Senior loan officer Survey on Bank Lending Practices

Summary of the aggregate results of the survey on 2006 H2

March 2007

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Financial stability

The lending practices of banks were surveyed on the *ninth occasion in January 2007;* this analysis presents a summary of the results. The retrospective questions in the questionnaire *refer to 2006 H2,* and thus the base period for these questions is 2006 H1, whereas the forward-looking questions contain projections for *2007 H1* compared to the trends of the previous half year. The questionnaire concentrates on two areas: the household and corporate lending segments. The total amount of loans outstanding in the individual market segments and the shares of responding banks are shown in Appendices 1, while the detailed presentation of the replies to the questions is contained in Appendices 2 and 3.

In presenting the result, we follow the structure of the relevant questionnaire in both of the main lending segments. *Our examination of the reasons for the changes and processes reflects the explanations of senior bank officers rather than our own professional opinion. We try to explore how the responding senior loan officers see and evaluate market processes and how banks formulate their strategies and their lending policies in particular on the basis of the senior officers' and owners' assessment of the situation.* In addition, we aim to present the direction of the market by aggregating the individual micro-level answers.

To indicate the changes, we use the so-called *net change indicator,* expressed as a percentage of banks responding. We calculated this indicator by deducting from the number of persons projecting a change (tightening / growing / strengthening) the number of persons projecting the opposite (easing / decreasing / weakening), and dividing the result by the total number of persons responding (the answers are not weighted).

Aggregate results of the questionnaire

1. Household lending market

The household questionnaire was completed by altogether 12 banks, with 8 answering the questions related to housing loans, 11 banks and 6 financial enterprises owned by banks answering those on consumer loans (see Chart 22 and 23).

Bank activity in the household segment continues to be high despite the more unfavourable economic environment and increasing uncertainty. While standards remain unchanged, the strength of competition drives the participants to ease lending conditions, although slightly more carefully than in earlier periods due to the deterioration in prospects. Despite the negative expectations, overall demand has increased again, and FX-based structures continue to be popular. The participants emphasised the uncertain impacts of government austerity measures in evaluating the next half year.

Chart 1: Willingness of the banks to grant housing loans and consumer loans (Ratio of those reporting higher vs. a lower willingness to lend)

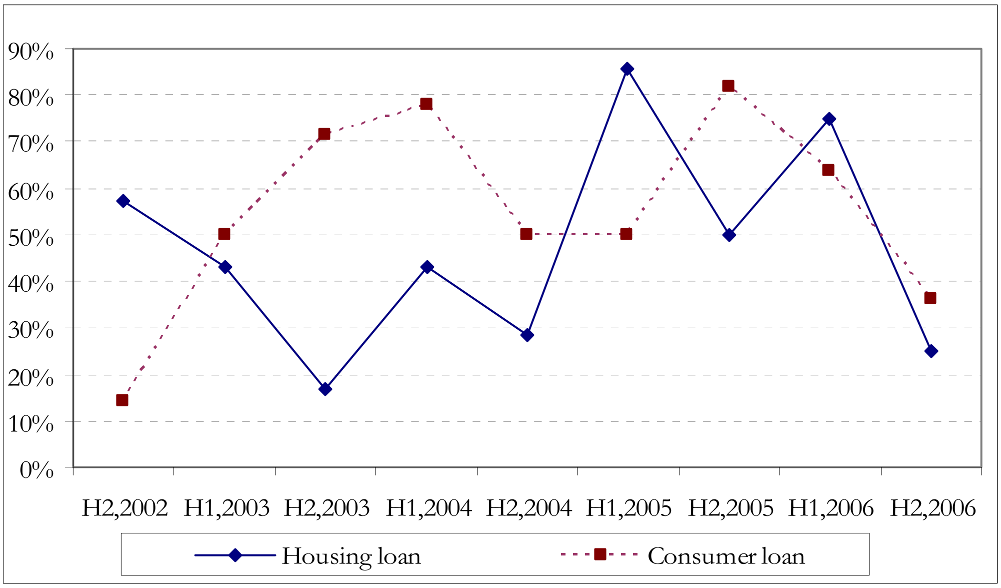
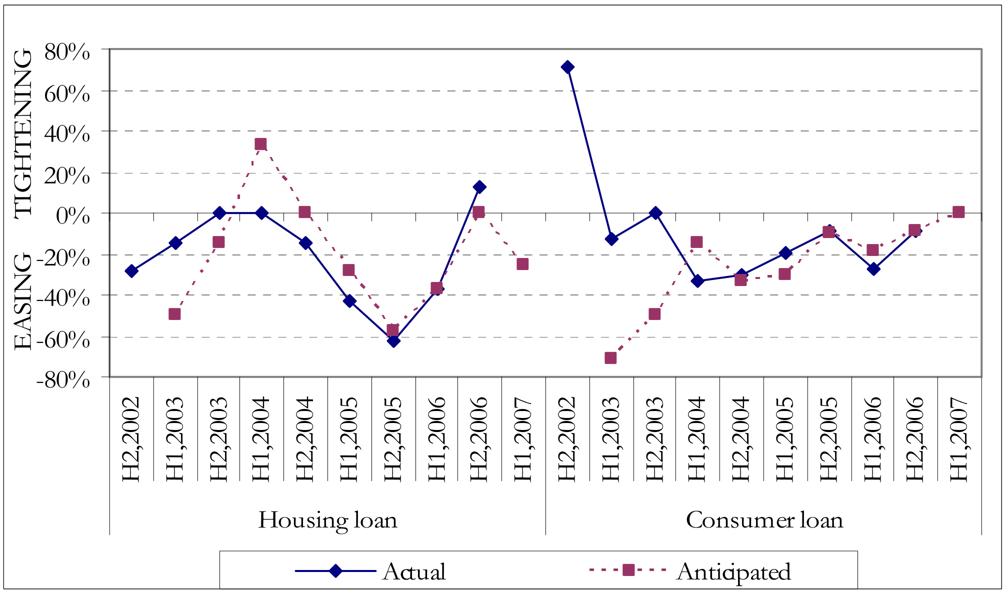


Chart 2: The change of creditworthiness standards of housing loans and consumer loans (Positive = tightening)



1.1. Housing loans

(Questions 1-9 of Appendix 2)

Supply side

In the second half of 2006, participants showed slightly more placid conduct compared to earlier periods in the housing loan market. The change was the result of two factors: on the one hand, the willingness to lend has reached its maximum for almost all banks during earlier half years and has stabilised at a high level, and on the other hand, participants tended to bide their time with a view to the uncertain future effects of the package of government measures on households. Consequently, in 2006 H2, only three participants highlighted an increase in the willingness to lend (as opposed to six in the previous half year), and the willingness of one bank decreased, which has been unprecedented in earlier surveys. Within housing loans, the drive of growth is still considered to be FX lending (Chart 1).

In the interviews held in the summer of 2006, the number of participants projecting easing and tightening of the standards/conditions were the same. Looking back, the picture is mixed: overall, there has been a minimum tightening in creditworthiness standards – which also differs from the earlier trends – but participants continued to ease lending conditions. As regards standards, one bank indicated a strengthening the examination of income, and one limited the risk assumed by restricting the group of possible types of real estate that could be accepted as collateral and/or by investigating certain types of real estate more thoroughly (Chart 2).

As regards lending conditions the easing trends started in the first half of 2006 continued:

- FX loan spreads continued to decrease because most of the participants charged only a part of the increase in the cost of FX funds to customers, and continued to offer preferential interest rates for the first interest period in the framework of campaigns (six of the banks questioned eased conditions and one tightened).
- The reduction and remission of upfront charges continued in the framework of promotion campaigns, and three banks indicated the rate of this reduction as additional easing.
- Three banks continued to increase the amount of minimum downpayment required and in parallel with that, the loan to value ratio.

None of the banks have modified the maximum loan maturity and the ratio of the monthly repayment instalment to the monthly net income.

Almost all banks treat HUF and FX schemes the same way in determining standards and conditions, so the changes apply to both product types equally, save for the statement made on spreads. Only three banks indicated an easing of the spread for HUF loans, and one participant tightened the conditions for this product as well, so easing the conditions was less typical in pricing in this market than for FX loans.

As the background to tightening measures, the unfavourable prospects concerning the income situation of households and, in the opinion of one bank, an increasing threat of a real estate price bubble emerging appeared as influencing factors. The increase in spread was explained by the delay in pricing the increase of the costs of funding (which occurred in a previous period) to customer prices.

In the opinion of banks, easing the lending conditions was still prompted primarily by strong competition. Additional factors that played a role in easing the conditions included the shareholders' strong expectation to increase market share and for one bank, the increase in maximum LTV was enabled by the introduction of mortgage insurance, i.e. by risk transfer.

Chart 3: Lending conditions in the market of housing loans
(Ratio of those reporting tightening minus those reporting easing)

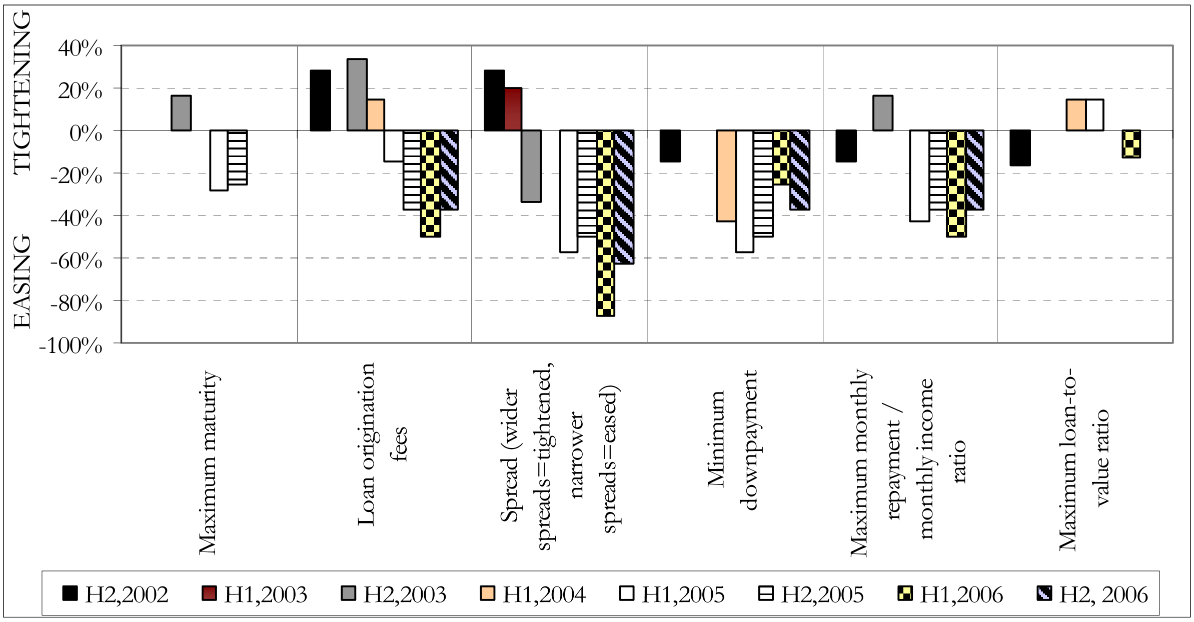
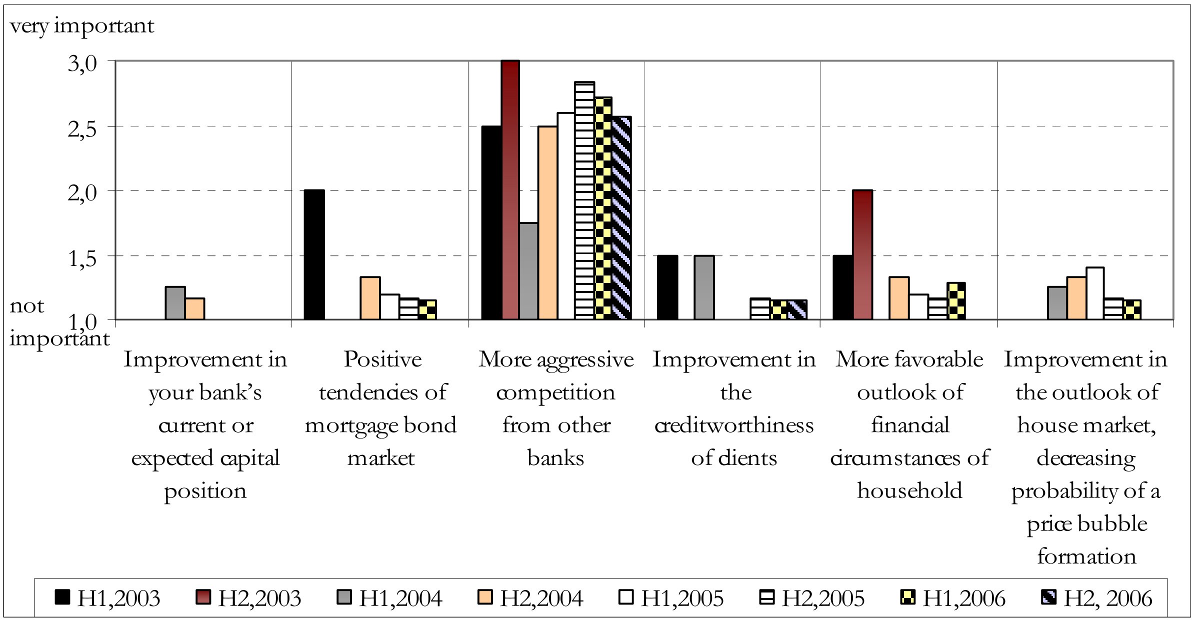


Chart 4: Reasons for easing of creditworthiness standards and lending conditions in the case of housing loans
(1 = not significant; 2 = somewhat significant; 3 = very significant)



In developing the lending policy for the next half year, participants considered typically two factors, which have the opposite effect:

- on the one hand, with regard to the effects of the government measures announced, the income of customers that can be used for repayment will decrease (tax changes, increasing costs, etc.), which requires tightening the standards and conditions,
- on the other hand, the competition for customers and the growth expectations of owners will continue to be strong, which may project easing.

