Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2011

Warsaw, July 2011

Summary of the survey results

In net terms, the banks continued to slightly tighten the standards of granting loans to households in the second quarter of 2011, however their responses were highly discrepant. In the case of enterprises, these standards were mainly eased for short-term loans, but the majority of the banks did not revise their lending policies.

The percentage of the banks declaring that they will lower spreads on their loans to enterprises increased. In the case of housing loans, the lowering of spreads charged on these loans was indicated by fewer banks than in the previous quarter. Over one forth of the banks increased maximum consumer loan size.

An improvement of the capital position of the banks was the major reason for easing lending policy towards enterprises. Lending policy in the segment of consumer loans was primarily tightened due to the NBP monetary policy decisions. In the case of housing loans, responses provided by the banks do not permit an unequivocal identification of direct reasons behind lending policy tightening. The banks, which eased lending policies towards households, attributed this fact primarily to growing competitive pressure.

Corporate loans

- Lending policy: the standards of granting loans were slightly eased; the historically highest percentage of the banks declared decreasing spreads charged on their loans.
- Demand for loans: demand rose modestly, particularly in the sector of small and medium-sized enterprises (SMEs).
- Expectations for the third quarter of 2011: lending policy to be slightly eased, primarily for short-term loans; an increase in demand expected in the segment of short-term loans to SMEs, in particular.

Housing loans

- Lending policy: lending standards slightly tightened, in net terms (highly discrepant responses); spreads charged on loans to be further lowered.
- Demand for loans: the banks experienced by increased loan demand.
- Expectations for the third quarter of 2011: lending policy to be tightened and loan demand to grow.

Consumer loans

- Lending policy: lending standards slightly tightened, in net terms (highly discrepant responses); maximum loan size increased.
- Demand for loans: in net terms, the banks experienced an increase in demand, with responses being relatively discrepant.
- Expectations for the third quarter of 2011: the banks expect lending policy to be slightly eased, and demand for loans to grow significantly.

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 divisions. The survey was conducted at the turn of June and July 2011 **among 28 banks with a share of claims on enterprises and households in the banking sector portfolio totalling 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 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 second quarter of 2011 as well as their expectations for the third quarter of 2011.

