Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2013

Warsaw, April 2013

Summary of the survey results

Corporate loans

- Lending policy: no significant changes in lending standards; a tightening of most lending terms, primarily regarding loan costs and loan maturity.
- Demand for loans: a slight decrease in demand for loans to large enterprises
- Expectations for the second quarter of 2013: a tightening of lending policy, in the segment of small and medium-sized enterprises (SMEs) in particular; demand for long-term loans to large enterprises to decrease slightly.

Housing loans

- Lending policy: no significant changes in lending standards and terms.
- Demand for loans: a significant fall in loan demand.
- Expectations for the second quarter of 2013: a slight easing of lending policy and no changes in loan demand (discrepant responses).

Consumer loans

- Lending policy: no significant changes in lending standards; a decrease in spreads.
- Demand for loans: no significant changes in loan demand.
- Expectations for the second quarter of 2013: lending policy to be significantly eased and a significant rise in loan demand.

Responding banks did not significantly change lending standards in the first quarter of 2013.

In the segment of corporate loans, a tightening of lending terms, mainly regarding loan costs, continued. According to the banks, this move resulted primarily from the unfavourable forecasts of economic conditions and a cut in NBP interest rates. The percentage of the banks that cite lower financing needs for investment as demand-influencing factors has risen substantially despite no significant changes in corporate loan demand as compared to the previous quarter.

In line with expectations expressed in the previous edition of the survey, the banks recorded a fall in housing loan demand. The percentage of the banks that provided such a response was the highest since the first quarter of 2009 r. In their view, apart from changes in the economic standing of households and in forecasts for the housing market, the discontinuation of the government-subsidised “First family home” programme also had an impact on the falling demand.

For the first time in a year, banks lowered spreads on consumer loans. According to the banks, the move was primarily related to changes in demand for this type of loans and the NBP interest rates cut. The banks report a continuation of an easing of lending policy in this segment in the upcoming quarter and expect demand to rise 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 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 March and April 2013 **among 27 banks with a total share of 81% in claims on enterprises and households in the banking sector's portfolio.**

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

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

The next section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2013 as well as banks' expectations for the second quarter of the year.

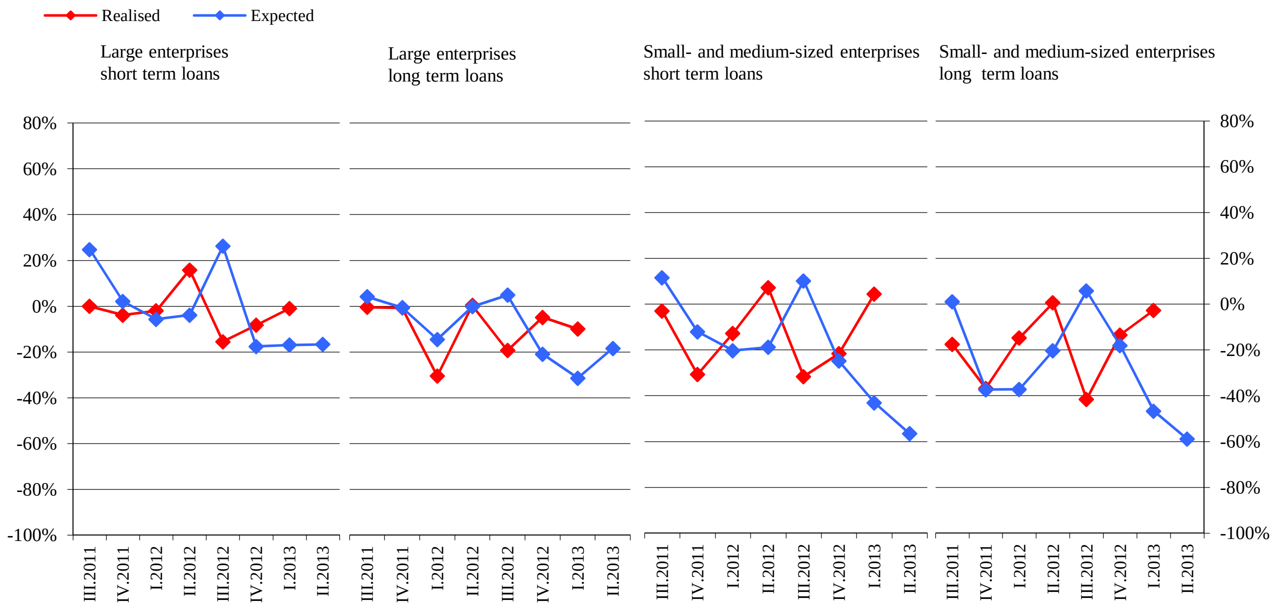
Corporate loans

The majority of responding banks did not change their corporate lending standards in the first quarter of 2013 (see Figure 1). In net terms, lending policy was slightly tightened with regard to long-term loans to large enterprises (net percentage of around -10%). The banks that reported an easing or tightening of lending standards said the standards were somewhat changed.[1]

In the previous edition of the survey, the banks announced they would tighten lending standards in all corporate loan categories, in the case of SMEs in particular.

