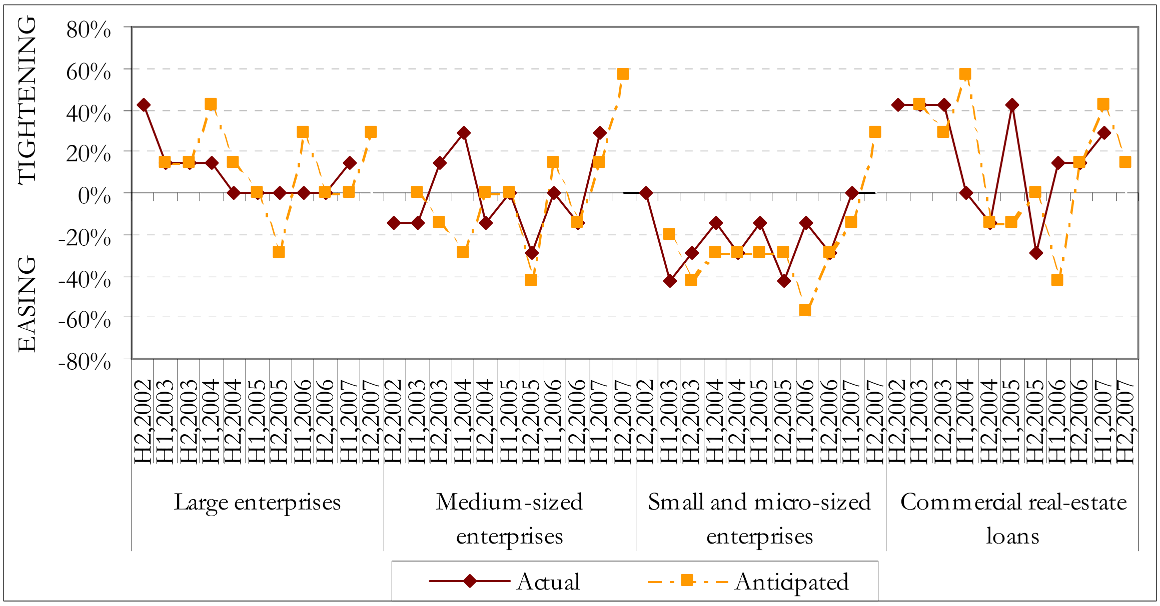


Assessing the trends of recent years, the chart above clearly illustrates that the corporate loan market for large companies was practically exhausted when the first of these surveys was conducted in 2002, and that after the second half of 2005 this phenomenon spilled over to the medium-sized company segment as well, gradually reducing the number of banks reporting increasing willingness to lend. At the same time, in the micro- and small enterprise segment, almost all of the banks surveyed still reported a further increase in the first half of 2007 and viewed this market segment as having great potential for further growth (two banks increased their willingness to lend substantially, and another four slightly).

Banks increased their credit supply – mostly in the micro- and small enterprise segment – cautiously, in parallel with the reinforcement of their creditworthiness standards and even accompanied by the tightening of certain credit conditions. Banks are attempting to remain competitive by offering a wider selection of products, by developing systems enabling quick services and by standardisation, as well as by promotion campaigns.

The fact that in the first half of 2007 two banks tightened their corporate ***creditworthiness standards,*** i.e. the key elements of customer scoring and rating system, may signal a turning point (for one bank, this pertained to SMEs and for the other bank to large and medium-sized company segments). In the case of one of these participants, tightening involved the integration of certain control procedures into the lending procedure, plus the introduction of sectoral diversification, while in the case of the other bank, it involved some fine tuning in the scoring system, and increasing the degree of standardisation. Only one bank reported any loosening, however, pertaining to micro- and small enterprises only.

Chart 12 Changes in creditworthiness standards according to company sizes and commercial real estate financing
(Difference between banks offering looser or tighter conditions)

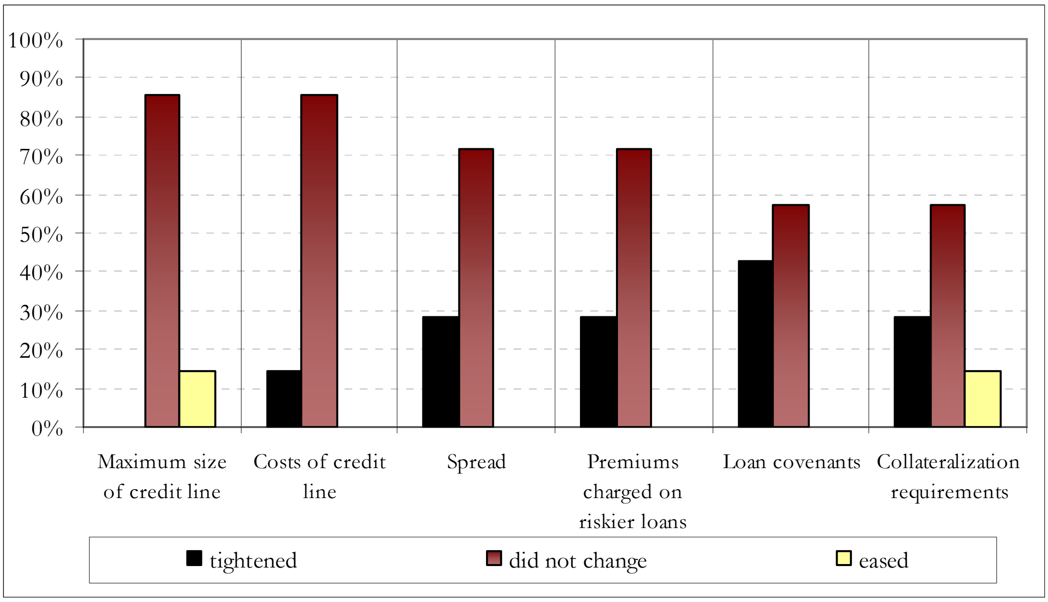


In the second half of 2007 this trend appears to be gaining strength, since relative to the first half more participants plan to tighten their creditworthiness standards.

As for ***credit conditions,*** it is apparent that some banks (Charts 26-31) embarked on a path of tightening in the first half of 2007. In addition to demanding more loan covenants and increasing collateral requirements, more and more banks are moving toward introducing stricter conditions in price factors (fees, spread, premium; see Chart 13).

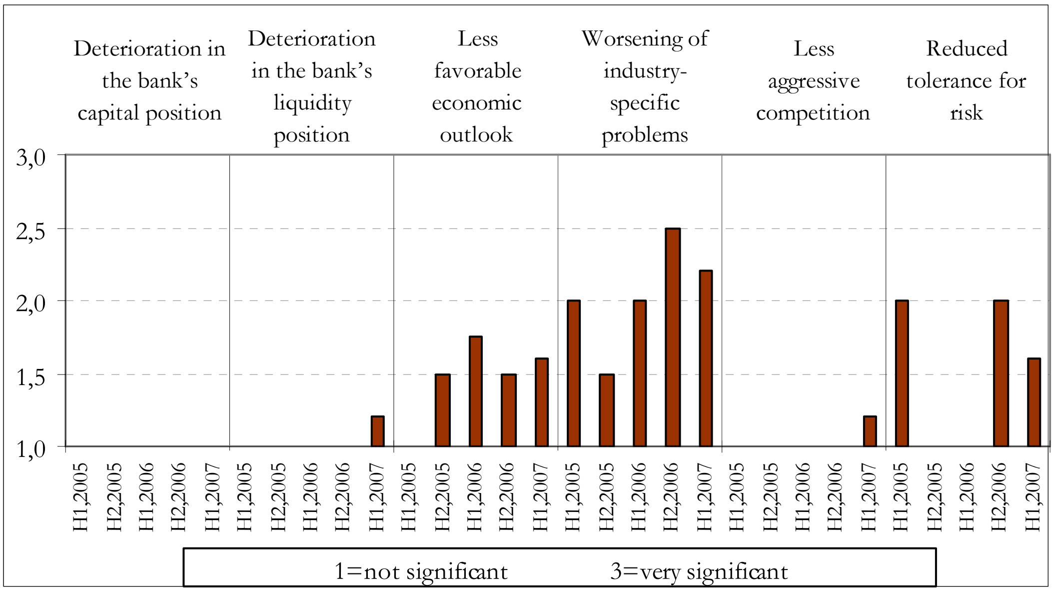
Overall review took place in two banks, and for the others tightening concerns only lending to large and medium-sized companies. While in the previous survey banks indicated the possibility of increased leniency in connection with several conditions for micro- and small enterprises, by this half it was reduced – on general principle – to higher credit limits only (according to three banks).

