Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2012

Warsaw, October 2012

Summary of the survey results

Corporate loans

- Lending policy: a tightening, most notably in the segment of small and medium-sized enterprises (SMEs); a tightening of all terms, primarily, regarding spreads and collateral requirements.
- Demand for loans: a slight decline in demand, the strongest decline concerned short-term loans to large enterprises.
- Expectations for the fourth quarter of 2012: a slight tightening of lending policy in all segments of corporate loans; a slight increase in demand for long-term loans to large enterprises.

Housing loans

- Lending policy: a tightening of standards; an increase in spreads.
- Demand for loans: in net terms, a slight decline, discrepant responses.
- Expectations for the fourth quarter of 2012: a tightening of lending policy and a rise in loan demand.

Consumer loans

- Lending policy: a slight tightening, in net terms, the majority of the banks made no changes in lending policy; a slight increase in spreads and a lowering of non-interest loan costs.
- Demand for loans: a slight fall in loan demand.
- Expectations for the fourth quarter of 2012: a slight tightening of lending policy and an increase in loan demand.

Banks' assessment regarding risks related to the expected economic situation and industry-specific conditions deteriorated, which was reflected in corporate lending policy. In the case of housing loans, the banks also pointed to bleak forecasts for the housing market. Competitive pressure in the market for household loans declined compared with previous quarters. Adverse changes in loan portfolio quality had also a stronger impact on the tightening of lending policy in all segments of loans.

Results of the survey – overview

The objective of the survey is to define the direction of changes in the lending policy, i.e. the standards and terms of granting loans as well as changes in demand for loans in the Polish banking system. The standards of granting loans are understood as the minimum standards of creditworthiness, set by banks, that the borrower is required to meet to obtain a loan. The terms of granting loans are the features of the loan agreement agreed between the bank and the borrower, including spread, non-interest 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 September and October 2012 **among 29 banks with a total share of 82% in claims on enterprises and households in the banking sector's portfolio**.

The aggregation of the data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, considerable, significant, percentage of the banks, etc.) refer to weighted percentages and not to the number of banks. Thus, the phrase "the majority of the banks" should be understood as "the asset-weighted majority of the banks". Details on the calculation methodology are presented in Appendix 1.

Unless otherwise indicated, the number of the banks, cited in the text, reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The next section presents tendencies regarding the banks' lending policy and changes in demand in the third quarter of 2012 as well as banks' expectations for the fourth quarter of 2012.

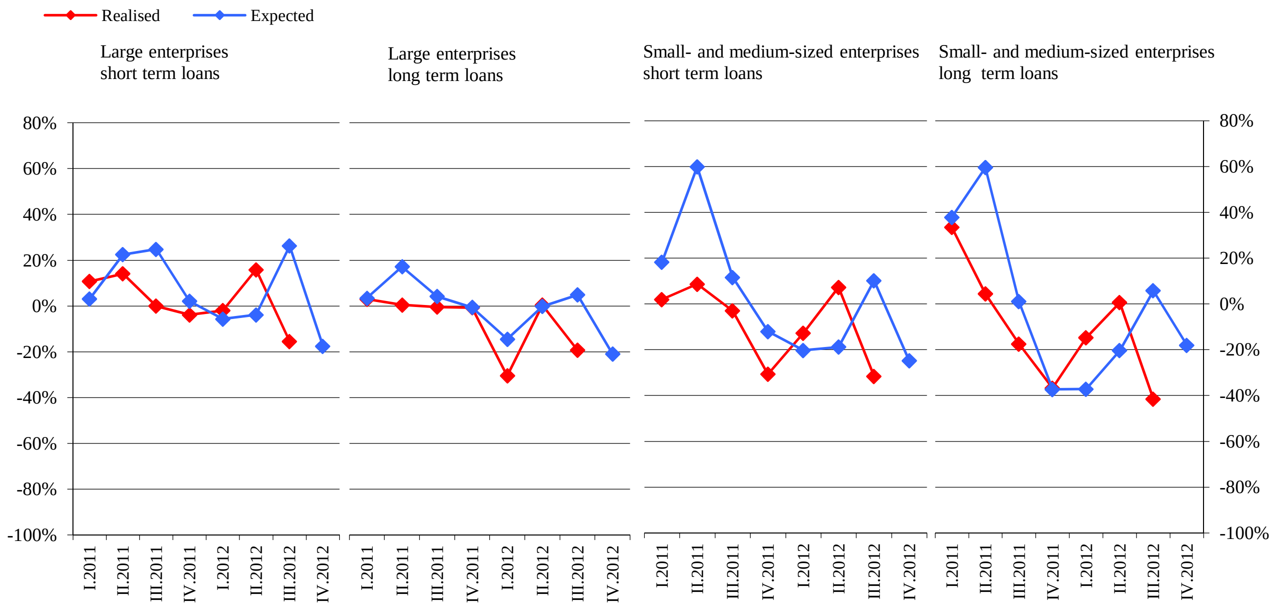
<u>Corporate loans</u>

The banks tightened their lending standards in all corporate loan categories in the third quarter of 2012 (see Figure 1). The highest percentage of the banks reported a tightening of lending standards to SMEs. Such a response was provided by around 42% of the banks for long-term loans and around 32% of the banks in the case of short-term loans, with over one fourth of them considering the tightening as considerable.[1] In the case of large enterprises, the net percentage of responses amounted to around -19% for long-term loans and around -16% for short-term ones.

