



credit trends

Semi-Annual Report
Credit Information Bureau

2017



BIURO INFORMACJI KREDYTOWEJ

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The loan market in the retail segment did not rise so dynamically as the whole economy. Only housing loans showed a considerable rise in 2017, but even they did not reach the dynamics of the number of new flats provided on the market.

The sales of cash credits in 2017 in terms of numbers were at the 2016 level, in terms of value – slightly higher. In the credit cards segment, the stabilization of the level of concluded contracts is to be observed. Only credits financing hire purchase of goods and services showed a high dynamics in 2017.

The expansion of loan companies in the low amount segment continued. The loss rate of loans was high.

Banks concentrated on higher amount cash loans granted for longer periods.

The number of customers servicing housing loans in foreign currencies and the amount due to banks because of these loans were on the decline. It resulted from the repayment of loans as well as the strengthening of the zloty against the Swiss franc in 2017. We do not observe an impact of changes in the Swiss franc rate on the repayment of loans taken in this currency.

The quality of retail loans and credits in all the products raised no objection and was at a safe level.

In BIK databases, we observed a rise in the number and amounts of loans granted to micro-entrepreneurs. The loans granted to the trade and service sectors were dominating.



Andrzej Topiński, PhD
BIK Chief Economist

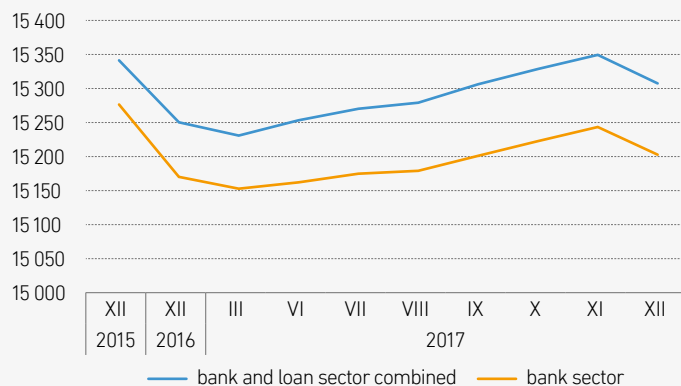
The number of borrowers, outstanding credit

In the second half-year of 2017, the number of borrowers in the bank and loan sectors and the amount of their debt rose.

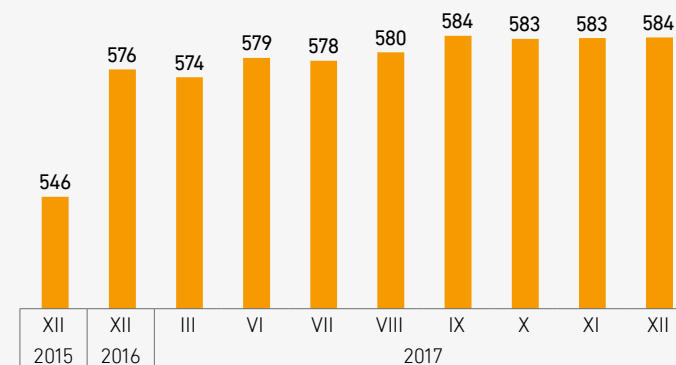
The number of customers of both sectors (banks and loan companies) amounted to 15.3 million in December 2017 in the BIK database. At the beginning of the year it was lower by 108 thousand (a rise of 0.7%). In the 2nd half-year the number of borrowers was rising month by month. The number of bank sector borrowers rose at a similar pace. And the number of loan sector customers rose by as much as 24.8%. This rise resulted primarily from granting loans to customers already indebted in banks. The number of customers servicing simultaneously bank credits and loans companies loans rose in the course of 2017 by 23.9%.

The amount of customers' debt in both sectors rose in a similar degree to the number of borrowers. At the end of 2017 their debt amounted to 584 billion zlotys, i.e. 7.5 billion (1.3%) more than at the beginning of the year. Negative exchange rate differences in the franc portfolio resulting from the stronger zloty amounted to 15.3 billion zlotys.

The number of borrowers (in thousands) servicing loans/credits



Outstanding debt (in billions of zlotys) of households jointly in the bank and loan sectors



Borrowers by products

The number of borrowers servicing consumer credits was stable. The number of housing loan borrowers was on the rise.

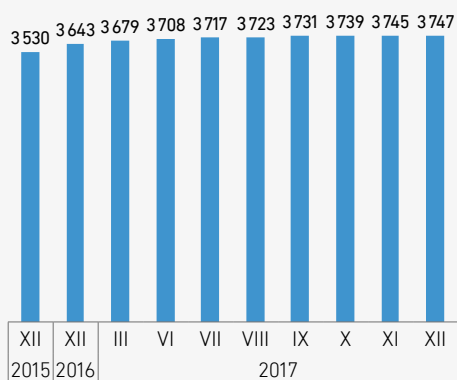
In 2017 the number of housing loan borrowers rose by 105 thousand (2,3%); comparably to 2016, when in the whole year, it rose by 112 thousand. The housing loan portfolio is relatively young; hence, the number of customers entering the market is higher than the number of those having repaid the whole debt.

After the declines in 2016, continued in the first half-year 2017, the number of borrowers servicing consumer credits in the bank sector at the end of December was by 74 thousand (0.9%) YoY higher. The increases refer to both instalment and cash credits. It is difficult to call it a boom, but there is a shift to a growing trend on the market of consumer credits, also in terms of the number of borrowers.

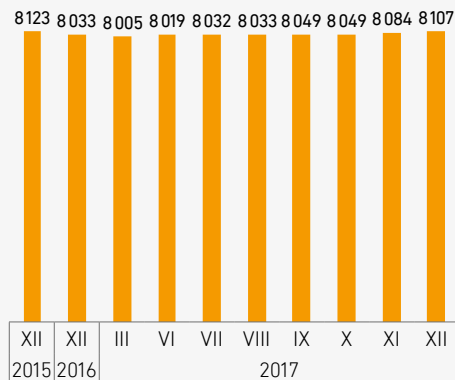
The number of customers possessing overdraft in 2017 declined by 194 down to 7,341 thousand customers. In October and November, the number of credit card holders began to grow. At the end of December, banks reported 4,901 thousand credit card holders, i.e. 73 thousand (1.5%) more than a year before.

Borrowers (in thousands)

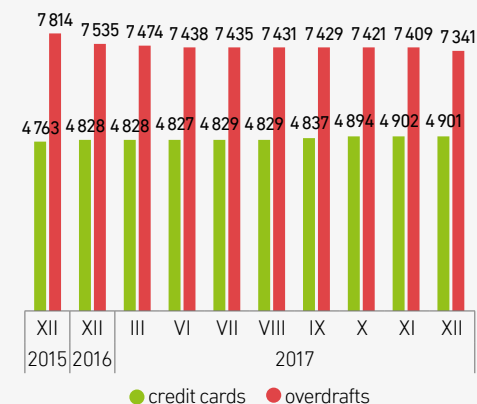
Housing loans



Consumer credits



Cards and overdrafts



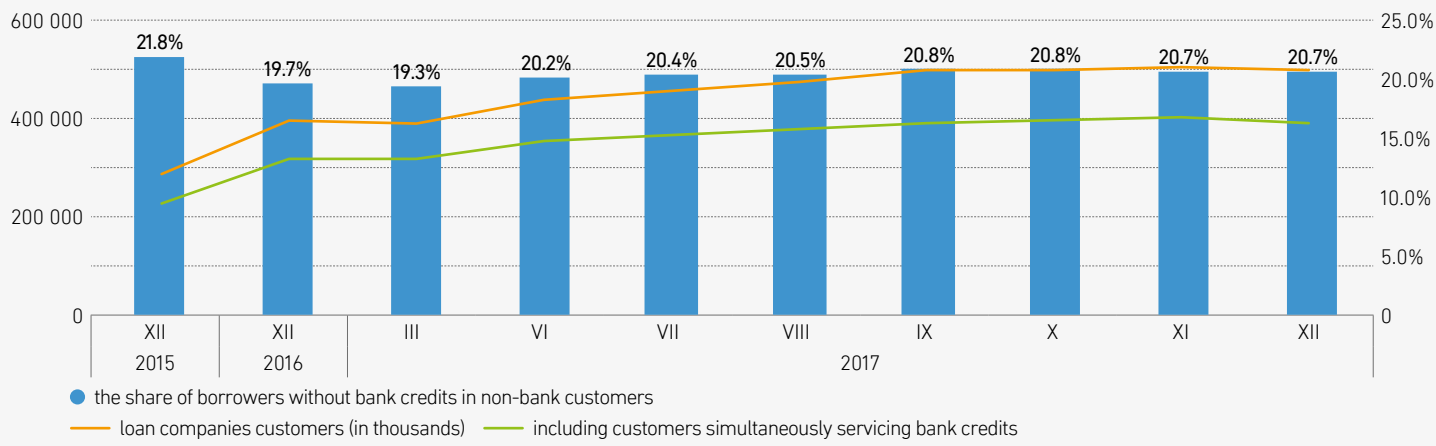
Customers of loan companies

The number of customers having liabilities to loan companies increased. A decisive majority of them simultaneously serviced bank credits.

