Senior loan officer survey on bank lending practices

Summary of the aggregate results of the survey for 2010 Q4
February 2011

MAGYAR NEMZETI BANK

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(February 2011)

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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, we also examined the developments in debt restructuring of banks. 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 survey was conducted between 1 and 18 January 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 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 Q4, while the forward-looking questions ask respondents for their views about changes they expect over the next six-month period, i.e. in 2011 H1. Questions focus on changes perceived relative to the previous quarter: the base period is 2010 Q3 for retrospective questions and 2010 Q4 for forward-looking questions.

In the case of the household segment, a total of 14 banks were involved in the interviews. 10 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 Q4, the surveyed institutions accounted for 94% of the banking sector, while their percentage share in consumer loans was 94%. The corporate questionnaire was completed by 7 banks, with a total market share of 81% and 93% 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 Q4, the institutions surveyed covered 97% of total municipal exposure by banks.

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Budapest, 24 February 2011 – The Magyar Nemzeti Bank has published the results of its 2010 Q4 survey of bank lending practices. The survey, conducted in January 2011, found that a net percentage of banks reported they had tightened spreads on riskier mortgage loans for house purchase. Following a pause of two quarters, a net percentage of banks continued to tighten credit conditions on lending to the corporate sector (spread on riskier loans, loan covenants, minimum credit scoring criteria and collateral requirements). In the corporate segment, banks cited capital position as a contributing factor for the first time since the peak of the financial crisis, possibly as a consequence of weak profitability outlook, and indirectly the compliance to planned risk-adjusted return on capital. Further tightening is expected on credit conditions to the corporate sector over the next six months, predominantly to the large- and medium sized companies, however in the case of small and micro sized companies some easing is expected. As regards lending to municipalities, there was a sharp increase in banks' perceptions of risks in 2010, resulting in stricter credit conditions and declining credit availability.

In addition to lending activity, the survey also again focused on the restructuring of troubled borrowers' debt. In 2010 Q4, the ratio of restructured mortgage loans to mortgage loans outstanding rose from around 7 per cent to 9 per cent. Restructured mortgage loans more than 30 days delinquent as a proportion of restructured mortgage loans outstanding also increased moderately, from 27.5 per cent to nearly 30 per cent. In addition, the ratio of restructured loans more than 90 days overdue to restructured mortgage loans edged up a little, from 17 per cent to 18 per cent. This slight increase partly reflected the fact that banks extended expired grace periods in every fourth case; hence, the significant increase in the amount of restructured mortgage loans decreased the weight of bad loans.

In the corporate segment, the ratio of restructured loans to corporate loans outstanding remained basically unchanged at 4.5 per cent, and that of restructured commercial real estate loans rose from 14 per cent to 17 per cent. Banks' responses indicated that the delinquency rate among restructured loans to the corporate sector increased sharply: delinquent restructured loans (more than 30 days) to large companies as a proportion of restructured corporate loans outstanding rose from 13 per cent to 19 per cent, and those to small and medium-sized companies rose from 14 per cent to 21 per cent.

Table 1
Credit supply and demand, and banks' expectations for the next six months

Segments		Supply		Demand	
		2010 Q4	2011 H1 (e.)	2010 Q4	2011 H1 (e.)
Household	Mortgage	↓	↑	↑	↑↑
	Uncovered	↓	→	↑	↑↑
Corporate	Short-term	↓	→	↑	↑
	Long-term			↑	↑
	Large and medium-sized	↓	↓	→	↑
	Small and micro-sized	↓	↑	↑	↑↑

Note: The up-arrow denotes an increase and the down-arrow a decrease. The double arrow denotes that more than 50 per cent of banks reported an increase/decrease in net terms.

DEMAND IS REBOUNDING IN THE HOUSEHOLD SEGMENT

A net[1] 31 per cent of banks tightened credit conditions on housing loans in 2010 Q4 (Chart 4). In contrast to previous quarters, lenders tightened spread on riskier loans rather than non-price terms (Chart 5–6). This tightening can be attributed to strategic and profitability reasons rather than to the macroeconomic outlook or banks' lending ability. Respondents indicated that a net 5 per cent of banks expected to ease credit conditions over the next six months, mainly affecting minimum scoring criteria. As a result, the number of creditworthy customers may increase (Chart 5).

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

In the consumer loans segment, a net 12 per cent of banks reported to have tightened credit conditions on home equity loans (Chart 12), while a net 4 per cent of banks have already eased credit conditions on hire purchase and credit card loans. Banks tightened credit scoring criteria, while eased interest rate conditions (Chart 9–10). As for vehicle financing, respondents (banks and leasing companies) did not tighten credit conditions for the first time since the onset of the financial crisis. A small proportion of respondents expected to ease credit conditions on vehicle financing and home equity loans, while expecting to tighten credit conditions on credit card and hire purchase loans (Chart 12). Lenders anticipated that there would be some easing in interest rate spreads, fees and minimum downpayments, and that there would be a tightening of minimum credit scoring criteria and an increase in spread on riskier loans (Chart 9–10). Overall, it can be stated that some banks implement fine-tuning in the credit conditions, while the rest of them leaves conditions unchanged.

A net 35 per cent and 29 per cent of banks reported to have perceived increasing demand for housing loans and consumer loans, respectively in 2010 Q4 (Chart 8). Within consumer loans, demand increased for credit card and hire purchase loans, while there was a further fall in demand for vehicle financing. Banks expected household demand for every type of loan to increase over the next six months. Overall, banks expect a rise in new loan volume in 2011; however, outstanding household loans are likely to fall further in 2011, due to the large amount of maturing loans in the period. Growth in lending is expected to be fuelled by the expansion of sales channels, in addition to a pick-up in demand, rather than by a material easing in credit conditions.

CREDIT CONDITIONS ON LENDING TO CORPORATE CUSTOMERS TIGHTENED FURTHER

Contrary to expectations, a net 24 per cent of banks reported they had again tightened credit conditions on lending to the corporate sector for the first time since 2010 Q1 (Chart 19). Survey responses showed that overall a net 12 per cent of them intend to tighten credit conditions further looking ahead to 2011 H1, predominantly to the large- and medium sized companies, however in the case of small and micro sized companies a net 15 per cent expected easing. Lenders reported that predominantly spreads on riskier loans increased. In addition, after several quarters they tightened loan covenants, minimum credit scoring criteria, as well as collateral requirements (Chart 20). Banks cited capital position as a contributing factor for the first time since the peak of the financial crisis, possibly as a consequence of weak profitability outlook, and indirectly the compliance of planned risk-adjusted return on capital. Furthermore, some lenders also cited industry-specific problems and changing appetite for risk as factors contributing to the tightening in credit conditions for the first time since 2010 Q1. Market share objectives and the liquidity position were two factors pointing to an easing in credit conditions; however, in contrast to the previous two surveys, the economic outlook was no longer a factor pointing to an easing, according to survey responses (Chart 30).

Regarding demand, a net 18 per cent of banks perceived an increase in demand for corporate loans in 2010 Q4 (Chart 32), including both for short and long-term loans. Following a broad-based decline in 2009, banks did not perceive a notable increase in demand for long-term loans in 2010. By contrast, demand is widely expected to rebound in 2011 H1. Corporate demand for short-term loans rose steadily during the financial crisis. An explanation for this may have been that customers approached several banks for credit due in part to supply constraints by the original counterparty and in part to an increase in loan interest rates, which other banks perceived as an increase in demand.[2] Lenders expect that there would be a continued, more broadly-based increase in demand for short-term credit in 2011 H1 (Chart 32).

Based on banks' responses it can be stated that, overall, banks expect a rise in the volume of new lending to the corporate sector in 2011, which is likely to materialise in the second half of the year. Lending would increase as a result of rebounding demand. Furthermore, in the case of small and medium-sized corporations the so-called Széchenyi plan (a government subsidy programme) will also contribute to more active lending based on banks' expectations.

[2] Fábián, Gergely, András Hudecz and Gábor Szigel: 'Decline in corporate lending in Hungary and across the Central and East European region during the crisis', *MNB Bulletin*, October 2010, pp. 17–28.

Box 1
Overview of lending surveys conducted by other central banks

Central banks in many countries and regions regularly conduct surveys of banks' lending behaviour similar to that of the Magyar Nemzeti Bank. The benchmarks for the latter are the ones employed by the National Bank of Poland, the US Fed and the European Central Bank. A moderate easing cycle already began in the US and Poland in the course of 2010, where banks cited the improving economic outlook and competition as the major contributing factors. In the euro area, the outbreak of the sovereign debt crisis in the spring of 2010 cast a shadow over banks' lending, with the result that the number of tightening banks increased, while expectations were for the tightening cycle to come to an end by mid-2010. A net percentage of lenders did not tighten credit conditions further in 2010 Q4; however, they expected a further, albeit slight, tightening in credit conditions over the next quarter. The deteriorating economic outlook, as well as banks' capital and liquidity positions were cited as factors contributing to the tightening in credit conditions.

In the household segment, US banks continued to slightly tighten credit conditions on mortgage lending in 2010, while consumer loans appeared to have picked up. In the euro area, a net 11 per cent of banks tightened further credit conditions on mortgage loans, reflected primarily in an increase in spreads on riskier loans, as was the case in Hungary. This ratio was the highest in the euro area in the period since 2009 Q3. Considering consumer loans in the euro area, only a net 2 per cent of banks tightened further credit conditions in the final quarter of 2010. Finally, in Poland, lending to households rose significantly, reflecting the country's excellent macroeconomic fundamentals. In order to restrain excessive credit growth, Polish banks have been tightening credit conditions on household credit (mortgage and consumer) strongly since 2010 Q3, and they expect to continue it in 2011 Q1. Lenders mainly tightened credit scoring criteria; however, they also raised spreads on riskier consumer loans.

BANKS' PERCEPTIONS OF RISK ASSOCIATED WITH LENDING TO MUNICIPALITIES INCREASED SIGNIFICANTLY

There was a sharp increase in banks' perceptions of the risks associated with lending to municipalities in 2010, resulting in stricter credit conditions and declining credit availability (Chart 42). As a consequence, loans at favourable interest rates and with relatively looser credit conditions are no longer available for local authorities. Banks' responses indicated that many municipalities have become excessively indebted, while their revenues have fallen considerably. As a result, a number of municipalities need to borrow to finance their operations, with banks being less willing to lend for such purposes. Banks reported a broad-based perceived deterioration in the quality of municipality loan portfolios and expected a further deterioration in the coming six months (Chart 41). All this was reflected in the fact that loans have been restructured in a number of cases. An additional well-known fact is that there is a significant outstanding amount of municipality bonds denominated in Swiss francs, which may lead to deterioration in the portfolio. A distinguishing feature of these instruments is that borrowers start to repay the instalment after a 3-5 years interest-only grace period, the peak of which is expected for 2012. During the interest-only period, a strong Swiss franc does not cause a problem for municipalities, given that interest is tied to a benchmark interest rate, which has been at a record low since the onset of the financial crisis. Therefore, there is not a significant increase in loan instalments. Nevertheless, if the Swiss franc remains strong at current levels, local authorities will be facing sharp increases in their servicing costs.

EXTENDED GRACE PERIODS ON RESTRUCTURED MORTGAGE LOANS

Restructured mortgage loans as a percentage of the total mortgage loans outstanding increased significantly (from 7.1 per cent to 9 per cent). Within this, restructured housing loans rose from 5.2 per cent to 7 per cent, while home equity loans increased from 10.5 to 12.5 per cent as a proportion of total loans outstanding of the given segment (Chart 45). This increase significantly exceeded banks' expectations for the end of 2010 provided in Q3. The underlying reason is the shift toward a more pro-active approach by a number of banks, due in part to the persistently strong Swiss franc. Banks expected debt restructurings to continue in 2011, as a result of which the share of restructured mortgage loans may reach 10 per cent of the total outstanding mortgage loans by the end of the year.

As for the success with restructuring, the ratio of restructured mortgage loans more than 30 days delinquent to total restructured loans rose from 27.5 per cent to approximately 30 per cent (Chart 46). In contrast to previous periods, restructured mortgage loans more than 90 days delinquent to the restructured mortgage loans outstanding rose only modestly, from 17 per cent to 18 per cent (Chart 46). This slight deterioration was closely related to a statistical factor, given that there was a decline in the weight of bad loans within restructured loans due to the significant amount of new debt restructurings in Q4. In addition, banks reported that they had extended grace periods in many cases and, consequently, customers did not need to face 40 per cent higher initial instalments on average.

As was noted in the previous survey, grace periods on a substantial portion of restructured mortgage loans would expire in 2010 Q4 and 2011 Q1. Grace periods on approximately 15 per cent of restructured mortgage loans expired in 2010 Q4. As a result, grace periods have expired on 25–30 per cent of restructured mortgage loans so far. This volume, however, was lower than the 35 per cent expected by banks in 2010 Q3. The reason for the difference is that the grace period on approximately every fourth restructured mortgage loan was extended after expiry in Q4. Banks' responses showed that grace periods could be expected to be extended over the period ahead. Nevertheless, the slight deterioration and lenders' willingness to extend grace periods are a positive sign both for customers and for banks in their efforts to smooth losses.

