Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2006

Warsaw, January 2006

Summary of the survey results

- **Lending policy**: in the fourth quarter of 2005, after disappearing for a quarter, the trend was continued to ease terms and conditions of lending policy in the corporate sector. On the other hand, banks did not soften the lending policy with regard to housing loans, for the first time from the fourth quarter of 2003. In the household sector a weak tendency persisted to ease off credit policy in the segment of consumer loans. It should be emphasized, nonetheless, that it was considerably eased off by the banks in the previous periods.
- **Reasons for changes in lending policy**: an increase in competitive pressure among banks remained the most important reason for changes in the lending policy.
- **Demand for corporate loans**: banks recorded an increase in demand for loans in the corporate sector. The upward tendency in demand was slightly more pronounced in the sector of large enterprises and in the category of long-term loans. The increase in demand for loans for corporates (especially large enterprises) anticipated for the first quarter of 2006 is the lowest since the survey was first conducted.
- **Main reasons for the change in demand for corporate loans**: banks indicated that demand rose chiefly due to the increased need for investment financing
- **Demand for household loans**: although no bank recorded a decline in demand for housing loans, the upward trend in the demand was relatively weak in comparison to the previous quarters of 2005. The banks also anticipate that the demand for housing loans will show no change in the first quarter of 2006 for the first time since the survey was first conducted. In the consumer loan segment, after a one-time decline in demand in the third quarter of 2005. the upward tendency in the demand was continued and it is now more pronounced in consumer loans than in housing loans
- **Reasons for the change in demand for household loans**: the demand for housing loans was primarily growing due to the eased lending policy. Furthermore, the situation on the housing market and better financial standing of households also accounted for the increased demand in this sector of the market. Meanwhile, extended financing needs for the purchase of consumer durables stimulated the demand for consumer loans. Among other reasons, banks also mentioned the eased lending policy.
- **Expected changes in lending policy:** banks forecast the slight easing of corporate loan terms and conditions in the first quarter of 2006, with regard to the corporate sector and of consumer loans for households. Lending policy in the segment of housing loans is anticipated to show no change.

Synthetic results of the survey

The survey was conducted at the end of December 2005 and beginning of January 2006 among 24 banks whose total share of claims on corporates and households amounts to 79% of total banking sector portfolio

The aggregation of the data behind the results consisted in the calculation of the weighted percentages of responses and the net percentage, i.e. the difference between the percentages corresponding to opposite tendencies. In line with the methodology adopted, words describing quantities (majority, half, meaningful, significant, percentage of banks, etc.) refer to weighted percentages and not to the number of banks. Thus the phrase “the majority of banks” should be construed as “the asset-weighted majority of banks.” Details concerning the calculation methodology are presented in Appendix 1

The following section presents tendencies regarding the banks’ lending policy and changes in demand in the fourth quarter of 2005 as well as the banks’ forecasts concerning the first quarter of 2006.

Corporates

In the fourth quarter of 2005, the clear trend to ease short-term loans terms and conditions for SME was again reported, after disappearing in the third quarter, whereas in other categories of corporate loans the tendency to soften the lending policy remained moderate (the net percentage was about 20%). In the large enterprises sector, a slow trend prevailed towards further easing of lending policy. Still, the tendency to ease lending policy is more pronounced in the sector of SME, even though some banks (10.8% of banks for short-term loans and 8.4% of banks for long-term loans) tightened their credit standards in this sector (cf. Fig. 1)

However, the banks anticipate that in the first quarter of 2006, the significant tendency to ease credit standards will be recorded only in the segment of short term loans for SME. Banks expect only a slight tendency to ease off the credit policy in the other segments of lending. In comparison to the previous quarter, the net percentage reported a significant decline in particular in the sector of large enterprises, whereas in the sector of SME the lowest values were reported since the beginning of 2004.

Banks, which would ease their credit policy, in most cases reduced their lending margin and collateral-related requirements or extended the maximum loan maturity (cf. Fig. 2).

