MAGYAR NEMZETI BANK

SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

NOVEMBER 2010

Summary of the aggregate results of the survey for 2010 Q3

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The lending survey facilitates the analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Aggregating individual answers, weighted by banks' market shares, helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. In addition, for the fourth time, we also examined the developments in debt restructuring of banks. The conclusions of this analysis always present the answers provided by senior bank officers; however in certain cases additional background information might be presented so that the user could easily oversee the tendencies. The survey was conducted between 1 and 18 October 2010.

The results of the survey are presented below in the form of a descriptive analysis and by means of charts illustrating the answers. Annex 1 contains the charts pertaining to the individual segments. The methodological background is described in detail in Annex 2. Numerical data on the market shares can be found in Annex 3, and answers to the questions are presented in detail in Annexes 4, 5 and 6 (Annexes 3, 4, 5 and 6 are attached as a separate Excel file). The retrospective questions in the questionnaire relate to changes in **2010 Q3,** *while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in* **2010 Q4–2011 Q1. Questions focus on changes perceived relative to the previous three months:** *the base period is 2010 Q2 for retrospective questions and 2010 Q3 for forward-looking questions.*

In the case of the household segment, a total of 14 banks were involved in the interviews. Ten banks responded to questions related to housing loans, while 14 banks and 6 financial enterprises questions on consumer loans. With respect to housing loans, based on data from the end of 2010 Q3, the surveyed institutions accounted for 94% of the banking sector, while their percentage share in consumer loans was 93%. The corporate questionnaire was completed by seven banks, with a total market share of 82% and 94% of the corporate loan and commercial real estate loan markets, respectively. A total of 7 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2010 Q3, the institutions surveyed covered 97% of total municipal exposure by banks.

Contents

Budapest, 18 November 2010. The Magyar Nemzeti Bank has published the results of its latest lending survey, conducted in October 2010. In respect of housing loans and home equity loans within the household segment, the survey found that some banks perceived the ban on foreign currency-denominated mortgage loans as further tightening. In the corporate segment, banks are maintaining strict credit conditions, but contrary to earlier expectations they did not report further tightening of credit conditions on commercial real estate loans. Based on banks' overall expectations, there will not be any considerable changes in credit conditions in either the household or the corporate segment over the next six-month period.

As in the previous survey, in addition to lending activity, the survey once again focused particularly on the restructuring of distressed clients' outstanding loans. In 2010 Q3, the share of restructured loans (expressed as a percentage of total loans outstanding in the segment) increased from 6 to 7 per cent in the case of household mortgage loans. However, the ratio of restructured loans more than 30 days delinquent to the total restructured mortgage loan portfolio also rose from 25 to 27.5 per cent. Moreover, the same ratio for restructured loans more than 90 day delinquent (re-default) increased from 12 to 17 per cent. The acute payment problems (delinquency over 90 days) observed within the portfolio of restructured loans are closely related to the expiration of the grace period that temporarily eases debt servicing burdens. According to the respondents, the grace period has expired for only around 15 per cent of restructured mortgage loans so far and will expire for another 50 per cent within the next six months.

As regards the corporate segment, the ratio of restructured loans to total loans outstanding in the corporate and commercial real estate segments remained stagnant at around 4.4 per cent and 14 per cent, respectively. According to the banks' responses, debt restructuring has had ambiguous success: the ratio of restructured loans more than 90 days delinquent to the total restructured loans of the given segment rose from 6 to 14 per cent for large enterprises, while it decreased from 26 to 19 per cent for commercial real estate loans, and from 18 to 14 per cent in the SME segment. However, in our opinion this decrease may predominantly reflect the termination of loans and repeated debt restructuring of the loans in question, rather than clients' improving solvency.

THE ERA OF FOREIGN CURRENCY-DENOMINATED MORTGAGE LENDING HAS COME TO AN END IN THE HOUSEHOLD SEGMENT

In respect of housing loans, in net[1] terms 35 per cent of banks reported to have tightened credit conditions and 9 per cent in respect of consumer loans in 2010 Q3 (Chart 5). As for consumer loans, a net 43 per cent of banks reported having tightened their conditions on home equity loans (Chart 13). Based on the responses, these banks perceived the ban on foreign currency-denominated mortgage loans as a further tightening.[2] By contrast, in the case of forint-denominated housing loans, a net 43 per cent of banks lowered the interest rate spread for new loans (Chart 7), which resulted in the average APR of new housing loans a decrease by 0.6 per cent to 10 per cent, while money market rates remained broadly unchanged. The vast majority of banks do not expect further tightening in the mortgage loan segment over the next six months.

Turning to vehicle financing, a net 8 per cent of banks reported having tightened credit conditions in Q3. Banks do not anticipate substantial changes over the next half-year period in most segments within the consumer loan portfolio; however, a net 23 per cent of respondents indicated an intention to ease conditions – in particular, interest rates – on vehicle financing (Chart 13). Certain respondents, however, also intend to bring their current, extremely stringent terms closer to the values specified by the decree on prudent lending.

In Q3, demand for household loans fell short of banks' expectations. Indeed, in the previous survey round, a net 10 per cent of banks had expected stronger demand in Q3, but in retrospect a net 25-29 per cent of responding banks perceived a decline in demand for housing loans and consumer loans. Looking forward, banks remain optimistic: a net 40 per cent of respondents expect stronger demand in the household segment over the next half year (Chart 9).

[1] In the context of credit conditions, the net percentage is defined as the market-share weighted difference between the number of those reporting tightening and that of those reporting loosening their conditions. The net percentage does not contain the magnitude of tightening/loosening.

[2] Effective August 2010, the government prohibited entry of liens on a property in the Land Register in cases where the underlying claim resulted from foreign currency-denominated loans extended to natural persons. In effect, this put an end to foreign currency mortgage lending in Hungary. It should be noted, however, that forint-denominated loans were dominating already before the ban, owing in part to the regulation on prudent lending proposed by the MNB.

STRICT CREDIT CONDITIONS ON CORPORATE LOANS REMAIN UNCHANGED

On the whole, conditions in corporate lending remained unchanged in 2010 Q3 (Chart 20), which is in line with banks' expectations from the previous survey results. Likewise, looking forward, on the whole banks do not envisage any changes in credit conditions over the next six months either. Consequently, the strict credit conditions implemented during the 3-year tightening cycle between 2007 Q1 and 2010 Q1 are expected to remain in place. Contrary to banks' earlier expectations, there was no further tightening in the credit conditions for commercial real estate loans (Chart 20). As a result, a 4-year tightening cycle may have ended in credit conditions in commercial real estate lending.[3]

Banks cited market share goals and the improving economic outlook as factors pointing to the loosening of credit conditions (Chart 31). By contrast, following a pause in Q2, banks' renewed risk aversion[4] and (for the first time in a year) liquidity tensions also contributed to tightening, albeit the latter for only a limited group of banks (Chart 31). Additionally, it should be mentioned that – for the first time since the default of Lehman Brothers – the capital position was once again cited as a factor that may contribute to tightening over the next six months (Chart 31). On balance, the contribution of factors to the tightening or easing of credit standards broadly offset each other both in Q3 and the coming six months.

In respect of demand, the net percentage of banks which perceived a continued increase in demand for corporate loans rose from 20 to 55 per cent (Chart 32) in 2010 Q3. According to the respondents, the increase in demand again resulted from demand for short-term funds required for operations. At the same time, by the end of 2010 banks expect demand to increase for long-term corporate loans as well (Chart 33).

In a slight divergence from the developments in Hungary, the latest lending survey of the ECB[5] indicates that, a net of 4 per cent of euro-area banks further tightened their credit conditions in Q3, compared with 11 per cent in Q2. Banks continue to attribute the further tightening to distressed access to market financing and liquidity tensions which they still perceive, although to a significantly lesser extent. As a result, the tightening cycle is not expected to come to an end even in the next quarter, while demand for corporate lending is rebounding in the euro area.

GRACE PERIODS FOR NEARLY ONE HALF OF RESTRUCTURED MORTGAGE LOANS WILL EXPIRE WITHIN THE NEXT HALF YEAR

In relation to household mortgage loans, the ratio of restructured loans to the total loan portfolio of the segment continued to increase (from 6 to 7 per cent) in Q3, rising from 4.7 to 5.3 per cent for housing loans and from 9.4 to 10.5 per cent for home equity loans. By the end of 2010, banks expect these ratios to reach 6 per cent and 11.3 per cent, respectively (Chart 44). It can be seen that the restructured mortgage loan portfolio has increased gradually over the course of 2010 by around 0.7 to 1 per cent on a quarterly basis in proportion to the total mortgage loan portfolio, which – considering the substantial administrative costs and time required for mortgage loan restructuring – indicates a conscious restructuring policy. By contrast, in respect of vehicle financing, the restructured loan portfolio increased sharply from 5.3 to 7.8 per as a percentage of total vehicle financing loans outstanding (Chart 44). Although leasing enterprises and banks had previously been rather conservative in debt restructuring, this substantial increase suggests that the very strong Swiss franc in Q3 pushed them to pursue a more active restructuring policy.

Regarding the success of debt restructuring, the ratio of restructured mortgage loans over 30 days delinquent as a proportion of total restructured mortgage loans increased from 25 to 27.5 per cent, which can be attributed solely to the deterioration in housing loans (Chart 45). Moreover, the ratio of mortgage loans over 90 days delinquent (re-default) as a proportion of total restructured mortgage loans increased from 12 to 17 per cent, but this was caused by deterioration in both the housing loan and home equity loan segments (Chart 45). The deviation of the home equity loans from housing loans in the restructured loans 30+ days overdue category during the quarter under review can be attributed to the different distribution of grace

[3] According to the survey conducted by KPMG, for instance, the required pre-letting ratio (as a credit condition) is 70 per cent in Hungary, compared with the CEE regional average of 50 per cent. KPMG CEE Property Lending Barometer 2010.

[4] Moreover, this is the first quarter when the low level of – or the decline in – risk tolerance is not combined with more objective factors such as clients' creditworthiness in banks' responses.

[5] For more details, see: http://www.ecb.int/stats/money/surveys/lend/html/index.en.html.

period expirations (Chart 46), and more active repeated restructuring.[6] As regards restructured vehicle financing loans, the ratio of loans over 30 days delinquent as a proportion of total restructured loans increased from 26.5 to 32.5 per cent, while that of loans over 90 days delinquent increased from 12.5 to 14 per cent (Chart 45).

The acute payment problems (more than 90 day delinquency) observed within the portfolio of restructured loans are closely related to the expiration of the grace period (that eased the debt servicing burden), after which the original burden is restored. According to responding banks, the grace period has thus far expired for only around 14 to 16 per cent of restructured mortgage loans (home equity and housing loans) (thus for many debtors even the continuous payment of the easier repayment burdens during the grace period can be a problem). In comparison, another 18 to 20 per cent will expire in Q4 alone, while the grace period will expire for half of the outstanding restructured mortgage loans over the next six months (Chart 46). The success of debt restructuring mainly depends on the pace and extent of the recovery from recession. In case of a protracted recovery, clients' creditworthiness can improve only slowly, and therefore they may encounter difficulties in paying the original (higher) monthly instalments.

BANKS HAVE NO ALTERNATIVE BUT TO PURSUE A MORE ACTIVE DEBT RESTRUCTURING POLICY IN THE CASE OF COMMERCIAL REAL ESTATE LOANS

In 2010 Q3, the share of restructured loans (i.e. the ratio of the restructured loan portfolio to the total loan portfolio of the segment) remained stagnant at around 4.4 per cent for corporate loans and around 14 per cent for commercial real estate loans (Chart 47). For the next quarter banks envisage a significant increase in the restructured portfolio of commercial real estate loans, but they do not anticipate changes in the corporate segment.

In the corporate segment, following debt restructuring, the ratio of restructured loans more than 30 days delinquent to the total restructured loans of the segment rose from 6 to 11 per cent for large enterprises, while it decreased from 26 to 19 per cent for commercial real estate loans, and from 18 to 14 per cent in the SME segment (Chart 48). The same ratio for loans over 90 days delinquent rose from 2 to 7.5 per cent for large enterprises and decreased from 11 to 7 per cent in the SME segment. At the same time, for commercial real estate loans this ratio increased (from 5.5 to 8 per cent), as opposed to the decline registered for the ratio of loans over 30 days delinquent (Chart 48).

In our opinion, the decrease in delinquent restructured loans may mainly reflect the termination of loans, as it is highly implausible that there was an en masse improvement in the solvency of clients with payments more than 90 days overdue, or that banks repeatedly restructured their loans. In the case of commercial real estate loans, it can be observed that there is high volatility over quarters in the ratio of restructured loans with more than 30 days delinquency to total restructured loans, which can be explained by the fact that banks have no alternative but to pursue a more active debt restructuring policy in the case of commercial real estate loans. The reason for this is that the commercial real estate sector is highly procyclical by nature (Box 1) and that a significant portion of the total loan portfolio is composed of bullet loans (principal redemption at the end of the term), a preferred method in debt restructuring as well.[7]

[6] In the previous survey round banks expressed that they are inclined to restructure distressed restructured loans again.
http://english.mnb.hu/Penzugyi_stabilitas/publications/hitelezesi_felmeres/mnben_hitelezesi_felmeres_201008.

[7] The survey for 2010 Q2 described in detail the restructuring methods applied in corporate segments.
http://english.mnb.hu/Penzugyi_stabilitas/publications/hitelezesi_felmeres/mnben_hitelezesi_felmeres_201005.

