Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2012

Warsaw, January 2012

Summary of the survey results

Corporate loans

- Lending policy: tightening of the standards of granting loans in the segment of loans to small and medium-sized companies (SMEs); increase in credit spreads.
- Demand for loans: no significant changes.
- Expectations for the first quarter of 2012: lending policy to be tightened, primarily in the segment of SMEs; demand for short-term loans expected to grow.

Housing loans

- Lending policy: lending standards were tightened; all lending terms were tightened, the tightening was strongest in the case of the loan to value (LTV) and collateral requirements.
- Demand for loans: demand for loans fell.
- Expectations for the first quarter of 2012: lending policy to be tightened and demand for loans expected to decrease considerably.

Consumer loans

- Lending policy: lending standards slightly eased; no significant changes in lending terms.
- Demand for loans: demand for loans decreased slightly.
- Expectations for the first quarter of 2012: lending policy to be slightly tightened and demand for loans expected to decrease.

After six quarters of easening, the banks tightened their corporate lending policy with respect to spreads on corporate loans. The terms of granting loans were also tightened for housing loans, especially in the case of the LTV requirement, collateral and loan servicing costs. Terms on consumer loans were not considerably revised.

Elevated risk related to the expected general economic situation was the key factor leading to a tightening of lending policy by the survey-participating banks in all loan categories. In the case of corporate and consumer loans, the current or expected capital position of the banks was also of significance. On the other hand, unfavourable housing market prospects had, additionally, an impact on lending policy developments in respect of housing loans.

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 banks, 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 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 banks' divisions other than the credit divisions. The survey was conducted at the turn of December 2011 and January 2012 **among 29 banks with a total share of 82% in claims on enterprises and households in the banking sector's portfolio**.

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 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 on 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 2011 as well as banks' expectations for the first quarter of 2012.

the first quarter of 2012

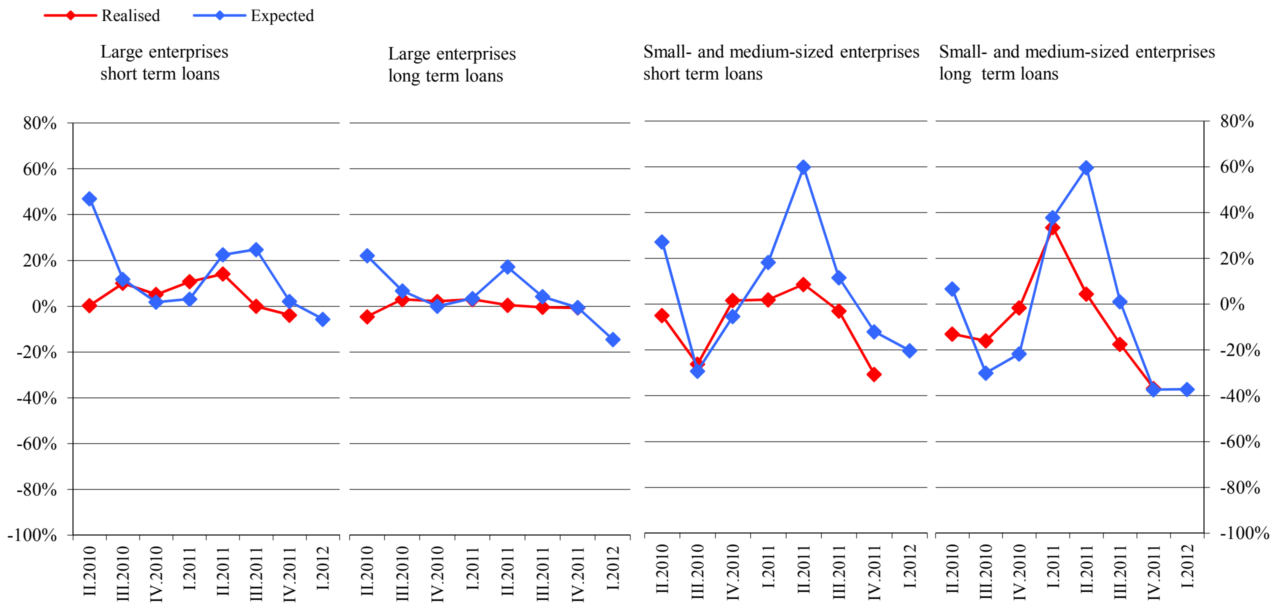
Corporate loans

In net terms, the banks tightened their lending policies towards small and medium-sized companies in the fourth quarter of 2011 (see Figure 1). In the case of short-term loans, such response was given by around 31% of the banks, and in the case of long-term loans – by around 37% of the banks. The banks considered the tightening as insignificant.[1] Similarly as in the previous quarter, the majority of the banks did not revise their lending policy towards large enterprises.