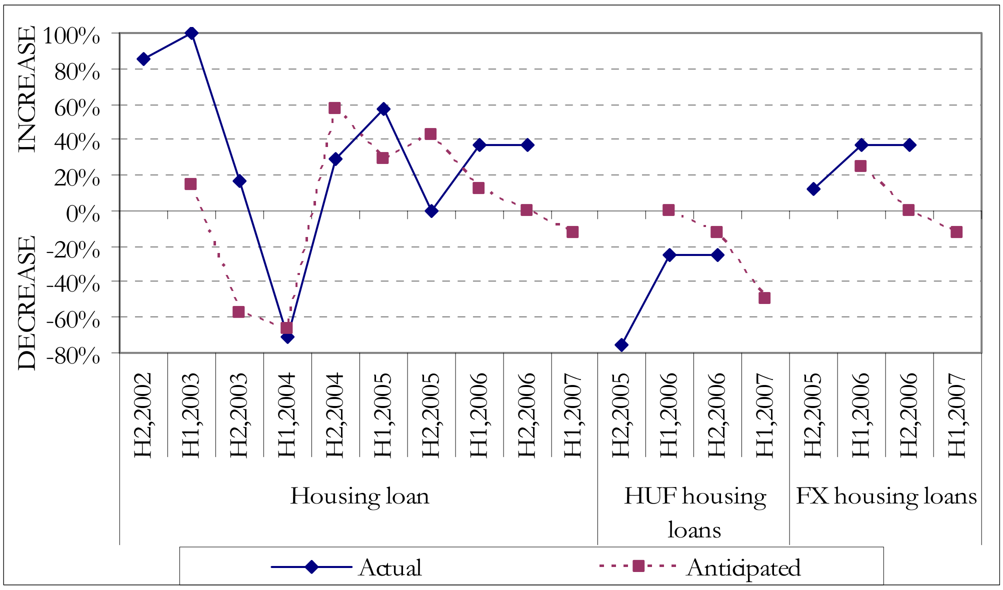
The weighting of the above described factors is expected to point towards tightening in the case of two banks and toward easing for three participants in the first half of 2007.

In addition to standards and conditions, the development of distributional channels will also play an important role in competition on the supply side. Besides the growing number of branches, banks highlighted the increasing weight of agent sales, which is gaining more and more emphasis in housing lending and for certain consumer loan products (primarily home equity mortgage loans and personal loans). The importance of its role is clearly demonstrated by the increasingly strong competition in agency commissions.

Demand side

During the previous survey banks had forecasted that demand for housing loans in 2006 H2 would be similar to that of the first half of the year in general – although the variation of answers is significant. During the current interviews - in contrast with expectations - , half of the respondents reported on loan demands that were stronger compared to the previous half year, and only one participant detected a decrease in demand. An increase in the number of loan applications was still felt for loans in foreign currency and demand for housing loans in HUF was again evaluated as very low, while two banks even considered it to be weaker than seen in the previous period. At the product level, the popularity of loans combined with insurance should be emphasised: products linked with both life insurance and other supplementary loan insurance (providing protection for unemployment or illness) were popular among customers.

Chart 5: The demand for housing loans
(Ratio of banks indicating an increase vs. banks indicating a decrease)



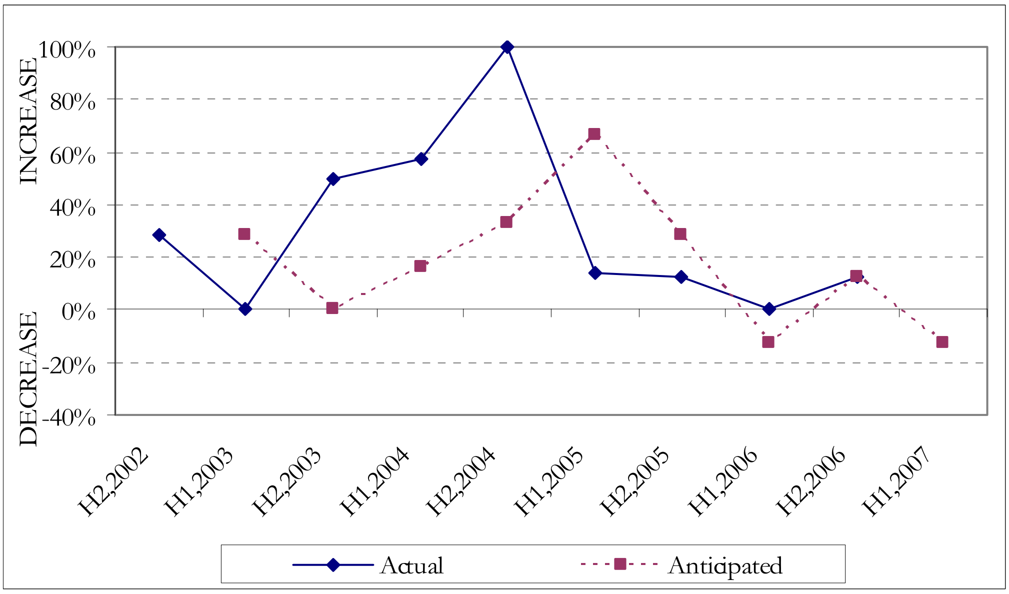
The opinion of banks is very different as regards projecting the demand for the next half year, similarly to what was experienced in the previous survey. In this case as well, the difference in expectations was the result of the different opinions formed by the banks – subject to strong uncertainty – on the housing investment decisions to be made by households in response to the package of government measures. Three participants forecasted an increase in demand, while four projected a decrease. The respondents continued to feel that growth is possible only with regard to foreign currency loans, and they projected further progress in the position of products combined with insurance as a result of the living situation becoming more uncertain.

Nominal house prices

Banks were not able to report on any positive tendency in the real estate market in this half year, either. Only one bank indicated an increase in nominal housing prices, the others perceived that housing prices remained unchanged, which all in all corresponded to the forecasts.

Prospects are not favourable for the next half year either: most of the banks questioned (five banks) believe there will be no change in prices in the market; one bank expects a slight increase, and two forecast a slight decrease in prices. Looking at the structure of the residential property market, participants tended to project an increase or stagnation of prices for new homes, while they projected a stagnation or decrease in prices for used homes.

Chart 6: Nominal housing prices according to loan officers
(Ratio of those reporting higher minus those reporting lower prices)



1.2. Consumer and other loans

(Questions 10-16 of Appendix 2)

Minor changes were made to the methodology for investigating consumer loans. Given that this loan market comprises several different types of product, the questions were broken down by product type wherever it was relevant. The charts presenting time series display trends that describe the entire market, while we try to highlight the differences by product for each question. The following product groups were investigated separately: general purpose mortgage loans (home equity), personal loans, vehicle loans, hire purchase loans and credit cards. For vehicle loans, we asked six financial enterprises owned by banks about market trends, in addition to the banks. In departure from earlier practice, the answers were integrated into the answers given by the parent banks but were taken into account only when analysing the current situation of the given partial market because the complete time series were not available to us.

Table 1: The number of respondents concerning the different loan products

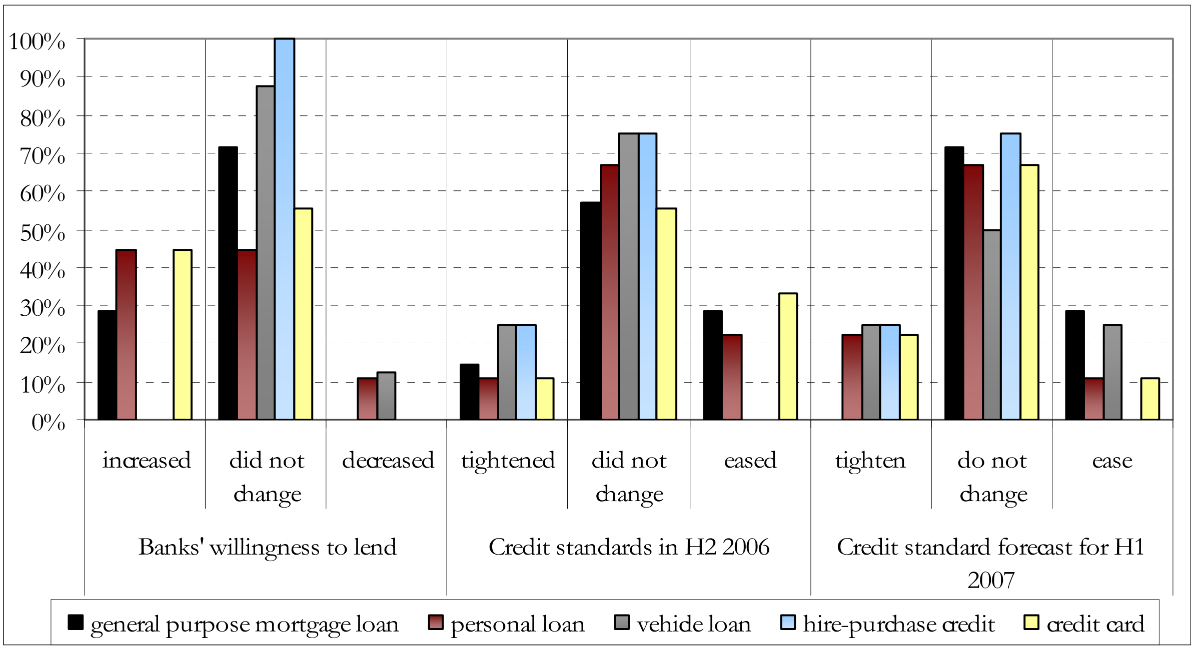
General purpose mortgage loans	7
Personal loans	9
Vehicle loans	8
Hire-purchase loans	4
Credit cards	9

Supply side

Increasingly strong competition and the constantly high willingness to grant loans describe consumer lending, as well. Similarly to the market of housing loans, however, the number of banks that were able to increase their willingness to lend decreased also in this segment; altogether about one third of the respondents indicated this. The largest increase in the willingness to lend was reported in the credit card business, but a number of banks stated they continued to open up the business of personal lending without collateral and with mortgage collateral, as well. One participant reported on a slightly decreasing willingness to lend in each of personal loans without collateral and vehicle financing due to deterioration in the portfolio quality (Chart 1).

Two banks eased and one tightened standards but, overall, banks typically maintain the same group of customers who can access loans, and the lending conditions have changed as a result of competition. Looking at the individual products, what can be seen is that those who changed vehicle and hire purchase lending moved towards tightening, while for other products there have been participants who eased and there were those who tightened the lending standards (Chart 2).

Chart 7: The willingness to lend and creditworthiness standards for different consumer loan products
(Ratio of banks giving the relevant answer)



As regards lending conditions, the majority of respondents have made no changes overall apart from the spread. The typical trend among those who made modifications was a trend of easing.

- The banks still have not fully priced increase in HUF and foreign currency funds that occurred in 2006 H2, or re-pricing was charged to customers only with a delay (as indicated by net 64% of banks). This trend was typical for those products, where the spread was high enough to allow the increased cost not to reduce the margin of banks perceptibly. The participants performed a greater rate of re-pricing for vehicle loans and mortgage loans, but all respondents opted for reducing the margin for personal loans and hire purchase loans.
- Net 33% of the institutions questioned eased the requirement on minimum downpayment and/or the LTV ratio. The changes involved the scope of general purpose mortgage loans (home equity) and vehicle loans, and banks have not changed the rate of downpayment in hire purchase loans.
- 18% of respondents eased the loan origination fees. Participants indicated a greater proportion for general purpose mortgage loans, personal loans and hire purchasing loans, still in the framework of various promotion campaigns on remission a part of the fees.
- Concerning maximum loan maturity, the minimum accepted value of scoring and the proportion of the monthly repayment instalment compared to income the only net 9% of

respondents indicated any easing. As regards the minimum score, the market has shifted towards tightening for vehicle loans.