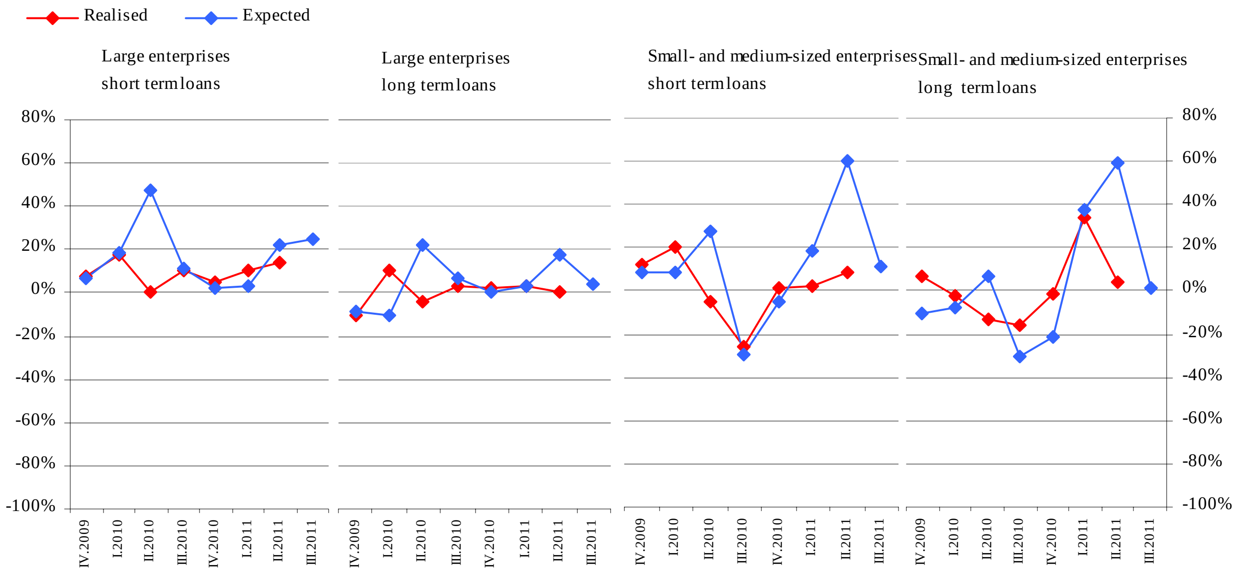
Corporate loans

The majority of the banks did not revise their lending policies towards enterprises in the second quarter of 2011 (see Figure 1). In net terms, lending standards were slightly eased, particularly in the segment of short-term loans both to small and medium-sized enterprises as well as large ones (net percentage of around 9% and around 14%, respectively). The majority of the banks that declared revising their lending policy considered it as somewhat changed.[1]

At the end of the first quarter of 2011, the banks expected a stronger easing of lending policy. Their responses showed that loans to SMEs would be primarily affected by the easing (see Figure 1).

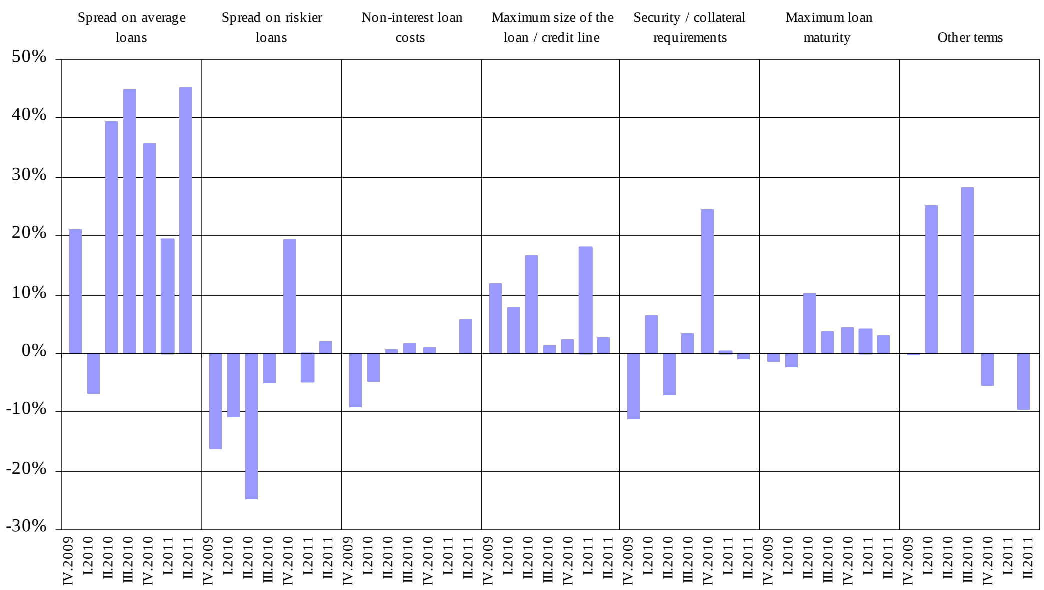
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

Figure 1
Corporate credit standards



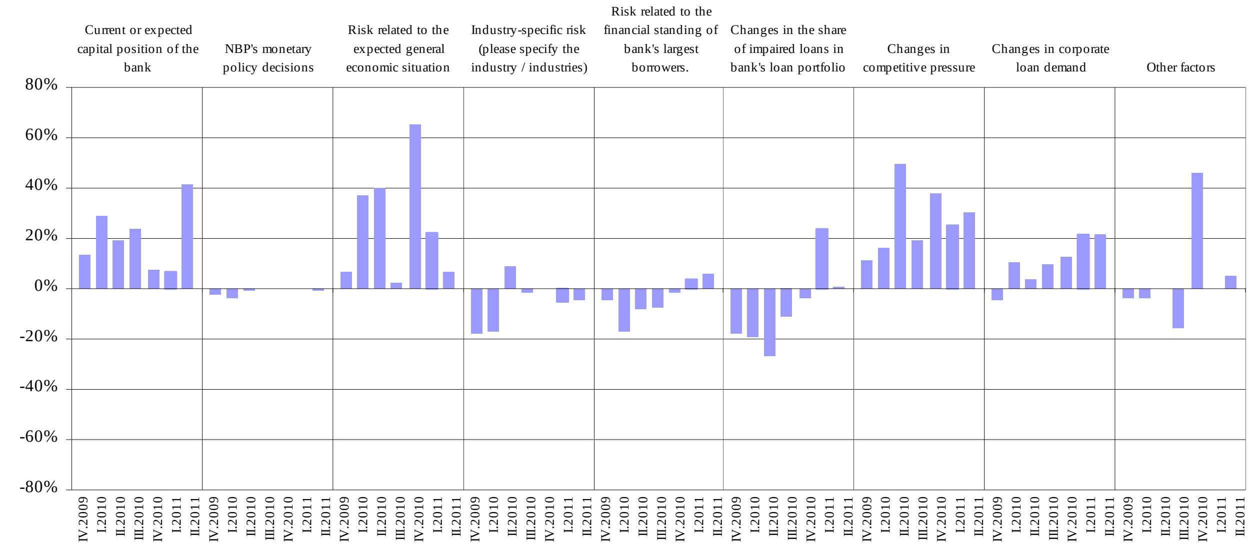
Note: figures included in this study present the net percentage. A positive value of net percentage should be interpreted as the easing of lending policy or the growth in demand for loans, and a negative value of net percentage – as the tightening of lending policy or a fall in demand for loans. Details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