Box 1: Famine after feast: the construction boom and bust

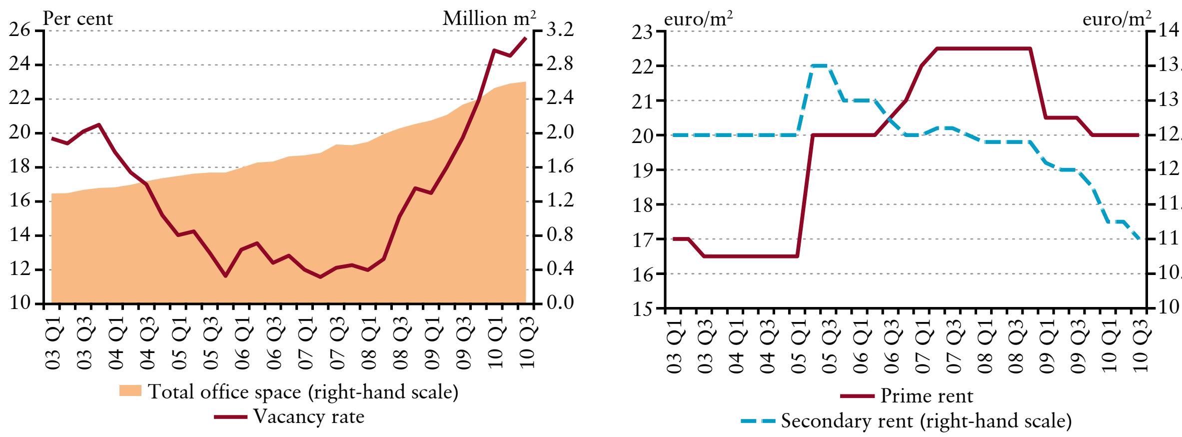
It is a well-known fact that commercial real estate projects are pro-cyclical. In an asset price bubble preceding a financial crisis, an increasing number of highly ambitious projects are launched, only to be completed either during or after the crisis. Rather symbolically, the historically highest buildings have often been completed only after a crisis: such was the case with the Empire State Building in 1931, the Petronas Tower in Kuala Lumpur in 1998 or, more recently, the Burj Khalifa in Dubai in 2010.

The crisis was preceded by a massive construction wave in Hungary as well. The office building segment (accounting for 60 per cent of the commercial real estate bank loan portfolio) should be highlighted in this regard: since 2003 the office space to rent has doubled (from 1.298 million to 2.580 million square metres), while the exposure of the banking sector surged from HUF 200 billion to HUF 1,100 billion. During the recession that followed in the wake of the crisis, demand for office buildings fell sharply. As a result, more than 25 per cent of the total office space was vacant in the third quarter (Chart 1); moreover, another 5 per cent is currently under construction. These construction projects in progress, as well as the buildings completed during the crisis (accounting for additional 20 per cent of the total office space) pose the biggest problems for banks.

Consequently, quarter after quarter banks have reported that their office portfolio has deteriorated and broadly expect the same even over the next half year, while at the same time they uniformly reported that portfolio deterioration in other commercial real estate segments had come to a halt (Chart 39). Owing to the extremely adverse conditions in the real estate market, and because of massive loan sizes, banks are forced to maintain their loan portfolio by debt restructuring and by providing bridge loans rather than realising losses en masse. This is reflected in banks' active restructuring policies and in their assumption that the restructured loan portfolio will amount to one fifth of the total loan portfolio by the end of this year.

Chart 1

The vacancy rate, office space and rents at the Budapest office market



Source: CB Richard Ellis.

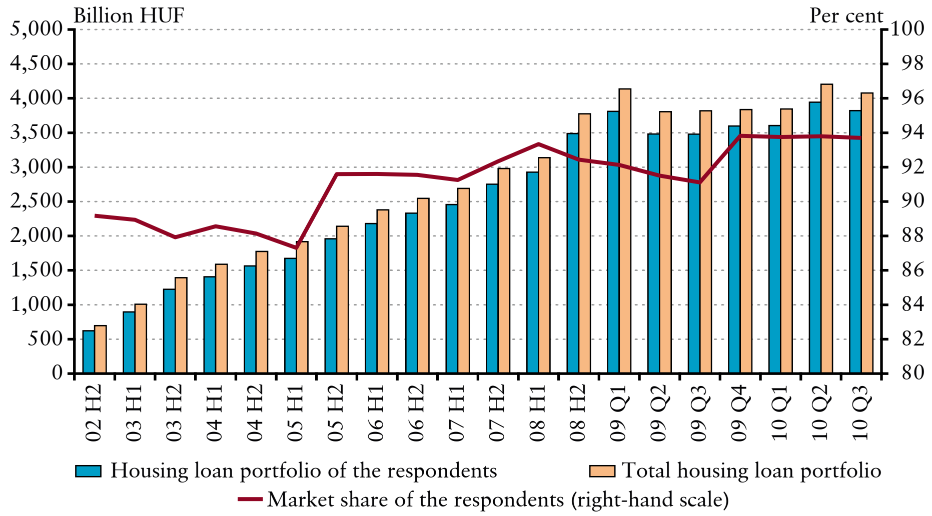
Note: The data do not contain the so-called „built-to-suit" owned buildings.

Annex 1: Charts on developments in loan portfolios and answers to the questionnaire

LENDING TO HOUSEHOLDS

Chart 2

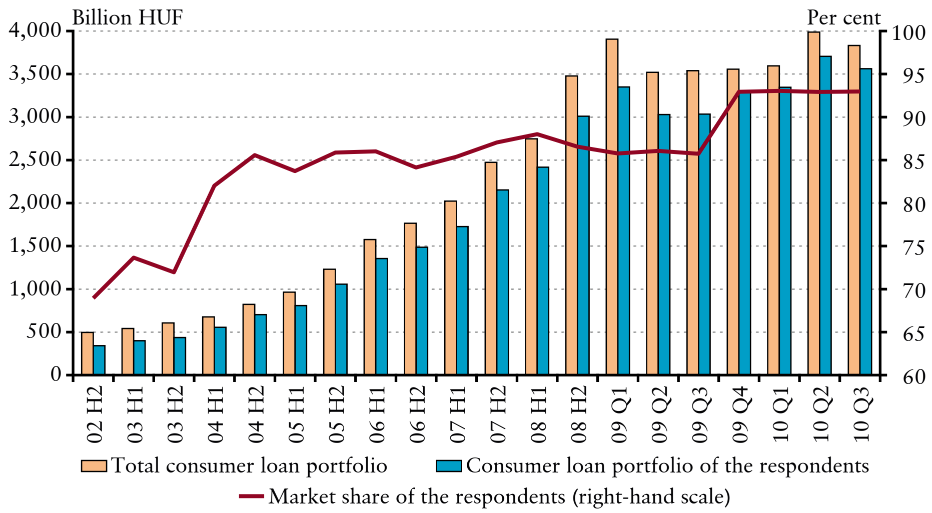
Outstanding amount of housing loans and the market share of banks completing the questionnaire



Note: The number and scope of banks varied during the half-year periods under review (e.g. as a result of mergers and the inclusion of new banks). From 2009, stock data also include those for credit institutions and branches.

Chart 3

Outstanding amount of consumer loans and the market share of banks completing the questionnaire



Note: The number and scope of banks varied during the half-year periods under review. Chart 5 only plots market shares of the banks surveyed; it does not plot market shares of financial enterprises. From 2009, stock data also include those for credit institutions and branches.

Chart 4

Willingness of banks to extend housing loans and consumer loans

(net percentage balance of respondents reporting increased/decreased willingness to lend weighted by market share)

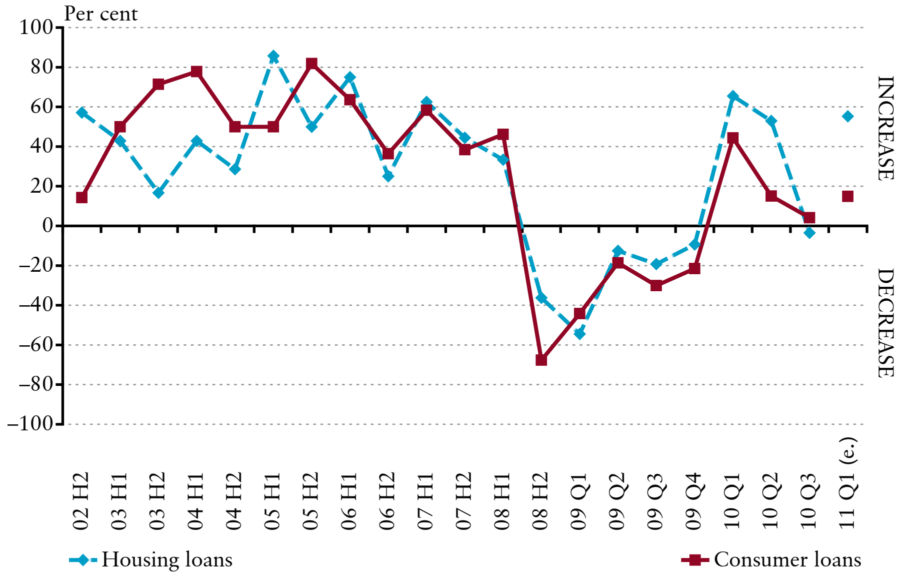
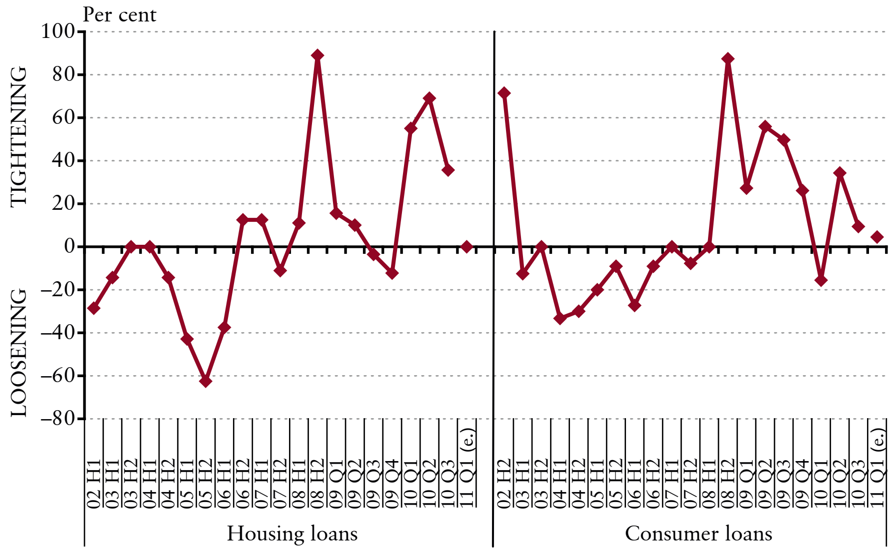


Chart 5

Credit conditions/Credit standards in the housing loan and consumer loan markets

(net percentage balance of respondents tightening/easing credit standards weighted by market share)

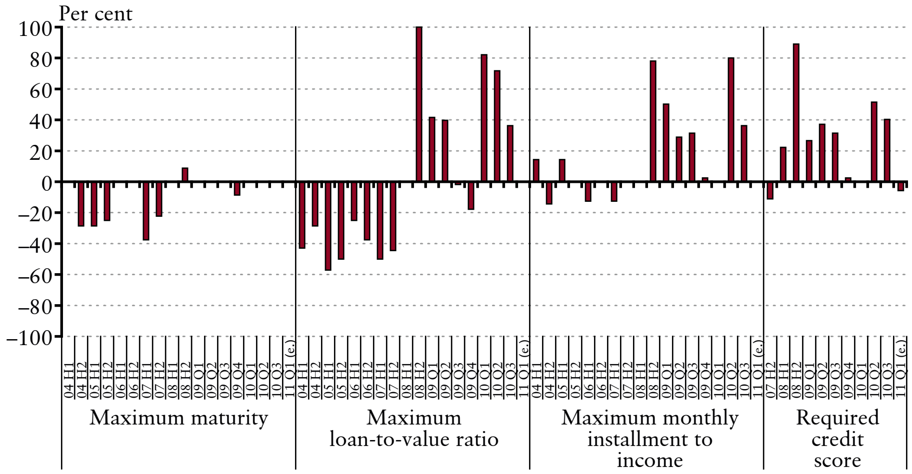


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 6

Credit conditions in the housing loan market – non-price conditions

(net percentage balance of respondents tightening/easing credit conditions weighted by market share, positive value refers to tightening)

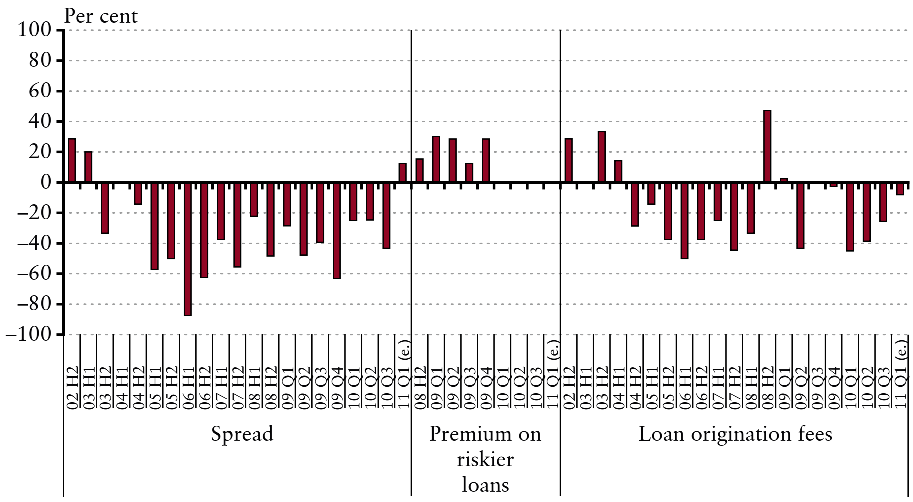


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 7

Credit conditions in the housing loan market – price conditions

(net percentage balance of respondents tightening/easing credit conditions weighted by market share, positive value refers to tightening)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 8

