MAGYAR NEMZETI BANK

SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

MAY 2010

Summary of the aggregate results of the survey for 2010 Q1

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(Financial Stability)

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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. Additionally, for the second time, we also examined the developments in debt restructuring of banks. In addition to the household segment, this time the examination was extended to the corporate segment as well. Aggregating individual answers, weighted by banks' market shares, helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. 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 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 details 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 Q1, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2010 Q2-Q3. Questions focus on changes perceived relative to the previous quarter: the base period is 2009 Q4 for retrospective questions and 2010 Q1 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 Q1, the surveyed institutions accounted for 93.8% 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 83% and 93.6% of the corporate loan and commercial real estate loan markets, respectively. A total of 6 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2010 Q1, the institutions surveyed covered 97.4% of total municipal exposure by banks.

Contents

THE CREDIT SUPPLY REMAINS SUBDUED; MEANWHILE DEMAND SEEMS TO BE STRONGER

The Magyar Nemzeti Bank released the results of its latest lending survey. The survey, which was conducted in April, found that the credit supply remains subdued, meanwhile demand seems to be stronger.

As regards the household sector, overall some banks eased interest rate conditions and the fees charged on home equity and personal loans. In the case of housing loans, banks reported to have tightened the maximum loan-to-value ratio slightly. Compared to the previous quarter, a significantly larger net balance of banks perceived an increase in demand for forint-denominated mortgage loans.

In the corporate lending market, most banks continue to maintain tight credit conditions; moreover there was still a bank that tightened further. Over the next half-year none of the banks expect further tightening. The tightening cycle starting in 2007 seems to come to an end in this quarter, but the maintained tight conditions do not support the economic recovery. That is especially true in the case of investment loans, where banks perceive increasing demand.

Banks continue to restructure loans so as to manage delinquent and potentially endangered customers. At the end of 2010 Q1 the restructured loans accounted for 3.5% of the loan portfolio in the corporate segment, and nearly 5% of the household loan portfolio. Based on banks' responses, at the end of 2010 Q1, the delinquency rate (more than 30 days) within restructured loans was 3.5% in the case of large-sized enterprises, and about 9% in the case of the SME sector. By contrast, in the household sector this ratio reached 20%, which is a significant deterioration compared to 2009 Q4.

FORINT DENOMINATED LOANS ARE GAINING GROUND

A net[1] 55% of banks weighted by market share reported to have tightened credit conditions in the housing loan segment, while in the case of consumer loans a net 15% of banks reported to have eased them (Chart 4 of the Annex). Based on the responses, banks expect this trend to continue in both segments over the next half-year period. In the euro area, based on the latest ECB lending survey, a slight net percentage balance of banks reported to have tightened credit conditions further in both the housing and consumer loan segment.

In the consumer loan segment, banks reported to have eased credit conditions on personal loans and home equity loans, mainly in terms of the spread on funding costs (49% of banks in net terms) and in fees charged (a net 38% of banks) (chart 11). By contrast, banks and leasing companies continued to tighten the conditions of vehicle financing. Over the next half-year net 41% of banks expect to tighten monthly payment-to-income ratio. However, the expected easing on interest conditions may subdue this tightening.

Considering housing loans, banks reported to have tightened somewhat only the maximum loan-to-value ratio (LTV) (chart 6). Over the next half-year period, responding banks broadly expect to tighten somewhat the minimum required credit score and the maximum monthly payment-to-income ratio[2], in particular for foreign currency-denominated loans. This tightening can be considered as moderate, since banks solely chose the "tightened somewhat" option instead of the "tightened considerably" one in the questionnaire. Furthermore, from the data of March 2010 it appears that the tightening was not effective to the new volume of loan contracts (chart 5).

On the demand side, most banks perceived an increase in demand for forint-denominated loans relative to the previous quarter, both in the housing loan (chart 9) and the home equity loan segments (chart 16). Based on banks' responses, changes in the general interest rate level was a major factor contributing to this increase in loan demand.

[1] The net value is defined as the weighted share of respondents reporting tightening minus the weighted share of respondents reporting easing credit conditions). The net value does not contain the magnitude of the tightening/easing.

[2] Based on banks' responses the tightening can be attributed to the government decree on prudent lending that determines tighter conditions on foreign denominated loans and prohibits solely collateral-based lending. The first part of the decree came into effect on March 2010 with different limits on maximum loan-to-value ratio by denomination, while the second part will come into effect on 11 June 2010 by setting up creditworthiness limitations.

LOW RISK-TAKING WILLINGNESS OF BANKS MEANS A CREDIT SUPPLY BARRIER IN CORPORATE LENDING

In 2010 Q1, the majority of banks continued to maintain tight credit conditions with respect to corporate loans[3], moreover there was still a bank that tightened further (net 11%) (chart 23). Over the next half-year none of the banks expect further tightening. The tightening cycle, started in 2007, seems to come to an end in this quarter, but the maintained tight credit conditions do not support the economic recovery. In the euro area, based on the latest ECB lending survey, a net 3% of banks reported to have tightened credit conditions further.

Banks' supply behaviour is influenced by their capacity to extend loans (predominantly capital and liquidity positions), by their inclination to take risks and finally by the creditworthiness of the customers. Predominantly the economic outlook and industry specific problems affect the customers' creditworthiness. Based on their responses their capital and liquidity positions do not contribute to tightening, moreover net 13% of banks reported that liquidity position have contributed to easing. The creditworthiness of customers is still weak due to industry specific problem, however net 21% of banks expect that the economic outlook will contribute to easing over the next half-year. Parallel with these tendencies, banks' risk appetite is still low: net 20% of banks said that decrease in risk tolerance contributes to tightening (chart 34).

On the demand side, a net 43% of banks perceived a rebound in loan demand compared to the previous quarter (Chart 36). The same trend can be observed in the case of long-term investment loans (net 21%), which can be attributed to the increasing demand of large and medium-sized enterprises. Consistent with the improving economic outlook, banks expect a more broad-based increase in loan demand over the next half-year.

THE DELINQUENCY RATE WITHIN RESTRUCTURED LOANS INCREASED, BUT ITS DEGREE IS MANAGEABLE[4]

By the end of 2010 Q1 around 3.5% of the loan portfolio of large firms and small and medium-sized enterprises and 13% of the portfolio of commercial real estate loans were restructured (Chart 46). With respect to currency denomination, banks mainly restructured forint-denominated loans in the SME segment, and they mainly restructured foreign currency-denominated loans in the large-sized enterprises segment (Chart 47).

Among the various debt restructuring methods, moratorium on principal repayment with or without maturity extension is predominant in both the corporate and commercial real estate loan segments. Redemption with bridging finance is another alternative; however, banks tend to resort to this option mainly in the case of large-sized enterprises. In the case of commercial real estate loans and loans to large-sized enterprises, another applied restructuring method is the transformation of loans into bullet (principal repayment at the end of maturity) loans.

The delinquency rate (more than 30 days) within restructured loans was 3.4% in the case of large firms and reached 9% in the restructured portfolio of the SME sector (chart 49). Based on banks' expectations, by the end of 2010 the restructured portfolio in the corporate and commercial real estate loan segments will almost double compared to the outstanding amount in 2010 Q1.

In the household loan portfolio, restructuring amounted to around 4% for housing loans, 8% for home equity loans and around 5.5% for vehicle financing (Chart 50). Banks primarily resort to their own restructuring programmes (the Government's housing rescue package accounted for a mere 1% of the total restructured portfolio). Banks expect the outstanding amount of restructured loans to rise slightly by the end of the year. With respect to mortgage loans, the delinquency rate (more than 30 days) within restructured loans increased significantly relative to the results of the previous

[3] Banks broadly continue to tighten credit conditions on commercial real estate loans (see Chart 38).

[4] The Hungarian Financial Supervisory Authority (PSZÁF) in the 8AP Portfolio quality report also analyses the restructured loans, however, the results might differ markedly from our results. One reason is that in the PSZÁF report the delinquent restructured loans are reported in the different delinquency categories, while we analyse the total restructured loans and separately report the quality of them. Another reason is that the PSZÁF analyzes the banks operating as incorporated enterprises in Hungary, excluding foreign branches and leasing companies, while the MNB lending survey analyses the major participants of the relevant sub-segments (accounting for around 90% of the market), therefore, foreign branches and leasing companies can be included.

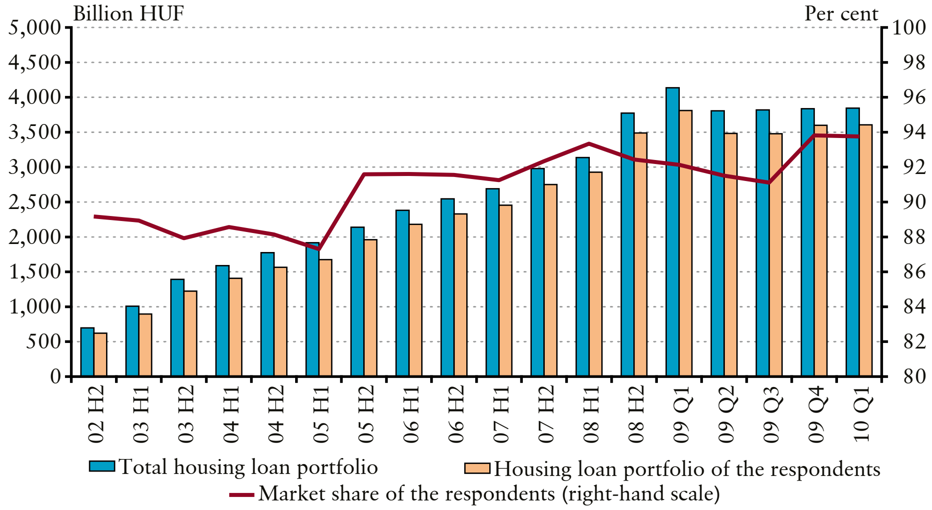
survey concerning 2009 Q4 reaching 20 percent (Chart 51). It has to be noted that restructured outstanding amount is young and most of the loans are still in the grace period. Therefore the restructured portfolio quality may further deteriorate later on with gradually expiring grace periods, if the debt servicing capacity of the borrowers does not improve considerably.

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

LENDING TO HOUSEHOLDS

Chart 1

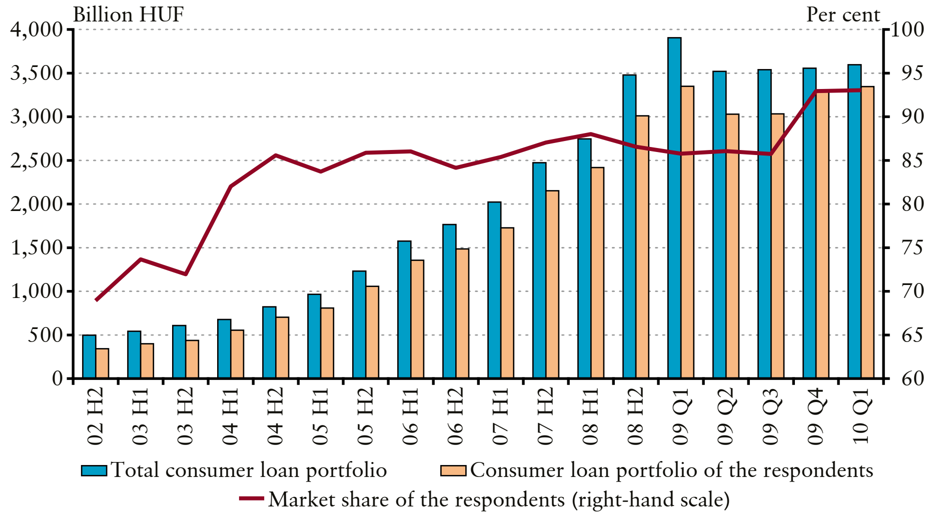
Outstanding amount of housing loans and the market share of banks completing the questionnaire



Note: The number of banks changed 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 2

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



Note: The number of banks changed 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

Willingness of banks to extend housing loans and consumer loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

