News release

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**The market for corporate loans picks up: financial institutions fight over healthy companies**

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a revival*

**In the wake of the significant downturn caused by the recent crisis it seems that the long-term drop in credit has bottomed out and that the market for the provision of debt financing is gradually picking up. In the last quarter of 2010 the volume of newly provided loans to companies was in the region of CZK 151 billion, i.e. 14% higher than in the crisis-stricken first quarter of last year, when the market dropped to a low of CZK 133 billion. This increase is made up mainly of loans in excess of CZK 30 million, up by 40%. However, the increase in credit volumes is slow and is far from the record levels recorded in 2008 and 2009. Professionals at Ernst & Young believe that the positive turnaround at present relates mainly to the provision of operating lines of credit, while banking institutions remain very cautious as regards the financing of long-term investment and new projects.**

The provision of debt financing fell sharply as a result of the recent crisis, during which many banks tightened up or stopped financing activities altogether due to concerns regarding the future of company finances or because of problems they themselves were facing. At present, alongside the increase in the volume of loans they are making, banks are gradually slackening their restrictions and taking a less conservative approach.

*“As with mortgages, so in the sphere of corporate financing financial institutions are beginning to be more proactive and the competition for healthy, well managed companies is intensifying. Greatest interest is being shown in companies which used the crisis as an opportunity to rationalise their costs and improve productivity, and which operate in spheres which are enjoying a revival,”* says Vladislav Severa, Head of Transaction Advisory Services, Ernst & Young in Central and Eastern Europe. *“This increase in activity on the part of banks is impacting positively on the availability and terms of credit agreements. For instance, in the third quarter of last year the average level of interest rates on newly provided corporate loans fell below 4%, a level last seen in 2006,”* Severa adds.

The turnaround relates mainly to the provision of operating lines of credit. As far as the financing of long-term investments and new projects is concerned the banks remain very cautious.

*“The recent crisis, which resulted in the bankruptcy of several companies and the failure of developmental projects, meant that banking institutions examined individual cases in more detail and subjected them to more thorough analysis. This probably led to longer-term structural changes, and the days of easily available sources for the financing of investments or new projects are now over,”* saysDavid Zlámal, corporate financing advisory manager, Ernst & Young in the Czech Republic.

*“It is apparent on the market that important projects are more and more often accompanied by independent technical, financial and commercial appraisals. Feasibility studies and their independent verification, the creation of sophisticated financial models illustrating the agreed financial conditions across several possible scenarios and the subsequent auditing of these models, while previously the province of mainly global financial centres such as London, are gradually becoming standard practice in the Czech Republic, and we can expect this trend to continue,“* adds David Zlámal.

However, continuing uncertainty regarding medium-term developments and recent unexpected interventions by the state are impeding the development of the financing of long-term plans.

*“In these cases, in order to secure finance it is advisable first to assess the long-term sustainability of a company’s debt, identify the main risks and gauge their impact on the plan being considered in the event of negative developments. As far as key risks are concerned it often makes sense to surrender a certain degree of expansion in exchange for a reduction in risk, and to retain the possibility of reacting to unexpected negative developments,”* explains David Zlámal.

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