Figure 1
Corporate credit standards

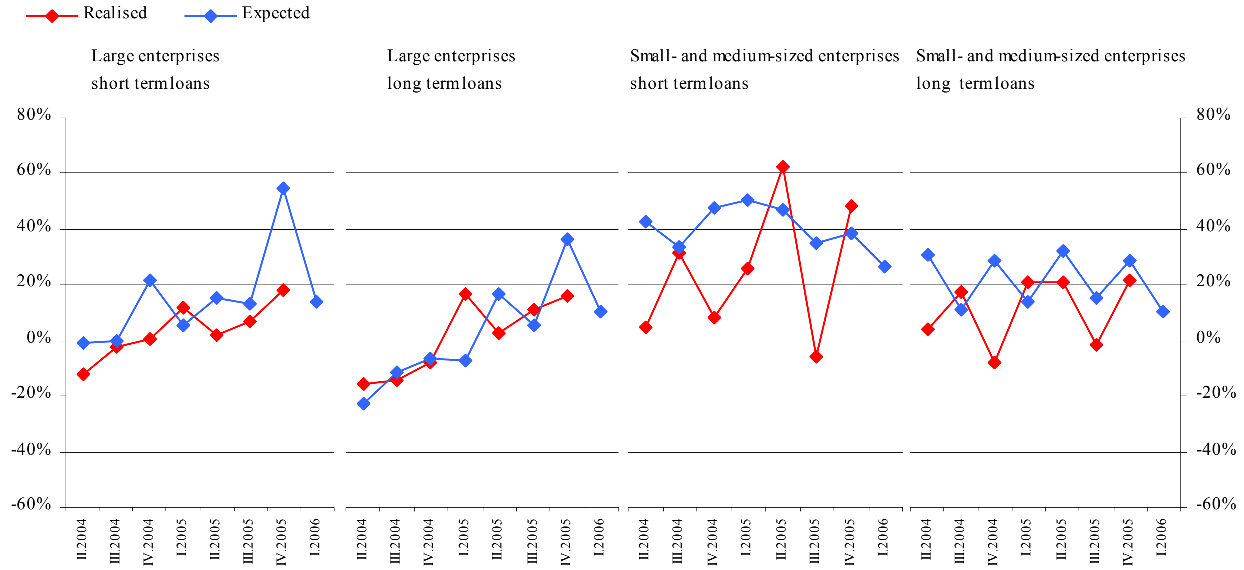
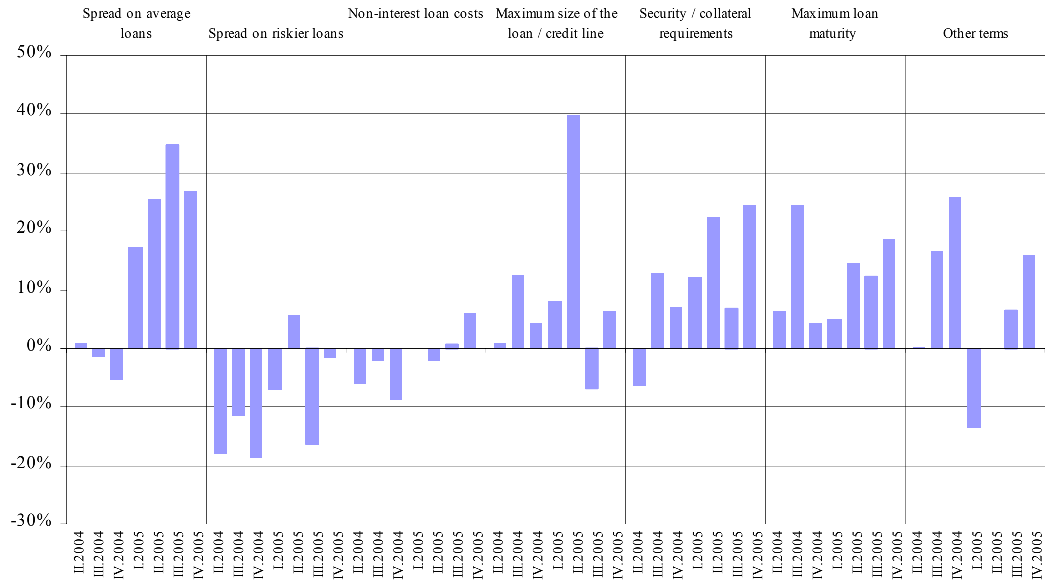
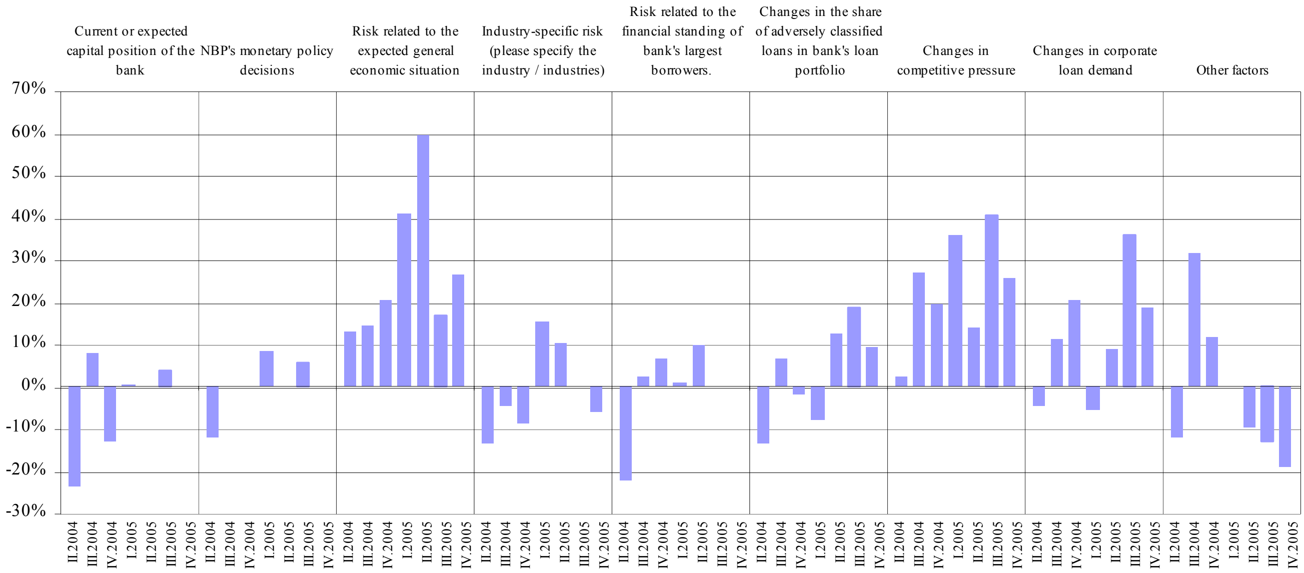