Figure 2
Terms on corporate loans



In the second quarter of 2011, the percentage of the banks that declared to lower spreads on loans extended to enterprises rose to its all time high (net percentage of around 45%, see Figure 2). For the fifth quarter in a row, the banks have indicated the lowering of loan spreads as the main change in the terms of granting loans to enterprises. Around 10% of the banks tightened the terms unaccounted for in the survey, identifying primarily a tightening of creditworthiness assessment procedures.[2] Other terms of crediting enterprises were not changed significantly.

Figure 3
Factors influencing changes in lending policies



The banks whose lending policy towards enterprises was eased attributed this move primarily to current or expected capital position (see Figure 3). In net terms, such a response was provided by around 41% of the lending policy-easing banks, and around 6% of *all* banks considered the impact of this factor as considerable. Lending policy continues to be eased on the back of competitive pressure (net percentage of around 31%), mostly from other banks (around 19% of *all* banks surveyed by the NBP identified the impact of this factor as considerable). Similarly as in the previous edition of the survey, over one fifth of the banks pointed to changes in corporate demand for loans as reasons for lending policy loosening. As compared to the previous quarter, there was a decrease in the number of banks indicating lower risk related to expected economic situation (net percentage of around 7%) and to the better quality of the loan portfolio of enterprises (net percentage of around 1%).

As in the previous edition of the survey, individual banks attributed their lending policy tightening decisions mainly to industry-specific risk. The banks continued to identify the car industry and development business (related to commercial property, in particular) as riskier industries.

An increase in demand for all categories of loans to enterprises was registered for the second quarter in a row (see Figure 4). As compared to the first quarter of 2011, the percentage of banks pointing to higher demand for long-term loans rose both in the case of SMEs and large enterprises (net percentage of around 50% and around 35%, respectively). At the same time, a lower percentage of the banks recorded an increase in demand for short-term loans – in net terms, such a response was given by around 19% of the banks in the case of SMEs and around

[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 were presented under the category “Other terms” in Figure 2.

18% of the banks in the case of large enterprises. The majority of the banks considered the changes in demand as slight.[3]

The changes in demand registered by the banks were consistent with the expectations expressed in the first quarter of 2011. The banks expected a slightly lower increase in demand for long-term loans, and a slightly higher corporate demand for short-term loans.

Figure 4
Corporate loan demand

In the second quarter of 2011, increased financing needs for fixed investment was cited by the majority of the banks as the main driver of the growth in demand for loans to corporates (see Figure 5). The percentage of the banks that provided such a response amounted to around 89%, the highest figure since the second quarter of 2006. The impact of this factor was assessed as slight by the majority of the survey respondents.[4] The percentage of the banks that explained the higher demand for corporate loans by financing needs related to debt restructuring also increased (net percentage of around 49%). The banks continued to point to changes in financing needs for inventories and working capital, although the net percentage of such responses fell to 31% as compared to the previous quarter. The importance of financing needs for mergers and acquisitions rose for the third quarter in a row (net percentage of around 20%). As in the previous survey, no corporate loan demand-constraining factors were identified by the banks.