Chart 13 Changes in credit conditions in corporate sector during the first half of 2007 (Share of banks giving different answers)



Participants who introduced tightening measures continue to refer to the increasing risk factors of certain industries/size of companies (SME segment) as the single most important reason. Furthermore, the depressed business environment also pushed banks to introduce stricter conditions with a view to maintaining portfolio quality. The trends observed in portfolio quality led two banks to give more room for risk management factors, which consequently led to a higher degree of risk aversion on the part of these banks. Finally, several banks cited changes in the regulatory environment as the reason for tighter conditions (e.g. new debtor and collateral classification systems introduced due to Basel II), furthermore, in the case of some banks, resource allocation and profitability factors also had a role.

Chart 14 Reasons for tighter credit conditions in the entire corporate sector



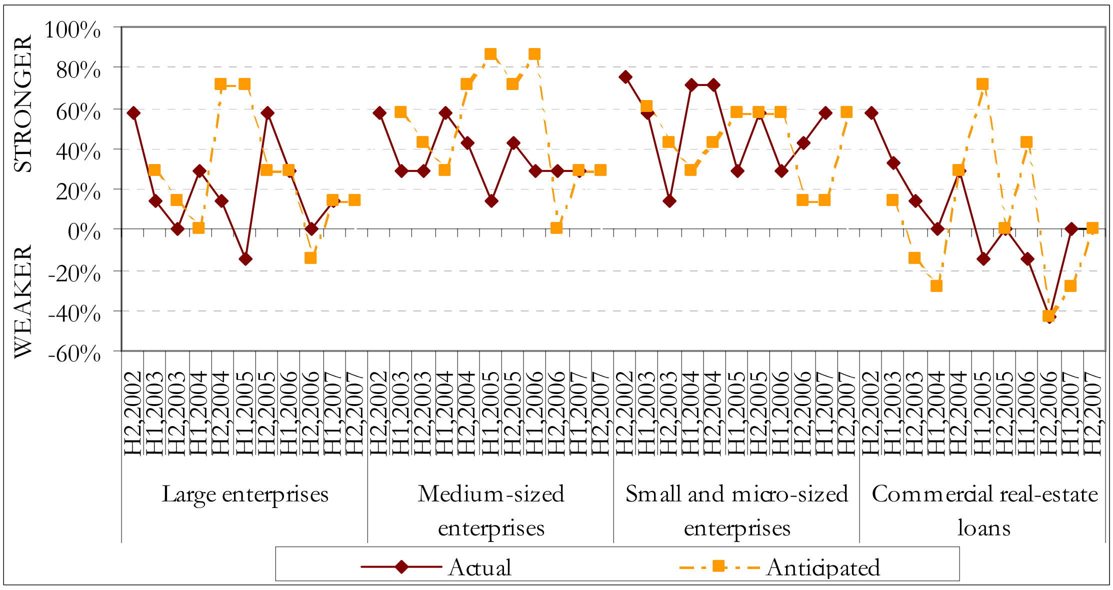
The most important reason indicated for the implementation of looser conditions primarily in the micro- and small enterprise segment was increasing competition.

Fundamentally speaking, banks plan to move toward tighter conditions during the second half of 2007 as well. Only one participant indicated any plans for loosening conditions, to compensate for its failure to reach the target for the first half. Most participants look to introduce tighter conditions in connection with risk premium, in addition to demanding more loan covenants and increasing collateral requirements (Charts 26-31).

Finally, it is important to point out that, apart from adopting tighter standards and conditions, several banks increased or plan to increase their monitoring and collection operations in response to unfavourable developments.

Demand side

Chart 15 Trends in credit demand in the corporate sector according to size (Difference between banks indicating higher or lower demand)



Demand during the first half of 2007 was in line with expectations for large and medium-sized companies, as the majority of the banks surveyed reported no change, some reported slight growth and one bank noticed some decline among large enterprises. At the same time, in the micro- and small enterprise segment, the number of credit applications filed during the first half exceeded projections, as four participants signalled a slight increase in demand.

As for the structure of demand, credit was sought mostly in connection with liquidity requirements (financing of inventories and outstanding receivables, reduction of own funds), while two banks reported higher credit demand for investments in the large enterprise segment. Additionally, one bank observed demand for foreign currency loans for special reasons, namely for mergers and take-over operations in the medium-sized company segment. As far as financing for investment projects is concerned, several banks have observed a wait-and-see approach on the part of customers (in anticipation of obtaining funds within the framework of EU tenders), as may also be indicated by higher liabilities of large companies.

For the second half of 2007 banks, similar to first-half trends, anticipate credit demand to flourish mostly for liquidity purposes (disregarding seasonal effects). Banks do not expect any demand for investment loans apart from a limited sphere of companies, such as export companies, agricultural companies for purchasing machinery and equipment, or companies from the energy sector. Even though banks expected credit demand to expand in connection with EU tenders in the first half of 2007, the impact of these processes generating demand is also delayed.

1.3. Commercial real estate financing

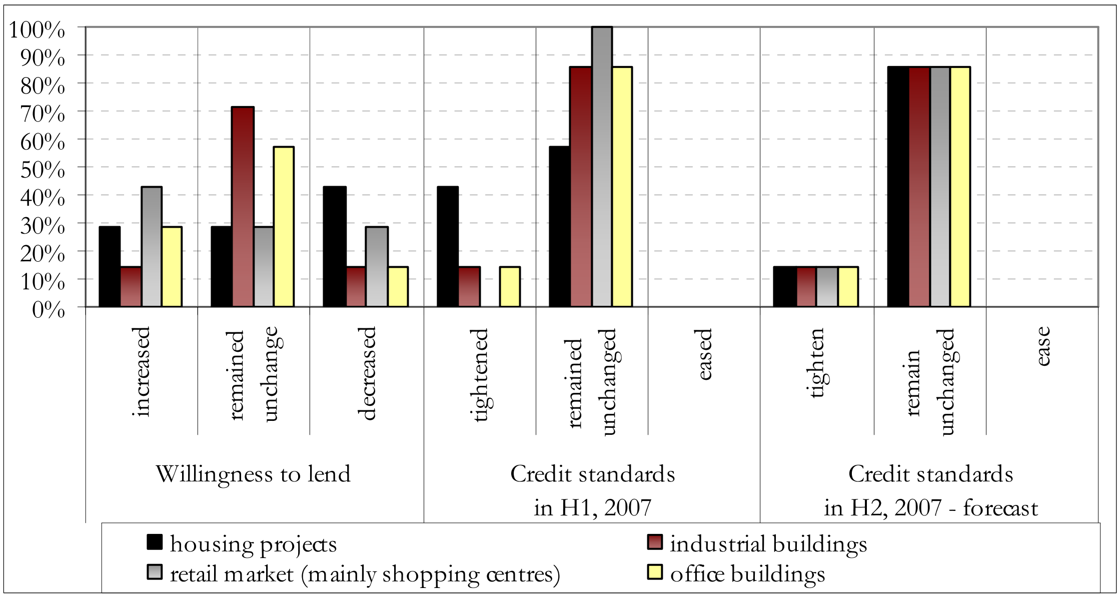
(Annex 3, rows 10-15)

As for the second half of 2006, questions pertaining to commercial real estate loans are broken down by the following real estate categories: housing projects, office buildings, logistics centres and shopping malls. Long-term data series for the different real estate categories are not available, therefore, our ability to demonstrate developments in this particular segment of the market in this depth is limited to the previous year.