Figure 2
Terms on corporate loans



The banks that changed their lending policies reported that these decisions stemmed primarily from the increased competitive pressure, particularly from other banks and a reduction in risk related to the general economic prospects for the country. Among other grounds for easing their lending policies, banks reported a change in demand for loans to corporates. (cf. Fig. 3).

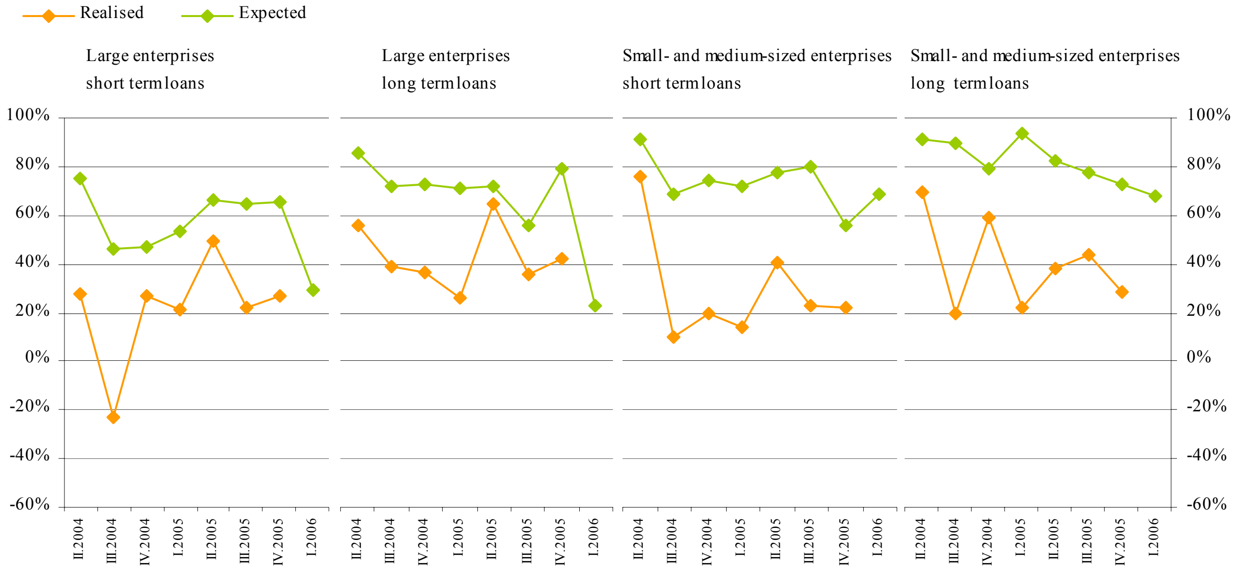
Figure 3
Factors influencing changes in lending policies



In the fourth quarter of 2005, corporate demand for loans grew moderately to a comparable extent as in the previous quarter. In the loans for large enterprise the growth in the demand for loans was higher than in other segments. This above developments weakened the overall upward tendency in the demand. Some banks reported a decrease in the demand for loan in SME, by contrast to a large enterprises sector. The more sustainable upward tendency in demand for loan among large enterprises was driven not only by the above tendency but also by the prevalence of the net percentage of the large corporates over that of SME across the different categories of lending. In both sectors of enterprises, the demand for long-term lending continues to ponder over that for short-term lending. In comparison to the previous quarter, the upward tendency in demand was slightly more robust in the large enterprises sector and declined in SME, especially with respect to the long-term loans. (cf. Fig. 4).

