Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2011

Warsaw, January 2011

Summary of the survey results

In the fourth quarter of 2010, the standards of granting loans to households were further tightened. In net terms, the standards of granting loans to enterprises were slightly eased, except for long-term loans to small and medium-sized enterprises (slight tightening).

The banks continued to ease crediting terms related to cost of servicing loans to enterprises and households.

The banks cite competitive pressure and lower risk connected with the expected economic situation as reasons for easing lending terms. The standards of granting loans to households were primarily tightened on the back of lending policy adjustments to Recommendation T.

Corporate loans

- Lending policy: the majority of the banks kept the standards of granting loans unchanged, and at the same time lowered spreads charged on loans, and reduced collateral requirements.
- Demand for loans: demand for loans to enterprises increased.
- Expectations for the first quarter of 2011: no changes in lending policy towards large enterprises, and lending policy to be eased with regard to small and medium-sized enterprises. The banks expect demand for loans to rise, primarily in the segment of loans to SMEs.

Housing loans

- Lending policy: 90% of the banks tightened the standards of granting loans; the banks lowered spreads charged on loans and non-interest loan costs.
- Demand for loans: in net terms, the banks registered a decrease in demand for housing loans, however, their responses were discrepant.
- Expectations for the first quarter of 2011: the banks expect a higher demand for housing loans; in net terms, they intend to tighten lending policy.

Consumer loans

- Lending policy: three fourths of the banks tightened the standards of granting loans; the banks reduced their loan servicing costs, but increased spreads on loans for riskier clients, and reduced the maximum loan size.
- Demand for loans: the banks experienced a decrease in demand for consumer loans.
- Expectations for the first quarter of 2011: the banks expect lending policy to be tightened (however, their responses were discrepant) and, in net terms, demand for consumer loans to rise slightly.

Results of the survey – overview

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans as well as changes in demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness, set by the bank, that the borrower is required to meet to obtain a loan. The terms of granting loans are the features of the loan agreement agreed between the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of the banks' divisions other than the credit division. The survey was conducted at the turn of December 2010 and January 2011 **among 29 banks with a total share of claims on enterprises and households in the banking sector portfolio amounting to 82%**.

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

Unless otherwise indicated, the number of the banks, cited in the text, reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The next section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2010 as well as the banks' expectations for the first quarter of 2011.

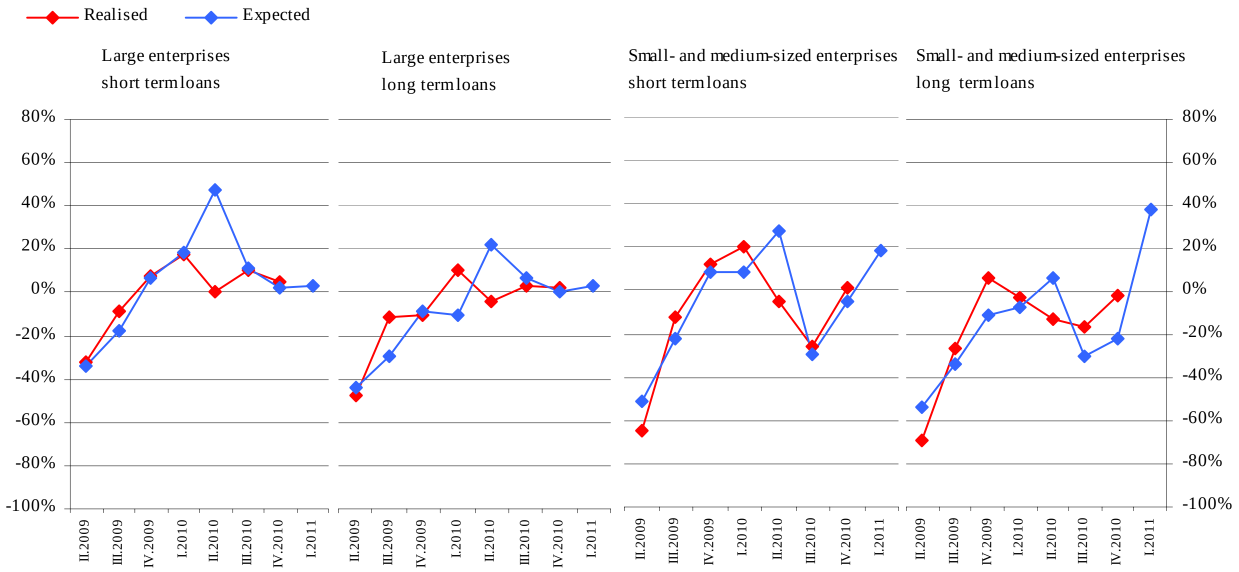
Corporate loans

The percentage of the banks that declared no changes in lending policy towards enterprises increased (see Figure 1) **in the fourth quarter of 2010**. In net terms, the standards of granting loans were eased for large enterprises; also eased were the standards of short-term loans to small and medium-sized enterprises. Lending policy was tightened in the segment of long-term loans to SMEs. The majority of the banks declaring changes in lending standards considered them as not considerable.[1]