Supply side

As far as commercial real estate financing is concerned, in the first half of 2007 there was no clearly identifiable trend in the ***willingness of banks to lend***. Answers varied within a broad spectrum, and on the whole net change indicators did not show any significant differences.

Chart 16 Changes in the willingness of bank to lend and creditworthiness standards in connection with commercial real estate financing (Share of banks in connection with different answers)



Participants find housing projects a risky undertaking in terms of financing, on account of which several introduced tighter creditworthiness standards. The banks that were most active in this particular segment of the market during the recent period did so with a cautious approach, showing preference to higher quality projects.

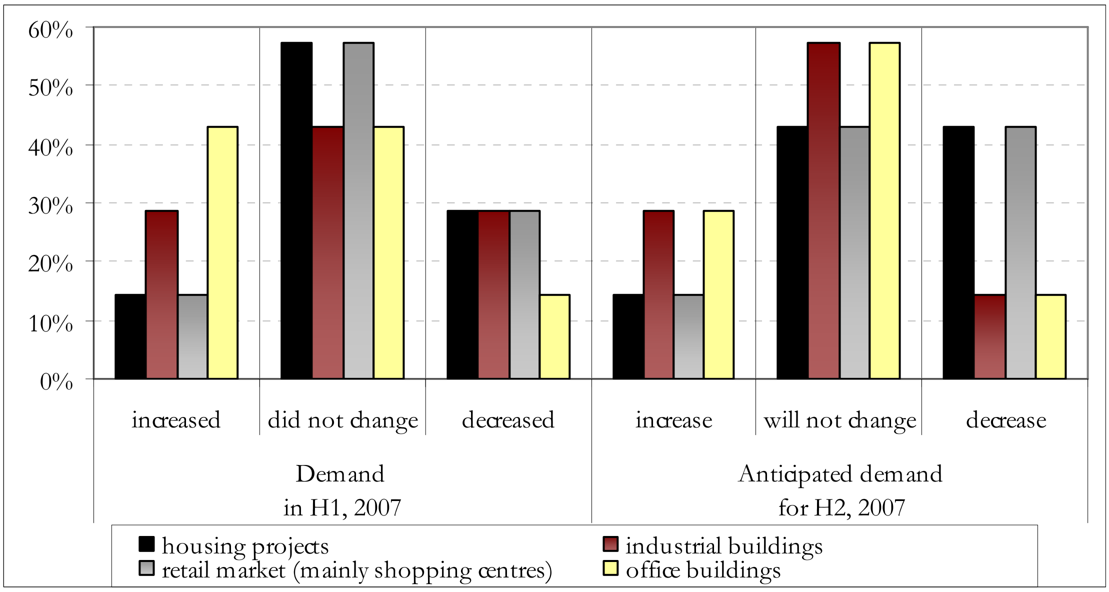
For the most part, the banks surveyed blamed the tighter standards on worsening industry-specific problems and the potential risk of asset price bubbles in the real estate market. Apart from one, the banks surveyed do not plan to introduce any major changes in their creditworthiness standards.

Demand side

Overall, banks reported stagnating demand in the commercial real estate loan market (Chart 32). At the same time, answers varied within a wide range depending on the responding participants and the real estate categories. According to net change indicators, significant growth was seen only in the financing of office buildings. In all other cases the answers were contradictory and as such offset one another.

For the upcoming half-year period, participants expect some decline in demand in connection with housing projects and shopping malls.

Chart 17 Changes in credit demand in the different segments of the commercial real estate loan market
(Share of banks giving different answers)



1.4. Changes in credit risk assessment of the various industrial sectors

(Annex 3, row 16)

In the opinion of the banks surveyed, in the first half of 2007 the risk assessment of the following sectors changed considerably:[3]

- In the first half of 2007, participants similarly indicated a significant increase in the risk of construction industry as an extension of a trend that began several years ago. In particular, they highlighted the decline in orders from both the private and the public sector, and the delays in payments by the government. This also contributed to the fact that the magnitude of gridlock did not decline during the last half-year period. One bank surveyed is of the opinion that even companies with good credit histories are now also exposed to the sector's problems.

- The manufacturing industry, which has been known to be exposed to increasing risks for several years, is now considered even more risky according to four participants, with the food and textile industries taking the lead in this respect.

- Banks' view on the agricultural sector is formulated is depending on their portfolio: two participants indicated higher risk factors in this sector, while another two see this sector as safer from a lender's point of view. The banks with a positive opinion provide funds to participants in this sector in pre-financing aids most of the time, and this is considered a relatively low-risk operation.

- Views also differ as regards the risk exposure factor of financial activities: while three participants see the sector as being riskier on account of the deteriorating situation of factoring companies and car dealers, one participant, on the other hand, feels that the sector is safer than before in terms of placements of investments due to an upturn in the

[3] We mention only those sectors where at least two banks indicated some degree of change.

activities of factoring companies, while the remaining banks see no changes worthy of note.

- At the same time, three participants see positive developments in the electricity, gas, heat and water utility sectors.

Chart 18 Changes in the risk assessment of the various sectors (1 = considerable growth in risk factors, 2 = moderate growth in risk factors, 3 = practically unchanged, 4 = moderate decline in risk factors, 5 = considerable decline in risk factors)

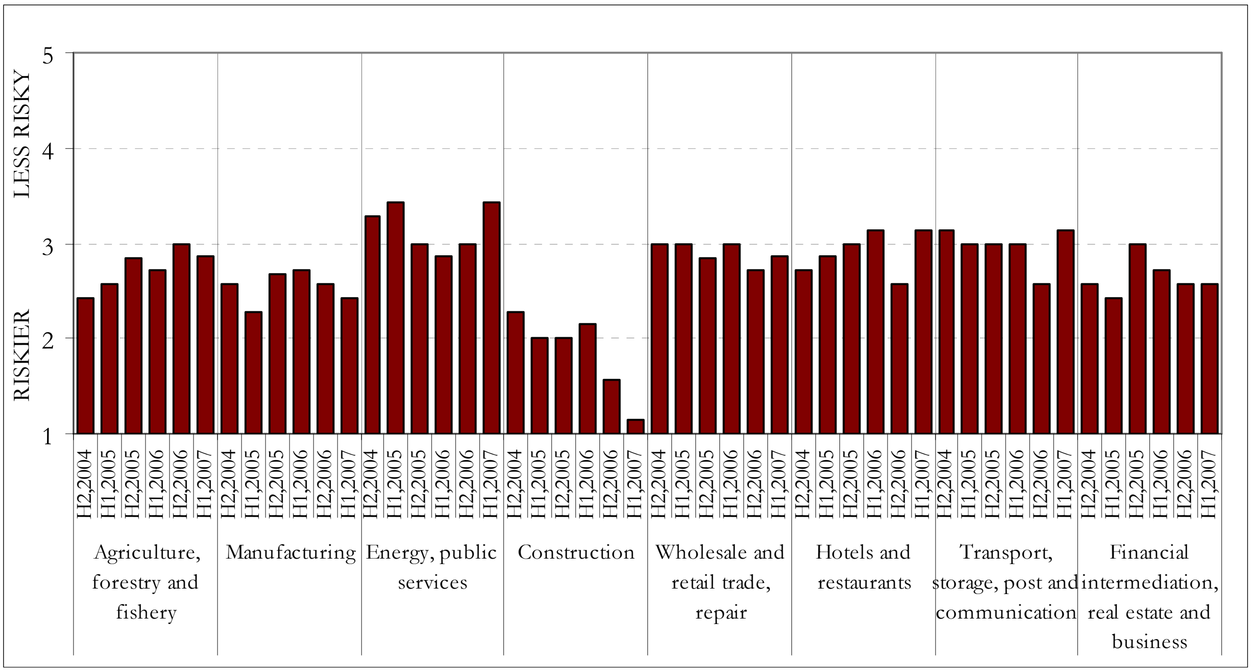
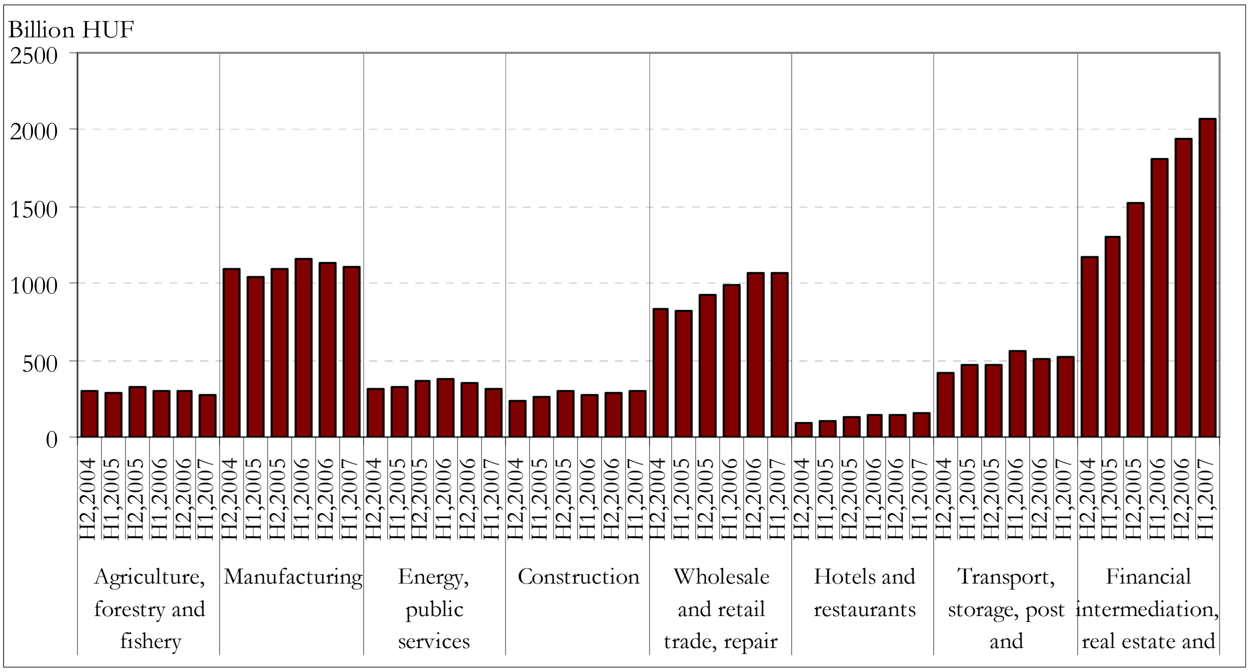