The changes to lending policy were in line with expectations the banks expressed at the end of the third quarter of 2011. At the same time, in the case of short-term loans for SMEs the banks expected the standards of granting loans to be slightly less tightened.

[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 an easing of lending policy or growth in demand for loans, and a negative value of net percentage – as a tightening of lending policy or a fall in demand for loans. Details concerning the calculation methodology are presented in Appendix 1.

The banks raised their spreads on corporate loans for the first time since the first quarter of 2010 (net percentage of around -36%, see Figure 2). In parallel, around 24% of the banks reported that they had raised spreads on riskier loans. Tightening of terms regarded also maximum loan size and maximum loan maturity (in both cases, the net percentage of responses amounted to around -9%). Other terms of granting loans to enterprises were not significantly revised.

Figure 2
Terms on corporate loans

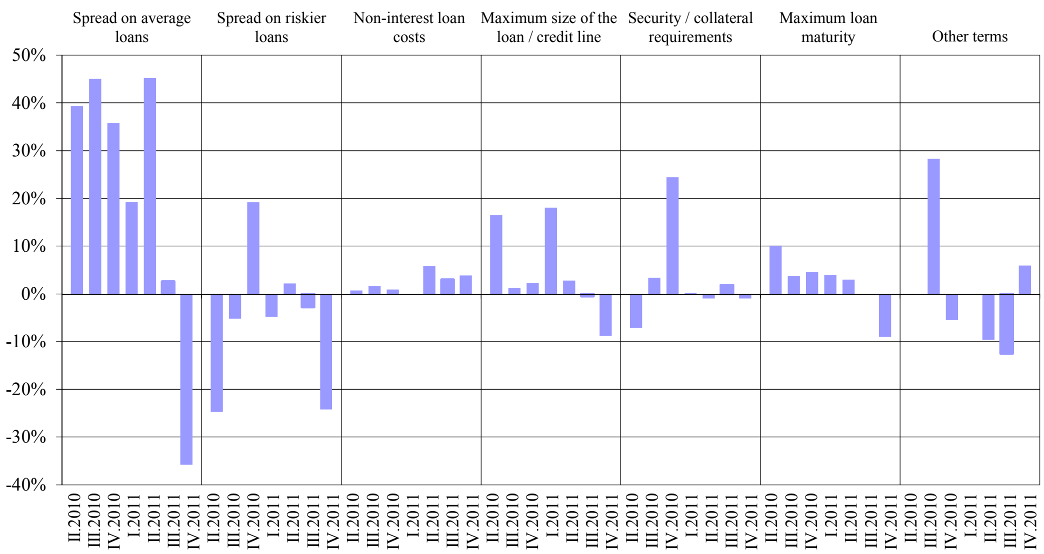
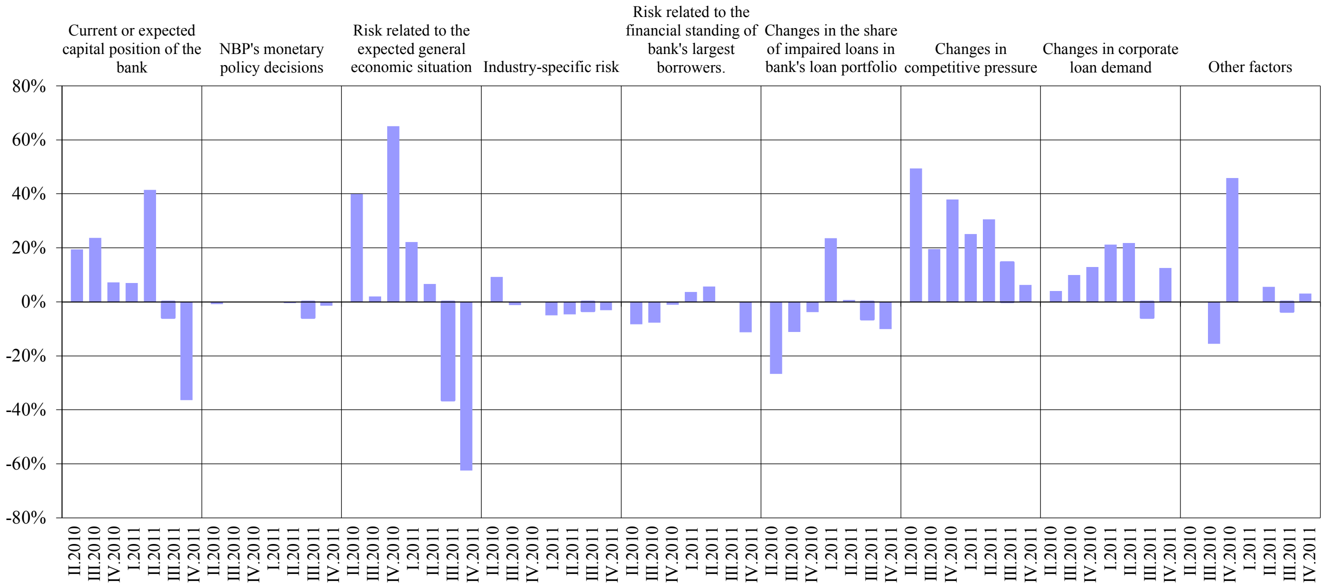