At the end of the second quarter of 2012, the banks did not expect major changes in lending standards, except for a slight easing in the segment of short-term loans to large enterprises.

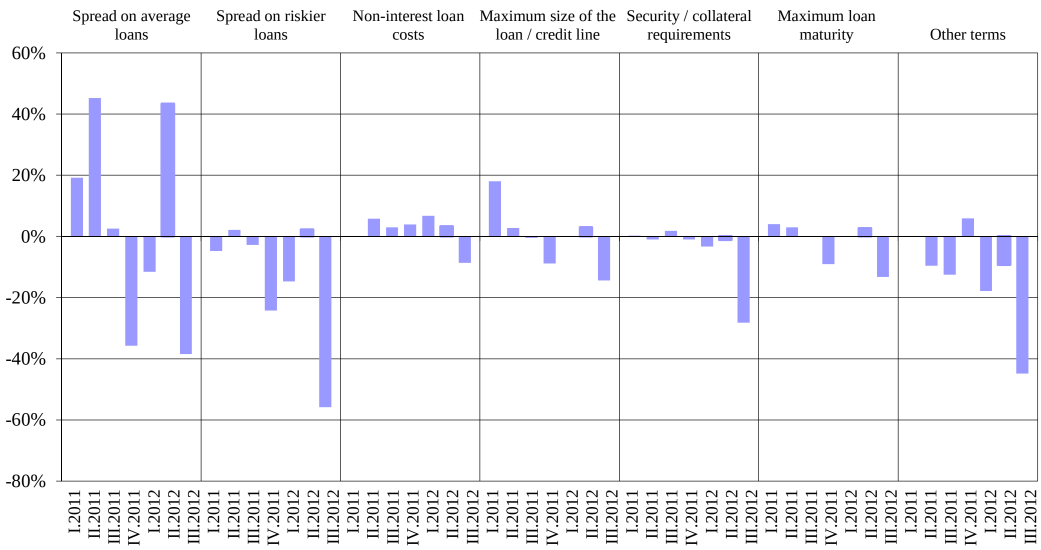
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