Chart 19 Sectoral breakdown of loan portfolios of banks



Current issues, trends

Impact of the package of government measures

Considering that the participants surveyed had not clearly seen the impacts of the package of government measures at the time of the previous survey, similar to the previous two surveys, this time we also asked the opinion of banks concerning the impacts of these measures on the lending industry in general.

All things considered, in the household sector the perceived developments exceeded the expectations of banks, while in the corporate loan market during the first half-year period the scenario played out broadly as forecasted.

- Creditworthiness

In the *household segment*, several banks noted the decreasing creditworthiness of customers. For new customers, this is reflected by the increasing number of loan applications refused, and for old customers the worsening payment discipline of customers with good credit history.

In the *corporate sector* participants highlighted that micro- and small enterprises, as well as construction companies would be affected to a higher degree, as the liquidity of these companies is usually on the edge to begin with.

There are some banks which are focusing more on providing collateralised loans to households and micro- and small enterprises in response to a depressed business environment. This trend is also supported by the new regulations on capital requirements for credit risk.

- Credit demand

According to participants, demand for *household loans* was greatly influenced by the consumption smoothing efforts of households, on account of which consumer loan demand on the whole was stagnant. The difference, however, for the various products is significant: banks active in the car loan and hire purchase loan segment reported negative tendencies, whereas in the case of personal loans and general purpose mortgage loans the market shows more positive changes relative to previous expectations. Furthermore, the decline in demand for housing loans previously forecasted did not materialise.

In the *corporate sector,* credit demand was most obvious in financing requirements for liquidity purposes, banks report declining own funds of companies and gradually worsening liquidity positions. In the first half of 2007, the previous trend of postponed investments continued, even though some banks see some signs of improvement among large and medium-sized companies from the second quarter of 2007. There are high hopes for access to EU funds, and the subsequent higher credit demand that may follow.

- Credit supply, credit rating standards, conditions

Credit supply pressure did not decline in any of the sectors during the first half of 2007. Narrowing market opportunities and aggressive competition forced market participants to introduce new products and to launch promotional campaigns. On general principle, it is apparent that the change in the willingness to lend is primarily shaped by business considerations and by the expectations of parent banks in terms of growth and profit, rather than by the government's measures.

In the *household segment,* this process is strengthened by the battle for agents, as well as by the drastic rise in re-financing arrangements. It is apparent that the deteriorating creditworthiness of certain customer segments is pushing banks to focus more on secured loans.

- Portfolio quality

The replies provided by banks differ significantly regarding the quality of *household* portfolios. Several banks did not perceive any negative shift in this respect, while others reported negative changes in their household loan portfolios, and a notable fall in payment discipline. Some banks see these changes differently for the various types of loans: in particular, they perceived an increase in the volume of qualified transactions relating to small-amount and unsecured loans.

In the *corporate* sector, opinions are strongly varied depending on the banks' portfolios, as banks reported deteriorating quality in certain segments (SME) and in certain industries.

Irrespective of the developments in portfolio quality, most participants increased or plan to increase their back testing and monitoring operations and the fine tuning of their collection operations.

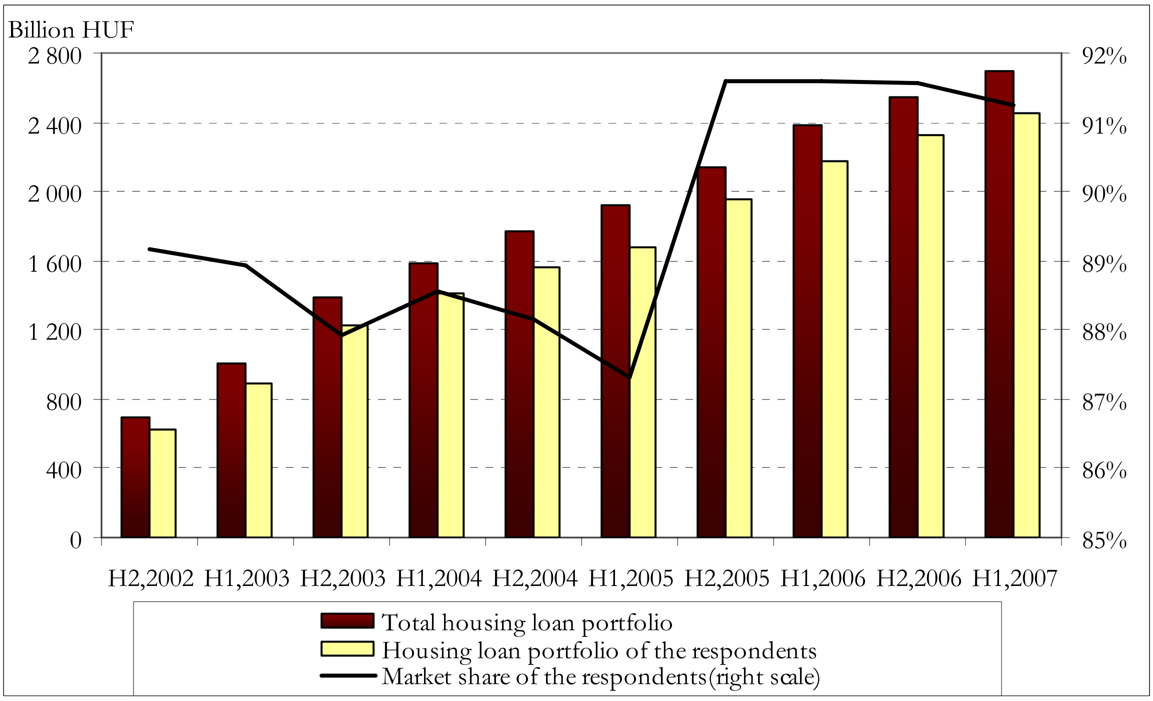
Future developments in the portfolio depend on several factors:

- in the department of product improvement, a shift took place toward products with higher risk factors;
- there are techniques to reduce transaction risk (e.g. collateral insurance, mortgage insurance, loan rescheduling);
- Tightening of creditworthiness standards/conditions is expected to isolate customers with lower creditworthiness (primarily in the corporate sector);
- monitoring and the so-called "soft collection" is typically playing a stronger role;
- more intense segmentation in the targeted customers and transactions.