Figure 3
Factors influencing changes in lending policies



The majority of the banks attributed the tightening of lending policy to elevated risk related to the expected general economic situation (net percentage of around -63%, see Figure 3), with 18% of these banks considering the influence of this factor as considerable.[2] As compared to the previous edition of the survey, the percentage of the banks that pointed to their current or expected capital position as a factor contributing to the tightening of lending policy towards enterprises also increased (net percentage of around -36%). In addition, the banks participating in the survey identified higher risk related to the standing of the largest borrowers and the deterioration in the quality of corporate loan portfolio (net percentage of around -11% and -10%, respectively).

A handful of the lending policy easing banks justified the move with an increase in demand for corporate loans (net percentage of around 13%). The percentage of the banks that had identified competitive pressure as one of the factors stimulating the easing of lending policy decreased again in the fourth quarter of 2011 (net percentage of around 6%).

According to the survey respondents, no major changes in corporate loan demand were reported in the fourth quarter of 2011 (see Figure 4). Few banks, which identified either a decrease or increase in demand, considered it as slight.[3]

Banks' assessment of changes in corporate loan demand was in line with their expectations expressed at the end of the third quarter of 2011.

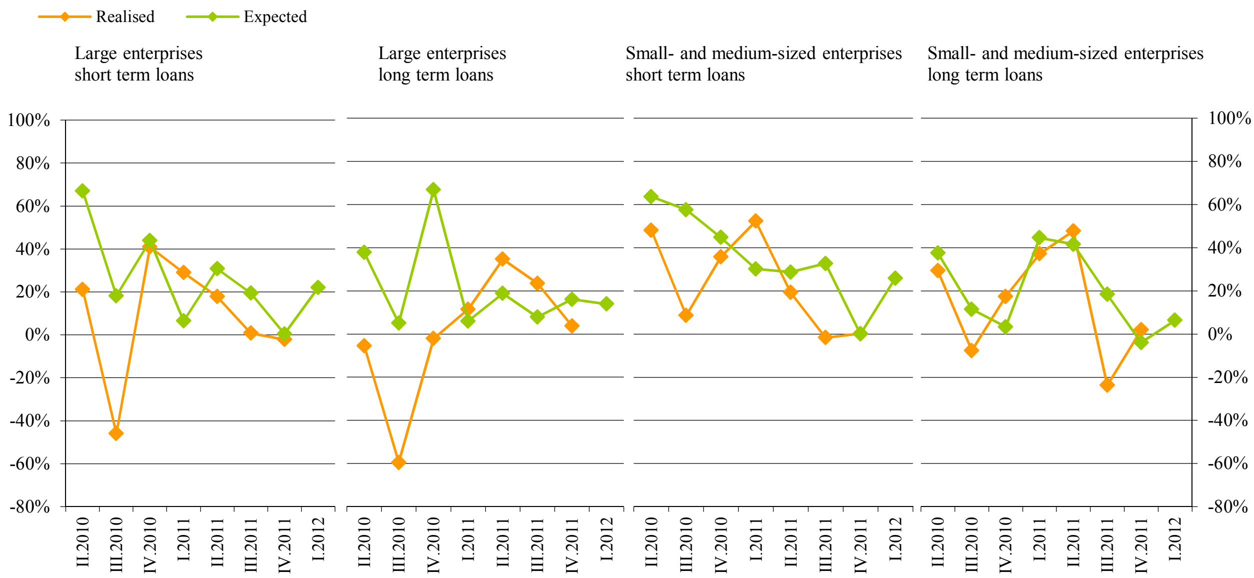
[2] The banks have a possibility of grading the strength of the influence of specific factors on changes in lending policy. In this survey, the banks choose among the following options: considerable influence on a tightening of lending policy, slight influence on a tightening of lending policy, no influence on the change in lending policy, slight influence on an easing of lending policy, considerable influence on an easing of lending policy.