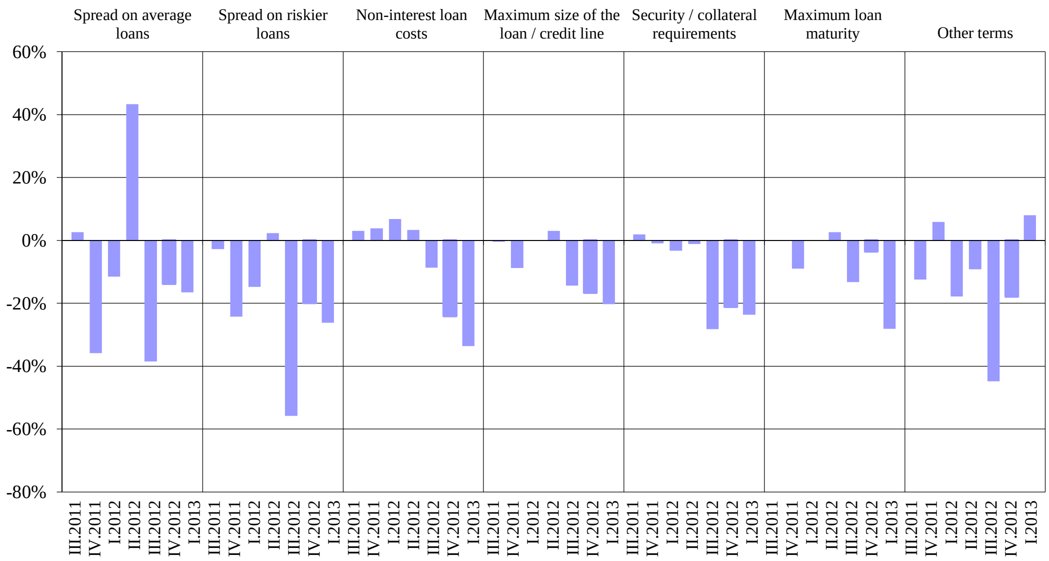
[1] The banks have a possibility of grading changes in the standards (terms) of granting loans. In this survey, the banks choose among the following options: standards (terms) were considerably tightened, standards (terms) were somewhat tightened, standards (terms) remained unchanged, standards (terms)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

