



NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market December 2006

Summary

At the beginning of 2007 the NBS conducted again the survey with the aim to find out the trends on lending market. 16 banks and 3 branches of foreign banks took part in this survey. The volume of loans granted by these banks and branches of foreign banks comprised 98% of total volume of clients' loans. The presented survey focused on the changes in the supply (mainly on changes in the credit standards as an addition to the price conditions of granting loans changes) and changes in the demand.

The volume of corporate loans continued to grow in the second half of 2006. High growth was noticed mainly in the granting of loans to real estate and building industry. Trend of the easing of credit standards in the large corporates market ceased and only small part of market indicated the growth of demand. Some banks indicated the tightening of credit standards due to the potential risks of the particular industries and change in the risk management system. Different situation occurred in the market of loans to small and medium-sized enterprises, where a trend of the easing of credit standards and the growth of demand continued. The competition in the banking sector and the growth of the demand, which increased mainly due to the needs of enterprises to finance long term investments as well as standard activity, remained one of the reasons for the easing of credit standards. Any considerable changes in credit standards are not expected in the first half of 2007 with the exception of the further growth of the loans demand in market of loans to small and medium-sized enterprises.

Household loan market was influenced mainly by continuing growth of demand for household loans (loans secured by real estates and credit cards) and further growth of interest rates in the second half of the year. The growth demand was caused mainly by higher income of households as well as higher expenses on real estate related to the continuing growth of their prices. Some banks indicated the easing of credit standards mainly in the residential real estate loans area in the second half of 2006. The main reasons were competition pressure from other banks and expectations of banks on further real estate prices growth. On the other hand, some banks tightened credit standards to consumer and housing loans, mainly by increasing of requirements to the client financial situation. It was caused mainly by changes in the portfolio quality and banks' risk appetite.

Note to the presentation of the aggregated data:

If not otherwise stated, data in text or charts are given in **net percentage share**. For example, the net percentage share of banks that eased their credit standards is calculated as the difference between the percentage market share of banks, which reported easing of their credit standards, and the percentage market share of banks, which reported tightening of their credit standards. Said differently, individual answers of banks are weighted by the volume of loans of the respective type. More details on this calculation and on the method of aggregation of individual answers can be found in the document „Methodology of the survey evaluation“.

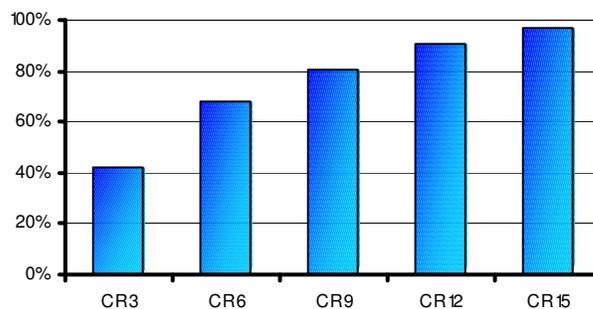
Results presented in this document are in the aggregate form. Its aim is to express the views of individual banks founded out by survey and it does not necessary reflect the view of the NBS.

Corporate loans

Corporate loan market

The corporate loan market, which comprises of loans to domestic and foreign non-financial and financial corporations, sole traders and non-profit organisations, recorded continuing trend of total volume growth in the second half of 2006. This trend had been observed from the beginning of 2005. Its pace was not changed significantly. The volume of corporate loans increased by SKK 31 billion, i.e. by 8% in the second half of 2006 (from June 2006 to December 2006). The volume of newly drawn corporate loans in Slovak crowns remained on the approximately same level in the observed period as in the first half of 2006. However, observed corporate loans expansion was not uniform across the banking sector (see Chart 2). The share of the volume of the corporate loans granted by three banks with the highest market share on the total corporate loans in the first and second half of 2006 increased, mainly due to the loans granted to the domestic non-financial corporations.