[3] 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 change in demand, slight decrease in demand and considerable decrease in demand.

The banks, which reported a rise of loan demand, explained it by enterprises' increased financing needs for fixed investment (see Figure 5). In net terms, such response was provided by 34% of the banks and they considered the impact of this factor as slight.[4] As compared to the previous edition of the survey, the percentage of the banks that indicated financing needs for mergers and acquisitions as one of the factors decreased considerably (net percentage of 10%).

In net terms, tighter lending terms were the only factor named by the banks as contributing to the decrease in demand for loans (net percentage of around -12%). According to the survey participants, other factors had no major impact on changes in corporate loan demand.

Figure 4
Corporate loan demand

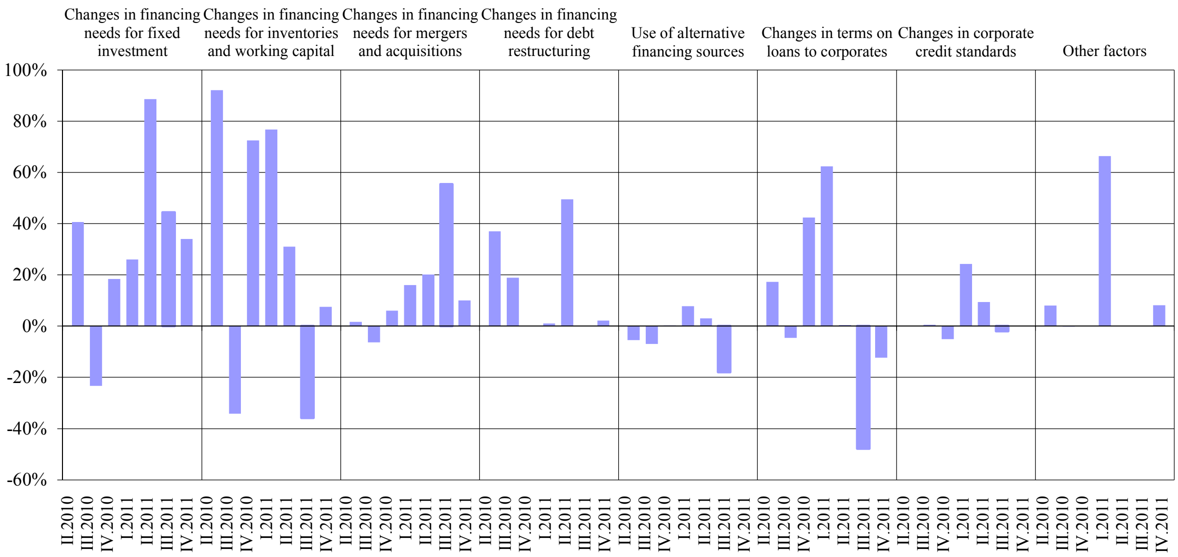


Responses received from the banks show that in the first quarter of 2012 a tightening of lending policy will apply to all categories of loans to enterprises (see Figure 1). The highest percentage of the banks expects lending policy to be tightened in the segment of SMEs, both in the case of short- and long-term loans (net percentage of around -20% and around -40%, respectively). In the segment of large enterprises, lending policy is expected to be tightened mainly with regard to long-term loans (net percentage of around -15%).

The banks expect demand for short-term loans to grow in the first quarter of 2012 (see Figure 4). In net terms, such response was given by 26% of the banks in the case of SMEs and around 22% of the banks in the case of large enterprises. Regarding long-term loans, around 14% of the banks expect demand for loans to large enterprises to grow; in the category of loans to SMEs the banks' responses were discrepant, with net percentage at around 6%.

[4] 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.