According to the banks participating in this survey, lending policy towards enterprises will not be revised considerably in the third quarter of 2011 (see Figure 1). In net terms, the banks expect lending policy to be slightly eased, in the category of short-term loans, in particular: in the case of large enterprises, lending policy

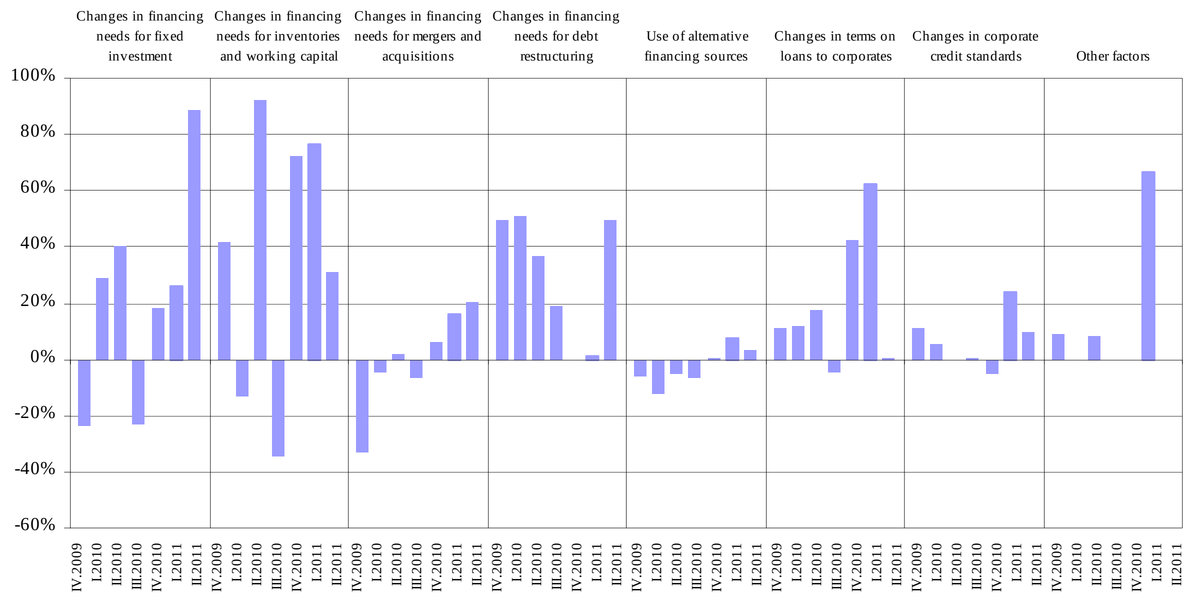
[3] The banks have a possibility of grading the strength of changes in demand for loans. In this survey, the banks choose among the following options: considerable increase in demand, slight increase in demand, no change in demand, slight decrease in demand and considerable decrease in demand.

[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.

easing was declared by nearly one fourth of the banks, while in the segment of SMEs, the net percentage of responses amounted to around 12%. The majority of banks does not expect any changes in lending policy, though.

Almost one third of the banks expect demand for short-term loans from small and medium-sized enterprises to grow in the third quarter of 2011 (see Figure 4). The percentage of the banks that expect a higher demand for loans in other categories of loans to enterprises declined as compared to the previous edition of the survey. The banks expect loan demand to rise primarily in the case of short-term loans to large enterprises (net percentage of around 20%) and in the case of long-term loans to small and medium-sized enterprises (net percentage of around 18%).