Chart 1 Concentration of corporate loans in the banking sector



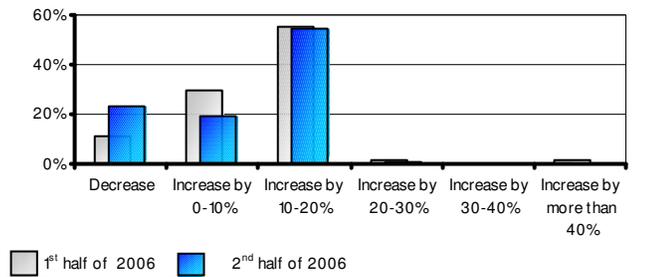
CR k index expresses the share of loans granted by k banks with the highest volume of the corporate loans on the total volume of the corporate loans.

Loans to domestic non-financial corporations represented about one half of the total volume of corporate loans. In the second half of 2006, their increase was comparable to the increase in the first half of 2006, on a level of approximately 10%. Loans to finance of real estate construction and building industry were noticeably predominated. Increase of these loans (about SKK 14,8 billion) represented more than 50% of the total increase of loans to non-financial corporations in the second half of 2006. The volume of loans granted to the domestic financial corporations, which had achieved relatively high growth in the past (approximately to the end of 2005), stayed almost stable in the second half of 2006 (increase by 3% only). The volume of foreign currency denominated loans granted to the financial corporations declined by 19%. The volume of sole traders loans increased by 7%, the same level as in the first half of 2006.

Base on data we can summarize that there were no significant changes in the volume of new

granted corporate loans in the banking sector, although the relative growth of financial corporations loans decreased and the distribution of the growth of the loans among individual banks changed. This is partially confirmed by the conclusions of the survey. The market share of banks that did not indicate any significant changes in demand and in credit standards was 42% (in the first half of 2006 it was 55%). Some banks where volume of corporate loans increase significantly indicated as the reason the changes in interest rates and fees (their market share was 35%) or the growth of demand from clients (their market share was 34%).

Chart 2 Distribution of corporate credit growth in the second half of 2006



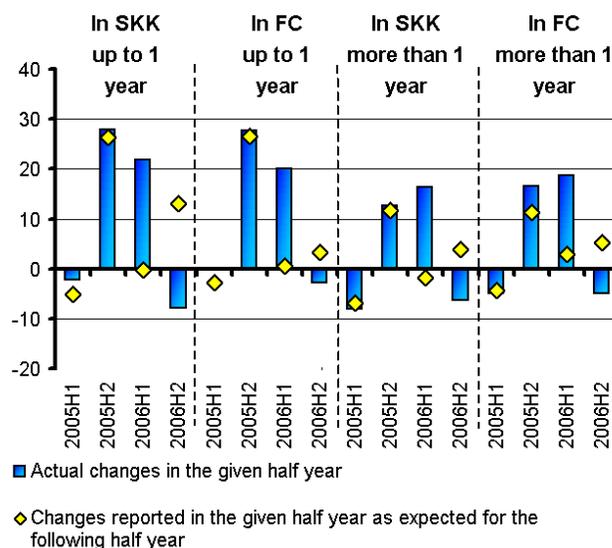
The data on horizontal axis represents changes in the volume of the corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans.

Changes in the supply

Although several banks eased their credit standards to large corporate loans in 2005 and in the first half of 2006, this trend was set back in the second half of 2006. However, it was in the accord with the banks' expectation related to the second half of 2006. On the other hand, some banks tightened these credit standards. The situation was completely different in the market of loans to small and medium-sized enterprises. The percentage share of banks, which eased credit standards to granting loans to small and medium-sized enterprises, increased, in comparison with the previous half of the year. It was related mainly to the short-term loans. Increase was more than the one which banks expected in the beginning of the second half of 2006.

