Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2013

Warsaw, January 2013

Summary of the survey results

Corporate loans

- Lending policy: a tightening of lending standards in the segment of small and medium-sized enterprises (SMEs); a tightening of all lending terms, primarily regarding loan costs and collateral requirements.
- Demand for loans: a fall in demand for long-term loans.
- Expectations for the first quarter of 2013: a tightening of lending policy towards SMEs and in the segment of long-term loans to large enterprises; a fall in demand in all corporate loan categories, most notably in the segment of long-term loans to SMEs.

Housing loans

- Lending policy: a tightening of lending standards; an increase in loan costs.
- Demand for loans: no changes in net terms, discrepant responses.
- Expectations for the first quarter of 2013: a slight tightening of lending policy and a decrease in loan demand.

Consumer loans

- Lending policy: a tightening of lending standards; an increase in spreads.
- Demand for loans: a drop in loan demand.
- Expectations for the first quarter of 2013: a slight easing of lending policy and a fall in loan demand.

Banks' lending policy in the fourth quarter of 2012 continued to be influenced by unfavourable forecasts of economic conditions and elevated industry-specific risk. As regards loans to households, lending policy was additionally tightened on the back of the implementation of changes in creditworthiness appraisal procedures. Current economic situation and expectations concerning the paths for the future economic cycle had a significant impact on demand for bank loans. Banks continued to be affected by enterprises' reduced borrowing needs related to investment plan implementation, while in the case of households demand was negatively affected by a deterioration in their economic standing, consumer spending cuts and forecasts for the housing market. The banks expect demand for housing loans to decline sharply in the first quarter of 2013.

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 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 banks' divisions other than the credit divisions. The survey was conducted at the turn of December 2012 and January 2013 **among 29 banks with a total share of 81% 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 2012 as well as banks' expectations for the first quarter of 2013.

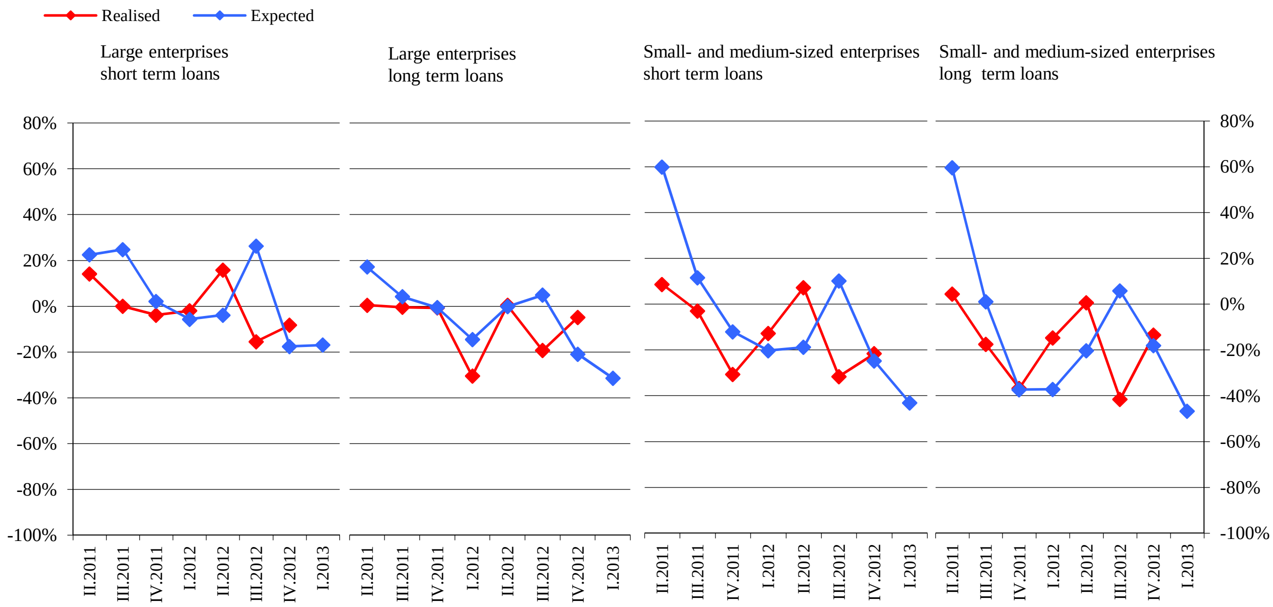
Corporate loans

The banks tightened corporate credit standards again in the fourth quarter of 2012 (see Figure 1). At the same time, the lending policy of the majority of *all* banks remained unchanged, and, in net terms, the standards were primarily tightened with regard to SMEs. In the case of short-term loans, such a response was provided by around 22% of the banks, and in the case of long-term loans – around 13%. Corporate credit standards were somewhat tightened[1], according to the majority of the banks surveyed by the NBP.

