



NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

June 2009

Summary

16 banks and 3 branches of foreign banks took part in the lending survey, conducted by the National Bank of Slovakia in the July of 2009. The volume of loans granted by these banks and branches of foreign banks comprised EUR 30.75 bln. (SKK 926.37 bln.) as of June 30, 2009, or 96.43% of the total volume of clients' loans in the banking sector, respectively.

The volume of loans to enterprises recorded for the first time a decrease during the first half of 2009, which was particularly affected by the tightening of credit standards for all types of loans to enterprises. The biggest impact on tightening of the standards was caused mainly by risks associated with the required collateral, expectations regarding general economic activity and industry of firm-specific outlook. On the demand side, banks saw a drop in the demand for loans, particularly for long-term loans, while the decline in demand concerned both small and medium-sized enterprises and large enterprises as well.

Tightening of credit standards also affected retail loans, particularly because of the overall market outlook for housing and because of expectations regarding general economic activity. Despite this trend, however, the growth in lending to households continued.

Note to the presentation of the aggregated data:

If not otherwise stated, data in text or charts are given in **net percentage share (hereinafter NPS)**. 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 for the first half of 2009. 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“.

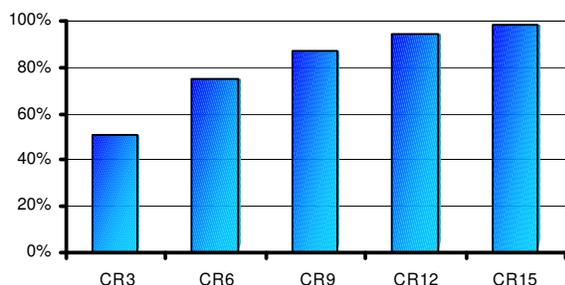
Results of survey are presented in an aggregate form. Report is based on views of individual banks and do not express views of the national banks of Slovakia.

Loans to enterprises

Situation on the market of loans to enterprises

The total volume of loans granted to enterprises in the banking sector was EUR 18.54 billion. (SKK 558.54 billion.) in the first half of 2009, which means a decrease of EUR 0.6 billion (3.2%) as compared with the average of the previous half year. The concentration of loans in the banking sector remains largely unchanged - the share of three largest banks in the volume of lending to enterprises rose slightly to 51% and the share of 9 major banks rose to 87% (Chart 1).

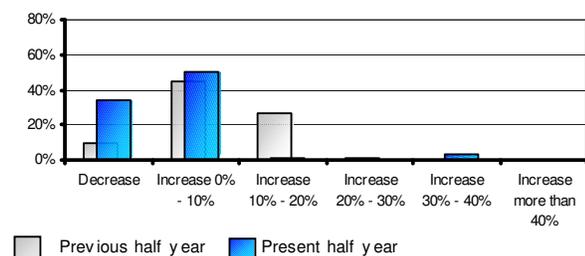
Chart 1 Concentration of loans to enterprises in the banking sector



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.

While half of the interviewed banks and branches of foreign banks recorded a modest increase in the volume of loans to enterprises by less than 10% (Chart 2), 34% of banks recorded a decrease of the volume of loans.

Chart 2 Distribution of growth of loans to enterprises



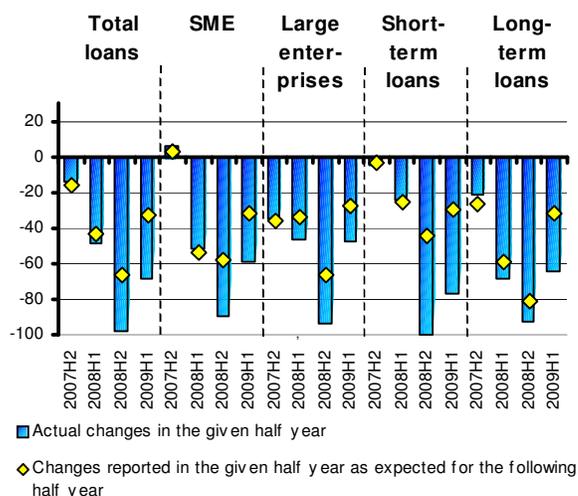
The data on horizontal axis represents changes in the volume of the corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans.