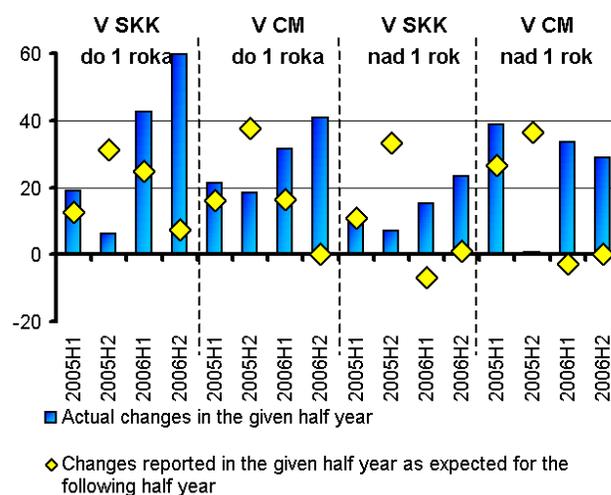
Generally, credit standards on granting loans to small and medium-sized enterprises were more eased and credit standards to granting loans to large corporates did not changed significantly, similarly to the situation in the first half of the 2006. It is a change comparing to the previous half-year, where the easing of credit standards related to large corporates was more significant. According to the answers from the survey, the market share of banks that would expect further easing of the corporate credit standards during the first half of 2007 is low. It is mainly related to small and medium-sized enterprises loans.

Chart 3 Changes in credit standards on loans to large corporates



The vertical axis represents the net percentage share of banks that eased their credit standards on loans to large corporates.

Chart 4 Changes in credit standards on loans to small and medium enterprises

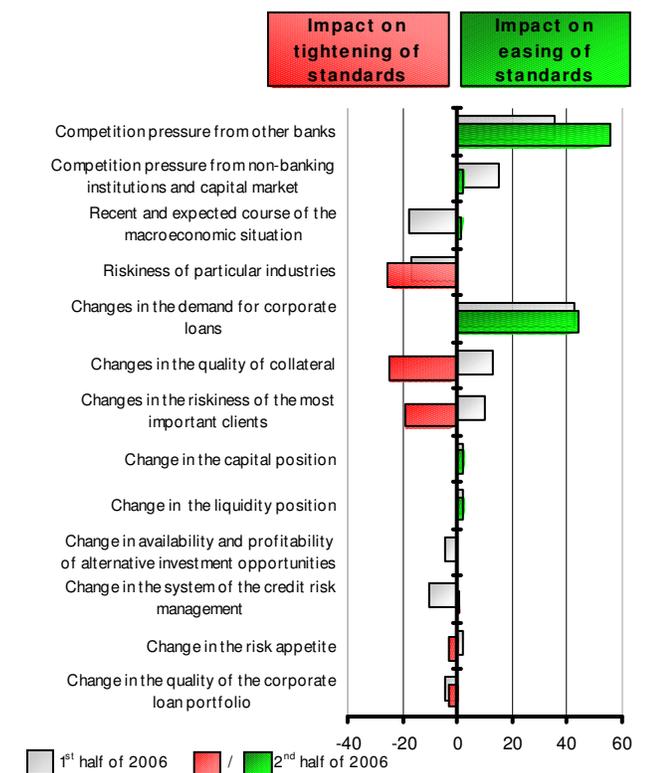


The vertical axis represents the net percentage share of banks that eased their credit standards on loans to small and medium enterprises.

The reasons of the easing of credit standards on loans to small and medium-sized enterprises in the second half of 2006 were, as in the past, mainly changes in the corporate loans demand and competition in the banking sector. On the other hand, banks that tightened the credit standards to granting corporate loans indicated as the most frequent reason changes in the system of credit risk

management and increase of riskiness the most important clients or particular industries or decrease of collateral quality.