At the end of the third quarter of 2012, the banks had expected corporate credit standards to be tightened on a larger scale than they were actually tightened in the fourth quarter of 2012.

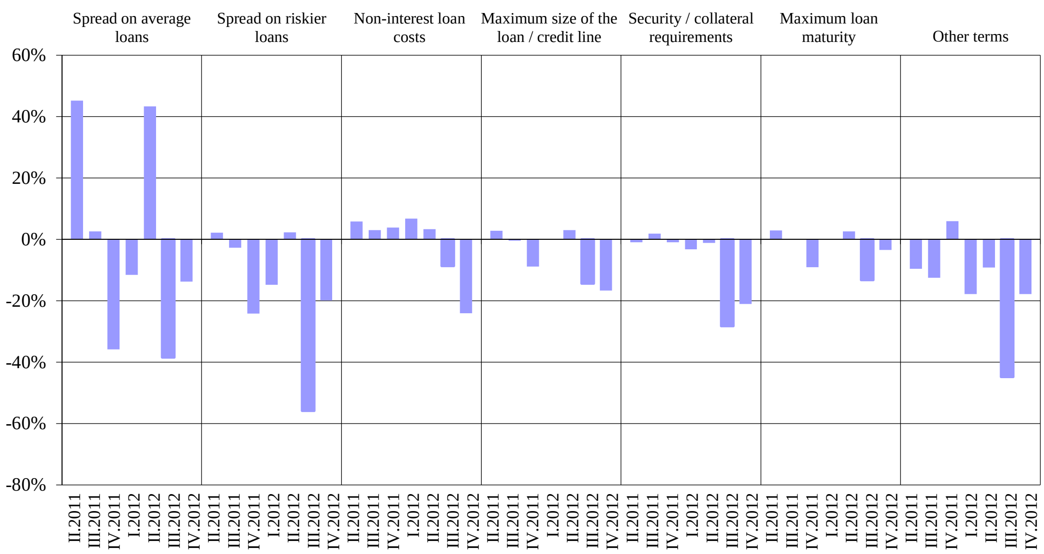
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