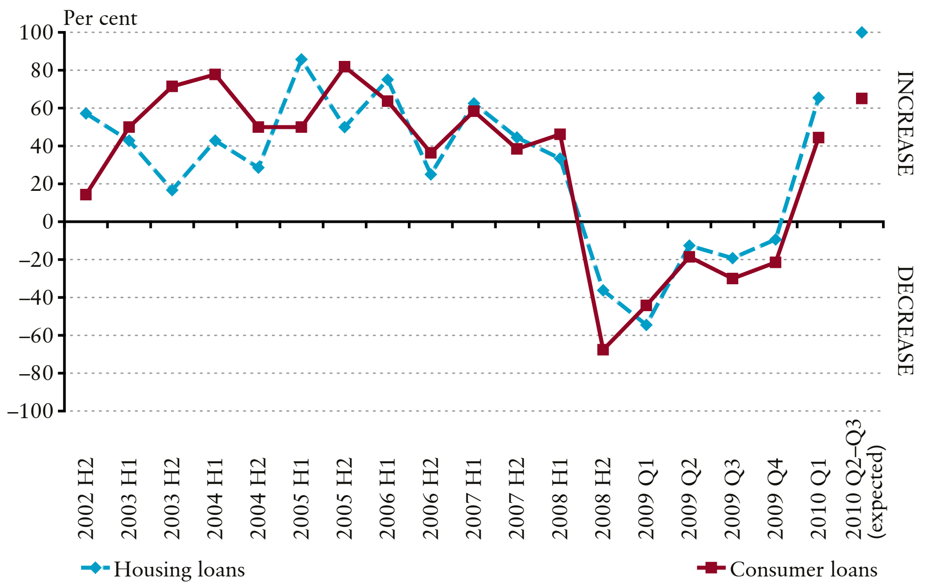
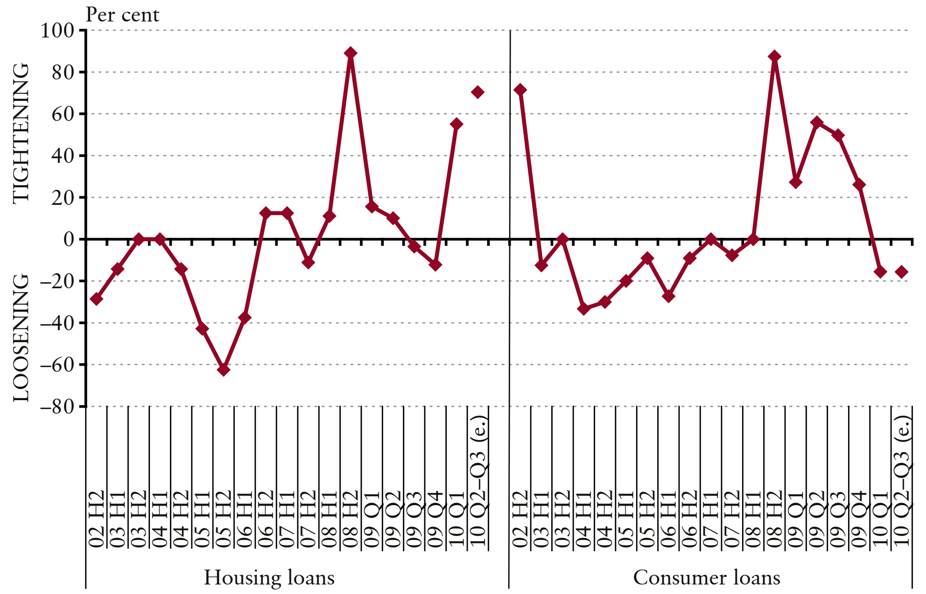


Chart 4

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

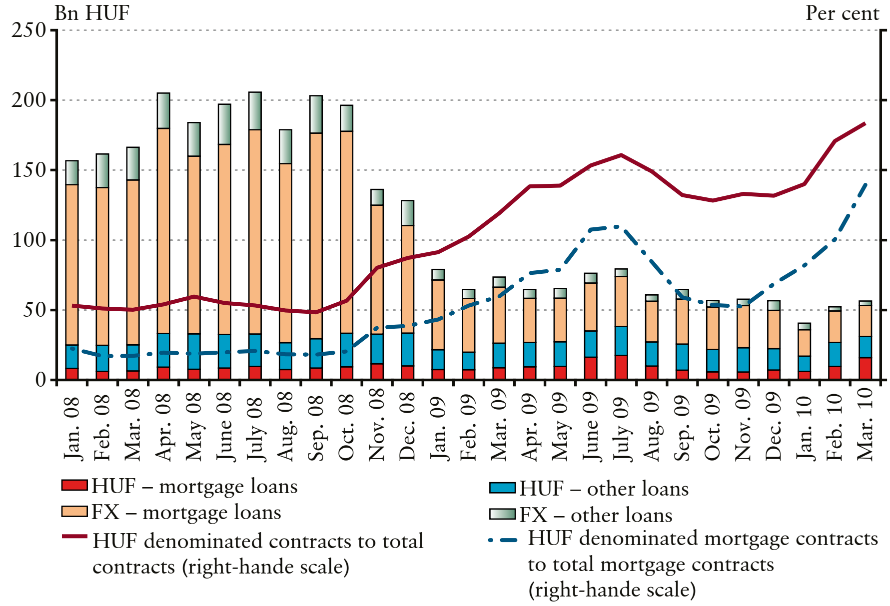
(net percentage balance of respondents tightening/easing credit standards)



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

Chart 5

New loan contracts by denomination

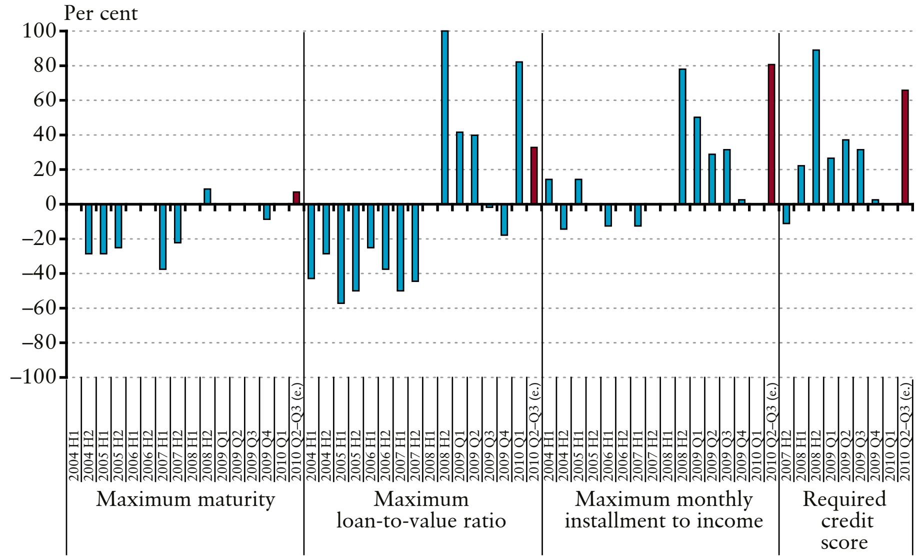


Source: MNB.

Chart 6

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

(net percentage balance of respondents tightening/easing credit conditions)

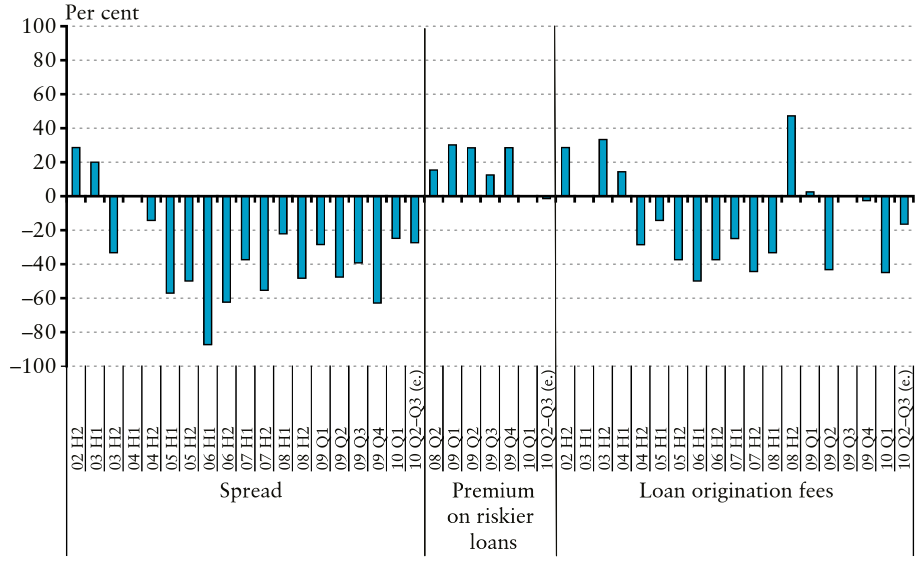


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 7

Credit conditions in the housing loan market – price conditions

(net percentage balance of respondents tightening/easing credit conditions)



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)

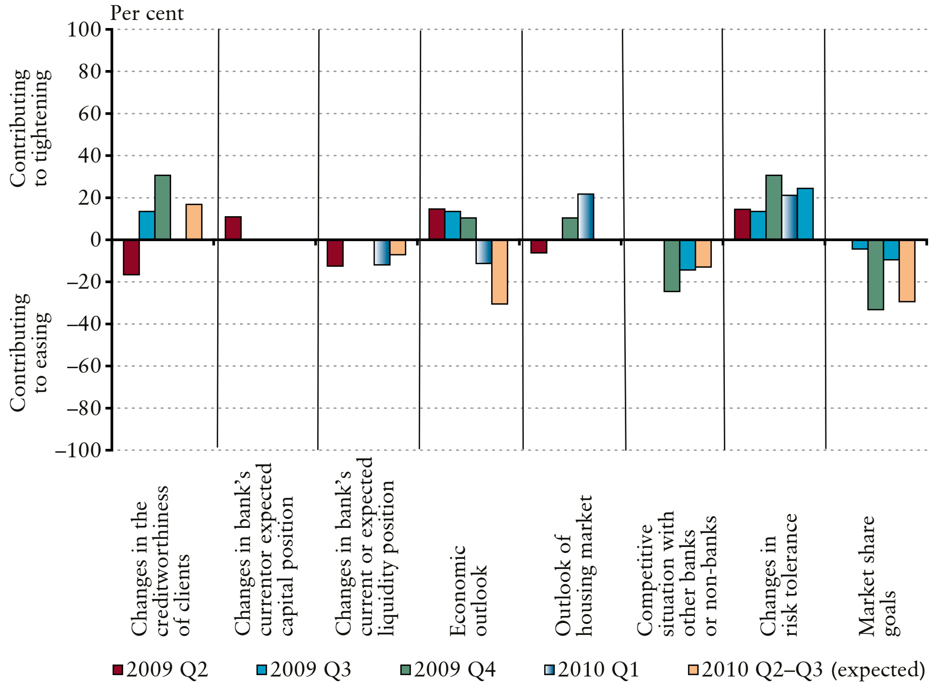


Chart 9

Demand for housing loans

(net percentage balance of respondents reporting increase/decrease in demand)

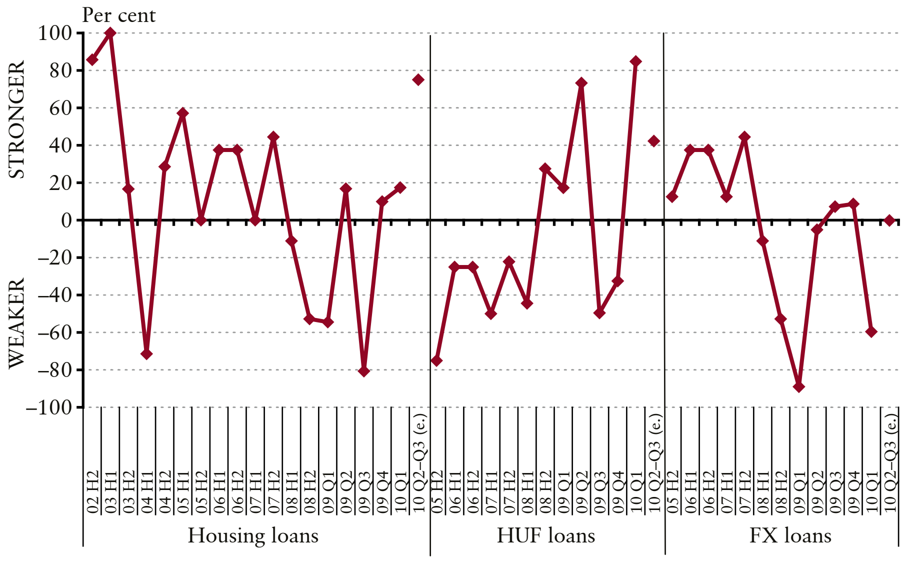
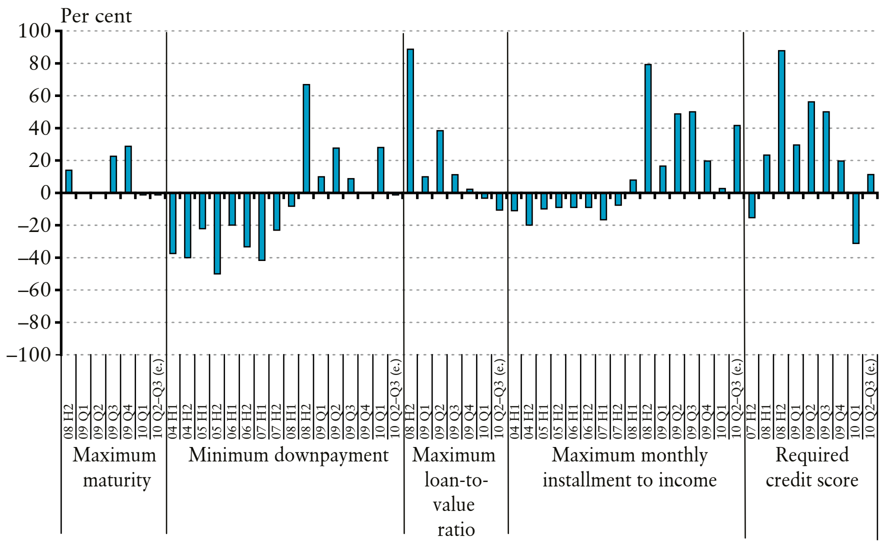