In 2017 loan companies cooperating with BIK acquired 101.3 thousand new customers. The rises in the number of borrowers in 2017 were similar to those in 2016. The rise in the number of loan companies customers does not result only from the development of activities of these companies, but also from the process of their closer cooperation with BIK.

About 80% of customers of loan companies serviced bank credits at the same time. Only 102 thousand out of 498 thousand customers of the loan sector did not have any bank liabilities in use. 25% of them were at the age of up to 24, and young customers pose more risk. Overactive borrowers simultaneously servicing many loans in both sectors are also a group posing an increased risk in the loan sector.

Loan companies customers (in thousands), including those simultaneously servicing bank credits



Customers of loan companies

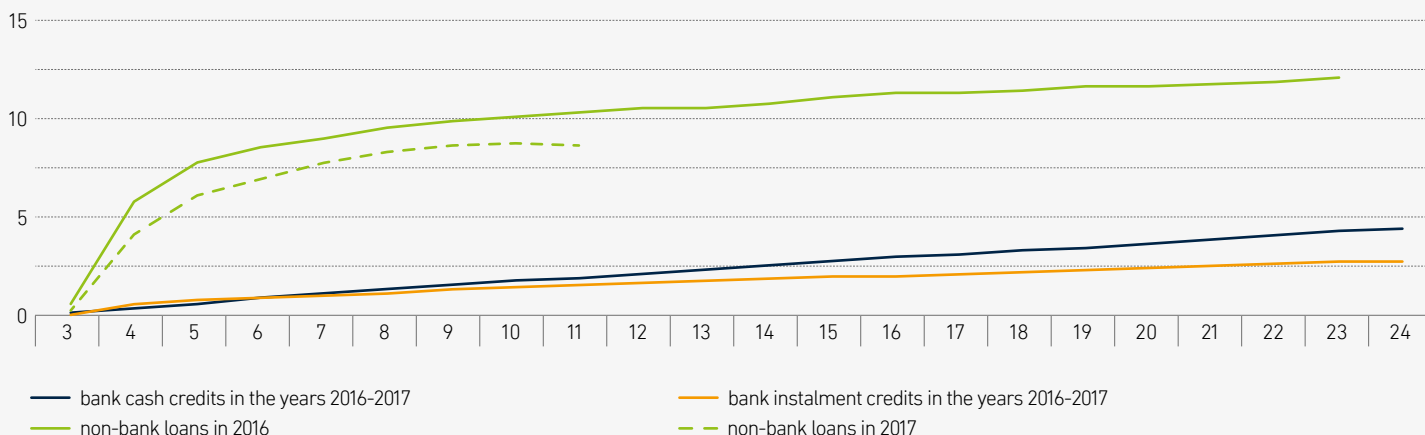
Non-bank loans are characterized by a considerably higher loss rate.

When evaluating bank credits and loans granted by non-bank firms (see the graph below), it can be observed that the loan loss rate measured two years after granting is nearly three times higher than that in the case of low amount bank credits. Two years after

granting, 12.1% of non-bank loans are classified in the 90 days+ overdue category, while in banks this category includes 4.3% of cash credits and 2.7% of instalment credits. Loan companies accept a definitely higher level of risk, are ready to credit customers servicing

many liabilities and are more open to credit relatively riskier young customers. The problem is that they finance primarily customers possessing active bank credits, shifting the risk to the bank portfolios in this way.

Loans and credits for amounts up to 10,000 zlotys granted in the years 2016-2017 and by banks and loan companies. The share of 90+ past due accounts in subsequent months after granting



Overactive customers

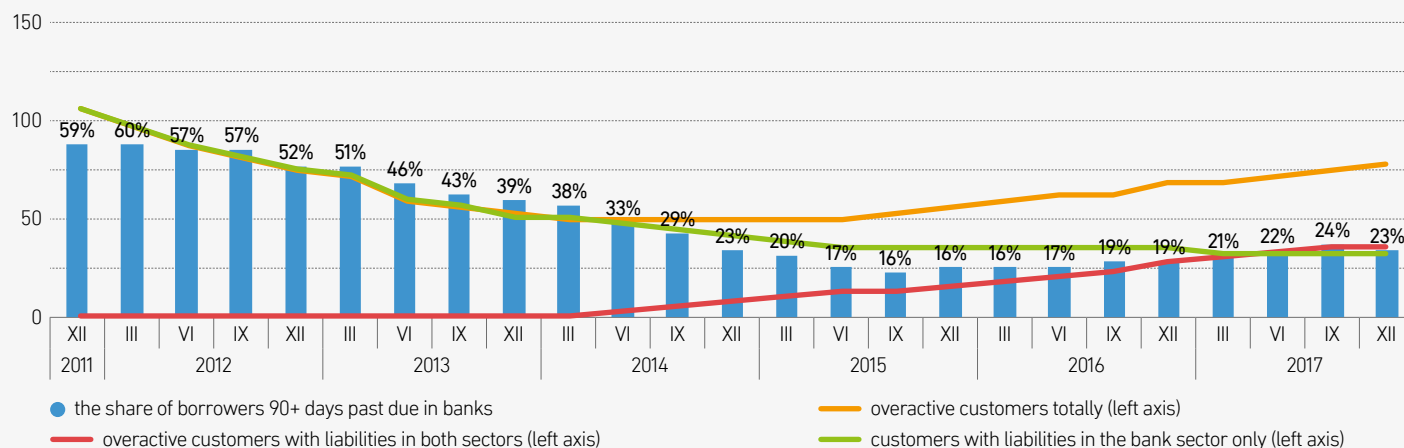
The number of overactive customers (with 10 or more liabilities) increase as loan companies accept applications made by borrowers servicing simultaneously many credits in banks.

The number of borrowers servicing 10 or more credits in banks and SKOK credit unions decreases systematically. The customers servicing 10 or more liabilities are referred to as overactive. They pose a higher credit risk. Banks systematically limit the crediting of such customers. In June 2017 there were 36 thousand borrowers servicing 10 or more credits in the bank sector (including SKOK credit unions).

From the beginning of 2017 the number of such customers declined by 1 thousand, but the number of those who combine bank credits in their portfolios (having less than 10 of them) with liabilities to loan companies (jointly having more than 10 liabilities) amounted to 42.2 thousand in December, i.e. 10 thousand more than at the beginning of the year. Loan companies seem to have taken over crediting

of overactive bank customers to a large extent; their number, in the joint analysis of borrowers in both sectors, is constantly growing. The share of bad borrowers in overactive ones in the loan sector amounts to 32% and is 9 percentage points higher than in the bank sector. The rise in the number of overactive customers in the loan sector results partially from a closer cooperation of loan companies with BIK.

The number of overactive customers (in thousands) having at least 10 liabilities in use in the bank and loan sector and the share of 90+ past due borrowers in this group



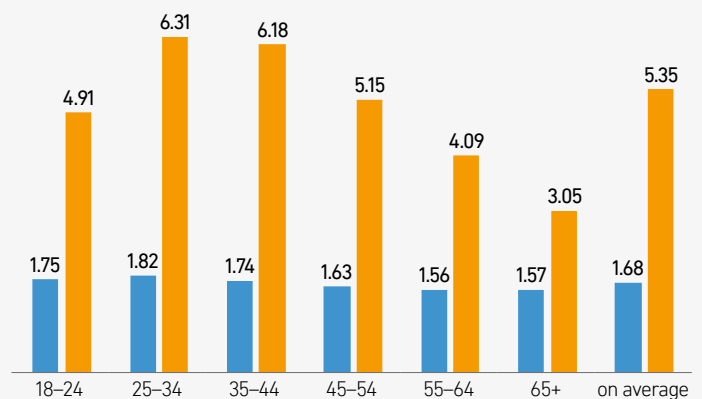
Loan companies – loans for customers in debt

Loan companies customers roll over their short-term liabilities, on average they took 5.35 liabilities in loan companies within 24 months (in 2016 and 2017); bank customers took on average only 1.68 credits per capita for amounts up to 10,000 zlotys. It seems that one of the most important reasons behind

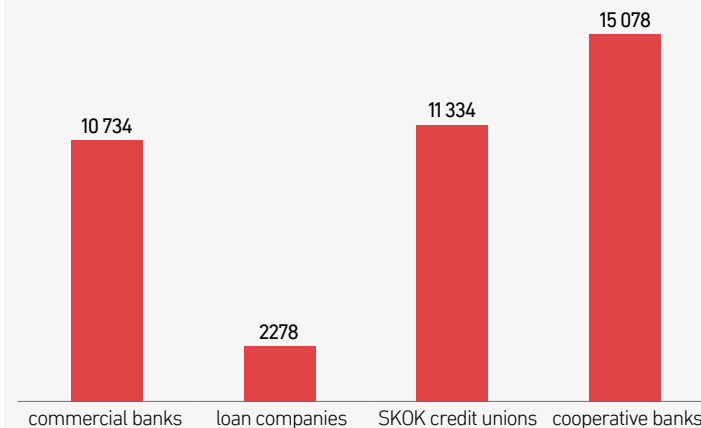
the attractiveness of loan companies is the readiness of these companies to accept applications from seriously indebted customers and the prompt acceptance of applications for a subsequent loan. Loan companies, with a few exceptions, operate in the segment of low amount short term loans, hence – an average

loan amount is low. In the group of commercial banks, an average amount of granted credits is lowered by instalment credits. In cash credits, an average credit granted by commercial banks amounted to 18.5 thousand zlotys in the years 2016-2017. The remaining financial institutions do not grant many instalment credits.