Changes in the supply

In the first half of 2009, banks continued to tighten the credit standards for loans to enterprises (Chart 3). Tightening was not as pronounced as in the second half of 2008 (standards were tightened by 69% of banks (NPS), partial easing was only showed by one bank). Most banks which tightened standards, tightened them only partially, as on short-term loans (50.9% share of banks), as well as long-term loans to enterprises (45.2% share of banks). Standards for lending were especially tightened for loans to SMEs, whereas in the case of loans to large enterprises the majority of banks (52.2%) recorded no significant change in the standards.

In the next period, banks expect further tightening of standards, but to a much lesser extent than in the first half of 2009. Two thirds of banks do not expect any significant changes in the standards as compared to the current state and 32.4 % of banks plan to somewhat tighten their credit standards.

Chart 3 Changes in credit standards on loans or credit lines to enterprises

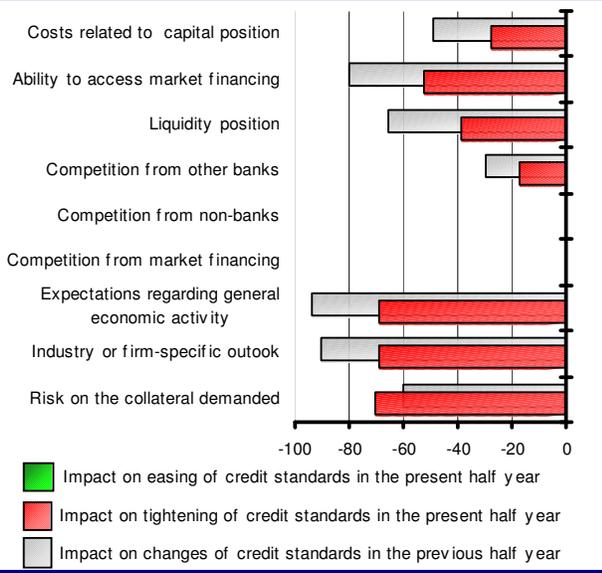


The vertical axis represents the net percentage share of banks that eased their credit standards on loans and credit lines to enterprises.

Tightening of standards by banks is mainly caused by the unfavorable economic situation during the crisis, when banks behave more cautiously in providing financial resources. As seen on the Chart 4, risks associated with the

required collateral (mentioned by 70.2% of banks (NPS)), expectations regarding general economic activity and industry and firm-specific outlook had the most significant impact on tightening of the credit standards. Other factors that contributed to tightening of credit standards for enterprises were, in particular, access to market financing, liquidity position of banks and the costs related to capital position of banks. Compared to the previous period, the impact of these factors on tightening of credit standards was lower, except for required collateral.

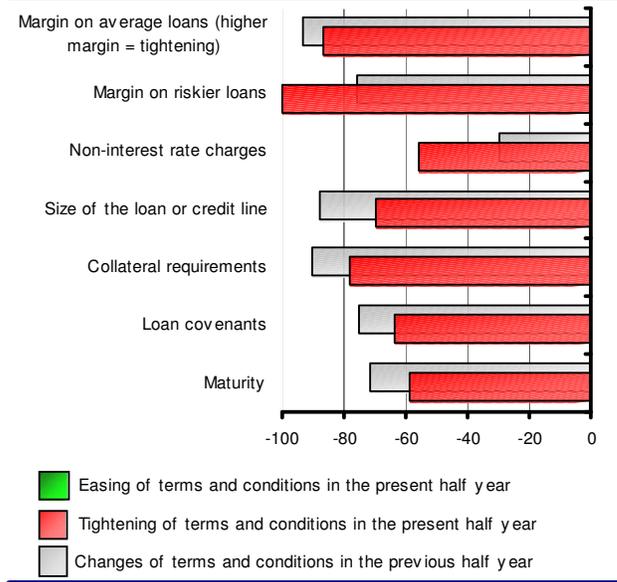
Chart 4 Factors influencing changes in credit standards on loans or credit lines to enterprises



The horizontal axis shows the net percentage share.

Tightening of credit standards was also reflected in specific terms for approving loans (Chart 5). In particular, increased banks' margins on riskier loans (indicated by almost all the banks), margins on average loans (86.8% NPS of banks), collateral requirements and changes in the maximum size of the loan or credit line were reported. Other changes, indicated by the majority of banks, are tightening of terms on related contractual terms of credit (covenants), maturity and non-interest charges.