The stabilisation of lending standards in the fourth quarter of 2010 was in line with expectations the banks expressed towards the end of the third quarter of 2010, except for long-term loans to SMEs for which the banks forecast a stronger tightening of lending policy (see Figure 1).

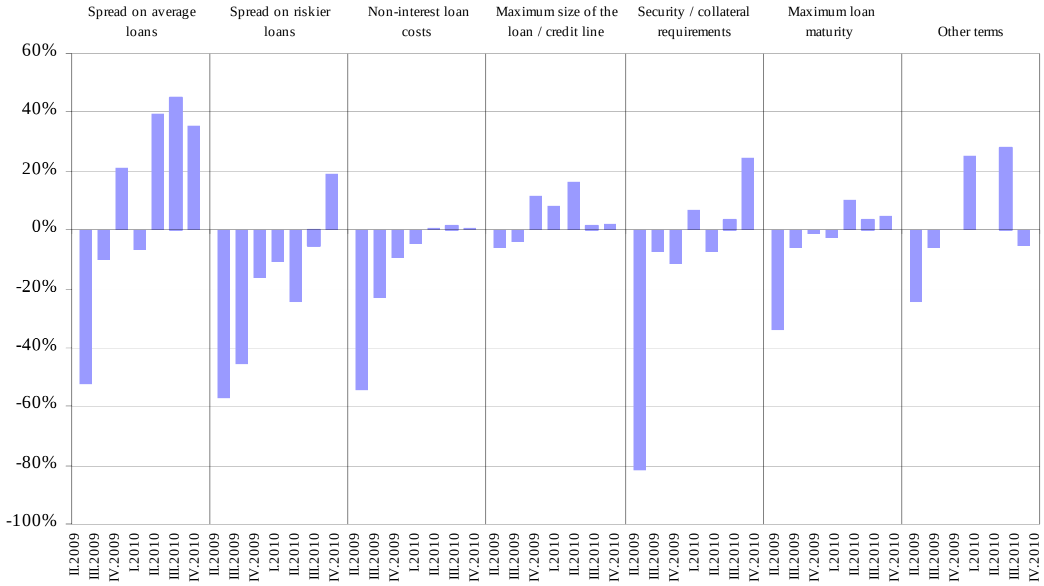
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms) were somewhat eased, standards (terms) were considerably eased.

Figure 1
Corporate credit standards



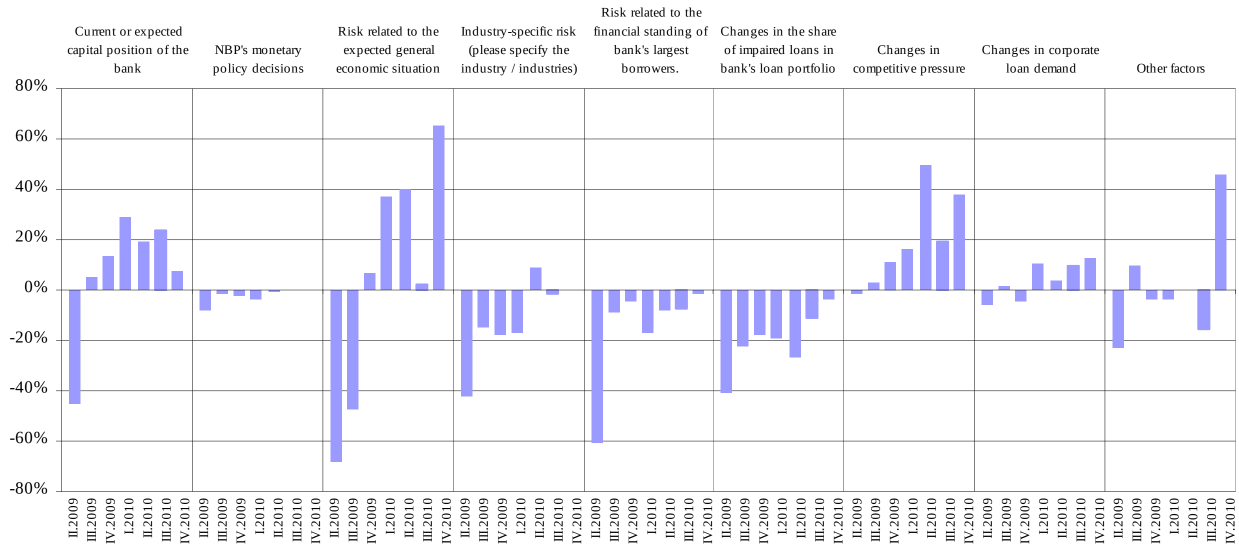
Note: figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – as the tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

