Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2012

Warsaw, July 2012

Summary of the survey results

Corporate loans

- Lending policy: easing in the segment of short-term loans; a decrease in credit spreads.
- Demand for loans: an improvement in demand for all credit categories, the strongest growth concerned long-term loans.
- Expectations for the third quarter of 2012: lending policy to be slightly eased in the segment of short-term loans; a rise in demand for loans, the weakest growth expected for long-term loans to large enterprises.

Housing loans

- Lending policy: slight tightening of lending standards; a decline in credit spreads, an increase in the collateral requirement and decrease in the LtV.
- Demand for loans: a rise in demand.
- Expectations for the third quarter of 2012: lending policy to be slightly tightened and demand for loans expected to rise.

Consumer loans

- Lending policy: in net terms – no change, discrepant responses; an increase in maximum loan size.
- Demand for loans: a slight increase in demand for loans.
- Expectations for the third quarter of 2012: lending policy to be slightly eased and demand for loans to rise strongly.

The percentage of the banks that tightened their lending policies in individual credit categories declined. After increasing credit spreads for two quarters, the banks eased this term for corporate loans and housing loans.

In all credit categories, a rise in competitive pressure was a significant factor influencing banks' decisions. At the same time, there was a firm decline in the percentage of the banks that attributed lending policy tightening to risk related to the expected general economic situation. For the first time in a year banks claimed that this factor contributed to the easing of lending policy towards enterprises.

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 June and July 2012 **among 29 banks with a total share of 83% 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 second quarter of 2012 as well as banks' expectations for the third quarter of 2012.

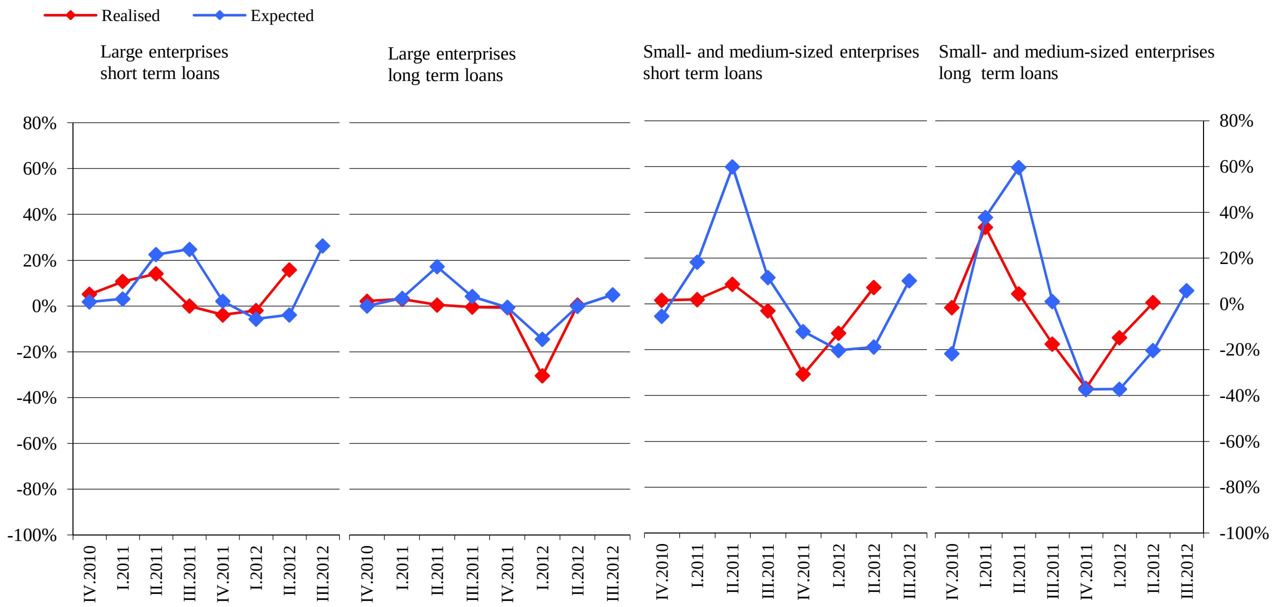
Corporate loans

The banks eased their loan granting standards in the segment of short term loans in the second quarter of 2012 (see Figure 1). In net terms, such a response was provided by around 16% of the banks in the case of large enterprises and around 7% of the banks in the case of small and medium-sized enterprises (SME). The majority of these banks claimed that the terms were somewhat changed.[1] At the same time, the survey responding banks made no significant changes in their lending standards in the segment of long-term loans.