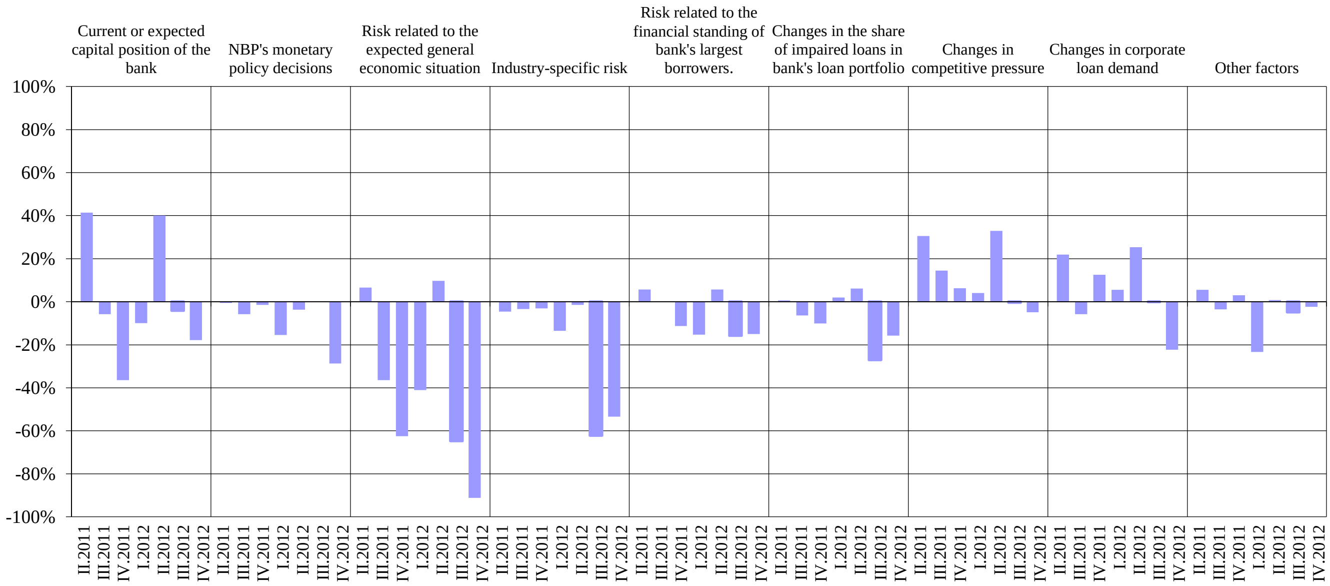
Figure 2
Terms on corporate loans



As in the previous quarter, the banks tightened all terms on corporate loans (see Figure 2). The highest percentage of the banks reported the raising of non-interest loan costs (net percentage of around -24%), increasing collateral requirements (net percentage of around -21%) and raising spreads on riskier loans (net percentage of around -20%). Around 18% of the banks indicated terms not accounted for in the survey, including in this category a tightening of minimum corporate credit standards[2], and around 17% of the banks limited the maximum size of loans offered to corporate borrowers. As compared to the previous quarter, the percentage of the banks reporting spreads being raised on all corporate loans decreased (net percentage of around -14%).

The tightening of lending policy was justified by almost all banks by an elevated risk related to future developments in the economy (see Figure 3). Such a response was given by around 91% of the banks, while one fourth of them termed the influence of this factor as considerable.[3] Over half of the banks indicated industry-specific risk growth, referring to construction sector (construction activities, property development activities and associated industries), the automotive and transport industries, retail trade, manufacture of furniture and processing of timber. The majority of the answer-providing banks assessed the influence of industry-specific risk on lending policy as considerable. The fact that lending policy was tightened was also related to changes in the NBP monetary policy (net percentage of around -29%) – the banks surveyed by the NBP sought to mitigate the negative impact of interest rate cuts on their earnings through an increase in interest and non-interest loan costs. Over one fifth of the banks attributed the tightening of lending policy to changes in corporate demand for loans, and around 18% of the banks pointed to limitations associated with the current or expected capital position. No bank mentioned factors that would help ease lending policy towards enterprises.

Figure 3
Factors influencing changes in lending policies



According to the survey-participating banks, enterprises reduced their loan demand, especially for long-term loans (see Figure 4). The strongest decline in demand for these loans affected SMEs (net percentage of

[2] 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 are presented under the category "Other terms" in Figure 2.

[3] 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 lending policy tightening, slight influence on lending policy tightening, no influence on the change in lending policy, slight influence on lending policy easing, and considerable influence on lending policy easing.

around -28% vs. -16% in the segment of large enterprises). In net terms, the scale of the decline in short-term loans was small, and the majority of the banks reported no changes in demand.

Figure 4
Corporate loan demand

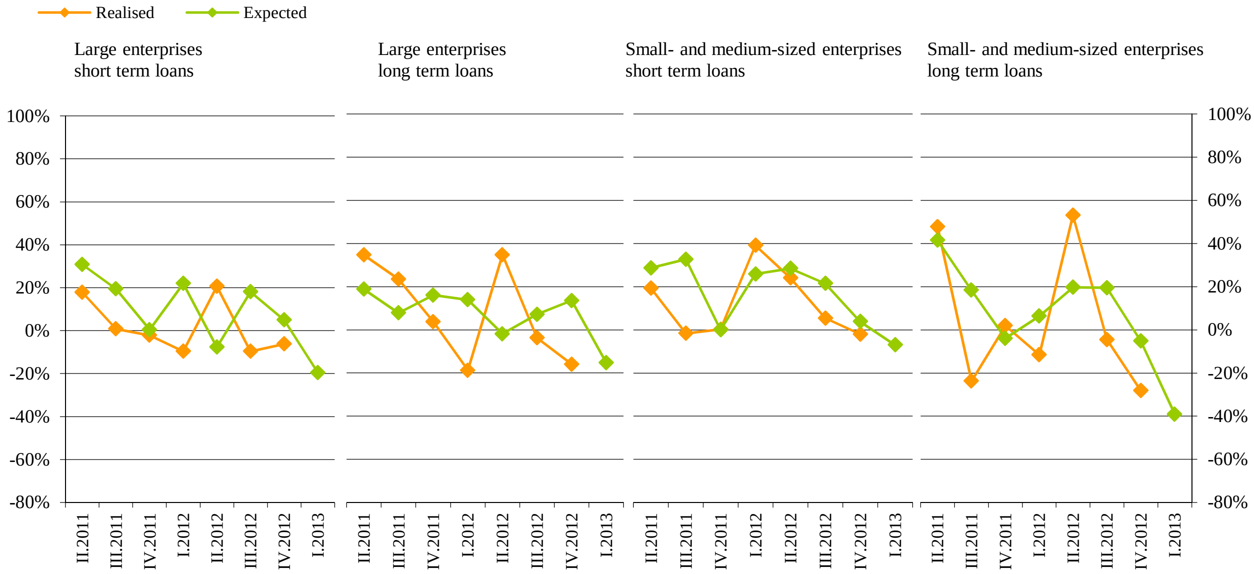
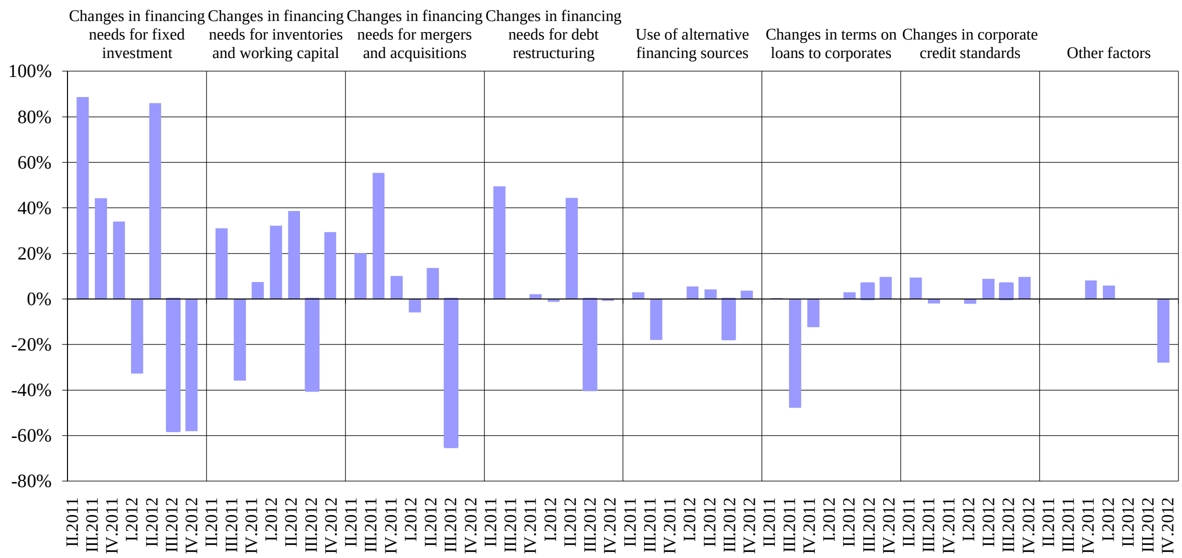