Figure 2
Terms on corporate loans



The banks lowered spreads on loans to corporates for the third quarter in a row (net percentage was around 36%). For the first time since the second quarter of 2005, the banks declared a fall of spreads also in the case of riskier loans (net percentage around 19%). Similarly as in the previous quarter, collateral requirements were eased (net percentage at around 24%). Other terms of crediting corporates were not changed considerably (see Figure 2).

Figure 3
Factors influencing changes in lending policies



Lower risk related to the expected economic situation and factors unaccounted for in the survey were the most frequently cited reasons why banks eased their lending policies (net percentage of 65% and around 46%, respectively). The banks participating in the survey included changes in internal risk assessment and loan cost calculation methods among such factors. The percentage of banks declaring increased competitive pressure (net percentage amounting to around 38%) – both from other banks (around 76% of *all* banks) and non-bank financial institutions (around 38% of *all* banks) – grew in comparison with the previous quarter. Around 13% of the banks cited an increased demand for loans from enterprises, and around 7% indicated a favourable capital position (see Figure 3) as reasons for easing their lending policies.

Figure 4
Corporate loan demand

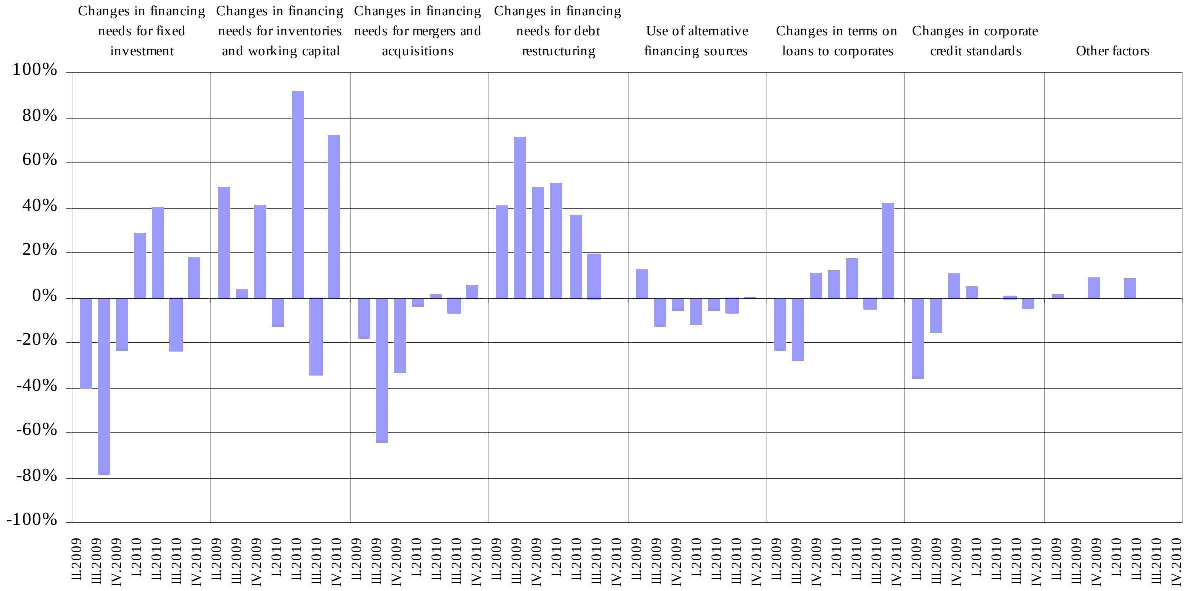
The banks that tightened their lending policies attributed the move primarily to the growing share of impaired loans in their loan portfolios (net percentage of around 4%). The banks' responses show that the importance of this factor has been systematically falling for several quarters.

The surveyed banks recorded an increase in demand for loans to enterprises in the fourth quarter of 2010 (see Figure 4). The banks believe that this increase mainly concerned short-term loans, both in the case of large enterprises and SMEs (net percentage was around 41% and around 36%, respectively).

