Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2011

Warsaw, November 2011

Summary of the survey results

Corporate loans

- Lending policy: slight tightening in the segment of long-term loans to small and medium-sized enterprises (SMEs); no significant changes in terms of granting loans.
- Demand for loans: demand for long-term loans rose in the case of large enterprises, and decreased in the sector of SMEs.
- Expectations for the fourth quarter of 2011: lending policy towards SMEs to be tightened; demand for long-term loans to large enterprises to increase slightly.

Housing loans

- Lending policy: the standards of granting housing loans were slightly tightened; non-interest loan costs and spreads charged on the loans were lowered.
- Demand for loans: the banks were hit by a decrease in demand for loans.
- Expectations for the fourth quarter of 2011: lending policy to be tightened, and demand for loans expected to decrease.

Consumer loans

- Lending policy: lending standards unchanged; spreads charged on loans and non-interest loan costs lowered, loan maturity extended.
- Demand for loans: demand for loans fell slightly.
- Expectations for the fourth quarter of 2011: lending policy to be slightly tightened, and demand for loans to fall modestly.

As compared to the previous quarter, the percentage of the banks that reported lowering spreads on corporate loans decreased significantly. In the segment of housing loans, the banks decreased non-interest loan costs. All terms on consumer loans were eased, in particular those related to loan servicing costs.

The banks that tightened their lending policies towards enterprises attributed this action to elevated risk related to the expected economic developments. This factor was also of significance for the banks that tightened their lending policy in the segment of housing loans. In addition, these banks cited such factors as the deterioration in the quality of housing loan portfolio and outlook for the property market. In the case of consumer loans, changes in the quality of the loan portfolio formed the basis for the easing of lending policy.

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 take account of the opinions of the banks' divisions other than the credit divisions. The survey was conducted at the turn of September and October 2011 **among 27 banks with a share of claims on enterprises and households in the banking sector's portfolio totalling 79%**.

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 third quarter of 2011 as well as banks' expectations for the fourth quarter of 2011.

<u>Corporate loans</u>

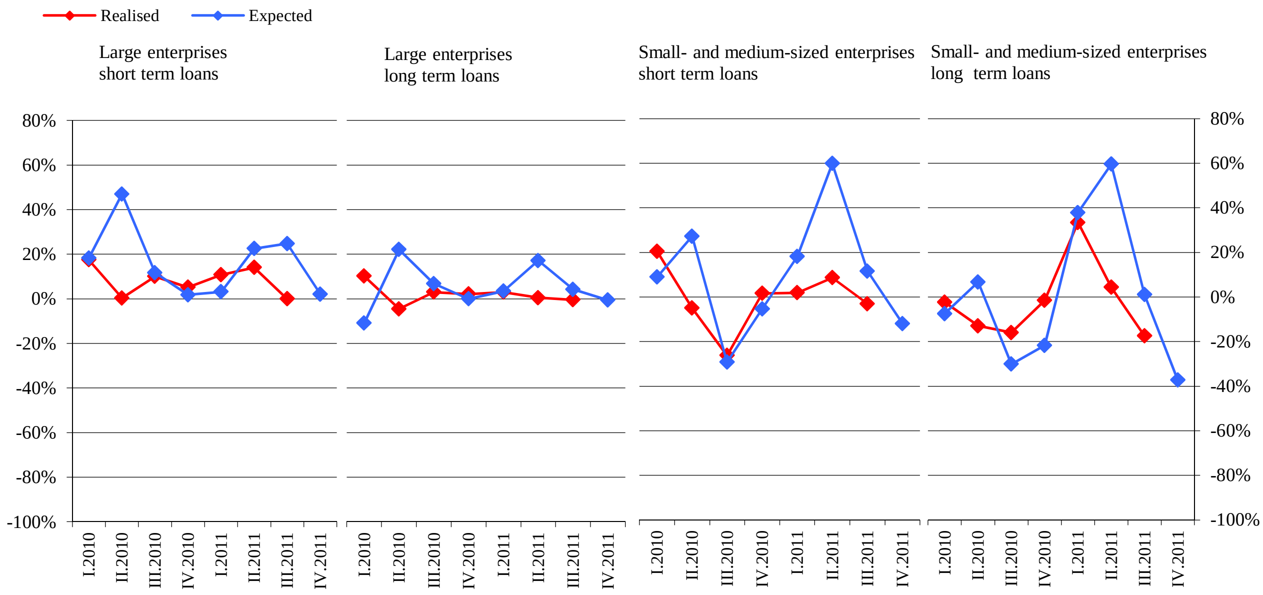
In the third quarter of 2011, majority of the banks did not revise their lending policies towards enterprises (see Figure 1), whereas no bank committed itself to easing the standards of granting loans. The lending standards were tightened for long-term loans to SMEs (net percentage of around -18%). The majority of the banks considered the tightening as somewhat insignificant.[1]

The banks did not make major changes in the terms of granting corporate loans in the third quarter of 2011 (see Figure 2). As compared to the previous quarter, the percentage of the banks committing themselves to lowering spreads decreased significantly (a decrease of net percentage from around 45% to 3%). At the same time, the banks surveyed by the NBP reported tightening the crediting terms not accounted for in the survey (net percent-

[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.