In 2010 Q4, restructured vehicle financing loans as a proportion of total vehicle financing loans outstanding rose from 7.8 per cent to 9.8 per cent, and this ratio is expected to rise to near 12 per cent by the end of 2011 (Chart 45). The portfolio quality of restructured vehicle financing loans deteriorated significantly in the previous quarter. The ratio of restructured vehicle financing loans more than 30 days delinquent to the total restructured vehicle financing loans rose from 32.5 per cent to 39.4 per cent, and that of restructured loans more than 90 days delinquent rose from 14 per cent to 21 per cent (Chart 46).

A SIGNIFICANT INCREASE IN RE-DEFAULT RATES ON RESTRUCTURED CORPORATE LOANS

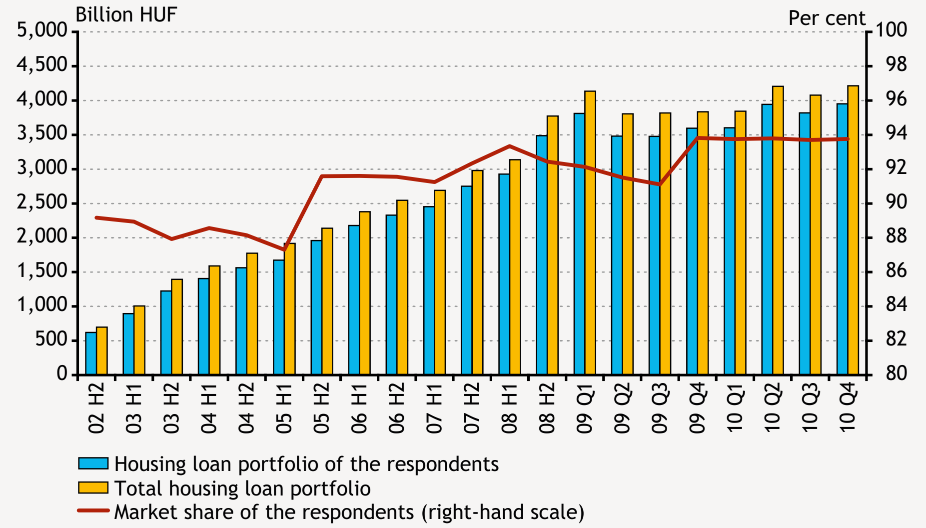
The ratio of restructured corporate loans to total corporate loans outstanding stagnated around 4.5 per cent in 2010 Q4, while that of restructured commercial real estate loans to total commercial real estate loans rose from 14 per cent to 17 per cent (Chart 43). Banks expected restructured commercial real estate loans to increase considerably in the following year; however, they did not expect a material change in the total amount of restructured corporate sector loans.

Restructured loans more than 30 days delinquent rose in the case of large companies and to small and medium-sized companies from 13 per cent to 19 per cent and from 14 per cent to 20.5 per cent as a percentage of total restructured loans of the given segment, respectively (Chart 44). The same ratio for restructured loans to large companies more than 90 days delinquent rose from 7.5 per cent to 13 per cent, while that of restructured loans to small and medium-sized companies increased from 7 per cent to 12 per cent. By contrast, the ratios of restructured commercial real estate loans more than 30 days and more than 90 days delinquent were flat at 19 per cent and 7 per cent, respectively (Chart 44). As indicated in the previous survey, the re-default rate does not show properly the seriousness of problems in commercial real estate lending, as banks tend to restructure a debt several times and often extend 'bullet' loans, where the borrower only has to pay interest each month for the life of the loan and repay the principal at the end of the term.

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

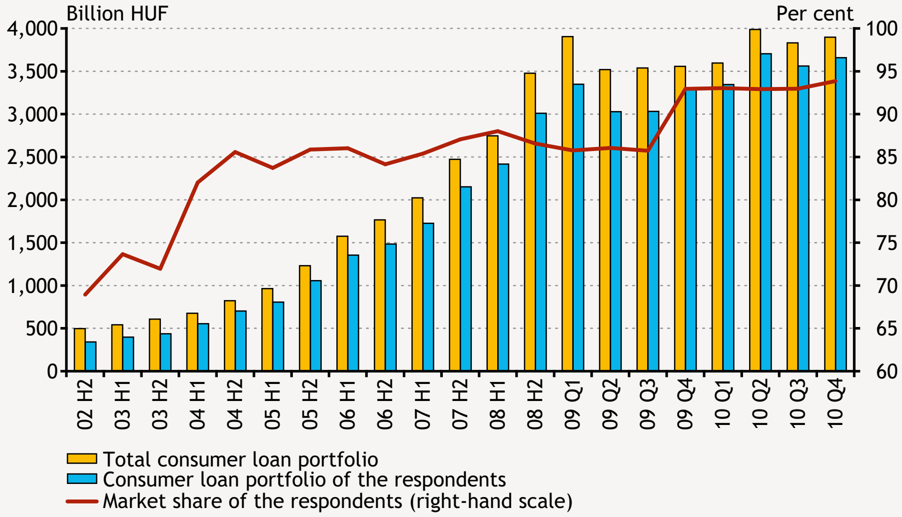
LENDING TO HOUSEHOLDS

Chart 1
Outstanding amount of housing loans and the market share of banks completing the questionnaire



Note: The number 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 2
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 2 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 3
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)

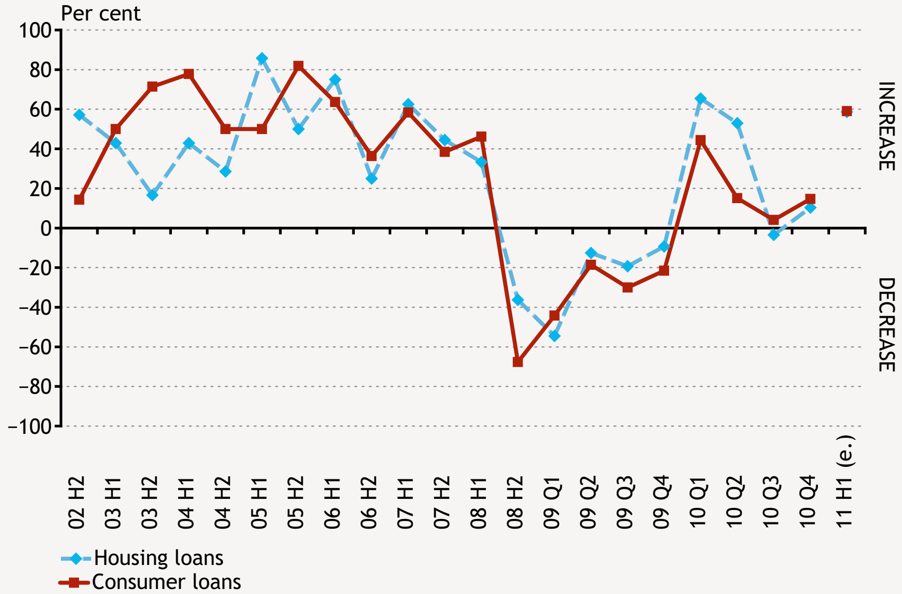
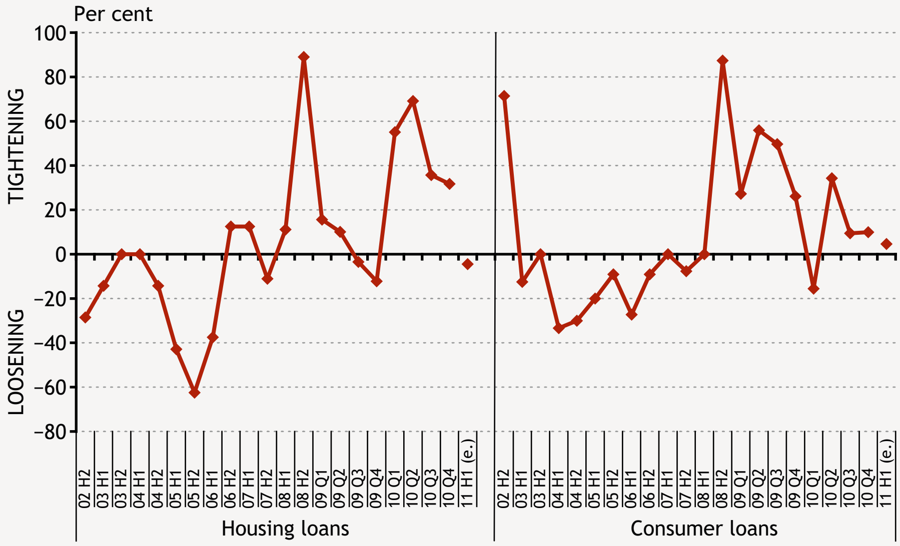
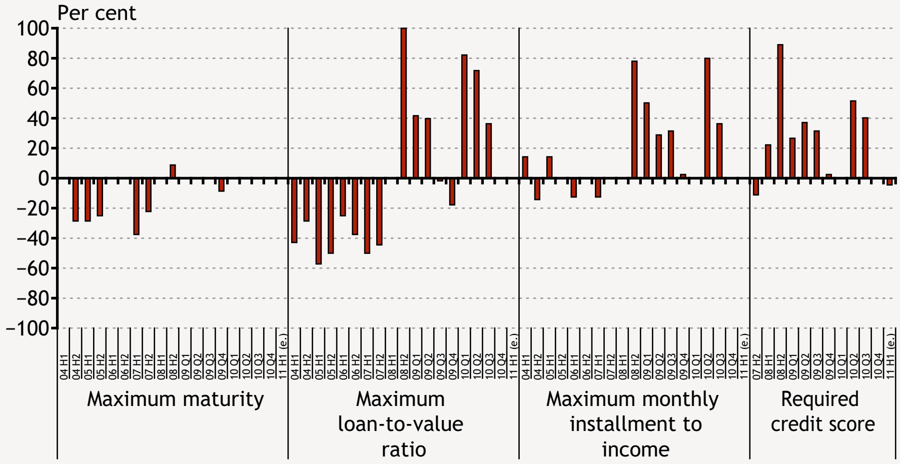


Chart 4
Credit conditions/Credit standards in the housing loan and consumer loan markets
(net percentage balance of respondents tightening/easing credit standards weighted by market share)



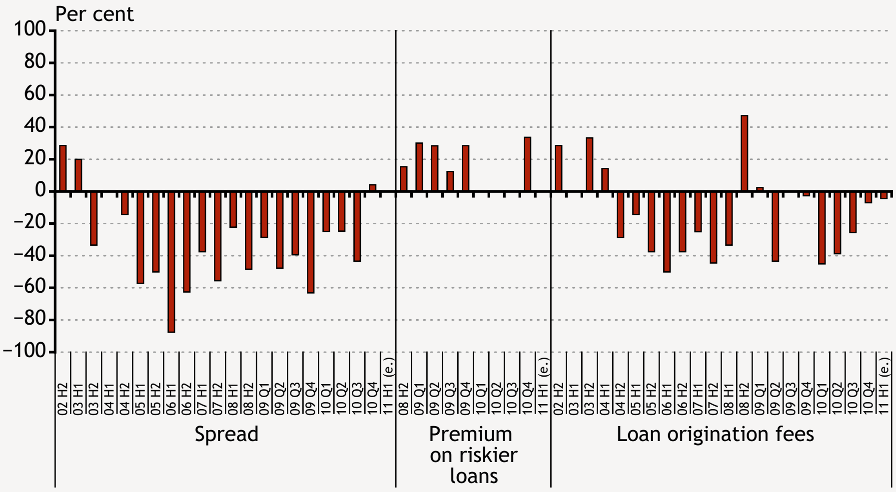
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 5
Credit conditions in the housing loan market – non-price conditions
(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 6
Credit conditions in the housing loan market – price conditions
(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 7
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