Chart 10

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

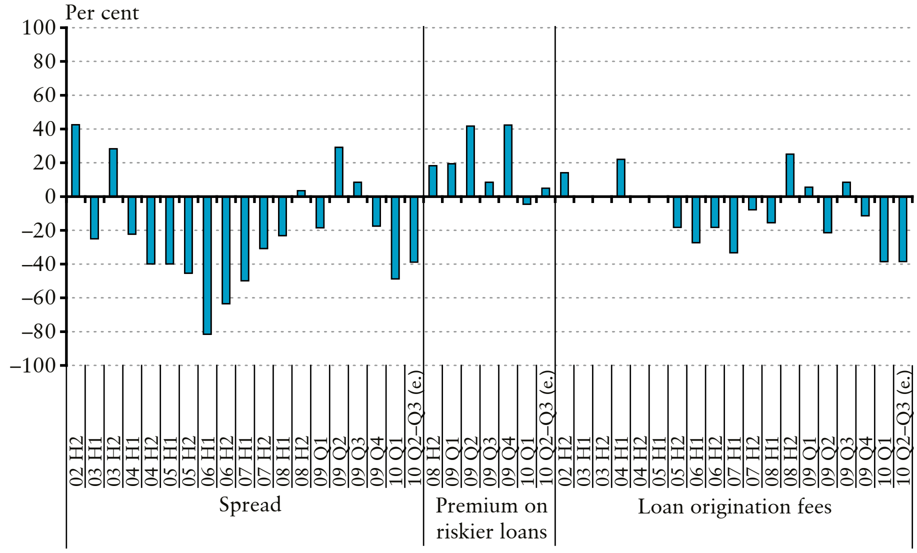
(net percentage balance of respondents tightening/easing credit conditions)



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)



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)

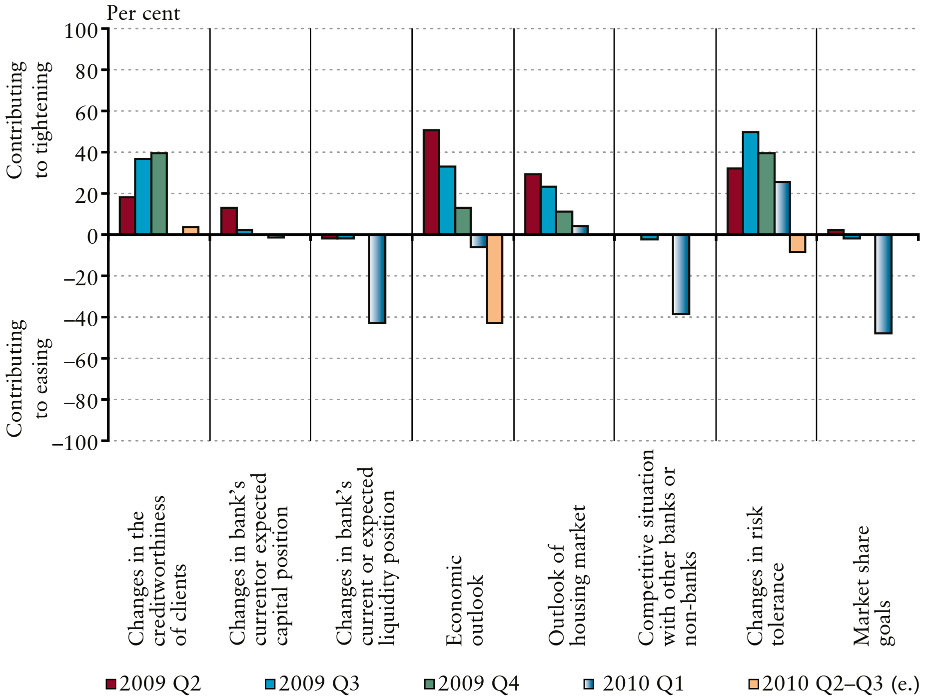
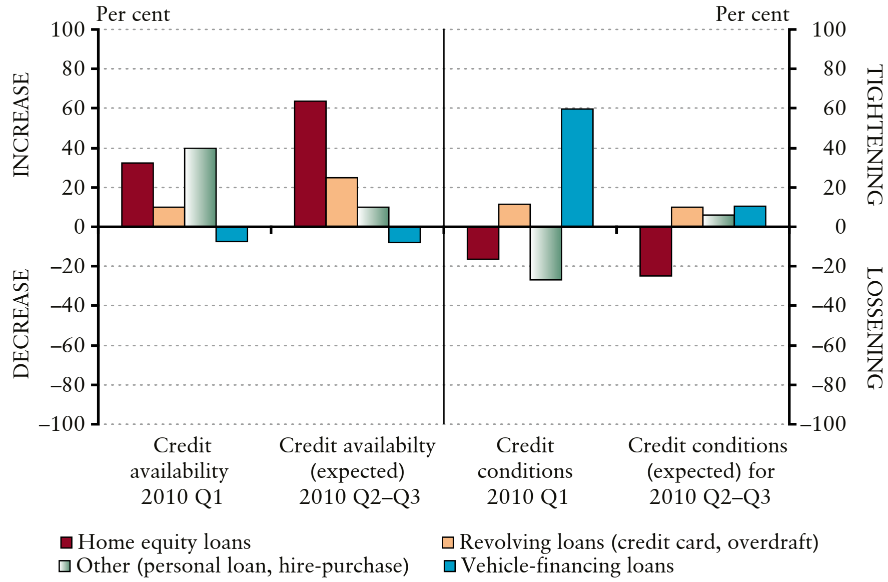


Chart 13

Credit availability and credit conditions for different consumer loan products

(net ratio of banks providing the relevant answer)

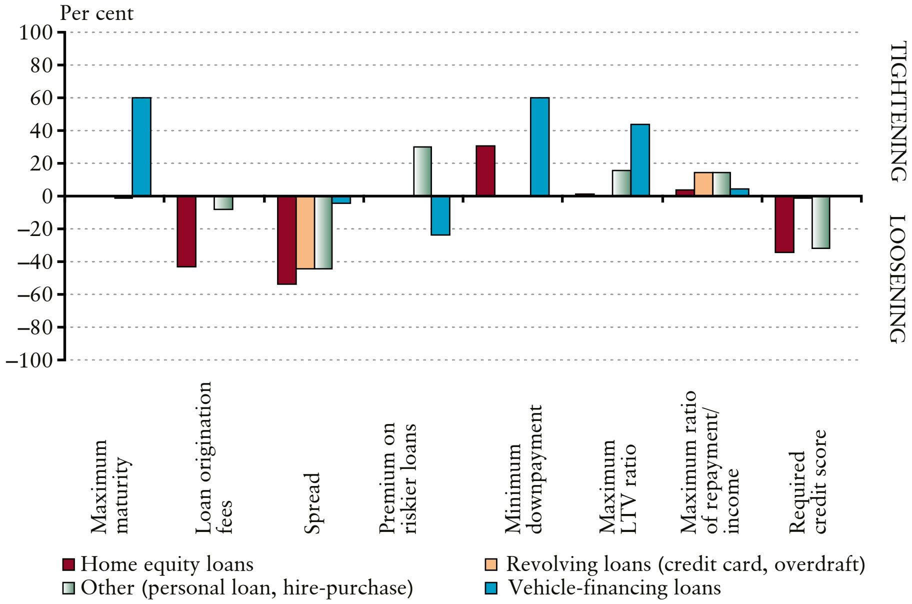


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 14

Credit conditions for different consumer loan products

(net percentage balance of respondents tightening/easing credit conditions)



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

Chart 15

Demand for consumer loans

(net percentage balance of respondents reporting increase/decrease in demand)

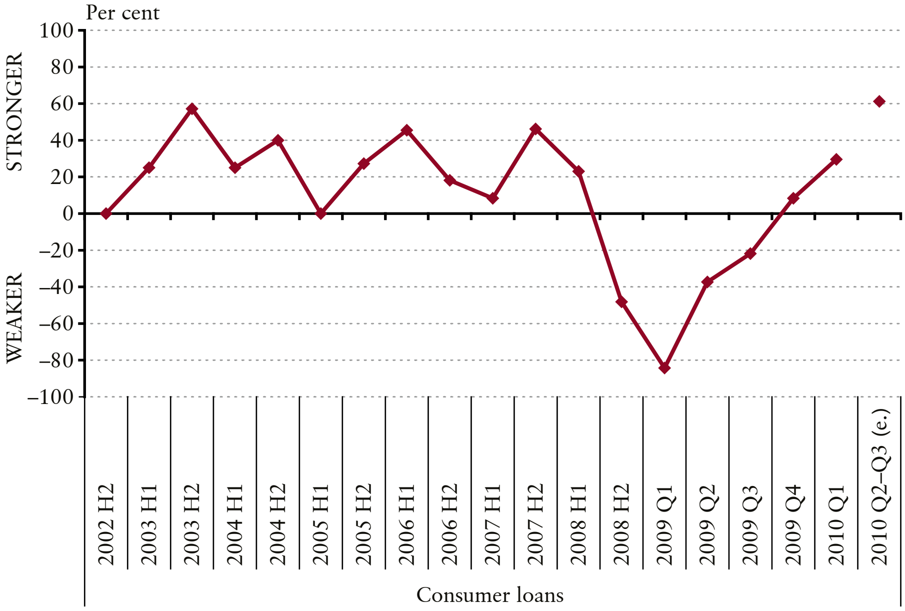


Chart 16

Percieved demand for different consumer loan products

(net percentage balance of banks reporting increase or decrease)

Chart 17

Default rate of loans to households and loss given default

(net percentage balance of banks reporting increase or decrease)

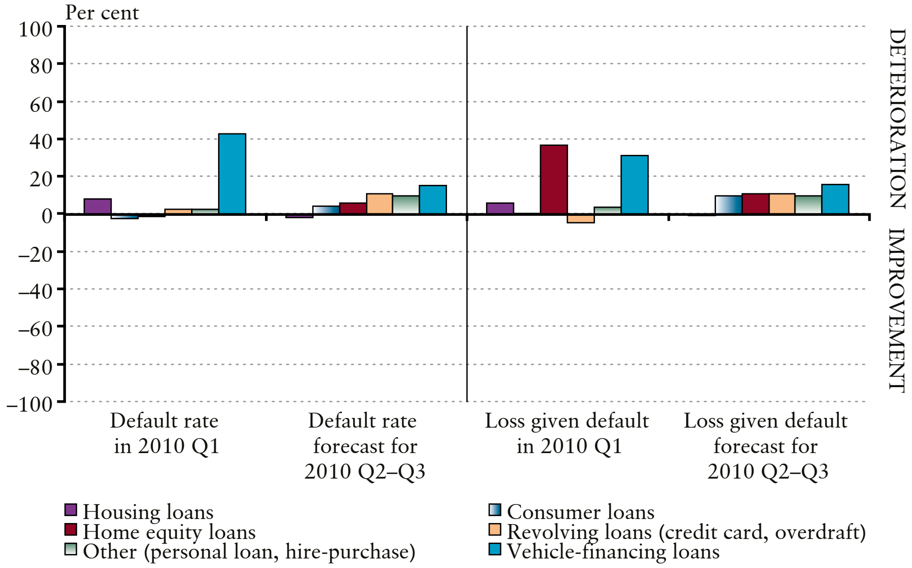
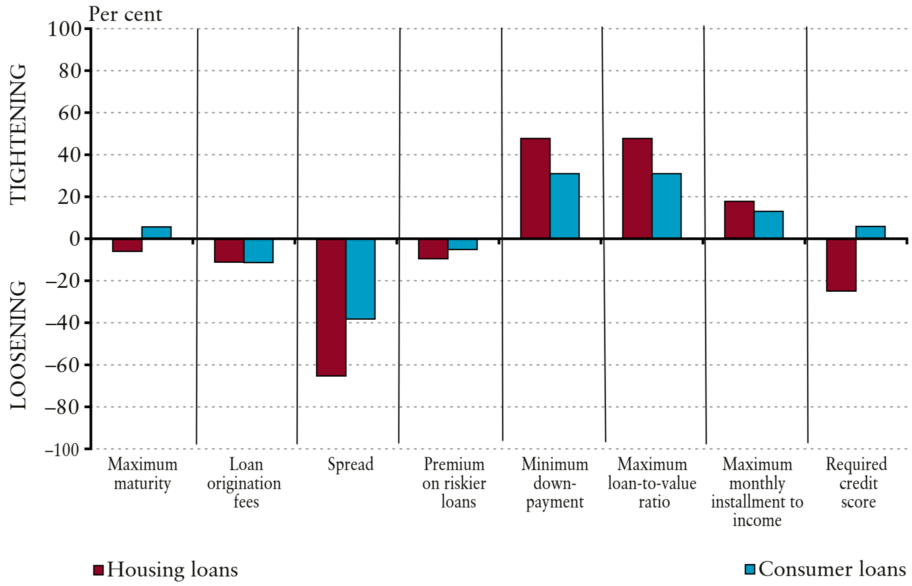