Figure 5
Factors influencing changes in corporate loan demand



The lower corporate demand for loans was mainly driven by reduced financing needs for fixed investment (net percentage of around -58%, see Figure 5). Moreover, one fourth of the banks also identified factors not accounted for in the survey, such as worse corporate expectations regarding the future economic situation and the associated curtailing of investment plans or their postponement.

The banks reporting a rise in demand attributed this development to higher corporate financing needs for inventories and working capital. This factor was mentioned by around 29% of the banks, and one fourth of them considered the factor's impact on demand growth as considerable. According to the banks, other factors had no significant impact on corporate loan demand.

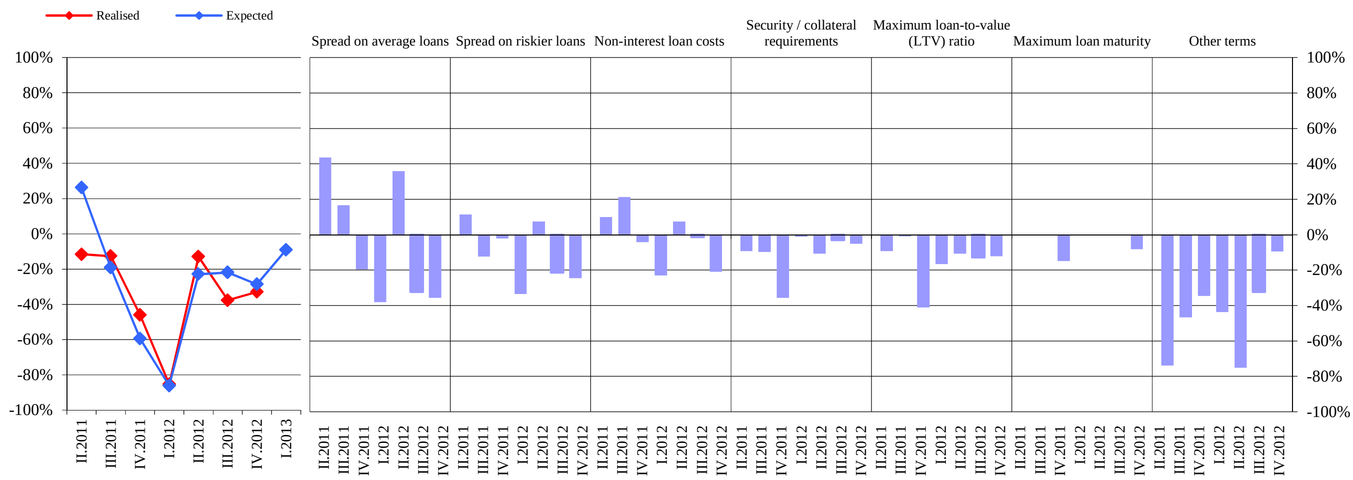
The banks expect lending policy in all corporate loan categories to be tightened in the first quarter of 2013 (see Figure 1). This policy tightening will concern the SME sector in particular – in the case of long-term loans, the net percentage of bank responses was around -47%, and in the case of short-term loans -43%. In the segment of loans to large enterprises, the banks expect lending policy to be tightened primarily with respect to long-term loans (net percentage of around -31%). As regards short-term loans to large enterprises, a firm majority of *all* banks expect no changes in lending policy.