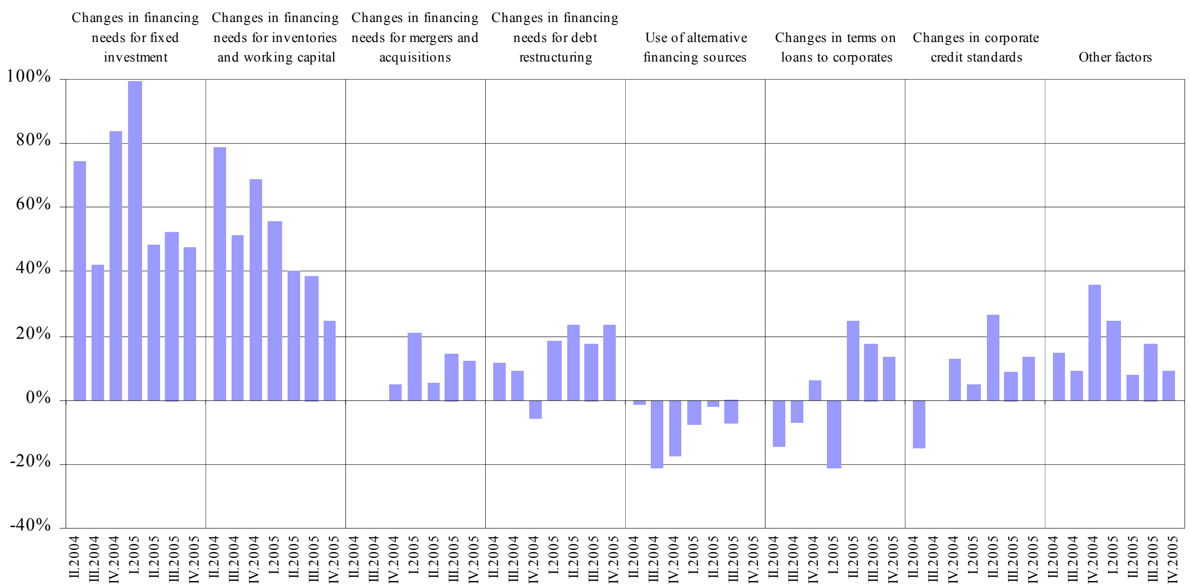
Banks expect that in the first quarter of 2006, corporate demand for loans will rise but the net percentage in the large enterprise sector substantially decreased compared to the forecasts contemplated in the previous quarter and was at an all-time low since the survey was first conducted. The expectations which persist as to the strong increase in demand in SME sector were not reflected in longer maturity periods (in this category banks' expectations are estimated the highest) (cf. Fig. 4).

Figure 4
Corporate loan demand



As in the previous quarter, the list of factors which contributed most to the growth in demand included an increase in needs for financing investments. Demand also rose due to the growth in demand for financing inventories and financing working capital along with financing needs related to debt restructuring. In comparison to the previous quarter, the significance of demand for financing working capital was slightly less important for the growth in demand; the significance of the two other factors was similar to that in the previous quarter (cf. Fig. 5). Among other reasons for the rise in demand, banks most often reported the easing of loan terms and conditions.

Figure 5
Factors influencing changes in corporate loan demand



Households

In the fourth quarter of 2005, a significant majority of banks (81.6% of the asset-weighted number of banks) did not change their credit standards as regards housing loans to households. The slight majority of banks from the group of the remaining banks tightened their lending policies, therefore the net percentage assumed a negative value, for the first time since the fourth quarter of 2003. The lending policy in the housing loan segment showed no change with regard to the entire sector; this being a significant change in comparison to the previous quarters where credit standards were eased off. (cf. Fig. 6).

Banks expect no change in the lending policy in the housing loan segment in the first quarter of 2006 (cf. Fig. 6).

The banks that tightened their lending policies in the housing loan segment most often quoted the current and anticipated capital position of the bank, the NBP's decisions in the field of monetary policy and the risk related to the economic prospects as the reasons for those changes. The easing of terms and conditions regarding housing loans was primarily attributable to the increased competitive pressure, primarily from other universal Banks, the housing market prospects (the expected rise in prices) and the change in the demand for housing loans. (cf. Fig. 6).