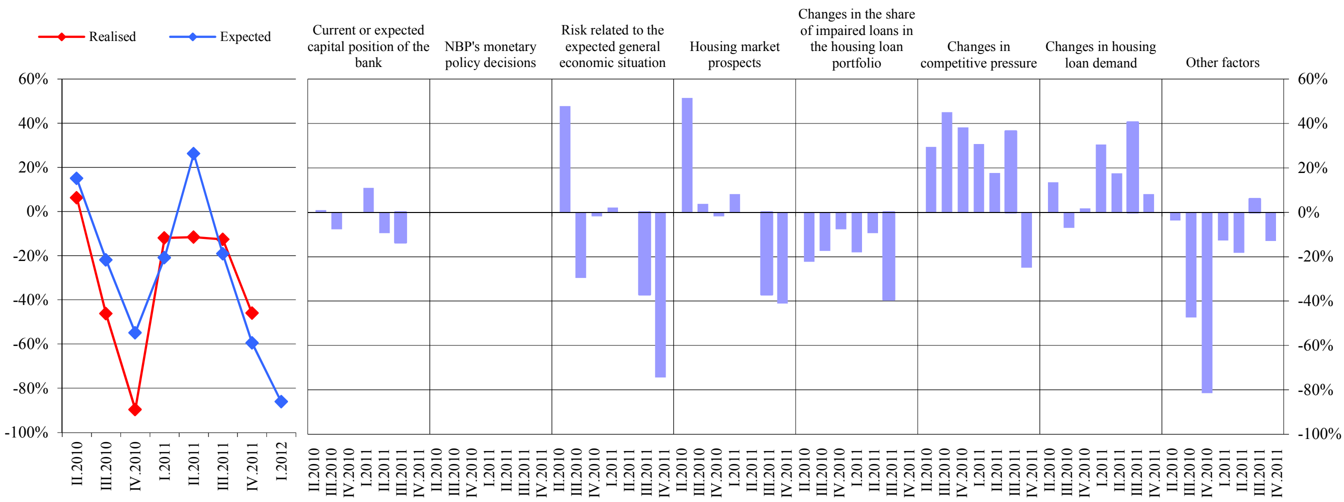
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

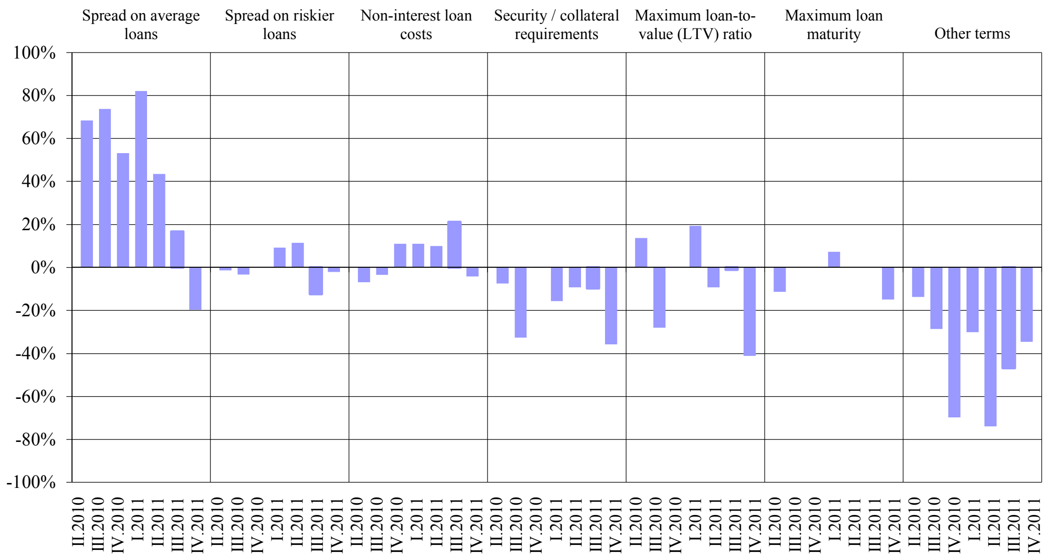
The percentage of the banks that tightened lending policy in the segment of housing loans increased in the fourth quarter of 2011 (see Figure 6). Such response was provided by 46% of the banks, whereas one fifth of these banks defined the tightening as considerable. At the end of the third quarter of 2011, the banks expected a tightening of lending policy in this segment to be stronger.

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



In net terms, the banks tightened all terms on housing loans (see Figure 7). Raising the borrower's LTV and collateral requirements was indicated by the highest percentage of the banks (net percentage of around -41% and around -36%, respectively). Over one third of the banks pointed to terms unaccounted for in the survey, including both withdrawal of foreign currency-denominated loans from their offer and tighter principles for calculation of creditworthiness due to implementation of the new provisions of Recommendation S.[5] After an eight quarter-long easing of the terms of lending policy with regard to spreads charged on housing loans, one fifth of the banks have reported that they were raised. At the same time, 15% of the banks cut the maximum loan maturity.