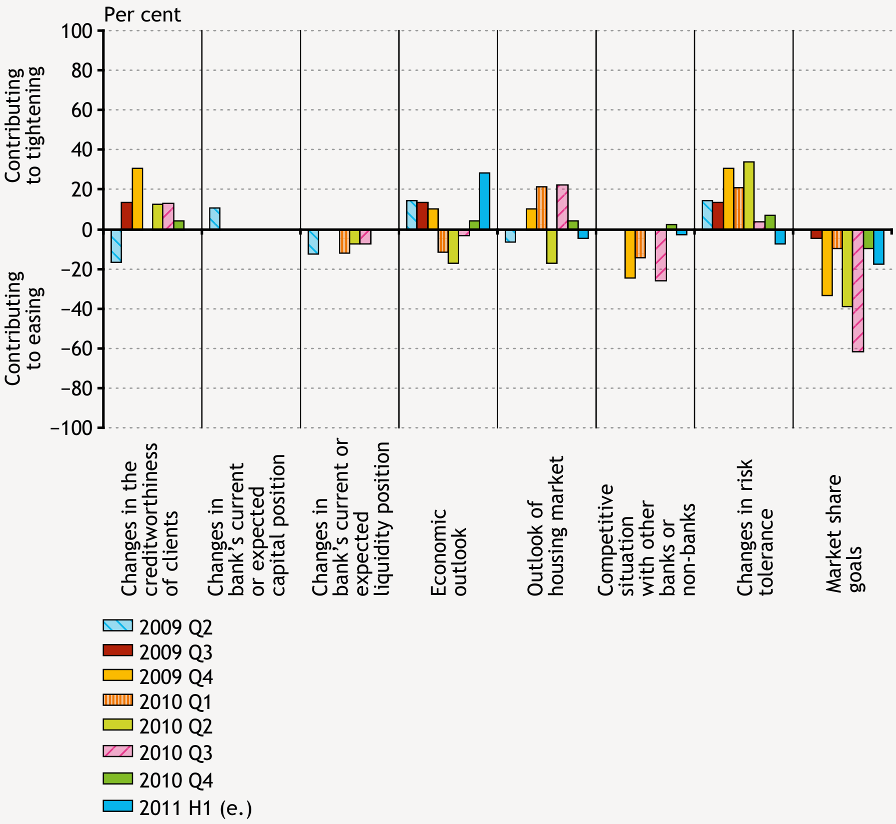


Chart 8
Demand for housing and consumer loans
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

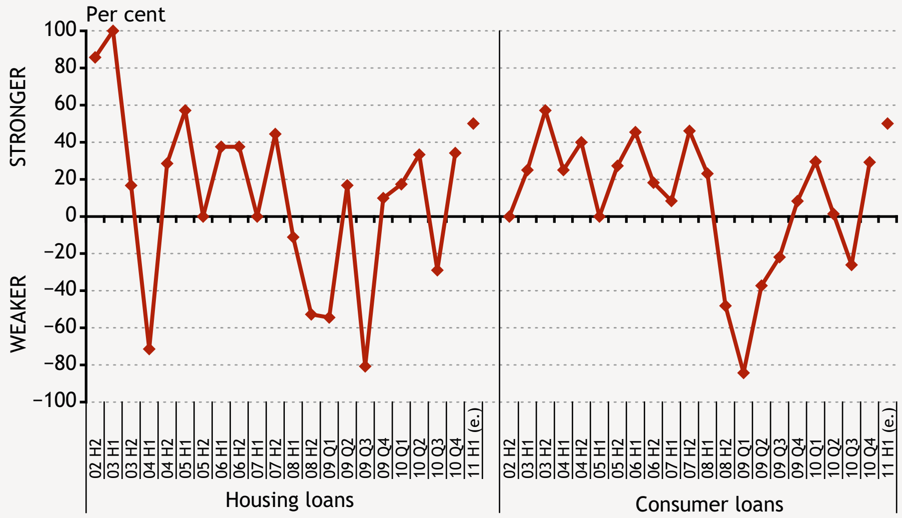
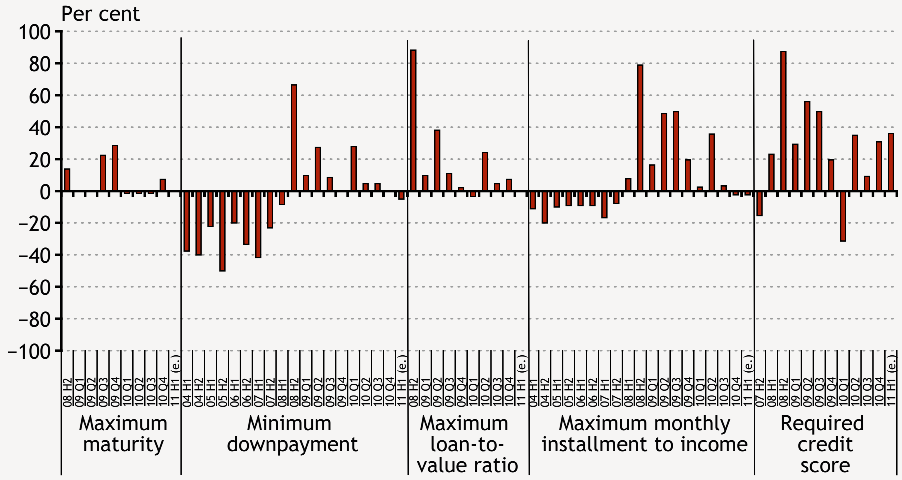
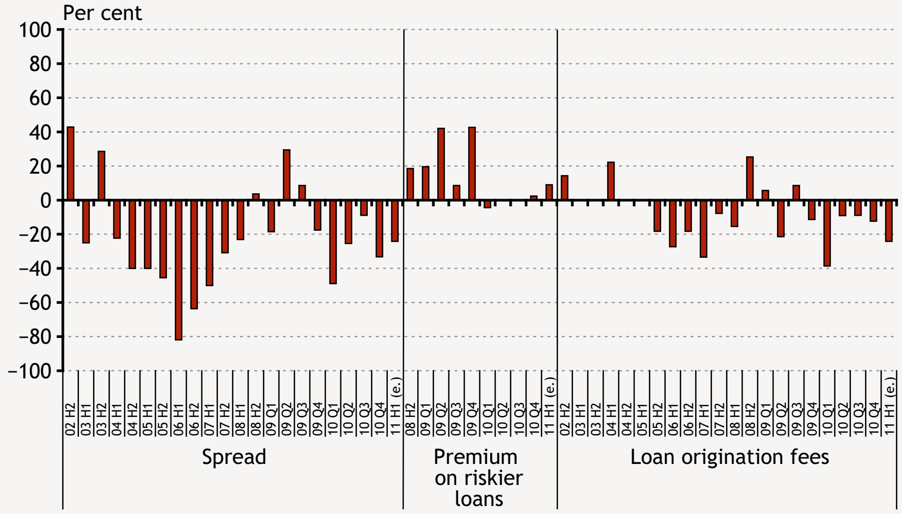


Chart 9
Credit conditions in the consumer loan market – non-price conditions
(net percentage balance of respondents tightening/easing credit conditions weighted by market share)



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

Chart 10
Credit conditions in the consumer loan market – price conditions
(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 11
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)

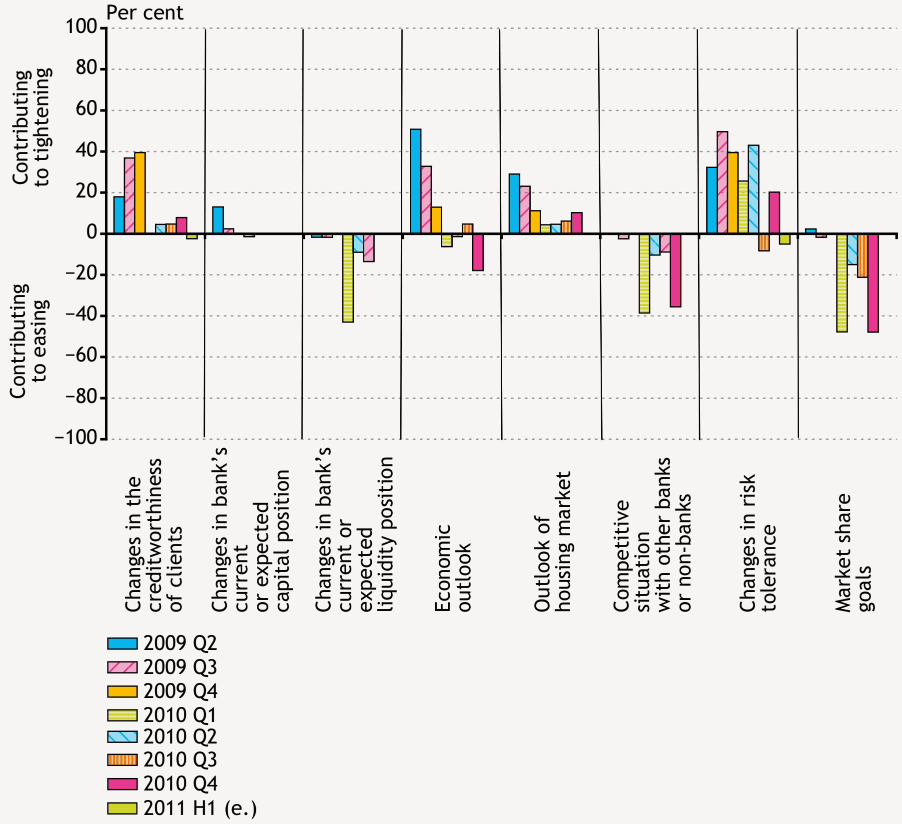
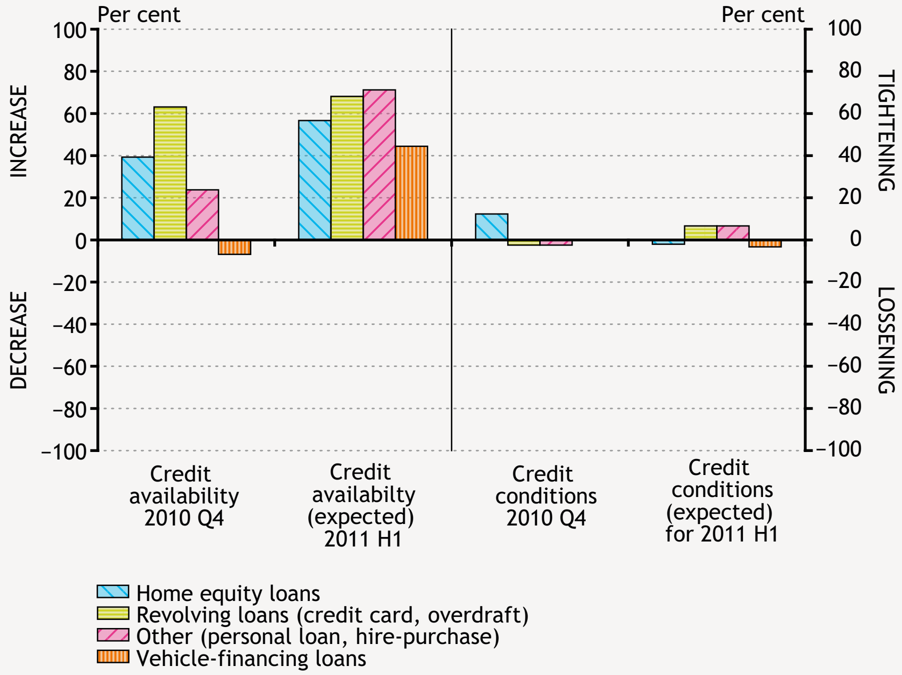
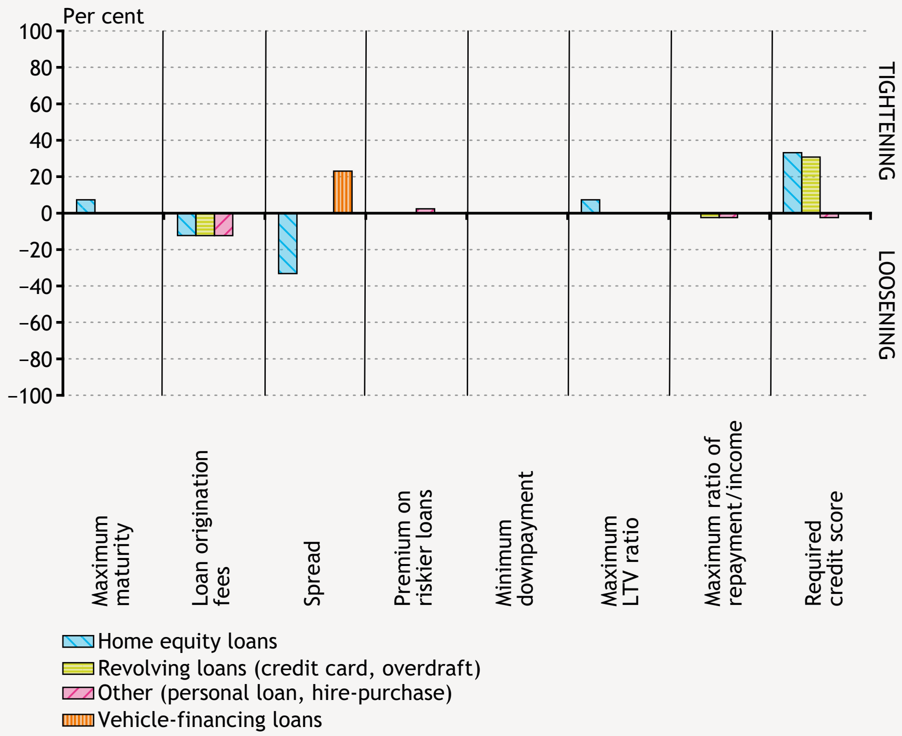