Chart 18

Banks' projected expectations in the previous survey round (January) about developments in credit conditions

(net percentage balance of respondents expecting tightening/ease in credit conditions)

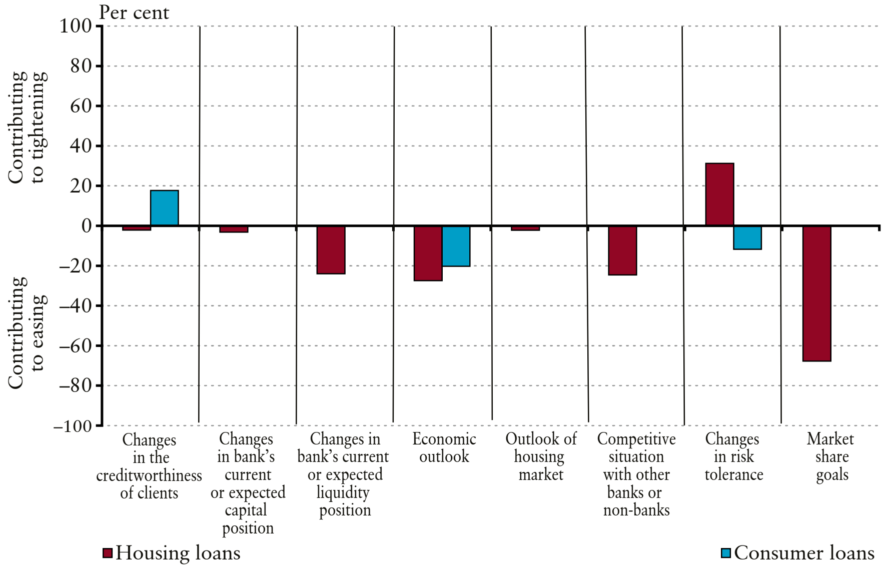


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 19

Banks' projected expectations in the previous survey round (January) about factors determining credit conditions

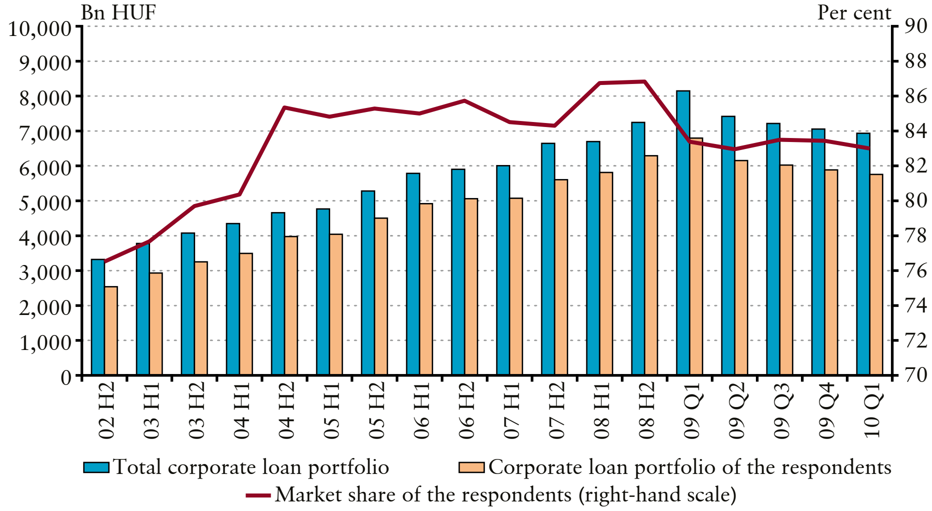
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing)



LENDING TO THE CORPORATE SECTOR

Chart 20

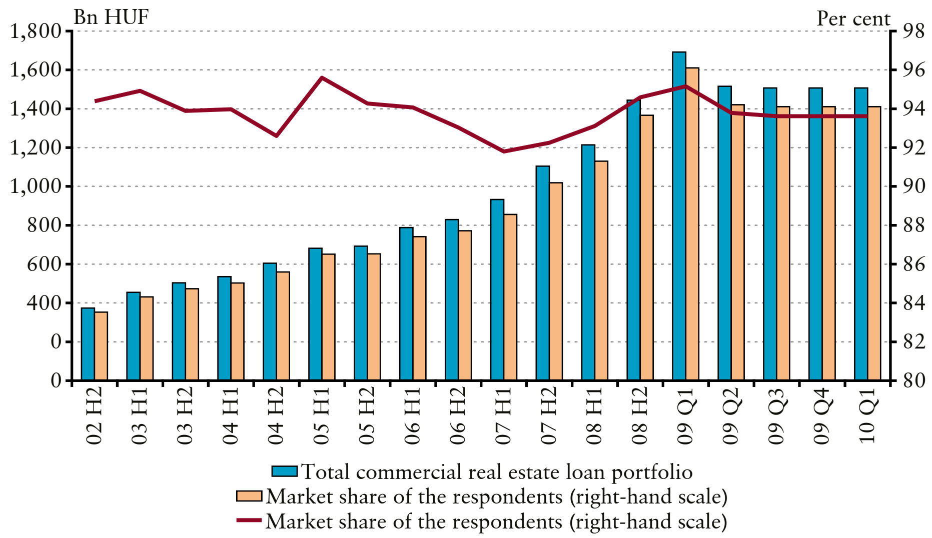
Total corporate loan portfolio and market share of the banks completing the corporate questionnaire



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

Chart 21

Commercial real estate loan portfolio 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 22

Willingness of banks to extend corporate loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

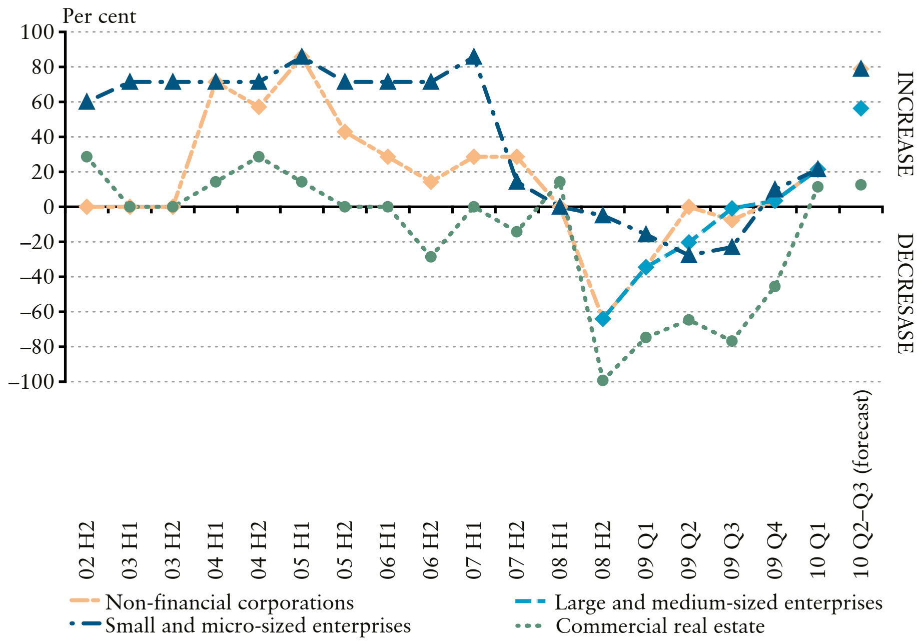


Chart 23

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

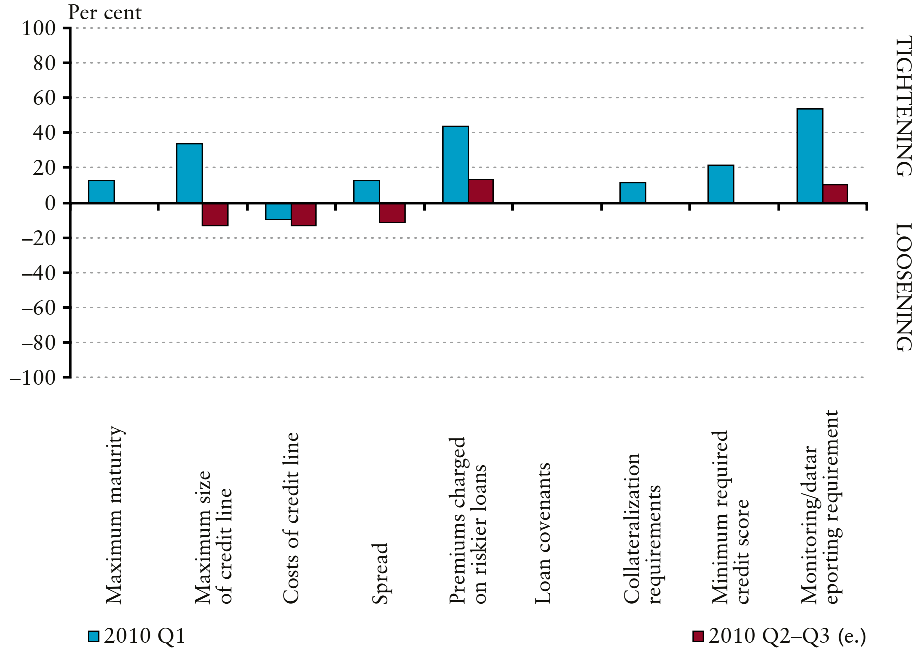
(net percentage balance of respondents reporting tightening/easing)

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

Chart 24

Credit conditions in the non-financial corporate segment

(net percentage balance of respondents reporting tightening/easing)

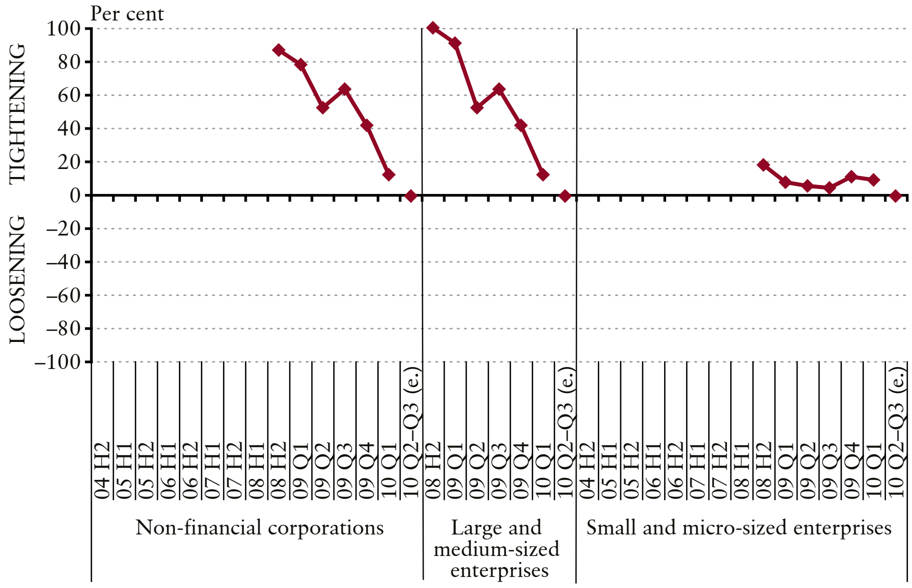


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 25

Maximum maturities by corporate category

(net percentage balance of respondents reporting tightening/easing)