Figure 7
Terms on housing loans



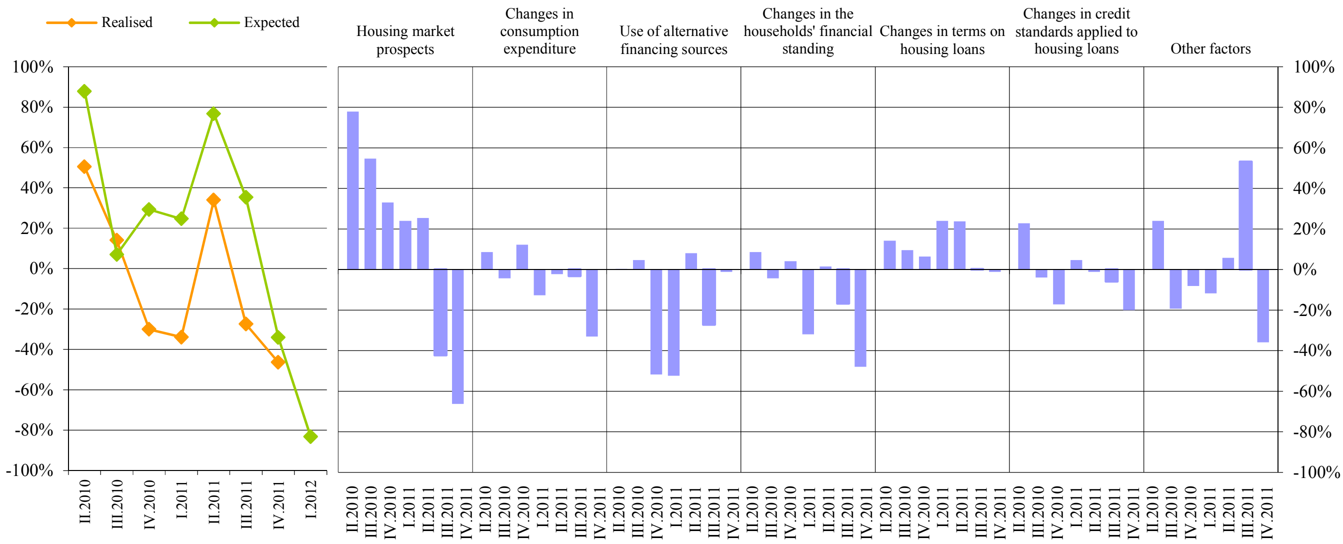
The percentage of the banks that explain a tighter lending policy in the segment of housing loans by the risk related to the expected general economic situation grew as compared to the previous edition of the survey (see Figure 6). Such response was given by nearly three fourths of the banks, with almost 40% of them describing the impact of this factor as considerable. Unfavourable housing market prospects were cited by the banks as one of the major reasons for tightening their lending policies for the second quarter in a row (net percentage -41%). In parallel, for the first time since the second quarter of 2009, changes in competitive pressure (i.e. its fall) were classified in a similar way (net percentage of around -25%). Among factors unaccounted for in the survey, the implementation of the new provisions of Recommendation S, changes in internal concentration limits and an unstable foreign exchange market were cited by the banks as stimulating the tightening of lending policy (net percentage of -13%). The banks did not identify any significant factors that would have supported the easing of lending policy with regard to housing loans.

As in the previous quarter, the majority of the banks were hit by a falling demand for housing loans (see Figure 8). In net terms, the percentage of the banks that provided such an answer rose to around 47% in the fourth quarter of 2011, of which nearly one fourth considered the fall as considerable. Changes in demand were close to expectations the banks had expressed in the previous edition of the survey.

[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, they were presented under the category "Other terms" in Figure 7.

For the second quarter in a row, the banks explained the decrease in demand for housing loans primarily by housing market prospects. Such a view was expressed by around 66% of the banks, with a firm majority naming the impact of this factor as insignificant. The percentage of the banks that indicated the deterioration in the financial standing of households rose to around 48%, and around 36% mentioned factors not accounted for in the survey, in particular the amendments to the "First family home" scheme (the majority of the banks considered the impact of this factor as considerable). In the view of one third of the banks surveyed by the NBP, the fall in demand for housing loans resulted from a change in consumption expenditure of households. On the other hand, one fifth of the banks mentioned tighter standards of granting housing loans.

Figure 8
Demand for housing loans and factors influencing its changes



The banks expect the standards of granting loans to be tightened further in the first quarter of 2012 (see Figure 6). Such expectations were expressed by around 86% of the banks, and over 40% of them described this tightening as considerable. None of the surveyed banks expects lending policy to be eased in the upcoming quarter.