At the end of the first quarter of 2012, the banks expected loan granting standards for SMEs to be tightened and envisaged no major changes in lending policy to large enterprises.

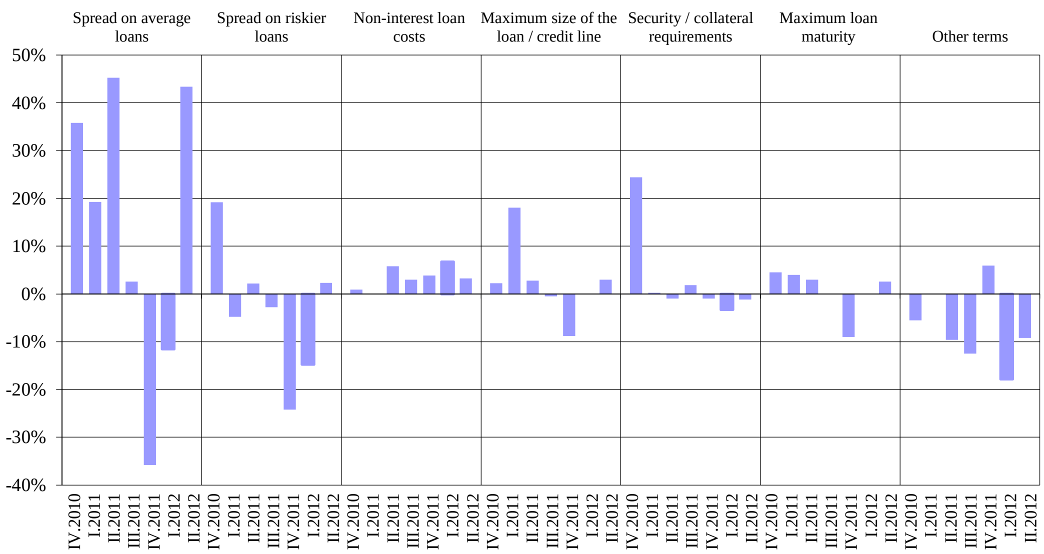
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

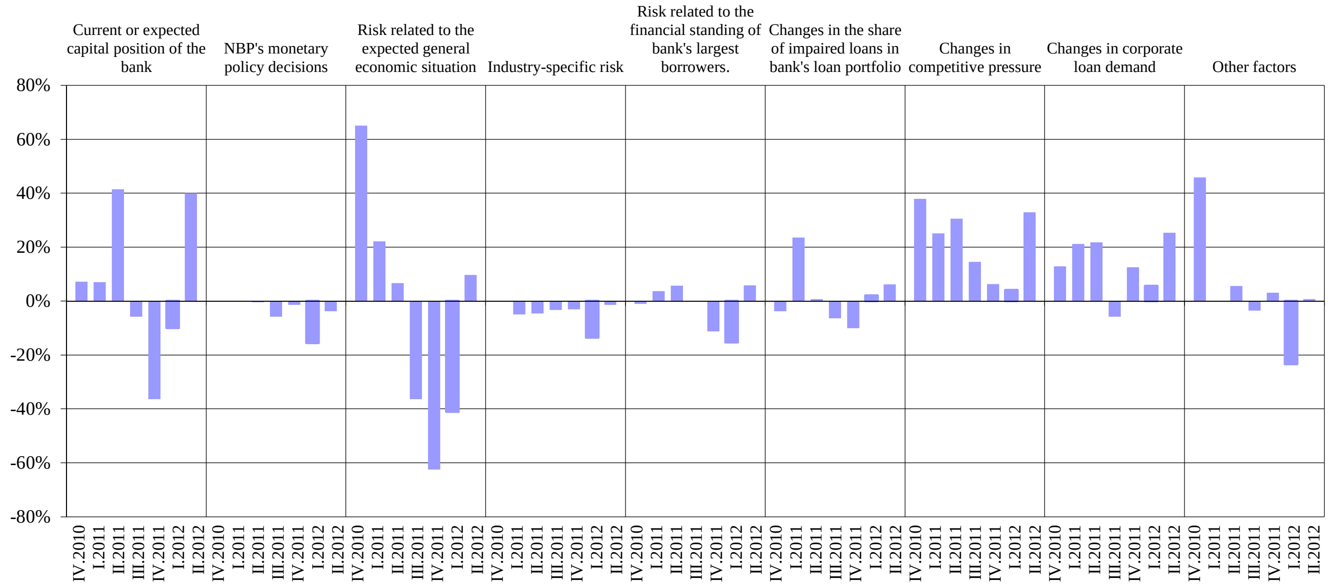
Figure 2
Terms on corporate loans



After two quarters of increasing spreads charged on loans to enterprises, the surveyed banks eased this term (net percentage of around 43%, see Figure 2). At the same time, no bank reported raising spreads on riskier loans. Other terms on granting loans to enterprises were not significantly changed.