In the segment of long-term loans, the banks experienced an increase in demand for loans from SMEs (net percentage of around 17%). The majority of the banks did not report changes in demand for loans to large enterprises, although, in net terms, demand for this type of loans slightly decreased (net percentage of around -2%). The changes in demand were termed by the banks as slight.[2]

The rise in demand for short-term loans to corporates was in line with the expectations expressed by the banks in the third quarter of 2010. Their expectations with regard to long-term loans did not materialise. In the case of large enterprises, the majority of the banks expected demand for long-term loans to rise, and in the case of SMEs a similar number of banks expected demand to fall and to rise.

Figure 5
Factors influencing changes in corporate loan demand



The increase in demand for loans was primarily driven by the rise in financing needs for inventories and working capital in the fourth quarter of 2010 (see Figure 5). Such an answer was given by around 73% of the banks that, at the same time, assessed the impact of this factor on demand as slight. [3] Around 42% of the banks

[2] The banks have a possibility of grading the strength of changes in demand for loans. In this survey, the banks choose among the following options: considerable increase in demand, slight increase in demand, no changes in demand, slight decrease in demand and considerable decrease in demand.
[3] The banks have a possibility of grading the strength of the influence of specific factors on changes in demand for loans. In this survey, the banks choose among the following options: considerable influence on the increase in demand, slight influence on the increase in demand, no influence on the change in demand, slight influence on the decrease in demand, considerable influence on the decrease in demand.

identified easing of the terms of crediting corporates among factors contributing to the increase in demand and around 18% indicated a rise in financing needs for fixed investment. In the fourth quarter of 2010, the banks did not record changes in demand for loans arising out of debt restructuring. The tightening of lending standards was the sole corporate loan demand-constraining factor identified by the banks (net percentage of around 5%).

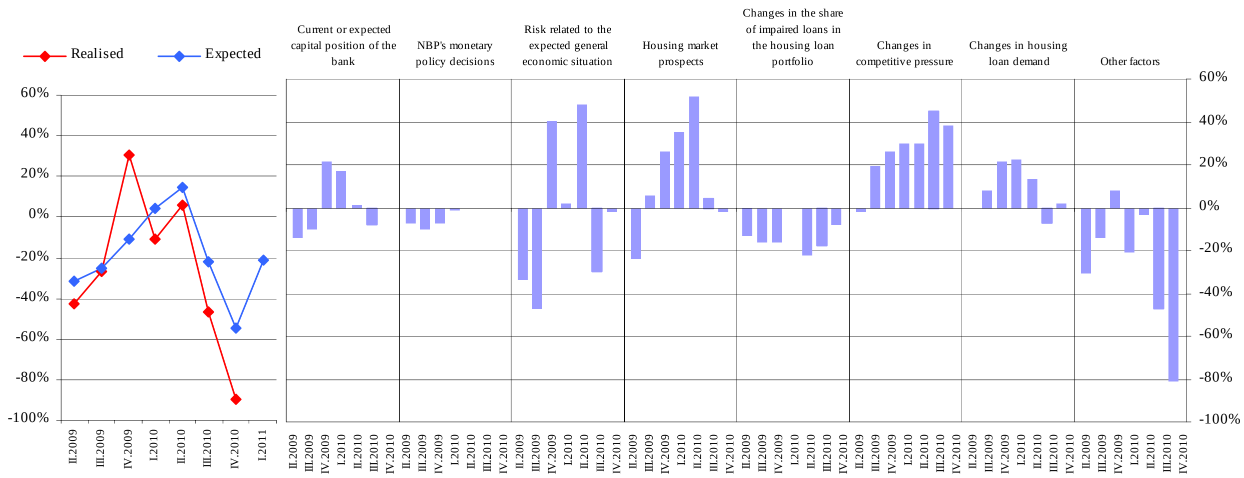
In the first quarter of 2011, changes in lending policy will primarily concern the sector of SMEs (see Figure 1). Around 38% of the banks expect lending policy to be eased in this segment for long-term loans, and around 18% for short-term loans. In the case of large enterprises, a firm majority of *all* banks declared they would make no changes in lending policy in the first quarter of 2011; in net terms, slightly more than 3% of the banks expect lending policy to be eased.

The surveyed banks expect loan demand from SMEs to grow in the first quarter of 2011 (see Figure 4). Such a response was provided by some 30% banks for short-term loans and by some 45% for long-term loans. The majority of the banks said they expected growth in demand to be insignificant. In the segment of loans to large enterprises, the banks expect a slight increase in demand for both short term- and long term loans (net percentage of 7% and 6%, respectively).