Chart 5 Factors influencing changes in credit standards on corporate loans

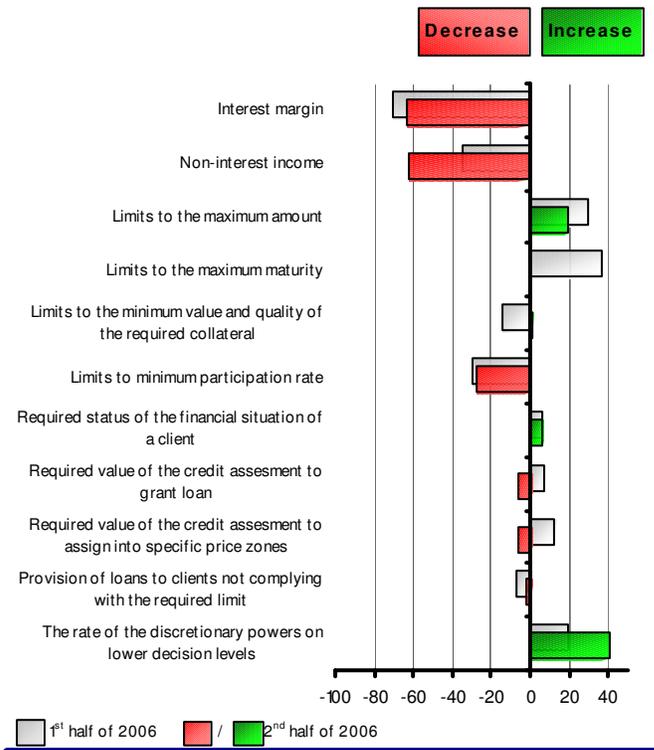


The horizontal axis represents the net percentage share of banks.

Regarding the specific terms on granting corporate loans, no considerable changes arisen in comparison with the first half of 2006. Substantial part of market participants stated decrease of interest margins and income related to the loans granting in terms of price on corporate loans again. However, some banks indicated increase of interest margins. The easing of credit standards was mainly related to the easing of specific terms of loans granting, mainly to decreasing of limits to the minimum required co-financing, limits to the maximum maturity of a loan or limits to the maximum amount of loans. On the other hand, required status of the financial situation of a client increased in some small and medium-sized banks, which tightened their credit standards. Trend of

increasing of the discretionary powers on lower decision levels continued further on.

Chart 6 Changes in specific terms on corporate loans

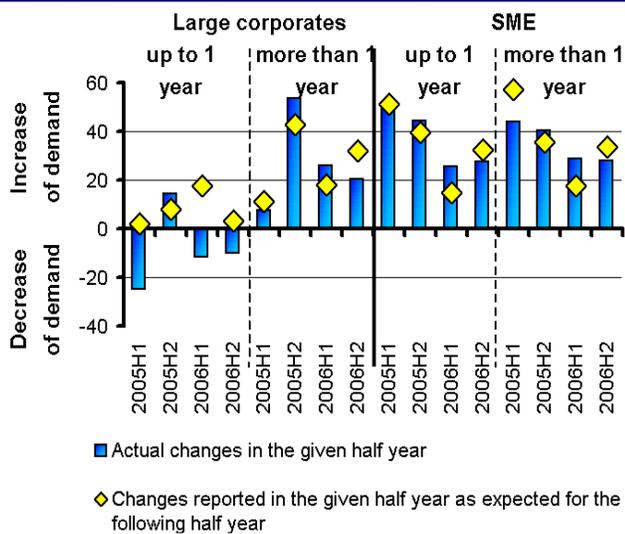


The horizontal axis represents the net percentage share of banks.

Changes in the demand

As it was mentioned earlier, the impact of changes in the demand in explaining of changes on corporate loans market was in the second half of 2006 approximately same as in the first half of 2006. Demand increased mainly in small and medium-sized enterprises loan market, where some banks eased their credit standards. Share of banks that expect further increase in the loan demand in this market in the first half of 2007 is higher comparing to the second half of 2006. Increase in the demand of loans on this market has continued from the beginning of 2005. At the same time, more medium and small-sized banks noticed increase of long-term loans demand of large corporates.

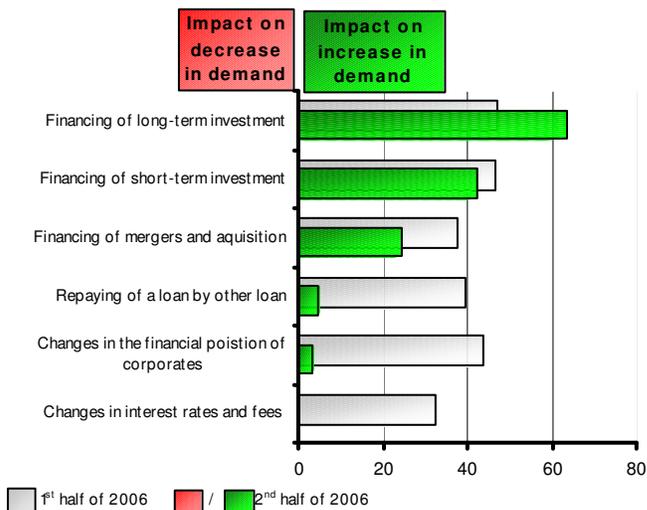
Chart 7 Changes in the demand for corporate loans



The vertical axis represents the net percentage share of banks.