The banks that eased their lending policy explained the move primarily by their improved current or expected capital position (net percentage of around 40%, see Figure 3). Around one third of the banks cited a rise in competitive pressure, mostly from other banks (around 22% of *all* banks considered the impact of this type of competition as considerable[2]), and one fourth pointed to changes in corporate demand for loans. For the first time since the second quarter of 2011, the easing of lending policy was supported by the assessment of risk related to expected general economic situation (net percentage of around 10%). Other factors had no major impact on banks' decisions regarding the standards and terms of granting loans for enterprises.

Figure 3
Factors influencing changes in lending policies



According to the survey respondents, demand for all types of loans to enterprises rose in the second quarter of 2012 (see Figure 4). The highest percentage of the banks registered a rise in demand for long-term loans, both in the segment of SMEs (net percentage of around 53%) and in the segment of large enterprises (net percentage of around 35%). In the case of short-term loans, a higher demand from SMEs was reported by around 24% of the banks, and from large enterprises – 21% of the banks. The majority of the banks described the rise as not slight.[3]

The changes in demand for loans from SMEs were in line with banks' expectations expressed in the previous edition of the survey. In the case of loans to large enterprises, the banks had no expectations of major changes in loan demand in the second quarter of 2012.

[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.

Figure 4
Corporate loan demand

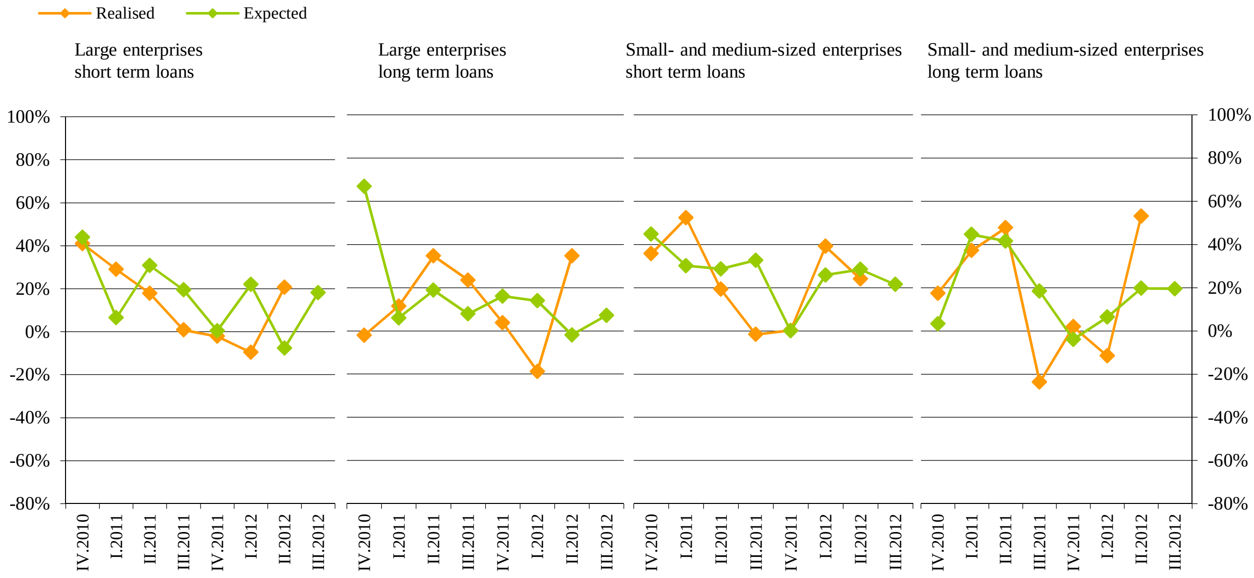
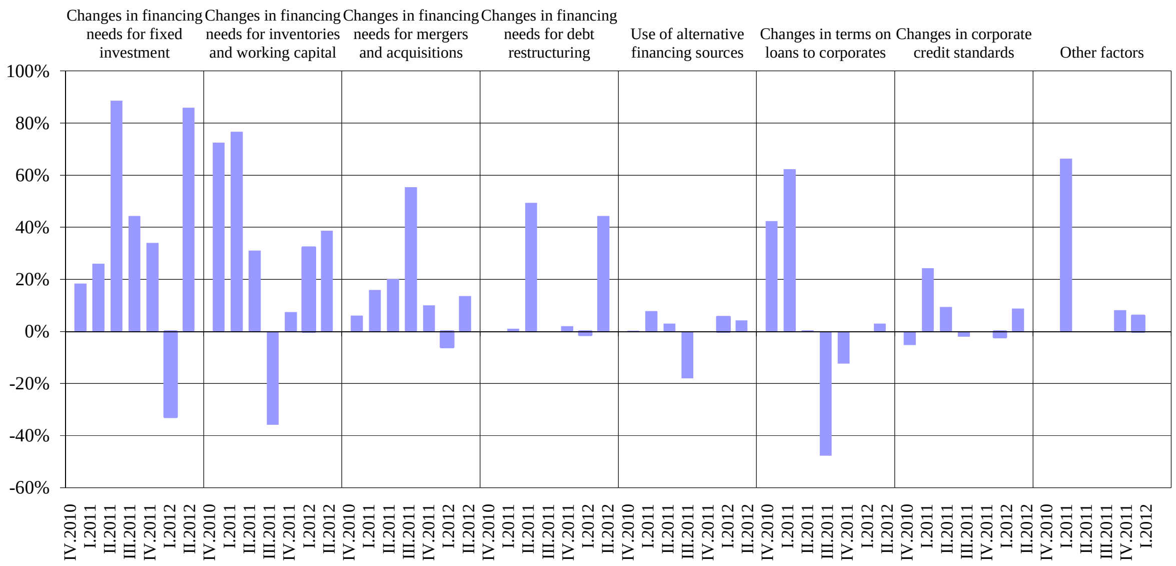