Chart 5 Changes in conditions and terms for approving loans or credit lines to enterprises

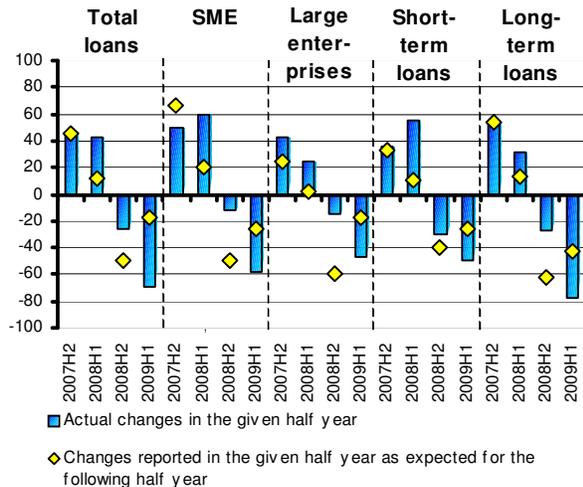


The horizontal axis shows the net percentage share.

Changes in the demand

In the first half of 2009, banks experienced a drop in demand for loans, which was recorded in the previous reporting period. The contraction was more pronounced as compared with that in the second half of 2008, as well as compared with the expected situation in the first half of 2009. The most notable change is reflected in long-term loans to enterprises, which was reported by 77.1% NPS of banks (54.7% NPS of banks reported a partial reduction in demand, 28.7 % NBSP of banks reported a substantial reduction in demand for this type of lending). In the next period, banks expect a further modest reduction in demand in the credit to enterprises, whereas some banks even expect partial increase in the demand.

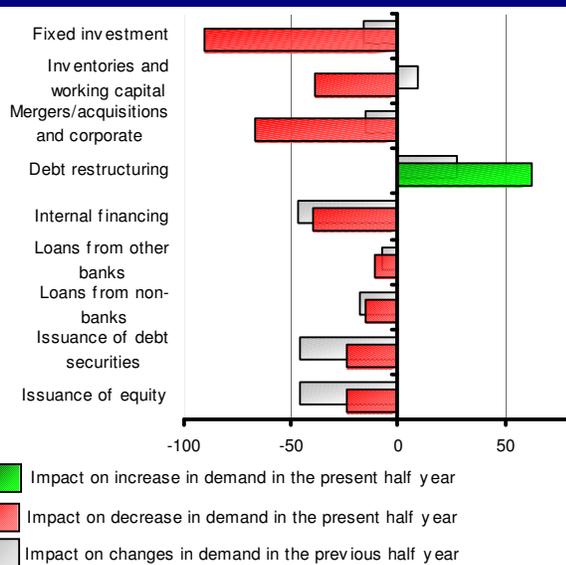
Chart 6 Changes in demand for loans or credit lines to enterprises



The vertical axis shows the net percentage share.

According to the interviewed banks, the biggest impact on reducing the demand were still financing of mergers, acquisitions and corporate restructuring and internal financing (Chart 7). Other factors that contributed to a reduction in demand, were especially inventories and working capital and issuance of equity and debt securities. Debt restructuring had positive impact on demand.

Chart 7 Changes in factors affecting the demand for loans or credit lines to enterprises



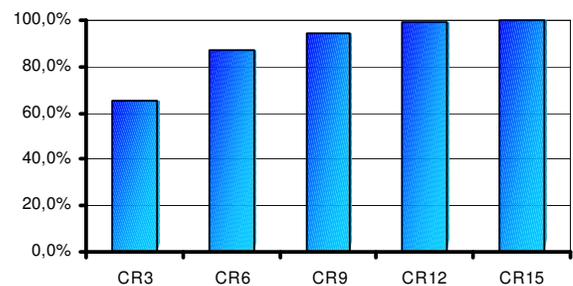
The horizontal axis shows the net percentage share.