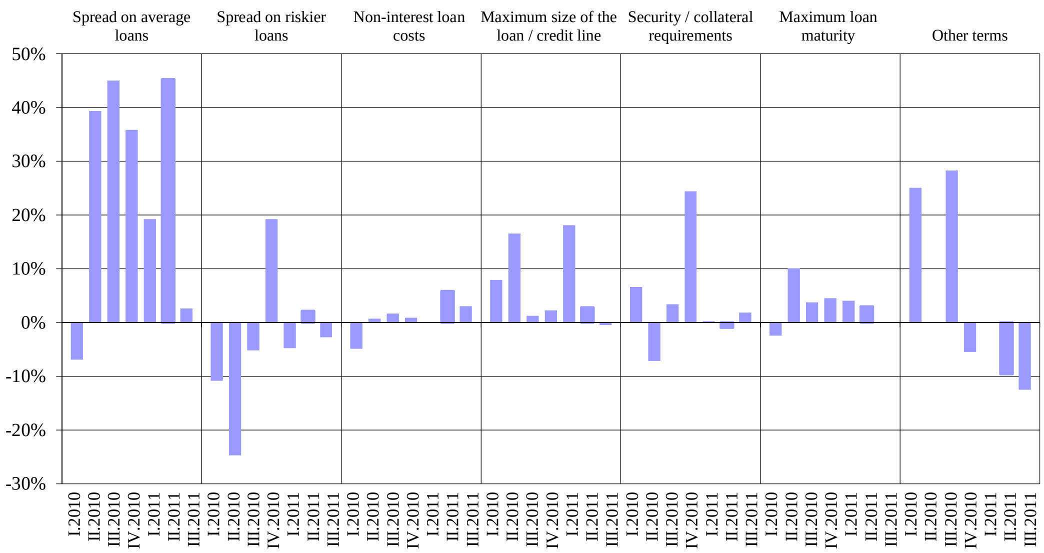
age of around -13%), to which they included both a tightening of creditworthiness assessment procedures[2], and increasing collateral requirements for loans denominated in foreign currency. The remaining terms of crediting enterprises were not significantly revised.

Figure 1
Corporate credit standards



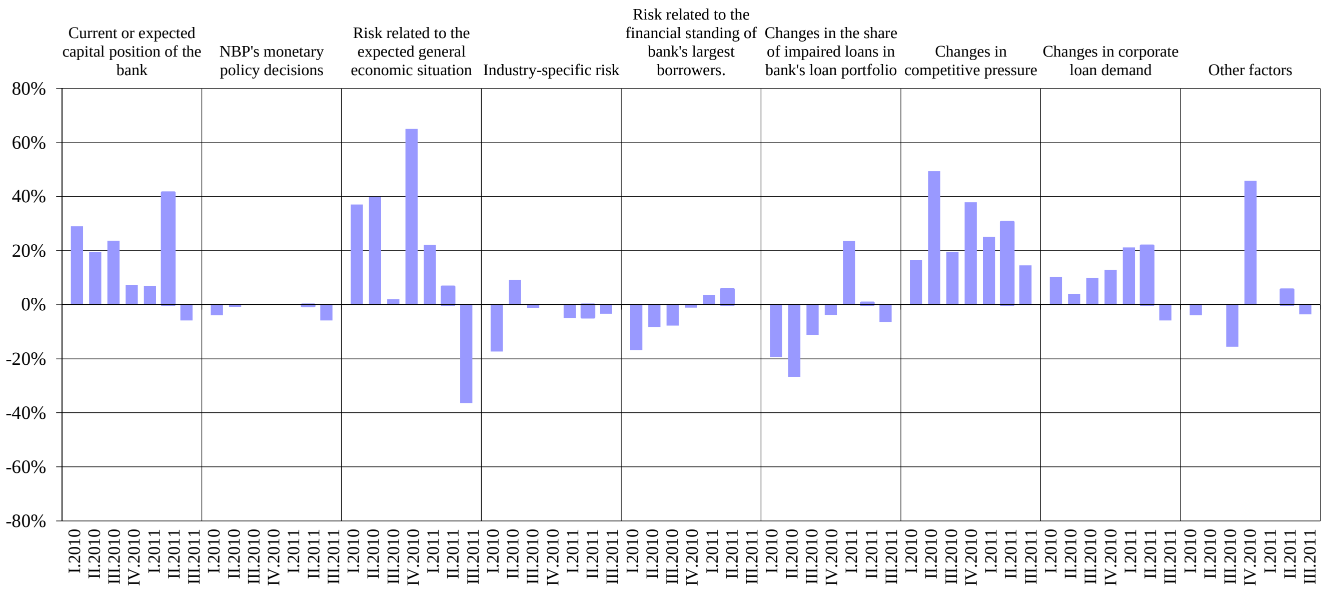
Note: figures included in this study present the net percentage. A positive value of net percentage should be interpreted as an easing of lending policy or growth in demand for loans, and a negative value of net percentage – as a tightening of lending policy or a fall in demand for loans. Details concerning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