In addition to product specific factors, the participants typically apply different lending conditions for existing and for new customers. The role of cross-sales is increasing (credit cards are given as gifts with personal loans and general purpose mortgage loans), and debtors who have a good repayment history are offered a higher loan amount with more favourable conditions., Banks are moving more to evaluating the impact of the entire customer relation on profitability rather than focusing on income that can be realised on one transaction and as a result, the increasing role of CRM[1] should be highlighted.

Chart 8: Lending conditions in the consumer credit market
(Ratio of those reporting tightening minus those reporting easing)

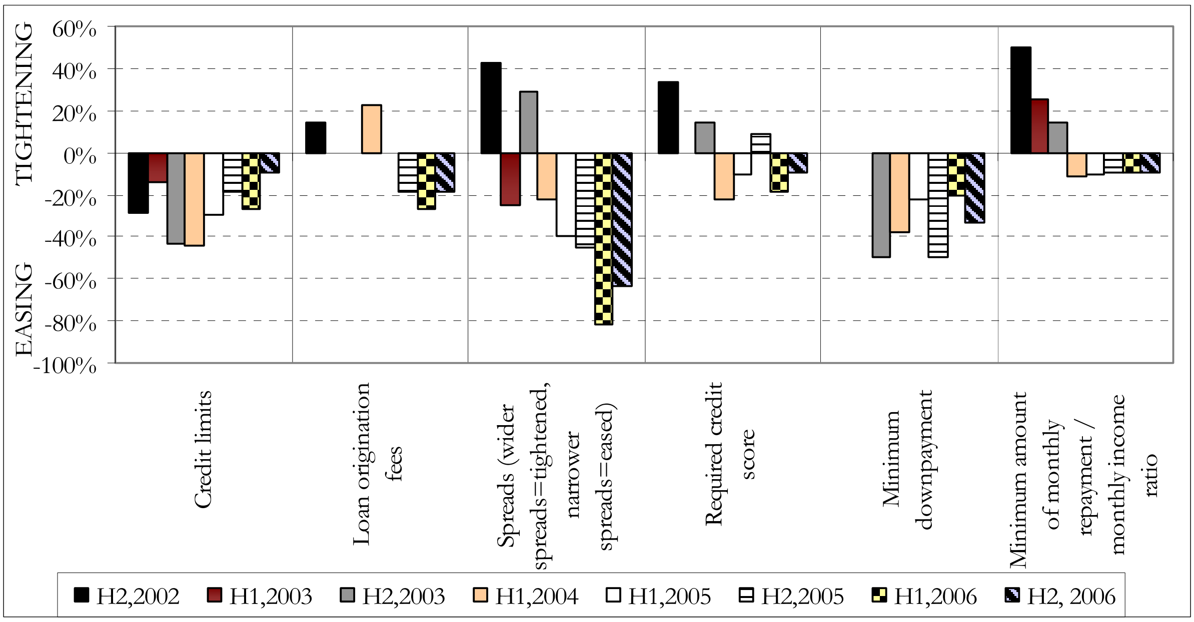
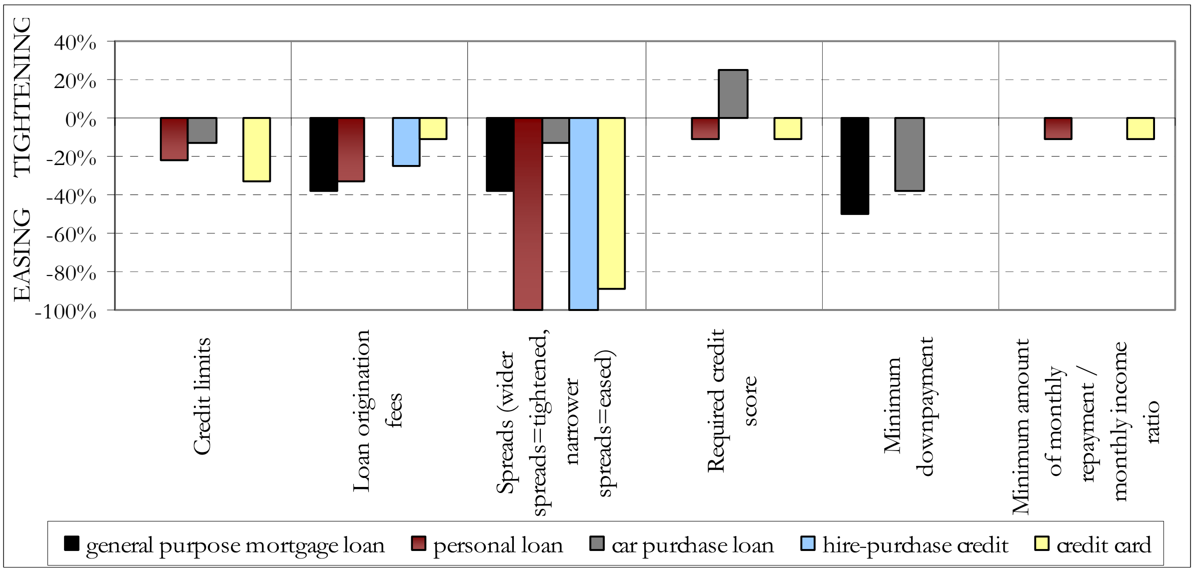


Chart 9: Lending conditions for various consumer loan products
(Ratio of those reporting tightening minus those reporting easing)



[1] Customer Relationship Management

The respondents indicated almost only the increasingly fierce competition between banks and non-bank financial intermediaries as the background to relaxing the lending policy. Apart from vehicle lending and hire purchase lending, however, banks consider financial enterprises to be less and less of competitors, because they explain that, for the moment, they typically work in different segments with different target groups (Chart 24).

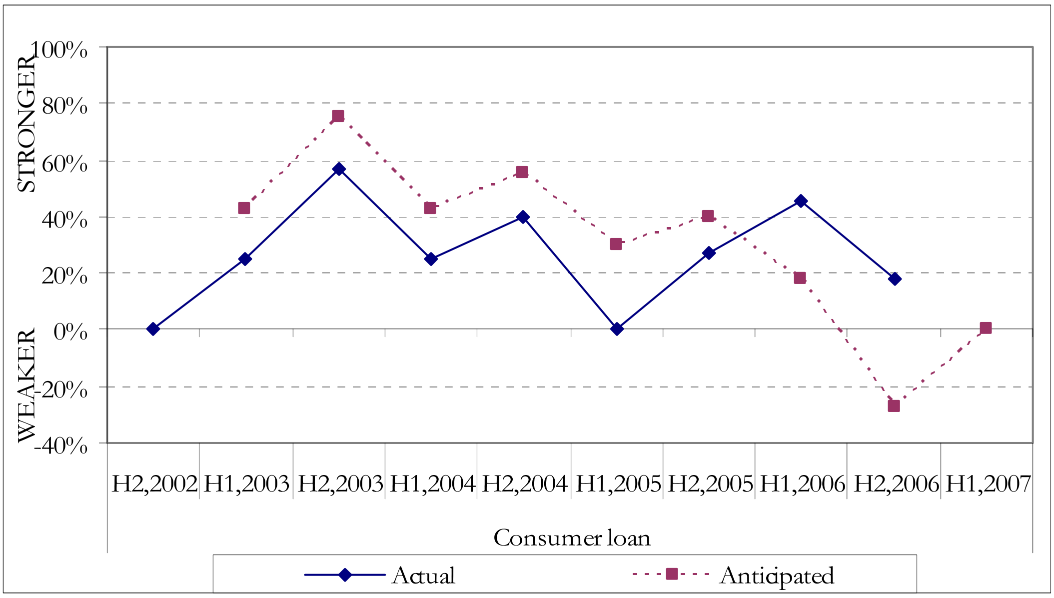
While only two banks indicated any restriction concerning consumer loans in general, four participants took such steps in vehicle lending, primarily due to the deterioration in the creditworthiness of customers.

The aggregated answer given by the respondents for 2007 H1 was that banks will keep standards and conditions unchanged, but there was a great variation in the responses as a result of the different answers given by the participants concerning the two factors already presented for housing loans (package of government measures, intensive competition).

Demand side

In forecasting the demand for consumer loans, the answers given by the respondents in the previous survey had been diverse: three had predicted an increase in demand while six had predicted a decline in demand for loans for 2006 H2. The negative expectations were not fulfilled: during the current survey, net 20% of the parties questioned evaluated the second half of 2006 to be stronger in terms of demand compared to the first half year.

Chart 10: Demand for consumer loans
(Ratio of those reporting tightening minus those reporting easing)



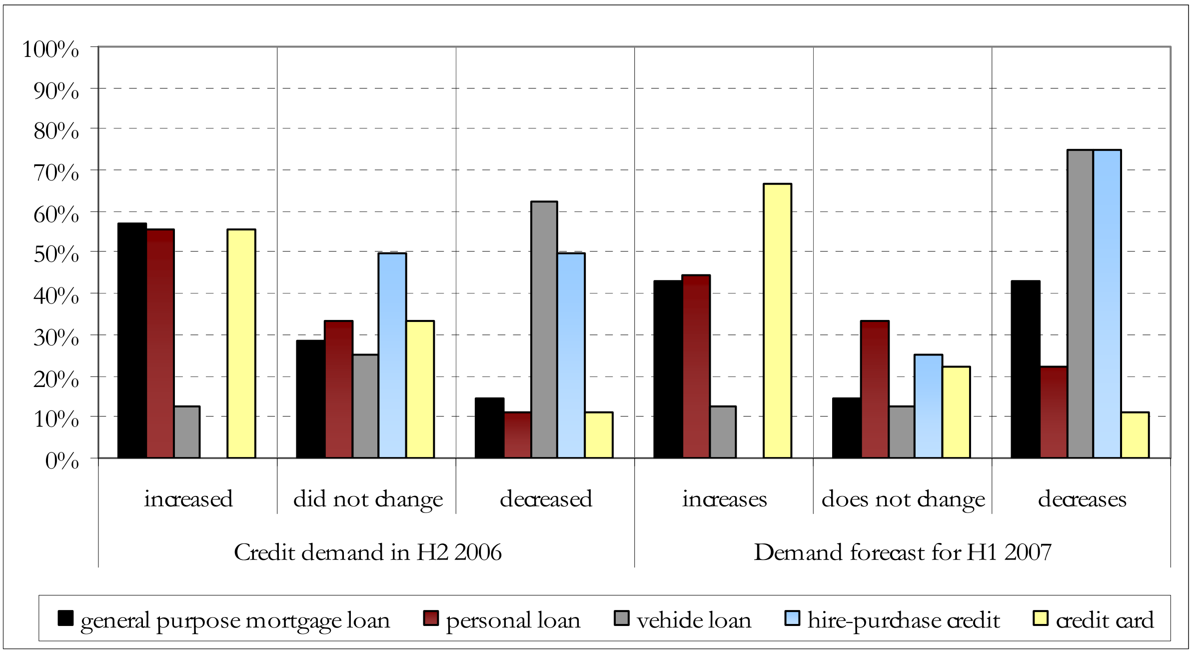
Demand was reflected differently in case of the various loan products. Half of the respondents reported a decrease in loan applications in vehicle lending and hire purchase loans, while the majority detected an increase in demand for the other three products. General purpose mortgage loans continued to be characterised by the popularity of foreign currency schemes. The product has several benefits over other products:

- it requires simpler documentation than housing loans, which drives persons who renovate homes to opt also for this product,
- HUF housing loans are replaced by FX general purpose mortgage loans to an increasing extent,
- it has a lower cost than the other consumer loan products,

- on the supply side, the efficiency of agent sales contributes to increasing disbursements.

As regards personal loans and credit cards, the increase in the portfolios was strengthened by cross-selling as well as direct offers of favourable loans to the existing customers.

Chart 11: Demand for the various consumer loan products
(Ratio of the banks specifying the given answer)



For 2007 H1, the participants projected that demand would remain unchanged, but the strong variation of forecasts and expectations should be highlighted again. Four of the 11 respondents expect demand to increase and four expect it to decrease, and only three indicated that demand for loans would remain actually. The explanation to this diversity lies primarily in the different expectations related to the strength of consumption smoothing, but different trends may be detected subjects to the individual product types:

- a high proportion of respondents anticipated demand to decrease further for vehicle loans and hire purchase loans,
- the majority forecasts that credit cards will continue to be popular (easy access),
- the rate of uncertainty is higher for personal loans and general purpose mortgage loans; the senior loan officers questioned indicated expected increases and decreases in demand at about the same proportion.

Typically, for products that have a higher average loan amount are participants uncertain about whether households will undertake loan burdens to maintain their consumption.