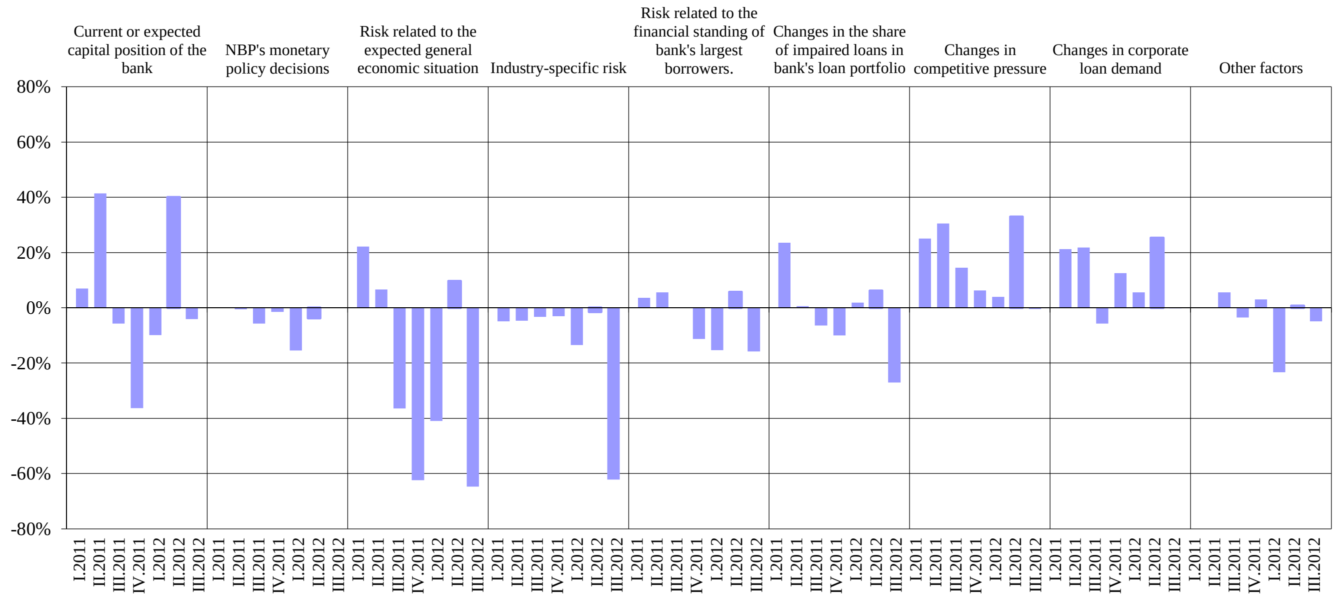
Figure 2
Terms on corporate loans



In net terms, the banks participating in the survey tightened all terms on corporate loans (see Figure 2). Over half of the banks pointed to an increase in spreads on riskier loans, as around 39% of the banks reported spread growth in general. In net terms, around 28% of the banks raised collateral requirements and around one fifth of them considered this tightening as considerable. At the same time, the banks reduced maximum loan maturity (net percentage of around -13%) and raised non-interest corporate loan costs (net percentage of around -9%). Around 45% of the banks indicated other changes in terms, unaccounted for in the survey, placing primarily tighter creditworthiness assessment procedures in this category.[2]

The tightening of lending policy in the corporate sector was primarily associated with an elevated risk related to future economic developments and industry-specific risk growth (see Figure 3). These factors were identified by 65% and 62% of the surveyed banks, respectively. In the case of industry-specific risk, almost two thirds of the banks termed the impact of these factors on the tightening of lending policy as considerable.[3] The banks ranked the construction sector (including housing and road construction and manufacture of construction materials) and the automotive industry among industries exhibiting heightened risk. Over one fourth of the banks attributed the tightening of lending policy to deterioration in the quality of corporate loan portfolio, and around 16% of the banks mentioned risk associated with the financial standing of largest borrowers. Other factors had no significant impact on the lending policy of the banks in the segment of corporate loans.

Figure 3
Factors influencing changes in lending policies



The majority of the banks did not experience changes in corporate demand for loans in the third quarter of 2012 (see Figure 4). In net terms, the demand declined slightly, and the decline was strongest for short-term

[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.

[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.

loans to large enterprises (net percentage of around -10%). At the end of the second quarter of 2012, the banks participating in this survey expected demand to rise slightly, in the segment of loans to SMEs, in particular.

Figure 4
Corporate loan demand

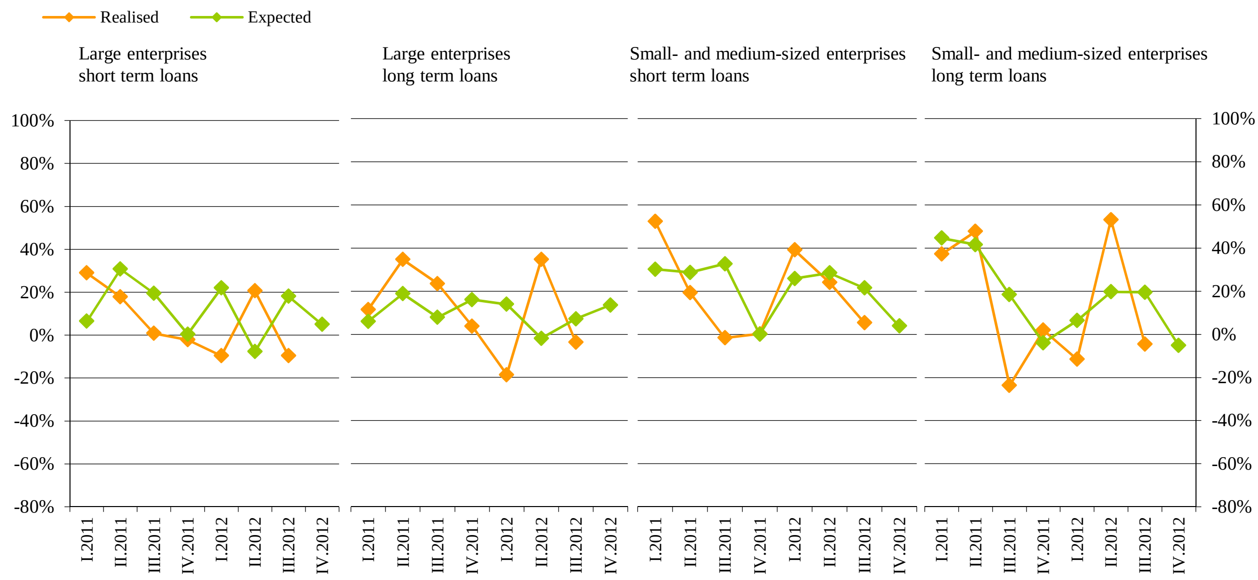
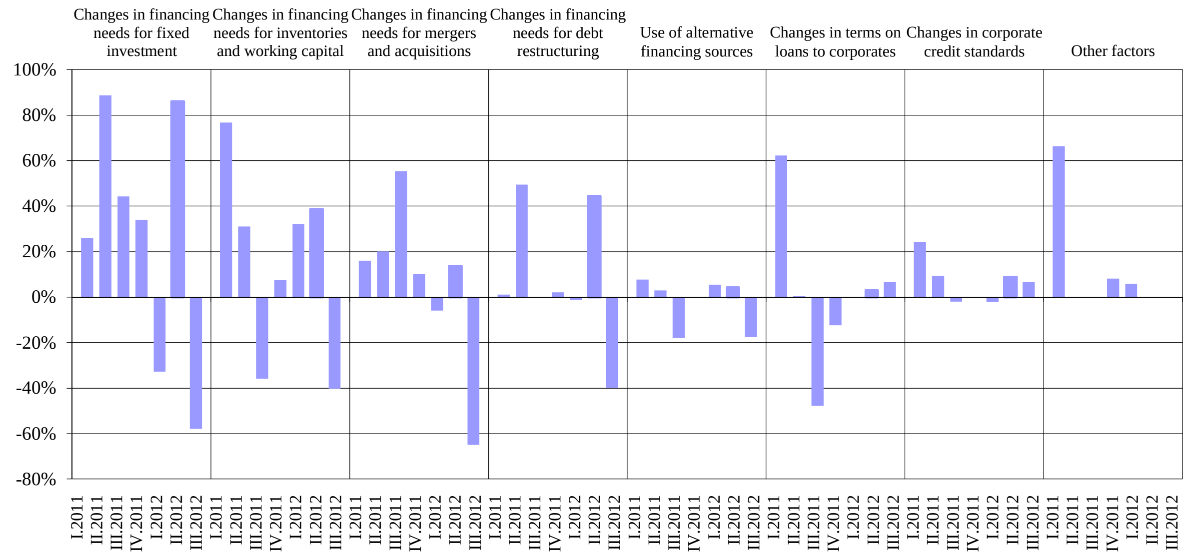