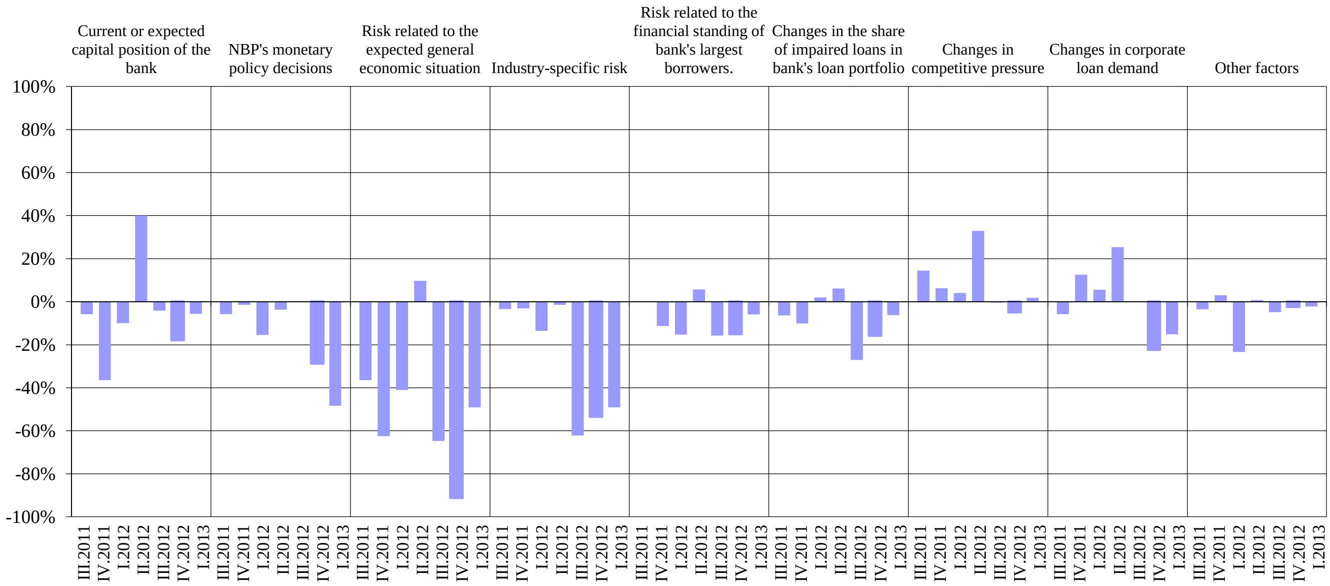
Figure 2
Terms on corporate loans



The banks again tightened the majority of terms on corporate loans in the first quarter of 2013 (see Figure 2). Around one third of the banks raised non-interest loan costs, while around 28% shortened maximum loan maturity. The tightening of terms also related to spreads on riskier loans and loans in general (net percentage of around -26% and -17%, respectively), collateral requirements (net percentage of around -24%) and maximum loan size (net percentage of around -20%). Individual banks reported an easing of the terms unaccounted for in the survey (net percentage of 8%), including the facilitation of credit assessment procedures related to documents required.[2]

The percentage of the banks that justified the tightening of lending policy by an elevated risk related to future developments in the economy has diminished in comparison to the previous quarter (net percentage of around -49%, see Figure 3). According to a similar percentage of the banks, industry-specific risk and the NBP monetary policy decisions were the major reasons for the monetary policy tightening. In their view, increased credit risk could be attributed to the construction, transport and automotive industries as well as retail trade, the steel industry and the renewable energy-related industry. Of the banks that mentioned this factor, around 43% considered its impact on lending policy tightening as considerable.[3] According to the banks, other factors had no significant influence on lending policy towards enterprises.

Figure 3
Factors influencing changes in lending policies



The majority of the survey-responding banks did not see loan demand from enterprises changing (see Figure 4). In net terms, lower demand concerned loans to large enterprises, long-term loans in particular (net percentage of around -21%). The changes observed in demand were in line with the expectations banks had at the end

[2] According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, they are presented under the category “Other terms” in Figure 2.
[3] The banks have a possibility of grading the strength of the influence of specific factors on changes in lending policy. In this survey, the banks choose among the following options: considerable influence on lending policy tightening, slight influence on lending policy tightening, no influence on the change in lending policy, slight influence on lending policy easing, and considerable influence on lending policy easing.

of the fourth quarter of 2012. Long-term loans to SMEs were an exception as banks expected demand for them to fall significantly in the first quarter of 2013.