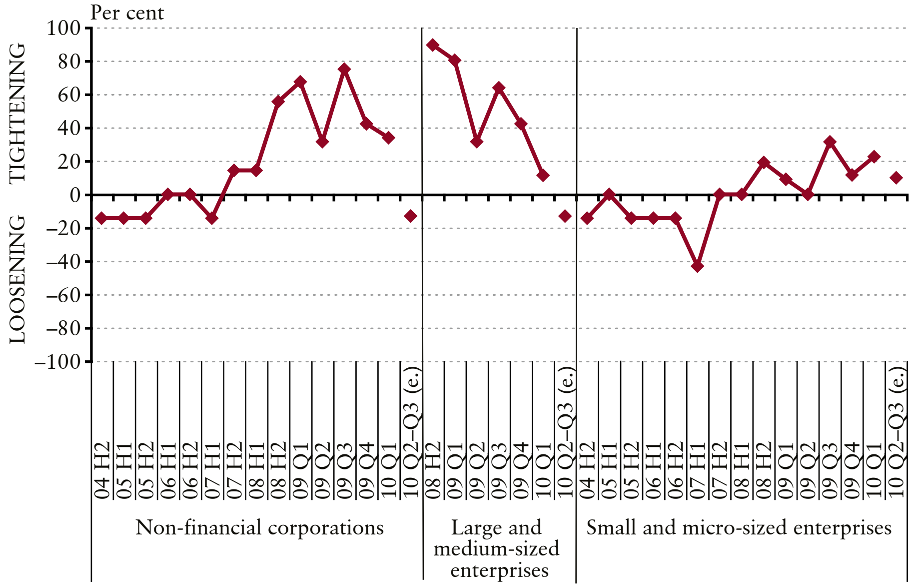


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 26

Maximum size of loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing)

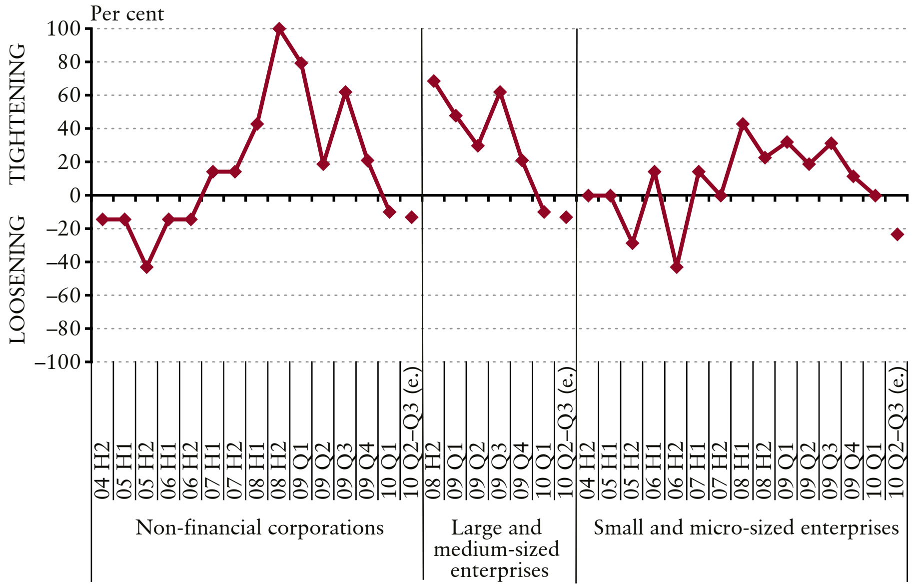


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 27

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

(net percentage balance of respondents reporting tightening/easing)

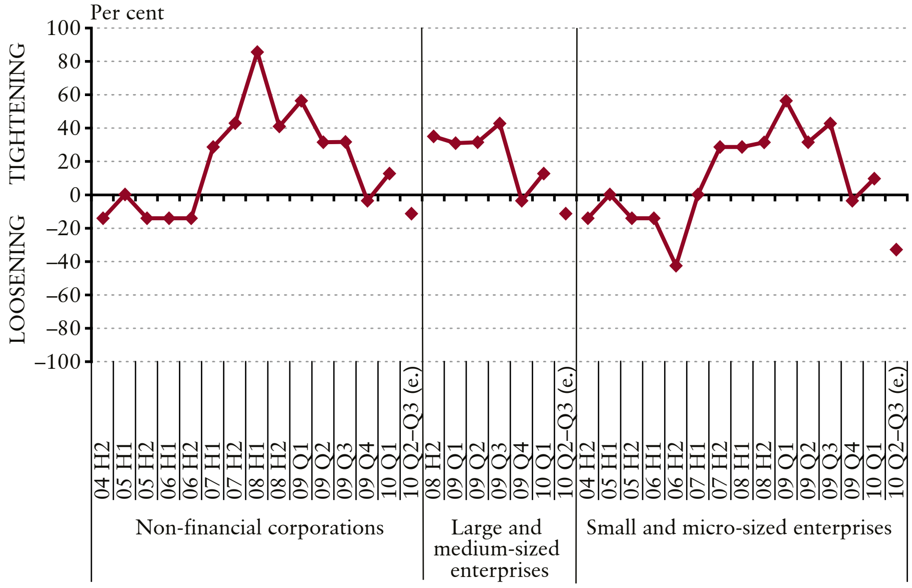


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 28

Spread between lending rates and cost of funds by corporate category

(net percentage balance of respondents reporting tightening/easing)

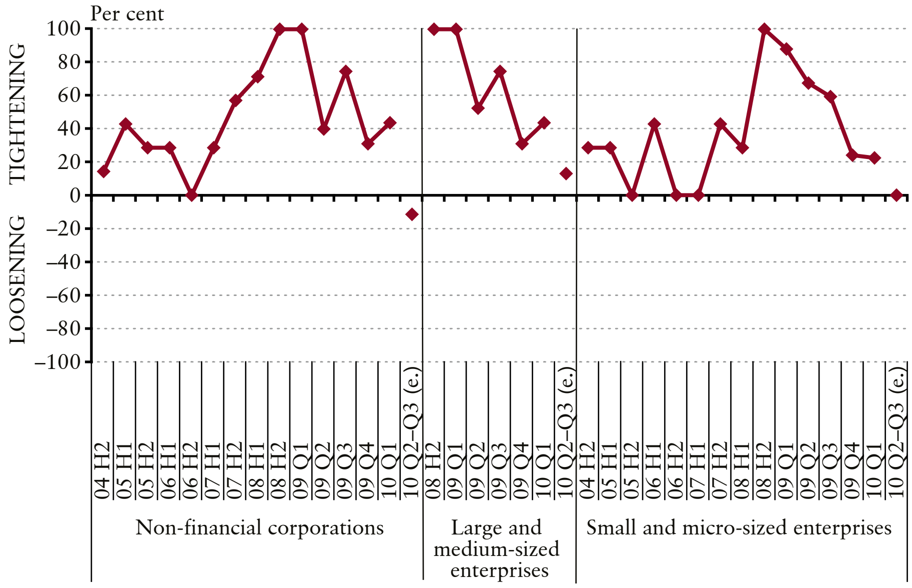


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 29

Premium on higher risk loans by corporate sector

(net percentage balance of respondents reporting tightening/easing)

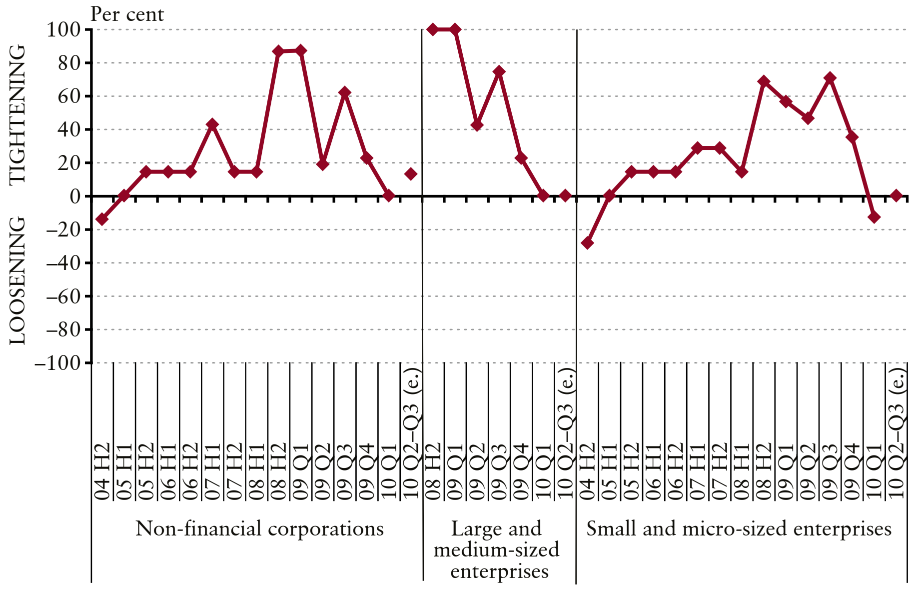


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 30

Covenant requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

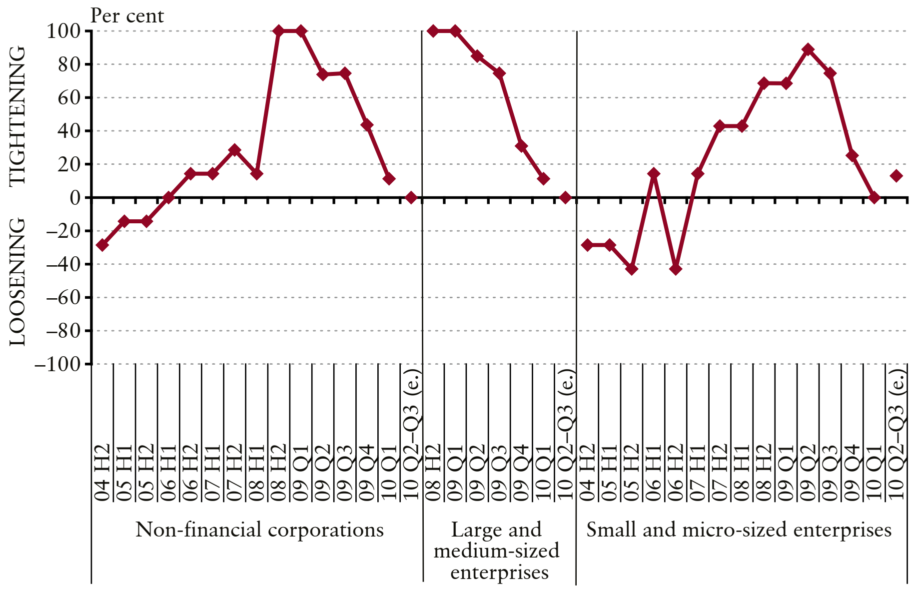


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 31

Collateralisation requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

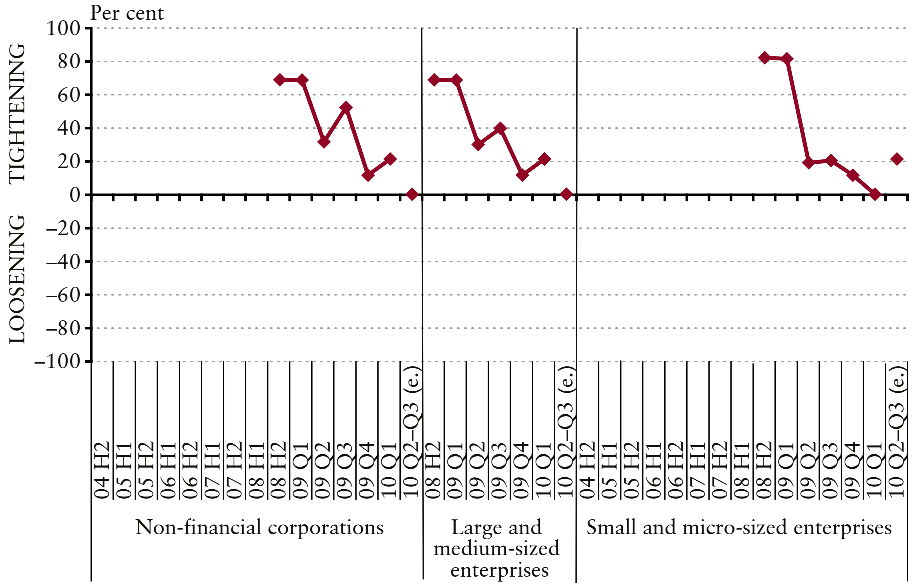


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 32

Minimum required credit score by corporate category

(net percentage balance of respondents reporting tightening/easing)

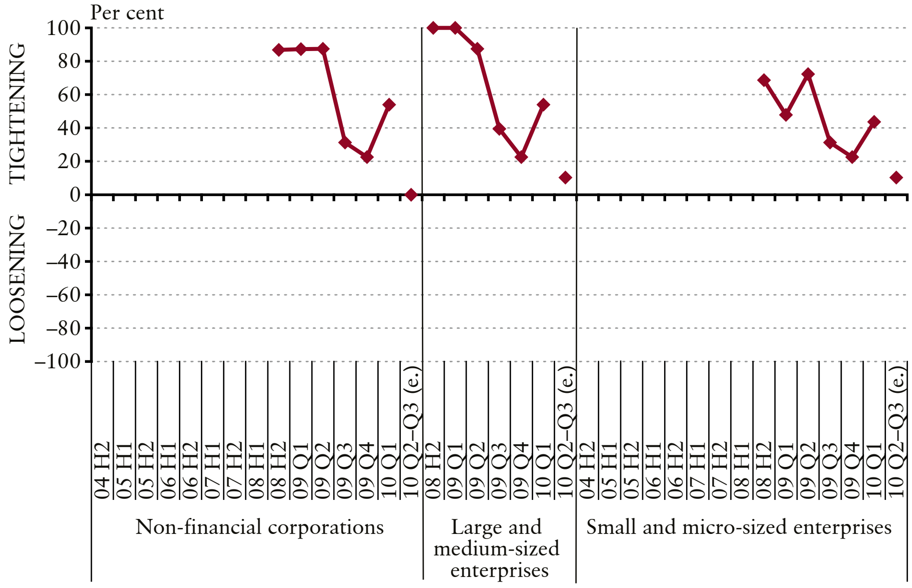


Note: The magnitude of tightening /easing is not shown in the chart.