Factors contributing to changes in credit standards and credit conditions in the case of housing loans

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

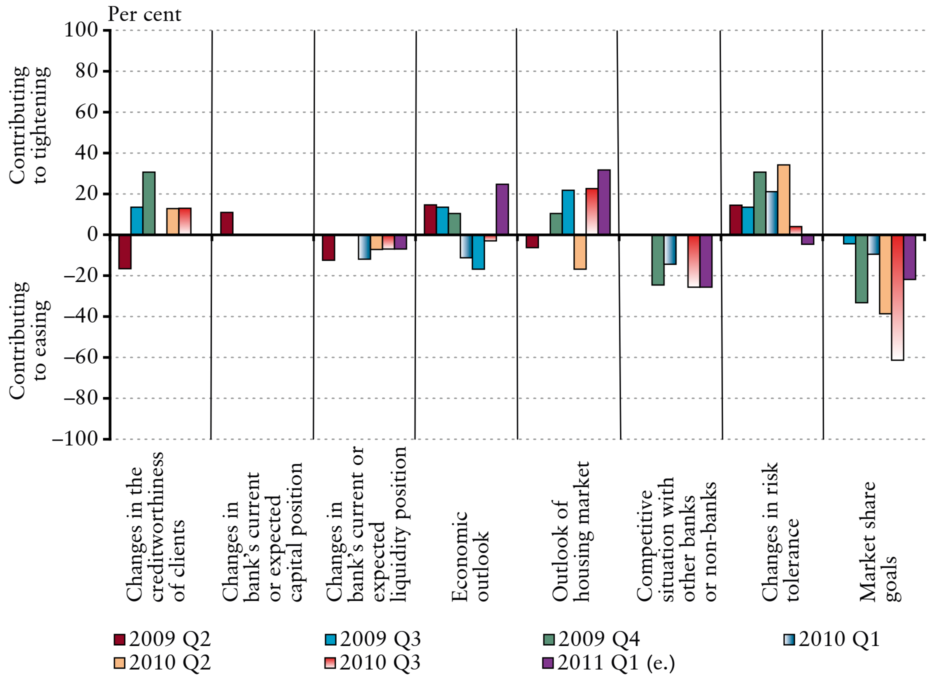


Chart 9

Demand for housing loans

(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

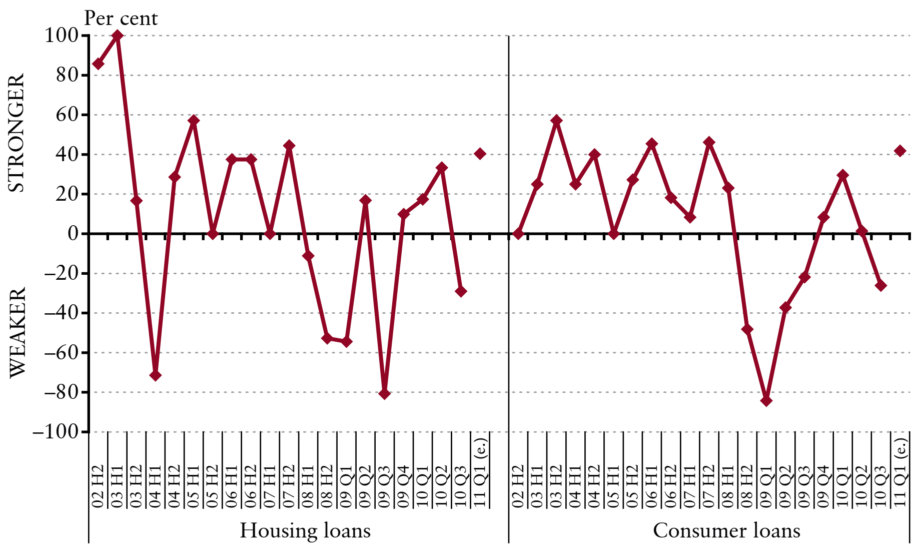
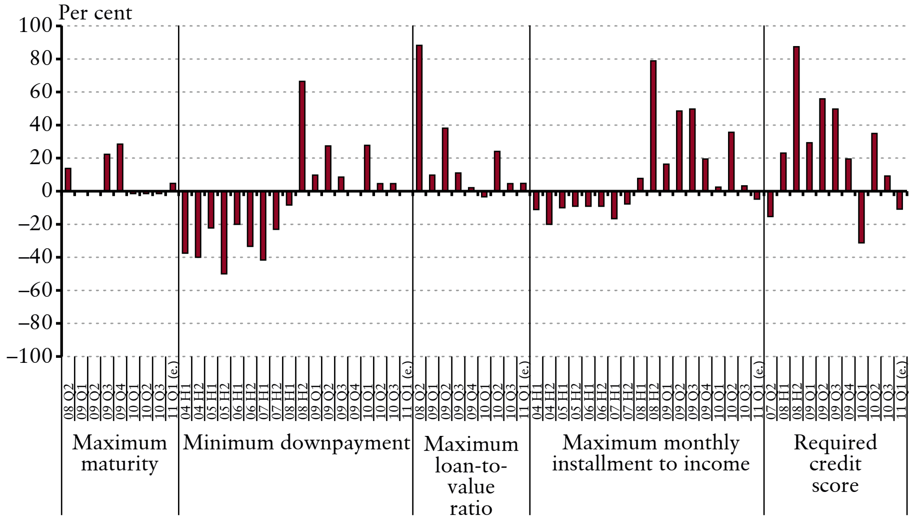


Chart 10

Credit conditions in the consumer loan market – non-price conditions

(net percentage balance of respondents tightening/easing credit conditions weighted by market share, positive value refers to tightening)

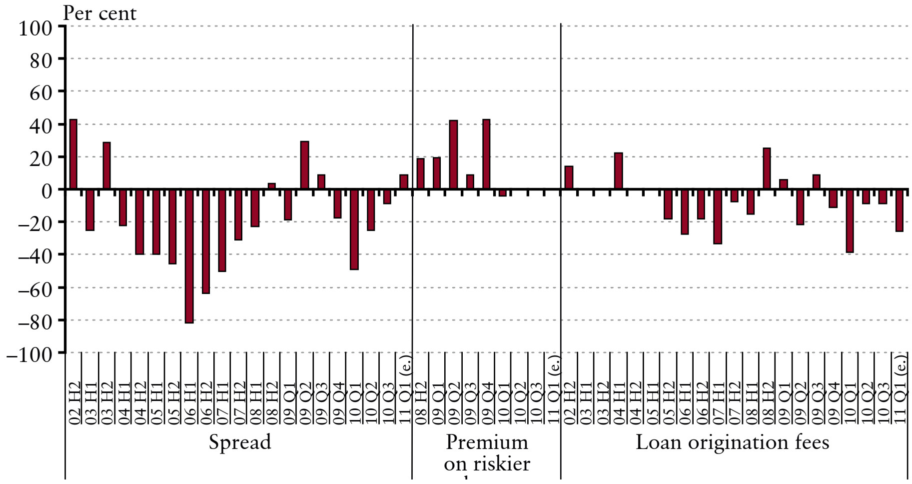


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 11

Credit conditions in the consumer loan market – price conditions

(net percentage balance of respondents tightening/easing credit conditions weighted by market share, positive value refers to tightening)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 12

Factors contributing to changes in credit standards and credit conditions in the case of consumer loans

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

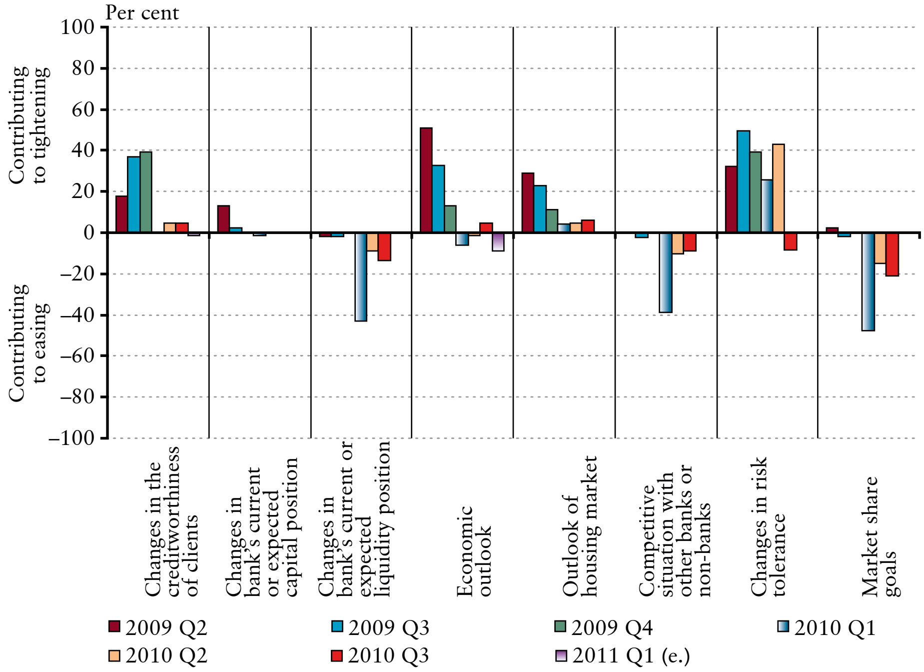


Chart 13

Willingness to lend and credit standards/credit conditions for different consumer loan products

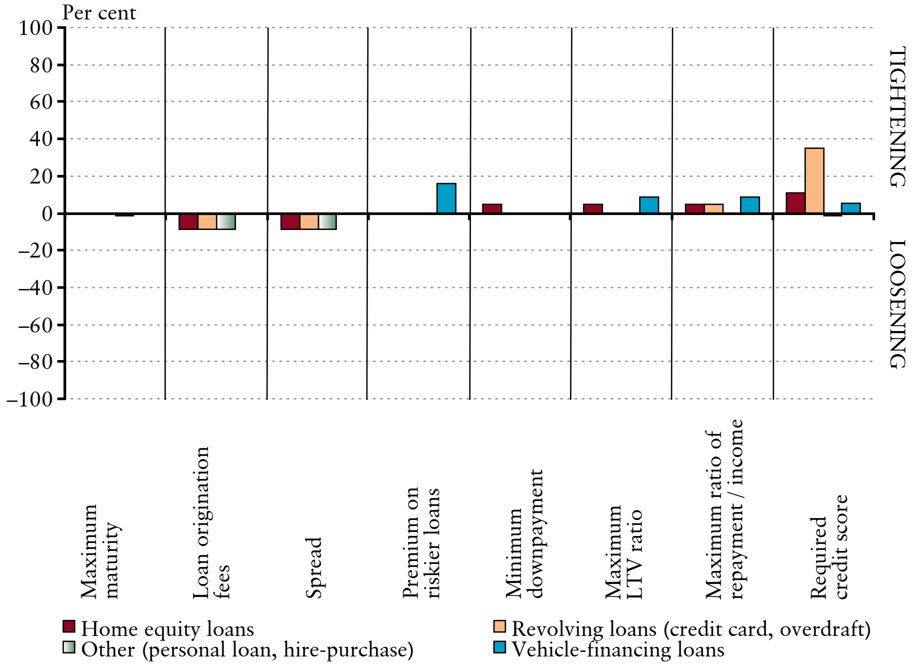
(net percentage balance of respondents weighted by market share)

Note: The magnitude of tightening/easing is not shown in the chart.