Loans to households

Situation on the market of loans to households

The volume of loans granted to households in the first half of 2009 reached EUR 12.49 billion (SKK 376.27 billion). Compared with the second half of 2008, this figure represents an increase of 9.5%, or EUR 1.09 billion, respectively. The share of three largest banks in the lending volume increased slightly to 65% and the share of 9 largest banks accounted for 94% (Chart 8).

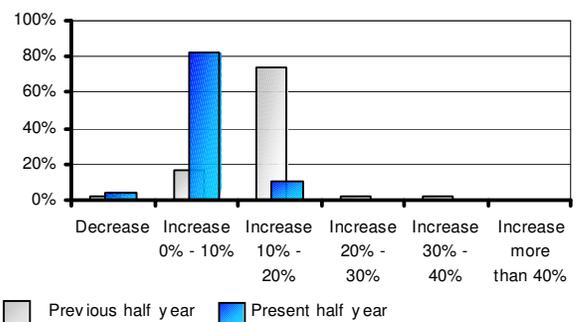
Chart 8 Concentration of household loans in the banking sector



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.

While the decline in the volume of lending to households has been reported by 5% of the banks interviewed, the volume of loans increased in other banks. (Most of the banks, 82%, saw an increase in the volume of loans to 10%. This represents a change compared with the previous six-month reporting period, when there has been mainly growth in the volume of loans up to 20%.)

Chart 9 Distribution of household credit growth



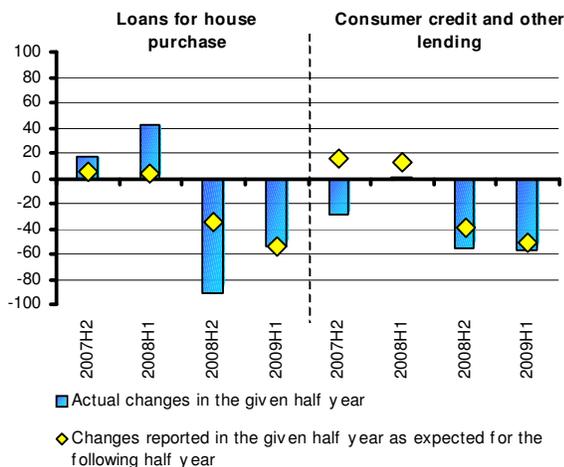
The data on horizontal axis represents changes in the volume of the household loans. Data on vertical axes represent the share of banks in a given column on total household loans.

Changes in the supply

The tightening of credit standards on household loans for house purchase, which started in the second half of 2008, continued further. The tightening of standards was reported by 54.3% of banks (NPS); it was largely a partial tightening of standards. Banks expected this change, but not to such a significant extent. For the next period, banks expect further tightening of conditions, comparable with the first half of 2009.

In the case of consumer credit and other lending, standards have been tightening since 2007. The tightening of standards in the first half of 2009 was comparable to the previous period, as indicated by 57.5% of banks (NPS). Expectations regarding future periods are similar to expectations regarding loans for house purchase.

Chart 10 Changes in credit standards on loans to households



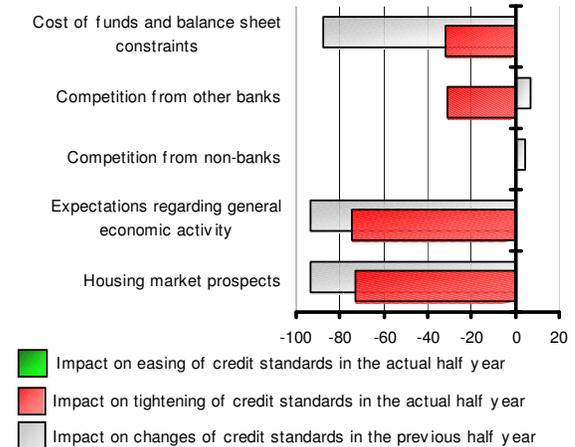
The vertical axis represents the net percentage share of banks that eased their credit standards on loans to households.

Similarly to the previous half year, expectations regarding general economic activity and housing market prospects had the biggest impact of the tightening of the credit standards. The change in standards was also affected by increased competition from other banks.

As indicated by a closer look at the impact of individual factors to the tightening of credit standards on loans for house purchase (Chart 11), we see that housing market prospects had a major impact on tightening of credit standards, in addition to expectations regarding general economic activity (reflected by 73.2 % NPS of

banks). Unlike the previous half-year, the impact of competition from other banks increased and the impact of cost of funds had been reduced.