2. Corporate lending market

The standard structure of the questionnaire on corporate lending has not changed as compared to the previous half year. The questionnaire was completed by seven banks, with a total market share of 86% on the market of corporate loans (excluding commercial real estate loans). The market share of the surveyed banks on the commercial real estate loans market is 93% (Charts 25 and 26).

In the corporate segment, banks continue to strive to conquer the SME segment, and reported an increase in the willingness to lend and changes in standards and condition to the greatest extent in this segment. In connection with large and medium-sized enterprises, the trend is more and more one of fine-tuning and no trend-type changes were experienced. Participants typically moved towards a more cautious policy in financing commercial real estate, referring primarily to the risks of financing homes and offices. During the half year, participants felt that demand for loans was the strongest from smaller companies, while many participants reported on decreasing needs for commercial property loans.

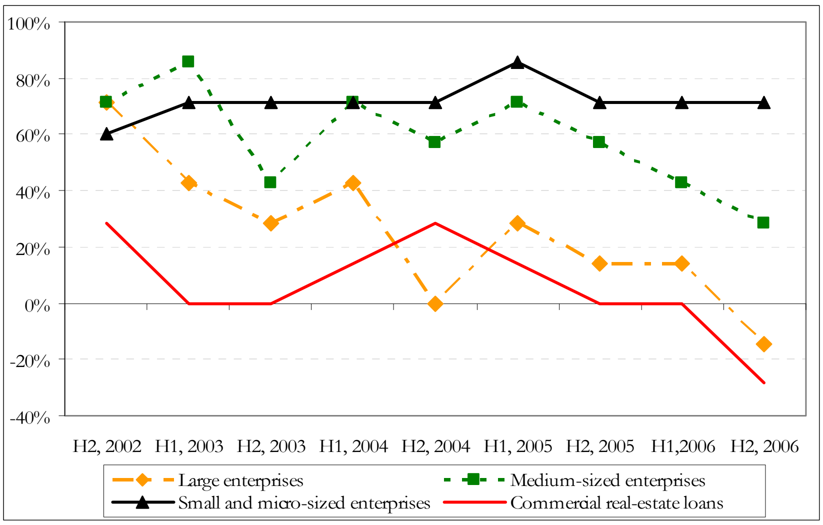
Corporate lending excluding commercial real estate loans

(Questions 1-9 of Appendix 3)

Supply side

Overall, in case of the majority of banks the ***willingness to lend*** remained unchanged at a high level in 2006 H2, but there continue to be participants who increased their supply in certain given segments. Over the last three half years, the proportion of these banks has decreased continuously, apart from the business of financing small and micro enterprises. The majority of the banks questioned reported on strengthening their activities for the latter, by referring to the potential expansion opportunities inherent in the market. In the large corporate segment, which may be characterised as a mature market, the supply of loans is stable, but one bank indicated a decrease in its willingness to lend over the last half year. Three of the seven interviewees strengthened their willingness to lend to medium-sized enterprises, while one participant emphasized a more moderate loan supply also in this business.

Chart 12: The willingness of banks to lend in each sector
(Ratio of banks indicating a higher vs. a lower willingness to lend)

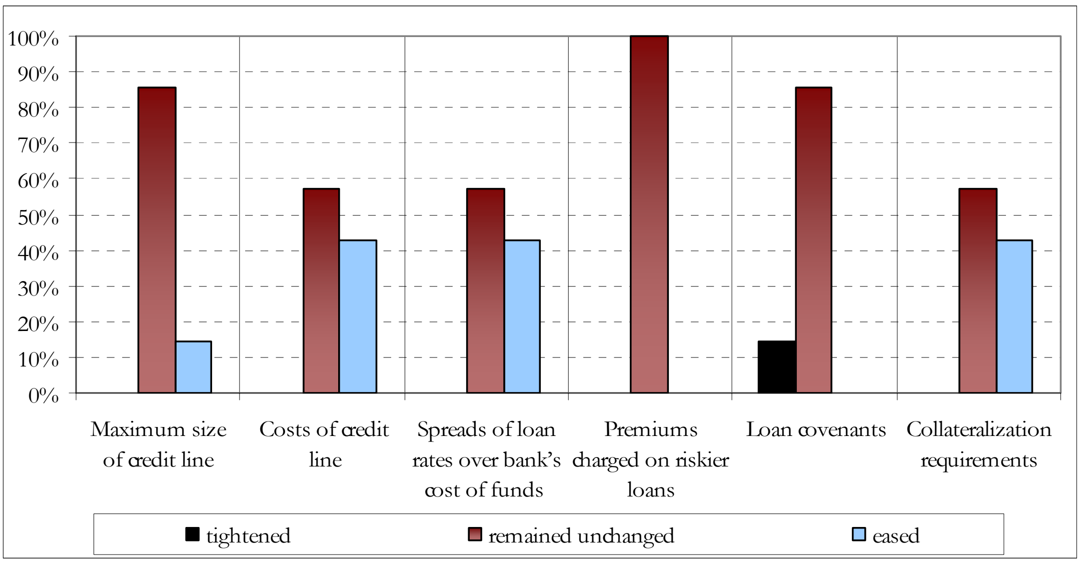


The ***lending standards*** (Chart 27) – i.e. the dominant elements of the customer rating (scoring or rating) system – have typically been developed already and are only being fine-tuned by the participants. As regards large enterprises, none of the banks have changed standards in this segment, while only one and two banks indicated a relaxation of these standards for medium-sized and small enterprises, respectively. This trend will continue in the next half year, meaning that the respondents intend to make no changes for large corporations, while one participant indicated a restriction for medium-sized enterprises and one indicated an easing of standards for small and micro enterprises.

As regards ***lending conditions*** (Charts 28-31), no elements were seen in either the large corporate or medium-sized enterprises segment that was changed uniformly by the majority of the participants. While in recent periods these two segments were characterised by increasing risk premium, the trend was not seen to continue in the second half of 2006. Based on the forecasts provided in the previous survey, restrictions were expected concerning the collaterization requirements (three of seven participants have indicated this earlier), but only one bank reported on this during the current interviews. All in all, there was only one bank that indicated a slight shift in any direction concerning each condition (easing of pricing, tightening of covenant requirements and on collateralization requirements of the debtor), meaning that the business policy decisions of banks were characterised rather by biding their time and fine-tuning. Those who imposed restrictions continued to refer to the certain industry-specific problems as the most important reason, but their decision was somewhat influenced by their reduced tolerance for risks as the economic environment becoming more uncertain and more unfavourable. The only bank that indicated a relaxation of conditions highlighted intensive competition and the increased risk-appetite. The first half of 2007 is expected to be characterised by unchanged conditions: none of the participants plan any easing, and there is only one or two banks thinking about thightening in the large and medium-sized enterprises segments, respectively. Increase of the risk premium was indicated again, and one bank forecasts a reduction of loan facilities/loan amounts and/or the stricter review of loan facilities and amounts for medium-sized enterprises.

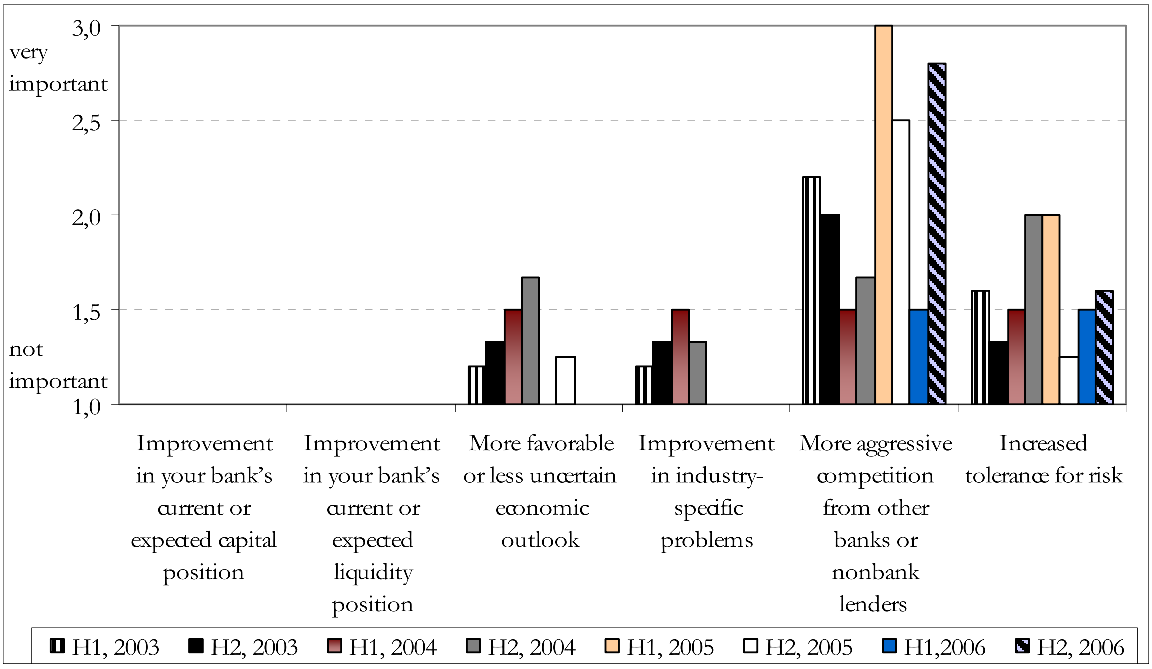
Banks shaped their lending conditions more actively in the small and micro enterprises segment: in line with the forecasts given in July 2006, the second half of the year was characterised by easing conditions. During the previous survey, the participants questioned forecasted an easing of collateral requirements (43%), the costs of credit lines and spread (29%) and the maximum amount of loan facilities (14%) and planned restrictions only on the commitments of debtors (29% of banks). Although the proportion of banks indicating changes has changed slightly, the trend corresponded to the expectations.

Chart 13: Lending conditions in the small and micro enterprise segments in 2006 H2 (Ratio of banks giving the relevant answers)



The respondents determined the increasingly fierce competition as one of the most important reasons for easing standards and conditions, in addition to which the increasing risk-tolerance and, as other reasons, market acquisition plans and the high level of nominal interest rates appeared (the margin had to be reduced in order to maintain the level of absolute burdens).

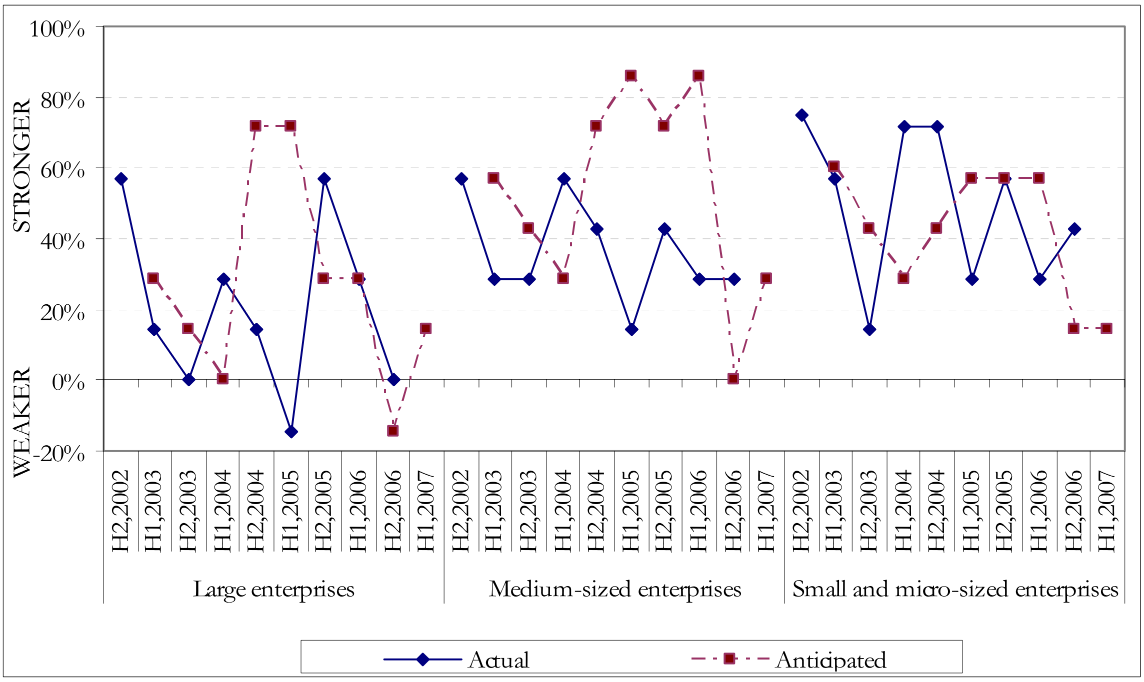
Chart 14: The reasons for easing lending conditions in the small and micro enterprise segments



We were unable to identify similar trends for the next half-year; similarly to the other two business lines, there were single banks that indicated a change concerning individual conditions. One participant indicated an easing of price factors, while another indicated an increase of risk premium.