An average per capita number of contracts for credits/loans concluded in the years 2016-2017 for the amount of up to 10,000 zlotys, by age



An average amount of consumer credit/loan (without instalment credits) by the type of credit institution



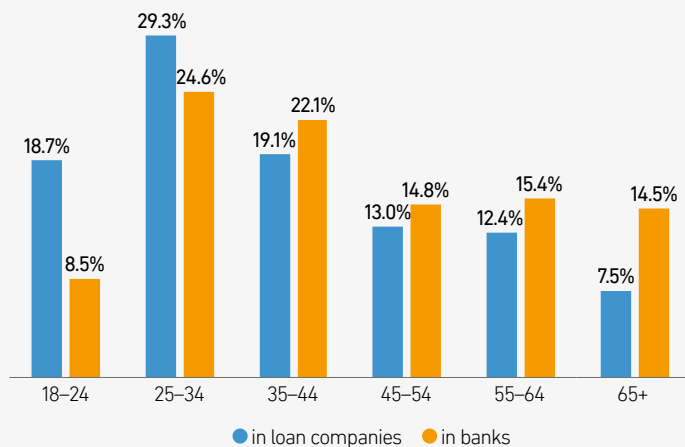
Loans for the young

28% of customers with liabilities in use in loan companies (portfolio approach) are no more than 30 years old. The share of this group of borrowers not servicing bank credits amounts to 43%. A reversed age structure is typical of SKOK credit unions customers: customers in

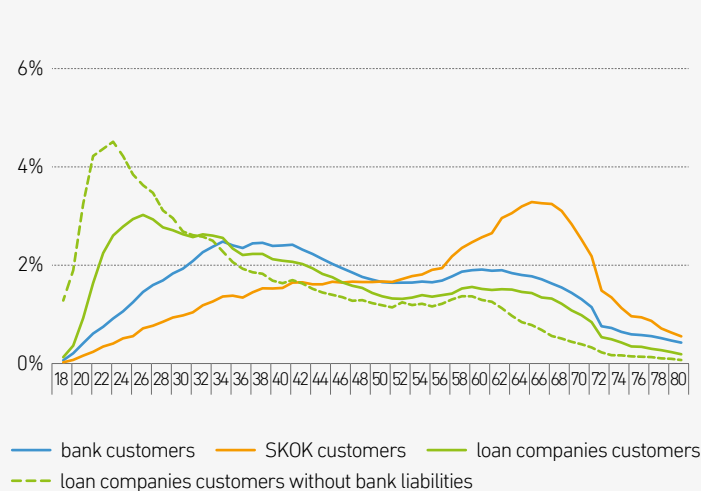
their 60s are dominating. The youngest borrowers pose relatively highest credit risk. The share of the youngest group (18-24) in the number of loans granted by non-bank companies in the years 2016-2017 amount-

ed to 18.7%, and the share of this group in low amount bank loans amounted to 8.5%. In banks older borrowers are dominating in comparison with loan companies; and the older the customers are, the lower credit risk they pose.

Credits/loans for the amount of up to 10,000 zlotys granted in 2016 and 2017. Age structure of customers concluding contacts.



The structure of credit institutions customers by age of borrowers



Key findings

- The economic recovery only insignificantly translates into the market of consumer credits. The number of concluded consumer credit contracts in 2017 was at the level of previous year, with a little higher value of contracts. A decisive rise in the number and value of concluded contracts in 2017 was to be observed in the segment of instalment consumer credits, in particular in the 2nd half-year.
- The number of borrowers slightly rose after the 2016 declines. Generally, we observe the stabilization of the number of customers servicing consumer credits.
- Lower amount consumer credits are taken over by loan companies. The loss ratio of loans granted by them is much higher than that of bank credits. It results from the loans granted by these companies to customers heavily indebted in banks as well as to the youth.
- Banks focus on higher amount credits. The periods for which they are granted become longer. As a result, the consumer credit retail debt amounts grow much faster than the value of the concluded contracts.
- The quality of consumer credits granted by banks is at a stable level.

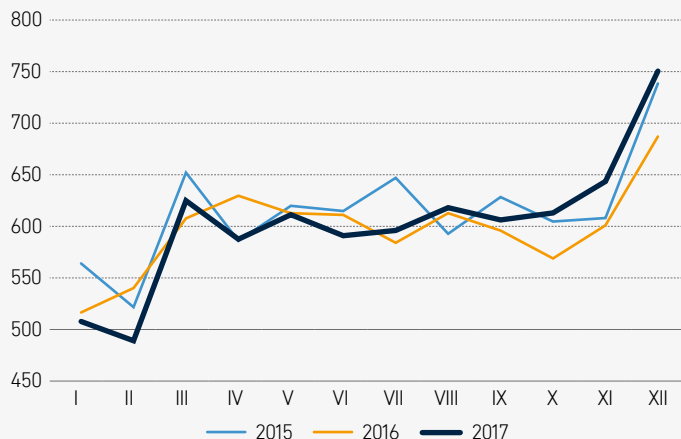
The number of granted credits

The number of consumer credits granted (instalment and cash) shows stability.

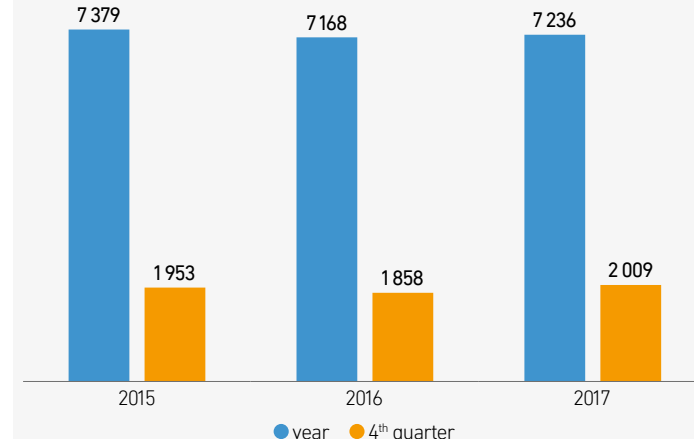
The annual sales of consumer credits in the years 2015-2017 was similar: the first two months (January and February) were poor, followed by the stability of the sales level, and eventually the rise in the number of concluded contracts at the end of the year. In this respect, 2017 was similar to two previous years. The pre-Christmas recovery was in 2017 stronger and it began earlier, already in November.

In 2017, banks and SKOK credit unions granted jointly 7,236 thousand consumer credits. It meant a slight (1%) YoY rise, but also a decline of 2% in comparison with 2015. The level of crediting in terms of numbers was stable. The YoY results of the 4th quarter indicate an increase of as much as 8% of the number of concluded consumer credit contracts, which resulted from a substantial earlier rise in the sales of instalment credits in the pre-Christmas period.

Consumer credits (in thousands) granted granted monthly in 2015-2017



Consumer credits (in thousands) granted granted in 2015-2017, including those in the 4th quarters



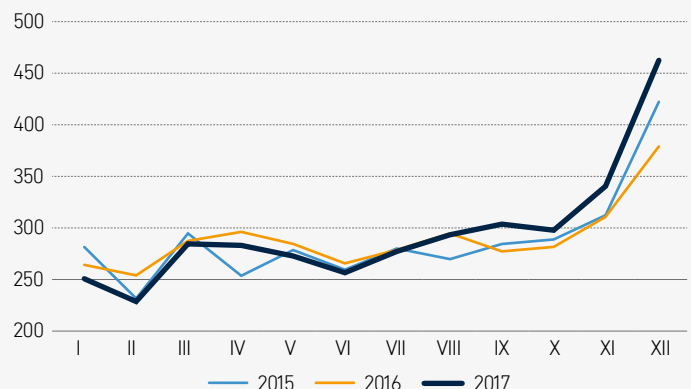
Instalment and cash credits

The pre-Christmas recovery in the sales of consumer credits in December 2017 referred only to instalment credits (for the purchase of goods and services). Cash credits do not show seasonal hikes in pre-holiday periods.

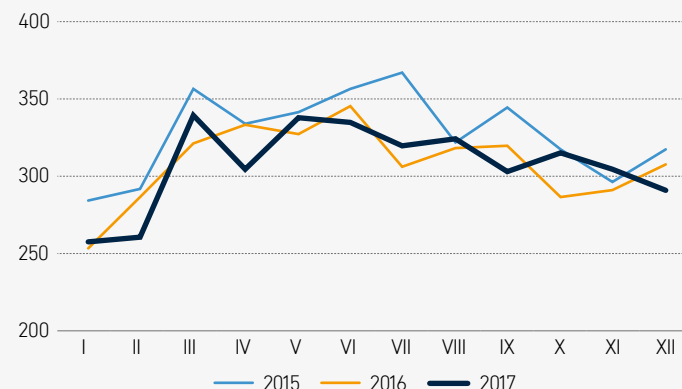
The number of instalment consumer credits in the 4th quarter 2017 was 13.2% higher than a year before, and in December by as much as 21.7%. The number of instalment credits granted in the whole year 2017 was YoY higher by 10.2%,

The number of cash credits granted in 2017 was at the previous year's level, but lower by 5.9% in comparison with 2015. Cash credits do not show seasonal increases in December.