Figure 2
Terms on corporate loans



[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.

Figure 3
Factors influencing changes in lending policies



The banks whose lending policy was tightened attributed this move primarily to elevated risk related to the expected economic developments (net percentage of around -36%, see Figure 3). The banks distinguished this factor as essential for the tightening of lending policy for the first time since the third quarter of 2009. As compared to previous quarters, the assessment of the impact of the banks' capital position and developments in corporate demand for loans changed significantly; in the third quarter of 2011 these factors no longer stimulated the easing of lending policy (in both cases, the net percentage of the responses amounted to around -6%).

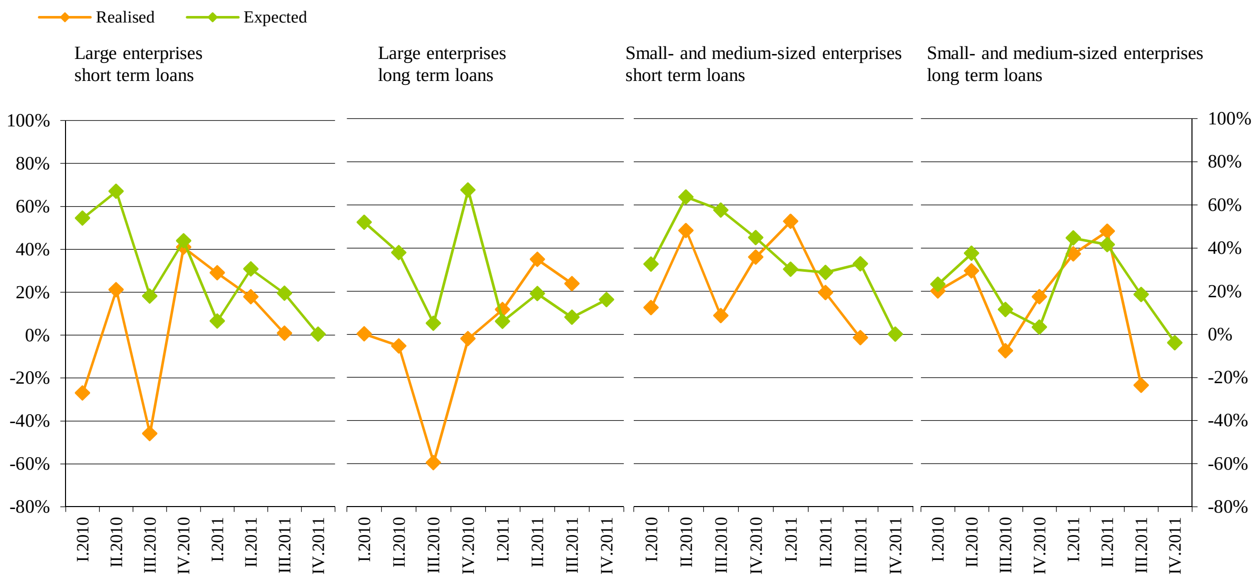
A handful of the banks, which eased the terms of granting loans, justified the move with an increase in competitive pressure. In net terms, such a response was provided by around 15% of the banks, and the majority of them identified competitive pressure from other banks as a main factor. As in the previous quarter, around 19% of *all* banks termed the impact of this type of competition as considerable.[3]

In net terms, one fourth of the banks registered an increased demand only in the segment of long-term loans to large enterprises (see Figure 4). A similar percentage of the banks pointed to decreased demand for long-term loans to SMEs and defined this decrease as considerable.[4] It should be noted that in the previous quarter, around 50% of the banks reported a rise in demand in this category of loans. In net terms, the banks did not record any major changes in demand for short-term loans, however in the case of short-term loans to large enterprises, the responses were discrepant (increase or decrease in demand was reported by around 16% of *all* banks).

[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 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.
[4] 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.