Chart 12
Willingness to lend and credit standards/credit conditions for different consumer loan products
(net percentage balance of respondents weighted by market share)



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

Chart 13
Credit conditions for different consumer loan products in 2010 Q4
(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 14
Demand for different consumer loan products
(net percentage balance of banks reporting increase or decrease weighted by market share)

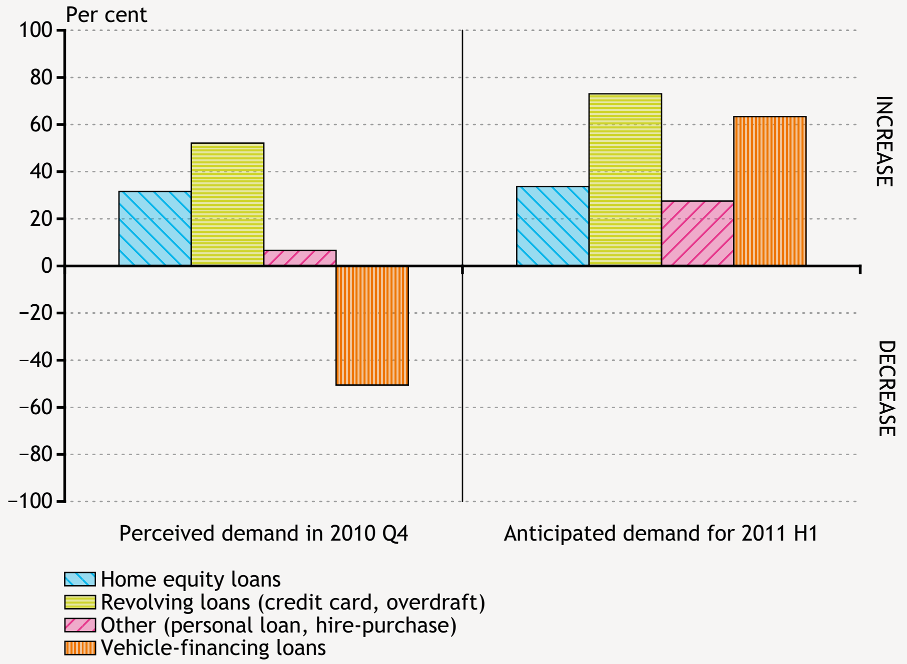
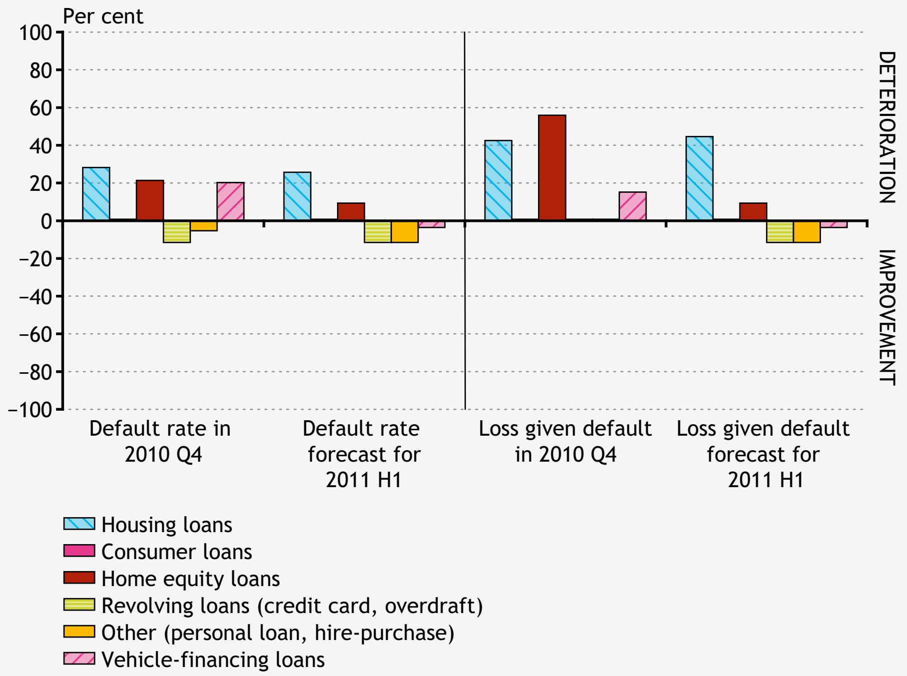
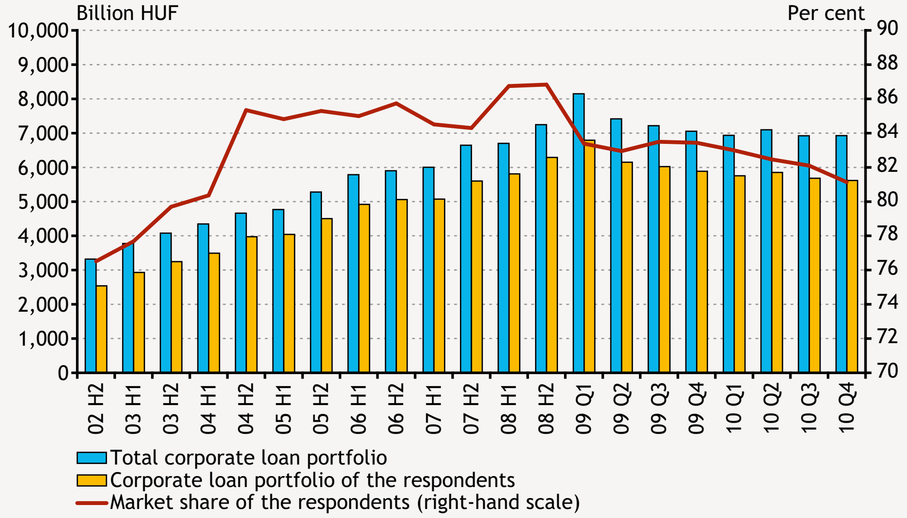


Chart 15
Default rate of loans to households and loss given default
(net percentage balance of banks reporting increase or decrease weighted by market share)



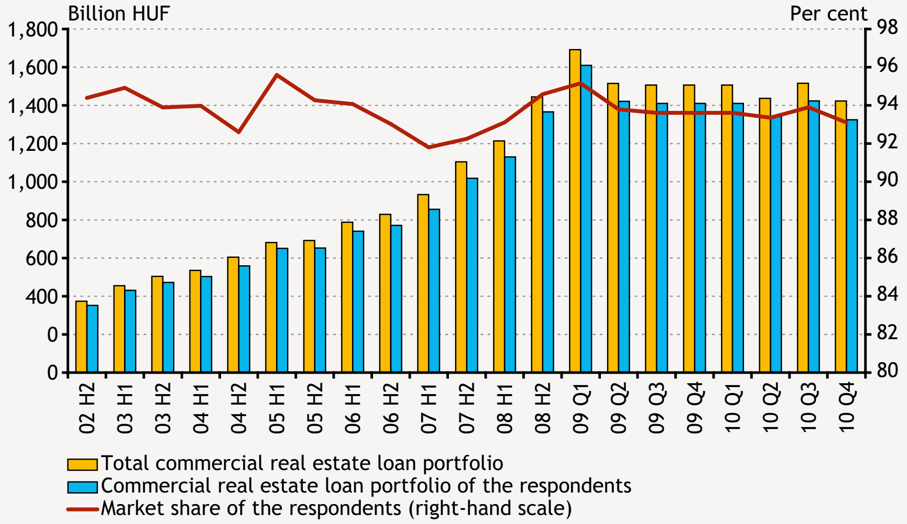
LENDING TO THE CORPORATE SECTOR

Chart 16
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 17
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 18
Willingness of banks to extend corporate loans
(net percentage balance of respondents reporting increased/decreased willingness to lend weighted by market share)

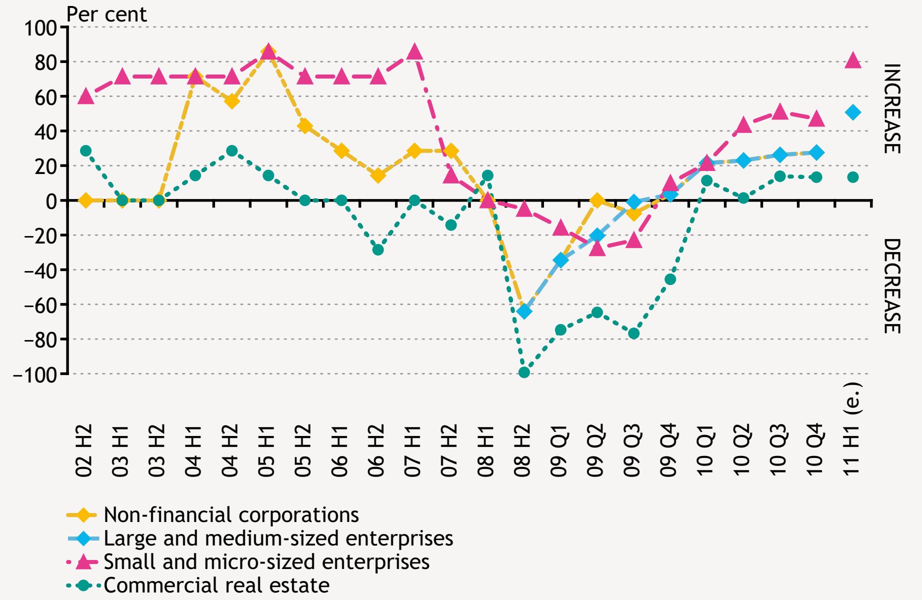
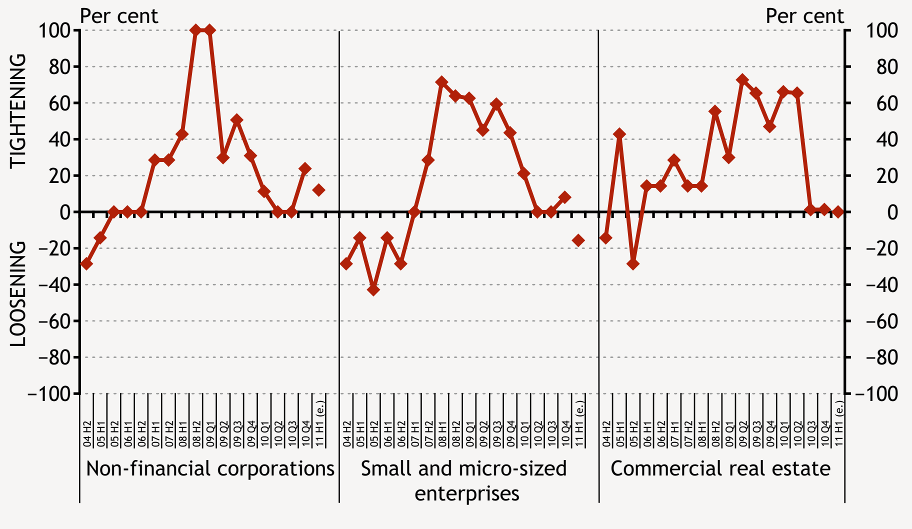
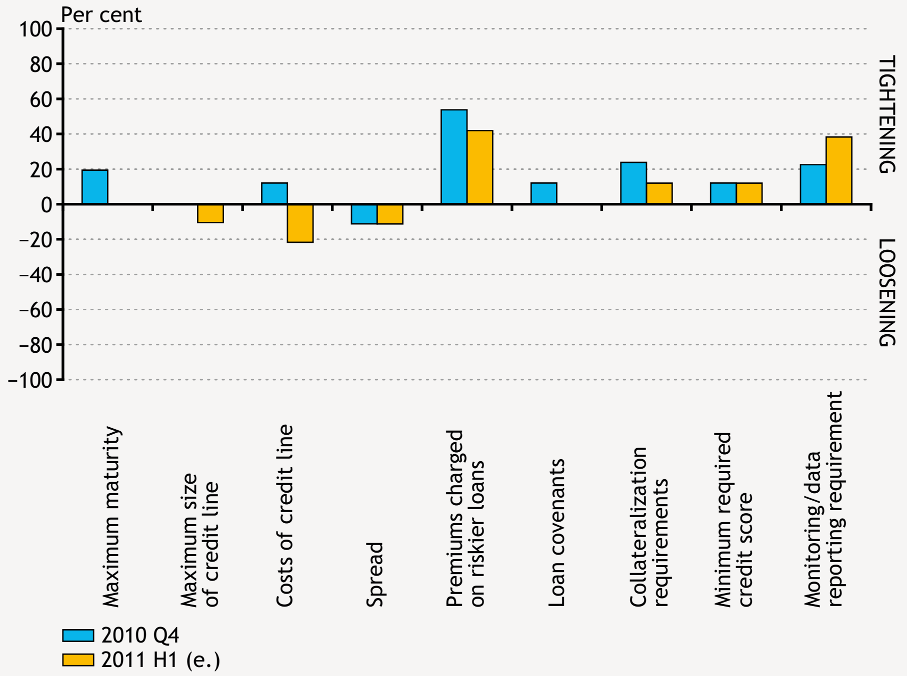