Chart 14

Credit conditions for different consumer loan products (2010 Q3)

(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 15

Demand for different consumer loan products

(net percentage balance of banks reporting increase or decrease weighted by market share)

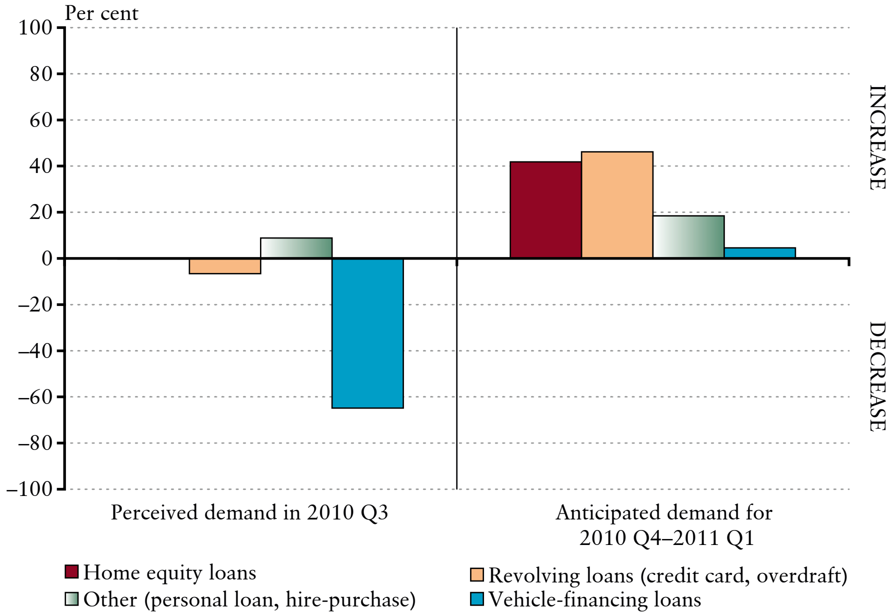
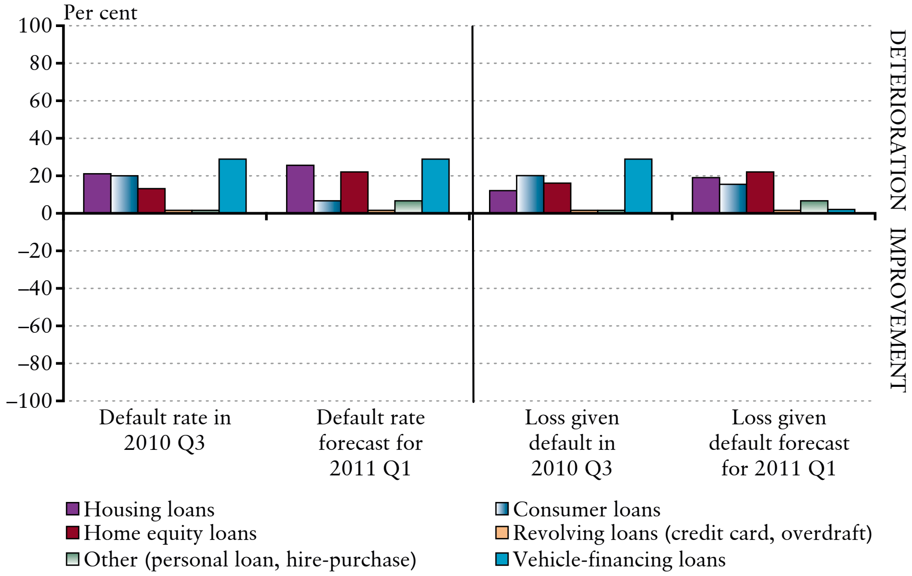


Chart 16

Default rate of loans to households and loss given default

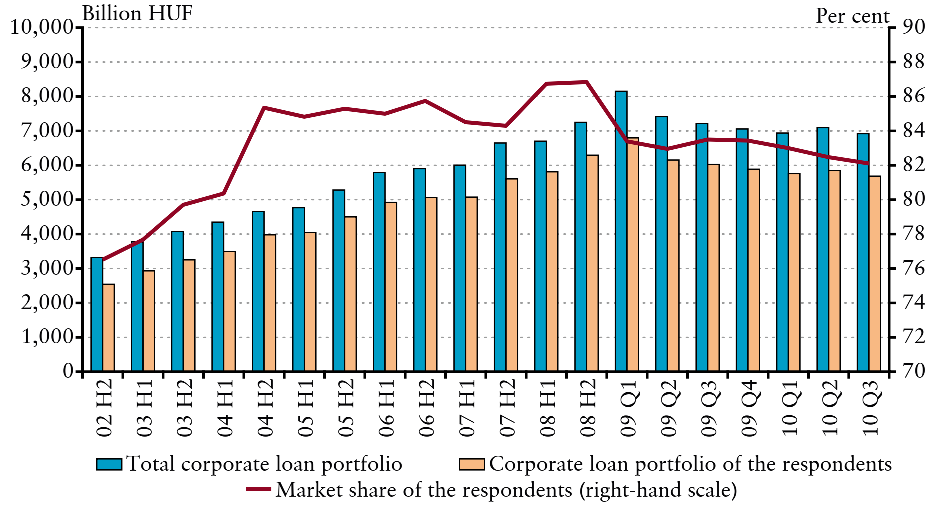
(net percentage balance of banks reporting increase or decrease weighted by market share)



LENDING TO THE CORPORATE SECTOR

Chart 17

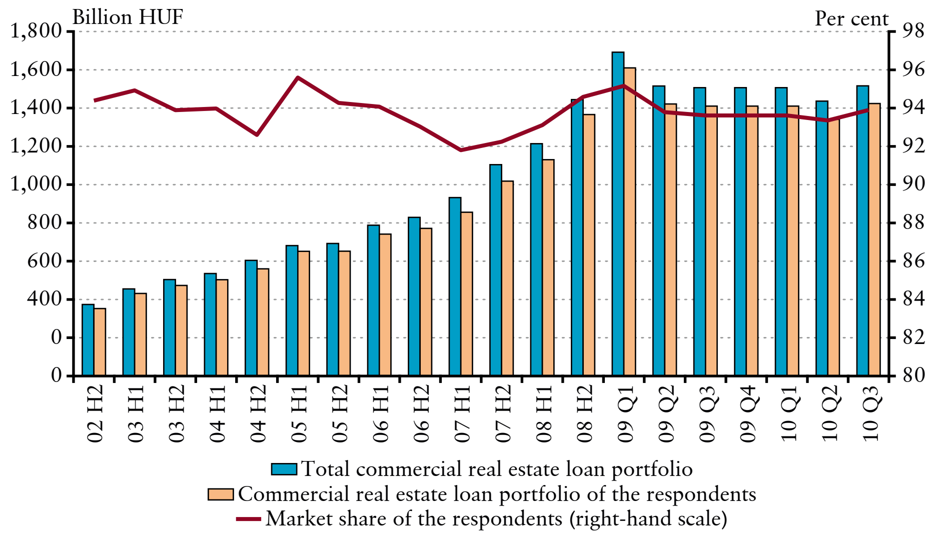
Total corporate loan portfolio and market share of the banks completing the corporate questionnaire



Note: From 2009, stock data also include those for credit institutions and branches.

Chart 18

Volume of commercial real estate loans and share of responding banks in the total real estate loan portfolio



Note: From 2009, stock data also include those for credit institutions and branches.

Chart 19

Willingness of banks to extend corporate loans

(net percentage balance of respondents reporting increased/decreased willingness to lend weighted by market share)

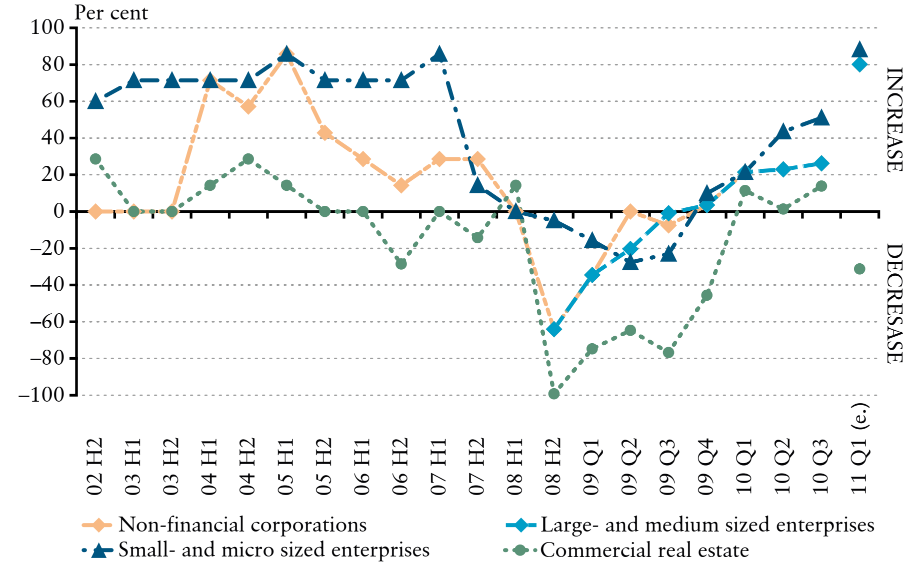
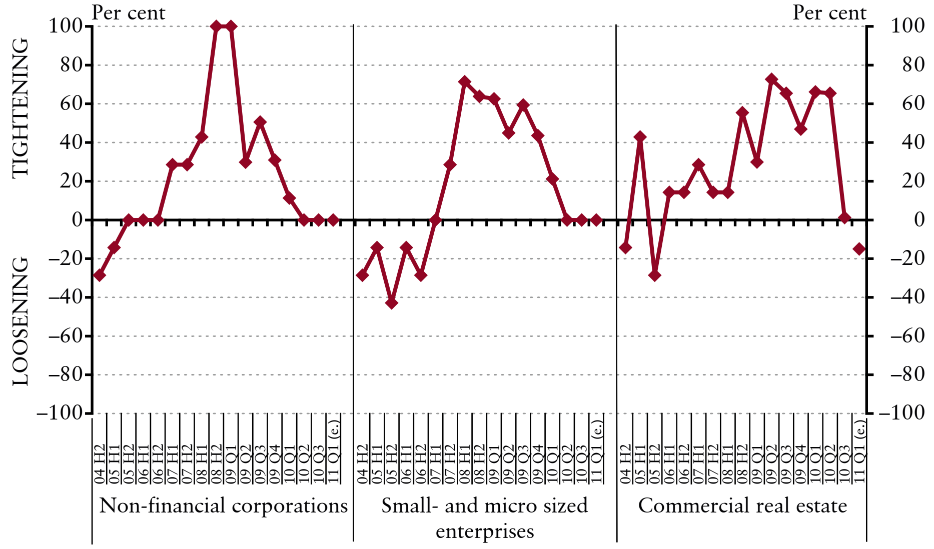


Chart 20

Credit conditions and credit standards by corporate category and for commercial real estate loans

(net percentage balance of respondents reporting tightening/easing weighted by market share)

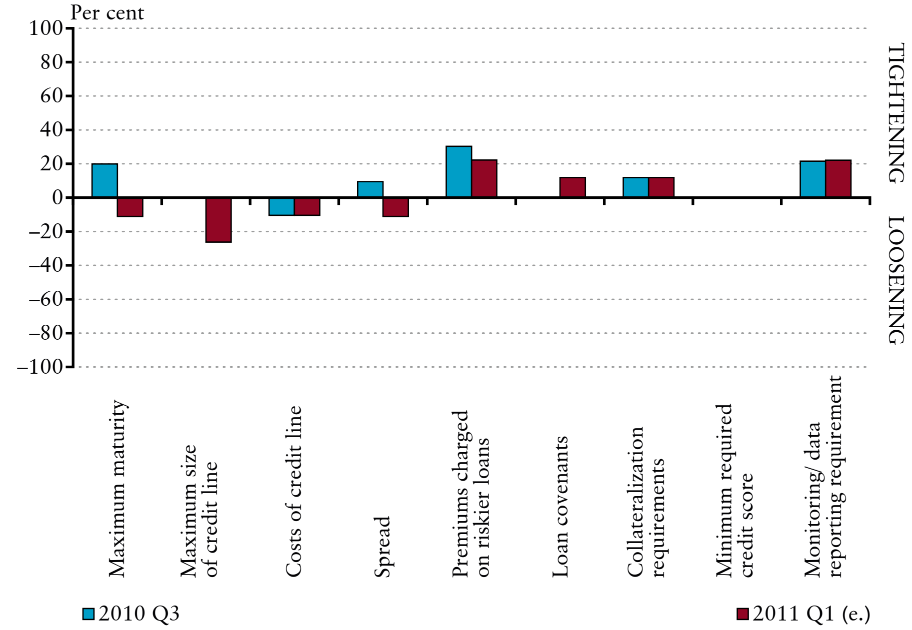


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 21

Credit conditions in the corporate segment

(net percentage balance of respondents reporting tightening/easing weighted by market share)