At the end of the second quarter of 2011, the banks expected demand in all corporate loan categories to grow. In the case of long-term loans to large enterprises, the increase in demand in the third quarter of 2011 was higher than the increase anticipated at the end of the previous quarter.

Figure 4
Corporate loan demand



Growth in demand for corporate loans was mainly driven by changes in financing needs for mergers and acquisitions (see Figure 5). This response was provided by around 55% banks, which represents the highest figure in the survey's history. In comparison with the previous quarter, the percentage of the banks that explained a rise in demand by financing needs for fixed investment has decreased. In the third quarter of 2011, this factor was indicated by around 44% of the banks, and at the same time its impact was considered as slight.[5]

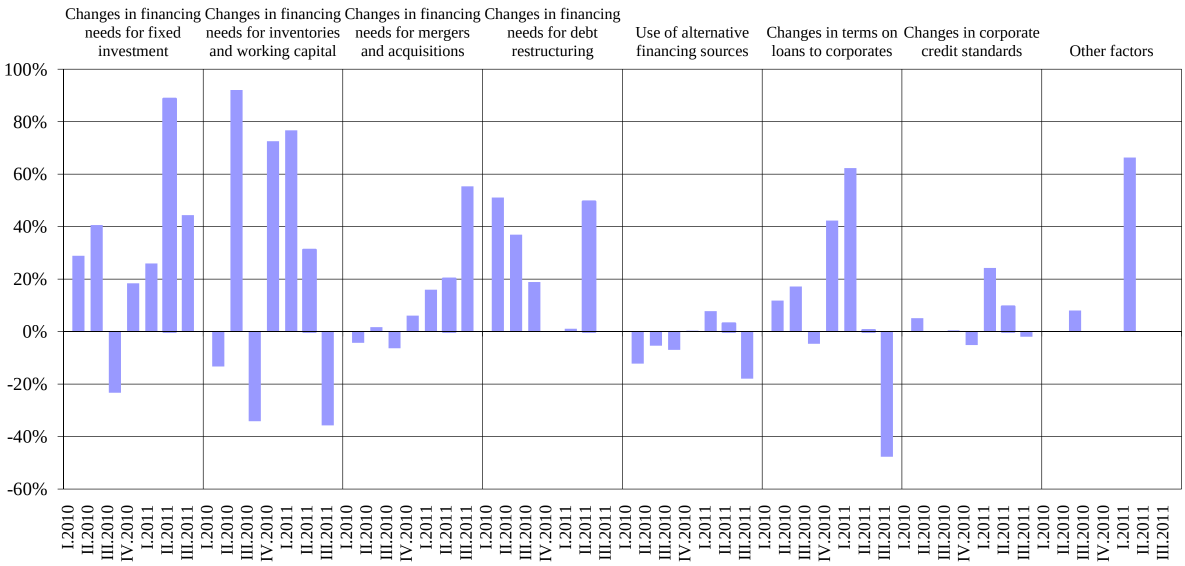
According to the survey participants, the decrease in corporate loan demand resulted from the deterioration of terms of granting loans to enterprises (net percentage of around -48%). Changes in financing needs for inventories and working capital, cited by around 36% of the banks (according to the banks, this factor contributed to an increase in loan demand in the previous three quarters), were also of significance. Eighteen percent of the banks attributed the lower demand to the use by corporates of alternative sources of financing, to which they included primarily loans extended by other banks (around 45% of *all* banks) and issuance of debt securities (44% of *all* banks).

The banks expect lending policy in the segment of SMEs to be tightened in the fourth quarter of 2011 (see Figure 1). The tightening will concern in particular long-term loans (net percentage of around -37%). In the case of short-term loans to SMEs, the percentage of the banks that expect a tighter lending policy amounted to around 12%, however, the responses were discrepant. The majority of the banks do not expect lending policy towards large enterprises to be revised.

[5] 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.

The majority of the banks do not expect changes in corporate demand for loans in the fourth quarter of 2011 (see Figure 4). In net terms, the banks expect demand for long-term loans to large enterprises to grow slightly (net percentage of 16%) and demand for long-term loans for SMEs to fall further (net percentage of -4%).