Chart 19
Credit conditions and credit standards by corporate category and for commercial real estate loans
(net percentage balance of respondents reporting tightening/easing weighted by market share)



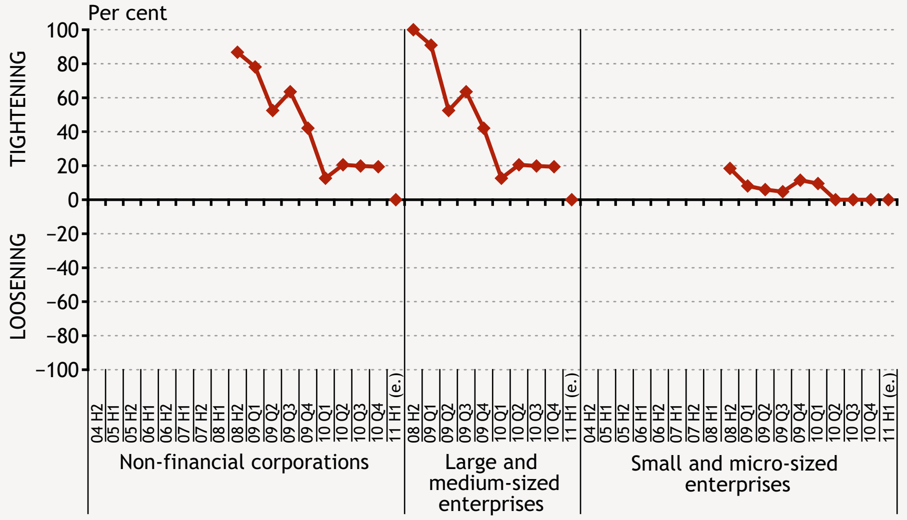
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 20
Credit conditions in the corporate segment
(net percentage balance of respondents reporting tightening/easing weighted by market share)



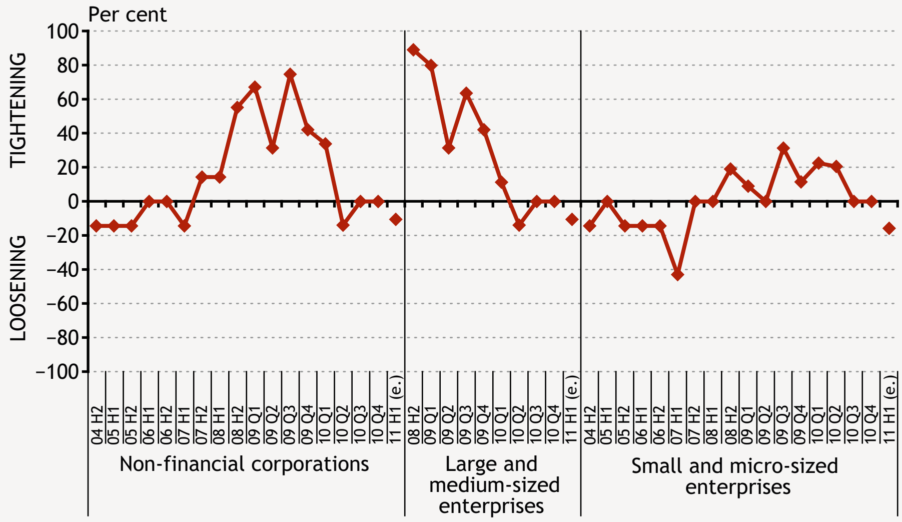
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 21
Maximum maturities by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



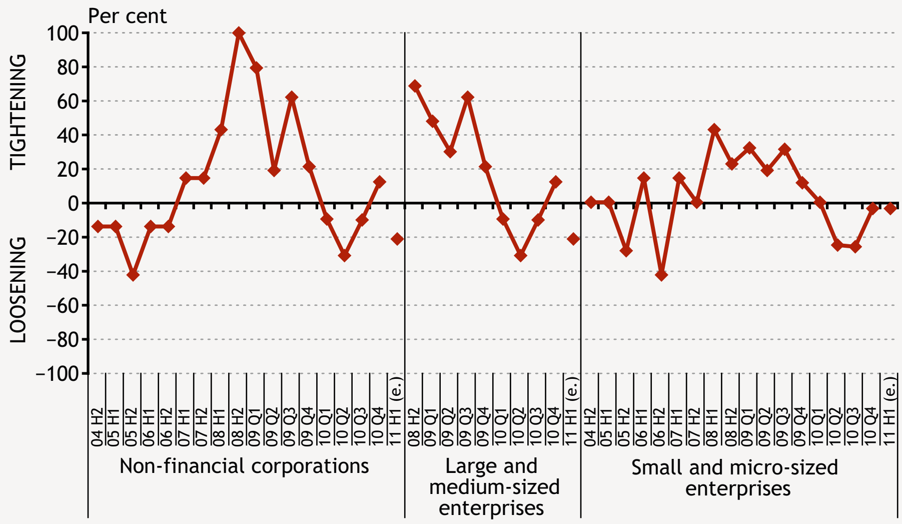
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 22
Maximum size of loans/credit lines by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



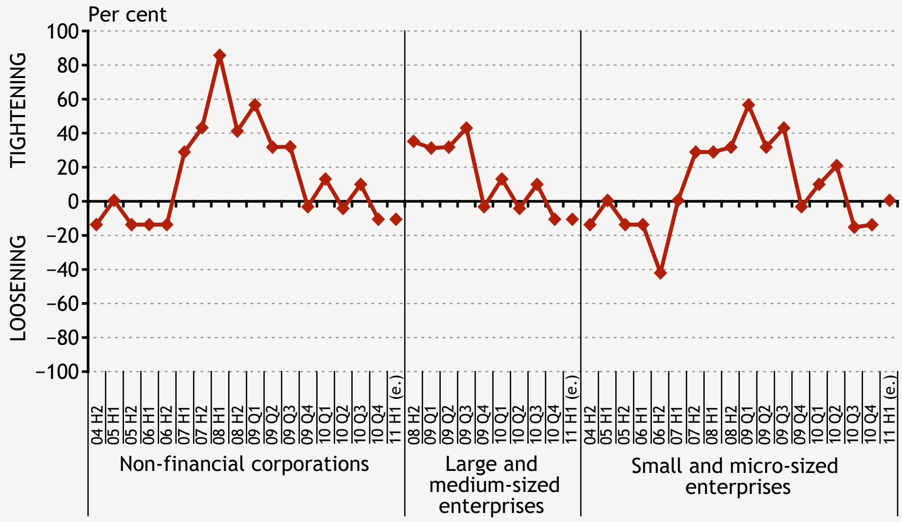
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 23
Fee(s) charged for extending loans/credit lines by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



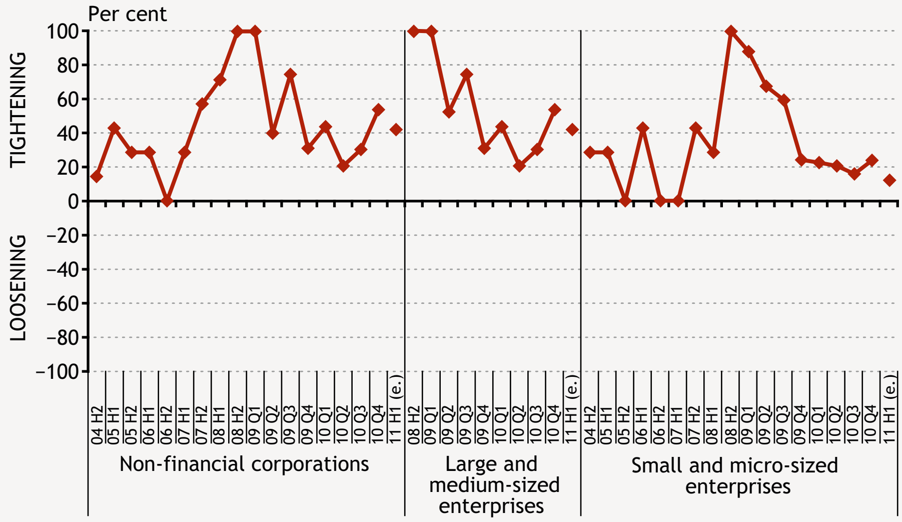
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 24
Spread between lending rates and cost of funds by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



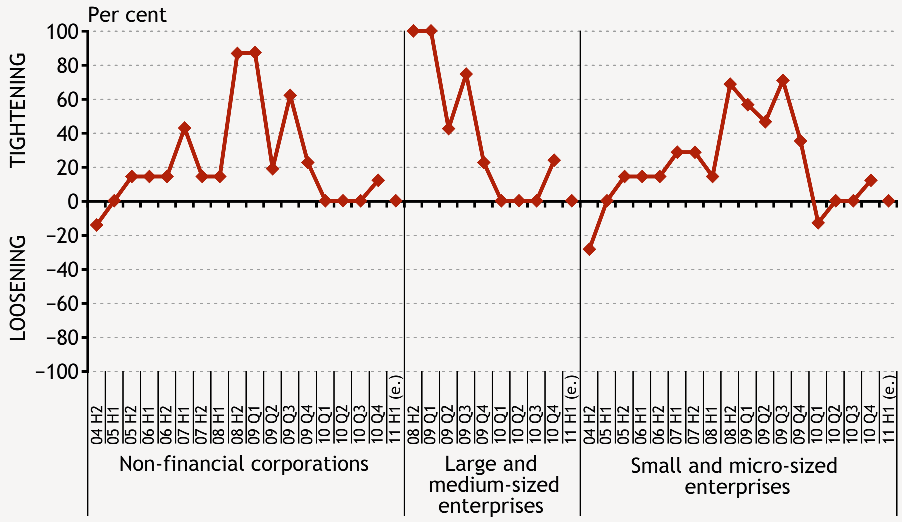
Note: The magnitude of tightening /easing is not shown in the chart.

Chart 25
Premium on higher risk loans by corporate sector
(net percentage balance of respondents reporting tightening/easing weighted by market share)



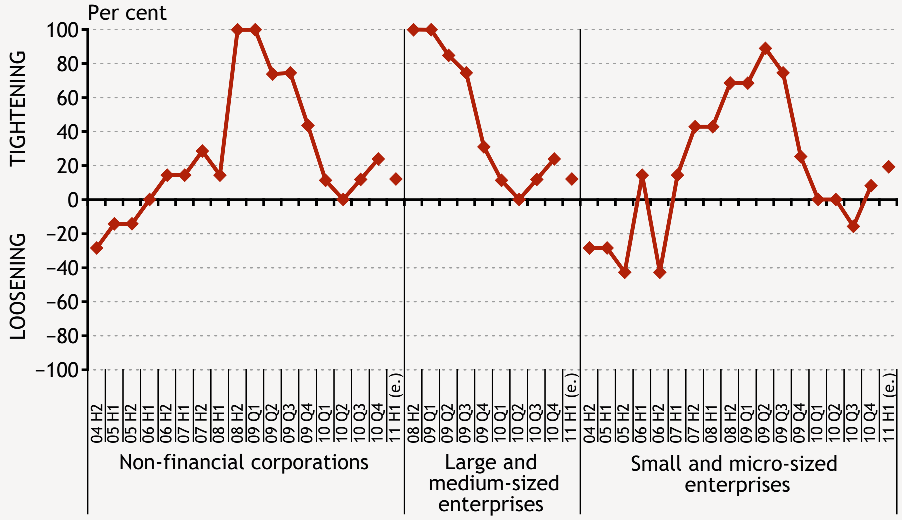
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 26
Covenant requirements by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



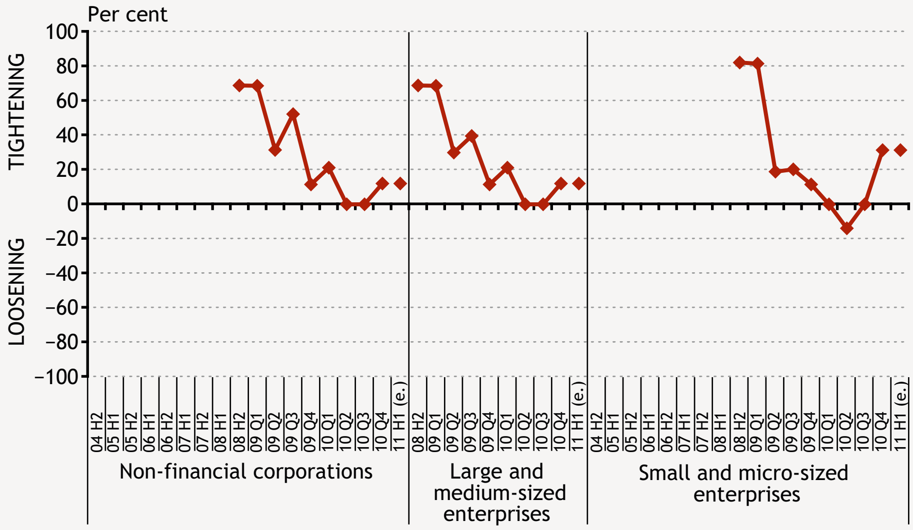
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 27
Collateralisation requirements by corporate category
(net percentage balance of respondents reporting tightening/easing weighted by market share)