The surveyed banks say corporate loan demand will decline in the first quarter of 2013 (see Figure 4). The highest percentage of the banks indicated a fall in demand for long-term loans to SMEs (net percentage of around -39%), and according to nearly one third of them, the expected change will be considerable. Banks' expectations about demand for short-term loans to SMEs were discrepant, which – in net terms – represents a small-scale change (net percentage -7%). In the case of loans to large enterprises, a lower demand is expected by around one fifth of the banks in the category of short-term loans and around 15% of the banks in the category of long-term loans.

Housing loans

In the fourth quarter of 2012, one third of the banks tightened the standards of granting housing loans (see Figure 6). At the same time, over half of *all* the banks did not change them. The magnitude of the tightening was in line with expectations expressed by the banks in the previous edition of the survey.

Figure 6
Standards and terms on housing loans

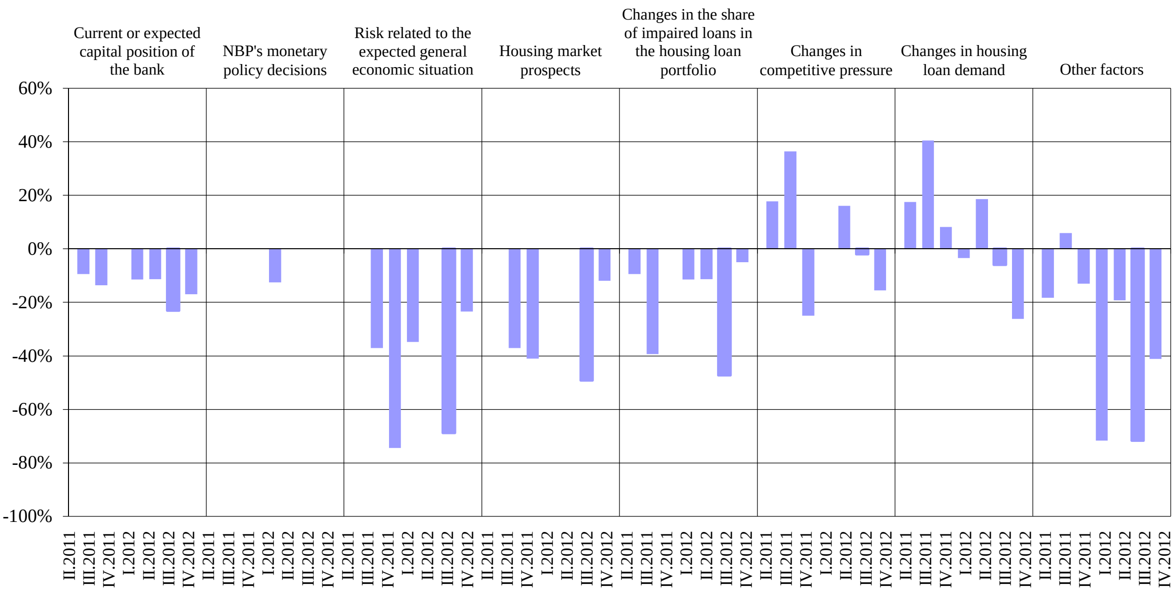


In net terms, the banks tightened all terms on housing loans, in particular with respect to borrower's costs. Around 36% of the banks mentioned raising spreads charged on all loans, and one fourth of them indicated an increase in spreads on riskier loans. At the same time, the banks raised non-interest housing loan costs (net percentage of around -21%). The LtV requirements were raised by around 12% of the banks. The magnitude of the tightening of other terms on housing loans was insignificant.