Instalment credits (in thousands) granted monthly in 2015-2017



Cash credits (in thousands) granted monthly in 2015-2017



Outstanding debt, the number of borrowers

From March 2017 there was a slight growing trend in the number of borrowers. The outstanding debt amount continued to grow.

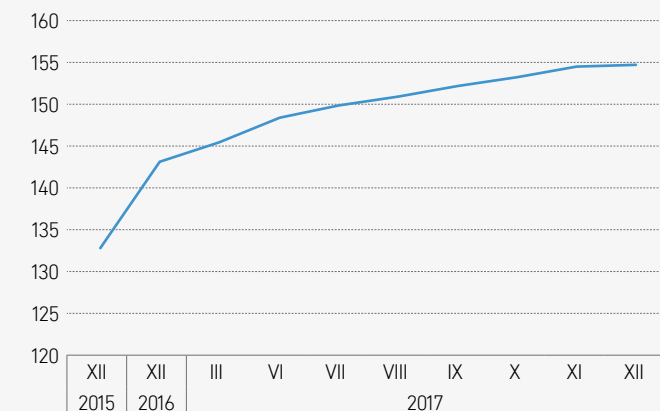
In 2017 we recorded declines in the number of customers having consumer credit accounts in use, with the growing trend of balances on accounts. From March we could observe a slow increase in the number of borrowers. In December 2017, 8,107 customers serviced consumer credits, i.e. 0.9% more than in December 2016.

The retail consumer credit outstanding debt in December 2017 amounted to 154.9 billion zlotys, which meant a YoY rise of 8.3%. The outstanding debt on cash credit accounts amounted to 8.8%, and on instalment credit accounts to 4.2%. The debt in cash credits amounted to 89% of consumer credit debt, and 11% in instalment credits.

The number of borrowers (in thousands) servicing consumer credits in banks and SKOK credit unions



The consumer credit outstanding debt (in billions of zlotys) in banks and SKOK credit unions



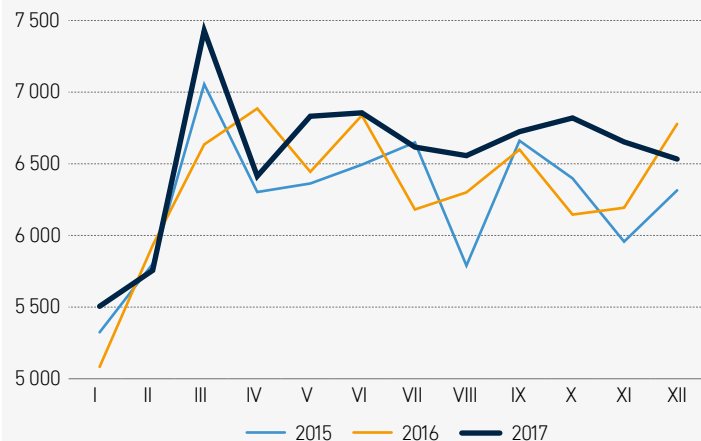
The value of consumer credits granted

The value of consumer credit contracts continued to grow.

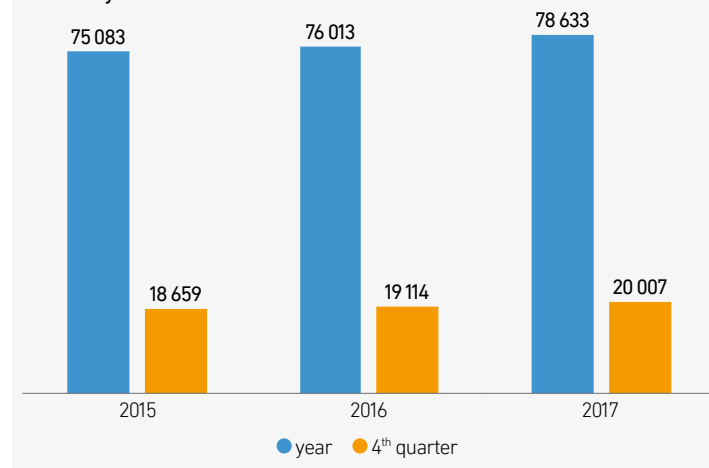
The value of concluded contract from the 2nd quarter was at a similar level every month, on average at 6.7 billion monthly. Higher month to month fluctuations in previous years in amounts of granted credits were determined by the unstable number of high amount credits.

The consumer credit contract value in 2017 was YoY 2.4% higher, and in the 4th quarter 4.7% higher. We observed a permanent upward trend in the amounts of granted consumer credits connected with the rise in average transaction amounts and longer crediting periods.

The value (in millions of zlotys) of consumer credits granted monthly in the years 2016-2017



Consumer credits (in millions of zlotys) granted in the 1st half-years of 2015-2017, including those in the 4th quarters of these years



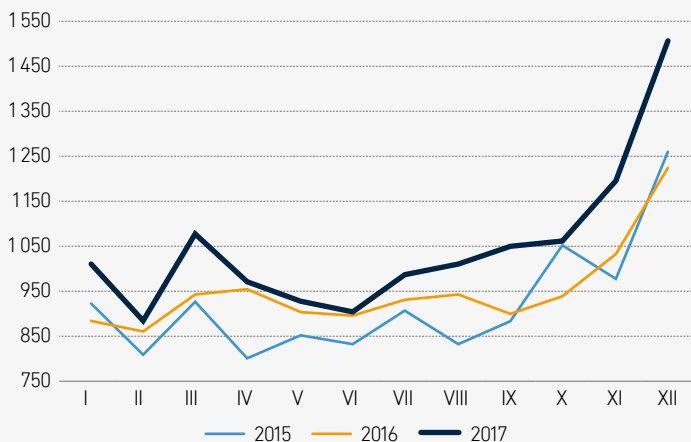
Instalment and cash credits - contact value

The value of consumer credit contracts increased in the segment servicing hire purchase. A poorer rise in cash credits.

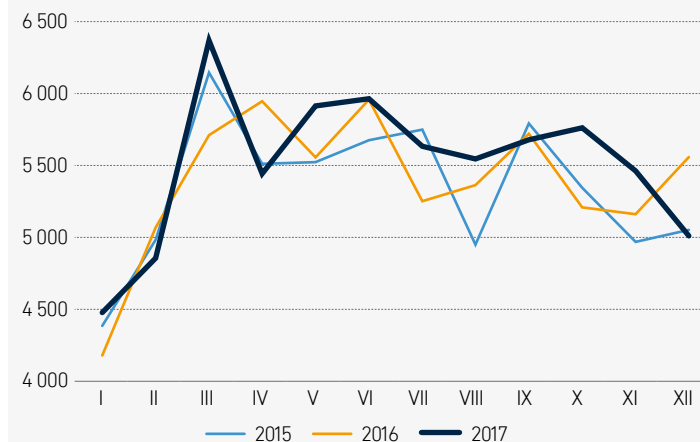
The value of instalment credits granted by the bank sector in 2017 was by 10.2% higher than a year before, in the 4th quarter by 17.9% and in December by as much as 23.1%. The value of contracts for instalment credits in 2017 amounted to 12.5 billion zlotys. Every month in 2017, the sales of instalment credits were higher than in the previous year.

The value of contracts for cash credits amounted to 66 billion zlotys in 2017 and was 2.3% higher than in 2016. The sales of the bank sector in this segment in the 4th quarter was YoY 2.0% higher.

Instalment credits (in millions) granted monthly in 2015-2017



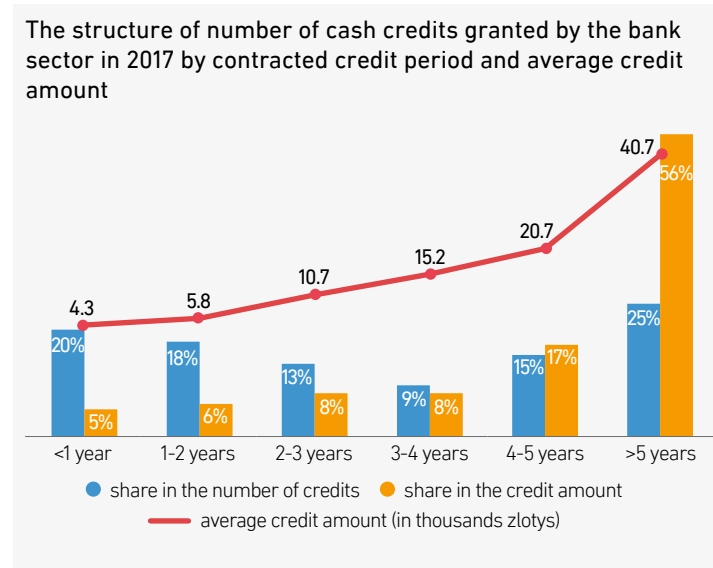
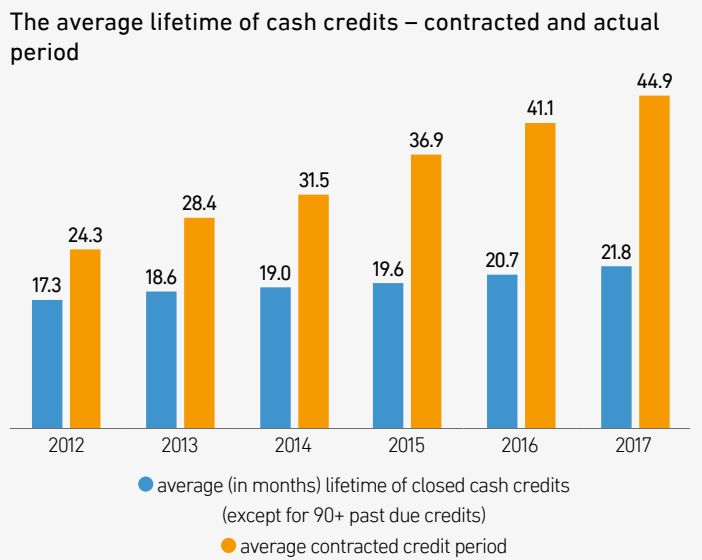
Cash credits (in millions) granted monthly in 2015-2017