Housing loans

In the fourth quarter of 2010, nearly 90% of the banks tightened the standards of granting housing loans to households (see Figure 6). Around 12% of *all* banks considered the move as considerable. The tightening of lending policy in the fourth quarter of 2010 was stronger than expected by the banks at the end of the previous quarter.

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



The terms on housing loans were either eased or remained unchanged (see Figure 7). Around 53% of the banks lowered loan spreads (lending policy in this respect was eased for the fifth quarter in succession), and around 11% reduced non-interest loan costs. In both cases, the banks considered these changes as insignificant. In the fourth quarter of 2010, the banks did not continue to tighten the terms with respect to collateral requirements and the maximum Loan-to-Value ratio – these terms remained unchanged in comparison with the previous quarter. **Some banks tightened the terms on housing loans that were unaccounted for in the survey**. Such a response was given by around 70% of the banks; customer creditworthiness assessment procedures were primarily tightened in connection with the implementation of the provisions of Recommendation T.[4] This change was termed as significant by one fourth of *all* banks.

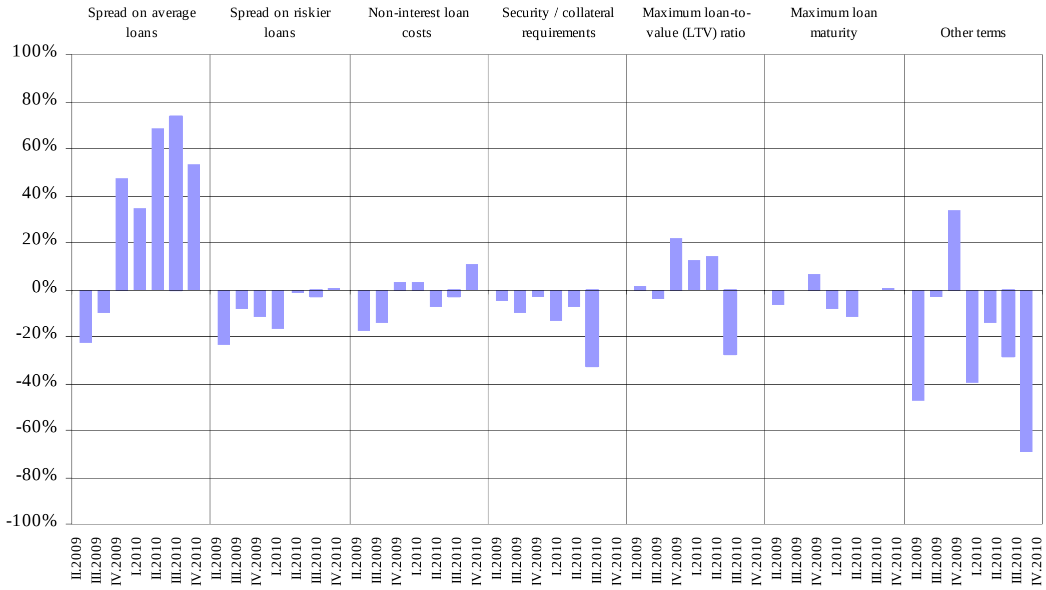
As in the previous quarter, the need to implement Recommendation T, which was cited by the banks as a factor unaccounted for in the survey (see Figure 6)**, was the reason for tightening lending policy.** Around 82% of the banks gave such a response, and nearly one third of *all* banks assessed the impact of this factor as considerable. The responses show that the impact of changes in the share of impaired loans in the housing loan portfolio (net percentage of around -8%) and the risk of future developments in the economy (net percentage of around -2%) is diminishing.

Competitive pressure on the market remained the main factor that prompted banks to ease their lending policies (net percentage of around 38%). The banks mentioned competition from universal and mortgage banks, as well as non-bank financial institutions. Lending policy was eased mainly with regard to credit terms (loan spreads,

[4] According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, in Figure 7 they were presented under the category "Other terms".

non-interest loan costs) rather than credit standards, which were tightened under the provisions of Recommendation T.