CHARTS SHOWING CHANGES IN LOAN PORTFOLIOS AND REPLIES PROVIDED IN THE QUESTIONNAIRE

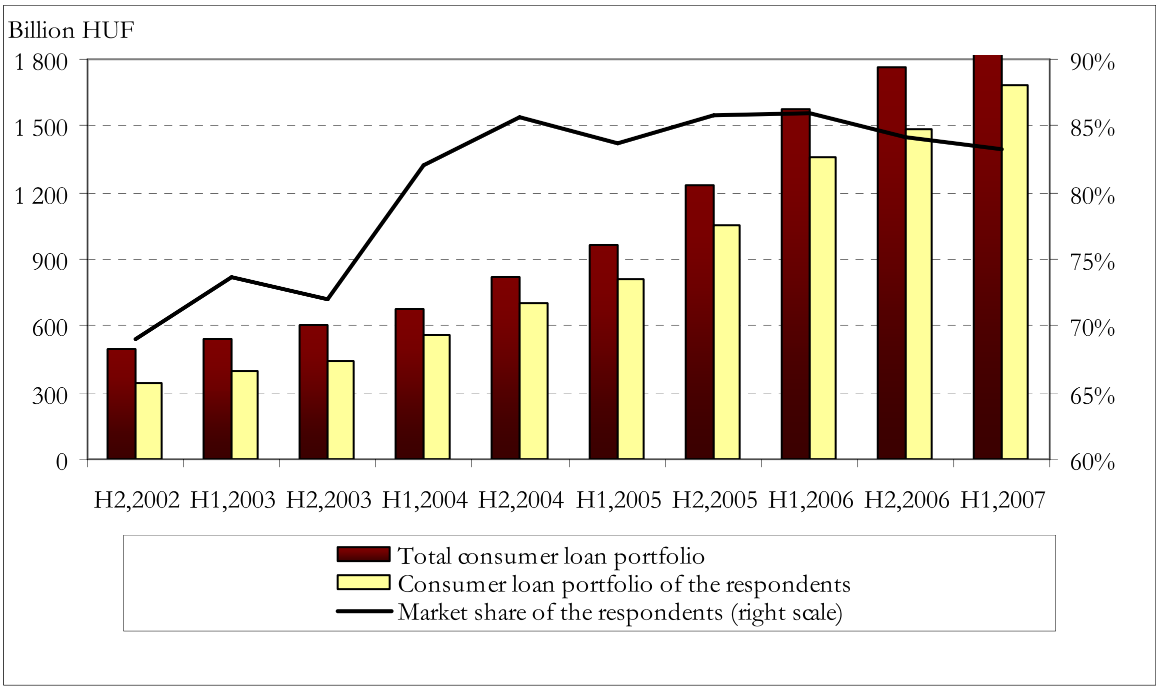
Household segment

Chart 20 Changes in housing loan portfolios and market share of the banks surveyed



Note: during the half-year periods reviewed the number and sphere of banks surveyed have changed (e.g. by merger). Since the beginning of the survey (with the exception of December 2003) we interviewed 7 banks, and this number increased to 8 after December 2005.

Chart 21 Volume of consumer loans and market share of the banks surveyed



Note: during the half-year periods reviewed the number of banks surveyed has changed. In the beginning 7 banks participated, that went up to 9 by the first half of 2004, to 10 by the end of 2004, to 11 by the end of 2006, and finally to 12 by the last survey. The chart shows the market share of the banks surveyed only, the share of financial corporations is not indicated.

Chart 22 Changes in credit conditions on the consumer loan market (Difference between banks offering looser and tighter conditions)

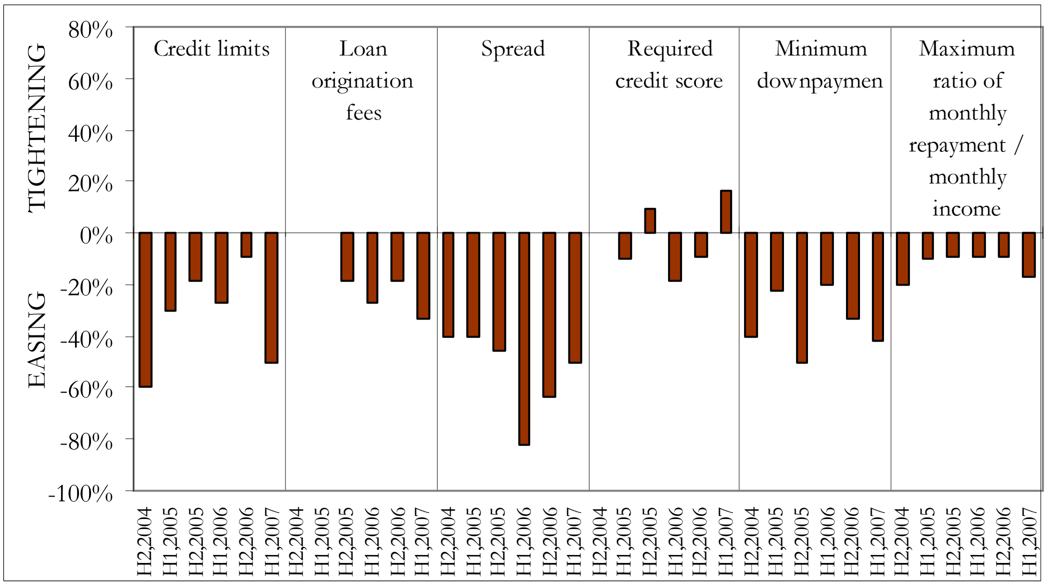
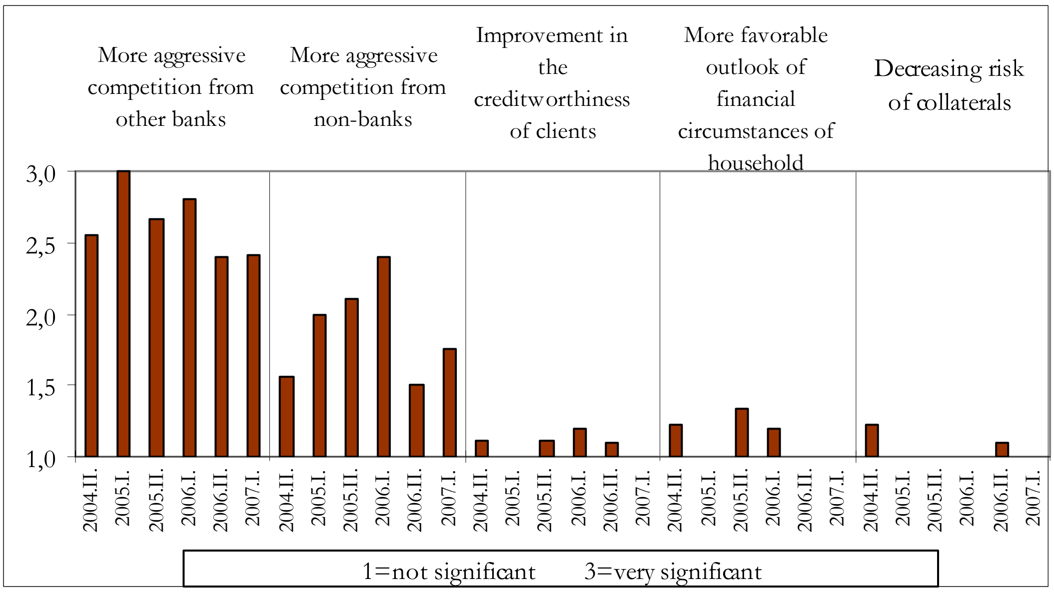