Figure 5
Factors influencing changes in corporate loan demand



The lower demand for corporate loans was primarily driven by reduced financing needs for mergers and acquisition, and for fixed investment (net percentage of around -65% and -58%, respectively; see Figure 5). The percentage of the banks that indicated a negative influence of these factors on demand reached its highest level since the third quarter of 2009. In parallel, around 81% of the banks that indicated reduced financing needs for fixed investment considered the impact of this factor as considerable.[4] According to the banks, the reduced demand was also driven by changes in financing needs for inventories and working capital and by financing needs related to debt restructuring. In net terms, the two factors were mentioned by a similar percentage of the banks (net percentage of around -40%), however, in the case of financing needs for inventories and working capital the responses were discrepant (around one fourth of *all* banks found this factor as resulting in demand growth). Nearly one fifth of the banks indicated the use of alternative funding sources, including primarily enterprises' own funds (net percentage of around -65%) and issuance of debt securities (net percentage of around -24%) as factors behind the lower demand. According to the survey-responding banks, other factors had no significant impact on corporate loan demand.

Around one fifth of the banks say that their lending policy towards enterprises will be tightened in the fourth quarter of 2012 (see Figure 1). However, the majority of *all* banks do not expect to change their lending standards and terms in the forthcoming quarter.

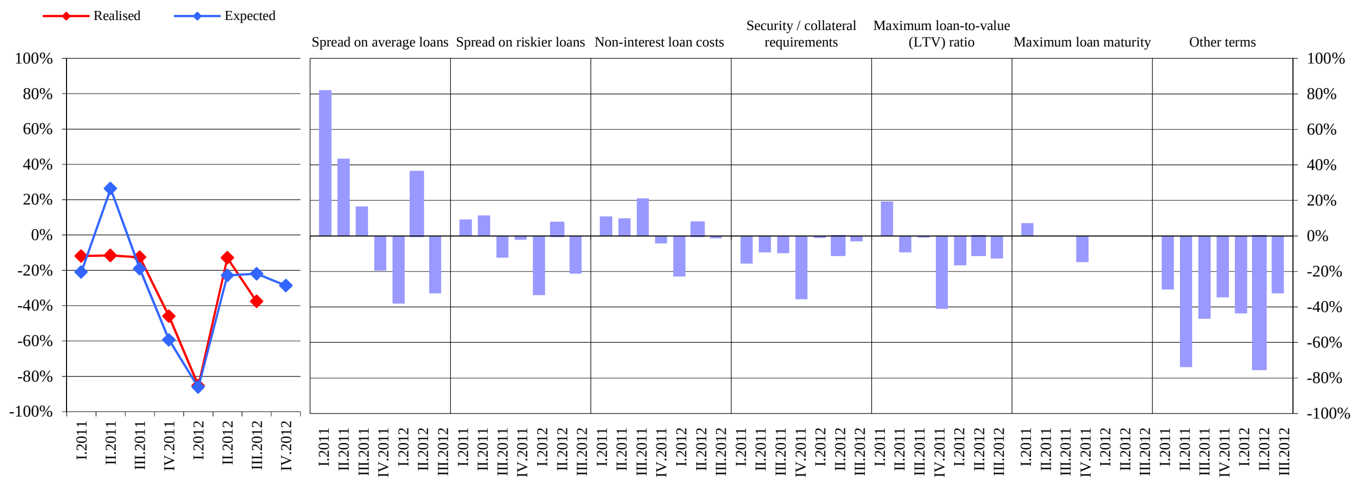
The banks expect large enterprises to increase their demand for long-term loans in the fourth quarter of 2012 (net percentage of around 14%, see Figure 4). According to the banks, no major changes in demand in other corporate loan categories will be observed.