Figure 5
Factors influencing changes in corporate loan demand



According to the banks, a higher demand for corporate loans was primarily related to increased financing needs for fixed investment (net percentage of around 86%, see Figure 5). Changes in financing needs related to debt restructuring (net percentage of around 44%) and financing needs for inventories and working capital (net percentage of around 39%) were mentioned by the banks as significant factors influencing the higher demand. Individual banks also pointed to financing related to mergers and acquisitions (net percentage of around 14%). The majority of the banks participating in this survey considered this impact as slight.[4] In net terms, the banks identified no corporate loan demand-constraining factors.

The banks expect lending policy, most notably in the segment of short-term loans, to be eased in the third quarter of 2012 (see Figure 1). In net terms, such a response was given by around 26% of the banks in the case of large enterprises and around 10% of the banks in the case of SMEs. However, a firm majority of *all* banks do not expect the standards and terms of granting loans to change in the next quarter.

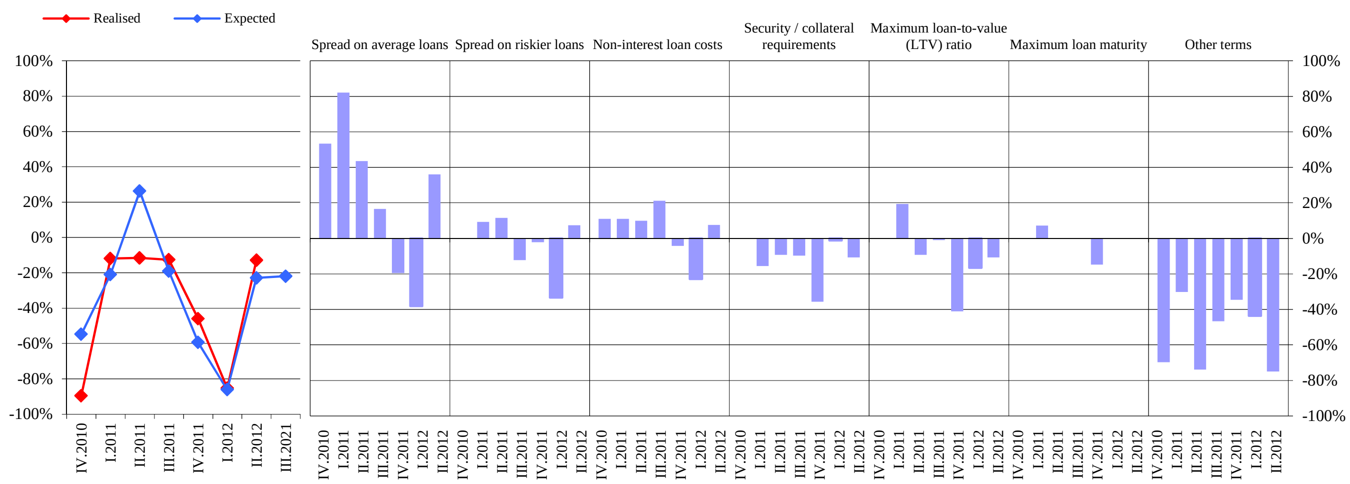
According to the surveyed banks, a rise in demand in the third quarter of 2012 will apply to all categories of corporate loans (see Figure 4). The rise in demand was indicated by around one fifth of the banks, except for long-term loans to large enterprises, mentioned by around 7% of the banks.