Figure 7
Terms on housing loans



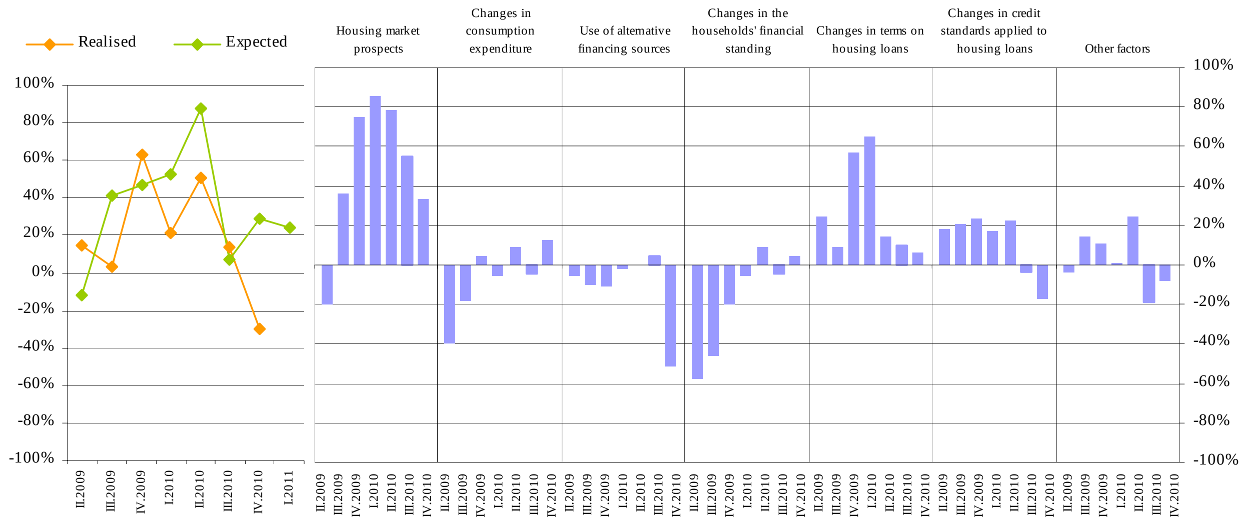
In the fourth quarter of 2010, the banks registered a fall in demand for housing loans (net percentage of around -30%). A lower demand was reported by almost 60% of *all* banks, with less than 5% of *all* banks considering this development as considerable. However, the responses were discrepant – around 30% of *all* banks registered a slight increase in demand for housing loans. At the end of the third quarter of 2010, the banks expected a rise in demand in this credit category (see Figure 8).

According to the banks, the use of alternative sources of financing was the main reason for lower demand for housing loans (net percentage of around -52%). The responses show that prospective customers took out loans in other banks (around 60% of *all* banks), and used their savings and other sources of financing (in both instances, such a response was given by around 48% of *all* banks). Around 17% of the banks said the fall in demand had been connected with tighter lending standards; around 5% of *all* banks considered the impact of this factor as considerable.

For the sixth quarter in a row, the banks which experienced a rise in demand attributed this increase primarily to housing market prospects (see Figure 8). However, the importance of this factor has been steadily diminishing, and in the fourth quarter of 2010 it was identified by around 33% of the banks. According to the banks, changes in households' consumer spending (net percentage of around 12%) and a general improvement of household's economic standing (net percentage of around 4%) contributed to an increase in demand. Some surveyed banks also cited changes in the terms on housing loans (net percentage of around 6%), however in this case the responses were discrepant (with around 3% of *all* banks considering this factor as contributing to demand weakening).

Over 20% of the banks expect lending policy in the segment of housing loans to be further tightened in the first quarter of 2011 (see Figure 6). As compared with the previous quarter, the number of banks declaring the intention to tighten their lending policies has fallen (around 34% of *all* banks), and so has the strength of expected changes considered by the banks as insignificant. At the same time, the percentage of the banks that foresee either no changes in lending policy (around 52% of *all* banks) or lending policy easing (around 14% of *all* banks) has gone up.

Figure 8
Demand for housing loans and factors influencing its changes



One fourth of the banks expect demand for housing loans to grow in the first quarter of 2011 (see Figure 8). The banks' responses were more discrepant than in the previous quarter: nearly 40% of *all* banks expected demand for housing loans to grow, and 15% of *all* banks expected it to fall.