Cash credits (bank sector) – average period and average amount of credit

Year by year, an average period for which contracts for cash credits are concluded becomes longer. In the course of five years, an average crediting period nearly doubled. Borrowers often prepay the credits taken and the actual contract duration is considerably shorter. 40% of

contracts for cash credits concluded in 2017 had the repayment period of over 4 years. The longer the crediting period, the higher the amount of credit: thus, in terms of value, the share of cash credits for the period over 4 years was even higher and amounted to 73%.

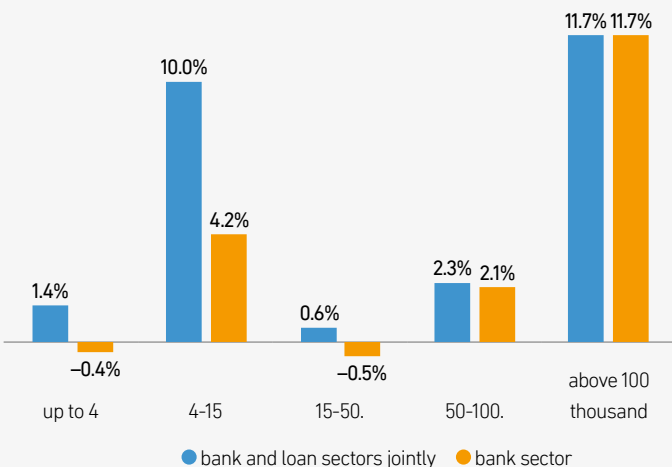


Consumer credits in amount segments

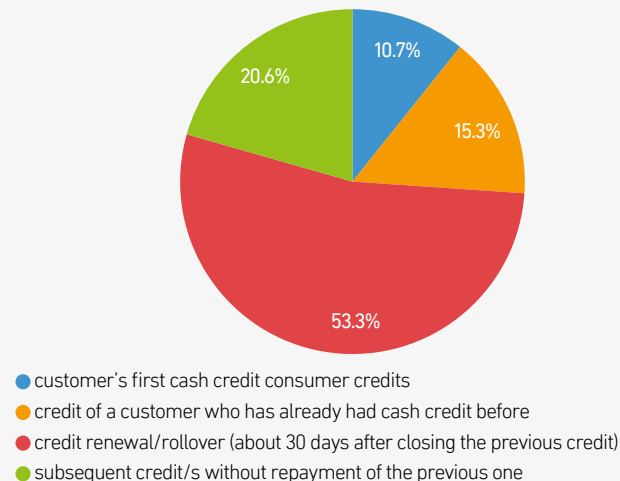
In the 2nd half-year 2017, the declines in the number of low amount consumer credits contracts stopped. In the credit segments of amounts up to 4 thousand zlotys, after the 1st half-year we reported the decline in the bank sector of 6.1% YoY, and 2.5% including loan companies. The whole year indicates the rise in credits in the segment of up to 4 thousand

zlotys of 1.4% together with loan companies and a slight decline of 0.4% in banks themselves. The compensation for the first half-year losses may have related to a good year ending, in particular with the financing pre-Christmas shopping with credits and loans.

The YoY rises in the number of consumer credits/loans granted in 2017 in amount segments



The value structure of cash credits granted in 2017 by the borrower's situation on the date of concluding the credit contract

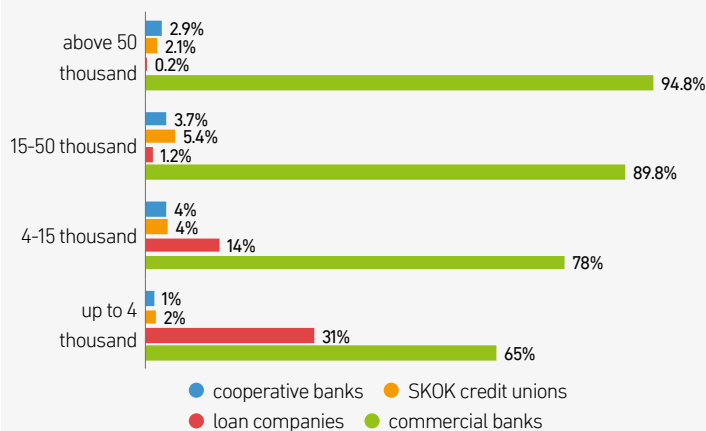


The share of credit granting institutions in consumer credits and loans granted

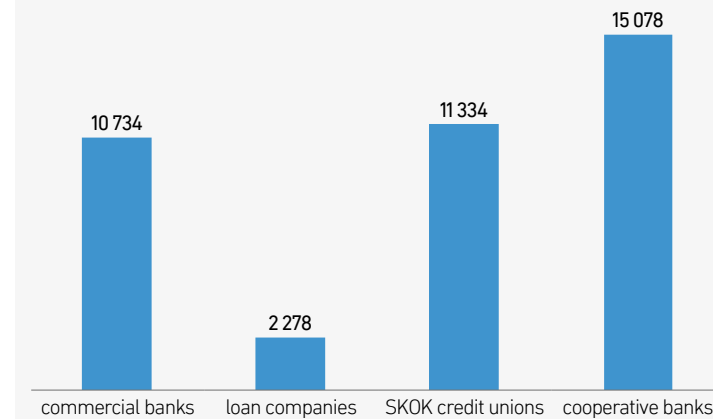
Commercial banks dominate in all amount categories of granted credits, though in the lowest presented group of loans/credits up to 4 thousand zlotys their leading position is endangered. Admittedly, the chart shows that the share of commercial banks is twice as big as that of loan companies, but the cooperation of BIK with loan companies is not complete yet, and certainly the share of loan companies in low amount credits is higher. It should be borne in mind that the interest of banks in this group of credits is smaller, which results in the decline in low amount credits granted by them.

The differences in business models of credit granting institutions are reflected in the comparison of average amounts of granted credits/loans. The bank sector, perhaps except for a few consumer finance banks, clearly focuses on higher amount credits. A high amount of an average loan in cooperative banks and SKOK credit unions is worth emphasizing. An average amount of a consumer credit granted by commercial banks is reduced by instalment credits granted by banks from the consumer finance group.

The share of credit granting institutions in the number of instalment and cash credits/loans granted in 2017



An average amount of consumer credit (in zlotys) by the type of credit institution



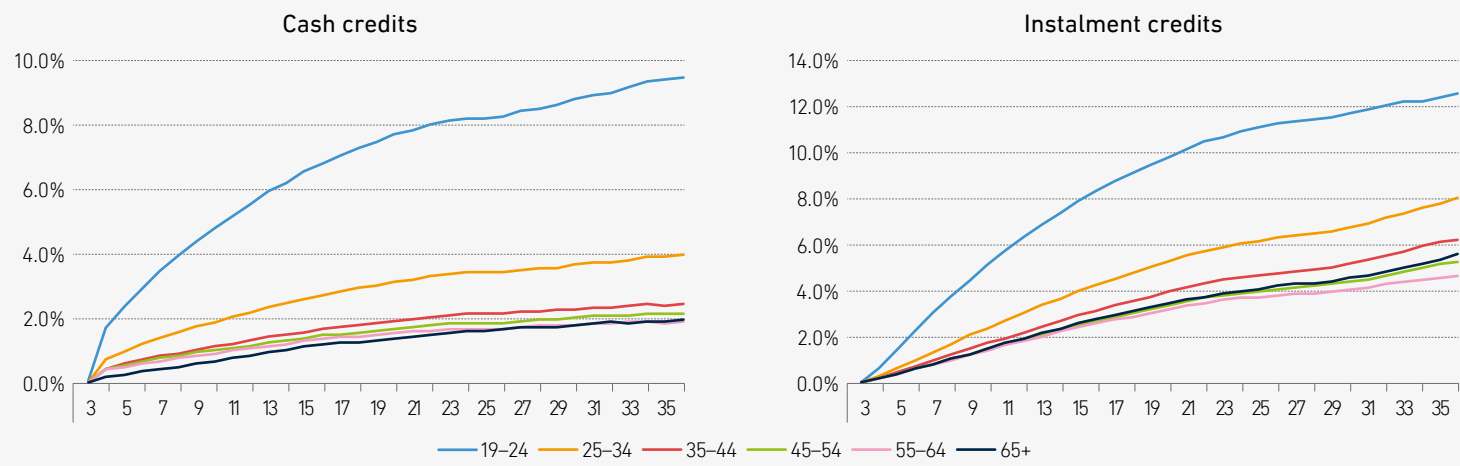
The quality of credits in age groups (the age on the date of contract conclusion)

Credits granted to the youngest customers indicate the highest loss rate. The default probability declines with the growing age of the borrower.