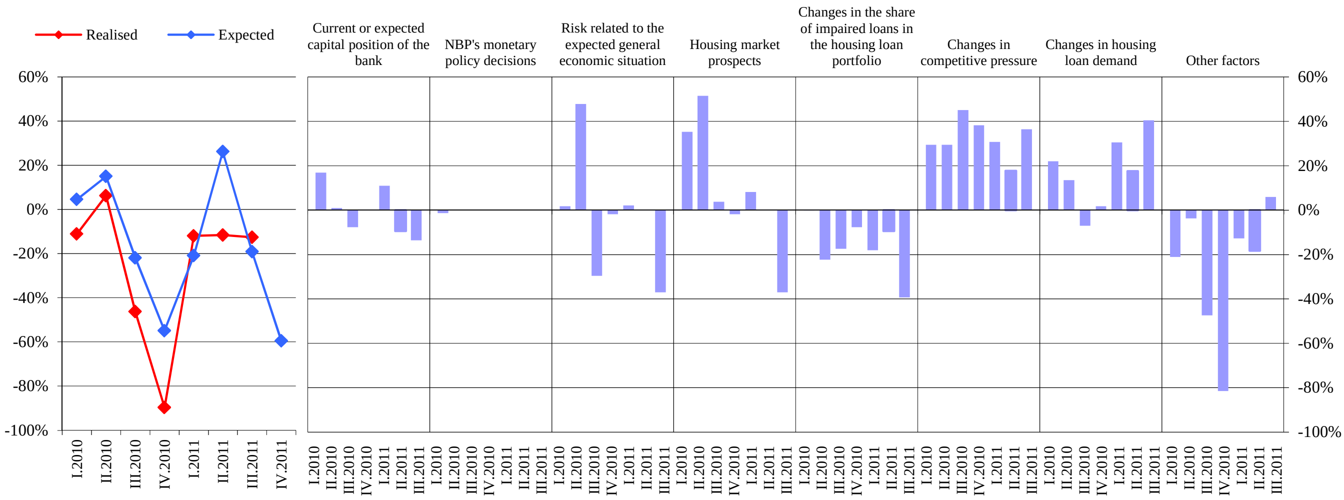
Figure 5
Factors influencing changes in corporate loan demand



Housing loans

The percentage of the banks that report tightening lending policy in the segment of housing loans has been low for the past three quarters (see Figure 6). In net terms, lending standards were tightened by around 13% of surveyed banks in the third quarter of 2011. As compared to previous quarters, the percentage of the banks whose lending policies were not revised has risen (such a response was given by around 65% of *all* banks), and the percentage of the banks that commit themselves to easing the standards has decreased (around 11% of *all* banks). In the previous edition of the survey, the banks expected a somewhat stronger tightening of the standards of granting housing loans.

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



Similarly as in the previous quarter, the banks most often mentioned the tightening of the terms of granting housing loans not accounted for in the survey (net percentage of around -47%, see Figure 7). The banks said these changes included primarily changes in creditworthiness assessment procedures[6], which they described as considerable. The tightening also concerned spreads charged on riskier loans (net percentage of around -12%) and – similarly as in the previous two quarters – collateral requirements (net percentage of around -10%).

Over one fifth of the banks lowered non-interest housing loan costs in the third quarter of 2011. At the same time, the percentage of the banks that eased their lending policies with regard to spreads decreased for the second quarter in a row (net percentage of around 17%). The remaining terms of granting housing loans were not considerably changed in the third quarter of 2011.

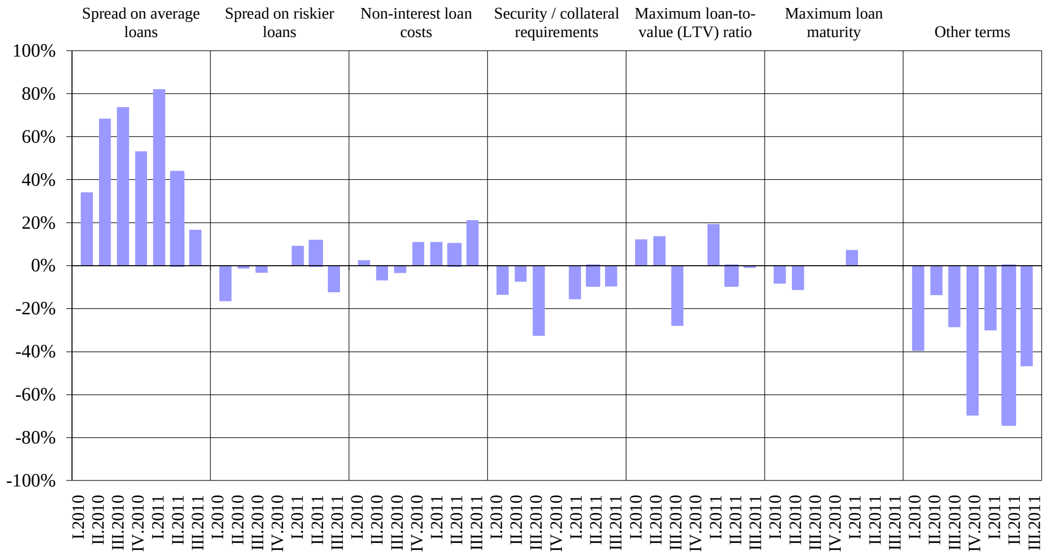
The banks that tightened their lending policies in the segment of housing loans justified the move primarily with factors related to economic conditions. In net terms, around 39% of the banks indicated deterioration in the quality of the housing loans portfolio, whereas almost one fourth of *all* banks termed the impact of this factor as considerable (see Figure 6). A similar percentage of the banks cited risk related to economic developments in the future and the housing market outlook. In both cases, such a response was given by 37% of the banks, and the im-