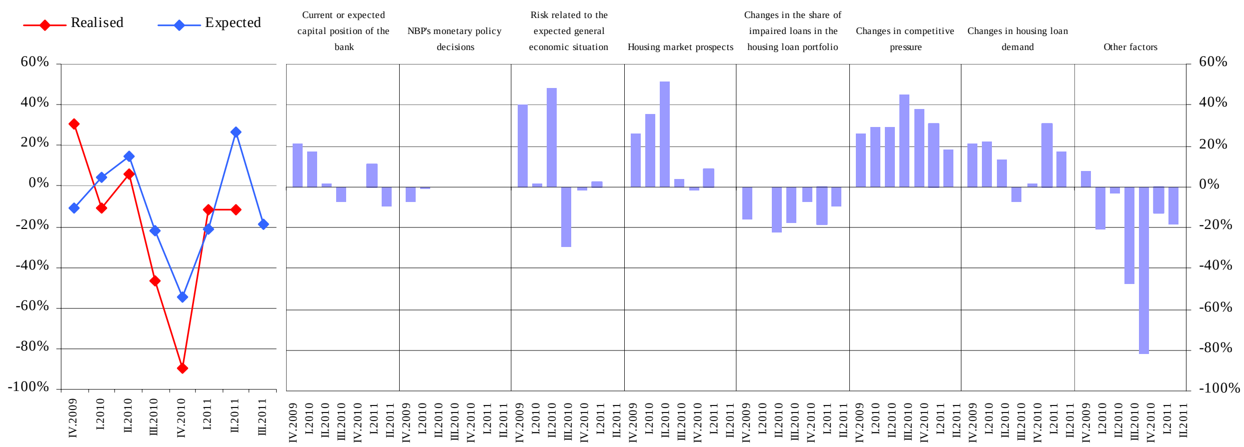
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

In the second quarter of 2011, the banks kept slightly tightening the standards of granting housing loans (net percentage of around -12%, see Figure 6). As in the previous edition of the survey, their responses were discrepant, and approximately 23% of *all* banks declared to ease lending policy for housing loans. The tightening of housing loan standards was not in line with expectations the banks had expressed at the end of the first quarter of 2011.

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



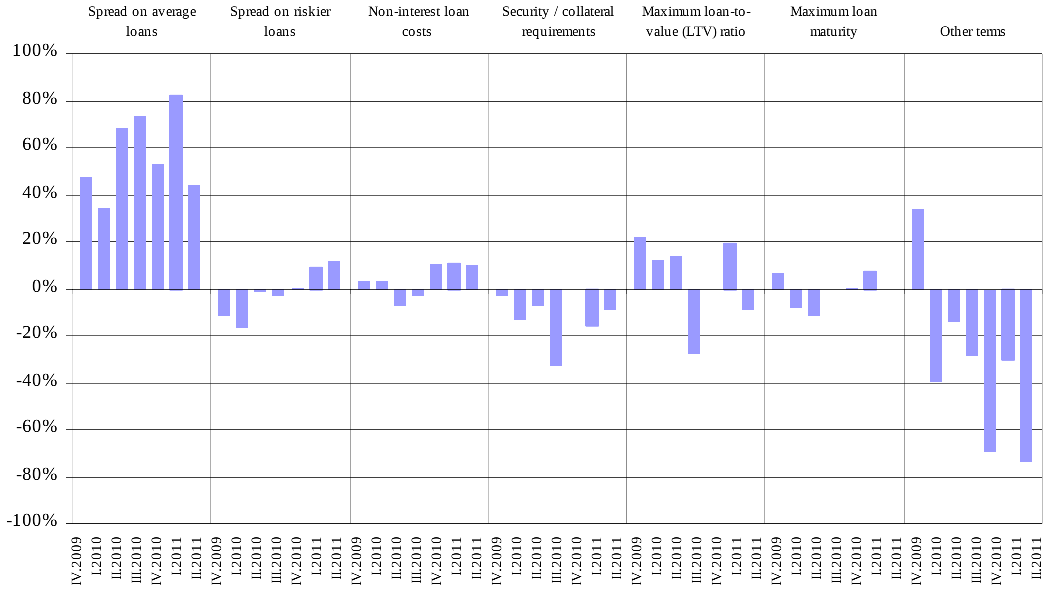
Almost three fourths of the banks tightened these standards of granting housing loans that were not accounted for in the survey (see Figure 7). The responses show that customer creditworthiness assessment procedures were primarily tightened.[5] **The percentage of the banks that had lowered spreads on housing loans diminished in comparison with the previous edition of the survey** (net percentage of around 44%). However, over half of *all* surveyed banks continue to declare to ease their lending policy for loan spreads. Other terms of granting housing loans did not change significantly in the second quarter of 2011.

According to the banks, the tightening of lending policy in the segment of housing loans was due to factors unaccounted for in the survey (net percentage of around -18%, see Figure 6). Individual banks said these factors were changes in the parametres of credit risk assessment, without elaborating on the direct reasons behind these changes. According to fewer banks, the tightening of lending policy was explained by the deterioration in the quality of housing loan portfolio and by current or expected capital position (in both cases, the net percentage of responses was around -10%).