[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 net terms, the banks tightened the standards of granting housing loans in the third quarter of 2012 (net percentage of around -38%, see Figure 6). At the same time, over half of *all* banks did not change lending standards. At the end of the second quarter of 2012, the banks expected a smaller-scale tightening of lending standards.

Figure 6
Standards and terms on housing loans



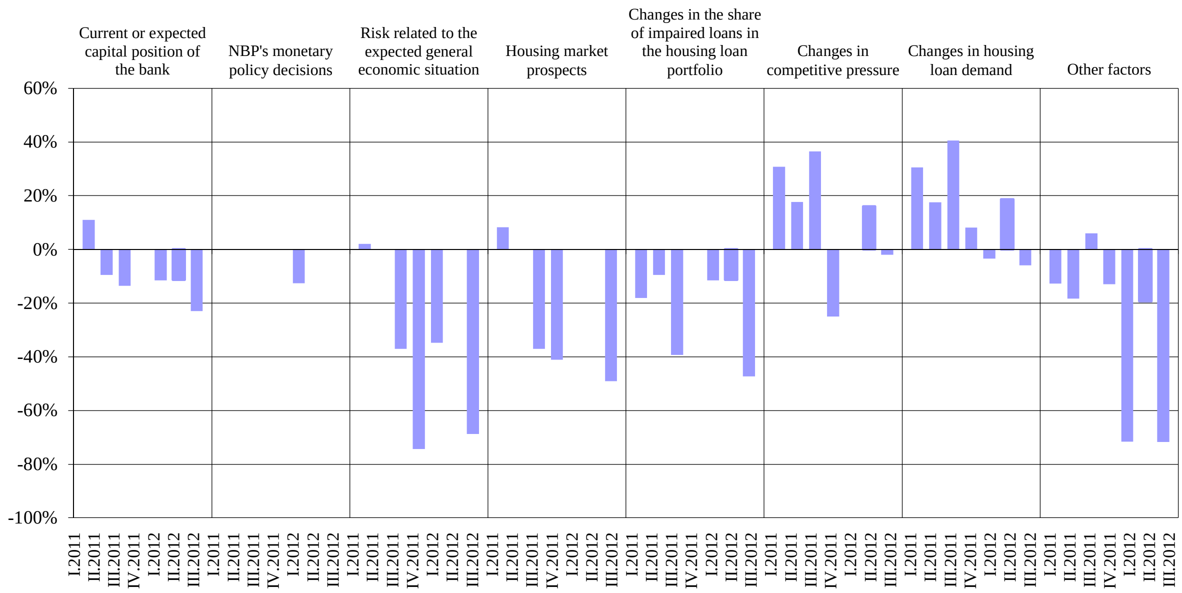
The tightening of terms on housing loans applied primarily to spreads charged on such loans. Around 32% of the survey-participating banks indicated a rise in spreads in general, with over one third of the banks considering it as considerable. Over one fifth of the banks raised spreads on riskier loans, of which over half said the rise was considerable. Around 13% of the banks tightened the lending terms regarding LtV. Almost one third of the banks pointed to terms unaccounted for in the survey, including primarily the raising of income thresholds.[5] In net terms, other terms were not changed significantly; at the same time, no surveyed bank reported easing any single term on housing loans.

The highest percentage of the banks attributed the lending policy tightening to factors unaccounted for in the survey (net percentage of around -72%, see Figure 7). These factors included, inter alia, the need to make adjustments to the provisions of Recommendation S and T and the shift in their lending strategies. Over half of the banks that provided such an answer considered the impact of these factors as considerable. A similar percentage of the banks justified the lending policy tightening with an elevated risk related to the expected economic situation (net percentage of around -69%). At the same time, almost half of the banks cited bleak forecasts in the housing market and deterioration in the quality of the housing loan portfolio. For the third successive quarter, the banks mentioned their current and expected capital position (net percentage of around -23%) as a factor negatively influencing their lending policy with regard to housing loans. Other factors had no major influence on the lending policy

[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.

tightening. The survey-responding banks indicated no factors that would support an easing of their policy to grant housing loans.