Consumer loans

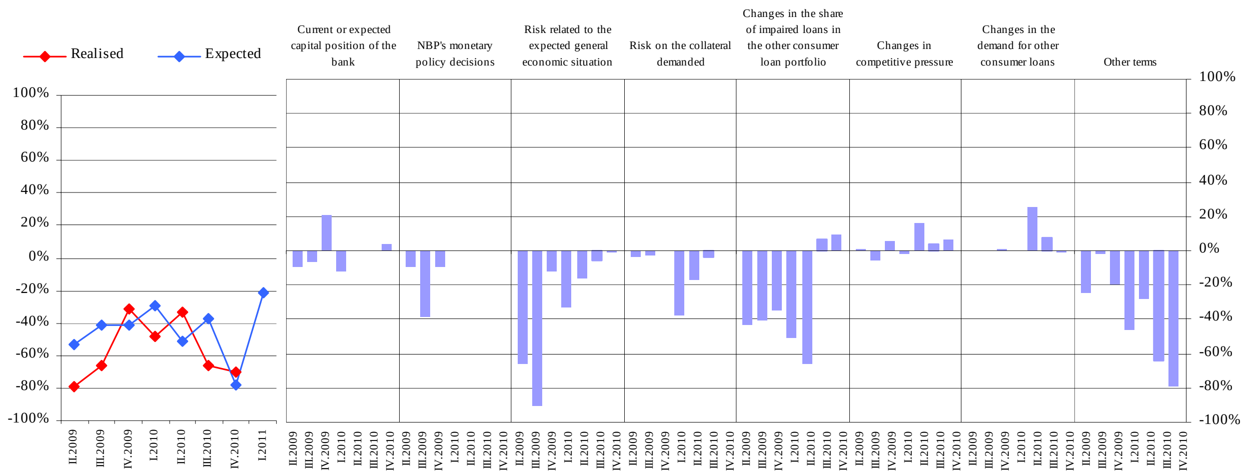
In the fourth quarter of 2010, the banks continued to tighten the standards of granting consumer loans to households (see Figure 9). Such a response was provided by around 70% of the banks, with 30% of *all* banks considering this move as considerable. This change of lending policy in the segment of consumer loans was in line with banks' expectations from the end of the third quarter of 2010.

Over one third of the banks raised spreads on loans to riskier clients (see Figure 10), and around 5% of the banks reduced the maximum loan size, with some banks terming the change as considerable. **Other terms on consumer loans included in the survey were eased**. Over 30% of the banks said credit spreads had been lowered, and around 10% of *all* banks considered this change as considerable. In comparison with the previous quarter, the number of the banks that reduced non-interest loan costs (net percentage of 15%) and extended maximum maturity (net percentage of around 9%) has increased.

According to the banks, the tightening of lending policy applied primarily to factors unaccounted for in the survey (net percentage of around -68%, see Figure 10). These factors included: adjustment of credit standards in connection with the implementation of Recommendation T, and tighter customer creditworthiness assessment procedures (for example, taking into account FX risk and interest rate risk, taking into account liabilities other than financial liabilities, higher requirements for new customers)[5]. Around 43% of *all* banks considered this move as considerable.

Figure 9

Lending policy and factors influencing its changes – consumer loans



The majority of the banks cited factors unaccounted for in the survey as reasons for tightening their lending policies with regard to consumer loans (see Figure 9). As in the previous quarter, the banks pointed to the need to implement Recommendation T. Such an answer was given by around 79% of the banks, of which over half described the impact of this factor on lending policy tightening as considerable. In the fourth quarter of 2010, the percentage of the banks that pointed to the risk related to the expected economic situation decreased again (net percentage of around -1%).

According to the majority of the banks, other factors listed in the survey were neutral for their lending policies. Changes in the share of impaired loans in the portfolio of consumer loans were found to be the reason for lending policy easing by 10% of the banks. An impact of intensified competition from other banks was experienced by around 14% of *all* banks, which represents an increase from the previous quarter.

Over half of the banks reported a fall in households' demand for consumer loans (see Figure 11). Falling demand was experienced by approximately two thirds of *all* banks, and around 8% of *all* banks registered a rising demand. The developments in consumer loan demand differed from banks' expectations in the third quarter of 2010 (around 20% of the banks expected demand to grow).

The banks cited tighter lending standards and the fall in financing needs for durable goods (net percentage of -59% and around -55%, respectively) **as the main reasons for lower demand for consumer loans.** The majority of the banks that cited these factors assessed their impact as insignificant. In comparison with the previous quarter, more banks pointed to households' use of alternative sources of financing (net percentage of around -25%). In their view, loans provided by other banks and sources of financing unaccounted for in the survey were the most important factors (in both cases, they were identified by around 28% of *all* banks). Around 9% of *all* banks termed the impact of other sources of financing on demand as considerable. Changes in credit terms (net percentage of -

[5] According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, in Figure 10 they were presented under the category "Other terms".

28%) and changes in the economic standing of households (net percentage of around -18%) were also mentioned by the banks as factors contributing to weaker demand for consumer loans.