Demand side

Chart 15: Loan demand by corporate size
(Difference of the proportion of banks indicating increases and decreases)



Taking into account the announcement of the austerity package by the government, banks forecasted unchanged loan demand for the second half of 2006 during the previous survey. On the other hand, they indicated that they expected a shift in the structure of loan demand from investment loans towards liquidity loans. Overall experience was more favourable than expected: of the seven entities questioned, four found demand to be stronger in small and micro enterprises, three found it to be stronger in medium-sized enterprises and one in the large corporate segment. There was only a single bank that felt a reduction in loan demand in all target groups.

Chart 16: Reasons for the increase in demand for loans to medium-sized companies (1 = not significant, 2 = slightly significant, 3 = very significant)

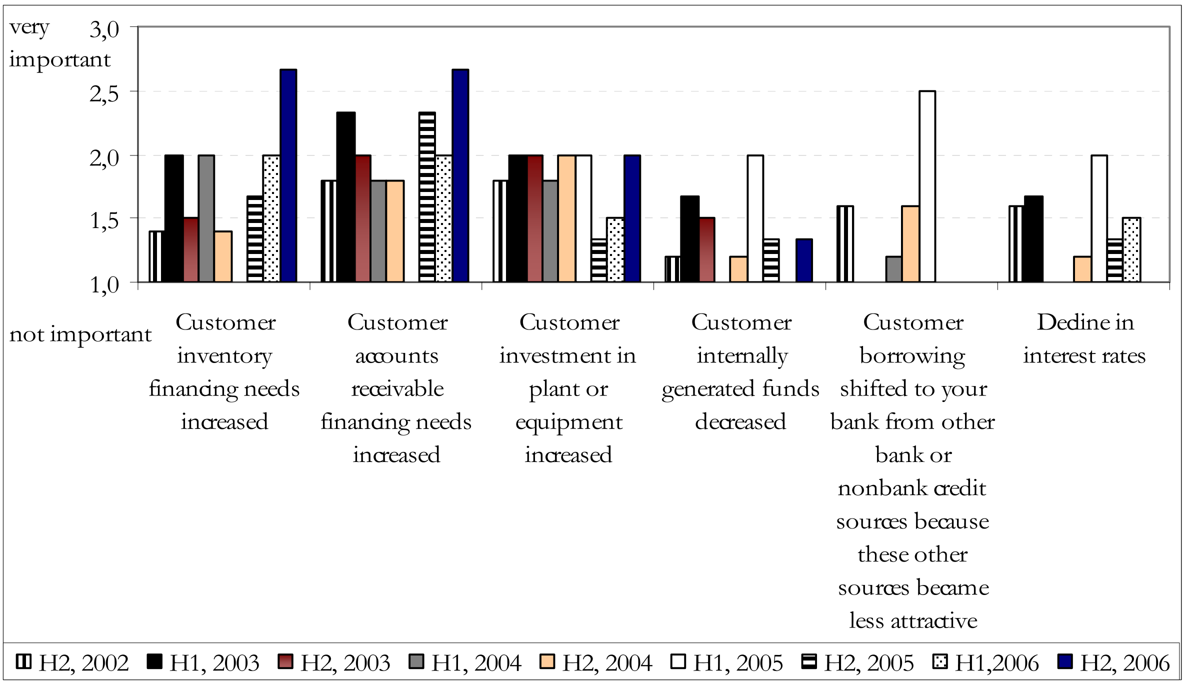
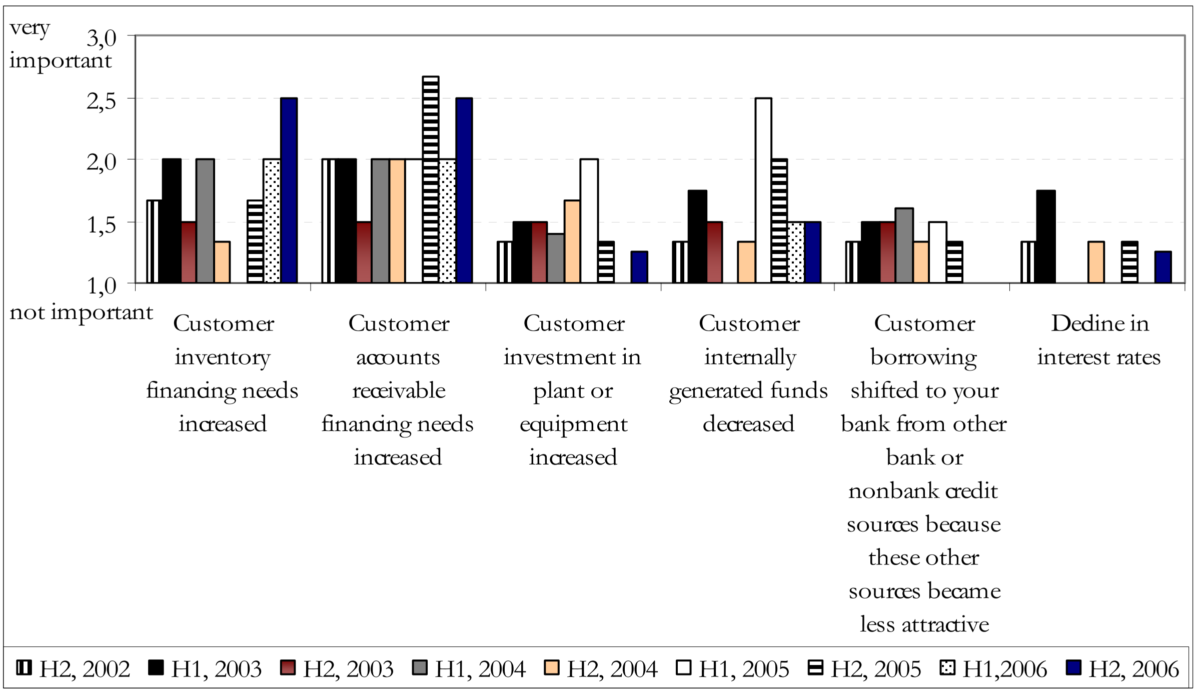


Chart 17: Reasons for the increase in demand for loans to small and micro companies (1 = not significant, 2 = slightly significant, 3 = very significant)



The banks that detected an increase in loan demand of medium-sized enterprises and small and micro enterprises reported on stronger liquidity needs (demand for financing stocks and receivables), and a reduction of investment needs. The evaluation of the loan demand relating the large enterprises is more complex: the participants expected investments to decline primarily in this group, but there were some who experienced a demand on a similar scale than earlier in this respect, and there were some who found the waiting and delay to have been actually perceived during the half year.

As regards the forthcoming period, the respondents highlighted two opposite effects concerning the development of demand for investment loans. On the one hand, the government measures may encourage delays in investments and waiting, which may result in a decrease in this type of loan demand. On the other hand, this effect may be reduced by the subsidy system of the EU, which generate loan demand due to the ex-post financing provided, and also increase bank guarantees. Some qualified the interest experienced from customers to be excessively optimistic because there is a considerable uncertainty about EU tenders: the specific terms and conditions and the date of opening the applications are not yet known. Liquidity loan demand is expected to be intensified: as a result of the cost increases and long payment deadlines, these loans together with factoring-type schemes may mean survival for certain (mostly smaller) supplier companies.

2.1. Commercial real estate loans

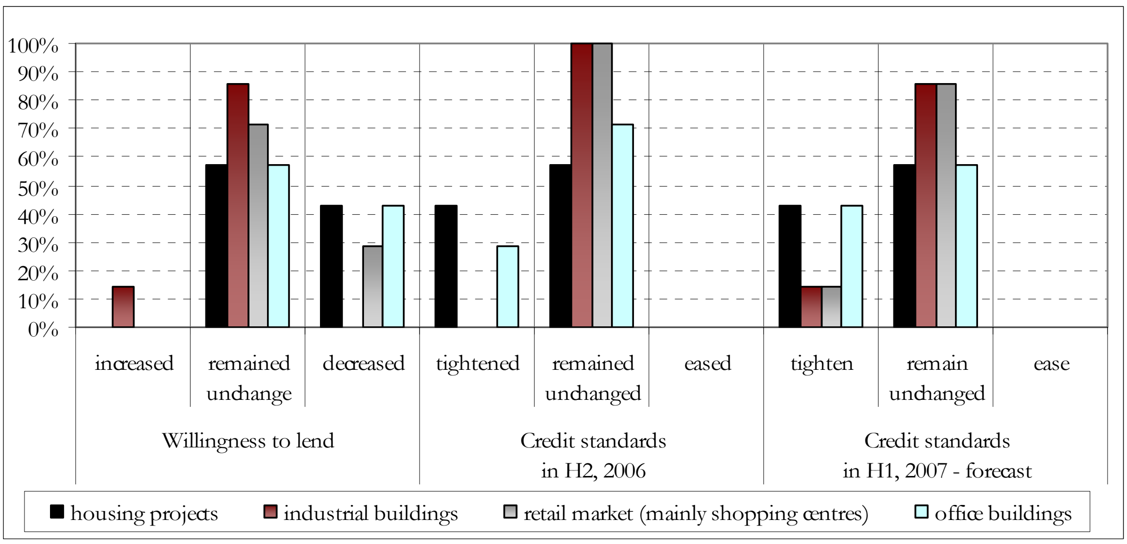
(Questions 10-15 of Appendix 3)

Supply side

On aggregate, the willingness of the majority of banks to grant new commercial real estate loans remained unchanged in the second half of 2006; however, two banks indicated a decrease in supply, moving the net change indicator in a negative direction for the first time during the surveys (Chart 12).

With the exception of industrial real estates, the increased cautiousness of participants was felt in all segments. For housing projects, this was explained by the decrease in ultimate demand (home purchases by households), which is partly apparent in the increasing number of homes that remain unsold, and which is expected to be aggravated further by the impacts of the government measures. As regards retail (mainly shopping centres) and office buildings, the participants indicated a saturation of the market.

Chart 18: The willingness to lend and creditworthiness standards in commercial real estate loans (Ratio of the banks giving the relevant answer)



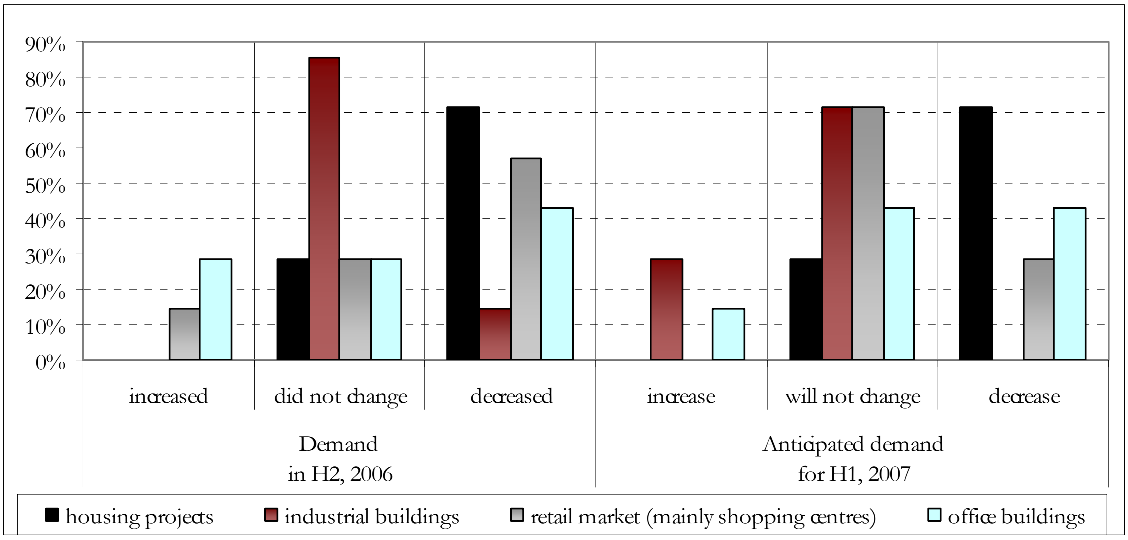
Housing and office building segments were found to be the most risky compared to earlier periods. In these two segments the decline in supply was coupled with a tightening of standards as a result of the increasingly serious industry specific problems: banks have become more cautious in making financing decisions. Background of the general contractor and the location of the real estate are becoming more and more important aspects. The tightening trend is expected to continue in the next half year (Chart 27).

Demand side

In line with the preliminary expectations of the banks, demand for commercial real estate loans decreased in the second half of 2006. As regards housing projects and shopping centres, the majority perceived a decline in loan demand, reported mostly unchanged but irregular demand for industrial real estate, while they formed very different opinions about the financing requirement of office construction projects: the proportion of those who indicated stronger, unchanged and weaker demand was about the same (Chart 32).

The entities expect a further decrease clearly in the loan demand for housing projects for the next half year; nearly half of the banks indicated that demand may decline also in respect of the office market. The respondents gave more optimistic answers only in connection with financing for industrial real estates.