Financing of long-term investments as well as operating capital demand remained the most important reasons of increase in demand for corporate loans in the second half of 2006. This was in compliance with observed trend of increase of activities financing in the real estate area. The changes were mainly decrease of significance in re-paying one loan by another, as well as decrease of influence of changes in the financial position of corporates and changes in the interest rate and fees, comparing to the first half of 2006. Changes in the corporate loans interest rates, which grew more than one percentage point in the first half of 2006, recorded further growth in the second half of 2006, but the pace of this growth was less rapid. Some banks, in which the new loans interest rates fell down, indicated this decrease as partial factor of increase in demand for corporate loans.

Chart 8 Factors influencing changes in demand for corporate loans



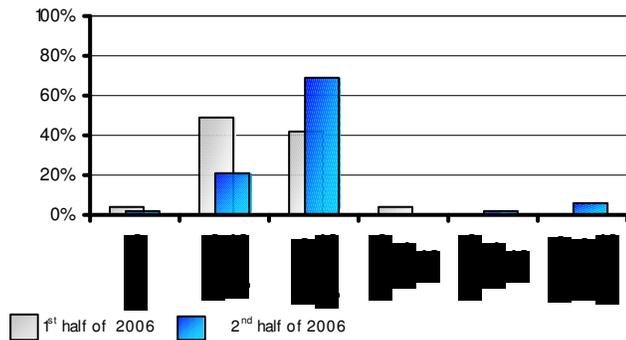
The horizontal axis represents the net percentage share of banks.

Household loans

Household loan market

The increase of household loans continued in the second half of 2006. These loans were one of the most rapidly increasing items in the banks' balance sheets. During the second half of 2006 their volume increased by 14%, while during the first half of 2006 by 16%. Loans denominated in foreign currency represented less than 4% of this growth. Increase of household loans can be recorded in almost all banks where retail loans are granted. The highest share on total volume of household loans (approximately 70%) was constituted by real-estate loans (increase by 16% during second half of 2006). Consumer loans comprised approximately 16% on total volume of household loans (increase by 11%).

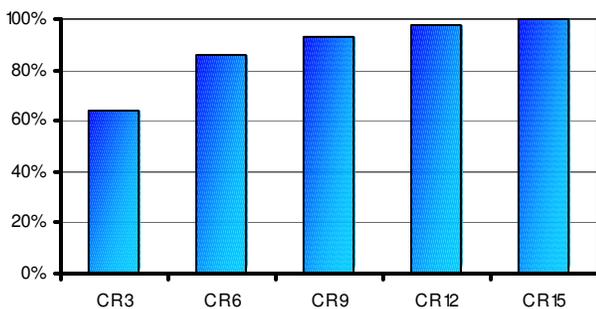
Chart 9 Distribution of household credit growth in the second half of 2006



The data on horizontal axis represents changes in the volume of household loans. Data on vertical axis represent the share of banks in a given column on total household loans.

The concentration on the household loan market was slightly reduced in the second half of 2006, mainly due to the volume of loans granted by the three largest banks, however their dominance in this market remained the same. The share of loans granted by six banks with the biggest share on the market has remained approximately the same for a long period of time (84% to 85%).

Chart 10 Concentration of household loans in the banking sector



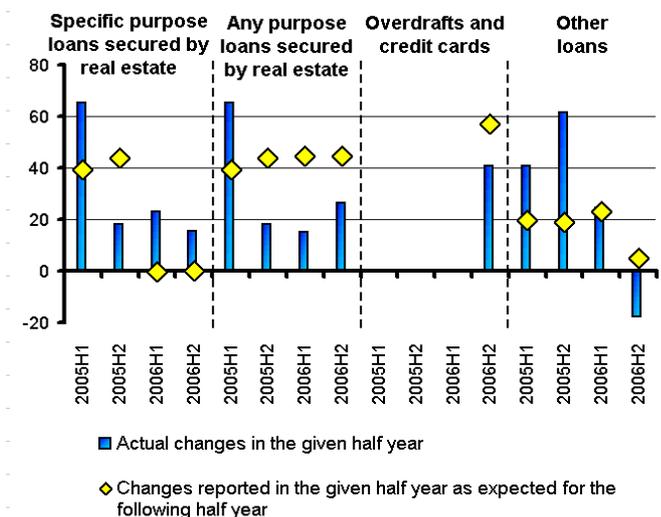
CRk index expresses the share of loans granted by k banks with the highest volume of the household loans on the total volume of the household loans.