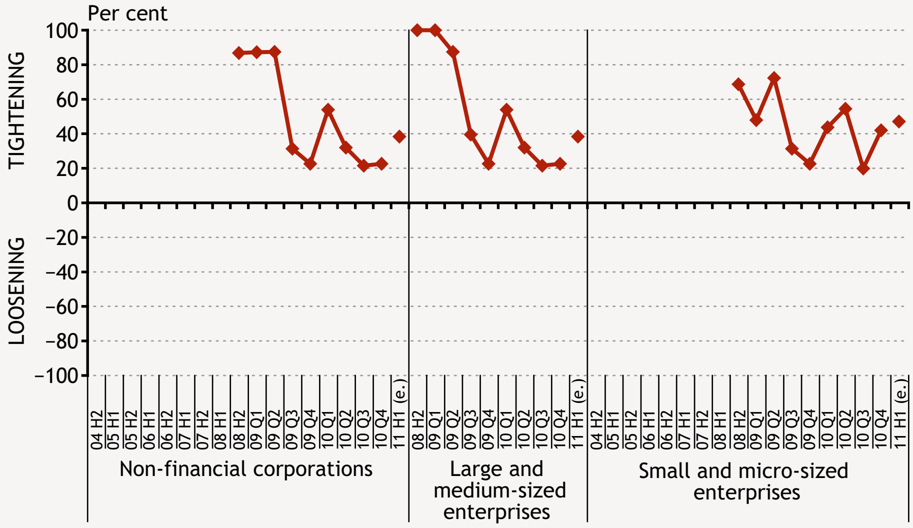
Note: The magnitude of tightening/easing is not shown in the chart.

Chart 28
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 29
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 30
Factors contributing to changes in credit standards and terms on corporate loans
(net percentage balance of banks indicating a contribution of individual factors to tightening or easing weighted by market share)

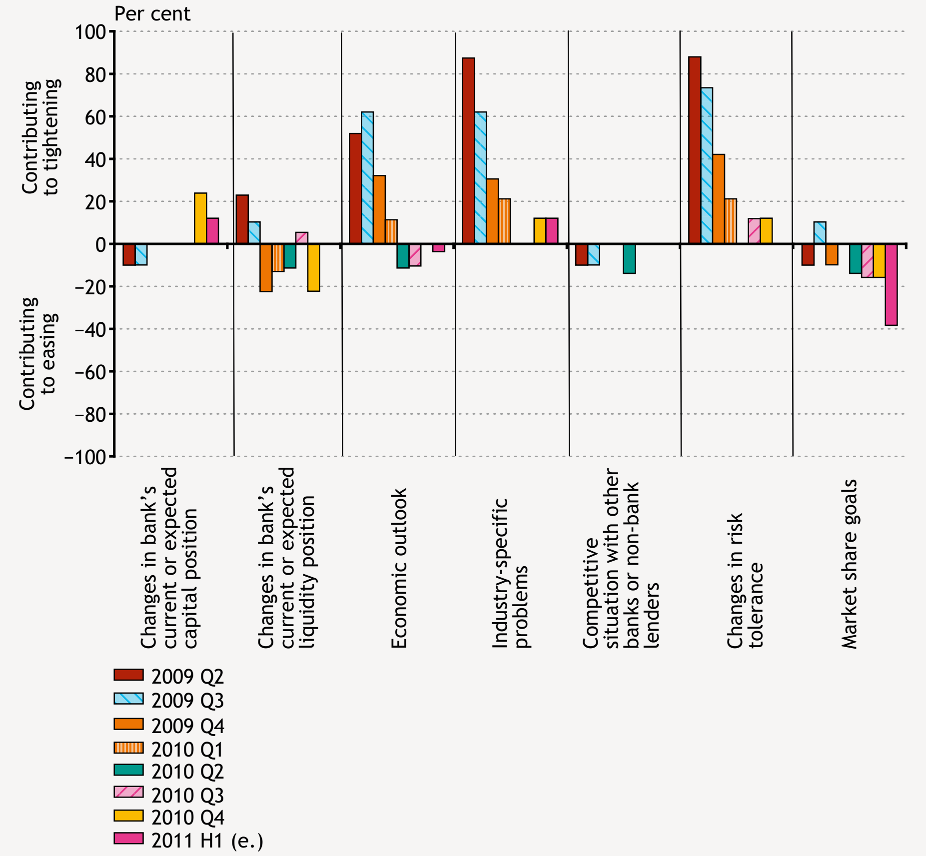


Chart 31
Loan demand by corporate size
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

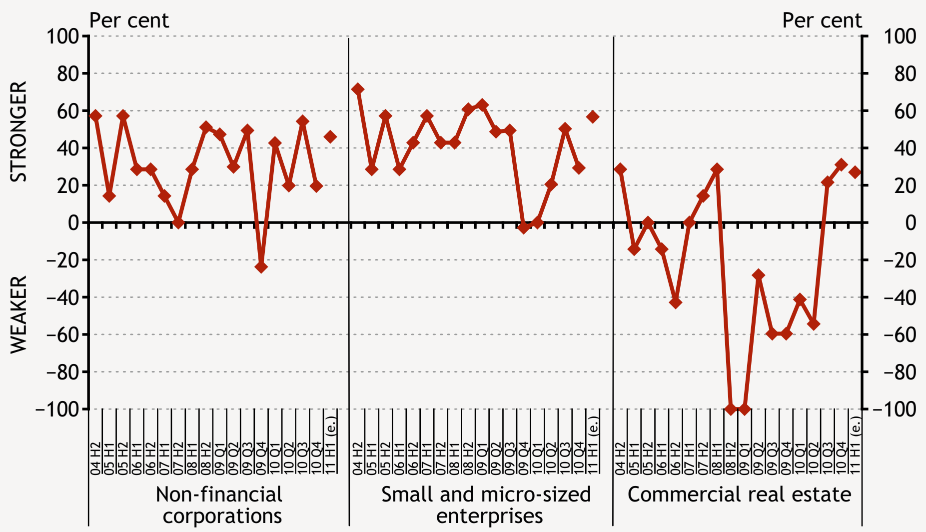


Chart 32
Loan demand by maturity
(net percentage balance of respondents reporting increase/decrease in demand weighted by market share)

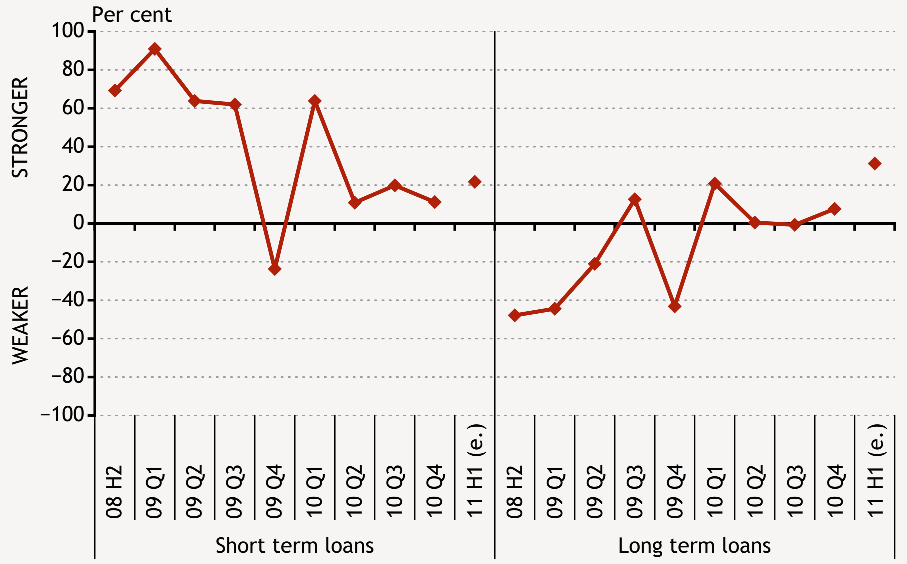


Chart 33
Factors contributing to corporations'demand for loans based on banks'perceptions
(net percentage balance of banks indicating a contribution of individual factors to increase or decrease weighted by market share)

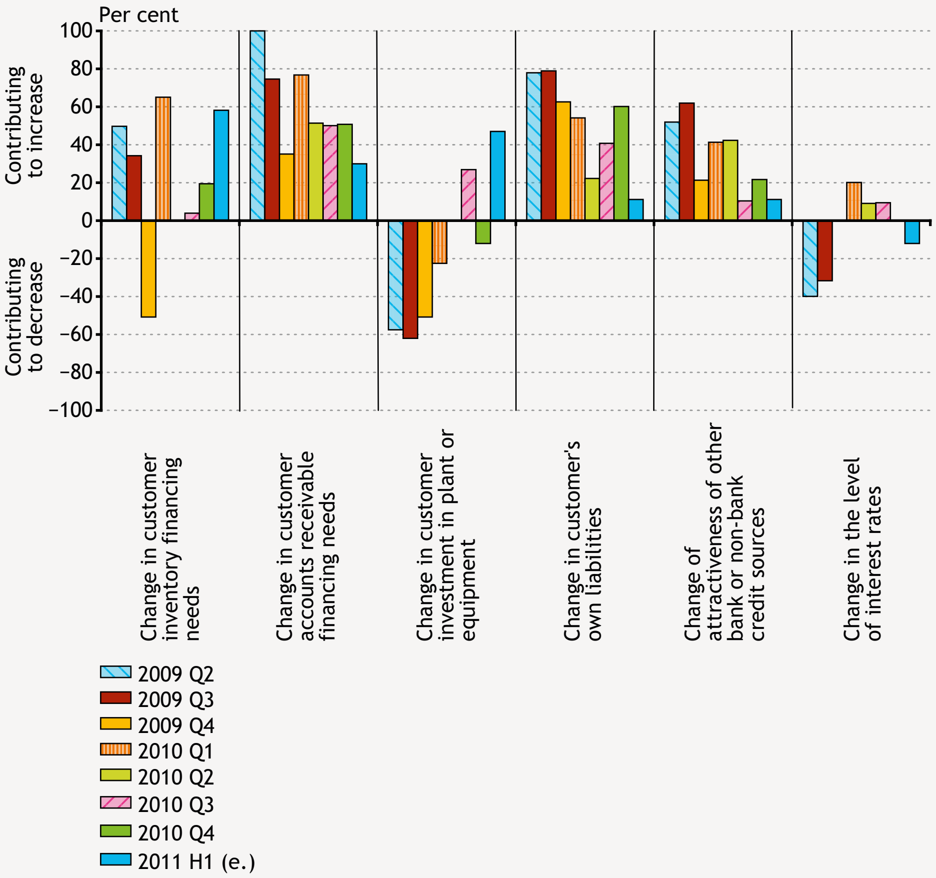


Chart 34
Changes in loan portfolio quality by sector
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)