[6] 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".

pact of these factors was described as considerable by 37% and around 16%of *all* banks respectively. As compared to the previous quarter, the percentage of the banks that claimed that current or expected capital position was behind the tightening of lending policy has slightly risen (net percentage of around -14%).

According to the surveyed banks, changes in demand for housing loans facilitated easing of their lending policies in the third quarter of 2011. This factor was mentioned by around 41% of the banks, which is the highest figure since the second quarter of 2005. The percentage of the banks maintaining that competitive pressure was behind the move to ease lending policy is higher than in the previous edition of the survey (net percentage of around 37%). The banks participating in the survey continue to feel this pressure, most strongly from other universal banks.

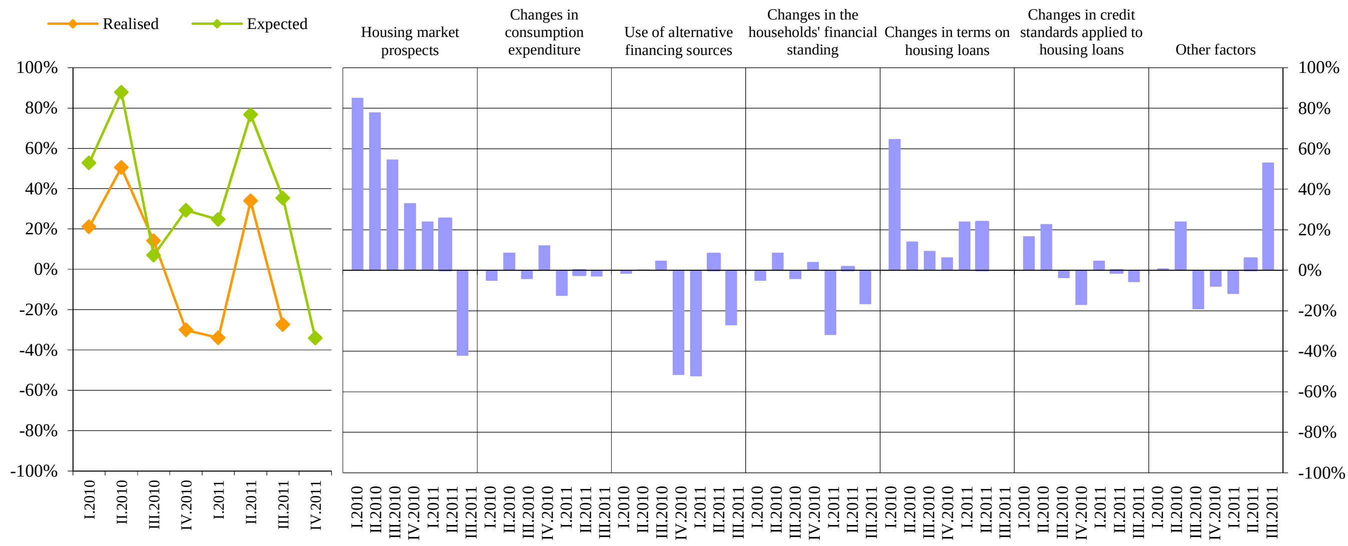
Figure 7
Terms on housing loans



In the third quarter of 2011, over one fourth of the banks were hit by falling demand for housing loans (see Figure 8). This answer was given by around 62% of *all* banks, and around 20% of *all* banks said this fall had been considerable. At the end of the second quarter of 2011, the banks expected demand for housing loans would grow.

The banks cited the housing market outlook as a factor constraining demand for housing loans for the first time since the second quarter of 2009. This factor was identified by around 42% of the banks, and one tenth of *all* banks assessed its impact as considerable. Around 27% of the banks attributed the fall in demand to the households' use of alternative sources of financing, indicating loans extended by other banks, savings and other sources of financing. According to the surveyed banks, the deterioration in the economic position of households was an additional factor (net percentage of around -17%), with 10% of *all* banks defining its impact as considerable.

Figure 8
Demand for housing loans and factors influencing its changes



The majority of the banks expect lending policy in the fourth quarter of 2011 to be tightened (net percentage of around -60%, see Figure 6). These expectations were voiced by around 63% of *all* banks, of which less than half committed themselves to tightening lending policy considerably in the segment of housing loans.