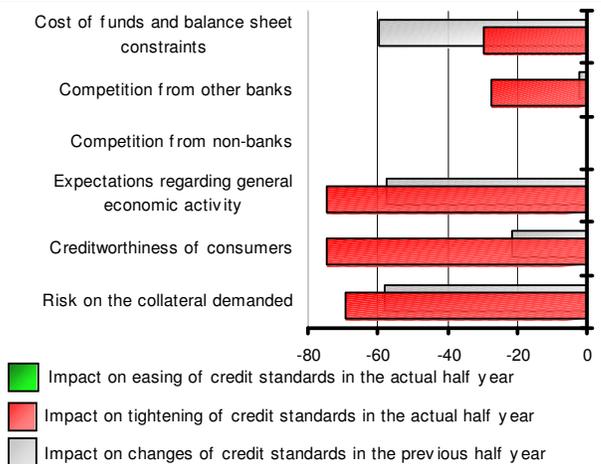
Chart 11 Factors influencing changes in credit standards on loans to households for house purchase



The horizontal axis shows the net percentage share.

Regarding the consumer credit and other lending to households, the tightening of standards was mainly influenced by the creditworthiness of consumers (74.5 % NPS of banks) and the risk on the collateral demanded (indicated by 69.2% NPS of banks), in addition to the factors mentioned above (Chart 12).

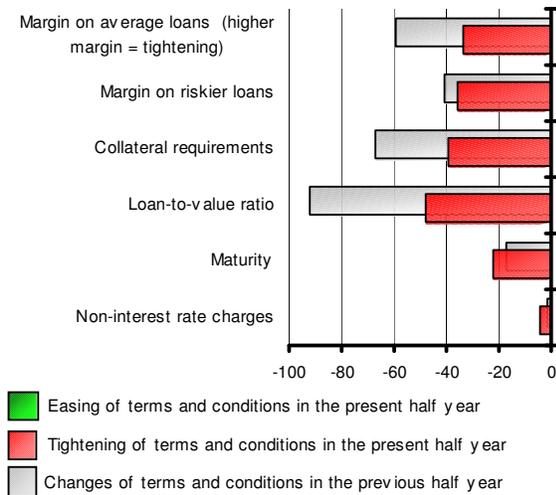
Chart 12 Factors influencing changes in credit standards on consumer credit and other lending to households



The horizontal axis shows the net percentage share.

Similarly to credit to enterprises, tightening of credit standards on household loans was reflected in the specific conditions of credit assessment. Regarding loans for house purchase (Chart 13), the tightening of standards mainly concerned the loan-to-value ratio (47.6% NPS of banks) and collateral requirements. Other significant effects of changes in the conditions included an increase of banks' margins on riskier loans as well as on average loans and change in the maximum maturity of loans. Unlike in the previous half year, however, these changes were not such significant.

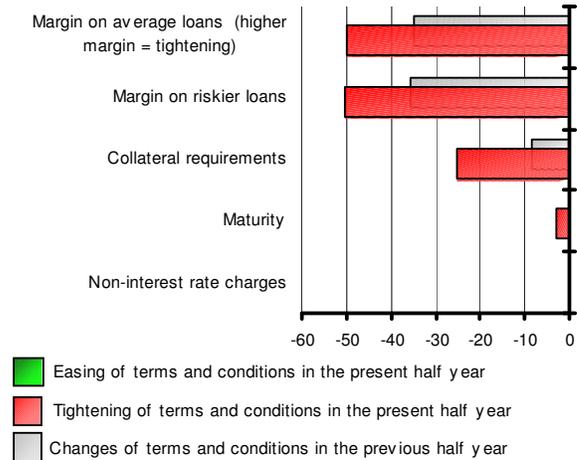
Chart 13 Changes in conditions and terms for approving loans to household for house purchase



The horizontal axis shows the net percentage share.

Regarding terms of consumer credit and other lending (Chart 14), the biggest change relates to the banks' margins, which increased both riskier as well as average loans. This increase (reported by about 50% NPS of the banks) had a greater impact than in the last half year, when a third of banks mentioned an increase in their margins. The amount of required collateral also increased.