Figure 4
Corporate loan demand

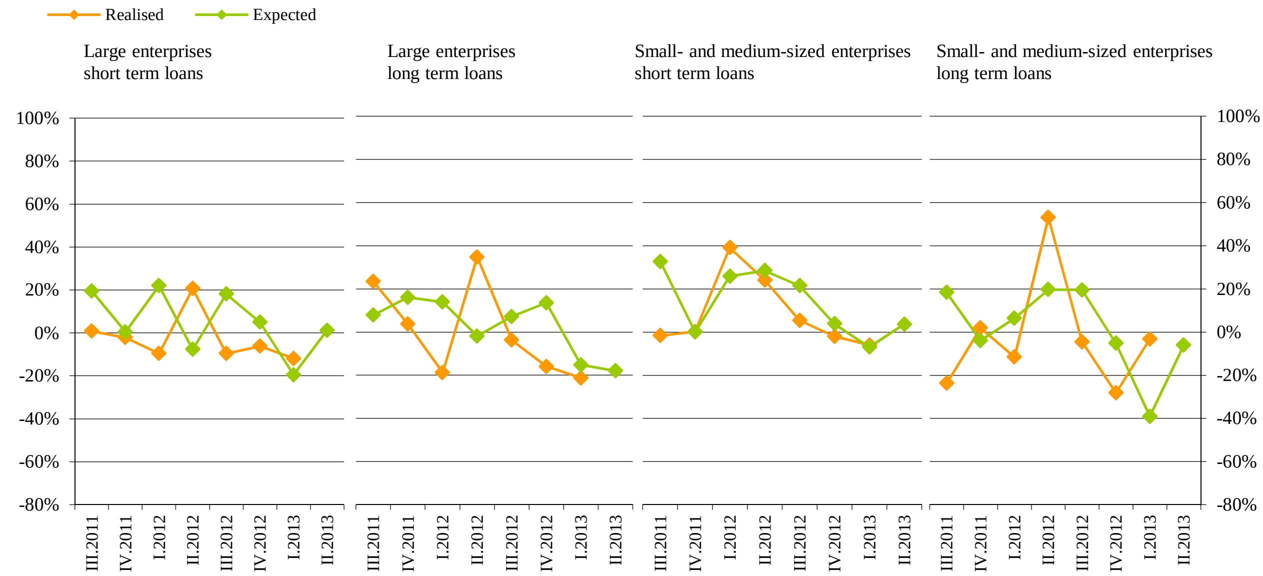
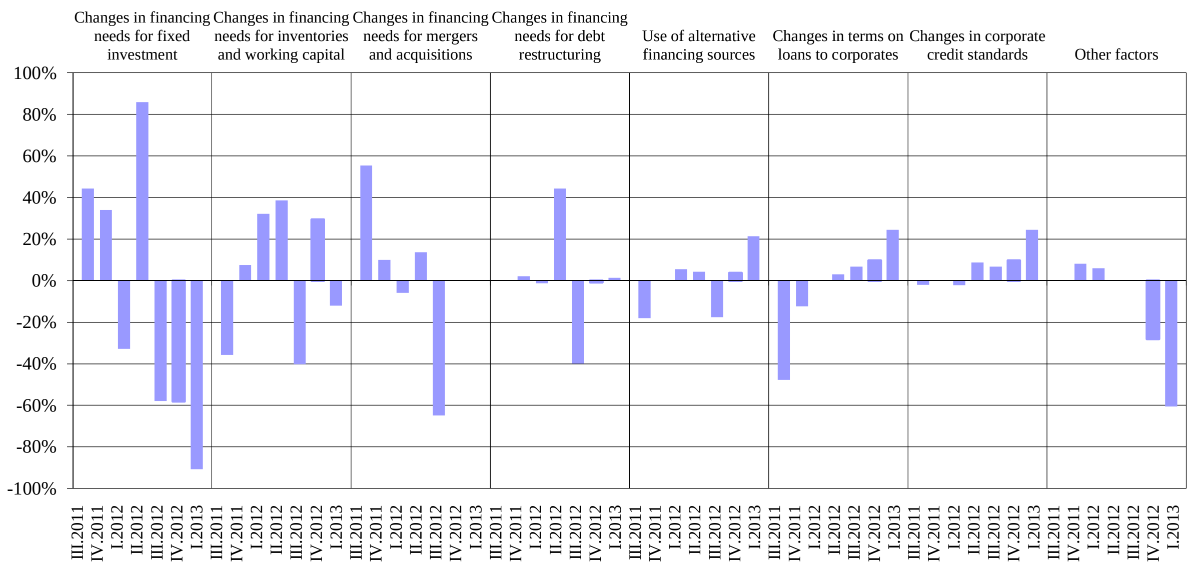


Figure 5
Factors influencing changes in corporate loan demand



According to the banks, this lower loan demand was primarily driven by reduced financing needs for fixed investment (net percentage of around -91%, see Figure 5). Around 60% of the responding banks also indicated factors unaccounted for the survey, citing, inter alia, the negative consequences of the economic slowdown.

The banks that experienced demand growth attributed the increase primarily to the easing of lending policy towards enterprises. Changes in the terms and standards of granting loans were identified by around 25% of the survey-participating banks. Around one fifth of the banks mentioned changes in the use of alternative funding sources by enterprises as a factor supporting higher loan demand. According to these banks, the limited availability of both financing via lending from other banks and share issues were of particular significance (in both cases such a response was provided by around 47% of *all* banks).

Over half of the survey respondents expect lending policy towards SMEs to be tightened in the second quarter of 2013 (see Figure 1). In the case of short-term loans, such an answer was given by around 57% of the banks, and in the case of long-term loans – by around 59%. A substantially lower percentage of banks plan to tighten lending policy towards large enterprises – the net percentage of responses for short- and long-term loans was -17% and around -18%, respectively.

The majority of the banks do not expect corporate loan demand to change significantly in the second quarter of 2013 (see Figure 4). In net terms, the banks expect demand for long-term loans to large enterprises to fall slightly (net percentage of around -18%).

Housing loans

The majority of responding banks did not change lending standards for housing loans in the first quarter of 2013 (see Figure 6). Such a response was provided by around 89% of *all* banks, which was in line with their expectations from the previous edition of the survey.

No significant changes in lending policy in the first quarter of 2013 also referred to terms on housing loans. In net terms, the highest percentage of the banks reported a tighter policy with regard to spreads charged on loans (net percentage of around -8%), however the responses were discrepant: 18% of *all* banks decided to ease this term on housing loans. Other lending terms in the segment of housing loans did not change significantly.