The banks that tightened their lending policies in the housing loan segment most often increased the maximum loan-to-value ratio, included that on the loans carrying the highest risk and also tightened loan terms and conditions other than those mentioned in the survey. The banks which eased credit policy in most cases reduced the lending margin and changed loan terms and conditions other than those listed in the survey. (cf. Fig. 7).

Figure 6
Lending policy and factors influencing its changes – housing loans

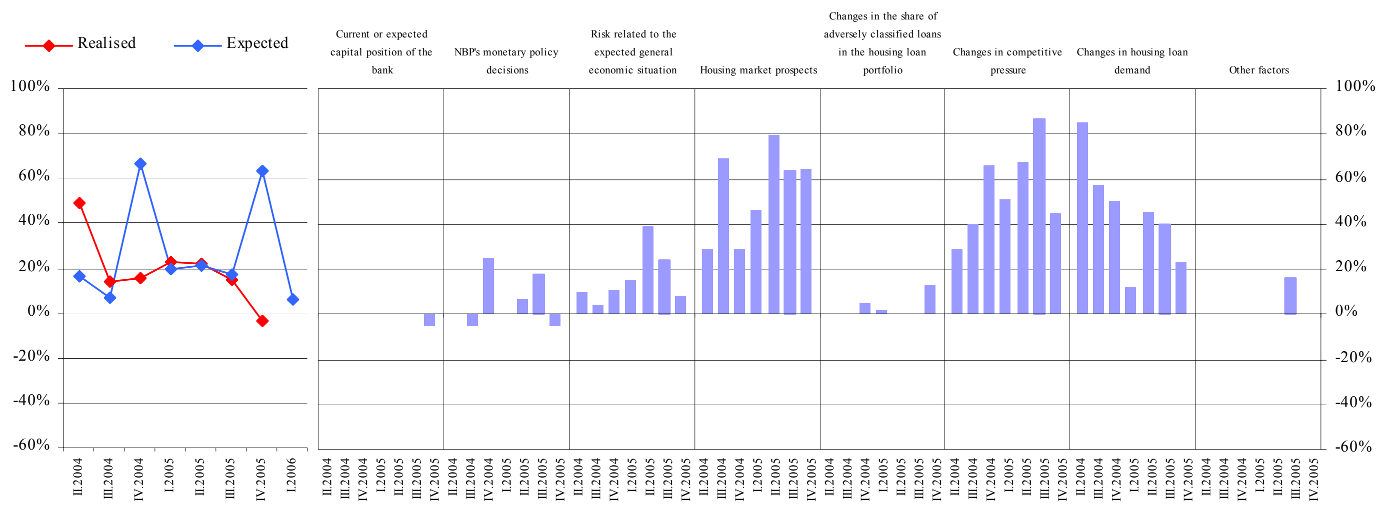
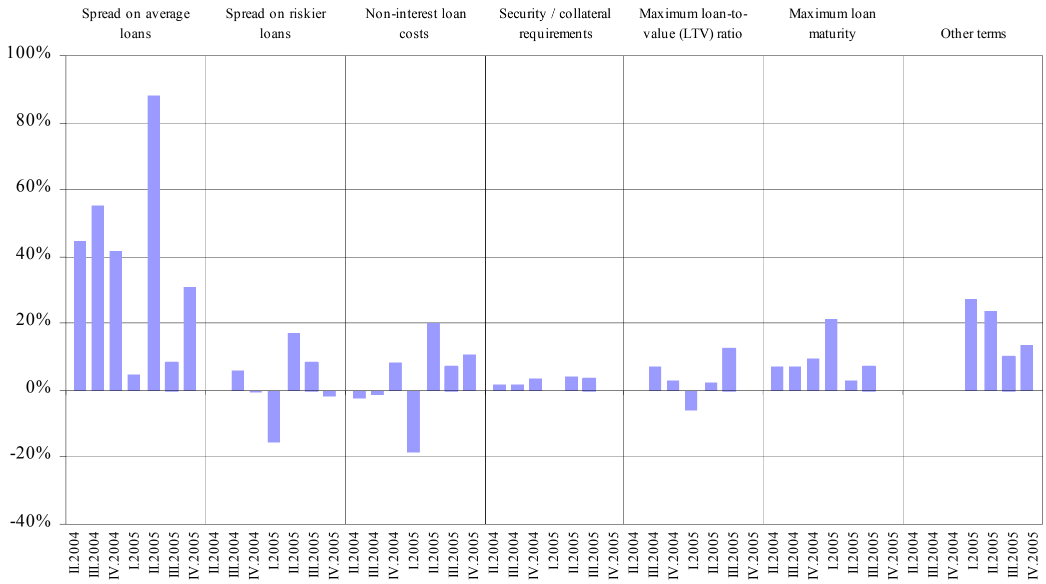