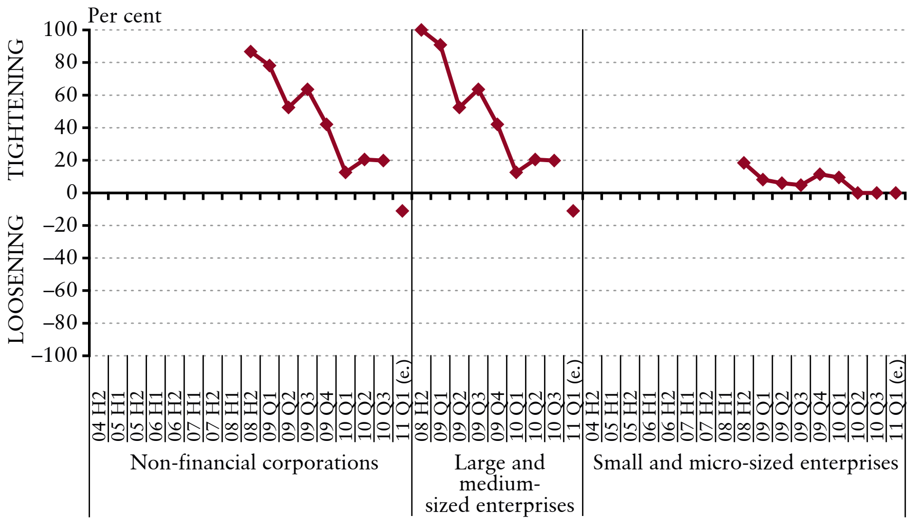


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 22

Maximum maturities by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

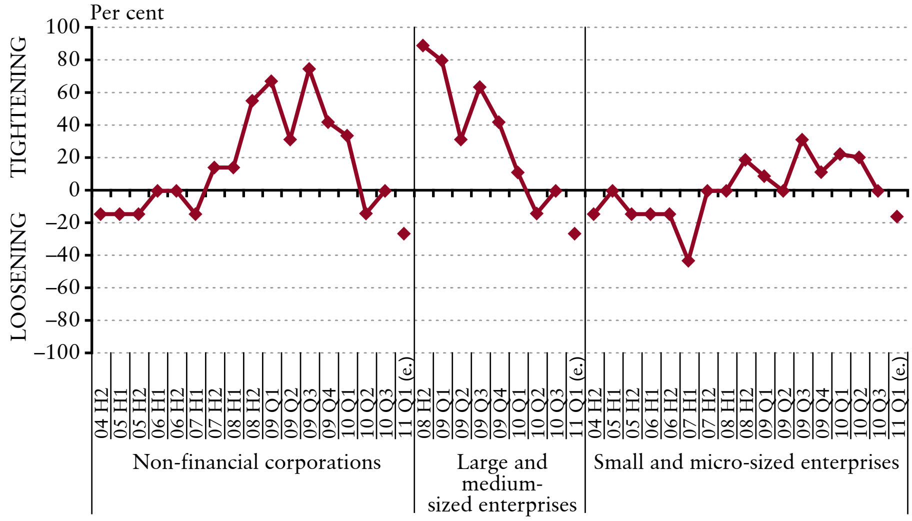


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 23

Maximum size of loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

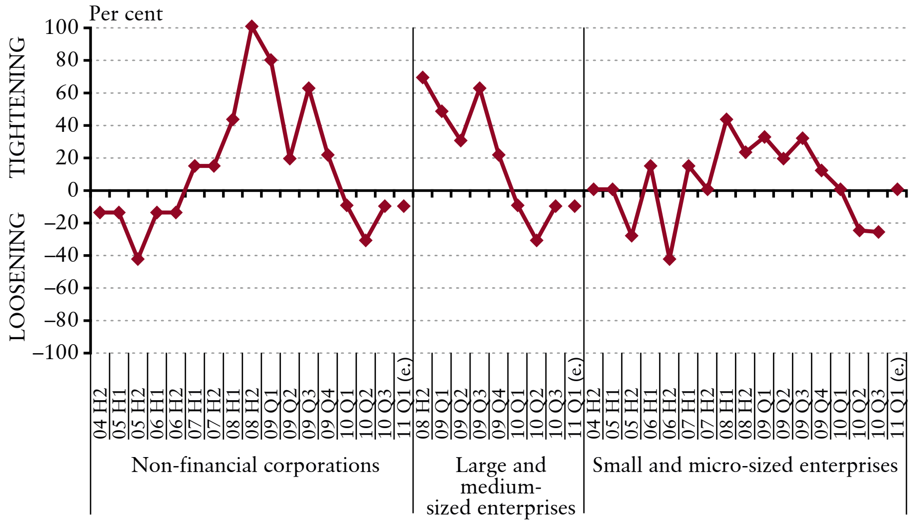


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 24

Fee(s) charged for extending loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

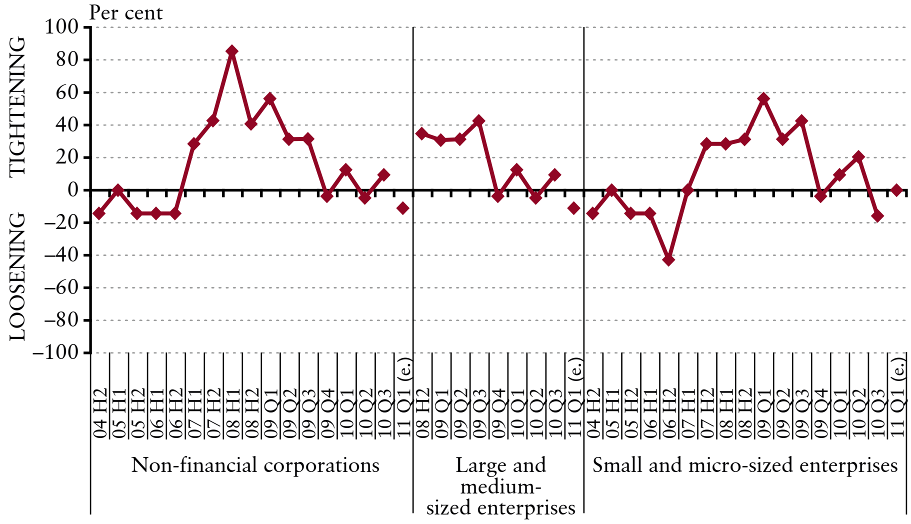


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 25

Interest rate spread on cost of funds by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

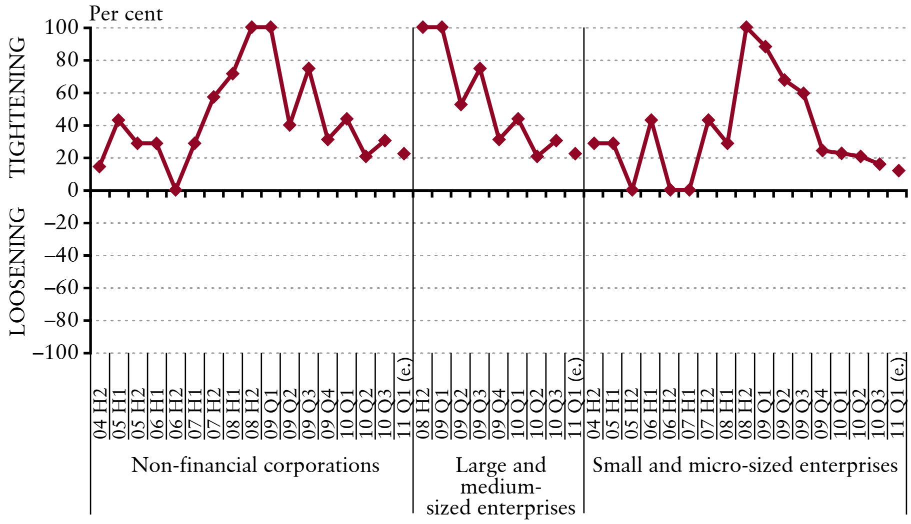


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 26

Premium on higher risk loans by corporate sector

(net percentage balance of respondents reporting tightening/easing weighted by market share)

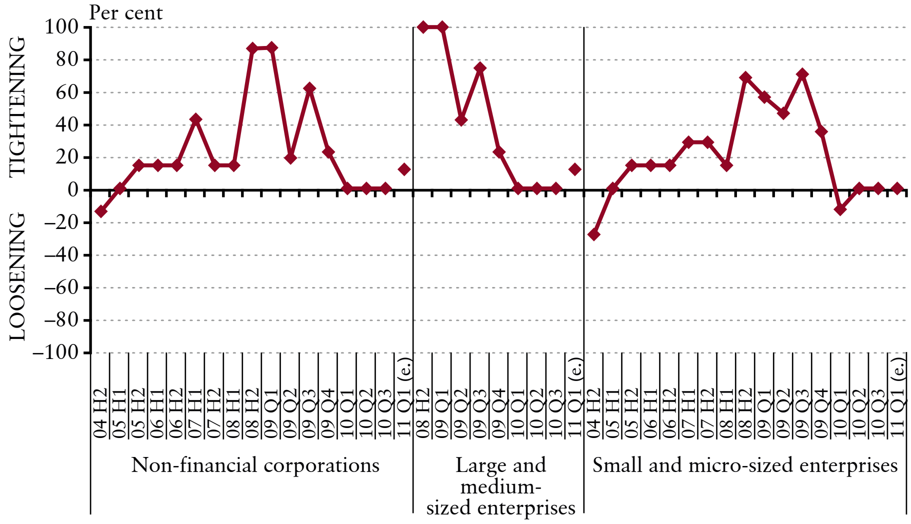


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 27

Covenant requirements by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

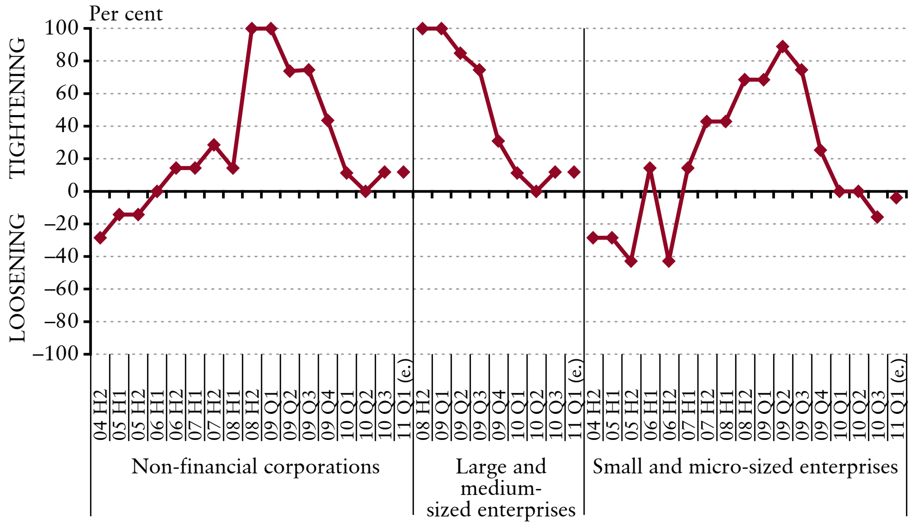


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 28

Collateralisation requirements by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

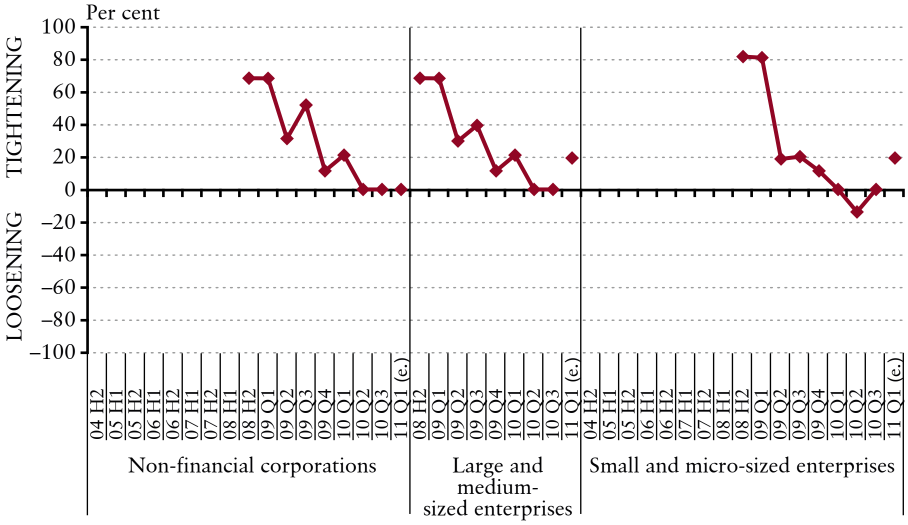


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 29

Minimum required credit score by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)

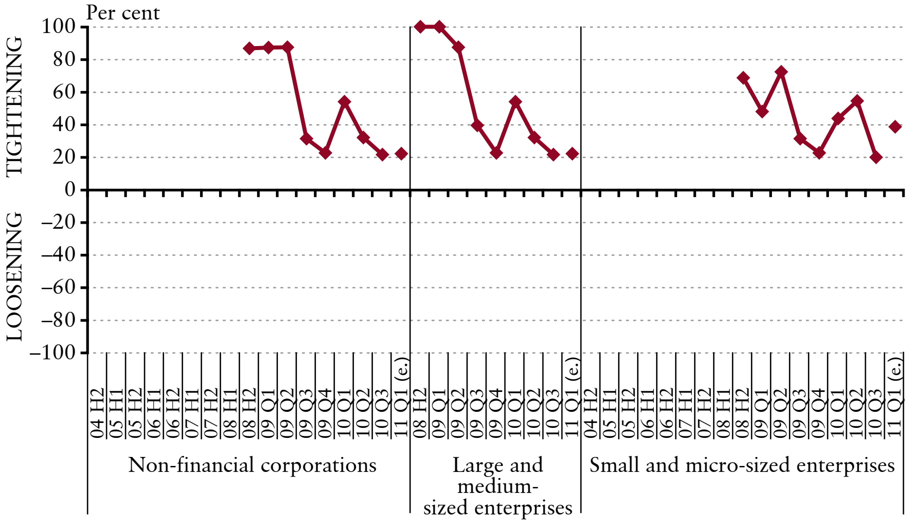


Note: The magnitude of tightening/easing is not shown in the chart.