[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.

Housing loans

In the second quarter of 2012, there was a decline in the percentage of the banks that tightened the standards of granting housing loans (see Figure 6). In net terms, such a response was provided by around 13% of the banks, with almost one fourth of *all* banks reporting an easing of lending standards. Changes in lending standards were in line with expectations of the banks expressed at the end of the first quarter of 2012.

Figure 6
Standards and terms on housing loans



Individual banks were tightening the collateral requirements and increasing LtV ratio for housing loans. Such a response was given, in both cases, by around 11% of the banks. Around three fourth of the banks indicated the tightening of terms unaccounted for in the survey, including primarily changes in the method of calculating clients' creditworthiness.[5]

For the first time since the third quarter of 2011, the banks decreased spreads charged on housing loans (net percentage of around 36%). A slight easing also applied to non-interest loan costs and spreads on riskier loans (in both cases, the net percentage of responses amounted to 7%).

Among reasons why lending policy was tightened, the banks most often cited factors not accounted for in the survey, including changes in updating credit risk assessment models (net percentage of around -19%, see Figure 7). In the view of the majority of the surveyed banks, other factors had no significant impact on the tightening of lending policy – some responses concerned the current and expected capital position and deterioration in housing loan portfolio quality.

Nearly one fifth of the banks eased their lending policies in response to changes in housing loan demand. The banks also experienced higher competitive pressure (net percentage of around 16%), primarily from other universal banks, indicated by around, in net terms, 36% of the surveyed banks.

[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 6.