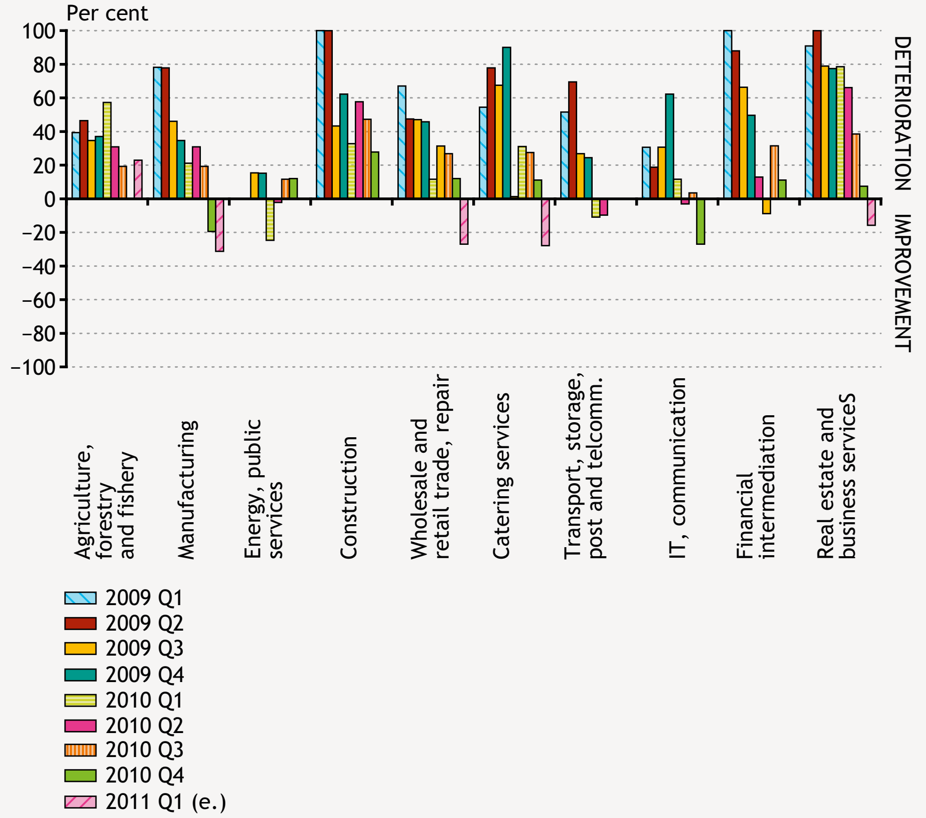
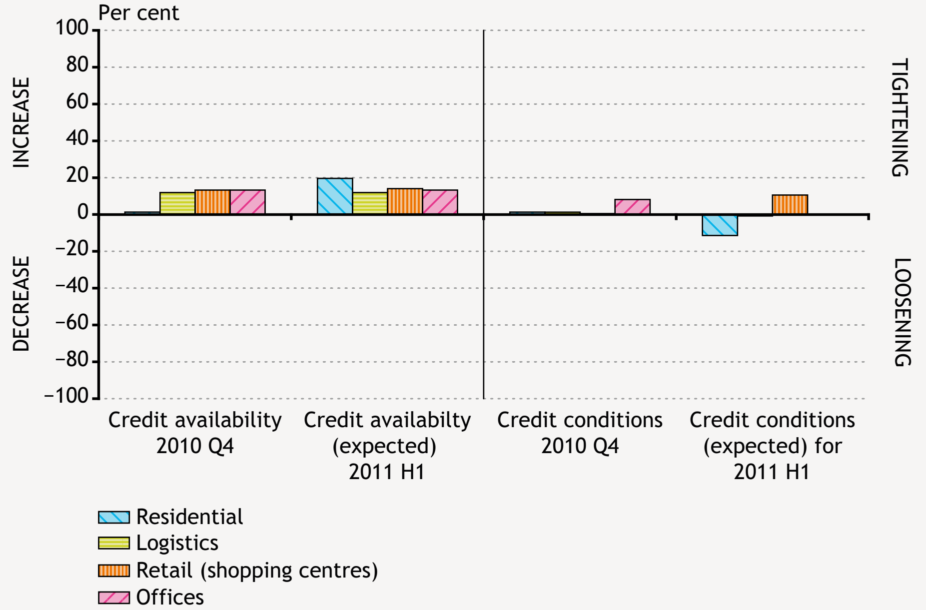


Chart 35
Credit availability (Willingness to lend) and credit standards/credit conditions for commercial real-estate loans
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

Chart 36
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)

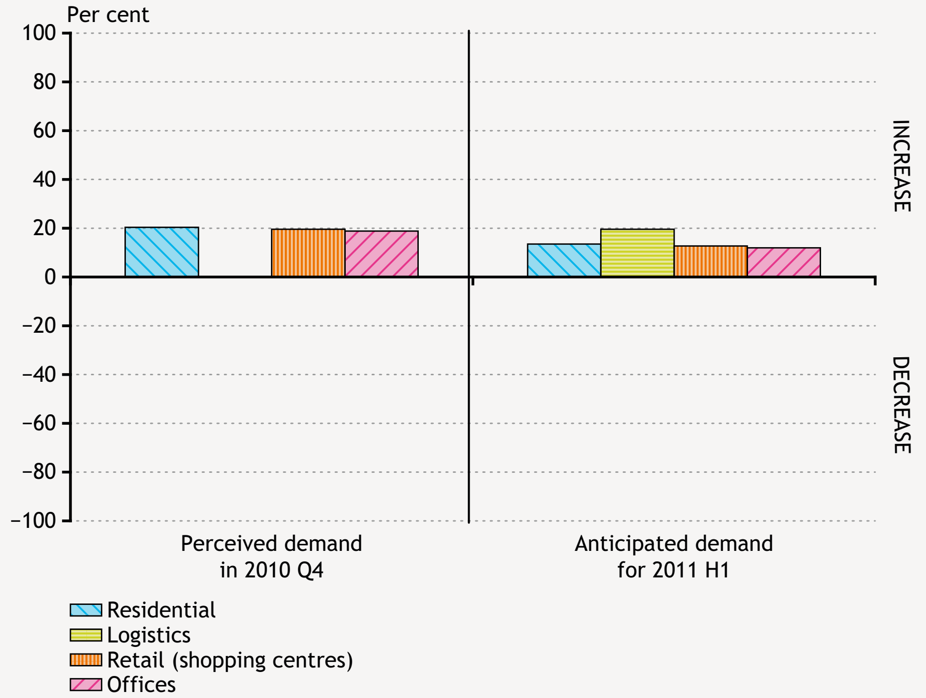


Chart 37
Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default
(net percentage balance of respondents reporting increased/decreased risk weighted by market share)

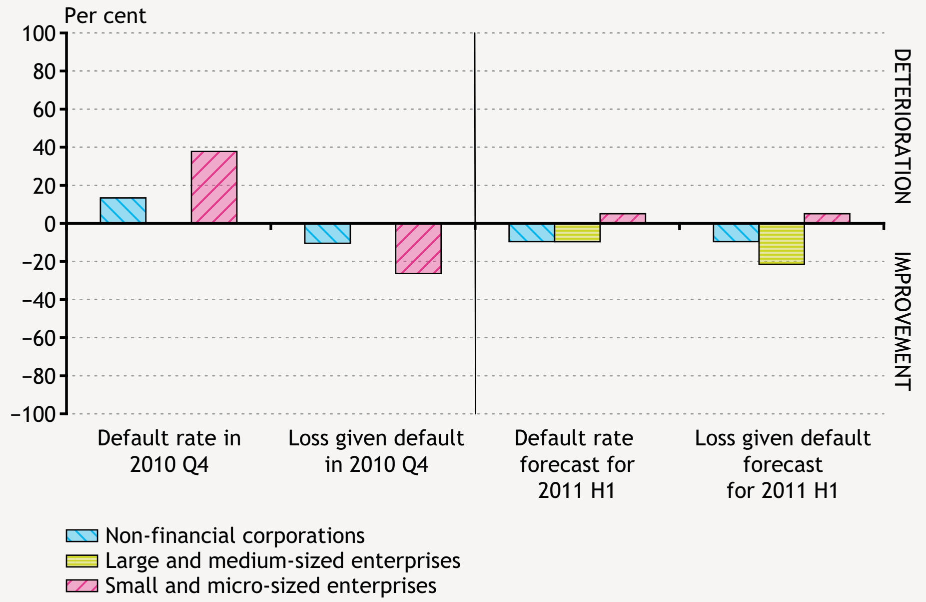
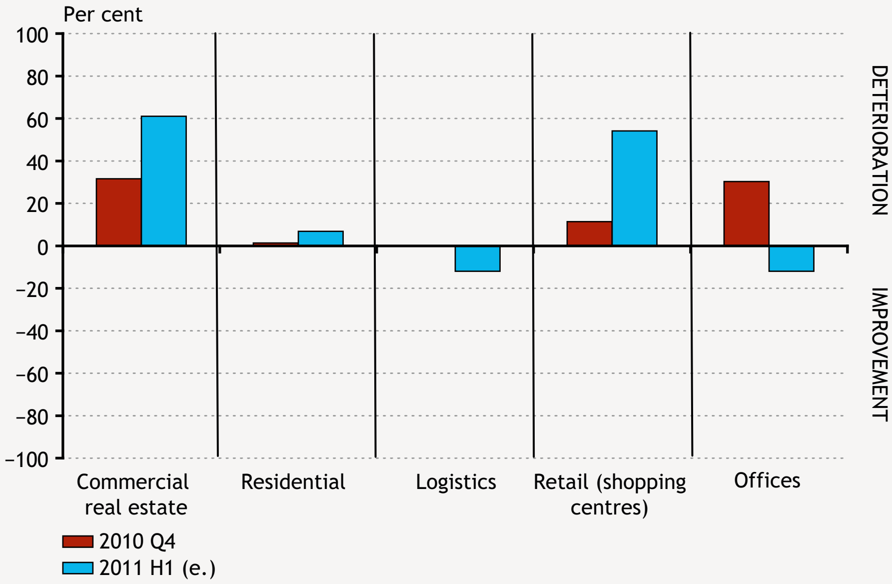
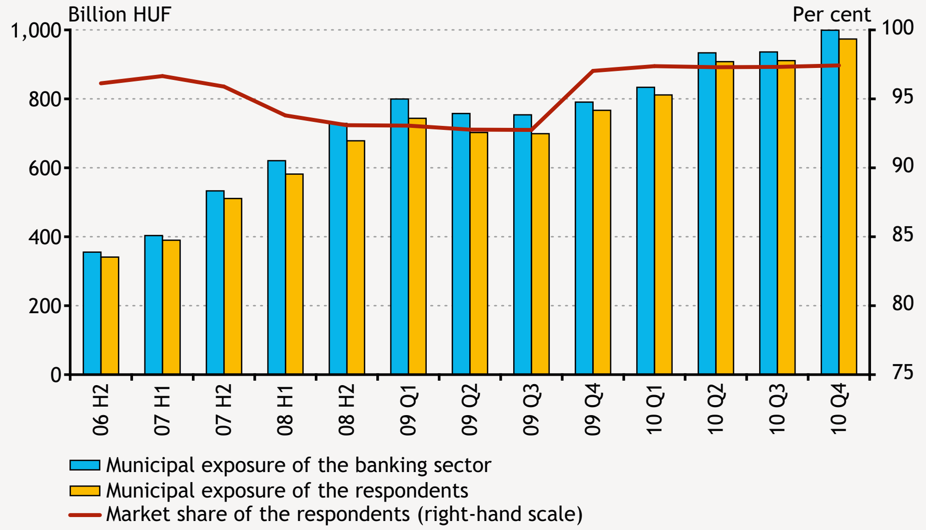


Chart 38
Changes in the quality of the commercial real estate loan portfolio
(net percentage balance of respondents reporting improvement/deterioration weighted by market share)



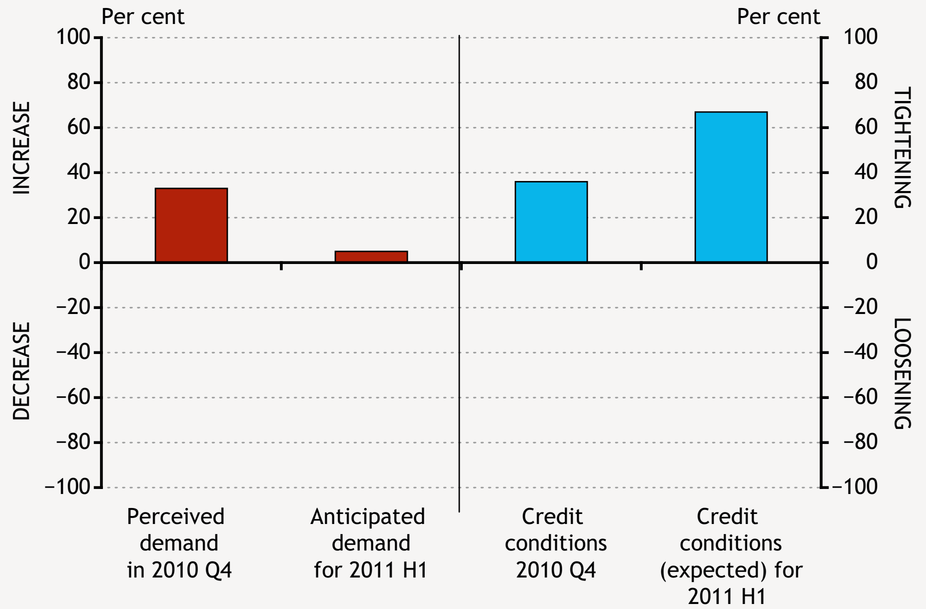
LENDING TO MUNICIPALITIES

Chart 39
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 40
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 41
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)