Chart 30

Monitoring/reporting requirements by corporate category

(net percentage balance of respondents reporting tightening/easing weighted by market share)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 31

Factors contributing to changes in credit standards and conditions on corporate loans

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

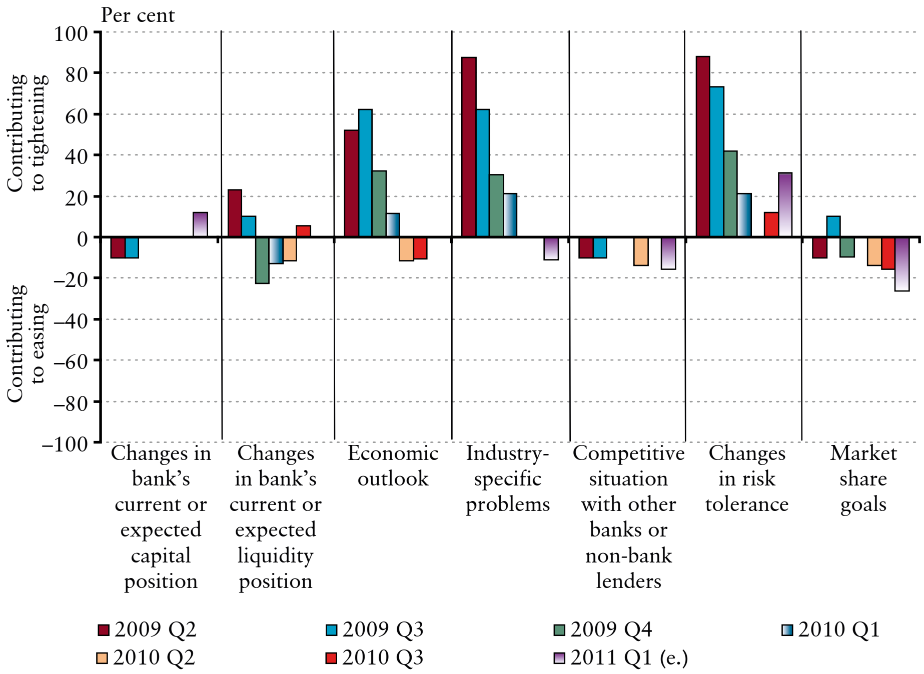


Chart 32

Demand for loans by corporate category

(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

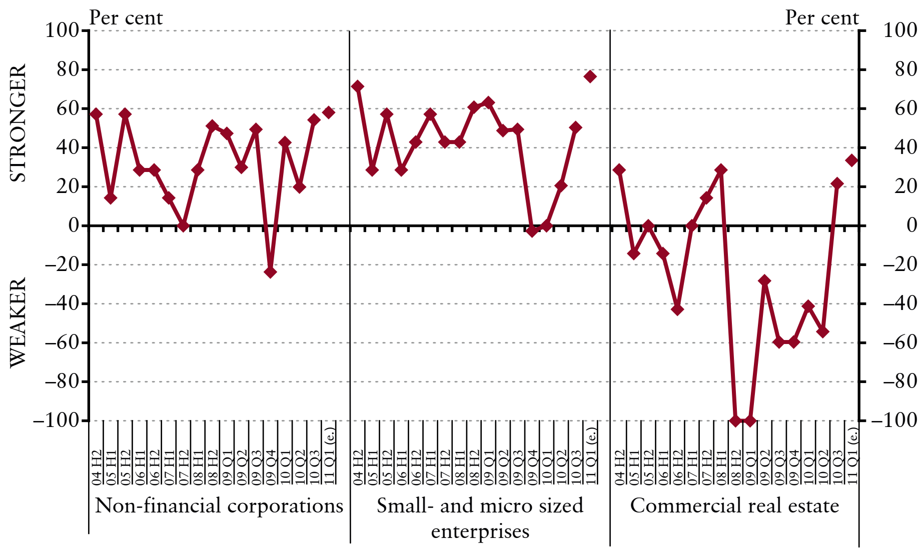


Chart 33

Demand for loans by maturity

(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

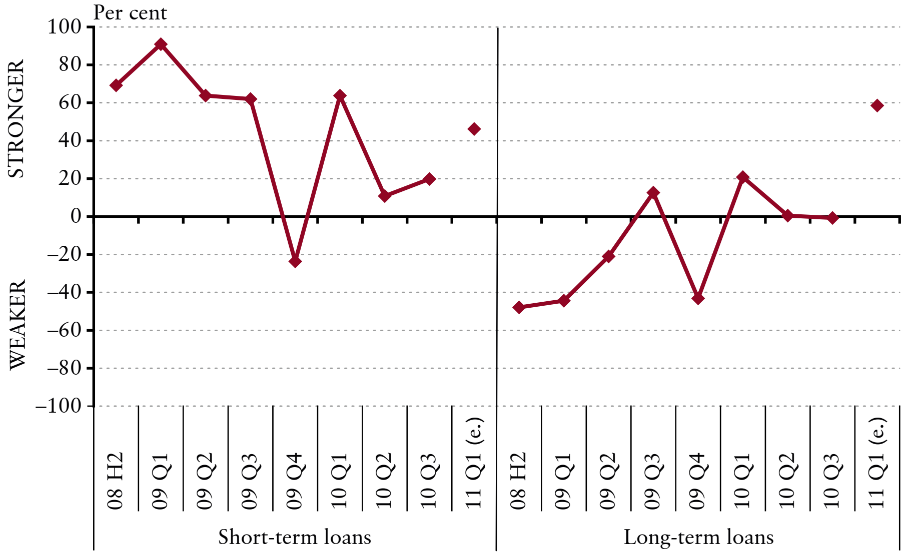


Chart 34

Factors contributing to corporations'demand for loans based on banks'perceptions

(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

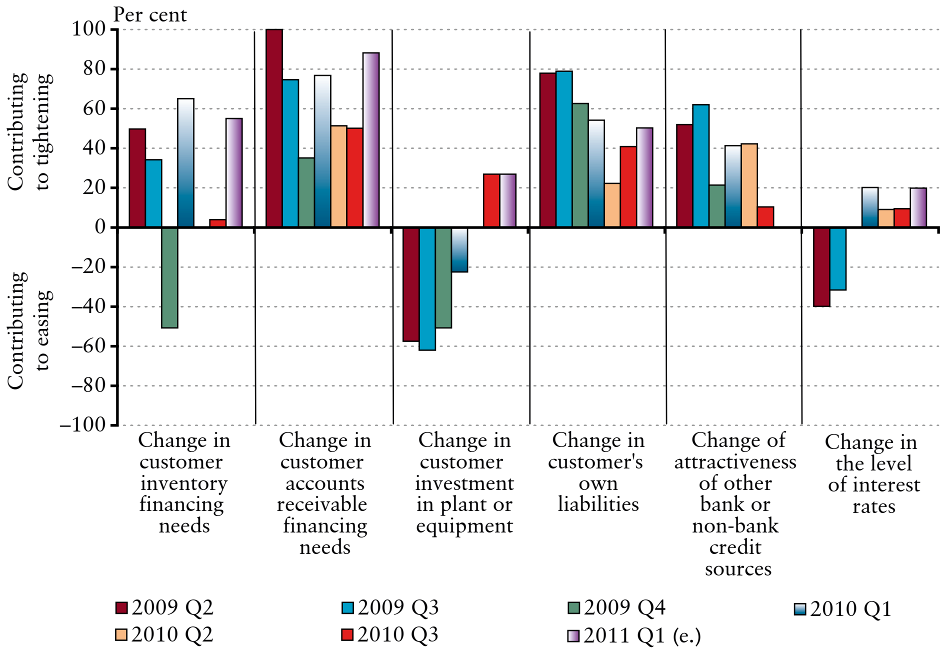


Chart 35

Changes in loan portfolio quality by sector

(net percentage balance of respondents reporting improvement/deterioration weighted by market share)

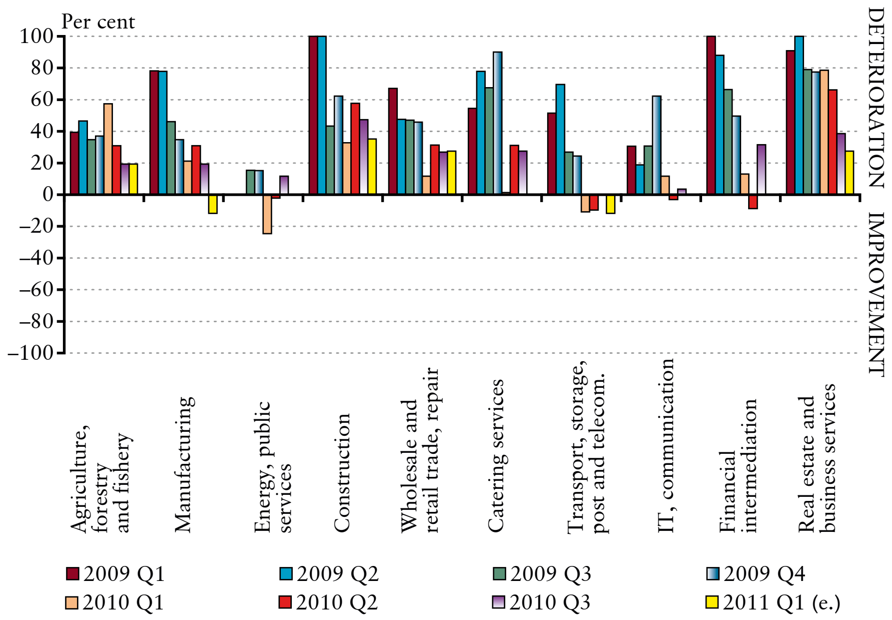
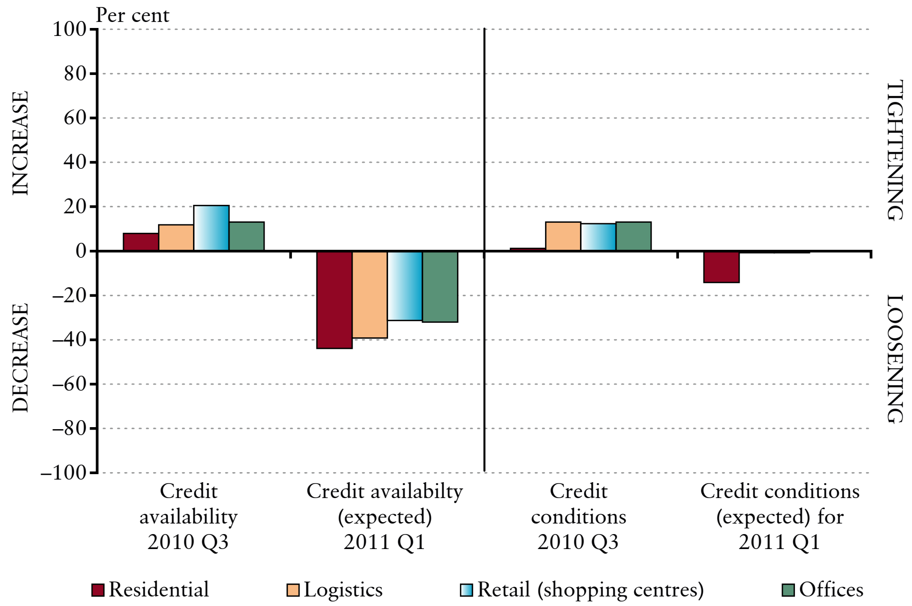


Chart 36

Credit availability (Willingness to lend) and credit standards/credit conditions for commercial real-estate loans

(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 37

Demand for loans in specific segments of the commercial real-estate market

(net percentage balance of respondents reporting an increase/decrease in demand weighted by market share)

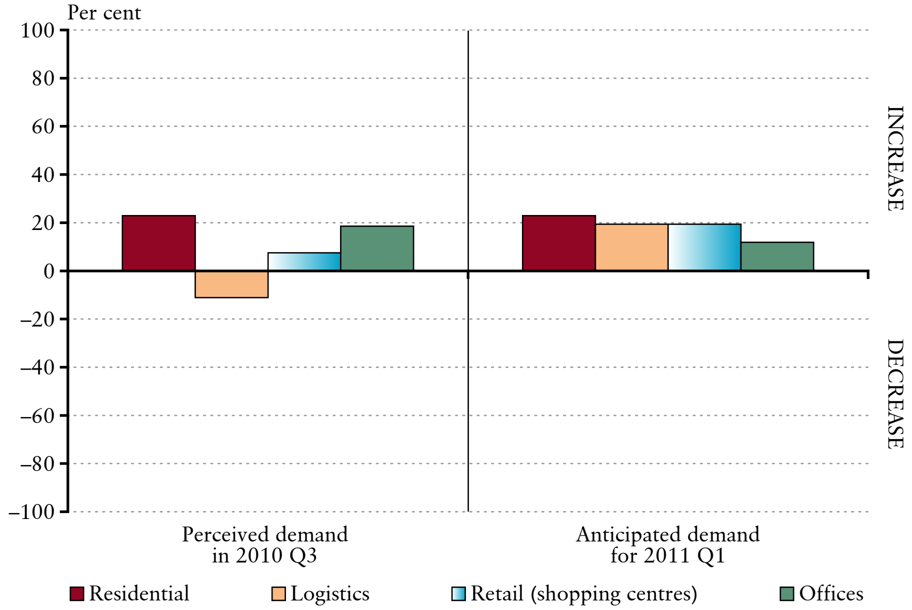


Chart 38

Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default

(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

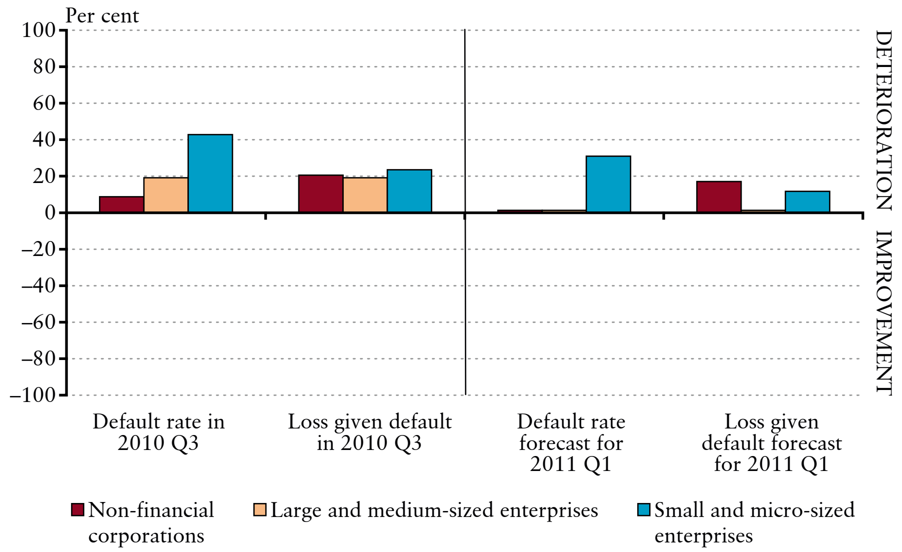
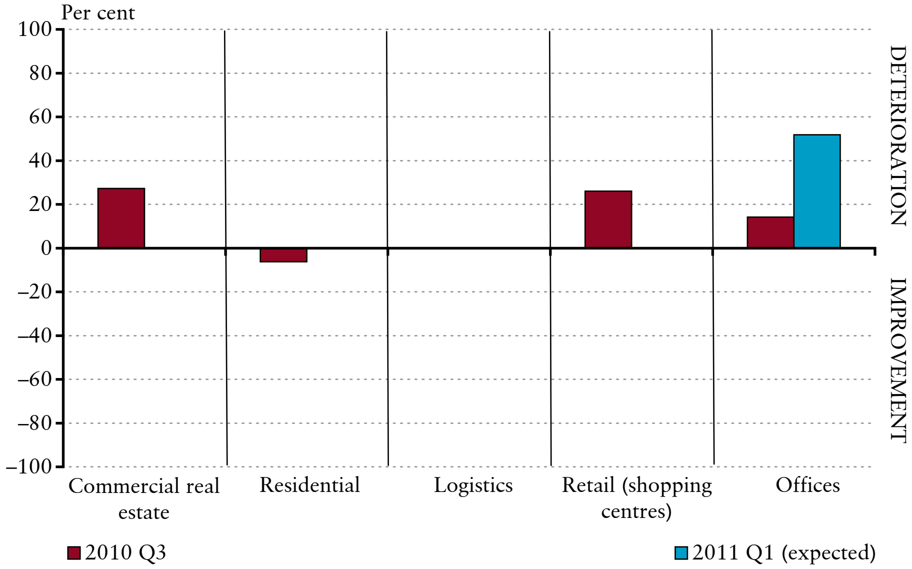