Chart 19: Demand for loans in the various partial markets of commercial real estate lending (Ratio of the banks giving the relevant answer)



2.2. Change in credit risk assessment of the various industrial sectors

(Question 16 of Appendix 3)

Similarly to the first half, in the second half of 2006 most of the participants (six or five, respectively, of the seven) indicated an increase in the risk of construction industry and, within manufacturing, of food industry, but the evaluation of all sectors other than agriculture and energy deteriorated in the opinion of at least one bank. The unchanged opinion about agriculture was evaluated as a positive trend, the largest contribution to which was made by the EU support flowing into the sector. The respondents highlighted primarily the negative impact of the decreasing investment requirement, which resulted mainly from the decline in government orders for construction industry, which showed a strong deteriorating trend at nearly all banks, but problems with increasing gridlines have not been mitigated in the last half year either. Although the respondents were not able to report on a more positive risk evaluation for any of the sectors, there was a significant negative trend only in connection with construction industry, and opinions on the other sectors typically reflected to individual experience in the given bank's own portfolio.

Chart 20: Risk assessment of industries
(1 = became significantly more risky, 2 = became somewhat riskier, 3 = remained almost the same, 4 = became somewhat safer, 5 = became significantly safer)

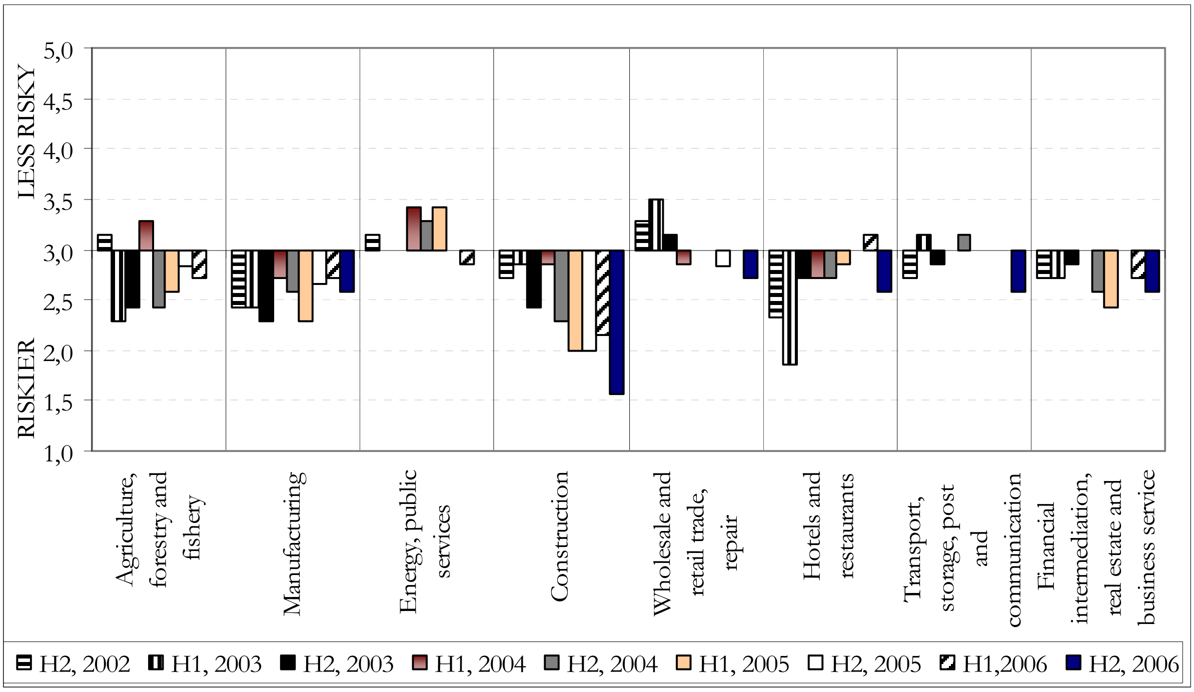
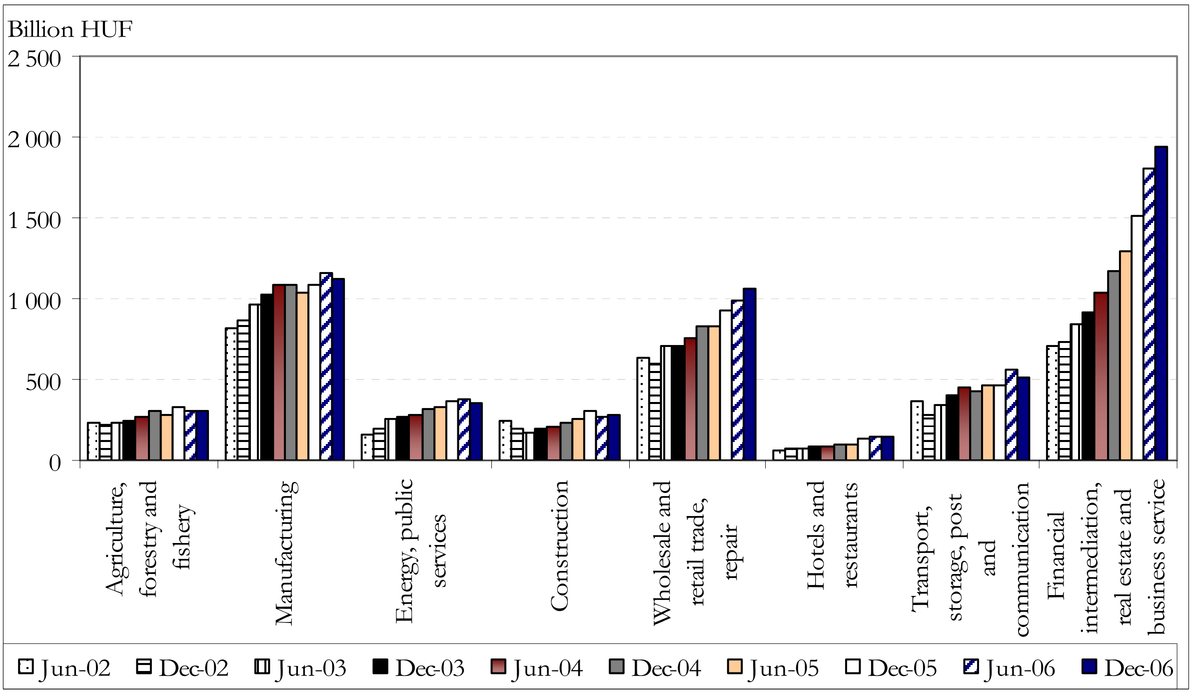


Chart 21: Sectoral structure of bank loans



Current issues and trends

The impact of the package of government measures

During the current set of interviews, we asked questions concerning the expected impacts of the package of government measures again, because the banks had indicated in earlier interviews that the specific measures included in the package had not been known at that time and/or they had not have an opportunity to review the impacts in depth.

However, it is necessary to highlight uncertainty factors also for the answers given now. Although the banks have prepared – more or less in-depth – analyses about the impacts of the package, but they have been taken into account only in part when developing the plans for 2007, given that the dominant aspect for developing planned figures, in most cases, were the growth and profitability requirements of foreign parent banks. The answers received in the previous survey and the current set of interviews do not differ significantly, so the aggregate results of the previous survey will not be repeated in detail and will only be referred to.

- Creditworthiness

The participants questioned all expect the creditworthiness of customers to deteriorate. The financial position of both the corporate and the household sectors will be negatively influenced by increasing tax burdens and costs (such as energy costs). In case of households loan capacity limitations are also expected to become effective.

In the *corporate sector*, the participants highlighted that small and micro enterprises would be affected to a higher degree, because these companies are in more vulnerable liquidity situation anyway. Medium-sized and large enterprises are expected to be able to apply the increasing costs to a greater proportion in their pricing, which will increase the burdens of smaller supplier companies and end consumers.

As regards the *household segment,* banks expect negative impacts to be perceptible from the beginning of 2007, because most of the amendments to legislation became effective after 1 January, and the increase in energy prices will also be perceptible only after that. The mild winter may have a favourable impact on the cost and so the burdens of households.

- Loan demand

As regards *corporate loan demand* in addition to the trends outlined in the previous survey (expected decrease in investments and increase in liquidity loans, industry specific differences), participants highlighted that the opening up of EU supports may mitigate negative processes. Therefore, the total of investment loan demand will emerge as the result of the negative impacts of the restriction package and the positive impacts of the support amounts.

In the opinion of banks, the most uncertain factor is *household loan demand,* which is subject primarily to the short-term or long-term expectations of households.

As regards housing loans, participants continue to project a decrease in demand: real estate purchases for investment purposes will clearly decrease, but all households will give better consideration to any purchases of homes and the introduction of real estate tax, which has not been outlined yet, also points toward a decrease in demand.

The picture about consumer loans is substantially more complex: certain participants expect consumption smoothing, while some expect a decline in demand. Based on the figures for 2006 H2, no decrease in loan requirements could be seen so far, but several entities have stated that perhaps this was due only to the lower costs caused by the mild winter and the fact that the impacts of tax measures will appear only from 2007.

The replies are even more diversified when broken down to product level; some banks indicated at a greatest decline for loans without collateral but there are also participants who expect a greater decrease in demand for general purpose mortgage loans by reason of deferring housing renovation decisions. As regards credit cards, the majority of banks forecast additional growth in lending.

- Loan supply, development of creditworthiness, standards and conditions

Answers can be summarised by saying that everybody would like to get a larger piece of the slightly smaller cake in respect of both the corporate and the household segments. Therefore, overall loan supply will remain very strong – primarily due to the strict requirements of owners – and the effect of competition will be perceptible at the level of both products and conditions. Participants will typically make no changes to standards and conditions.

Schemes combined with insurance, CRM and cross-sales will be given an even greater role in the *household segment*.

- Portfolio quality

Most of the respondents expect a slight deterioration in the portfolio.

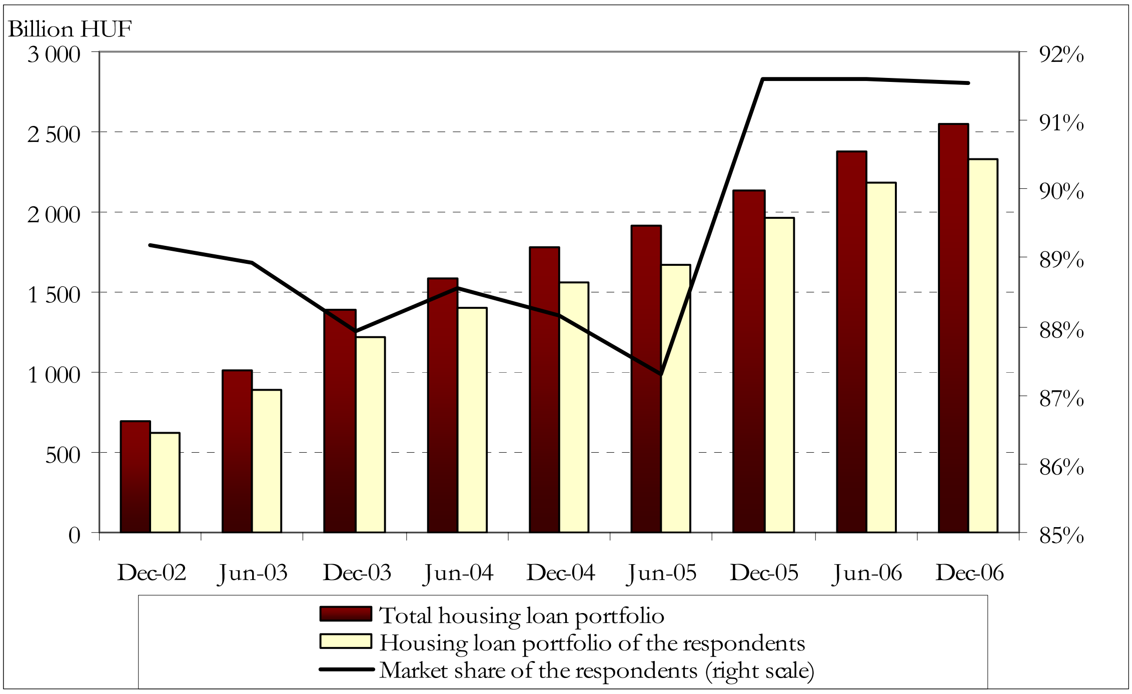
For *corporates,* this may be reflected primarily in the SME segment and a part of this may arise specific to certain industries, which the banks intend to handle by stricter monitoring.

For the household portfolio, an increase in the proportion of non-performing loans may be caused by a decline in real income and an increase in unemployment. Refraining early warning and collection systems will be given even greater emphasis, while participants intend to support the management of repayment problems with other techniques as well (extension of maturity, grace period, taking out insurance). There are banks in which products covered by mortgage will come to focus as a result of the adverse economic environment because, on the one hand, the willingness of repaying loans is higher for such products and, on the other hand, loss can be reduced by selling the real estate in case of default.