In the previous edition of CREDIT TRENDS, we showed the consumer credit loss rate depending on the credit amount (the higher the credit amount, the higher the loss rate). Presently, we show the dependence of the loss rate on the borrower's age. The youngest customers pose the highest risk, especially in credits which finance the (instalment)

purchase of goods and services. Admittedly, there are not many of them (about 6% of all borrowers). Interestingly, there is an increased loss rate in the next age group (25-34 years), which includes 4 times more borrowers in comparison with the group of 19-24 years of age.

Consumer credits. The share of accounts past due 90+ days in the number of the credits granted in years 2016-2017 in age groups in subsequent months after granting



Entries into the status 30 + days past due in servicing

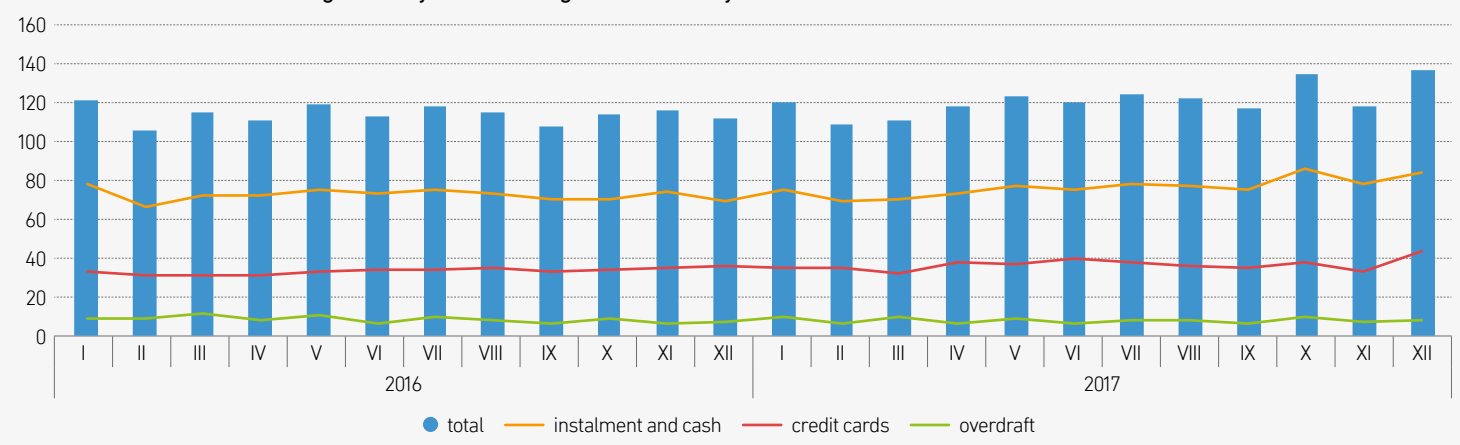
The number of entries into the status 30 + days past due was increasing faster than the number of active in use in the bank sector.

The number of entries into the status 30+ days past due in servicing may be treated as the first signal of the portfolio quality deterioration. On average 114 thousand accounts entered the first past due status every month in 2016.

In the 1st half-year 2017 the number of entries into the 30+ day past due status increased up to 117 thousand, in the second half-year 125.5 accounts entered monthly the 30 days+ status on average, and in the 4th quarter 129.6 thousand. A part of this shift to the 30 days+ overdue

status results from the rise in accounts in use in 2017. In December 2017, banks and SKOK credit unions had in their portfolios 1.5% of credit non-housing credit accounts more than a year before, and an average monthly rise in shifts to 30 days+ status amounted to YoY 6.3%. This rise in shifts does not translate directly into the quality of portfolios; about half of the accounts entering an overdue status return to the regular status. At present, we do not observe an important rise in shifts to the 90 days+ overdue status.

Credits (in thousands) shifting monthly from the regular to 30+ days overdue status



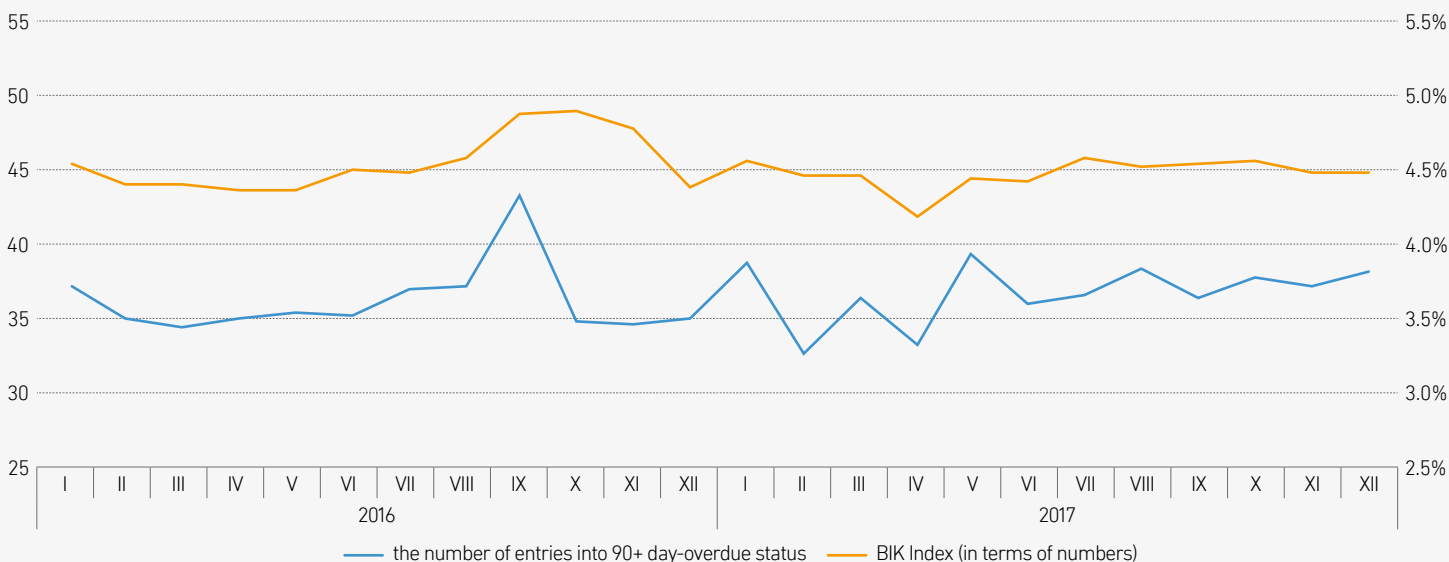
The Consumer Credit Portfolio Health BIK Index

The number of entries into the 90+ day-overdue status and the Consumer Credit Health Index based on them are stable.

The Consumer Credit Health Indices are based on the relation of the number of entries into 90+ day-overdue status to the number of active accounts (here: consumer accounts) in the month in question. Indices are also calculated on the basis of amounts of these entries; this version is published every month in the BIK credit Newsletter.

The chart indicates that the rise in the number of shifts to the 30+ day-overdue status has not translated so far into the number of shift to the 90+ day-overdues status. The rise in the number of shifts to 90+ day-overdue status between 2016 and 2017 amounted to 1.5%, with the rise of 2.6% in accounts in use.

The Consumer Credit Health Index and the number of shifts (in thousands) to the 90+ day-overdue status



The quality of consumer credits granted in the bank sector (30+ day-overdue status)

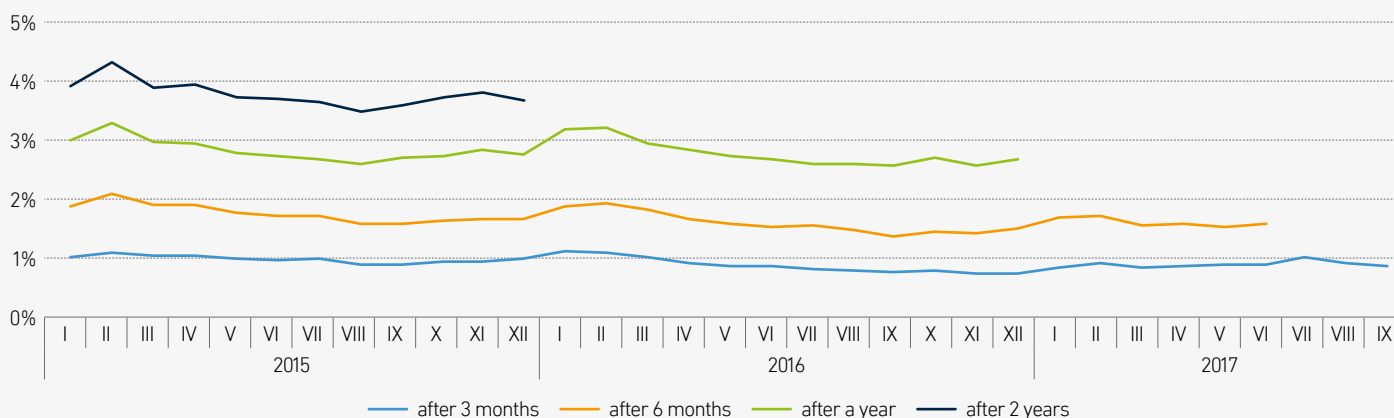
A good and stable quality of consumer credits granted in the years 2015-2017 lasted.