Figure 7
Factors influencing changes in lending – housing loans



In net terms, the banks were hit by falling demand for housing loans in the third quarter 2012, however their responses were discrepant (net percentage of around -14%, see Figure 8). One fifth of *all* banks considered the fall as considerable, and one fourth reported a rise in demand (40% of the banks that provided such an answer considered it as considerable). At the end of the second quarter of 2012, the banks expected demand for housing loans to grow.

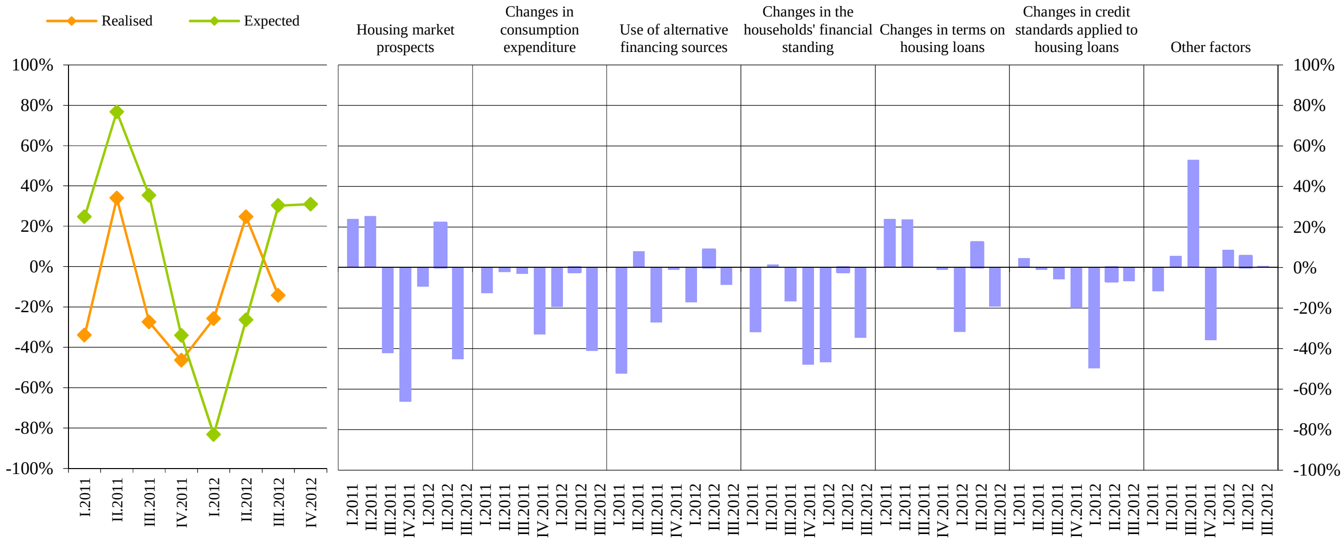
According to the banks, the lower demand was primarily driven by unfavourable forecasts for the housing market and by changes in household consumer spending. Such an answer was provided by around 45% and 41% of the banks, respectively, and they described the impact of these factors on housing loan demand as slight.[6] Over one third of the banks cited the adverse changes in the economic standing of households, and one fifth claimed the tightening of terms on housing loans had been responsible for the lower demand. The banks that reported a fall in demand related to the use of alternative funding sources (net percentage of around -10%), identified them primarily as household savings and loans from other banks (net percentage of around -16% and -10%, respectively). In net terms, factors unaccounted for in the survey had no significant impact on demand for housing loans, however a firm majority of *all* banks mentioned some additional reasons behind either a rise or a fall in demand (in both cases, the percentage of *all* banks amounted to around 45%). The discontinuation of the government-subsidised "First family home" was placed by the banks in the first group of factors. On the other hand, the weaker demand was seasonal, they argued.

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

The surveyed banks expect lending policy in the segment of housing loans to be tightened in the fourth quarter of 2012 (net percentage of around -29%, see Figure 6). At the same time, around 71% of *all* banks expect no changes in lending policy in this segment.

According to the banks, demand for housing loans will grow in the fourth quarter of 2012 (net percentage of around of 31%, see Figure 8). One fourth of the banks that provided such an answer considered the expected demand growth as considerable.

Figure 8
Demand for housing loans and factors influencing its changes



Consumer loans to households

Standards of granting consumer loans did not change significantly in the third quarter of 2012 (see Figure 9). In net terms, the banks tightened their lending policy in this respect (net percentage of around -6%), however these responses were discrepant and around 80% of *all* banks reported no changes in lending standards. At the end of the previous quarter, the banks expected the standards of granting consumer loans to be eased.