Changes in the supply

Unlike during the year 2005, a growth of interest rates on new household loans was specific for year 2006, although we can see the slowdown of this growth in the second half of 2006, similarly to the corporate loans. Interest rates had been increased by 1.4 percentage point on average

during the first half of 2006 and by 0.6 percentage point during the second half of 2006. Survey conclusions confirmed the impact of interest rates changes on the loan market development. Market share of banks that identified significant influence of changes in interest rates and fees was 38% in the second half of 2006, while in the first half of 2006 it was 41%. On the other hand, comparing to the first half of 2006, higher share of banks regarded the impact of increase in household demand as significant (increase from 34% to 55%). Some banks continued to ease of credit standards on loans to households secured by real estate during the second half of 2006. The same trend is expected during the first half of 2007, mainly in the area of any purpose loans. The credit cards were taken separately from the other types of loans first time in the second half of 2006. We can therefore talk about credit standards easing in this type of loans, while more banks tightened credit standards on other types of loans (loans non-secured by real-estate other than credit cards). Some banks expect another credit standards easing in the area of credit cards in the first half of 2007.

Chart 11 Changes in credit standards on loans to households



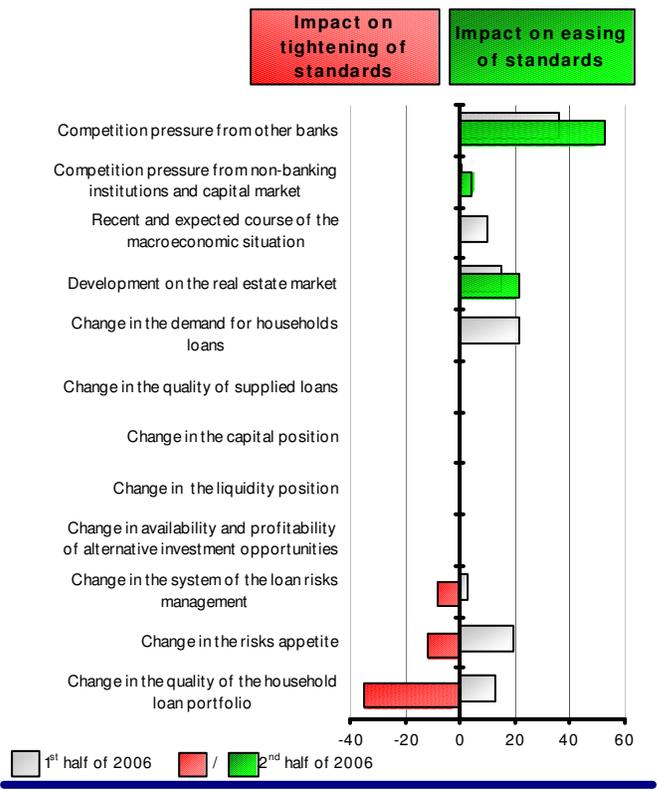
The vertical axis represents the net percentage share of banks that eased their credit standards on household loans.

The competition in the banking sector stayed the primary factor influencing the credit standards easing for the household loans during the second

half of 2006. Impact of changes in macroeconomic situation and the demand for household's loans decreased. The reasons in banks, which tightened their credit standards, were predominantly internal factors, as changes in the quality of the household loan portfolio, changes in the banks' risks appetite and changes in the system of the credit risk management.