The tightening of lending policy was primarily related to factors unaccounted for in the survey (net percentage of around -41%, see Figure 7). This is the way the banks ranked actions related to creditworthiness assessment model updates and to changes in housing loan offers. Around one fourth of the survey-responding banks attributed lending policy tightening to changes in housing loan demand and to heightened risk related to future developments in the economy (net percentage of around -26% and -23%, respectively). Lending policy was also affected by the current and expected capital position of the banks (net percentage -17%) and changes in competitive pressures in the housing loan market (net percentage of around -16%). Compared to the previous quarter, there was a decrease in the percentage of the banks that cited forecasts regarding developments in the housing market (net percentage -12%).

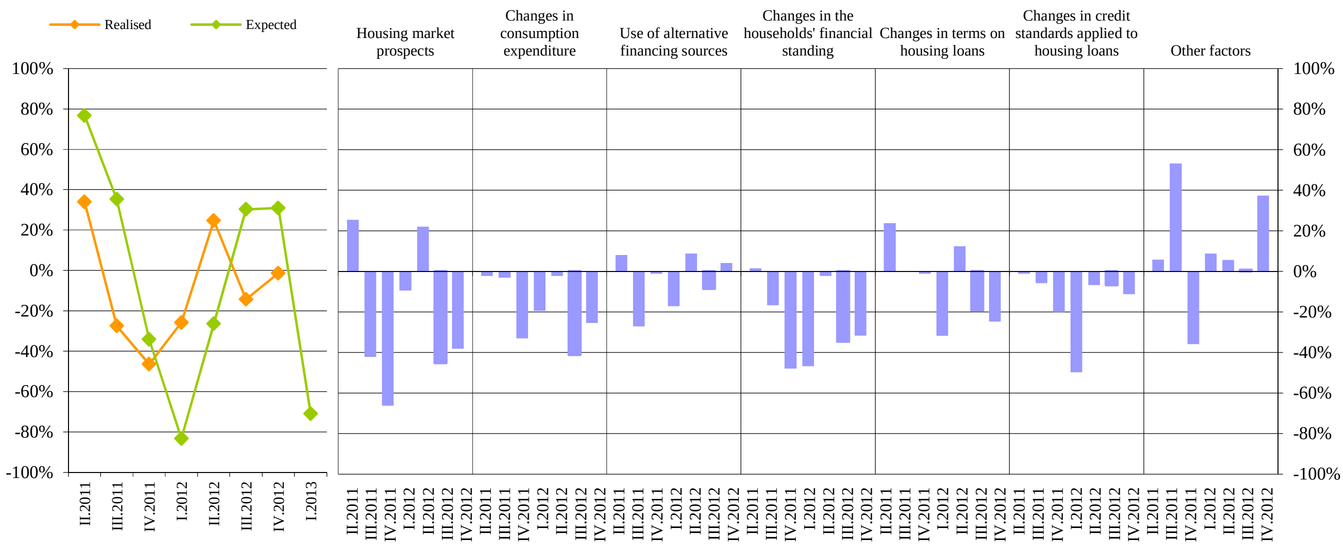
In net terms, the banks reported no significant changes in demand for housing loans in the fourth quarter of 2012 (net percentage of around -1%, see Figure 8). At the same time, the banks' responses were discrepant – around 40% of *all* banks indicated either a rise or a fall in demand for housing loans. In the previous quarter, the banks expected demand for housing loans to grow.

Figure 7
Factors influencing changes in lending – housing loans



The banks hit by falling demand for housing loans explained it primarily by forecasts regarding developments in the housing market (net percentage of around -38%). Of significance were also factors related to the economic standing of households (net percentage of around -32%) and changes in their consumer spending (net percentage -26%). In addition, the banks pointed to the tightening of standards and terms on housing loans (net percentage of around -25% and -11%, respectively).

Figure 8
Demand for housing loans and factors influencing its changes



The rise in demand for housing loans was primarily driven by factors unaccounted for in the survey (net percentage of around 37%). According to the banks, these factors included the discontinuation of the government-subsidised programme "First family home" in 2012 and a tightening of lending policy by rival banks.

Individual banks expect to slightly tighten their lending policy with regard to housing loans in the first quarter of 2013 (net percentage of around -9%, see Figure 6). Around 88% of *all* banks have no plans to revise their policies in this segment.