Chart 33

Monitoring/reporting requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)



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

Chart 34

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

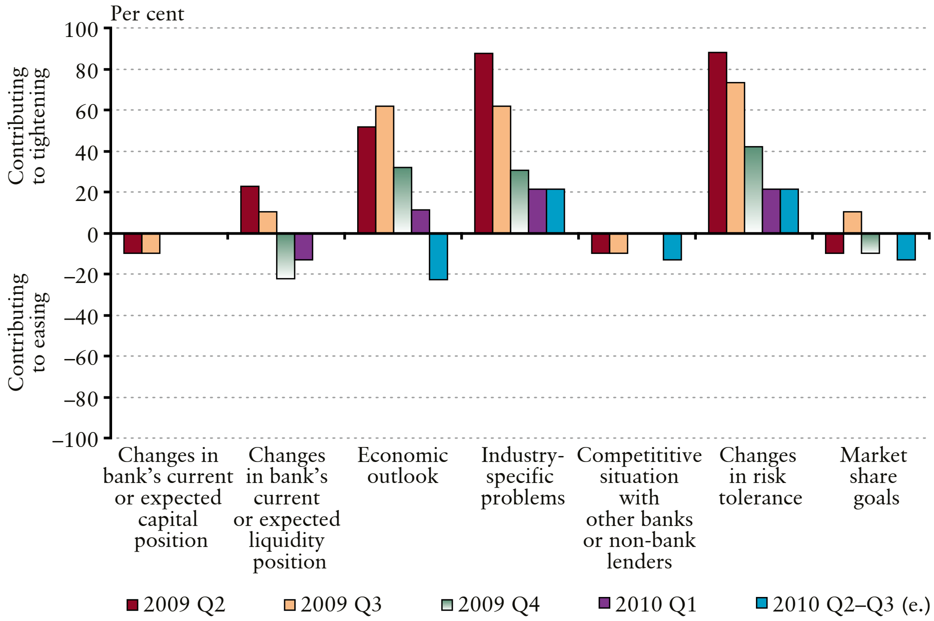


Chart 35

Perceived demand by corporate size

(net percentage balance of respondents reporting increase/decrease in demand)

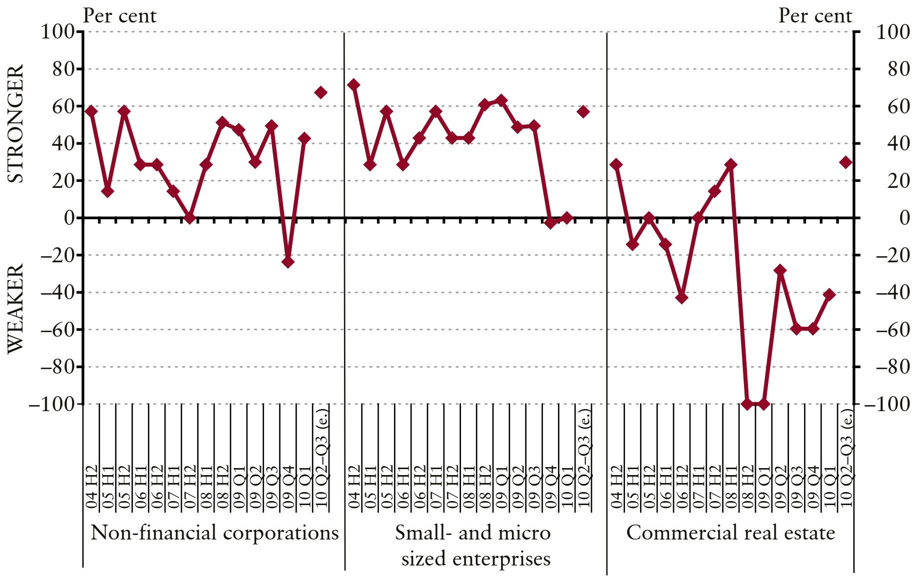


Chart 36

Perceived demand by maturity

(net percentage balance of respondents reporting increase/decrease in demand)

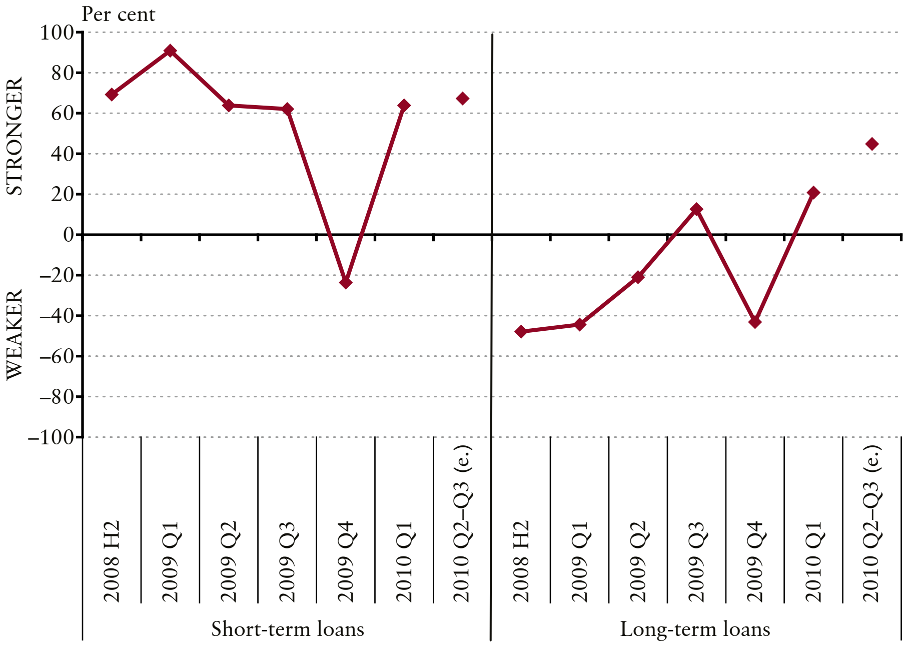


Chart 37

Changes in loan portfolio quality by sector

(net percentage balance of respondents reporting improvement/deterioration)

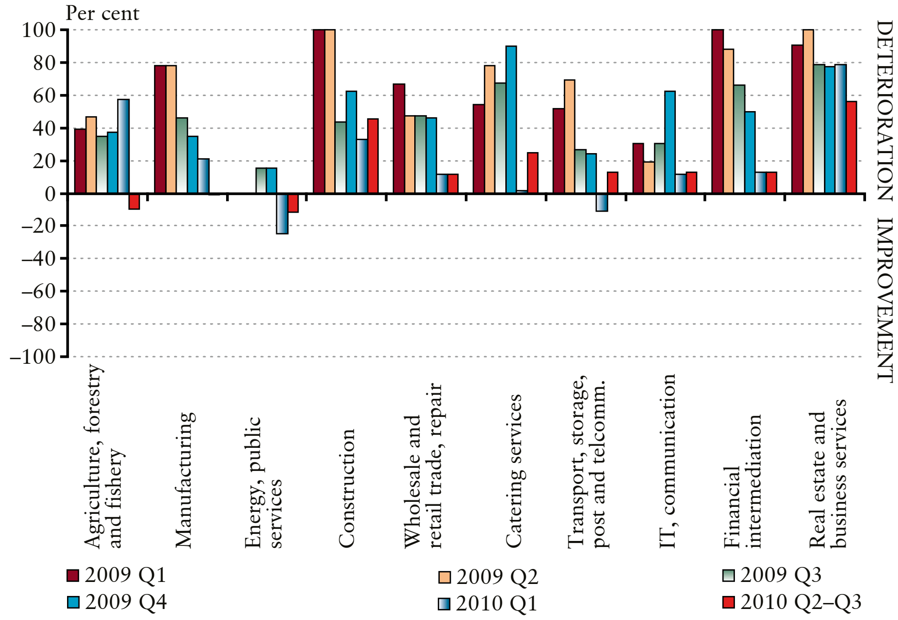
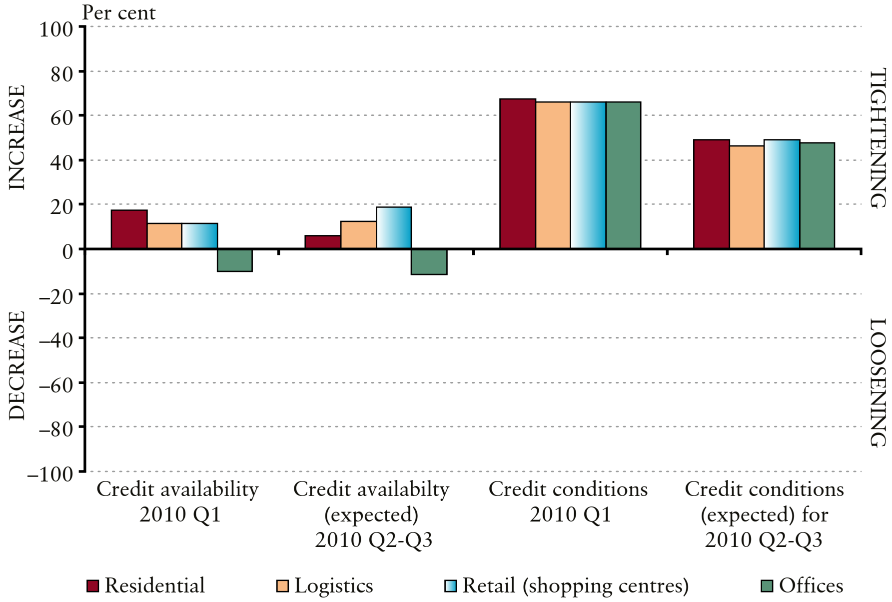


Chart 38

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

(net percentage balance of respondents reporting an increase/decrease and tightening/easing)



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

Chart 39

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

(net percentage balance of respondents reporting an increase/decrease in demand)

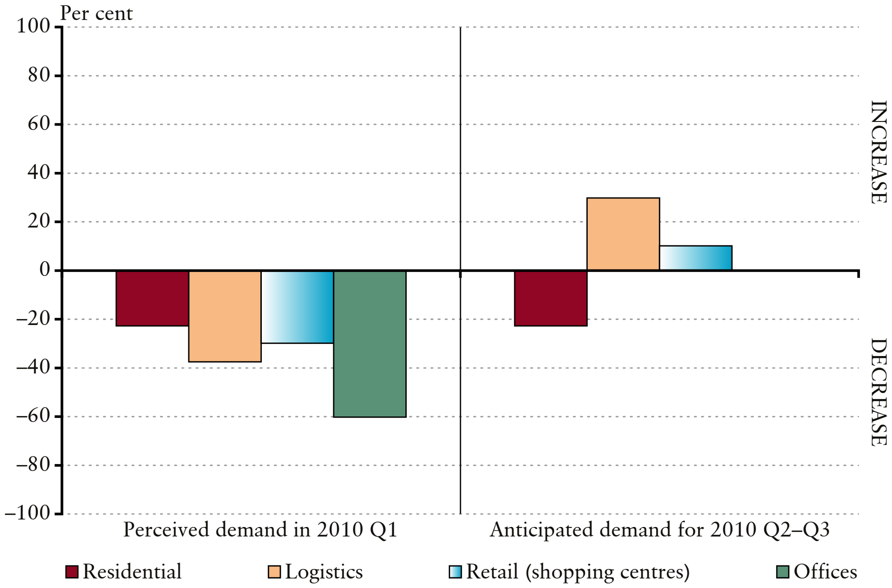


Chart 40

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)