Chart 23 Reasons for introducing looser creditworthiness standards and credit conditions in connection with consumer loans



Corporate segment

Chart 24 Total volume of corporate loans and market share of the banks surveyed

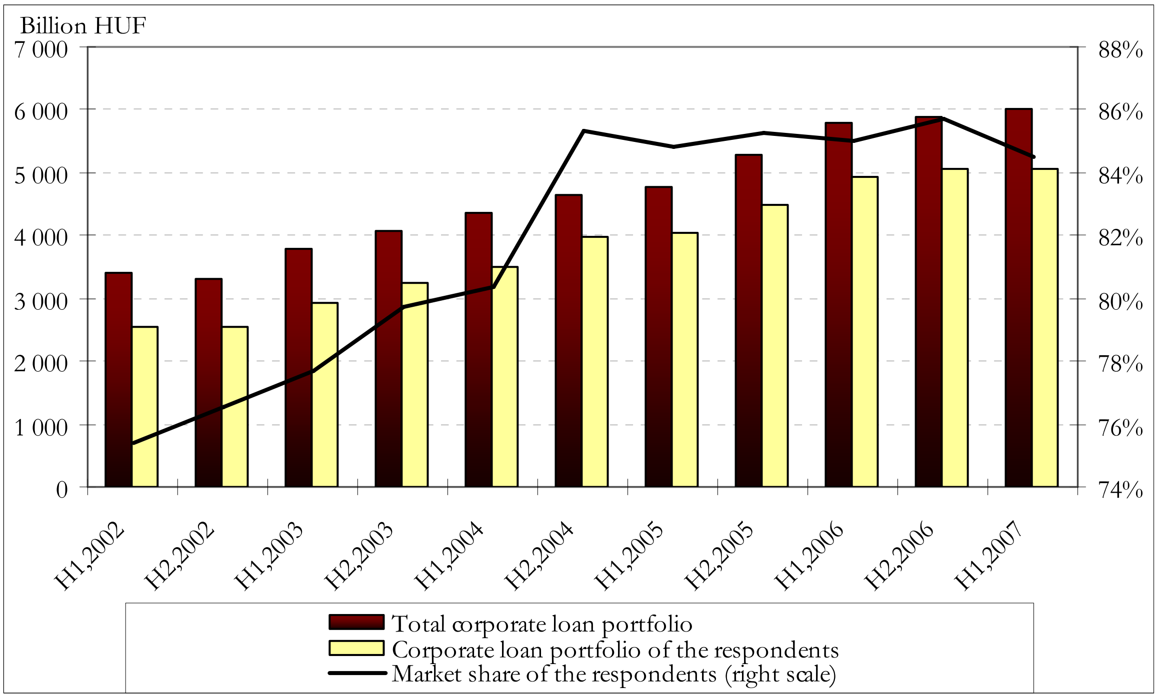


Chart 25 Volume of loans for commercial projects and share of the banks surveyed from the entire volume of loans for commercial projects

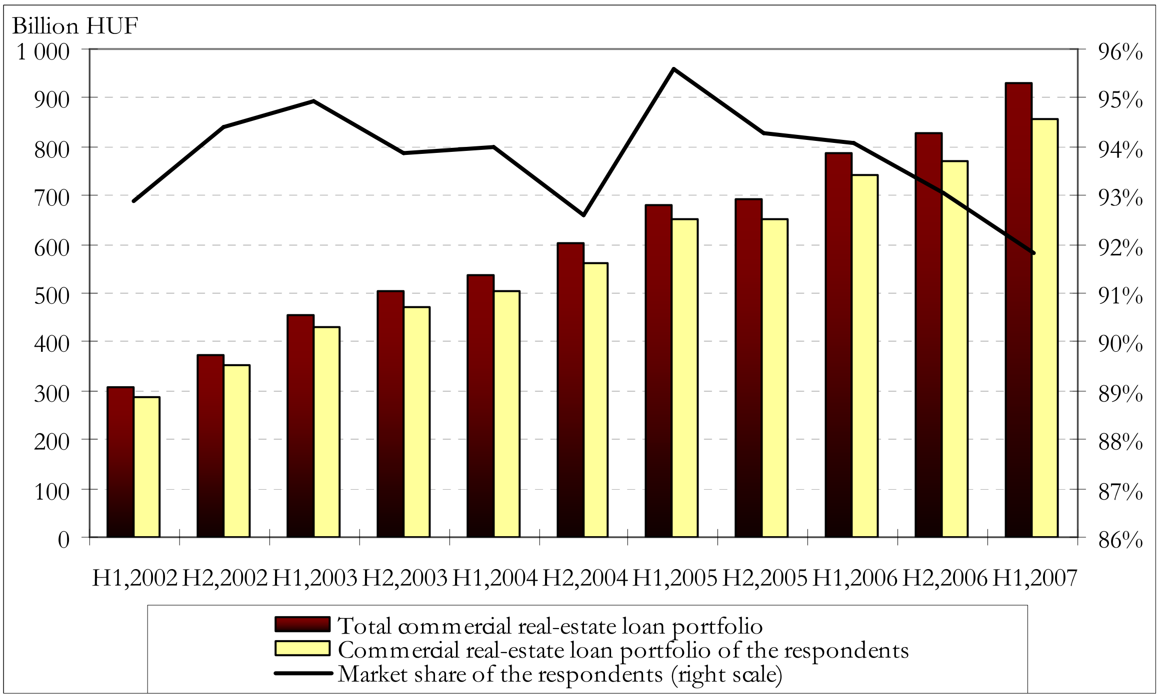


Chart 26 Changes in maximum credit/credit limit broken down according to company size (Difference between banks offering looser and tighter conditions)

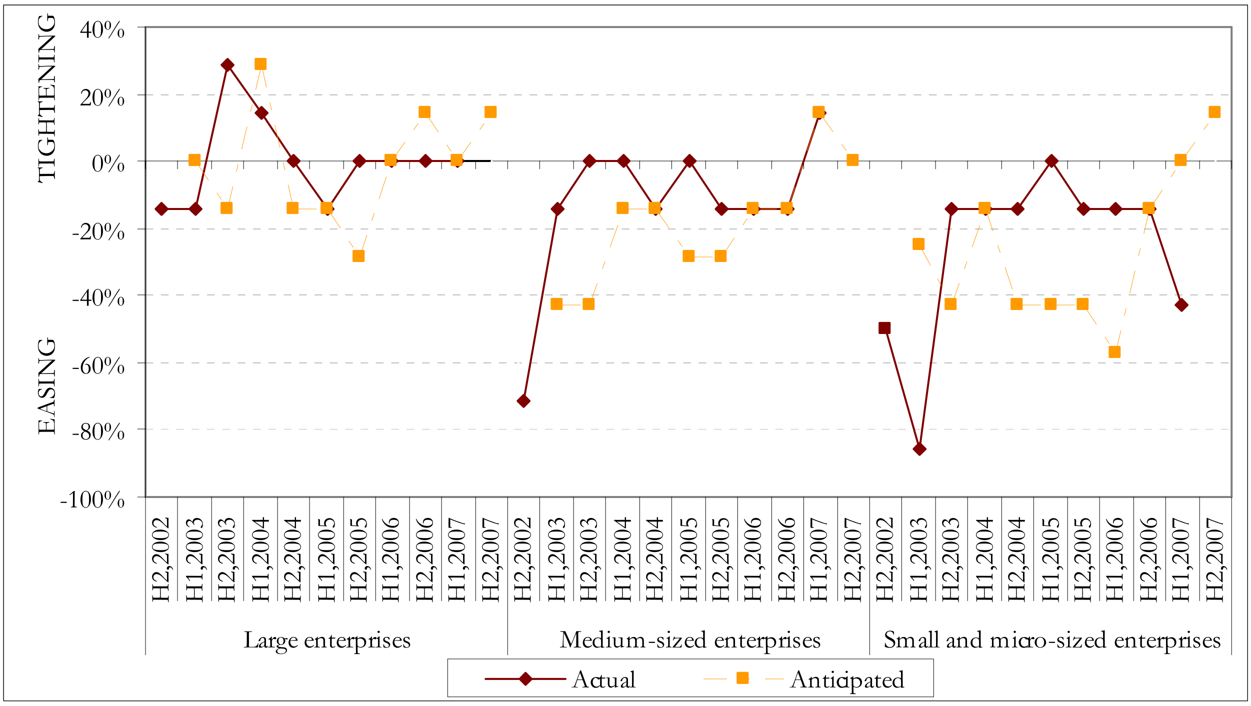


Chart 27 Changes in upfront fees of credit/credit limit broken down according to company size (Difference between banks offering looser and tighter conditions)