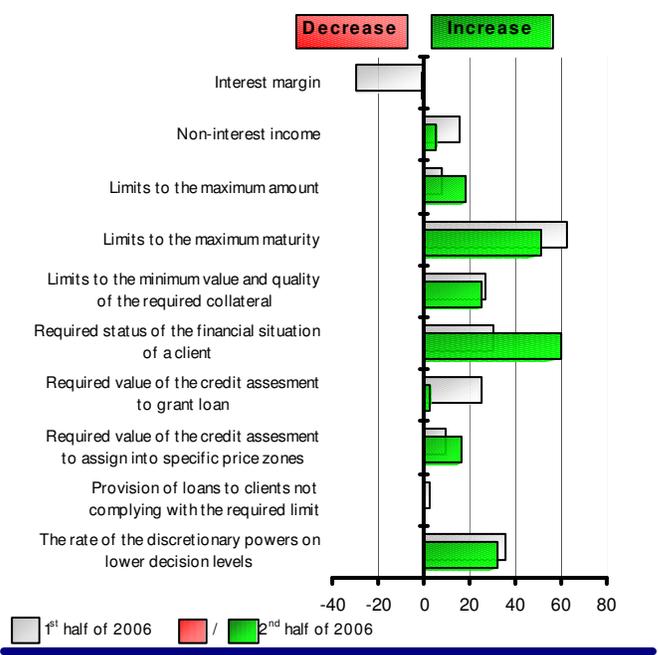
Interest rates increase had an impact on continued decrease of market share of banks, which as the most significant change in terms of household loans granting indicated interest margin decrease (this net percentage share was 65% in 2005, 30% in the first half of 2006 and 0% in the second half of 2006). Credit standards easing appeared again particularly in easing of terms and limits to individual loans. On the other hand, credit standards tightening to household loans in some banks had impact mainly on increasing of required status of a client financial situation and rating in order to assign into specific price zone. Trend of decentralization of discretionary powers to lower decision levels for approving loans, which was noticed in previous period, continued further in more banks.

Chart 12 Factors influencing changes in credit standards on household loans



The horizontal axis represents the net percentage share of banks.

Chart 13 Changes in specific terms on household loans

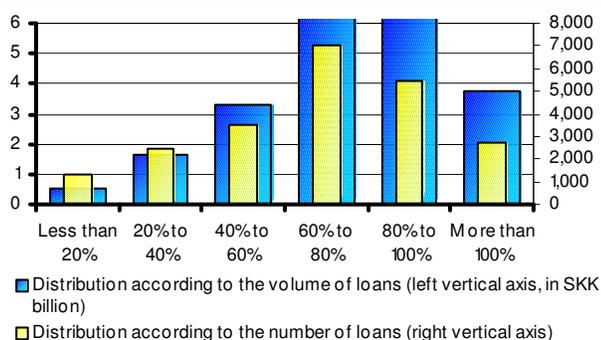


The horizontal axis represents the net percentage share of banks.

Credit protection of the loans

The share of the volume of the loans to the volume of the credit protection (so-called *loan-to-value ratio, LTV*) for housing loans changed only slightly in the second half of 2006 in comparison with the second half of 2005. Share of the volume of loans with LTV value more than 100% decreased from 21% to 16%¹. Share of the volume of the loans with LTV between 80% and 100% increased.

Chart 14 Distribution of loan-to-value ratio (housing loans granted in thesecond half of 2006)



Changes in the demand

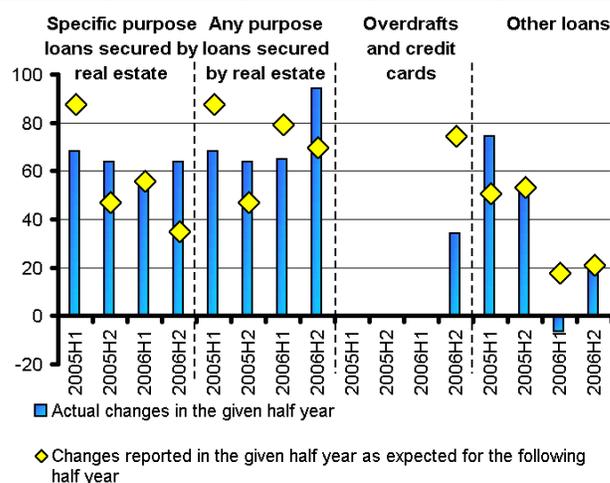
More banks identified continuing trend of demand increase on the loan market, mainly for loans secured by real estate. Mainly any purpose loans demand increased, in comparison with the situation in previous periods, what was in accord with the expectations. However, credit cards and other type of loans demand increased. Increasing of household income had the biggest influence on the increasing of demand. Similarly as in the previous half of the year, demand increase was caused by growth of the real estate prices² and