In the third quarter of 2012, the tightening of terms on consumer loans related primarily to credit spreads (see Figure 9). In net terms, spreads were raised by around 9% of the banks, however their responses were discrepant (around 10% of *all* banks eased this term on consumer loans).

The banks that eased the terms on consumer loans mostly cited a reduction of non-interest loan costs (net percentage of around 9%). According to the survey respondents, other terms on consumer loans were not changed significantly.

As compared to the previous edition of the survey, there was an increase in the percentage of banks that attributed the lending policy tightening to the deterioration in the quality of consumer loan portfolio (net percentage of around -25%, see Figure 10). Around 8% of the banks justified this tightening with changes in competitive pressure both from other banks and other non-bank financial institutions. The banks also indicated factors unaccounted for in the survey, however they placed measures related to changes in loan costs (net percentage of around -7%) among these factors. In net terms, the banks did not indicate any factors that could have contributed to an easing of lending policy with regard to consumer loans.

Figure 9
Standards and terms on consumer loans

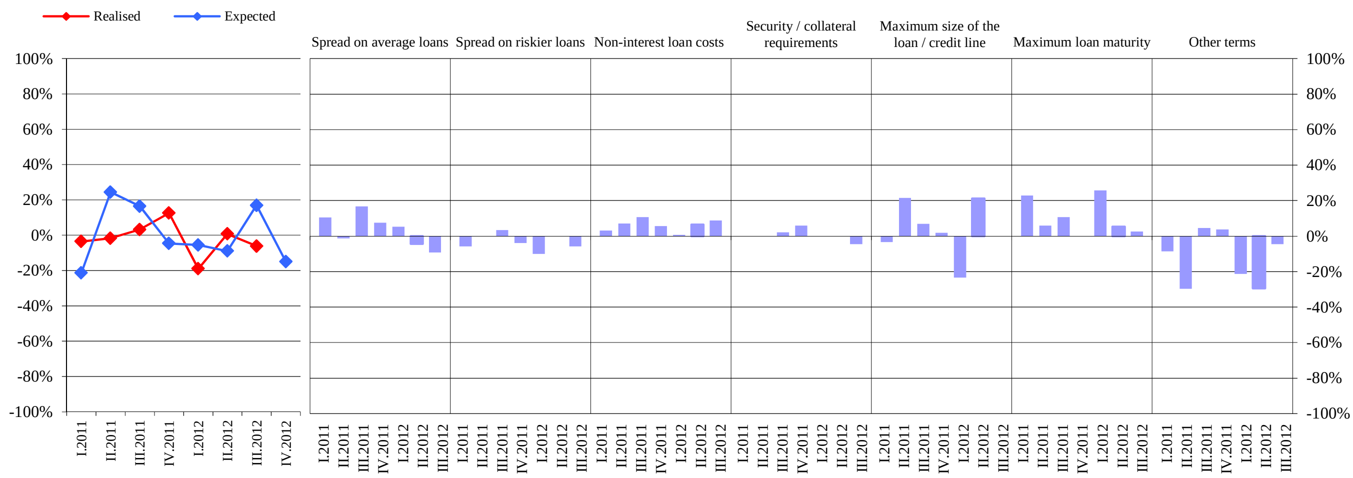
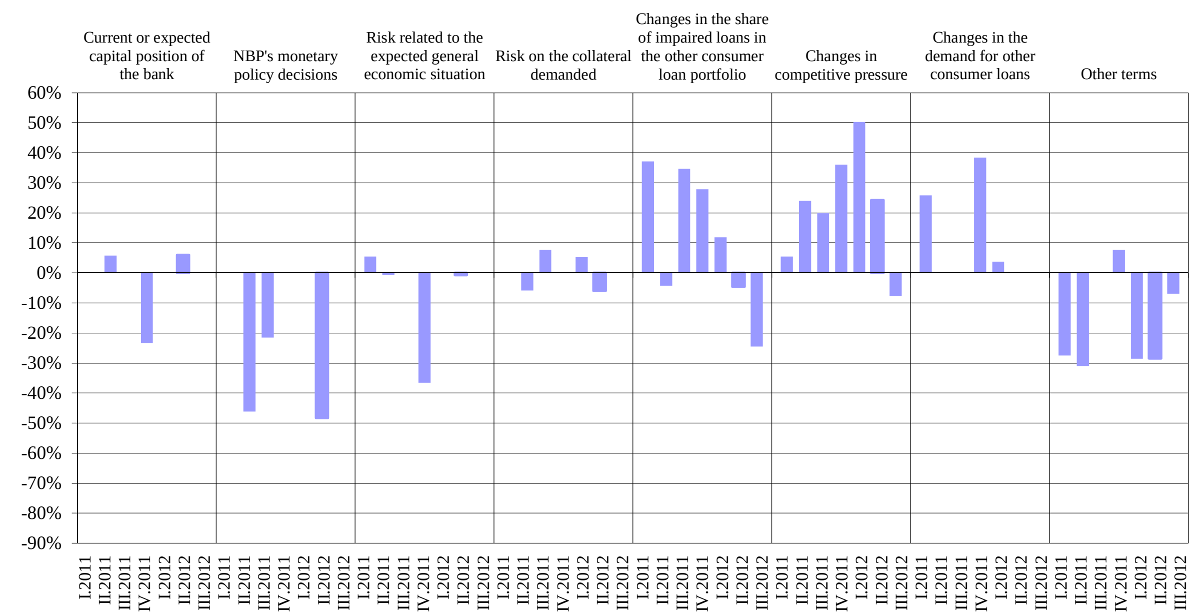