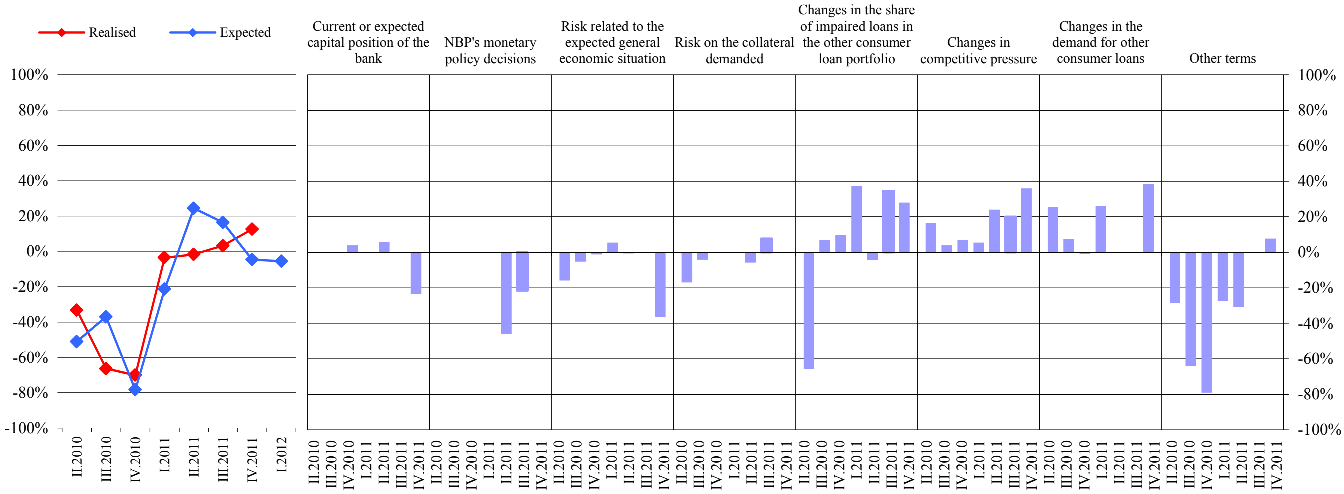
According to the majority of the banks, demand for housing loans will decline in the first quarter of 2012 (net percentage of around -83%, see Figure 8). One fifth of the banks expect demand to decrease considerably.

Consumer loans

In net terms, the banks eased slightly the standards of granting consumer loans in the fourth quarter of 2011 (net percentage of 12%, see Figure 9). At the same time, over three fourths of *all* banks made no changes in this respect. At the end of the third quarter of 2011, the banks expected, in net terms, lending policy to be slightly tightened.

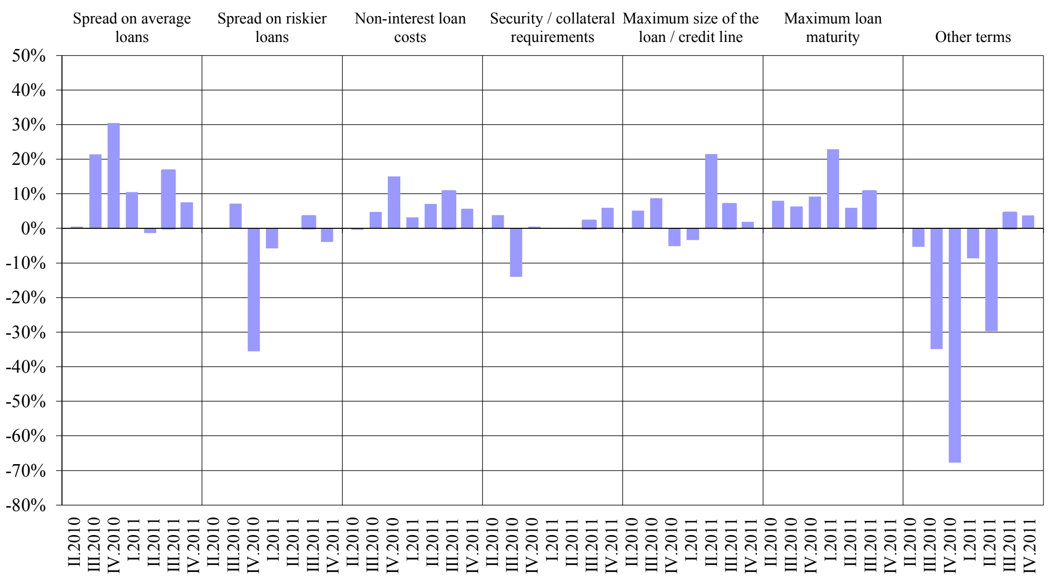
The banks did not make any major changes in terms on consumer loans in the fourth quarter of 2011 (see Figure 10). The easing was strongest for loan spreads, however the percentage of the banks providing such a response decreased considerably against the previous quarter (net percentage of around 8%). At the same time, individual banks lowered their non-interest loan costs and decreased collateral requirements (in both cases, the net percentage of the responses was around 6%).