Among reasons for lending policy easing, the banks most often mentioned changes in competitive pressure and housing loan demand developments. Such a response was given in these two instances by around 18% of the banks, which represents a fall in comparison with the previous edition of the survey. The banks say other factors had no substantial impact on housing loan lending policy.

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

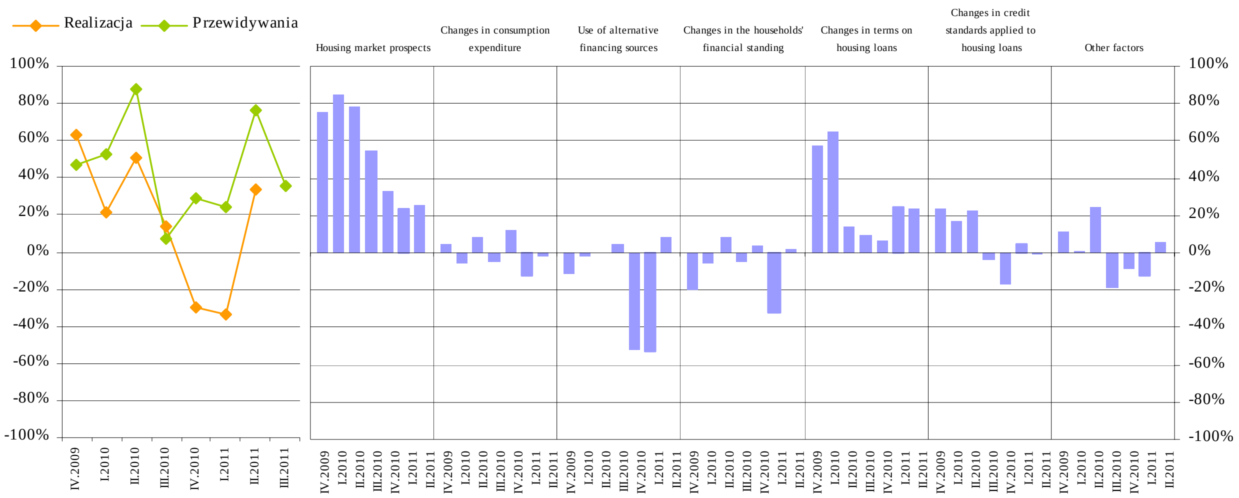
Figure 7
Terms on housing loans



Over one third of the banks reported an increase in demand for housing loans in the second quarter of 2011 (see Figure 8). As in the previous quarter, their responses were discrepant – over one fifth of *all* banks recorded a fall in demand for housing loans. The rise in demand was in line with expectations the banks expressed at the end of the first quarter of 2011, however, this demand was expected to be higher.

The housing market outlook (net percentage of around 25%) **and changes in lending terms** (net percentage of around 24%) **were again cited by the banks as main reasons why demand for housing loans had grown**. Around 14% of *all* banks termed as significant the impact of better crediting terms. Assessment of the changes in the economic standing of households also improved.

Figure 8
Demand for housing loans and factors influencing its changes



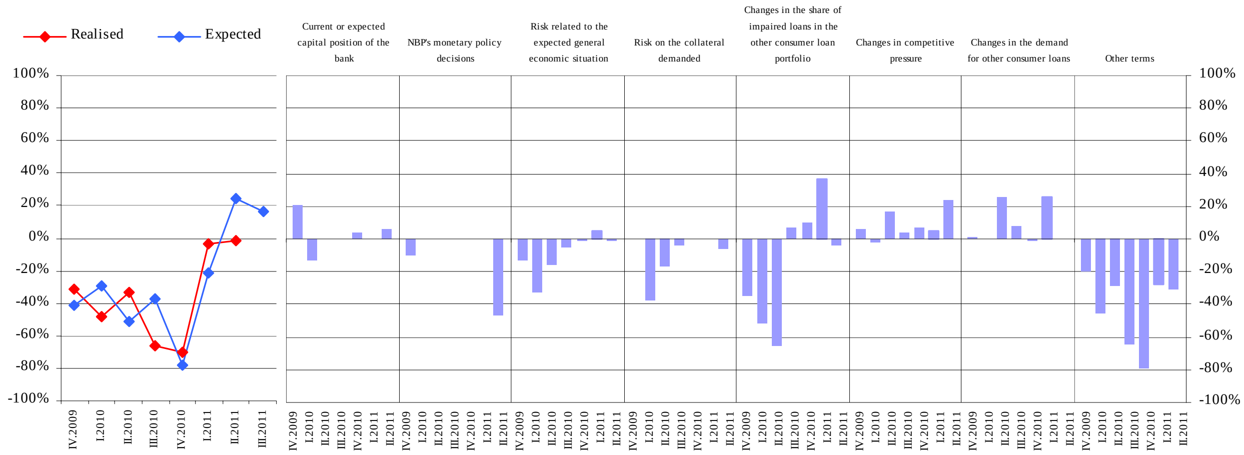
Approximately one fifth of the banks expect lending policy for housing loans to be tightened in the third quarter of 2011 (see Figure 6). As in the previous edition of the survey, around three fourth of *all* banks have no plans to change the terms on housing loans.