Chart 39

Changes in the quality of the commercial real estate loan portfolio

(net percentage balance of respondents reporting improvement/deterioration weighted by market share)



LENDING TO MUNICIPALITIES

Chart 40

Total exposure to municipalities and the share of banks completing the questionnaire

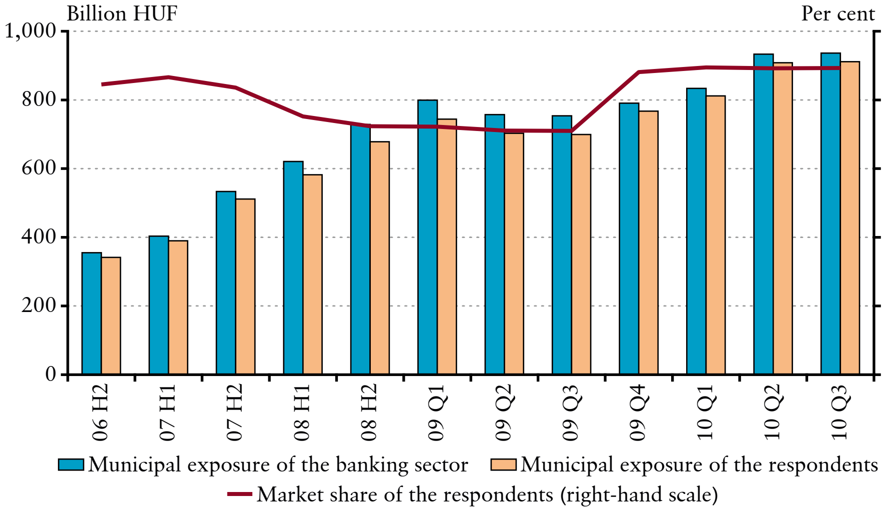
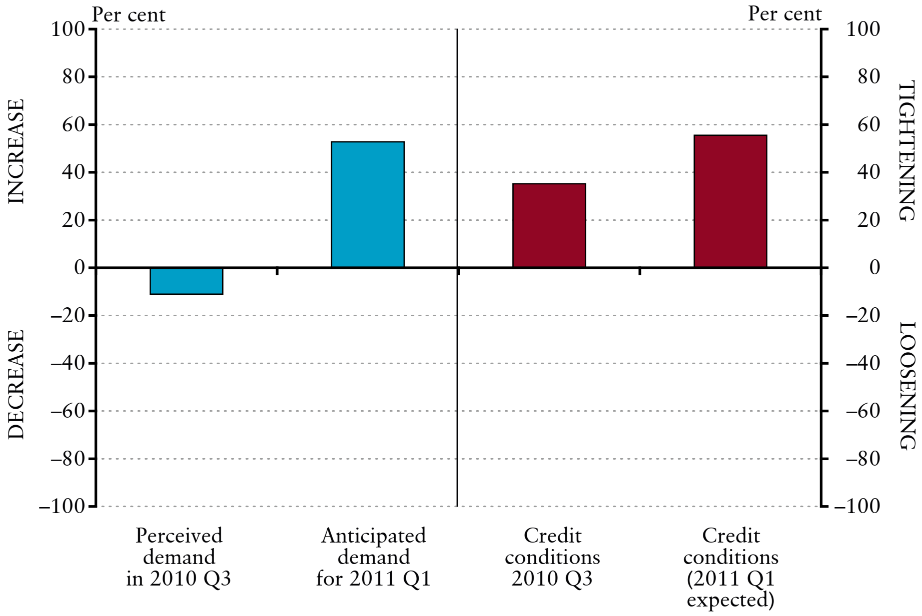


Chart 41

Perceived demand for loans and credit standards/credit conditions in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



Note: The magnitude of tightening/easing is not shown in the chart.

Chart 42

Credit availability (Willingness to lend) and portfolio quality in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement weighted by market share)

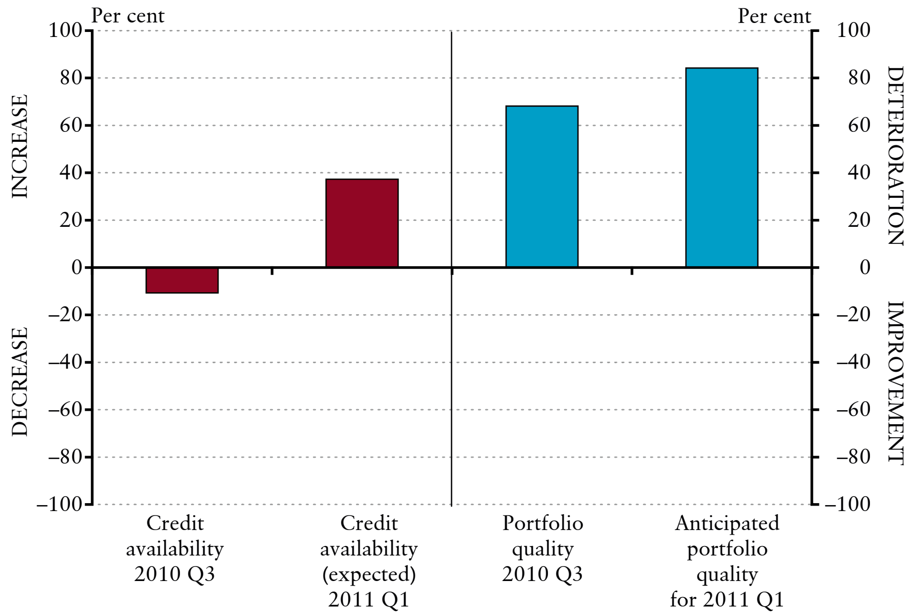
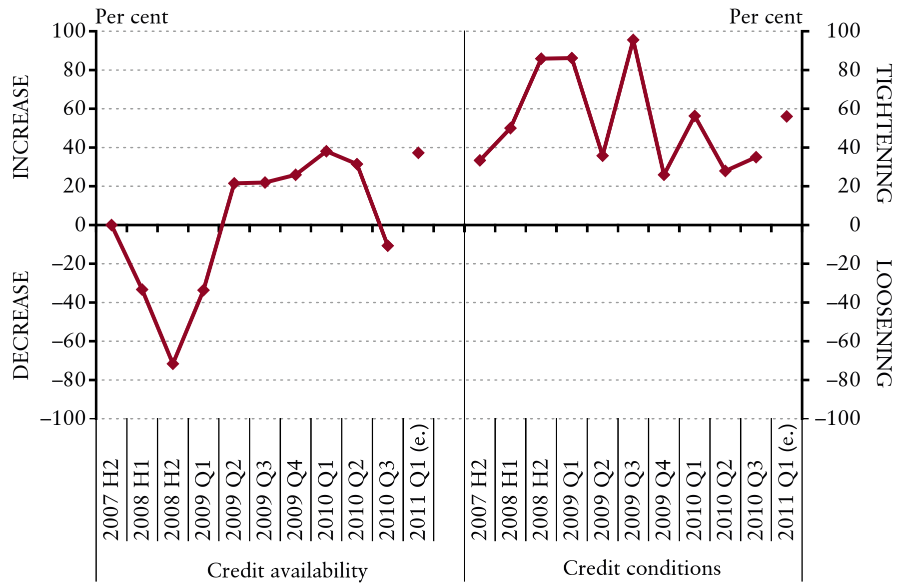


Chart 43

Credit availability (Willingness to lend) and credit conditions in lending to municipalities since 2007 H2

(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)

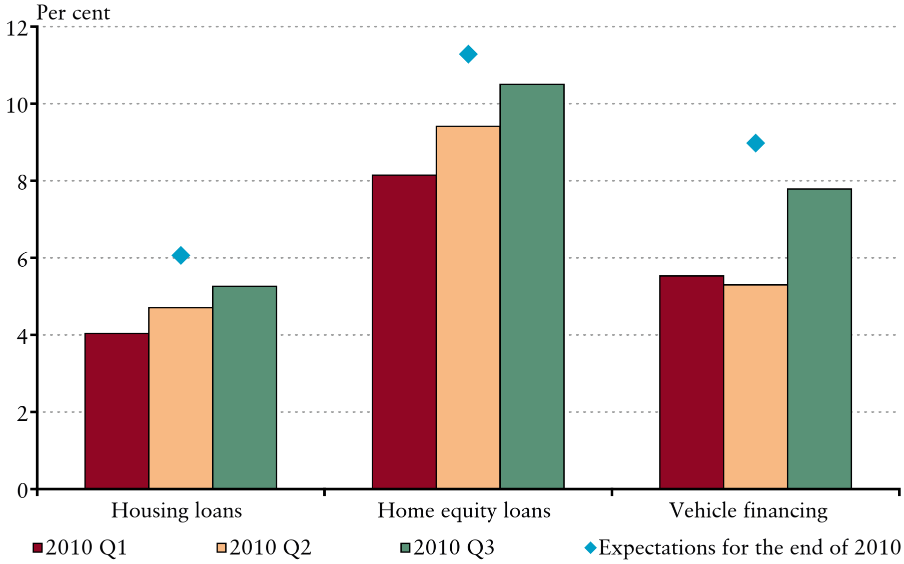


Note: The magnitude of tightening/easing is not shown in the chart.

SPECIAL ISSUE – RESTRUCTURING IN THE HOUSEHOLD AND CORPORATE SEGMENTS

Chart 44

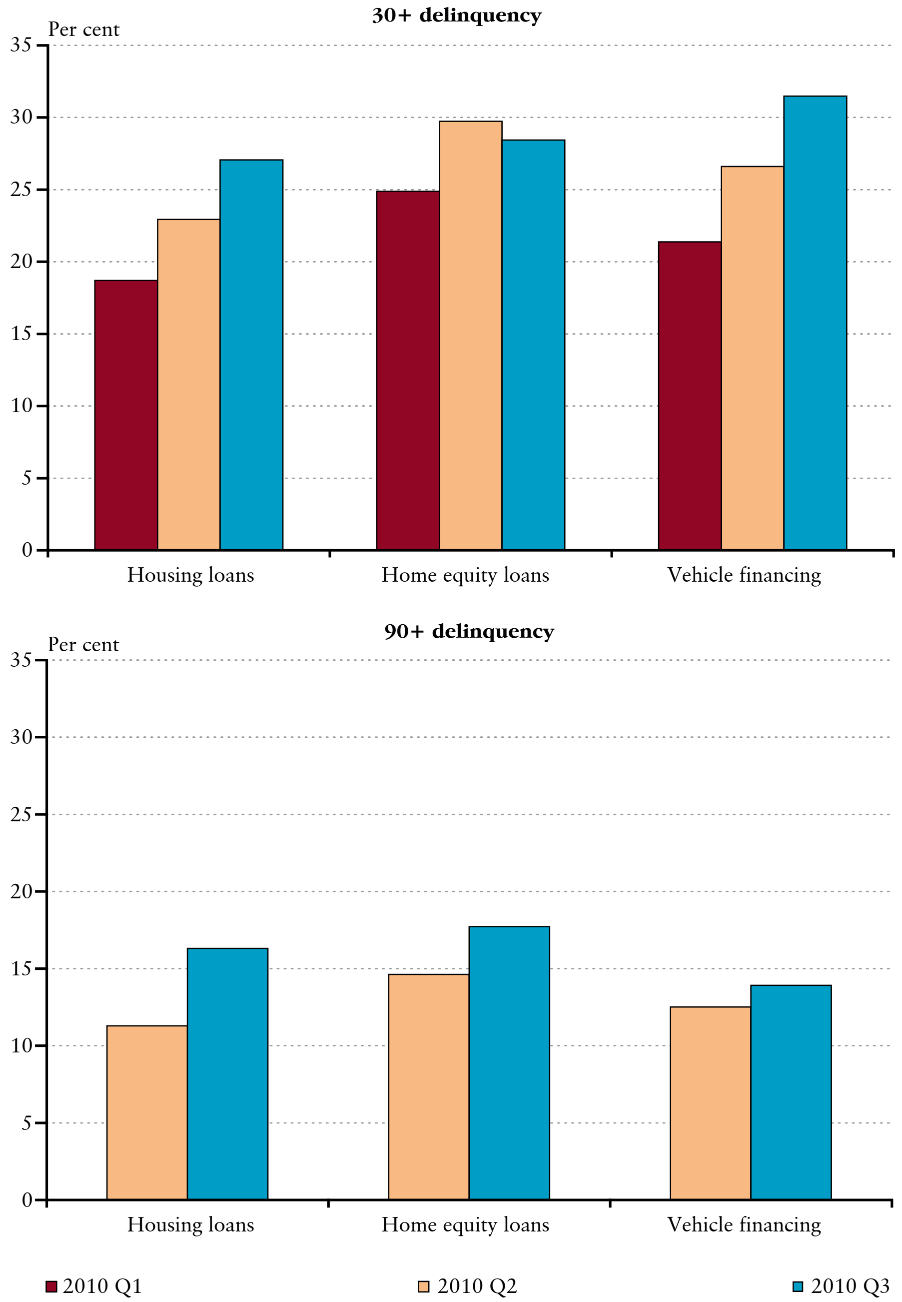
The restructured loans within the outstanding amount of loans to household sub-segments at the responding banks and their expectations for the end of year



Note: weighted by market share.