Figure 7
Terms on housing loans



Most banks (63.4% of asset-weighted banks) did not change their lending policies in the consumer loan segment, either. Those banks that changed their credit policies, however, in most cases did it via the eased credit standards and loan terms and conditions for consumer loans. By contrast to the previous quarter, some banks tightened lending policies in this segment of loans. The overall tendency towards easing consumer loan terms and conditions as well as credit standards was much weaker than in the previous quarter; banks expect that changes in their lending policies in the first quarter of 2006 will be similar to those recorded in the fourth quarter of 2005 (cf. Fig. 8).

Increased competitive pressure, in particular within the banking sector, continues to be the most important reason for changes in the lending policy. In the fourth quarter of 2005 the change in the demand for consumer loans (cf. Fig. 8) was also a significant factor.

The banks that eased their credit standards for consumer loans in most cases extended the maximum loan maturity, maximum amount of loans and reduced the lending margin (cf. Fig. 9). The influence of those factors on easing the lending policy significantly increased compared to the previous quarter. Among other elements of easing credit policy, banks mentioned i.a. the increase in the amount of a loan which may be granted without the co-spouse's agreement.

Figure 8
Lending policy and factors influencing its changes – consumer loans

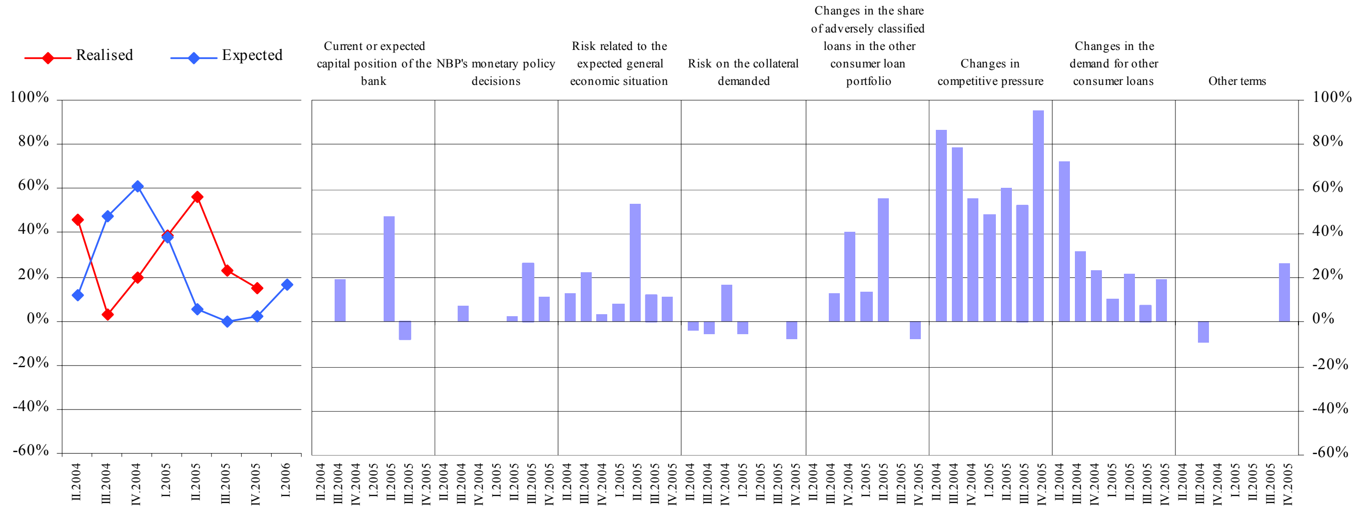
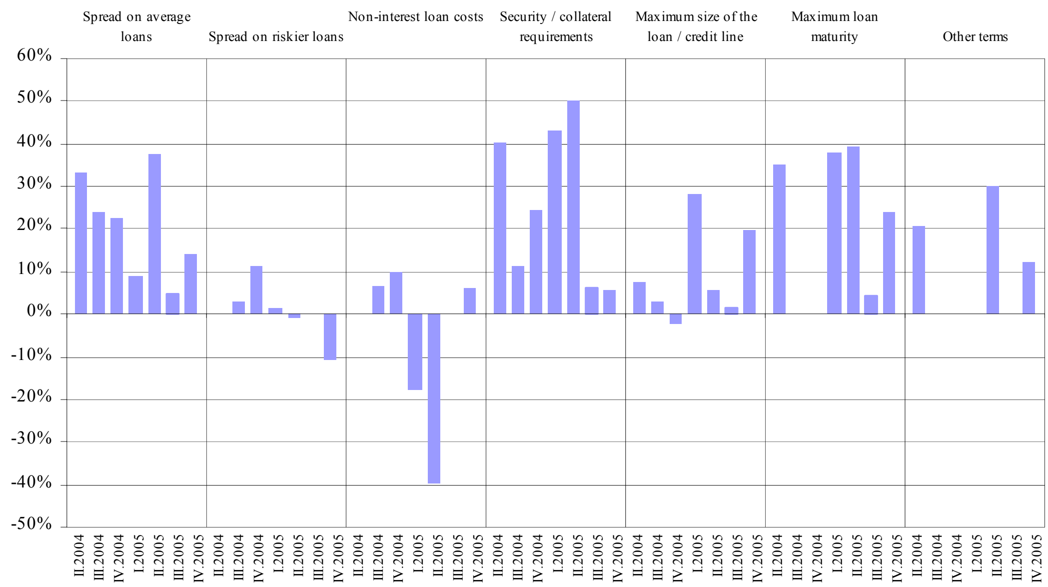