Around 35% of the banks, in net terms, expect demand for housing loans to grow in the third quarter of 2011 (see Figure 8). Expectations over rising demand were articulated by over half of *all* surveyed banks.

Consumer loans

In the second quarter of 2011, the banks only slightly tightened their lending policy in the segment of consumer loans (net percentage of around -2%, see Figure 9). Similarly as in the previous edition of the survey, their responses were discrepant – around 30% of *all* banks either eased or tightened their lending standards.

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



Around 30% of the banks tightened the terms on consumer loans unaccounted for in the survey (see Figure 10). According to the banks, these terms included tighter parametres of credit risk assessment and tighter customer creditworthiness assessment models, as well as changes in documentation of customer income.[6]

Increasing a maximum consumer loan size was most frequently mentioned by the banks that eased their lending terms (net percentage of around 21%). Other terms on consumer loans were not markedly revised.

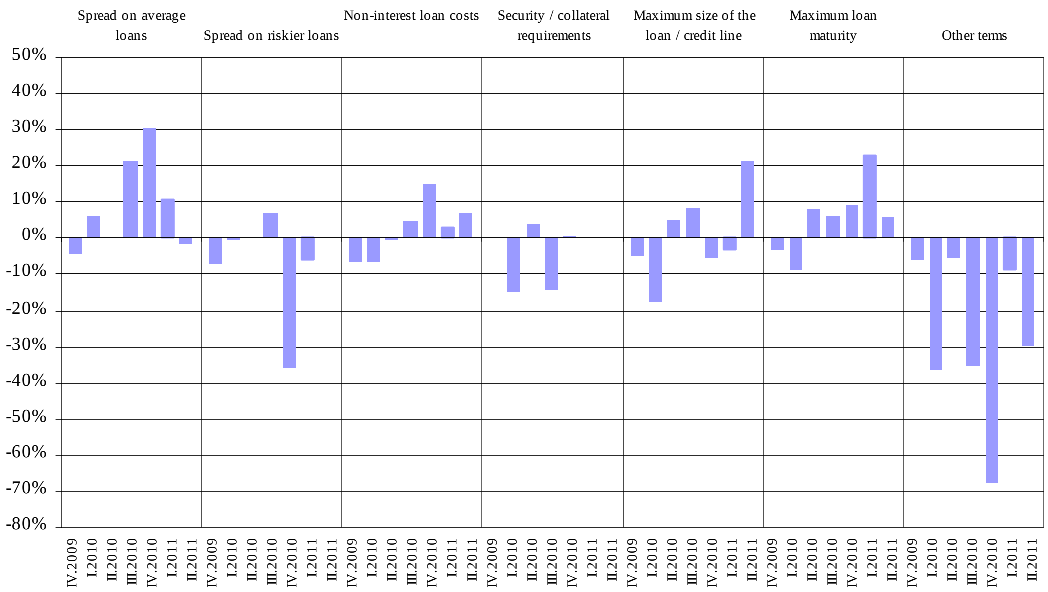
The banks, which tightened their lending policies in the segment of consumer loans, mostly justified the move with the NBP monetary policy decisions (see Figure 9). The percentage of the banks which provided such a response amounted to around 46% and was the highest figure since the second quarter of 2008 (the period of a previous cycle of NBP interest rate hikes). Around 31% of the banks, in net terms, identified factors not

[6] 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 in Figure 10 under the category "Other terms".

accounted for in the survey, such as updating parametres of credit risk assessment and reviewing credit policy assumptions in the segment of consumer loans.