CHARTS ON THE LOAN PORTFOLIO AND ANSWERS TO THE QUESTIONNAIRE

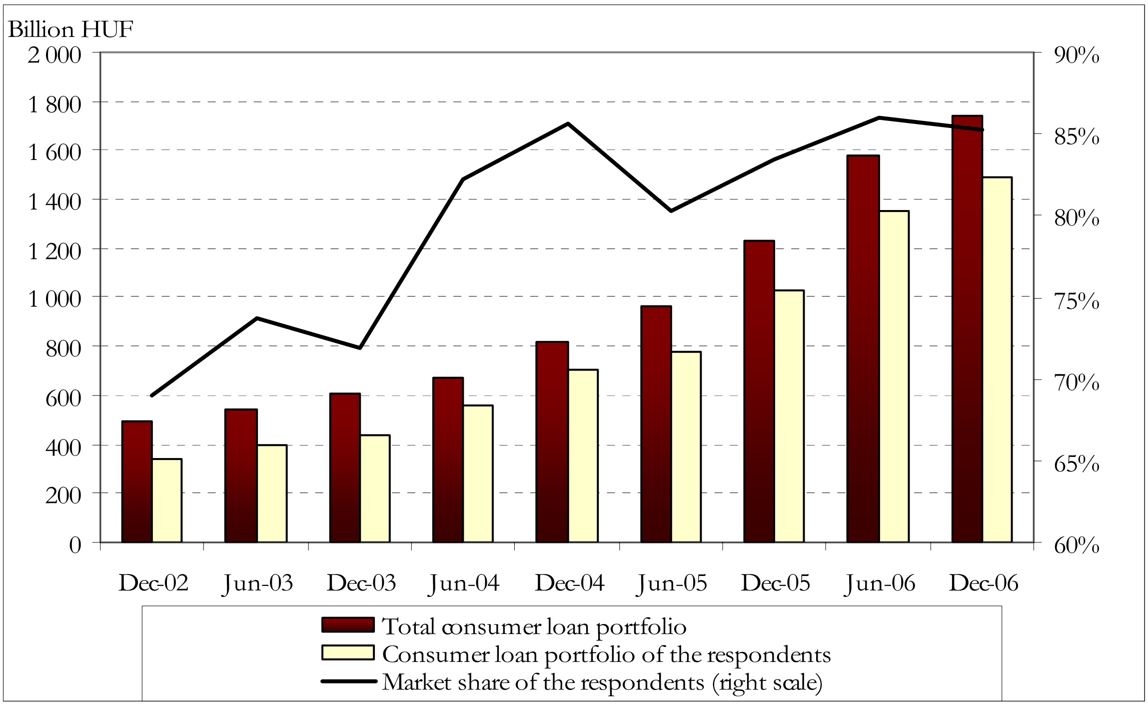
Household segment

Chart 22: Market share of banks answering the questions relating to housing loans



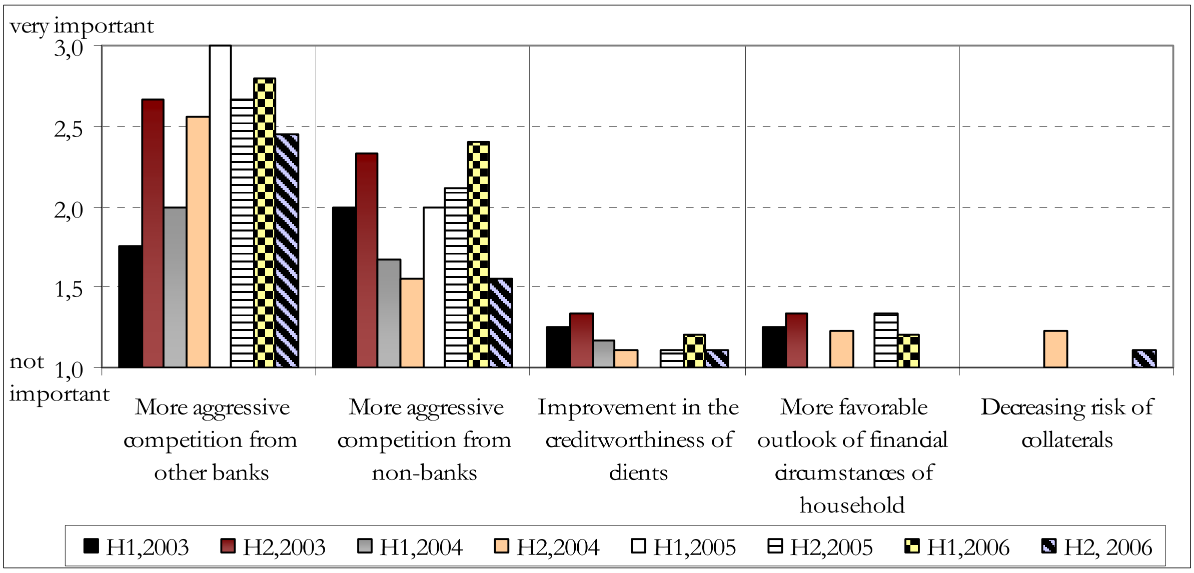
Note: Over the years, participating banks and their number in the particular surveys changed (e.g. because of fusion). Up to now (with the exception of December 2003), seven banks had answered our questions; from December 2005, the number of participating banks has been eight.

Chart 23: Market share of banks responding to questions relating to consumer credit



Note: The chart contains only the market shares of the banks questioned; the shares of financial enterprises are not shown.

Chart 24: Reasons for easing creditworthiness standards and lending conditions for consumer loans
(1 = not significant; 2 = slightly significant; 3 = very significant)



Note: *Over the years, participating banks and their number in the particular surveys changed. In the beginning, seven banks answered our questions; we invited nine banks to assess the first half of 2004, the number of respondents changed to ten from the end of 2004, and in the previous survey the number of participating banks increased to eleven.*

Corporate segment

Chart 25: Shares of responding banks within the total corporate lending portfolio (excluding commercial real estate loans)

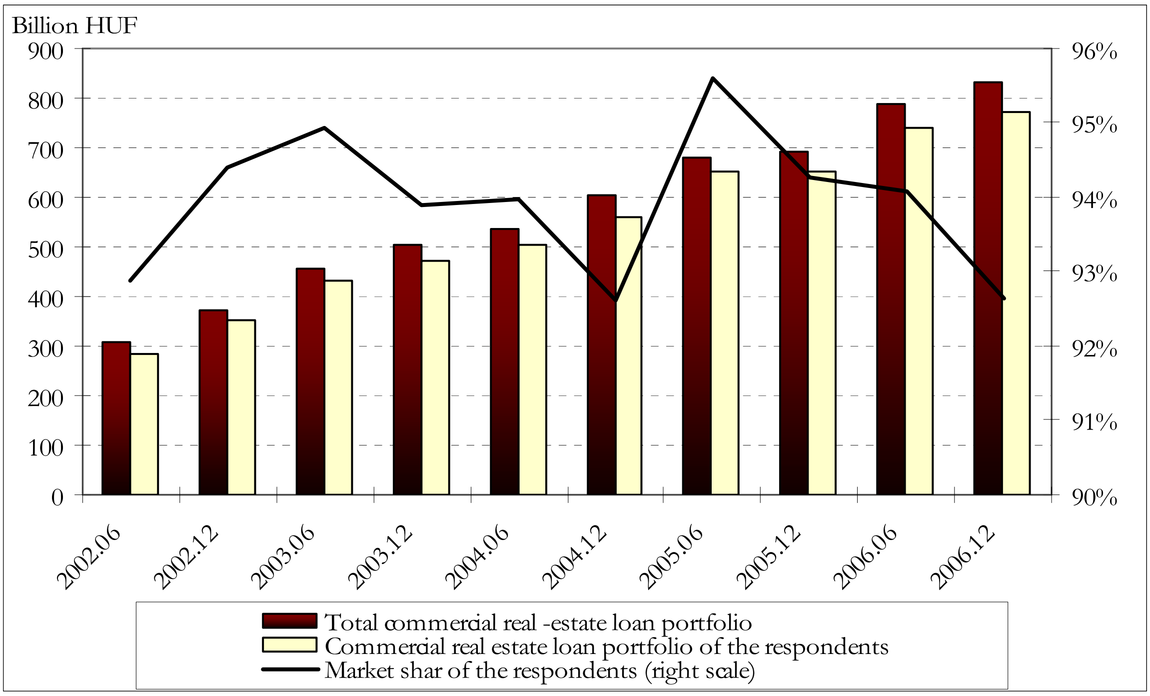


Chart 26: Shares of responding banks within the total commercial real estate loan portfolio

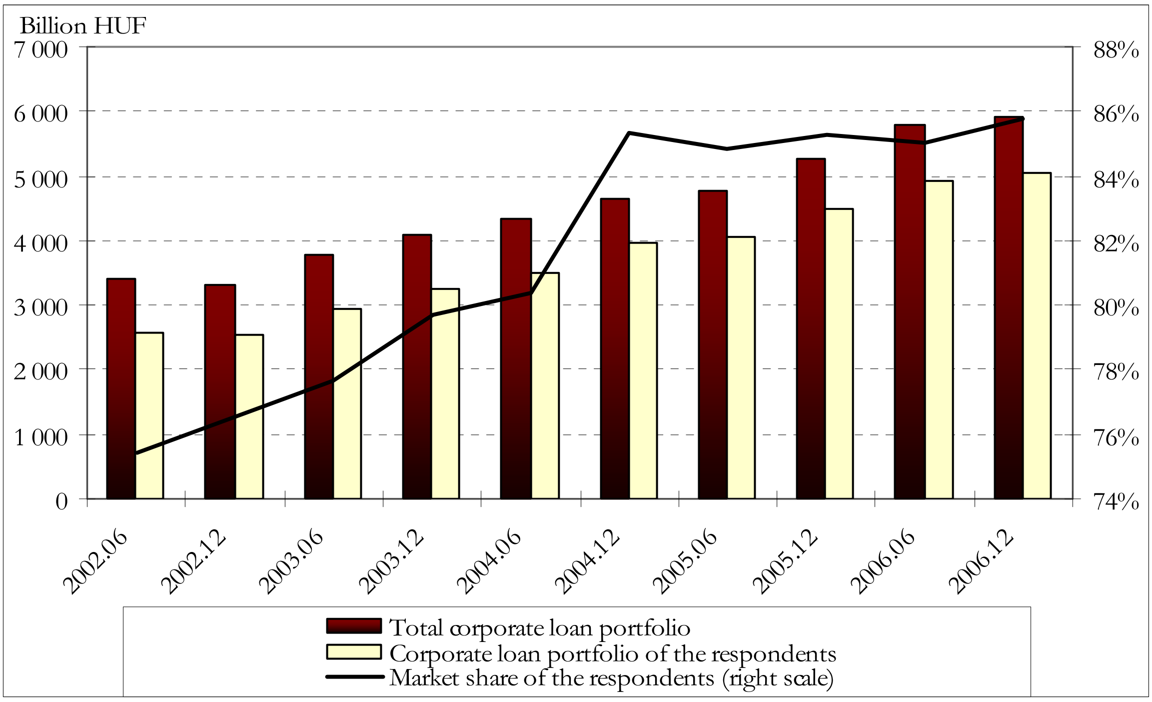


Chart 27: Creditworthiness standards by corporate category and in the field of commercial real estate loans
(Ratio of those reporting tightening minus those reporting easing)