Figure 6
Standards and terms on housing loans

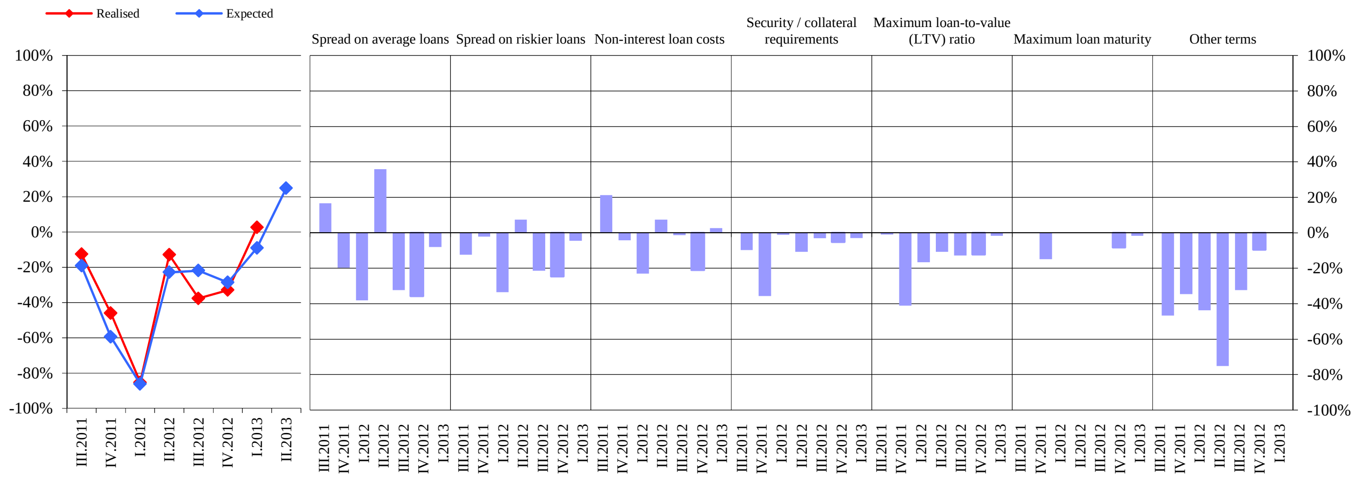
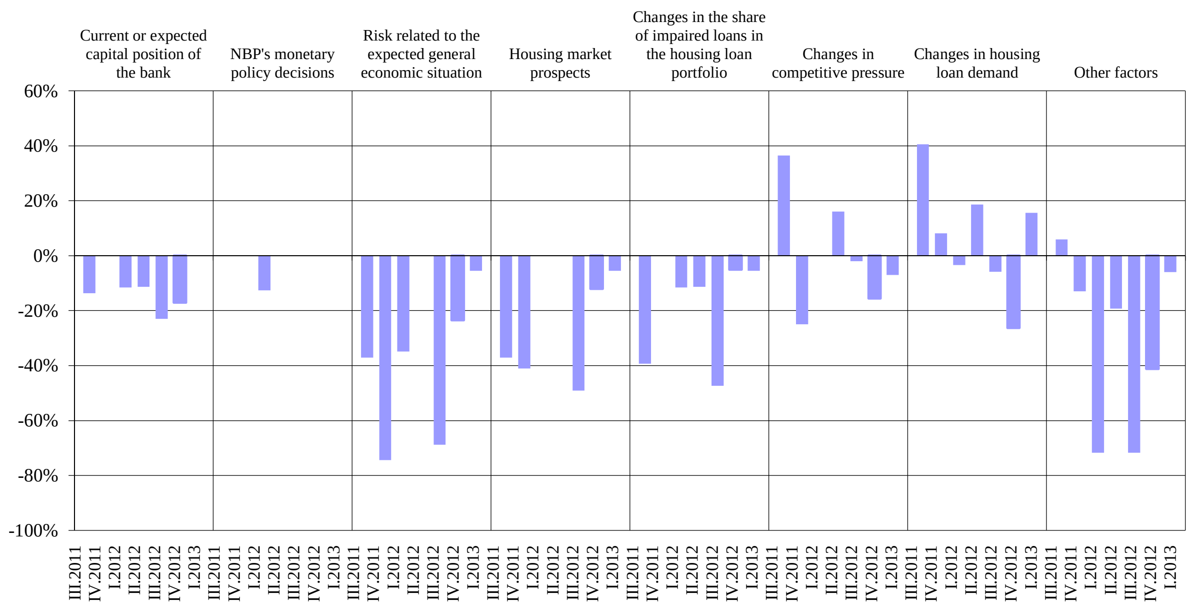