Figure 7
Factors influencing changes in lending – housing loans

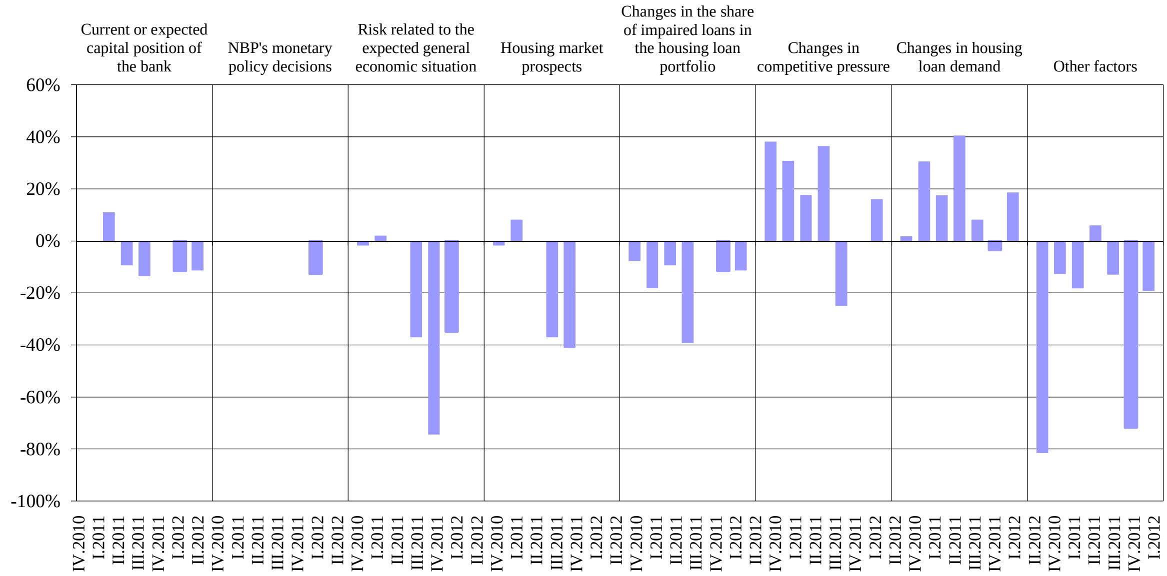
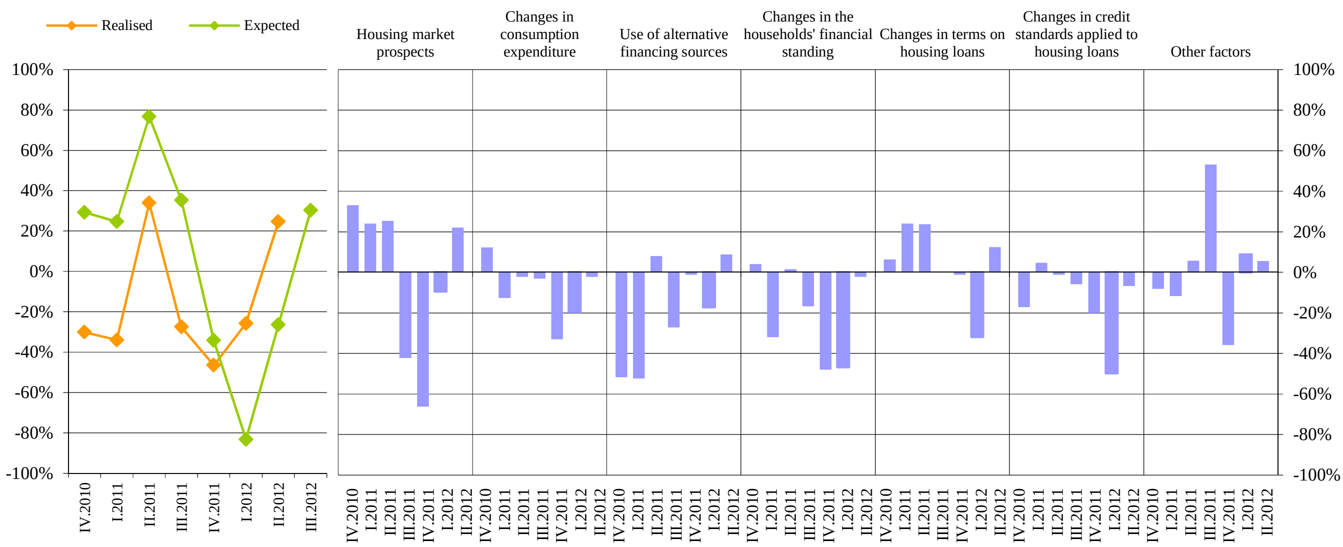


Figure 8
Demand for housing loans and factors influencing its changes



Contrary to expectations expressed in the previous edition of the survey, around one fourth of the surveyed banks experienced a rise in demand for housing loans in the second quarter of 2012 (see Figure 8). The growth in demand was reported by nearly half of *all* banks, while almost one fifth of these banks termed it as considerable.

The banks cited better forecasts regarding developments in the housing market as the main reason behind the rise in demand (net percentage of around 22%). The easing of the terms on housing loans (net percentage of around 12%) and limited use of alternative funding sources by households (net percentage of around 9%) were named by individual banks as additional factors. According to the surveyed banks, the remaining factors had no significant impact on the level of demand for housing loans.