Figure 9
Lending policy and factors influencing its changes – consumer loans



Changes in demand for consumer loans and the rise in competitive pressure were the major reasons why the banks decided to ease their lending policies (see Figure 9). The net percentage of the responses was around 39% and around 36%, respectively. Unlike in the previous quarter, the banks experienced competitive pressure primarily from non-bank financial institutions (such response was given by around 45% of *all* banks). The improving quality of consumer loan portfolio remains one of the major factors for supporting an easing of lending policy, although the percentage of the banks providing such a response decreased when compared to the previous edition of the survey (net percentage of around 28%).

Figure 10
Terms on consumer loans

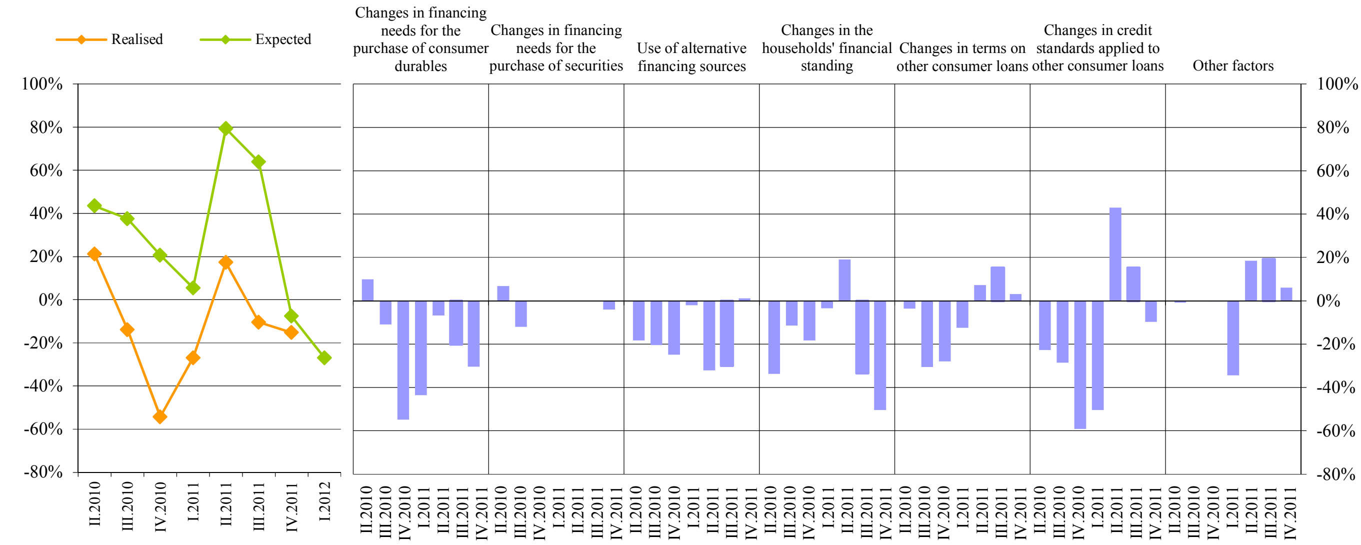


The banks that had tightened their lending policies explained this action primarily by heightened risk related to the expected general economic situation (net percentage of around -37%). According to nearly one fourth of the banks, this tightening was driven by their current or expected capital position. This factor was named as one of the reasons for the tightening of lending policy for the first time since the first quarter of 2010.

In comparison with the previous edition of the survey, there was an increase in the percentage of the banks that were hit by a falling demand for consumer loans (see Figure 11). The net percentage of the responses was around -15%, however, they were discrepant (around one fifth of *all* banks reported an increase in demand in the fourth quarter of 2011). The fall in loan demand was in line with the banks' expectations formulated at the end of the third quarter of 2011.

For the second quarter in a row, the banks have mentioned the deterioration in the financial standing of households as the main factor contributing to a lower consumer loan demand (net percentage of around -50%, see Figure 11). When compared to the previous edition of the survey, the percentage of the banks that explained the fall in demand by lower financing needs for the purchase of consumer durables has gone up (in net terms, such response was provided by around 30% of the survey respondents). According to the banks, other factors had no material impact on demand for consumer loans.

Figure 11
Demand for consumer loans and factors influencing its changes



The banks' responses point to a modest tightening of the standards of granting consumer loans in the first quarter of 2012 (net percentage of around -6%, see Figure 9), however, around 81% of *all* banks foresee no revisions to their lending policies in this segment.

In net terms, over one fourth of the banks expect demand for consumer loans to fall further in the first quarter of 2012 (see Figure 11). Over half of *all* banks expect no changes in demand for this type of funding.

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.