Figure 10
Terms on granting loans

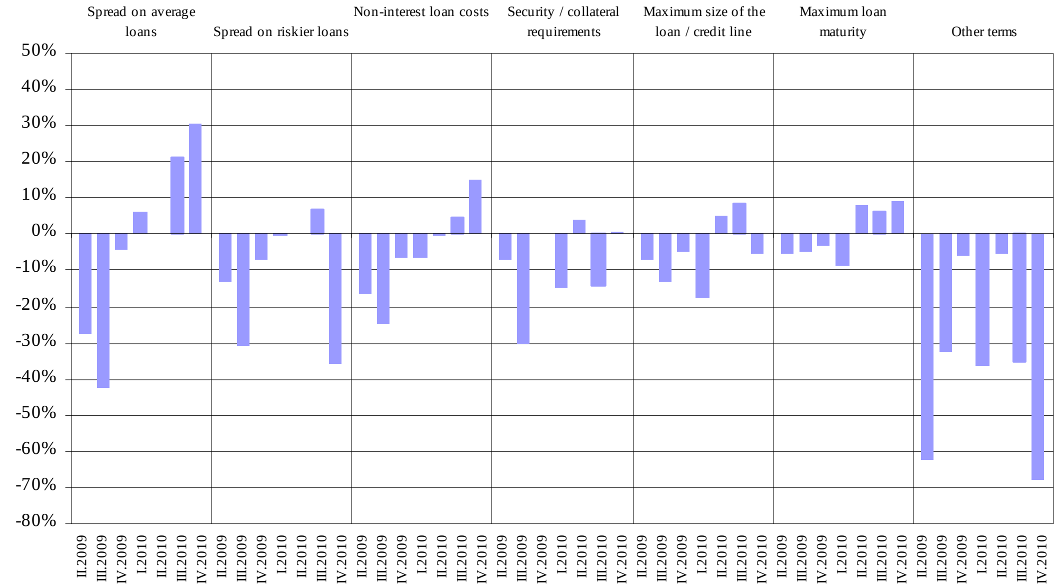
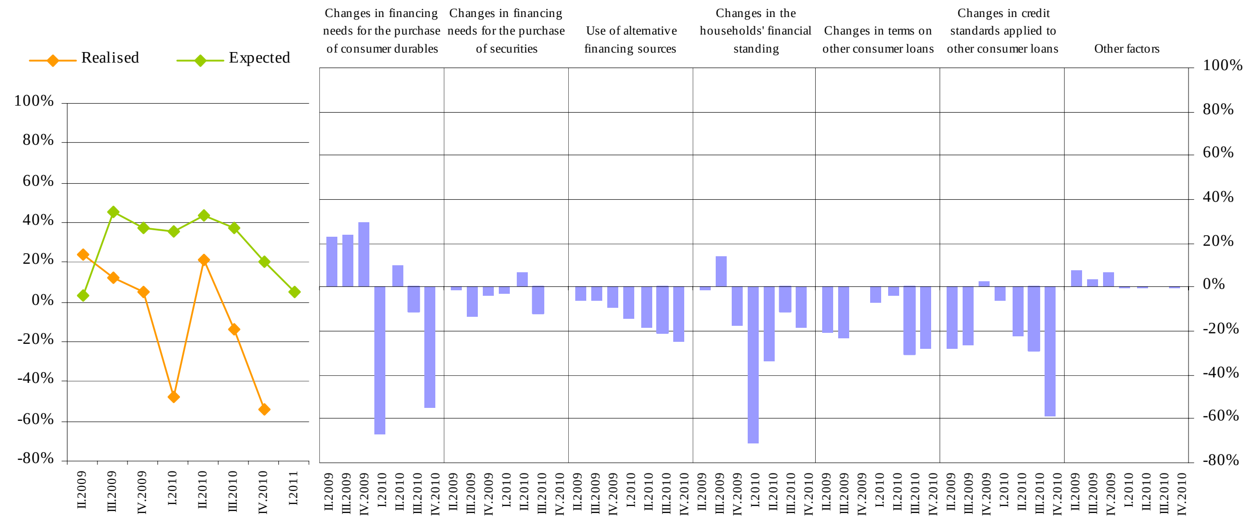


Figure 11
Demand for consumer loans and factors influencing its changes



The banks expect lending policy in the segment of consumer loans to be tightened further in the first quarter of 2011 (see Figure 9). This type of changes is expected by around one fifth of the banks, but the responses were more discrepant than in the previous quarter: around 42% of *all* banks expect lending policy to be tightened, and 21% of *all* banks expect it to be eased. The majority of the banks defined the expected changes in lending policy as insignificant. **In net terms, the banks expect demand for consumer loans to rise in the first quarter 2011** (see Figure 11). Such an answer was given by around 6% of the banks, however around two thirds of *all* banks expect no changes in demand.

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 29 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 the two first months of 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 the third month of the period are 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.