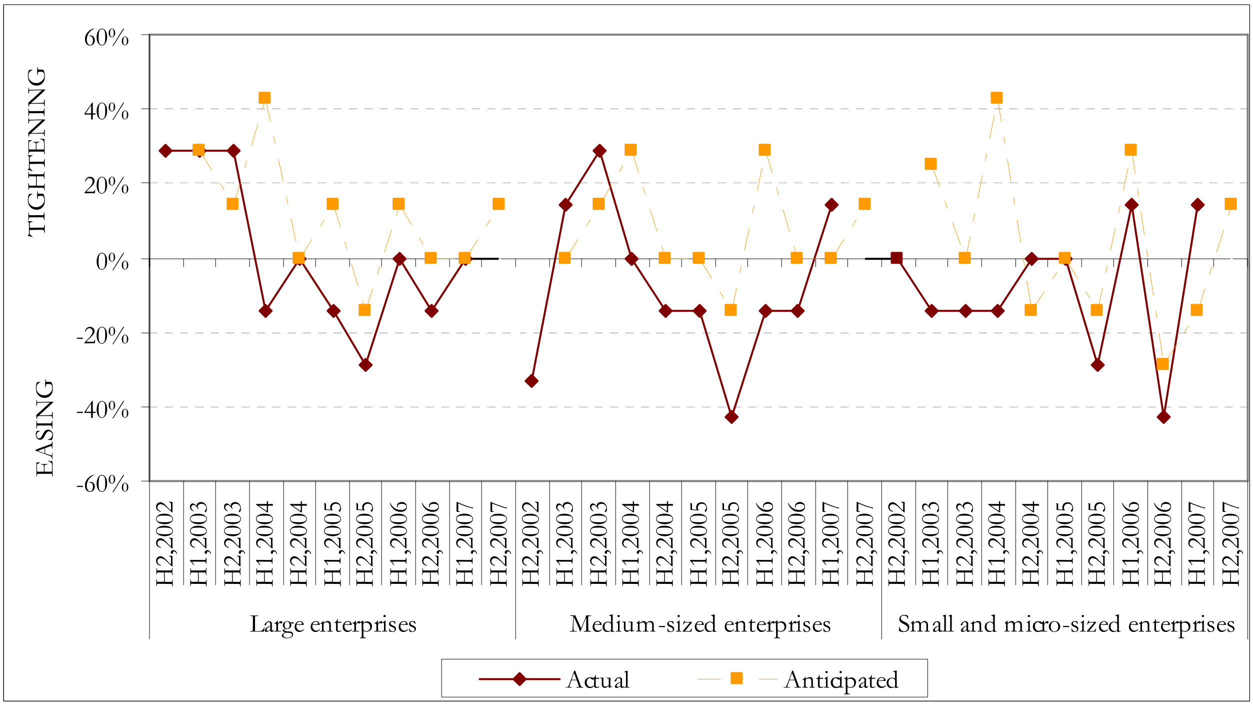


Chart 28 Changes in the spread between lending rates and costs of funds broken down according to company size (Difference between banks offering looser and tighter conditions)

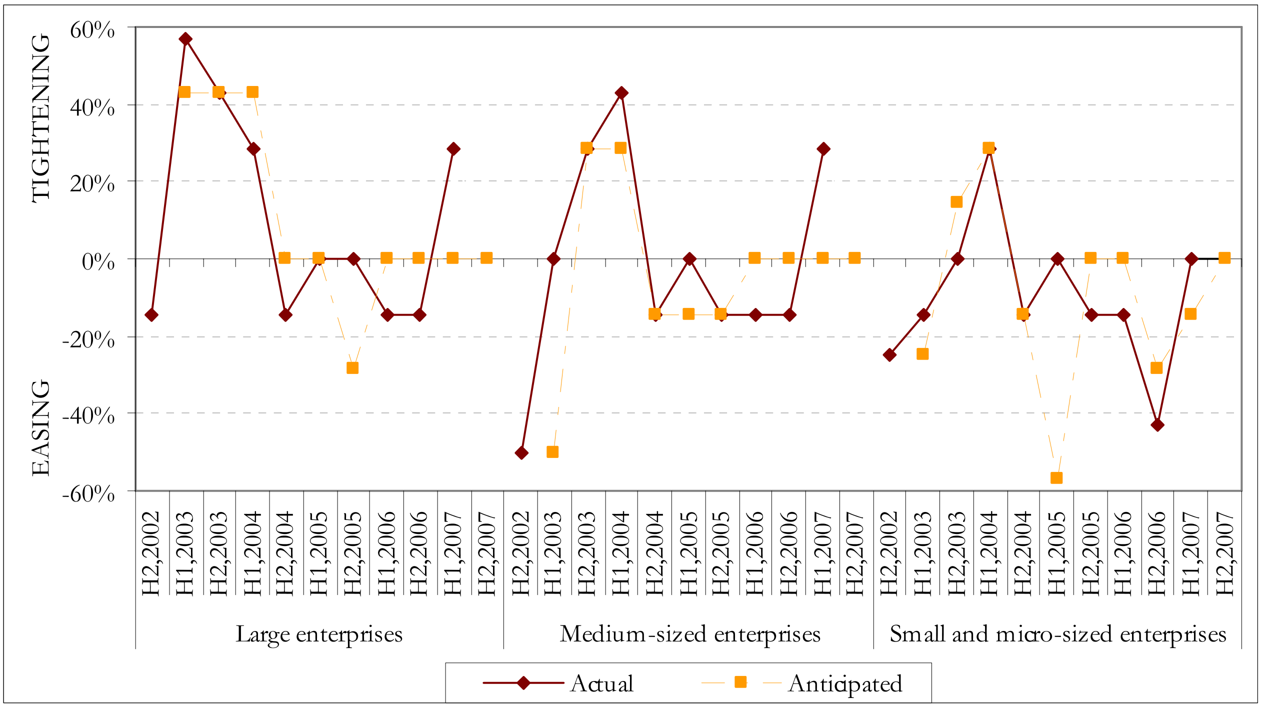


Chart 29 Changes in the premium on riskier loans broken down according to company size (Difference between banks offering looser and tighter conditions)