In net terms, over one third of the surveyed banks expect demand for housing loans to fall in the fourth quarter of 2011 (see Figure 8). Around 10% of *all* banks expect this demand to be considerably lower.

<u>Consumer loans</u>

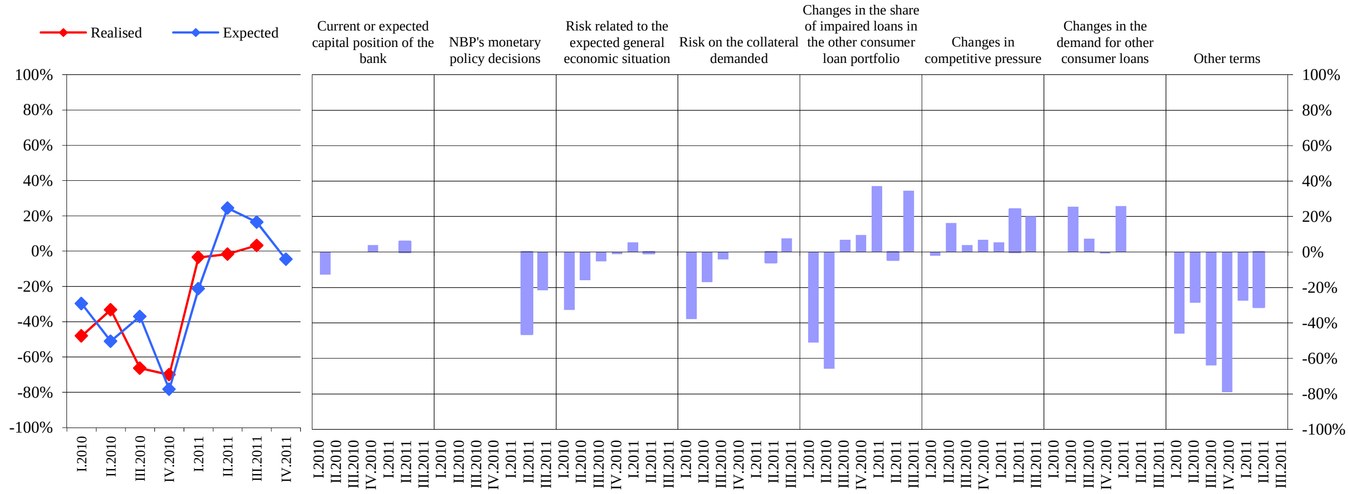
In the third quarter of 2011, the majority of the banks did not revise their lending policies in the segment of consumer loans, and the net percentage of responses amounted to around 3% (see Figure 9). At the end of the second quarter of 2011, around 17% of the banks committed themselves to easing their lending policies.

In net terms, the surveyed banks eased all terms of granting consumer loans (see Figure 10). The banks most often mentioned lowering spreads charged on consumer loans (net percentage of around 17%). Around 11% of banks committed themselves to cutting non-interest loan costs and expanding maximum loan maturity. Lending policy was also slightly eased with regard to maximum loan size (net percentage of around 7%).

Around 35% of the banks explained easing of lending policy by changes in the quality of the portfolio of consumer loans (see Figure 9). One fifth of the surveyed banks mentioned increased competitive pressure, mostly from other banks.

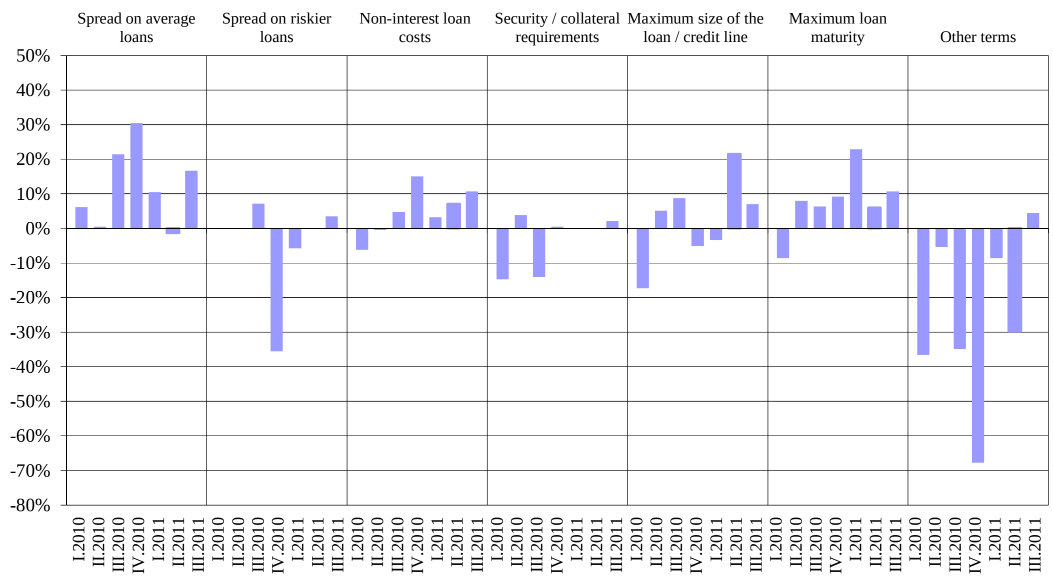
The banks, which tightened their lending policies, justified this move solely with the NBP monetary policy decisions. Such a response was provided by around 22% of the banks, which represents a decrease in the importance of this factor in comparison with the previous quarter.