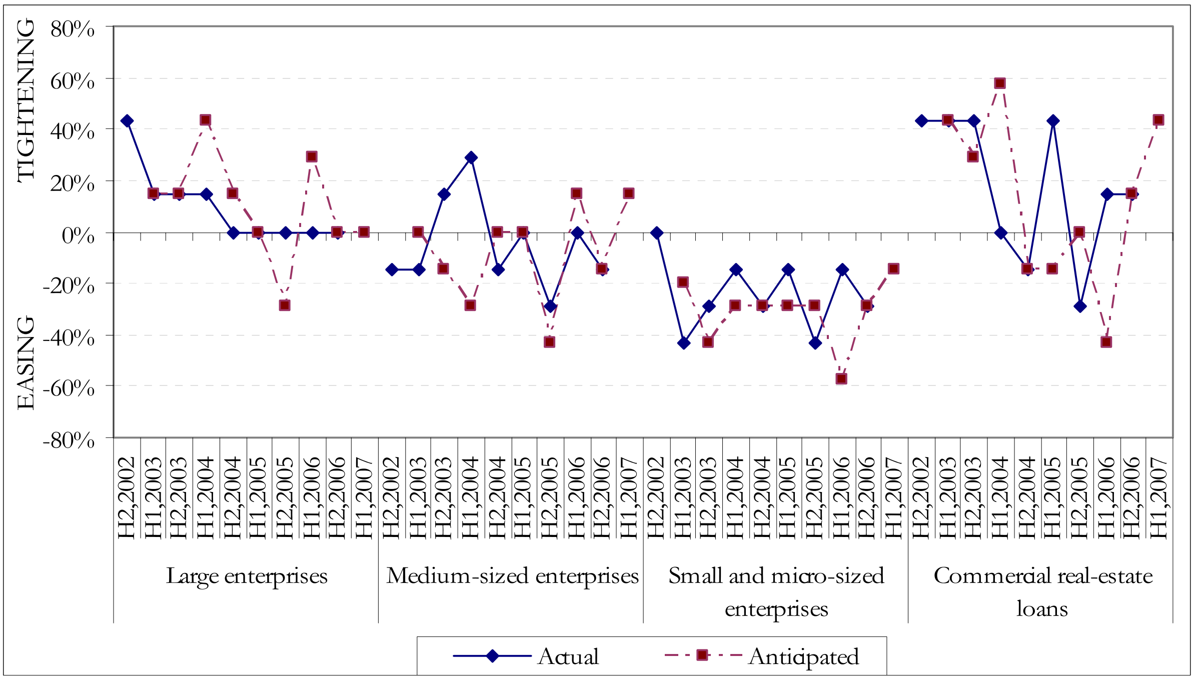
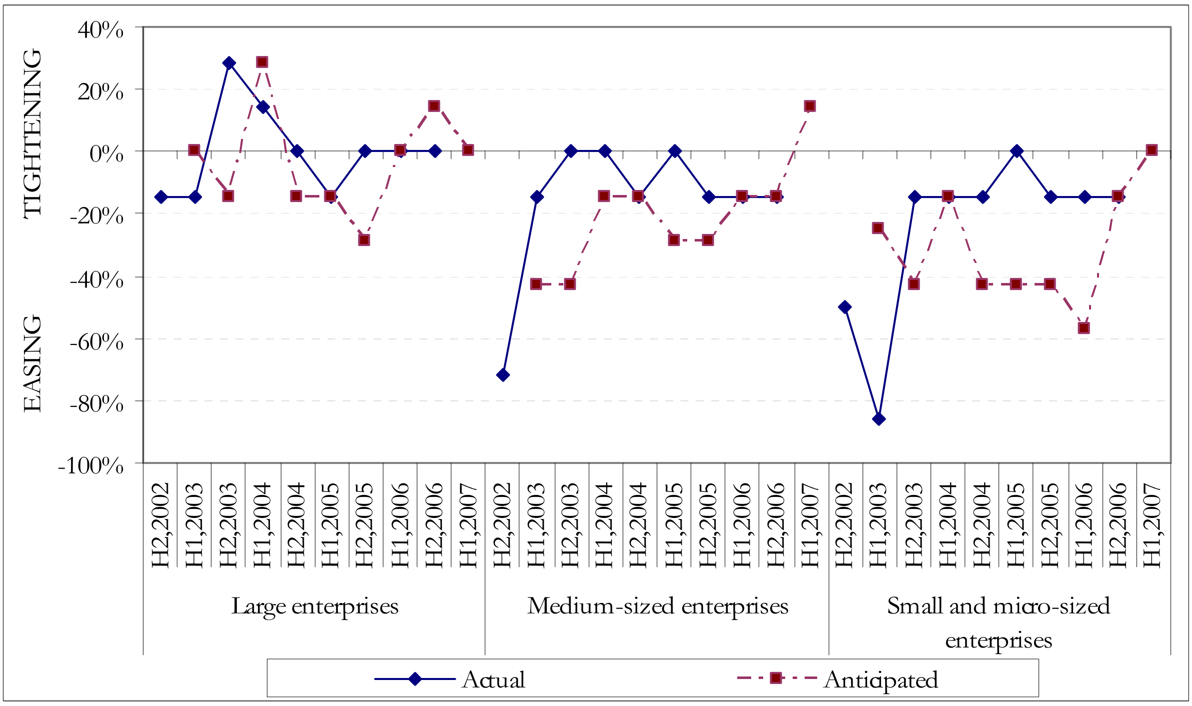


Chart 28: Maximum size of loans/credit lines by corporate category
(Ratio of those reporting tightening minus those reporting easing)



Char 29: Spread between lending rates and costs of funds in a breakdown by corporate category (Ratio of those reporting tightening minus those reporting easing)

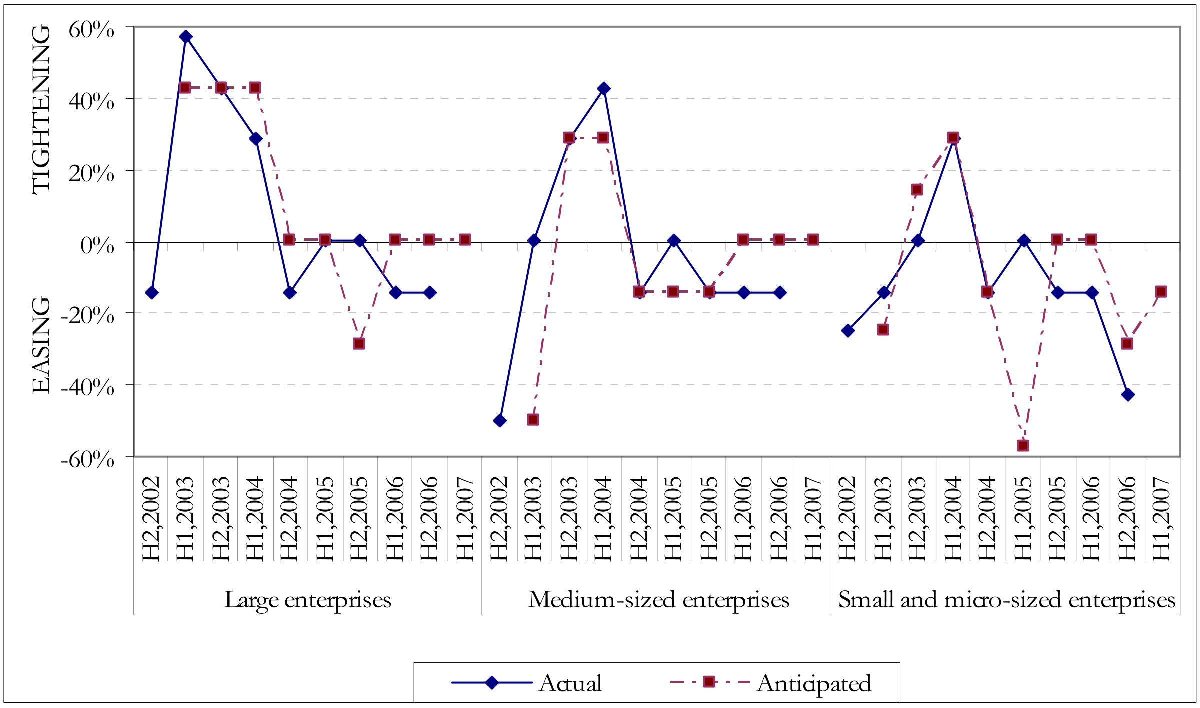


Chart 30: Premium on higher-risk loans in a breakdown by corporate sector (Ratio of those reporting tightening minus those reporting easing)

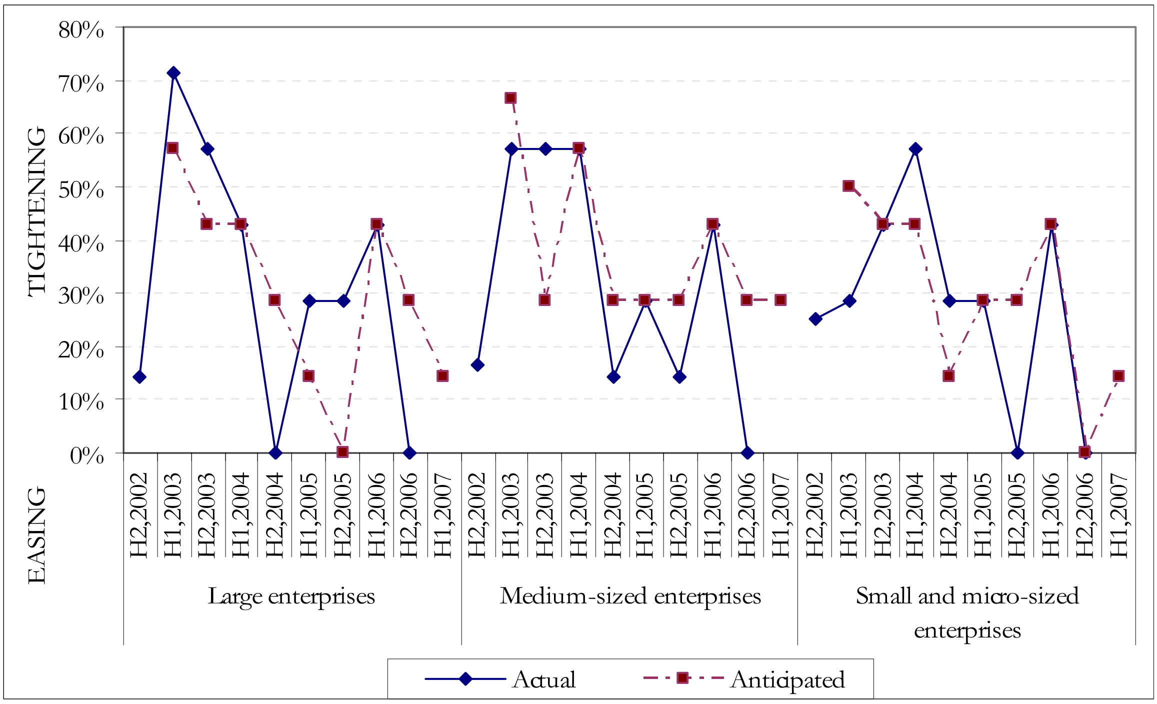


Chart 31: Collateral requirements in a breakdown by corporate sector
(Ratio of those reporting tightening minus those reporting easing)

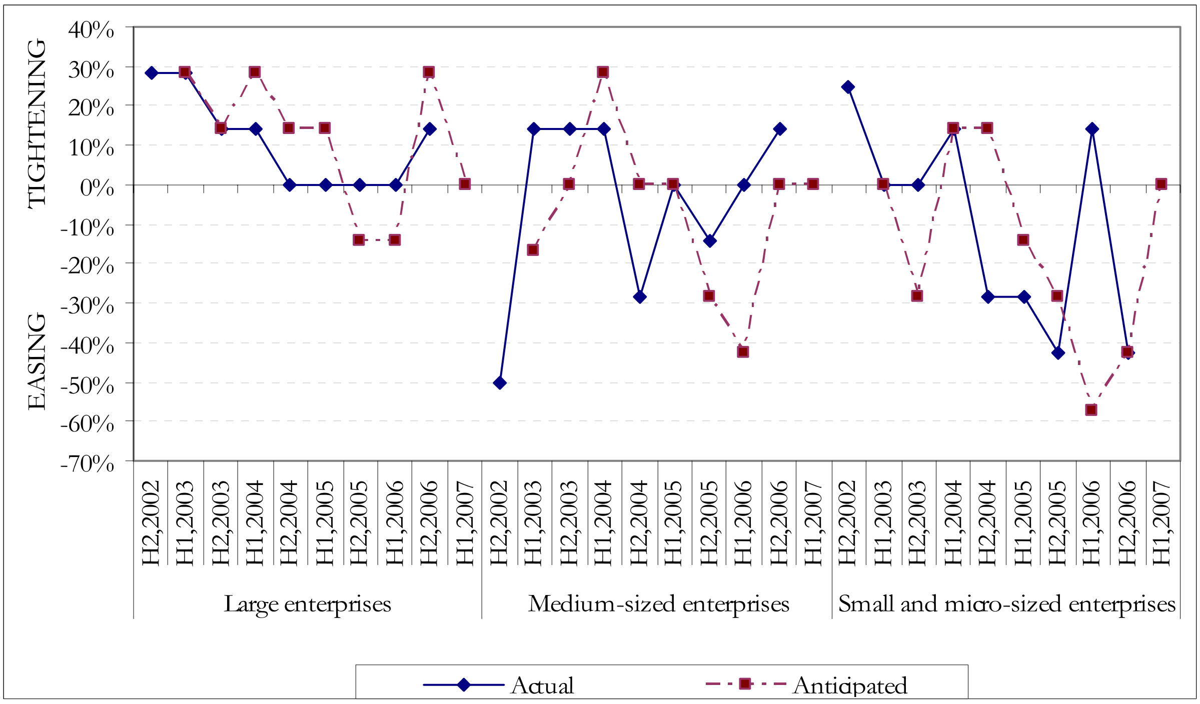


Chart 32: Demand for loans in a breakdown by corporate sector and in the market of commercial real estate lending
(Ratio of those reporting an increase minus those reporting a decrease)