In case of easing lending policy, banks most often mentioned a change in competitive pressure as the reason for such a move (net percentage of around 24%). In comparison with the previous edition of the survey, the banks experienced a bigger competitive pressure from other banks (ca. 30% of *all* banks) than non-bank financial institutions (around 18% of *all* banks). Other factors mentioned in the survey had no substantial impact on banks' lending policies.

Figure 10
Terms on consumer loans

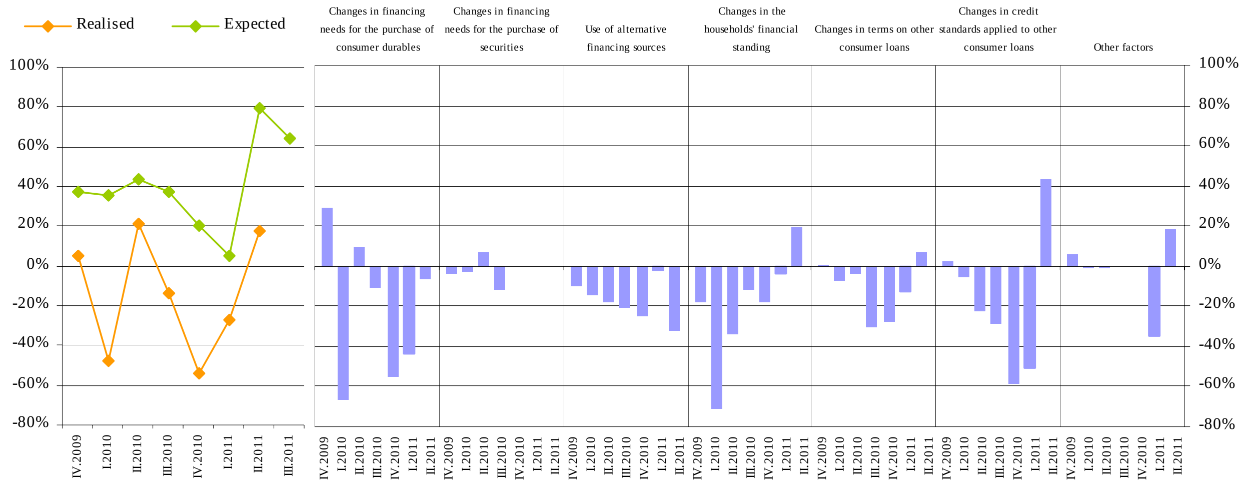


In net terms, the banks recorded an increase in demand for consumer loans in the second quarter of 2011 (see Figure 11). Such a response was given by around 17% of the banks, however these responses were discrepant (around 55% of *all* banks did not report changes in demand). At the end of the first quarter of 2011, the banks expected a stronger increase in consumer loan demand.

According to the banks surveyed by the NBP, the increase in demand for consumer loans was largely due to changes in the standards of granting this type of loans (net percentage of 43%, see Figure 11). The banks considered the lending criteria as a factor supporting consumer loan demand for the first time since the fourth quarter of 2009 with 12% of *all* banks describing its impact on demand as considerable. For the first time since the third quarter of 2009, the banks justified increased consumer loan demand with changes in the economic standing of households (net percentage of around 19%). Around 19% of the banks also identified factors unaccounted for in the survey, including the seasonal character of consumer loan-financed expenditure and strong activities of rival banks in this loan segment.

The banks hit by lower demand for consumer loans justified the decrease with the households' use of alternative sources of financing (see Figure 11). In net terms, such a response was given by around 32% of the banks. According to them, households obtained financing from other banks, used own savings and other sources of financing (particular alternative sources of financing were cited by around 40-44% of *all* banks).

Figure 11
Demand for consumer loans and factors influencing its changes



The banks expect their consumer lending policy to be slightly eased in the third quarter of 2011 (see Figure 9). In net terms, this answer was given by around 17% of the banks; however, half of *all* banks do not intend to revise their lending policies.

The majority of surveyed banks expect demand for consumer loans to improve further in the third quarter of 2011 (net percentage of around 64%, 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 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.