A relatively low number of accounts entering overdue statuses, in particular the first (30+) day-overdue status, in servicing consumer credits, indicated on the preceding pages, resulted from a low level of loss rate of the subsequent generations of credits. The graph below shows that the loss rate of subsequent credit generations, regardless of the seasonal factor, is on a constant level (vintage lines on the chart are nearly horizontal) and trends are even slightly declining. The subsequent generations deteriorate linearly over time (lines are parallel),

which may be interpreted as the lack of impact of the business cycle factors (e.g. income factors) on the repayment of credits.

The so-far experience indicates that about half of the accounts entering the past due status of 30+ days return to the status of regular servicing in the following month. Hence, the quality of crediting in the cohort accounts, which in their worst ever history had the status of 90+, is nearly twice as high.

The share of 30+ day-overdue accounts in the number accounts opened in 2015-2017 in subsequent months after granting

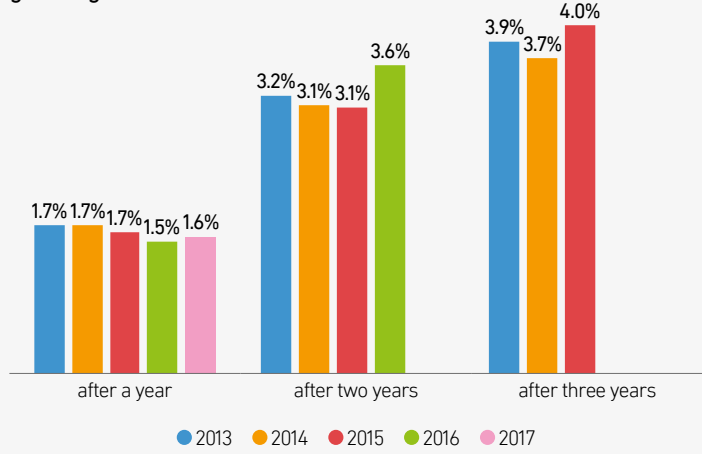


The quality of granted consumer credits (90+ day-overdue status)

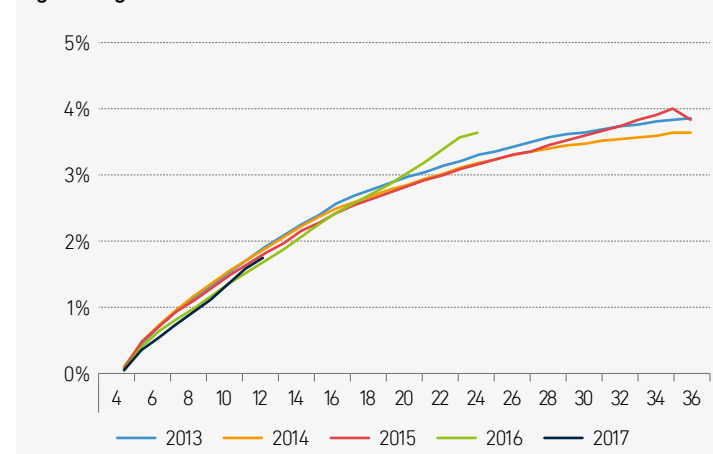
Consumer credits vintage indicators of credits permanently past due (90+ days) increase for 36 months of granting. In the following months these indicators become stable. The years 2013-2015, whose loss rate may be assessed from a 36-month perspective, show the share of 90+ days past due at the level of about 4% at the end of 2016. This share is not likely to grow in the following months, so it may be treated as the final level. The following generations 2016-2017 reach maturity

(deteriorate) at a similar pace to the preceding ones, which is seen in the results after two years after granting. So, it may be assumed that their final loss rate will not substantially diverge from the level of 4%. It would be a level three times lower than that of the crisis year of 2008. A slightly higher loss rate of the year 2016 two year after granting and the year 2015 three years after granting results from a small number of examined accounts (only those granted in January).

The share of 90+ day-overdue accounts in the number of credits granted in 2013-2017; 12, 24 and 36 months after granting



The share of 90+ day-overdue accounts in the number of credits granted in 2013-2017; in subsequent months after granting

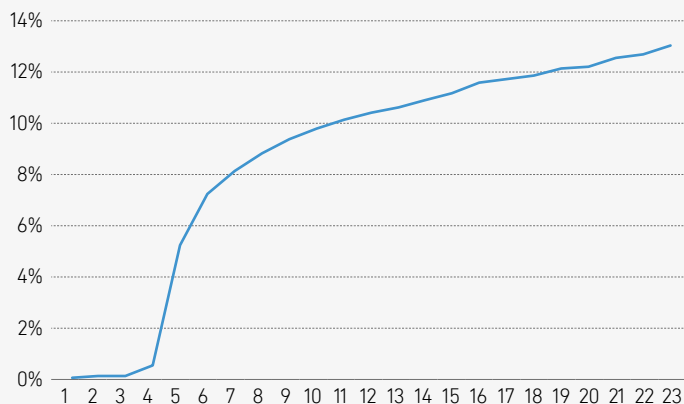


The loss rate of non-bank consumer loans

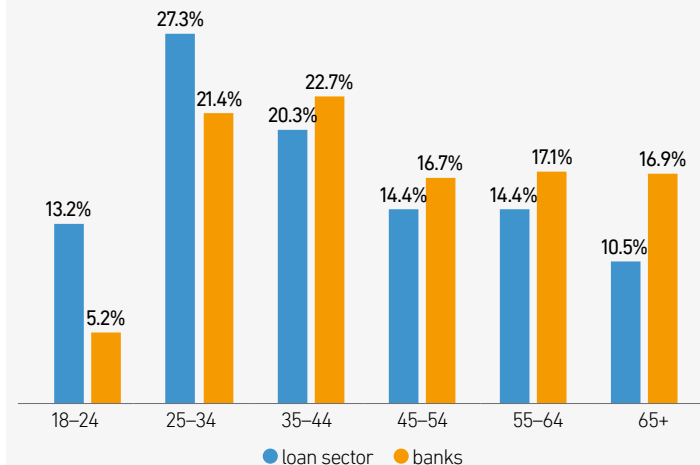
Loan company business models assume the acceptance of a higher credit risk. The graph below indicates that the loss rate (measured with the share of 90+ day-overdue credits in the number of credits granted in the whole year) is at present in the loan companies three times higher than in the bank sector. One of the reasons is the acceptance of credit applications from overactive borrowers (see p.8).

Another reason for a higher risk of non-bank loans is granting credits to the youngest customers, due to a high loss rate in this group (see p.20). The share of the youngest borrowers in number of customers of loan companies is nearly three times higher than in the bank sector. The youngest often incur their first liability in a loan company. And the customers aged 35-44 (the stabilization phase), like the oldest customers constitute a less numerous group than in the bank sector.

The share of non-bank loans 90+ past due in servicing from the years 2016 and 2017 in subsequent months after granting



Borrowers servicing consumer credits/loans. The structure of customers by age at the end of 2017





Key findings

- The sales of housing loans in 2017 were the highest in the last few years (in terms of numbers 4.9% and value 10.9%).
- An explicit impact of the MdM programme on the course of contract conclusion during the year – high sales in the 1st half-year (in particular in the 2nd quarter), poorer in the 2nd half-year. It was similar in 2016, and it is likely to be like this in 2018, i.e. in the last year of MdM.
- In the course of 2017, the Swiss franc became 55 groszes cheaper. As a result of this, franc borrowers gain 15 billion zlotys due to exchange rate differences. Their outstanding debt, calculated in zlotys, declined by 25 billion zlotys. The number of borrowers servicing currency credits was 48 thousand lower than a year before.
- The exchange rate fluctuations did not significantly affect the repayment of currency credits.
- The amount of outstanding debt and the number of borrowers servicing the zloty housing loans and were on the rise.

The number of housing loans granted

The number of housing loans granted in 2017 was the highest in the last five years, but the 2nd half-year was considerably weaker than the 1st one.