Chart 45

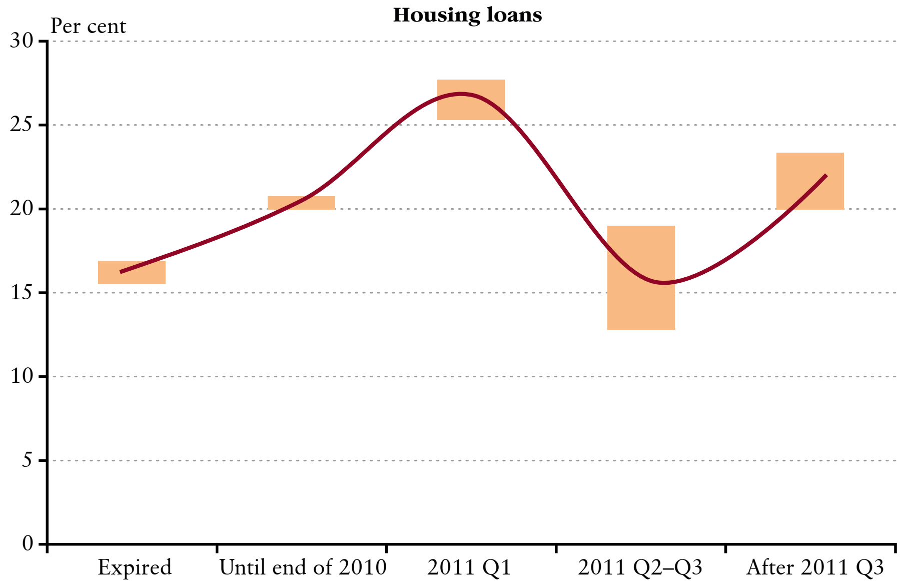
The delinquent restructured loans (30+ and 90+) within total restructured loans of the given sub-segment in the household segment

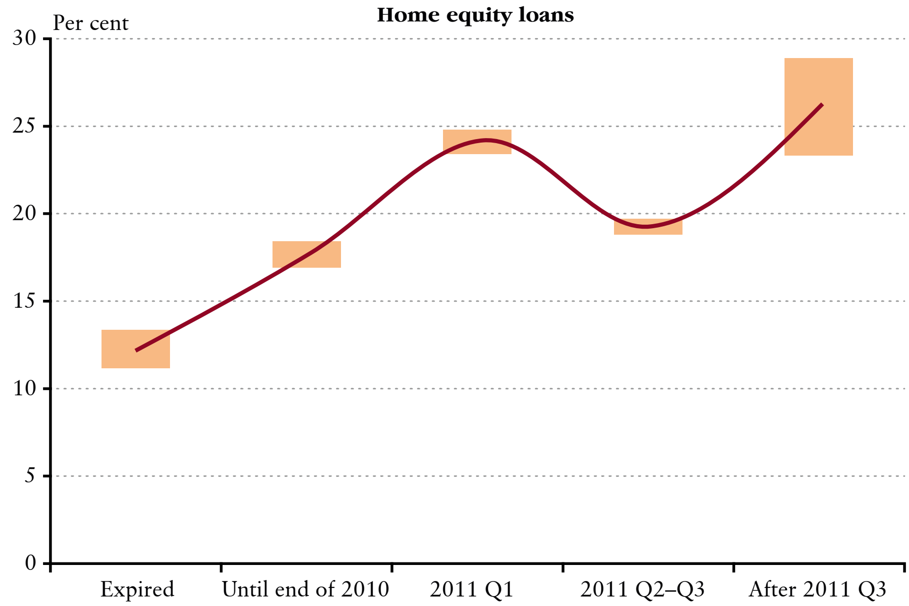


Note: weighted by market share.

Chart 46

The distribution of restructured loans by remaining maturities of grace periods

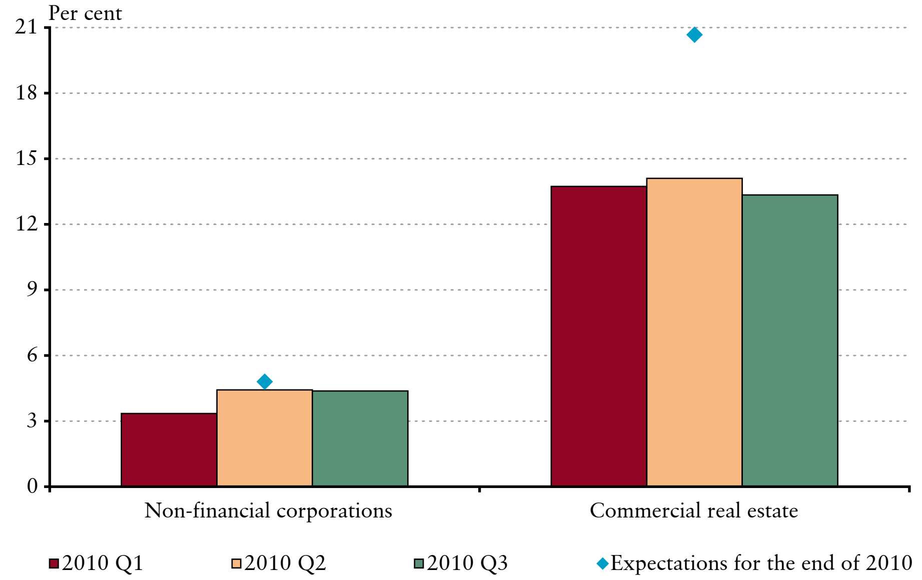




Note: Weighted by market share. Banks responded to intervals in the questionnaire. In the calculations we used the upper, lower boundaries and mean of the intervals, while the open-end interval (above 30 per cent) was determined in a way to obtain the 100 per cent from the sum of the answers. The size of the bars refer to the possible values.

Chart 47

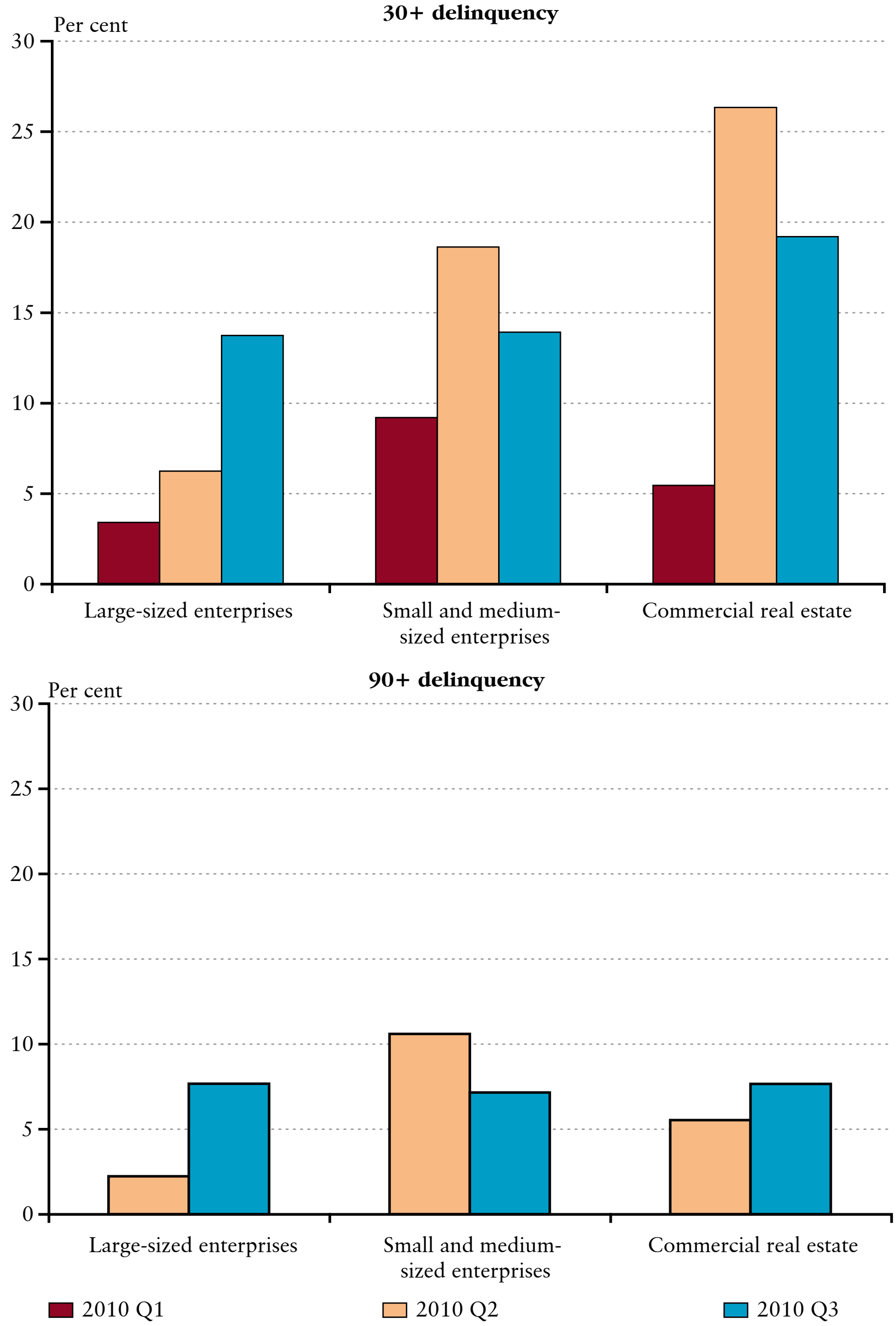
The restructured loans within the outstanding amount of non-financial corporate loans, and commercial real estate loans at the responding banks and their expectations for the end of year



Note: weighted by market share.

Chart 48

The delinquent restructured loans (30+ and 90+) within total restructured loans of the given sub-segment



Note: weighted by market share.

Annex 2: Methodological notes

In terms of methodology, the survey consists of the standard questionnaire for each segment. On occasion, *ad hoc* questions of current interest related to the lending segment may also be added to the survey. The retrospective questions in the questionnaire relate to the previous three months (previous six months in the past), (e.g. to 2010 Q3 in October 2010), while forward-looking questions contain projections for the next six months (e.g. for 2010 Q4–2011 Q1 in October 2010), relative to the trends of the previous three months (previous six months in the past).

The standard part of the questionnaire asked respondents for changes in willingness to lend (volume of loans), credit standards and credit/disbursement conditions, as well as changes in demand (observed in the past three months and, as expected for the next six months, seasonally adjusted changes in new credit applications) and in portfolio quality as perceived by the respondent, and changes in the risk assessment of different sectors in the case of the corporate questionnaire. The survey applied a scaling of 1 to 5 to assess changes in willingness to lend, demand, standards/conditions and risk parameters; however, only the direction is plotted on the charts:

- A rating of 1 reflects a considerable increase in demand and in willingness to lend, a considerable tightening in credit standards/credit conditions, a considerable increase in housing prices and risk parameters and, in the case of the risk assessment of sectors, a score of 1 indicates a considerable increase in risk perception relative to the six months preceding the survey, or for the next six months in the case of a forecast.

- A rating of 3 indicates an unchanged assessment, either for the previous three months or for the forecast pertaining to the next six months.

- A rating of 5 reflects a considerable decrease in demand and in willingness to lend, a considerable loosening of credit standards/credit conditions, a considerable decline in housing prices and risk parameters and, in the case of the risk assessment of sectors, a rating of 5 indicates a significantly safer climate relative to the six months preceding the survey, or for the next six months in the case of a forecast.

Ratings of 2 and 4 allow for an intermediate assessment between two extremes (e.g. demand increasing to some extent).

Keywords used for the purposes of the questionnaire are defined as follows:

Credit availability (willingness to lend) reflects the respondent's intention to expand and increase its portfolio in the specific segment.

Credit standards represent internal banking policies which determine the type of clients and client groups of a specific bank (based on their classification according to sector, location, size, financial indicators, etc.), and the type of credit products offered to them (collateralised loans only, investment loans, overdrafts, etc.).

In terms of **credit conditions,**[8] there is a distinction between price-related and non-price related factors. Non-price related credit conditions (such as collateralisation requirements, loan covenants, maximum size of loans/credit lines, etc.) represent specific contractual terms; the bank will not disburse the loan unless these conditions are met. Regarding the non-price related factors, the survey queried respondents on items such as the spread between the interest rate level and the cost of funds, and risk premium.

[8] As credit standards and credit conditions are interrelated concepts, we surveyed overall changes in credit conditions and standards, followed by a separate query on individual credit conditions.

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Summary of the aggregate results of the survey for 2010 Q3

November 2010

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