¹ Values of these shares were calculated only for banks that sent detailed data in both mentioned halves of the year. It was related to 9 banks with market share 65% from the total volume of housing real estate loans.

² The pace of real estate prices growth decreased during the year 2006. The price for meter squared for housing real estate increased by 7% in Slovakia in the second half of

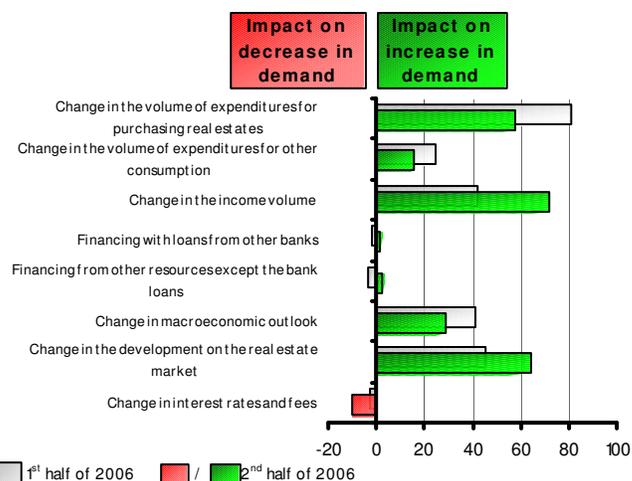
related growth of expenditures for purchasing real estates as well as for other consumption. Household expectations of favourable macroeconomic outlook had positive influence as well. More banks also indicated changes in interest rates and fees as the source of changes in demand. This factor caused demand growth in some banks in comparison with that ones where demand decreased.

Chart 15 Changes in the demand for household loans



The vertical axis represents the net percentage share of banks.

Chart 16 Factors influencing changes in demand for household loans



The horizontal axis represents the net percentage share of banks.

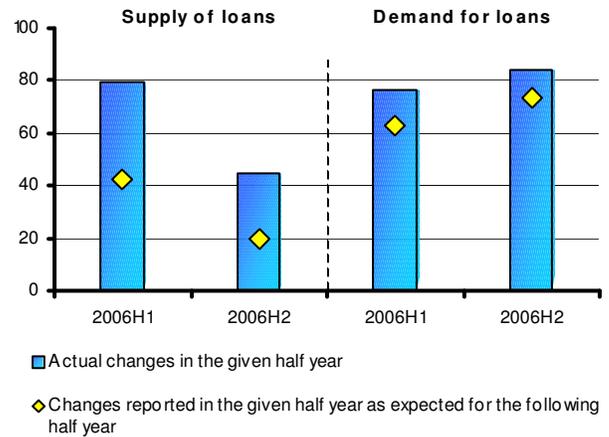
2006 (Source: National Association of Real Estate Agencies).

Loans to developers

Because of the current trend of high increase of the developer loans and intended more profound analysis of this market a question about these loans was added to this survey again. Number of banks and branches of foreign banks that indicated granting of developer loans increased from 12 to 15 in comparison with the first half of 2006. From the survey's results it was not clear if the trend of the developer loans growth was caused by supply from banks or by demand from clients. Both factors participated on the developer loans growth, under the individual banks' answers. As it was mentioned earlier, volume of real estate and building industry loans increased by SKK 14,8 billion, what represented a relative growth of 41%, during the second half of 2006. The significance of changes in the loans supply from banks decreased in comparison with the situation in the first half of 2006 (it was in the

accord with the expectations). Further decrease is expected in the first half of the 2007. On the other hand, market share of banks, which identified increase of demand from developers on this market, exceeded 80%.

Chart 17 Changes in the supply and demand for loans to developers



The vertical axis represents the net percentage share of banks.