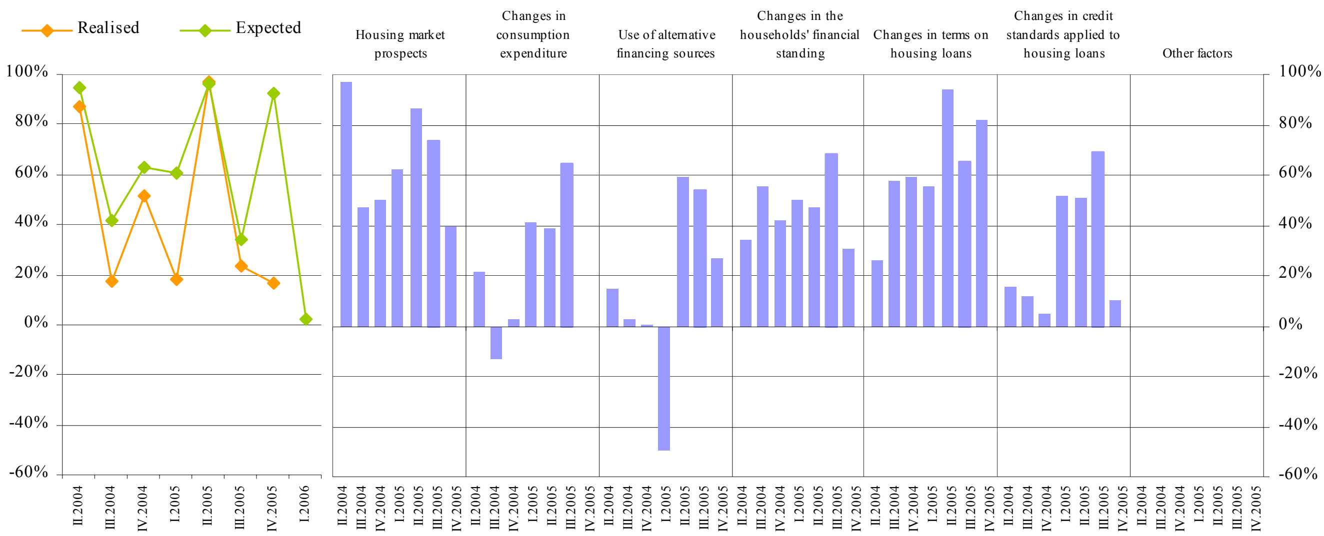
Figure 9
Terms on consumer loans



Even though the banks – in the previous quarter - anticipated a strong increase in the demand for housing loans, the actually recorded growth in this category was moderate in the fourth quarter of 2005. Nevertheless, no bank reported the decrease in demand – as opposed to the third quarter of 2005. Approximately 10% of banks also considered the growth in demand as significant. Hence, the tendency for the increase in the demand for housing loans persisted but it should be emphasized that the net percentage assumed the lowest value since the survey was first conducted – close to the level of the third quarter of 2004 and the first quarter of 2005. Nonetheless, some banks also reported the falls in demand at that time. It is also worthwhile to mention, that for the first time since the survey was first conducted the bank anticipate no major changes in the demand for housing loans in the first quarter of 2006 (cf. Fig. 10).

Among the reasons for the increase in demand for housing loans, banks most often reported the easing of housing loan terms and conditions. Among other factors which influenced the change in demand, banks most often reported housing market prospects, an improvement in the financial standing of households and the use of alternative financing sources (cf. Fig. 10).