Chart 14 Changes in conditions and terms for approving consumer credit and other lending to households

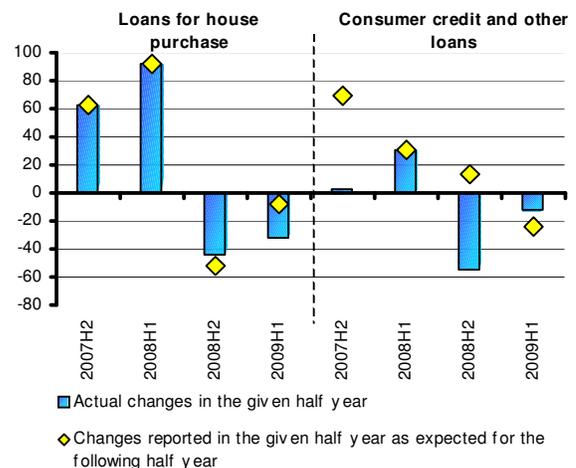


The horizontal axis shows the net percentage share.

Changes in the demand

The situation in the housing market in the past had an impact on the demand side of the market on loans for house purchase in the first half of 2009, when banks experienced again a drop in demand for loans from household (Chart 15). More moderate development is expected for next period. Similarly to household loans for house purchase, the demand for the consumer credit and other lending decreased (contrary to banks' previous expectations). Further decline in the demand is expected in this segment of the lending in the next period.

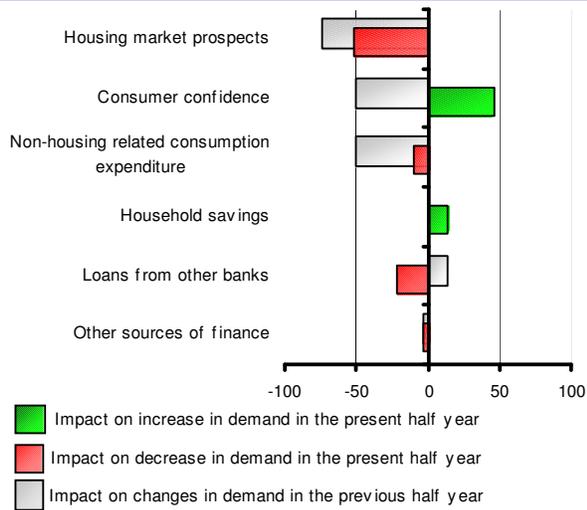
Chart 15 Changes in the demand for loans to households



The vertical axis shows the net percentage share.

Similarly to the previous half year, housing market prospects had the biggest impact on the continued decline in demand for loans for house purchase (mentioned by 51.5% NPS banks), while conversely, consumer confidence and household savings affected the demand positively (Chart 16).

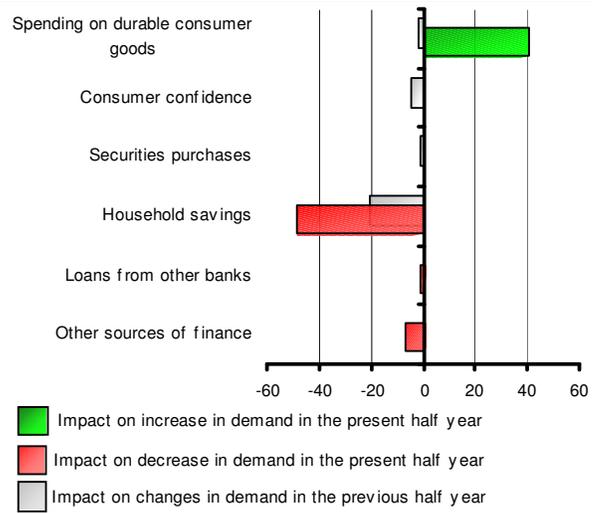
Chart 16 Factors affecting the demand for loans to households for house purchase



The horizontal axis shows the net percentage share.

The demand for consumer credit and other lending was in particular influenced negatively by deterioration of household savings (Chart 17), while on the other hand, spending on durable consumer goods had a positive impact.

Chart 17 Factors affecting the demand for consumer credit and other lending to households



The horizontal axis shows the net percentage share.