Figure 7
Factors influencing changes in lending – housing loan

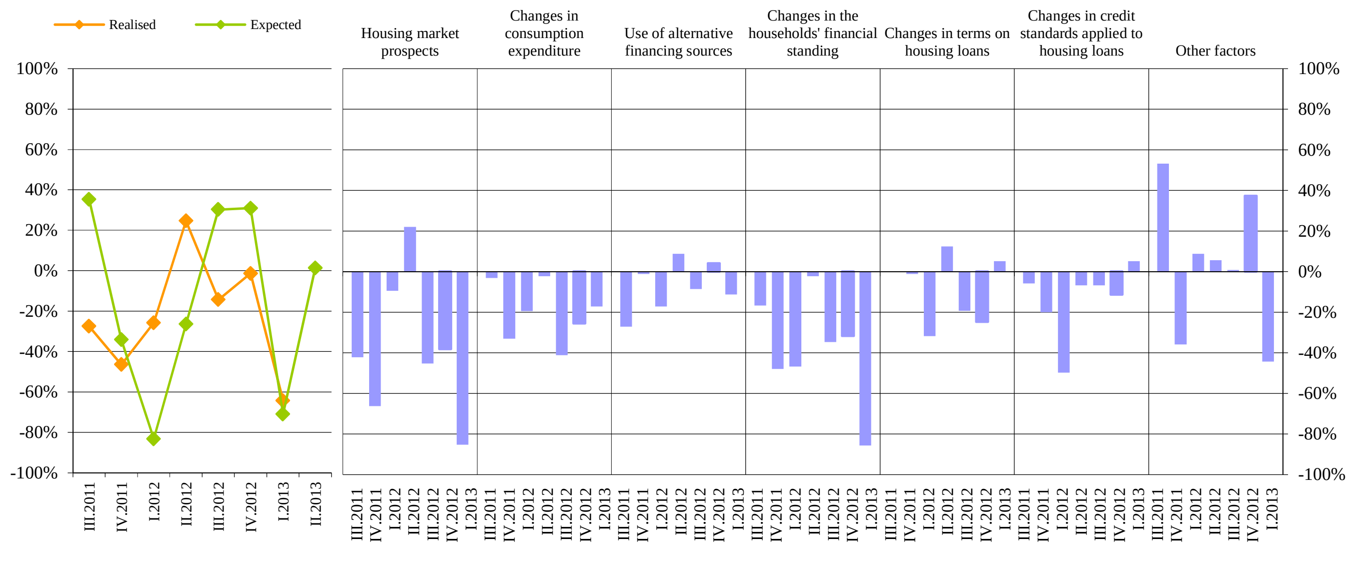


Individual banks that eased their lending policies attributed the move primarily to changes in demand for housing loans (net percentage of around 16%, see Figure 7). Although other terms had no significance – in net terms – for lending policy in the first quarter of 2013, the response structure points to changes in competitive pressure in the sector of housing loans. According to around one fourth of *all* banks, competitive pressure from other banks contributed to easing lending policy, as around half of *all* banks considered this factor as the reason for tightening the standards and terms of granting housing loans.

The majority of the banks were affected by falling demand for housing loans in the first quarter of 2013 (in net terms -64%, see Figure 8). One third of the banks responding in that way termed the decrease in demand as considerable. The responses were in line with expectations expressed in the previous edition of the survey.

The banks named the worsening economic condition of households and forecasts for the housing markets as major reasons for a lower demand for housing loans (net percentage of around -86% and around -85%, respectively). The banks also indicated factors that had not been accounted for in the survey (net percentage of around -44%), citing mainly the effect of the discontinuance of the government-subsidised programme "First family home". In addition, according to the banks, the fall in demand was also driven by the shift in household consumer spending (net percentage of around -17%) and the use of alternative funding sources (net percentage of around -11%), primarily loans extended by other banks. Other factors had no significant impact on developments in housing loan demand.

Figure 8
Demand for housing loans and factors influencing its changes



In net terms, around one fourth of the banks have plans to ease their lending policy in the housing loan segment in the second quarter of 2013 (see Figure 6). In parallel, around 72% of *all* banks expect no changes in this respect.