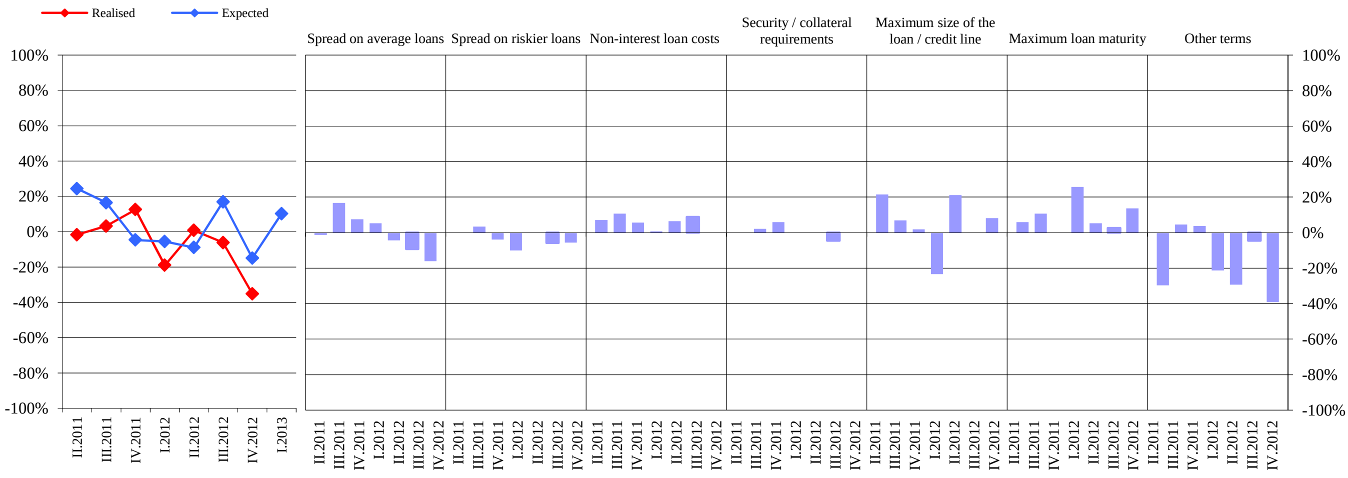
The majority of the responding banks expect demand for housing loans to fall in the first quarter of 2013 (net percentage -71%, see Figure 8). At the same time, over one third of the banks that provided such an answer considered the expected fall as considerable.

Consumer loans to households

In the fourth quarter of 2012, the banks tightened the standards of granting consumer loans (net percentage of around -35%, see Figure 9). In the previous edition of the survey, the banks expected a smaller scale tightening of lending policies.

The tightening of terms on consumer loans by the survey-responding banks related only to spreads charged on the loans (net percentage of around -16%). Around 39% of the banks mentioned a tightening of terms not accounted for in the survey, however citing changes in consumer creditworthiness assessment.[4]

Figure 9
Standards and terms on consumer loans



The tightening of lending policy was mainly related to factors unaccounted for in the survey (net percentage of around -35%, see Figure 10). In this context, the banks cited actions to change customer creditworthiness assessment procedures and parameters, also as part of the implementation of the follow-up of audit recommendations by the Polish Financial Supervision Authority. A similar percentage of the banks indicated an elevated risk of future developments in the economy (net percentage of around -31%). Compared to the previous quarter, fewer banks attributed the tightening of lending policy to a deterioration in the quality of the consumer loan portfolio (net

[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, they are presented under the category “Other terms” in Figure 9.

percentage of around -12%), however all the banks that provided such an answer described the influence of this factor as considerable. The banks argue that other factors had no significant impact on banks' lending policy with respect to consumer loans.