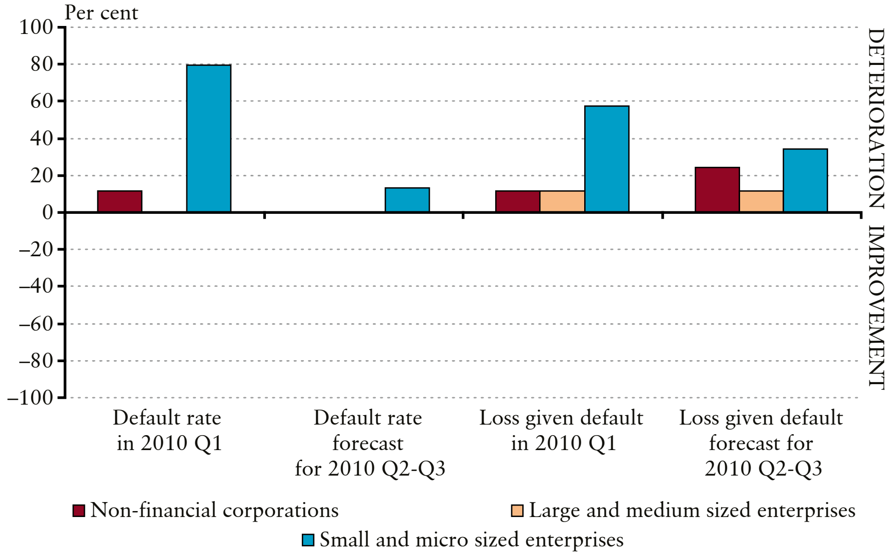
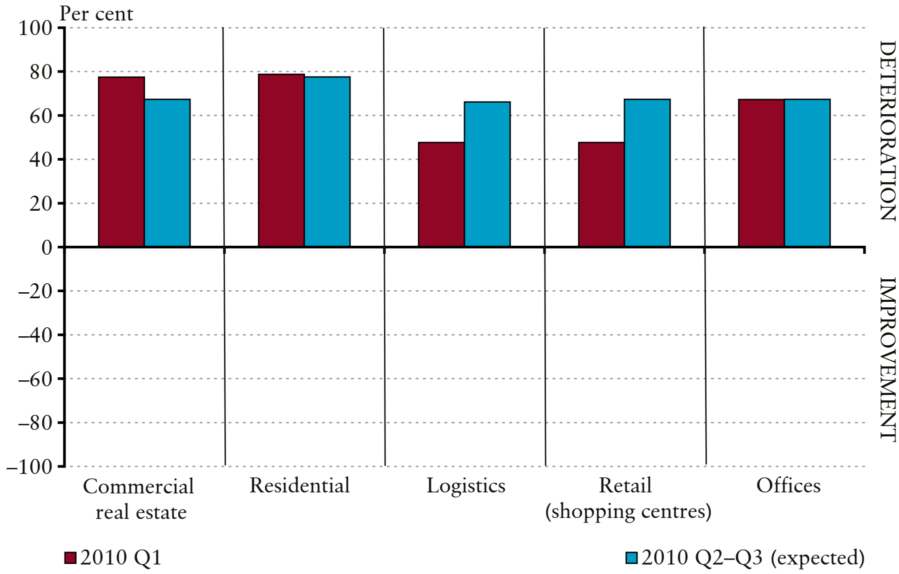


Chart 41

Changes in the quality of the commercial real estate loan portfolio

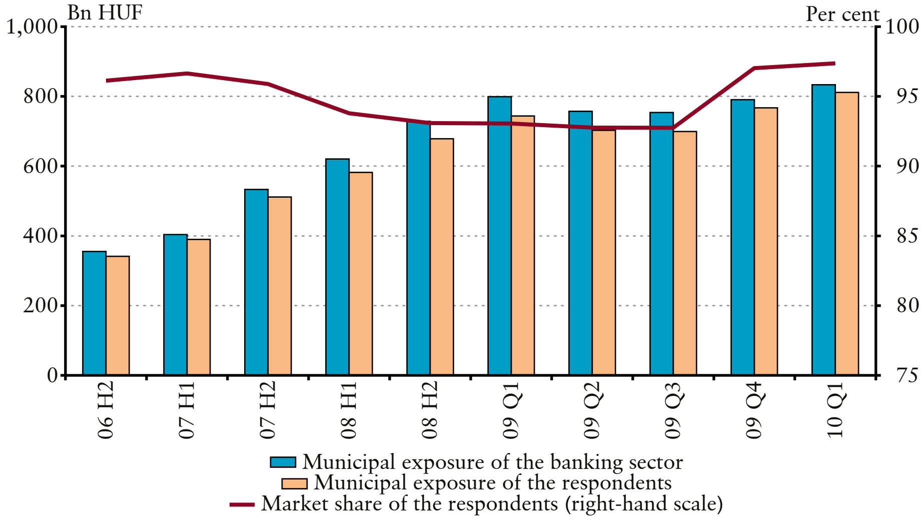
(net percentage balance of respondents reporting improvement/deterioration)



LENDING TO MUNICIPALITIES

Chart 42

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

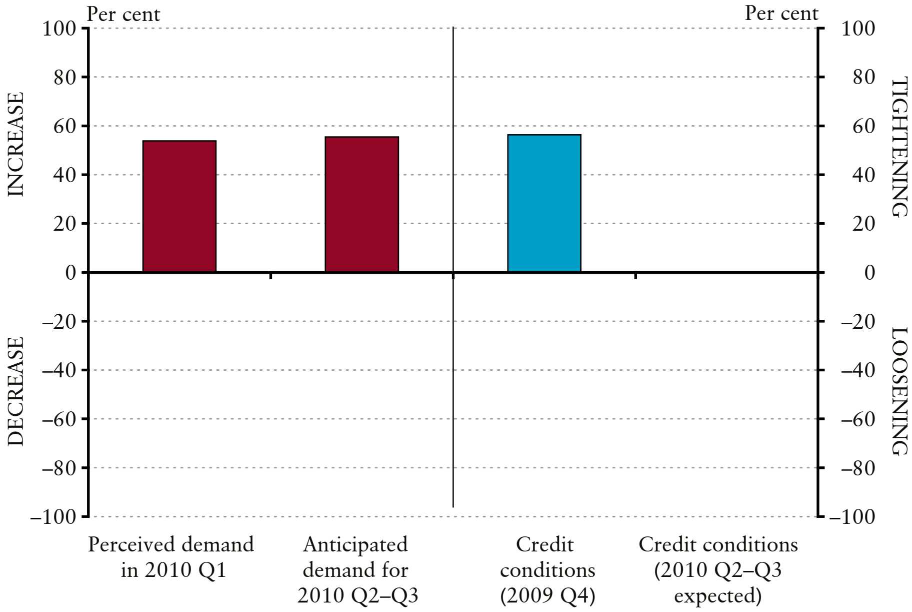


Note: From 2009, stock data also include those for credit institutions and branches.

Chart 43

Demand for loans and credit standards/credit conditions in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and tightening/easing)



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

Chart 44

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

(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement)

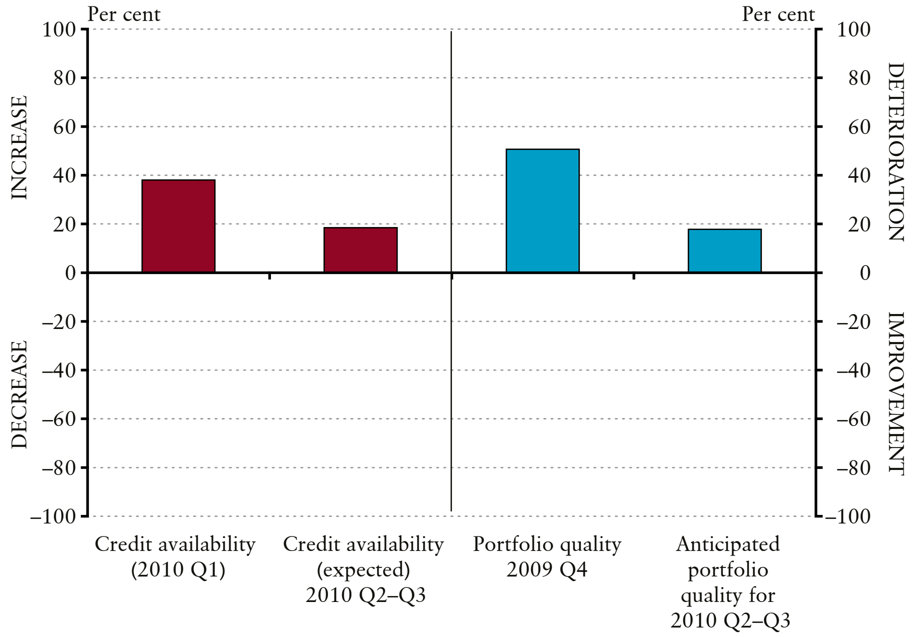


Chart 45

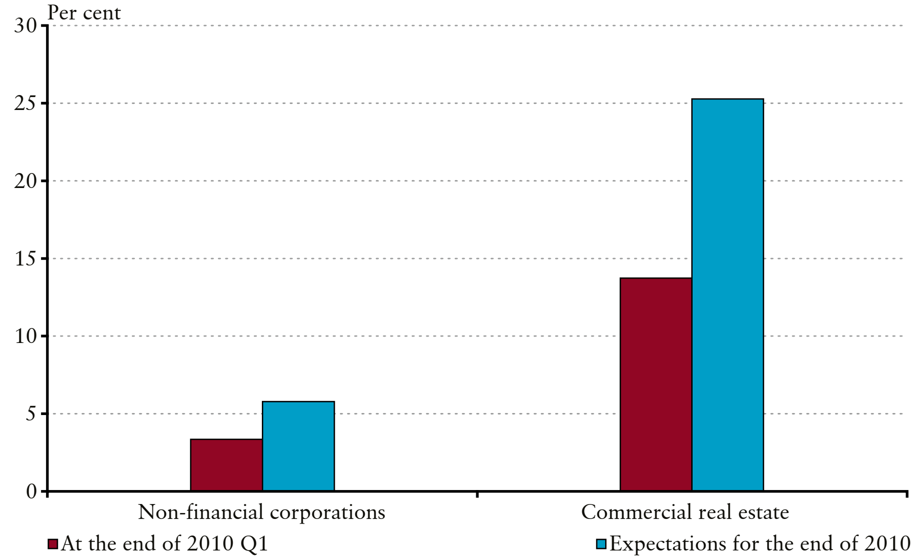
Willingness to lend (credit availability) and credit conditions in lending to municipalities from 2007 H2

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

SPECIAL ISSUE – RESTRUCTURING IN THE HOUSEHOLD AND CORPORATE SEGMENTS

Chart 46

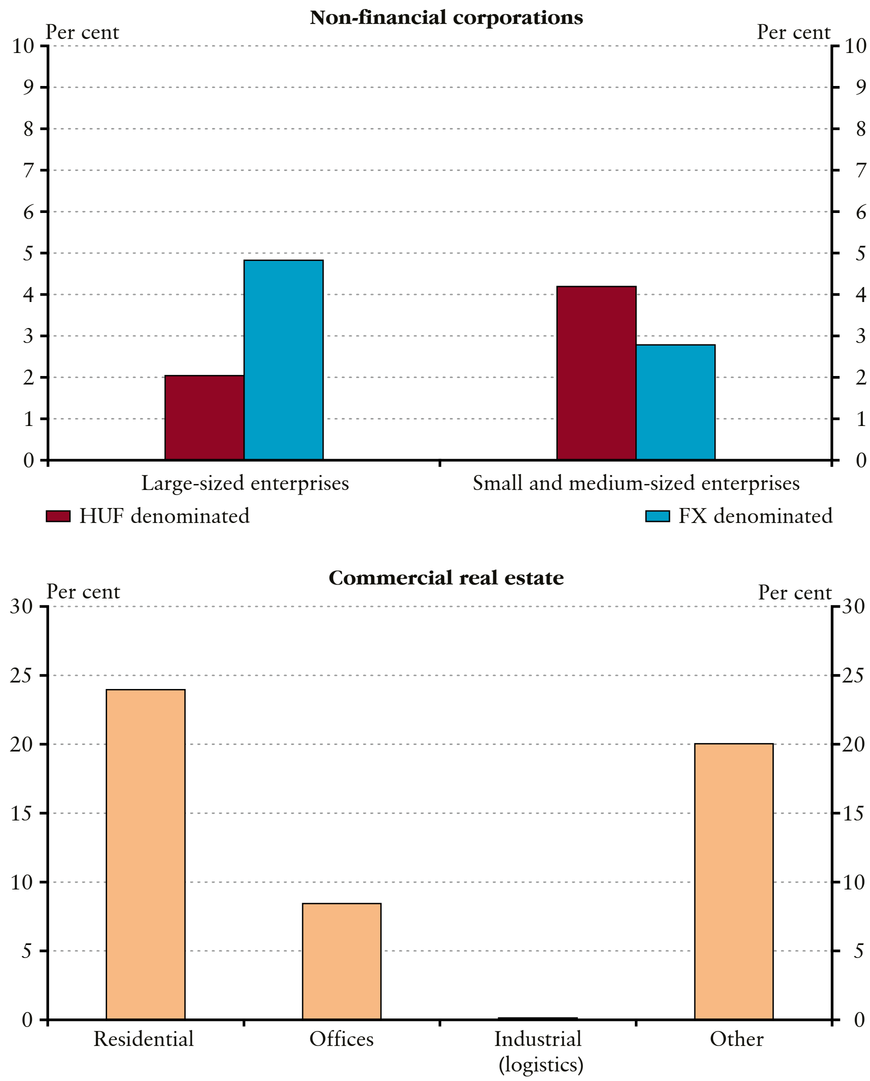
The restructured loans within the outstanding amount of non-financial corporate loans, and commercial real estate loans at the responding banks and their expectations for the end of year



Note: weighted by market share.