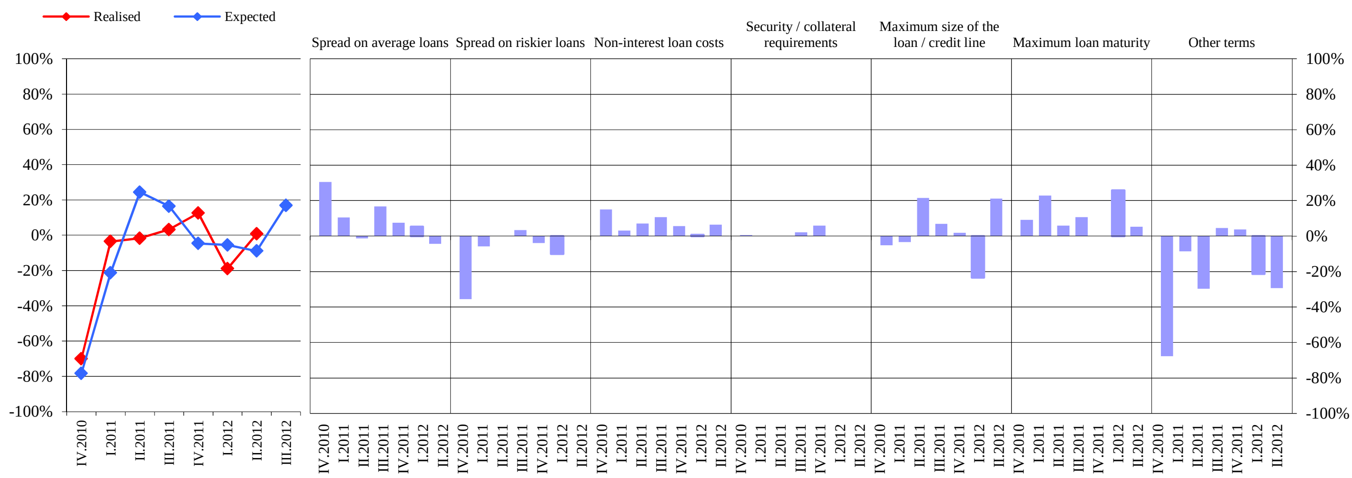
In net terms, the banks expect lending policy concerning housing loans to be tightened in the third quarter of 2012 (net percentage of around -22%, see Figure 6). However, expectations of no change in lending policy in the coming quarter were expressed by around 72% of *all* banks.

The surveyed banks expect demand for housing loans to rise further in the third quarter of 2012 (net percentage of around 30%, see Figure 8). Such a response was provided by almost 50% of *all* banks, saying that this demand would slightly rise.

Consumer loans to households

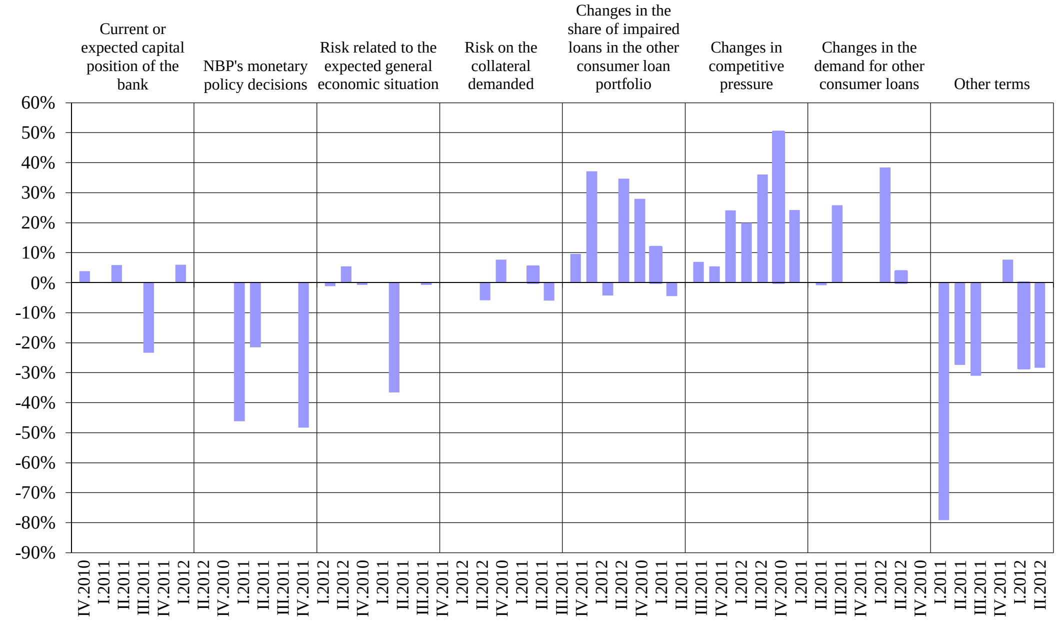
In the second quarter of 2012, the surveyed banks did not change, in net terms, the standards of granting consumer loans (net percentage of around 1%, see Figure 9). However, the responses were discrepant – around 30% of *all* banks either eased or tightened the standards of granting loans. In the previous survey, the banks expected a slightly tighter lending policy.