Figure 10
Factors influencing changes in lending policy – consumer loans

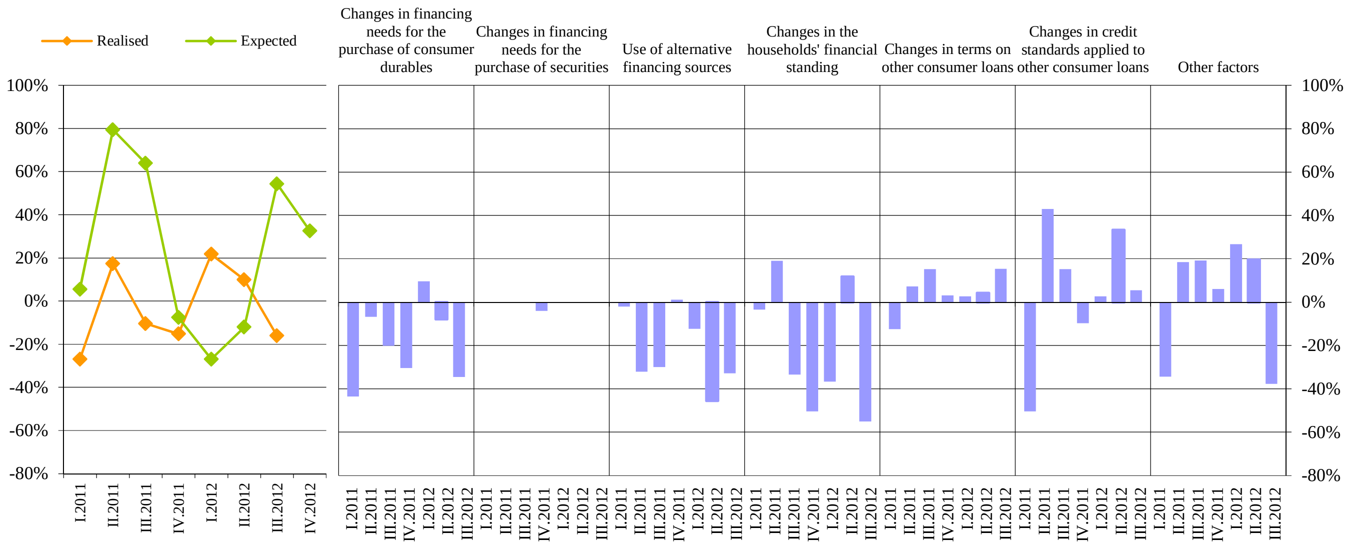


In the third quarter of 2012, the banks experienced a slight decline in demand for consumer loans (net percentage of around -16%, see Figure 11). However, the responses were discrepant – around 15% of *all* banks reported a slight increase in demand. In the previous edition of the survey, the banks expected consumer loan demand to grow.

Over half of the banks indicated the worsening economic standing of households as a factor behind the lower demand in consumer loans (net percentage of around -55%, see Figure 11). Around 38% of the banks identified factors not accounted for in the survey, including in this category a rise in spreads on consumer loans. According to one third of the banks, the lower demand was driven by lower needs for durable goods purchase. A similar percentage of the banks indicated the use of alternative funding sources, including loans from other banks and other funding sources (in both cases such a response was given by around 36% of the banks, in net terms).

According to the banks that reported a rise in consumer loan demand, it was primarily traceable to better terms on consumer loans (net percentage of around 15%). Other factors had no significant impact on the demand, the banks said.

Figure 11
Demand for consumer loans and factors influencing its changes



In net terms, the banks expect lending policy regarding consumer loans to be slightly tightened in the fourth quarter of 2012 (net percentage of around -15%, see Figure 9). Around 80% of *all* banks declare no changes in lending policy in this segment.

Almost one third of the banks expect loan demand to grow in the forthcoming quarter (see Figure 11). Of the banks that provided such an answer around 25% said that the expected growth would be considerable. At the same time, around 52% of *all* banks do not expect consumer loan demand to change in the fourth quarter of 2012.

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..