Figure 10
Demand for housing loans and factors influencing its change

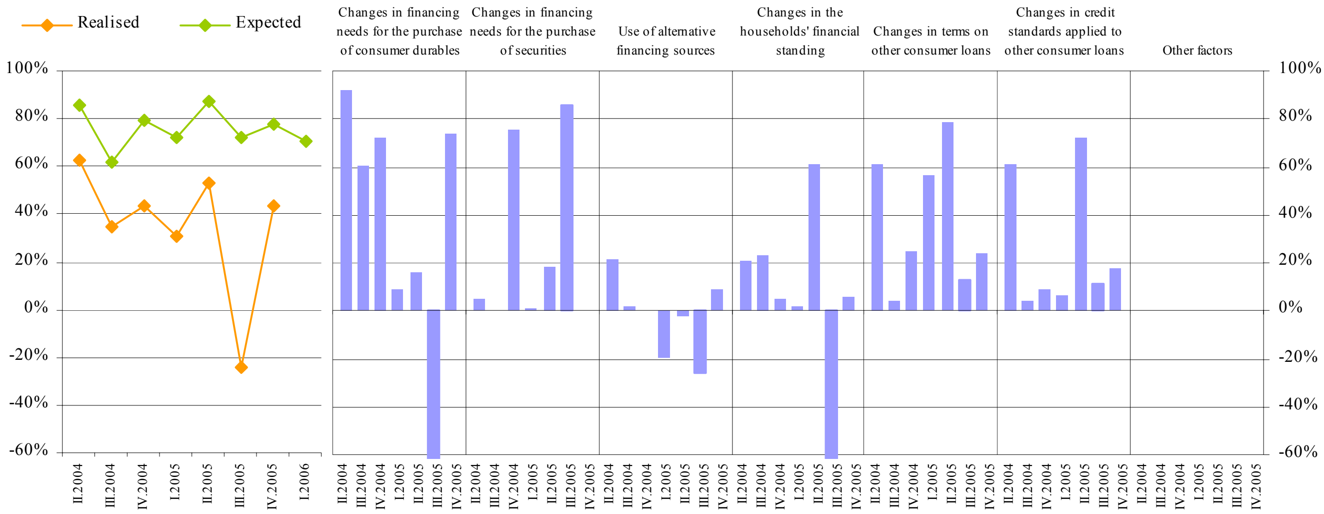


In accordance with the opinion expressed in the previous survey, the downward tendency in the demand for consumer loans[1], which emerged in the third quarter of 2005 and brought about a negative net percentage, was a one-time phenomenonon. In the fourth quarter 200 the increase in the demand for the consumer loans stood at the level close to that recorded by banks over the last six months of 2004 and over the first six months of 2005. The banks anticipate that the demand for consumer loans will be on the increase also in the first quarter of 2006 (cf. Fig. 11).

The banks that recorded a change in demand reported that the most important reason for the increase in demand for consumer loans was the rise in financing needs related to the purchase of consumer durables. The positive effect on the increase in the demand was also exerted by the easing of the credit policies by banks; this effect grew slightly stronger as compared with the previous quarter (cf. Fig. 11).

[1] The question concerning the demand for loans to households concerns housing loans and loans other than housing loans (consumer and other loans). Here, the latter group is referred to as consumer loans for short.

Figure 11
Demand for consumer loans and factors influencing its change



Appendix 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[2]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 24 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1

Market segment and the respective type of loans taken into consideration in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in October and November 2005, that is the period covered by the survey, was taken into account.[3] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[2] Cf.: M. Bieć *„Business survey: Methods, techniques, experience"*, Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

[3] No data on claims loans of particular banks in December 2005 were available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2

Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably” and „Eased somewhat” and the percentage of responses “Tightened considerably” and “Tightened somewhat”. A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses “Contributed considerably to the easing of lending policies” and “Contributed somewhat to the easing of lending policies” and the percentage of responses “Contributed considerably to the tightening of lending policies” and “Contributed somewhat to the tightening of lending policies”. A negative index indicates a given factor’s greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably” and „ Increased somewhat” and the percentage of responses „Decreased considerably” and „Decreased somewhat”. A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand” and „Contributed somewhat to higher demand” and the percentage of responses „Contributed considerably to lower demand” and „Contributed somewhat to lower demand”. A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably” and „Ease somewhat” and the percentage of responses „Tighten considerably” and „Tighten somewhat”. A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably” and „Increase somewhat” and the percentage of responses „Decrease considerably” and „Decrease somewhat”. A positive index indicates the expected increase in demand.

Source: NBP.