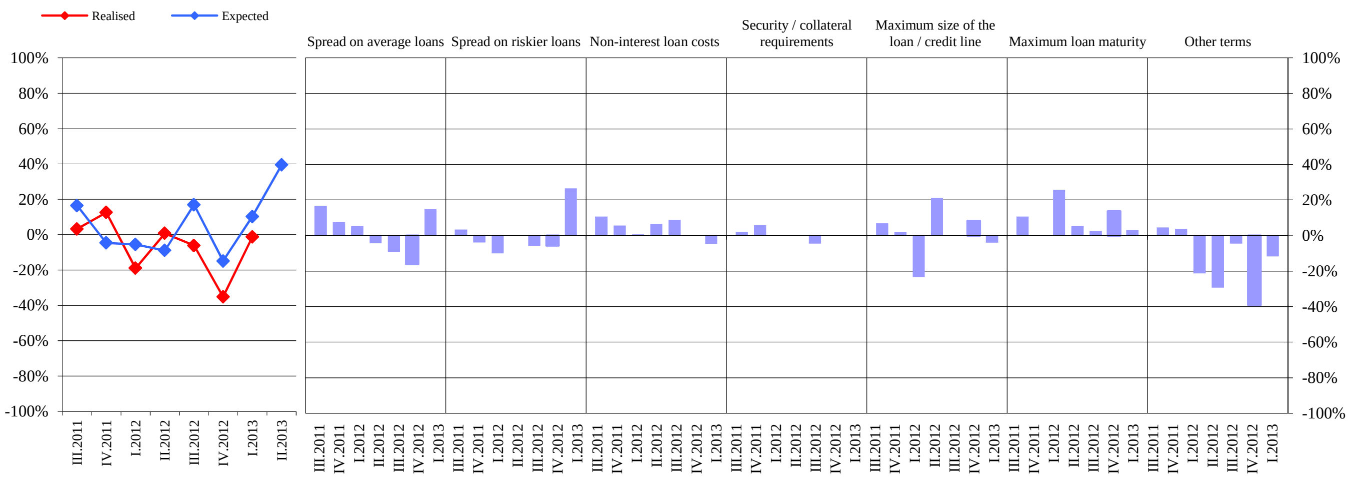
The majority of the banks do not expect demand for housing loans to change in the coming quarter (see Figure 8). However, the responses were discrepant – around 19% of *all* banks expect demand to rise in this period, and around 17% of *all* banks expect it to fall.

Consumer loans to households

The standards of granting consumer loans were not significantly changed in the first quarter of 2013 (see Figure 9). Around 82% of *all* responding banks reported no changes in this segment. The responses were consistent with their expectations from the previous edition of the survey.

The banks lowered spreads on consumer loans, for the first time in four quarters. In the case of riskier loans, the action was reported by around 27% of the banks, while in the case of all consumer loans – 15% of the banks. At the same time, responding banks tightened the terms unaccounted for in the survey (net percentage of around -12%), citing changes in consumer creditworthiness assessment.[4] Other terms on consumer loans were not changed significantly.

Figure 9
Standards and terms on consumer loans



Changes in consumer loan demand were the main reason of the easing of lending policy, the banks said (net percentage of 36%, see Figure 10). Almost one fourth of the banks claimed that the NBP monetary policy decisions were the other reason. Other factors had no significant impact on lending policy in the segment of consumer loans.

In net terms, the surveyed banks were not significantly affected by changes in consumer loan demand in the first quarter of 2013 (see Figure 11). However, the responses were discrepant – around 20% of *all* banks identified a fall in demand (of which one fourth considered it as considerable), and around 17% of *all* banks registered a rise in demand in this segment. At the end of the fourth quarter of 2012, the banks expected consumer loan demand to fall.

According to the banks, the subdued demand for consumer loans continues to result mainly from changes in the economic standing of households (net percentage of around -25%). At the same time, one fifth of *all* banks considered this as a factor supporting demand for consumer loans. As in previous quarters, the use of alternative

[4] According to the definition used in this survey, the examples of lending policy tightening, cited by the banks, relate to the standards of granting loans. Due to their incorrect classification by the banks, they are presented under the category "Other terms" in Figure 9.

funding sources, primarily loans from other banks, also played a major role (net percentage of around -17%). Around 16% of the banks mentioned factors not accounted in the survey, to which they included changes in the sales system.