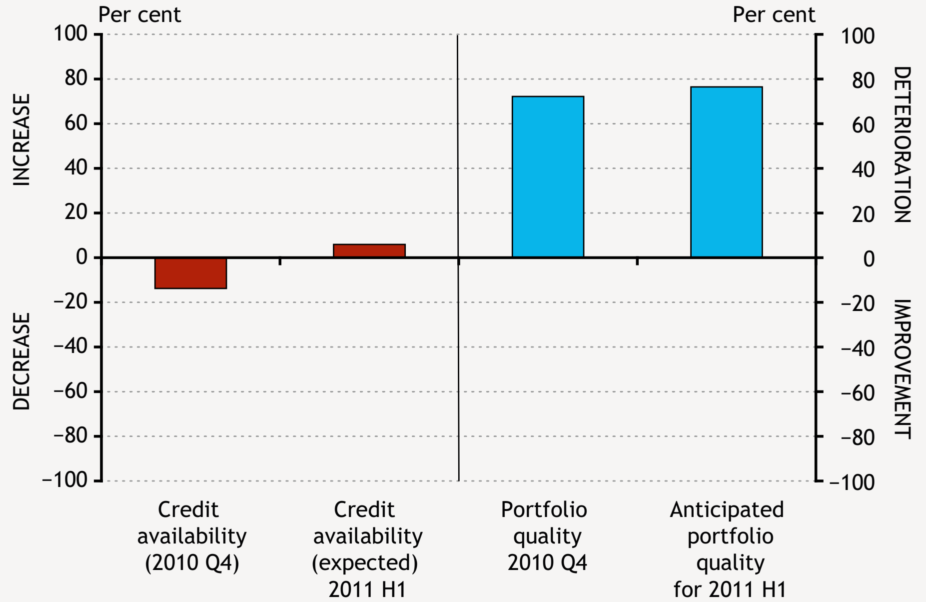
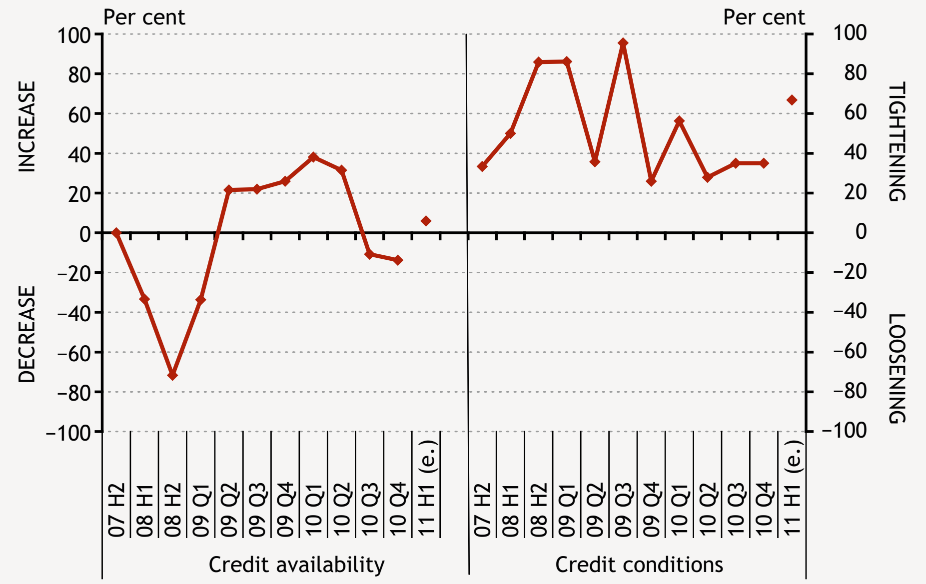


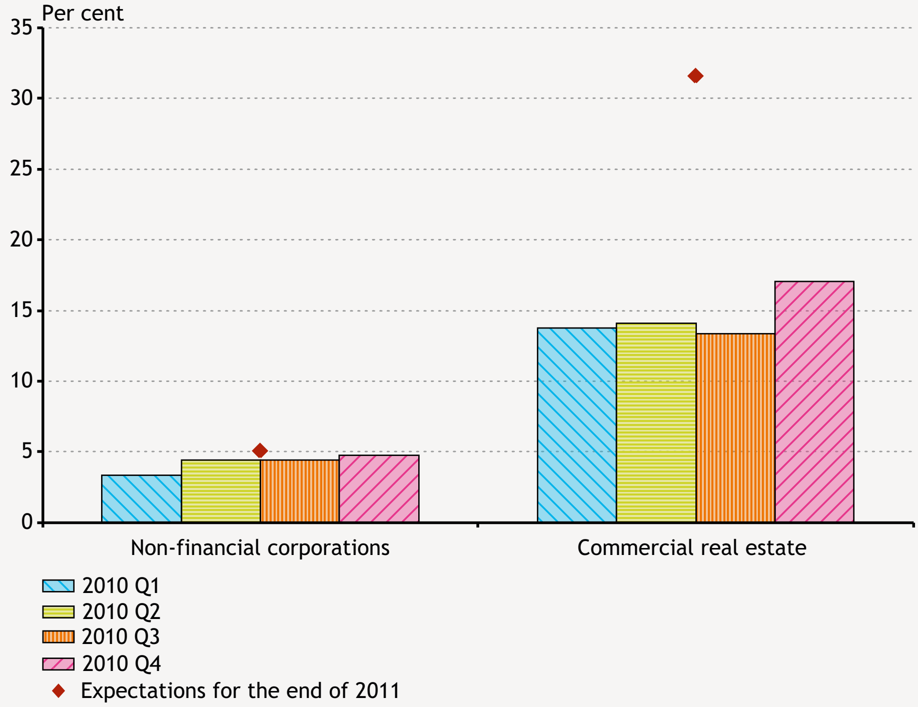
Chart 42
Credit availability (Willingness to lend) and credit conditions in lending to municipalities since 2007 H2
(net percentage balance of respondents reporting an increase/decrease and tightening/easing weighted by market share)



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

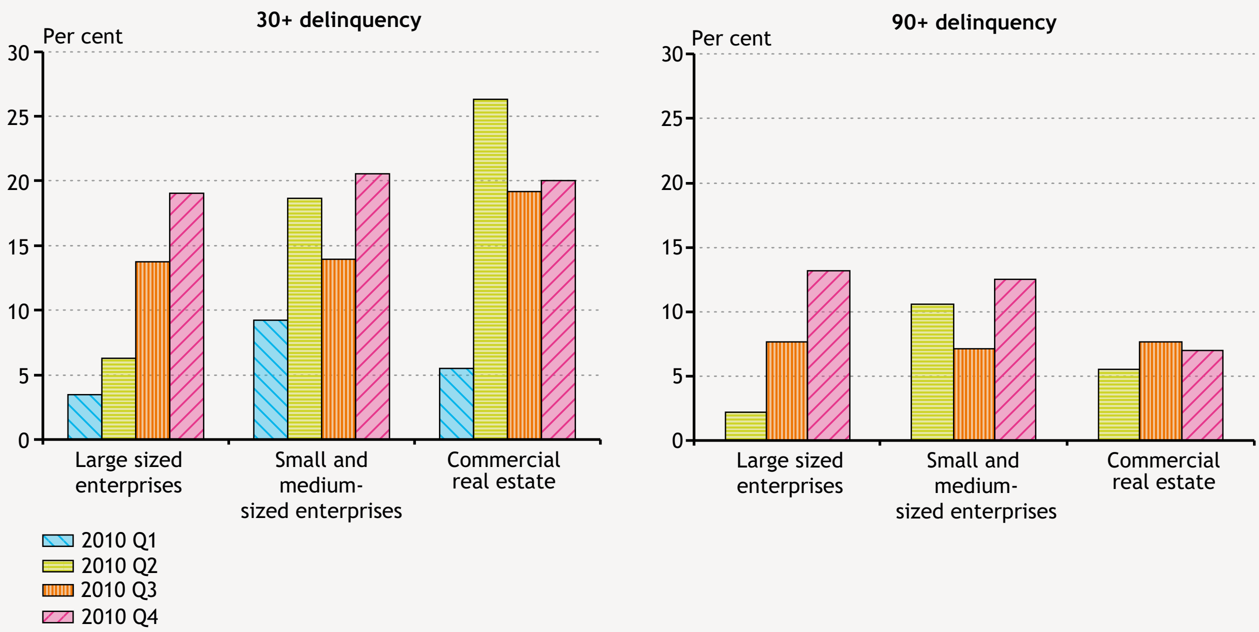
SPECIAL ISSUE – RESTRUCTURING IN THE HOUSEHOLD AND CORPORATE SEGMENTS

Chart 43
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



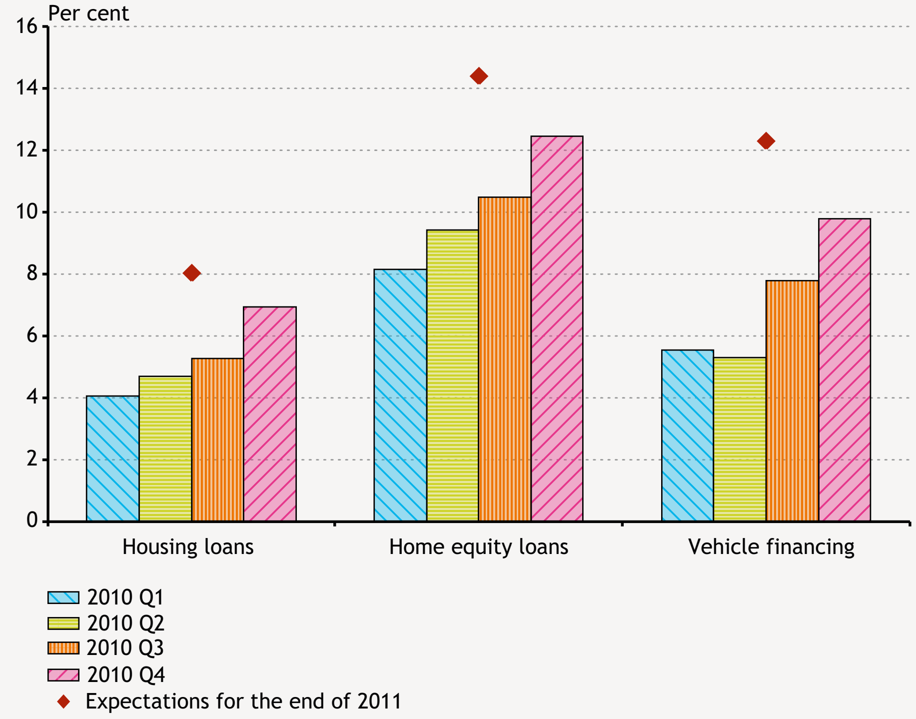
Note: Weighted by market share.

Chart 44
The delinquent restructured loans (30+ and 90+) within total restructured loans of the given sub-sement



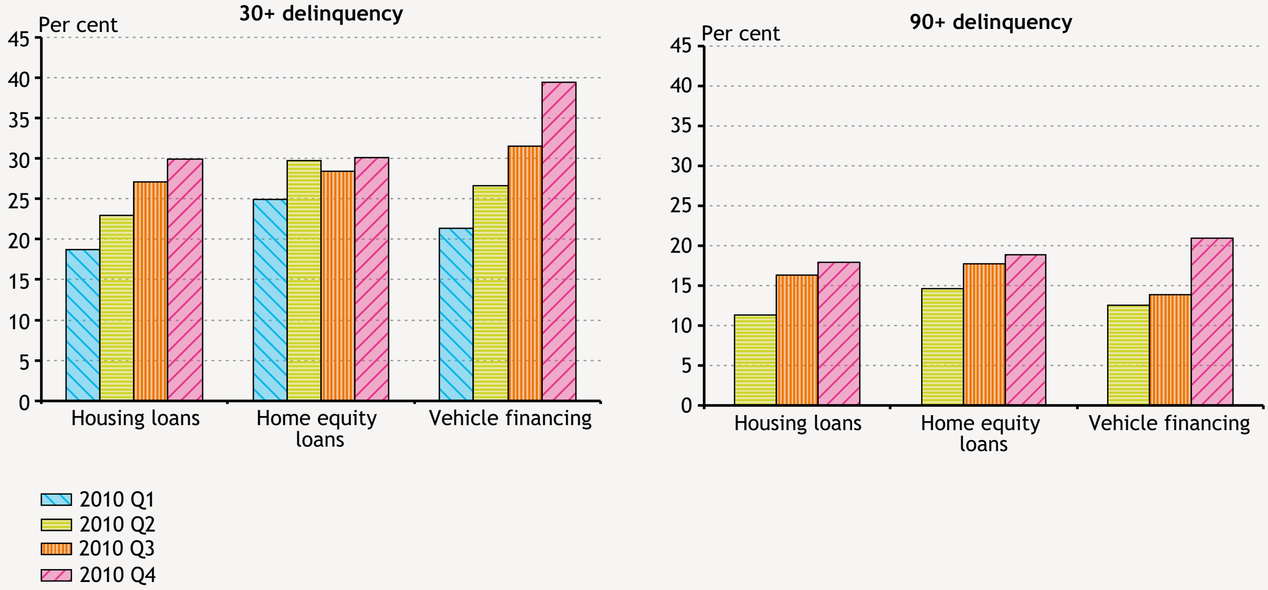
Note: Weighted by market share.

Chart 45
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 46
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.

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 Q4 in January 2011), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2011 H1 in January 2011), relative to the trends of the previous quarter year (previous half year in the past).

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**[3], 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.

[3] 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.

Senior loan officer survey on bank lending practices
Summary of the aggregate results of the survey for 2010 Q4

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