Figure 9
Standards and terms on consumer loans



Most terms on consumer loans were not significantly changed in the second quarter of 2012 (see Figure 9). Easing primarily applied to the increase in maximum loan size, which was reported by over one fifth of the surveyed banks. In turn, the banks that had tightened the terms of granting loans mainly cited terms unaccounted for in the survey (net percentage of around -29%), such as changes in customer creditworthiness assessment models and in the rules of documenting customer income.[6]

Figure 10
Factors influencing changes in lending policy – consumer loans



The banks that tightened their lending policies in the segment of consumer loans mostly justified the move by the NBP monetary policy decisions (net percentage of around -48%, see Figure 10). Around 28% of the banks moved to tighten the terms on consumer loans for reasons unaccounted for in the survey (see Figure 10), such as changes in customer creditworthiness assessment models as well as changes in the lending policy rules regarding consumer loans.

Nearly 24% of the banks indicated that increased competitive pressure contributed to the easing of lending policy. The banks mentioned both competition from other banks (around 28% of the banks provided such an answer) and from non-bank financial institutions (around 20% of the banks).

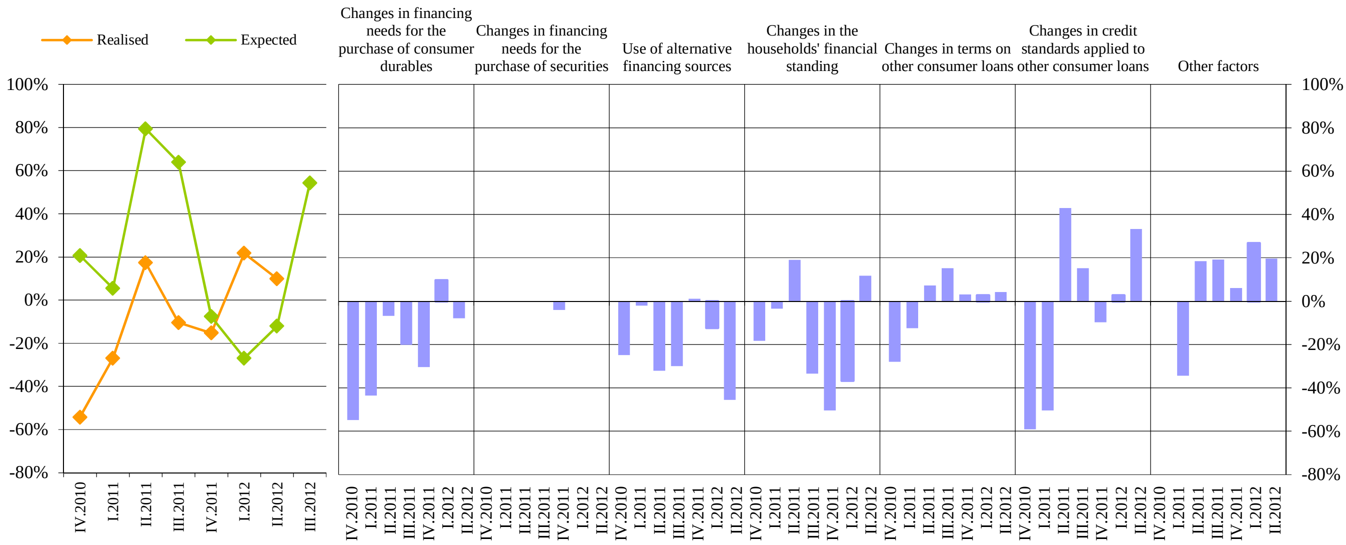
In net terms, the banks reported a slight increase in demand for consumer loans in the second quarter of 2012 (see Figure 11). Such a response was given by around 10% of the banks, while around 60% of *all* banks did not report any changes in demand. At the end of the first quarter of 2012, the banks expected demand for consumer loans to fall slightly.

According to the surveyed banks, the growth in demand for consumer loans was primarily driven by the easing of lending standards (net percentage of around 33%, see Figure 11). One fifth of the banks indicated factors unaccounted for in the survey, including primarily a seasonal rise in consumer spending by households. Around 12% of the banks justified the rise in consumer loan demand by changes in the economic standing of households.

[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 under the category “Other terms” in Figure 9.

The banks that were hit by falling demand explained it mainly by the households' use of alternative funding sources (net percentage of around -46%). Loans extended by other banks, savings and other funding sources were equally often named as alternative funding sources.

Figure 11
Demand for consumer loans and factors influencing its changes



The banks expect lending policy regarding consumer loans to be slightly eased in the third quarter of 2012 (net percentage of around 17%), however, around 62% of *all* banks expect lending policy in this segment to remain unchanged.

The banks expect demand for consumer loans to rise markedly in the coming quarter (net percentage of around 54%, see Figure 9). At the same time, nearly 40% of *all* banks expect no changes in this respect.

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..