Figure 10
Factors influencing changes in lending policy – consumer loans

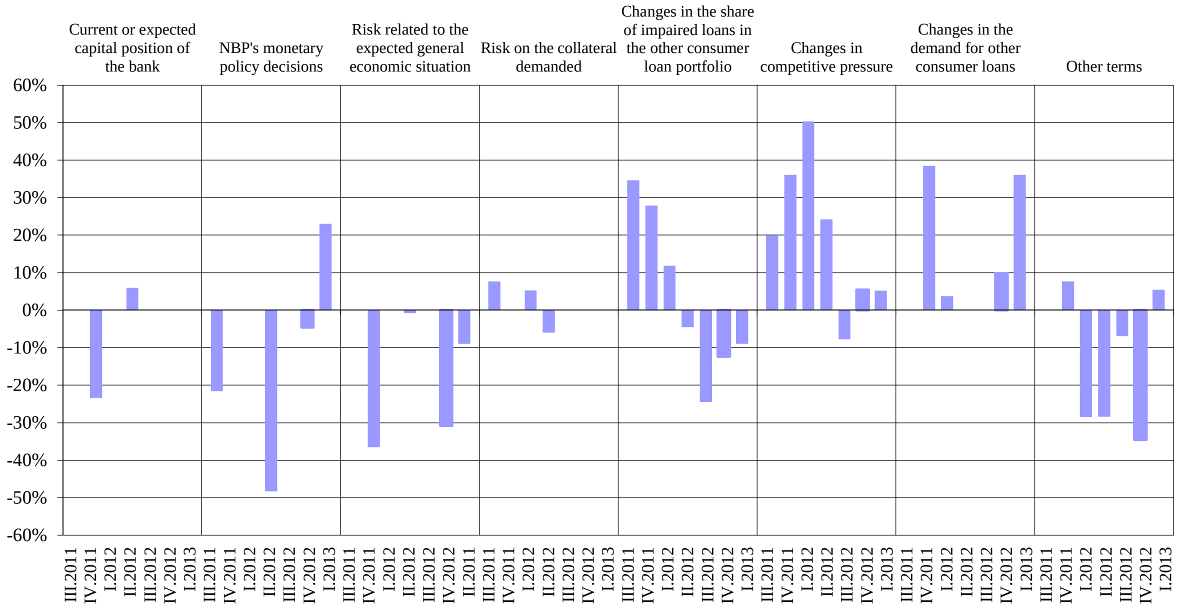
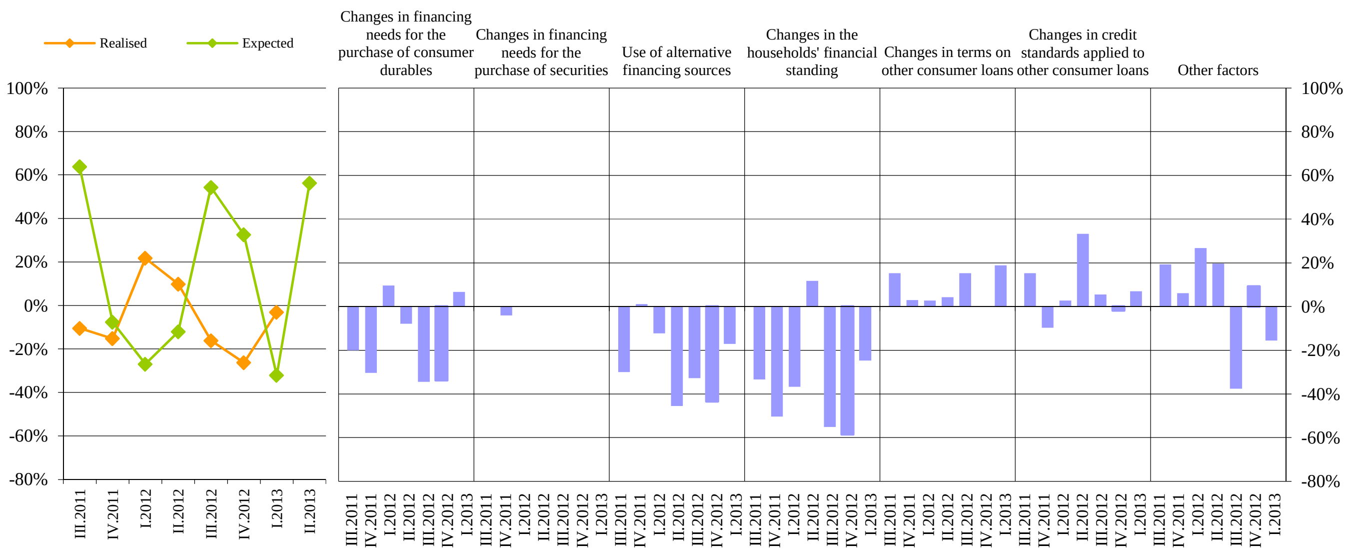


Figure 11
Demand for consumer loans and factors influencing its changes



The banks that experienced a rise in consumer loan demand justified it with the easing of terms on this type of loans (net percentage of around 19%). Other factors had no significant impact on demand for consumer loans.

The banks expect lending policy regarding consumer loans to be eased in the second quarter of 2013 (net percentage of around 39%, see Figure 9). No changes in lending policy in this segment were reported by around 60% of *all* banks.

Over half of the banks expect demand for consumer loans to grow in the forthcoming quarter (net percentage of around 56%, see Figure 11).