



THE HUNGARIAN BANKING SYSTEM REMAINS STABLE AND EXTREMELY WELL CAPITALIZED

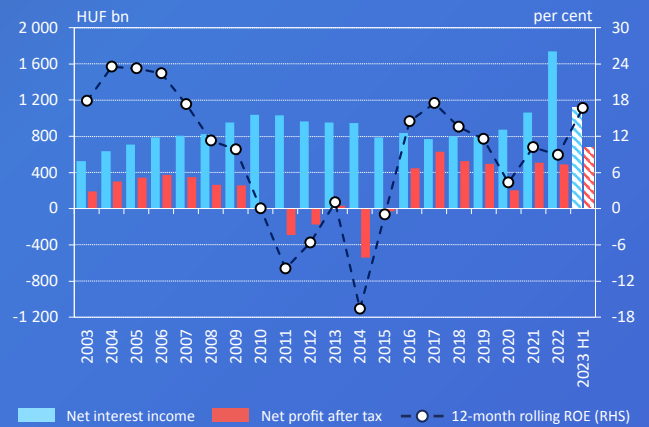
KEY RISKS



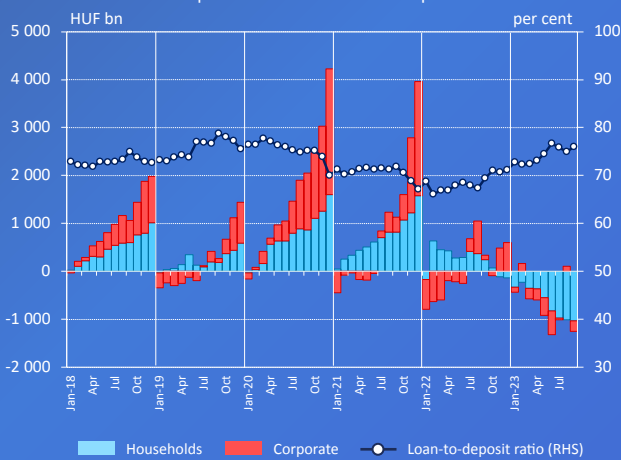
1. PROFITABILITY

- ▶ Profitability is remarkably high, with interest income on central bank deposits as a significant contributing factor.
- ▶ The high profitability relies on non-sustainable factors, which may result in a decrease in profitability in the medium term.
- ▶ It is important that this year's profits largely serve the expansion of bank reserves.

Annual development of the banking system's profit after tax, net interest income and ROE¹



Cumulative annual transaction growth of corporate and household deposits²



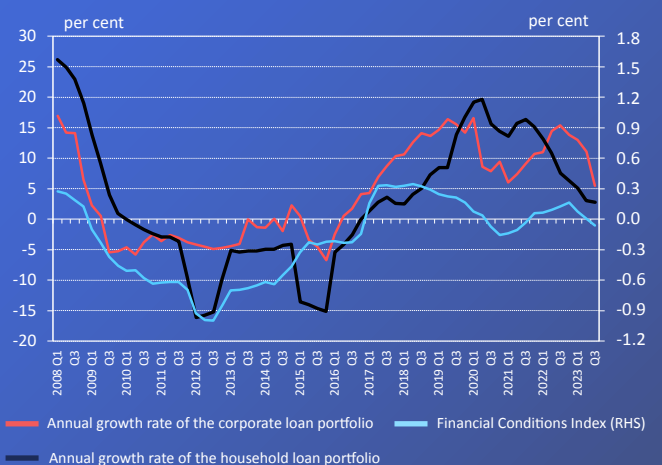
2. DEPOSITS

- ▶ Deposits of households decreased partially due to low interest rates, while deposits of non-bank financial institutions decreased primarily as a result of government measures.
- ▶ The loan-to-deposit ratio has risen from low levels, but risks are offset by the considerable surplus of liquidity buffers.
- ▶ Following the reduction in the key interest rate, the average interest rates in major deposit markets have decreased, but there is a significant difference between the retail deposit rates and the interbank interest rates.

3. LENDING

- ▶ The lending dynamics have slowed down in line with international developments; the banking system's lending activity is neither overheating nor limiting the economy.
- ▶ In addition to market-based housing loans, the volume of subsidised loans has also fallen.
- ▶ Annual credit dynamics are projected to bottom out this year, in both the corporate and household sectors.

Annual growth of private sector loan portfolio and the Financial Conditions Index³



^{1,2,3} Source: MNB