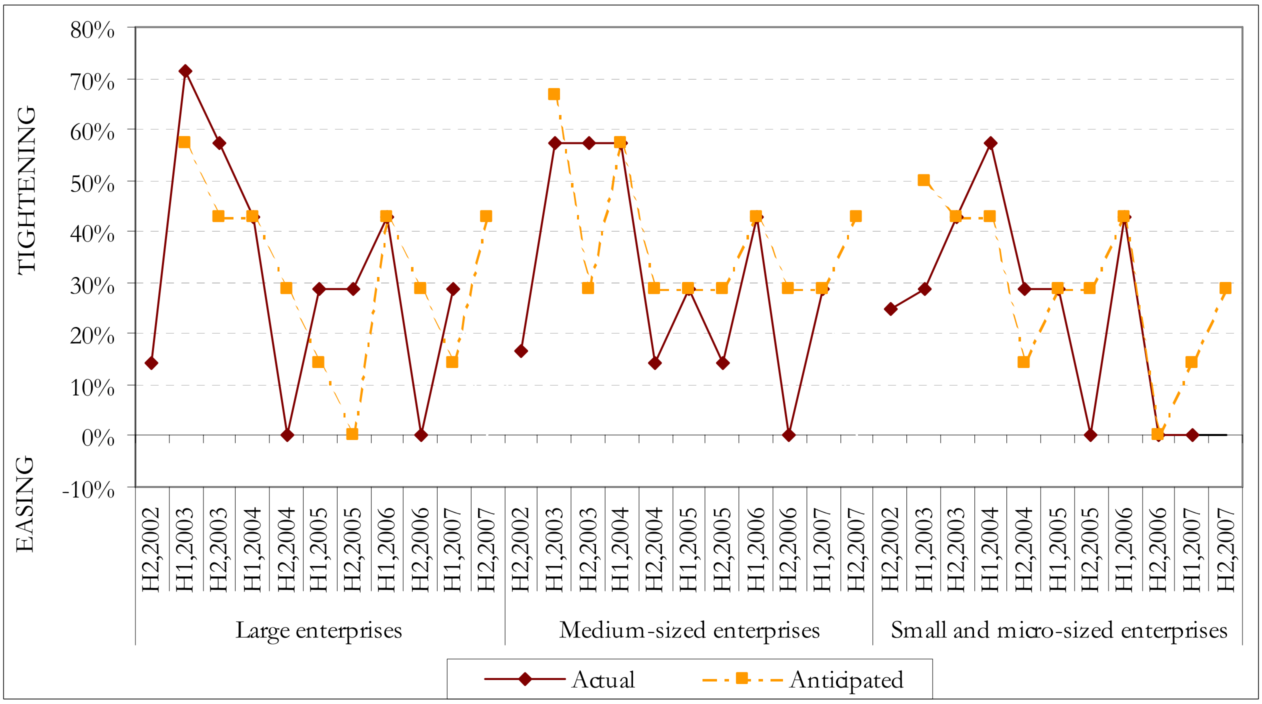


Chart 30 Changes in collateral requirements broken down according to company size (Difference between banks offering looser and tighter conditions)

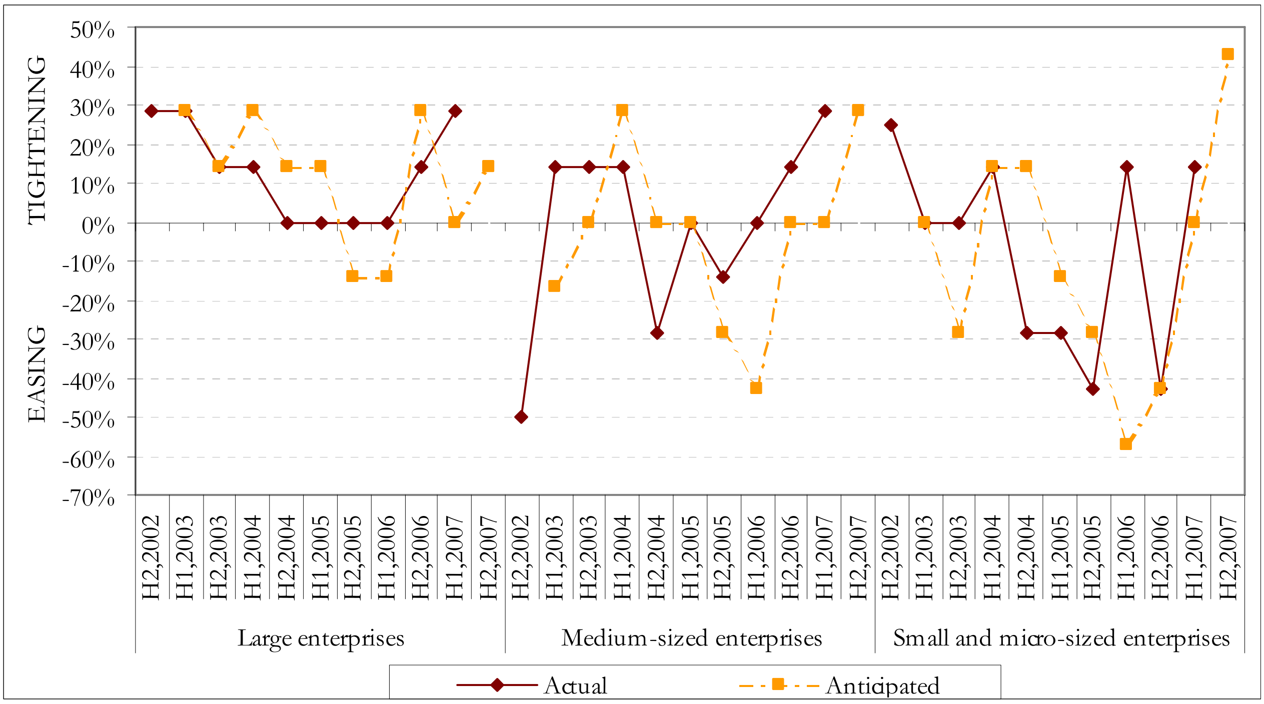


Chart 31 Changes in loan covenants demanded from debtors broken down according to company size (Difference between banks offering looser and tighter conditions)

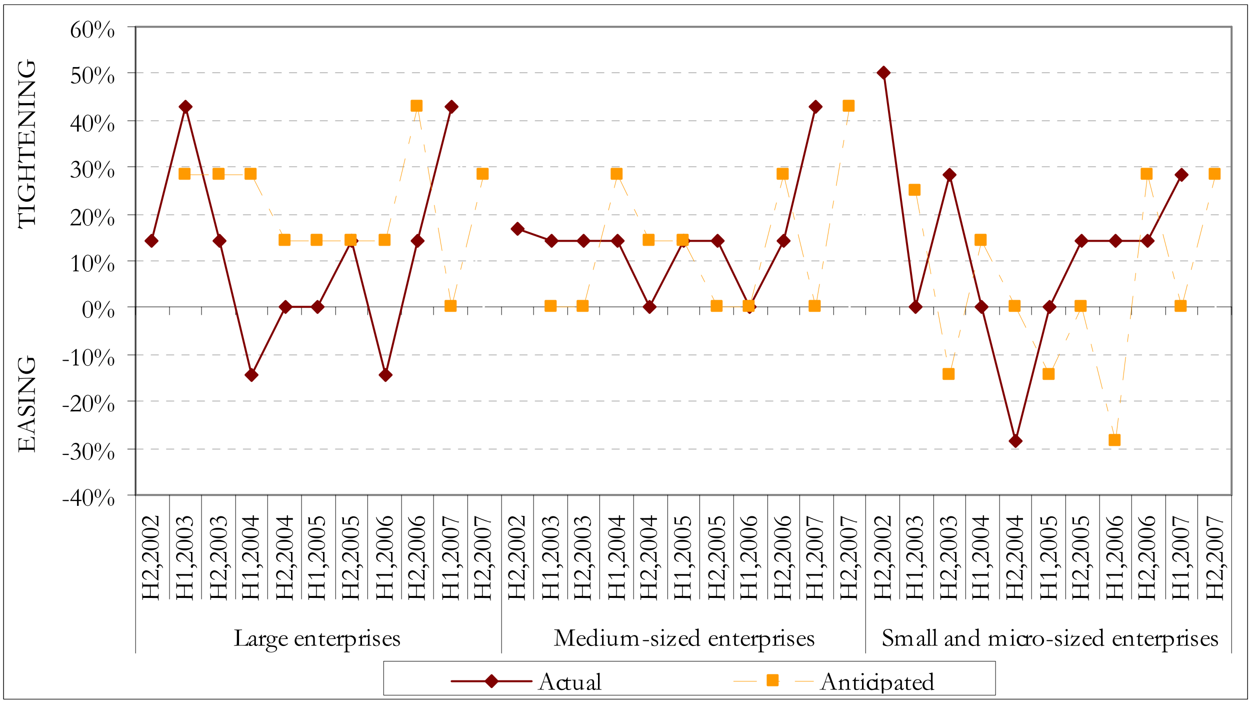


Chart 32 Changes in credit demand broken down according to company size and in the market of commercial real estate loans (Difference between banks indicating higher and lower demand)