Chart 47

The restructured loans within the outstanding amount of non-financial corporate loans, and commercial real estate loans of the given sub-segment at the responding banks

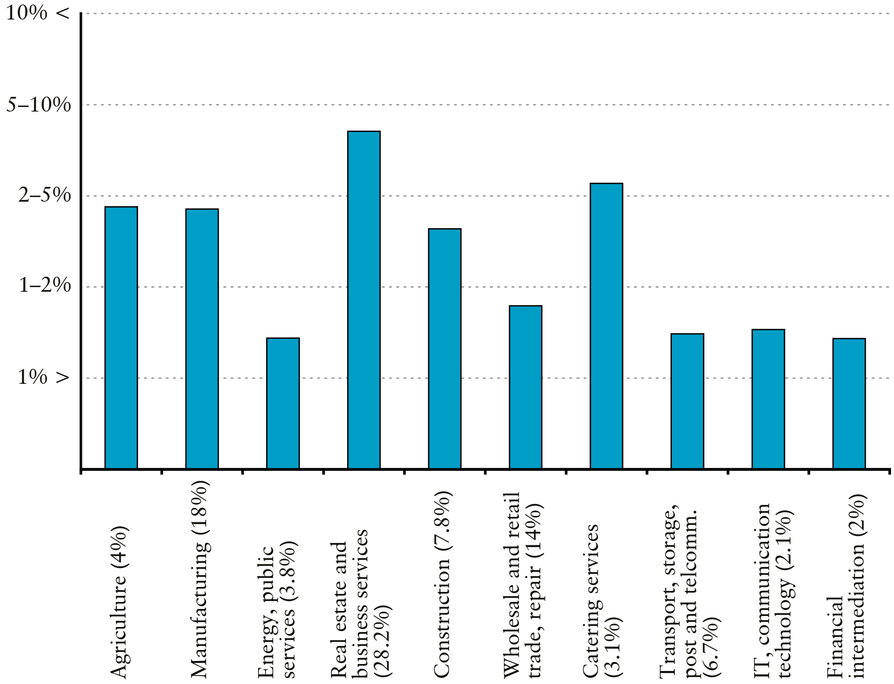


Note: weighted by market share.

Chart 48

The restructured loans within the outstanding amount of loans in the economic sectors at the responding banks

(at the end of Q1 2010)

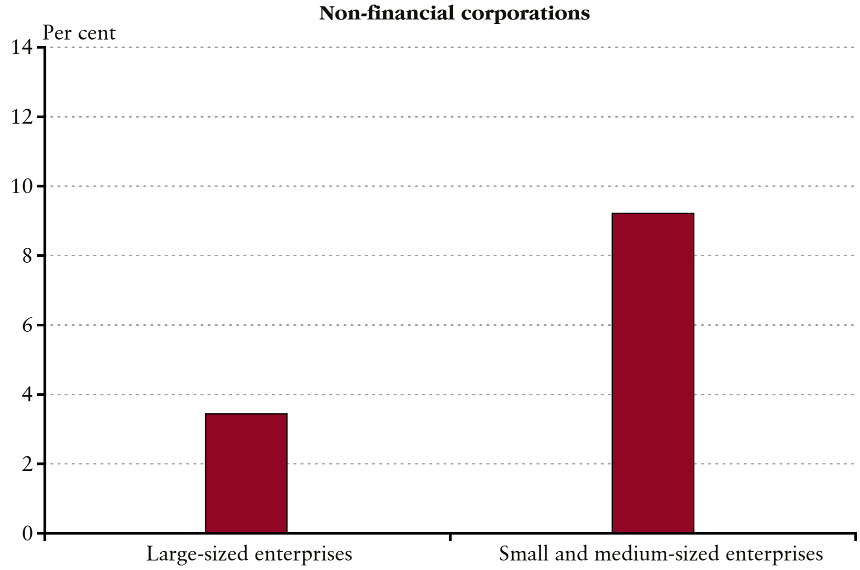


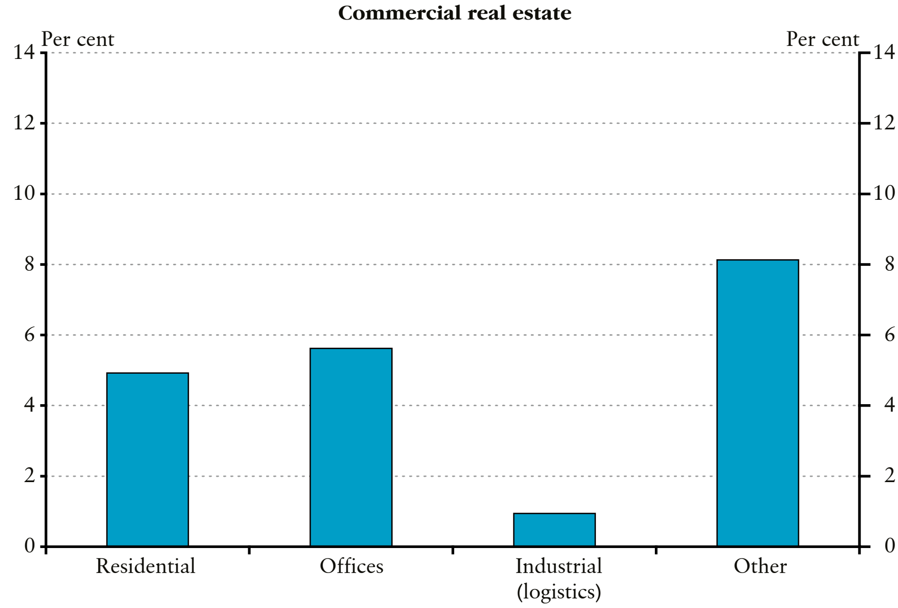
Note: banks chose among intervals in the questionnaire (shown on the y axis). In parantheses the weight of the given sector within the total outstanding amount. Weighted by market share.

Chart 49

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

(at the end of Q1 2010)

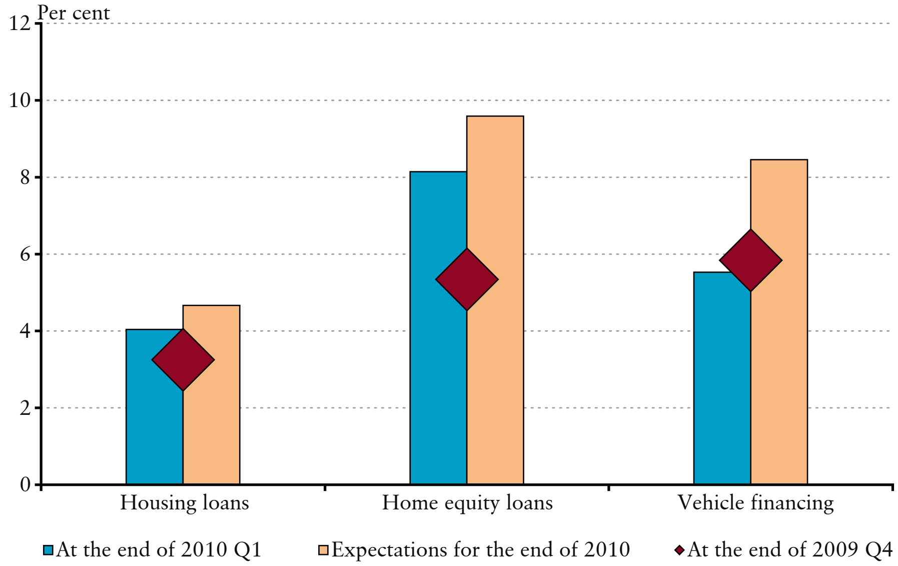




Note: weighted by market share.

Chart 50

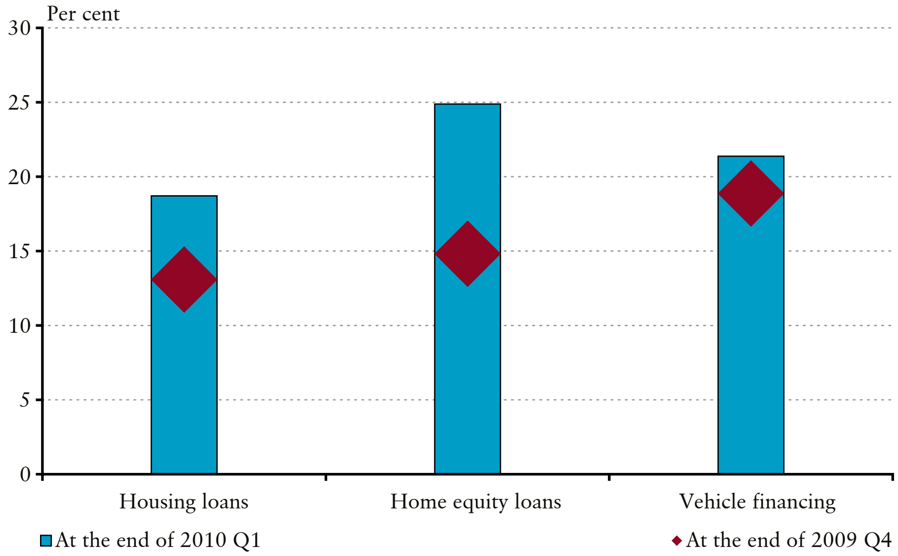
The restructured loans within the outstanding amount of loans to household sub-segments at the responding banks and their expectations for the end of year



Note: banks chose among intervals in the questionnaire in the previous survey (2009 Q4), therefore the size of the rhombus refers to the possible values. Weighted by market share.

Chart 51

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



Note: banks chose among intervals in the questionnaire in the previous survey (2009 Q4), therefore the size of the rhombus refers to the possible values. Weighted by market share.

Annex 2: Methodological notes

In terms of methodology – starting from January 2010 – the survey consists of the standard questionnaire in each segment, and we might also ask ad hoc questions of current concerns related to the lending segment.

The retrospective questions in the questionnaire refer to the previous quarter year (previous quarter in the past), (e.g. to 2010 Q1 in April 2010), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2010 Q2-Q3 in April 2010), relative to the trends of the previous quarter year (previous half year in the past). Since 2009 the survey has been conducted on a quarterly basis; in future surveys retrospective questions have had a reference period of a quarter, while forward-looking questions have covered a half-year period.

To indicate changes, the survey used the so-called net change indicator, expressed as a percentage of respondents. This indicator is calculated as follows: market share-weighted ratio of respondents projecting a change (tightening/increasing/strengthening) minus market share-weighted ratio of respondents projecting a change in the opposite direction (easing/decreasing/weakening).

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 last quarter and, as expected for the next half year, 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 five-step scaling to assess changes in the willingness to lend, demand, standards/conditions, risk parameters, however on the charts we only show the direction, excluding magnitude:

- 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 half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

- A rating of 3 indicates an unchanged assessment, both for the current half year and for the forecast pertaining to the upcoming half year.

- 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 half year preceding the survey, or relative to the current half year or for the upcoming half year 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.

In terms of credit conditions[5], 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.

[5] 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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