Figure 10
Factors influencing changes in lending policy – consumer loans

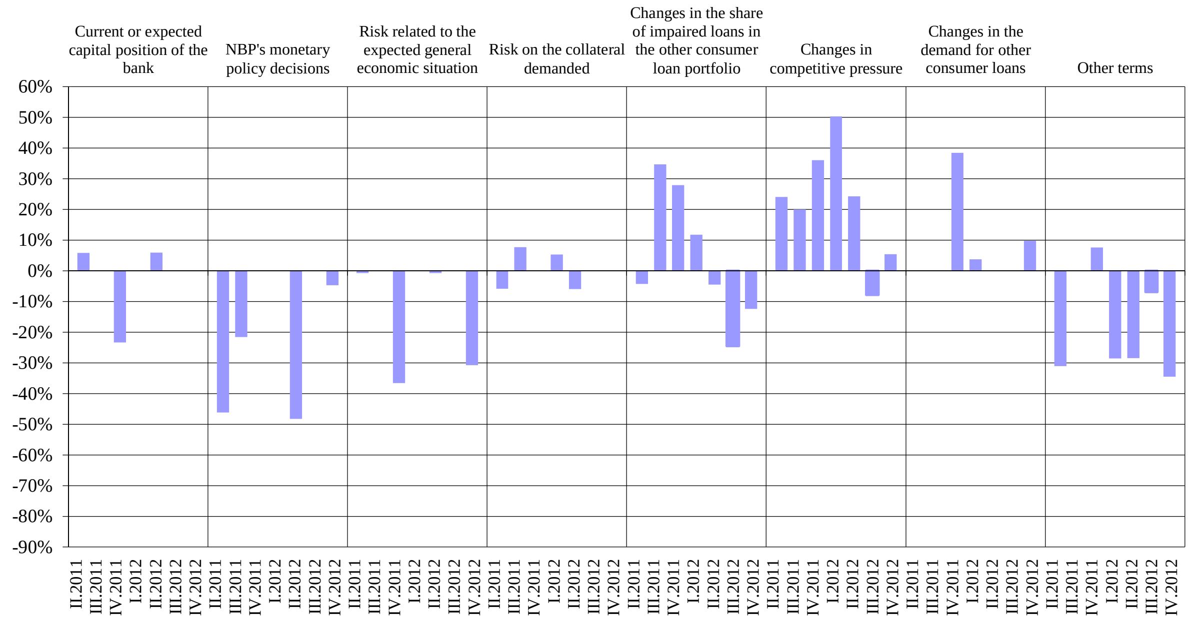
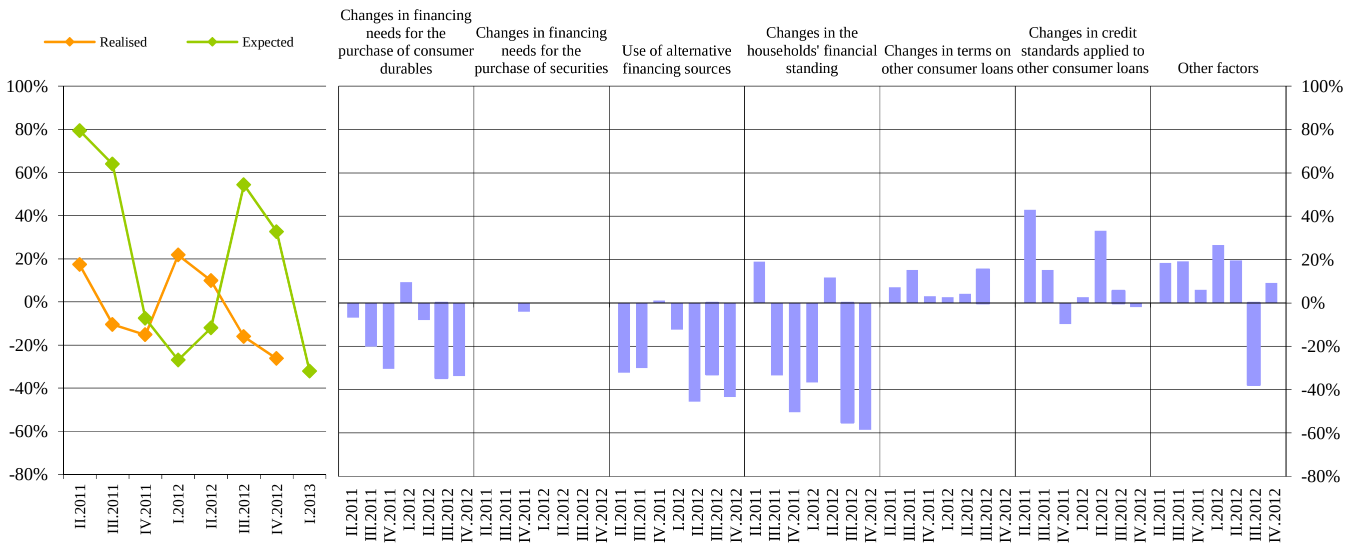


Figure 11
Demand for consumer loans and factors influencing its changes



In net terms, over one fourth of the banks were hit by a fall in consumer loan demand in the fourth quarter of 2012 (net percentage of around -26%, see Figure 11). This ran clearly counter to expectations from the end of the third quarter, when a rise in demand was foreseen.

According to the banks, for the second consecutive quarter the low demand for consumer loans was primarily traceable to a deterioration in the economic standing of households (net percentage of around -59%). Banks also pointed to the use of alternative funding sources by households (net percentage of around -43%), primarily loans at other banks (61% of *all* banks), with over one third of all banks reporting the use of savings and other funding sources. Around 34% of the banks (net percentage) mentioned changes in financing needs for durable goods among demand-curbing factors. Other factors had no major impact on demand for consumer loans.

The survey-responding banks expect lending policy in the segment of consumer loans to be eased slightly in the first quarter of 2013 (net percentage of around 10%, see Figure 9). At the same time, over three fourths of *all* banks will not revise their lending policies in the segment.

In net terms, almost one third of the banks expect consumer loan demand to fall in the forthcoming quarter (see Figure 11).

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 loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Short-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Long-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity above 1 year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises 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.

[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.

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 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 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.

[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..