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



The banks were hit by a fall in demand for consumer loans in the third quarter of 2011 (see Figure 11). In net terms, such an answer was given by around 10% of the surveyed banks, however, the responses were discrepant (over half of *all* banks did not experience changes in demand). The decrease of demand was not in line with the expectations expressed by the banks at the end of the second quarter of 2011.

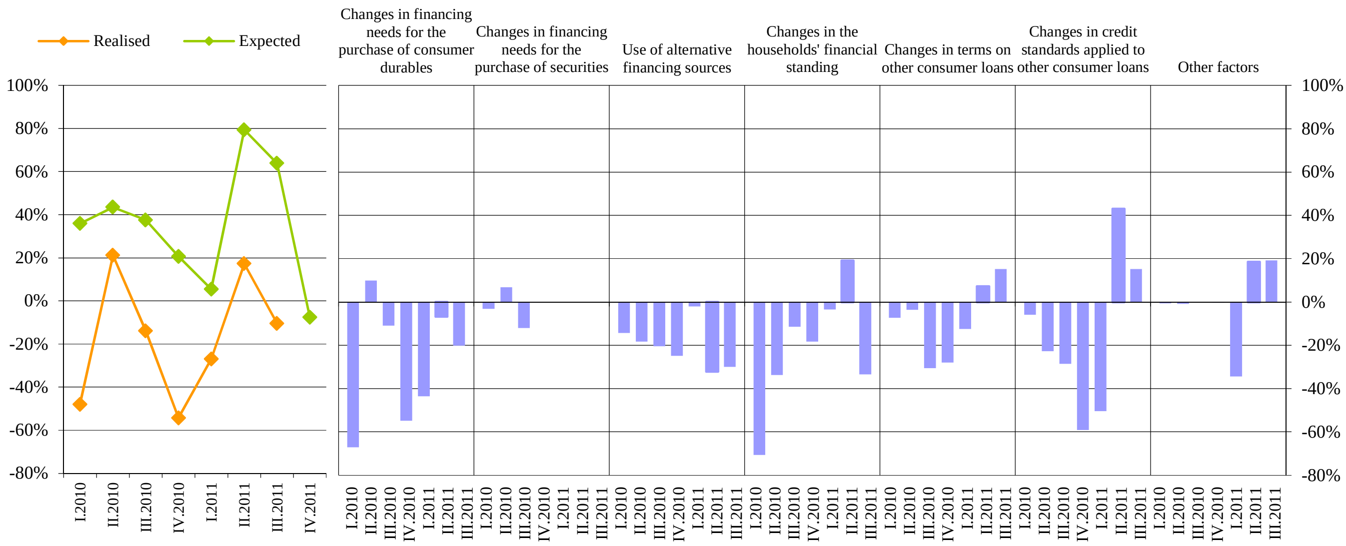
Figure 10
Terms on consumer loans



One third of the banks said the deterioration in the economic situation of households had been responsible for a fall in demand for consumer loans (see Figure 11). Around 30% of the banks also indicated such factors as households' use of alternative sources of financing, mainly savings and loans obtained from other banks. In the view of one fifth of the banks, demand fell on the back of lower financing needs for durable goods.

The banks, which experienced a rise in demand for consumer loans, explained it primarily by the factors not accounted for in the survey (net percentage of around 19%). The responses received from the banks show that higher demand was driven by active marketing measures. Around 15% of the banks also cited the easing of standards and terms of granting consumer loans.

Figure 11
Demand for consumer loans and factors influencing its changes



In net terms, the banks expect lending policy in the segment of consumer loans to be slightly tightened in the fourth quarter of 2011 (net percentage of around -5%, see Figure 9). However, nearly three fourths of *all* banks do not intend to revise their policy in this segment.

The banks expect demand for consumer loans to fall somewhat in the fourth quarter of 2011 (see Figure 11). Such a response was given by around 8% of the banks, however, around 71% of *all* banks do not expect demand for consumer loans to change.

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 27 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.