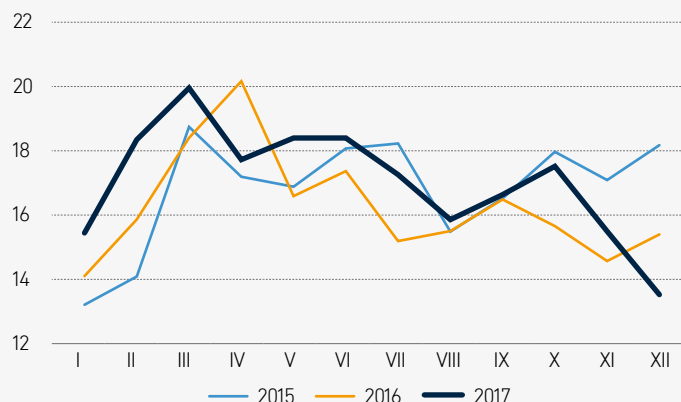
In the 2nd half-year there were 11% housing loans less than in the 1st half-year. Only in two months (March and December) the sales of housing loans were lower than a year before. 2016 saw a similar course of sales: a strong beginning of the year and then declining sales in the 2nd half-year. The depleting MdM subsidies may serve as an explanation. 2018 is the last year of operation of the MdM programme. The course of sales is likely to be similar.

In 2017 banks granted 204 thousand housing loans, i.e. 4.9% more than in 2016. It is the highest sales result in the last five years. At the

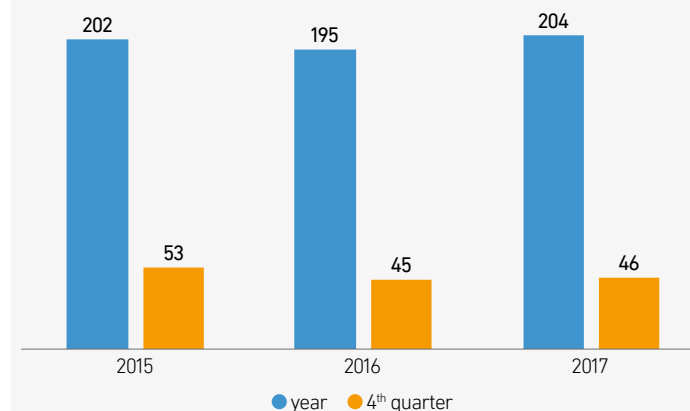
end of the year the dynamics declined. In the 4th quarter the number of granted loans exceeded the YoY results by 2.1%.

The dynamics of housing loans sales was significantly lower than the dynamics of the number of new flats provided. According to GUS, in 2017 there were 9% more new flats provided than a year before; and in the segment of *flats for sale and rent* 13% more.

Housing loans (in thousands) granted monthly in 2015-2017



Housing loans (in thousands) granted in 2015-2017, including those granted in the 4th quarters

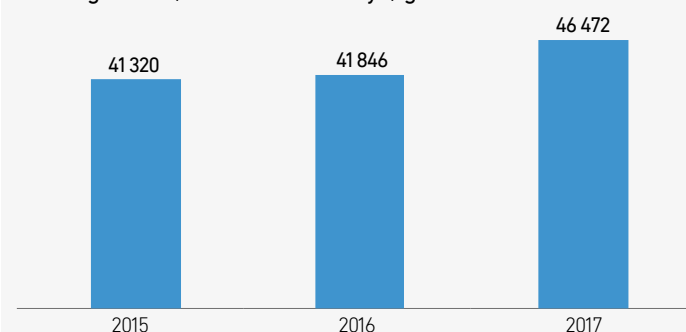


The value of housing loans granted

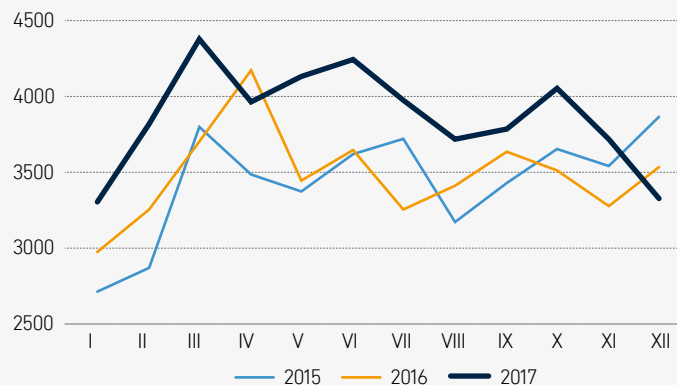
Housing loan sales in terms of value grew twice as fast as sales in terms of numbers.

In 2017 banks granted housing loans for the amount of nearly 46.5 billion zlotys, which means a rise of 10.9% compared to 2016. Thus, the dynamics is nearly twice as high as in term of numbers. If not for the loans granted for amounts below 100 thousand, whose majority is not connected with real property purchases, the value of loans granted in 2017 would have been YoY 12.2% higher. An average housing loan amount in 2017 amounted to 256 thousand zlotys, i.e. 2.9% more in comparison with 2016. The falling trend in housing loan sales was also explicit in terms of value.

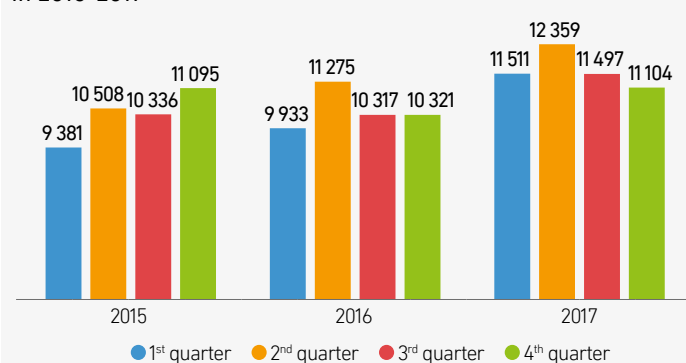
Housing loans (in millions of zlotys) granted in 2015-2017



Housing loans (in millions of zlotys) granted monthly in 2015-2017



Housing loans (in millions of zlotys) granted quarterly in 2015-2017

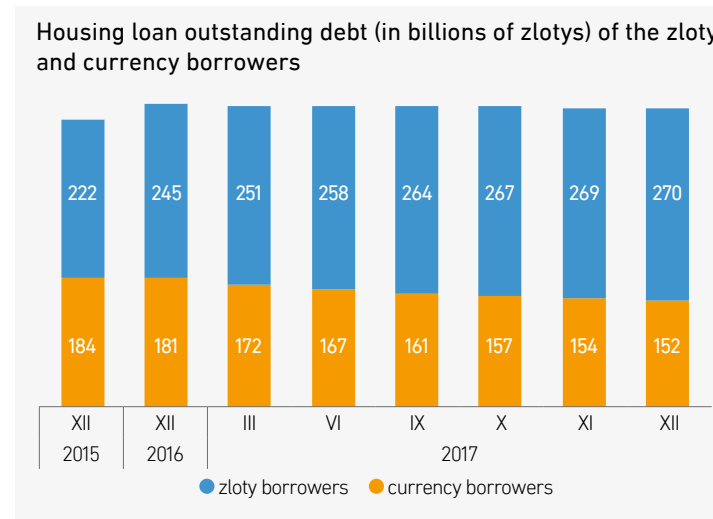
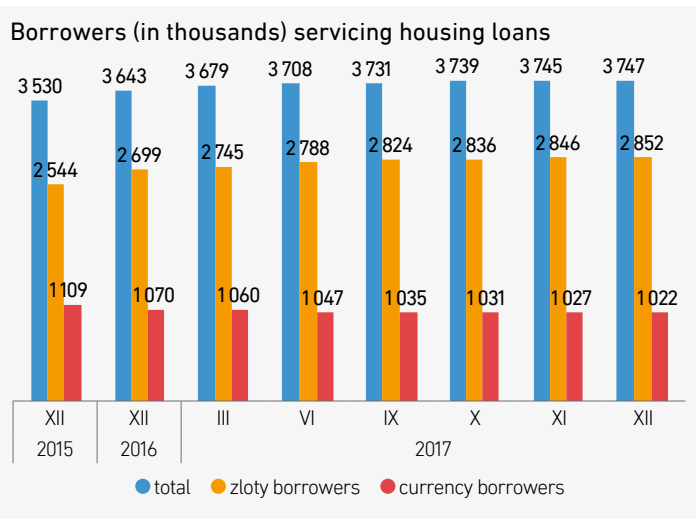


The number of borrowers, outstanding debt

The number of housing loan borrowers was on the rise. The amount of their liabilities slightly decreased.

There were 3,747 thousand borrowers servicing housing loans in December 2017, with 100 thousand new customers in the course of the year. The number of the new zloty loan borrowers amounted to 153 thousand, and the number of hard currency borrowers declined by 48 thousand. Loans in the status 90+days overdue converted from a foreign currency to the zloty did not significantly affect the decline in the number of currency borrowers. In the 2017, 406 loans of this kind were converted. In December 2017 the housing loan outstanding debt of households

amounted to 422 billion zlotys and was lower by 4 billion zlotys in comparison with December 2016. The outstanding debt of zloty borrowers was 25 billion higher than a year before, while the debt of currency borrowers was 29 billion lower. The decline in the debt of currency borrowers came as a result of repayment of loans as well as the stronger zloty. The Swiss franc was cheaper in December 2017 by 55 groszes than a year before, which resulted in the outstanding debt decline of currency borrowers; calculated in the zloty it amounted to 15 billion.



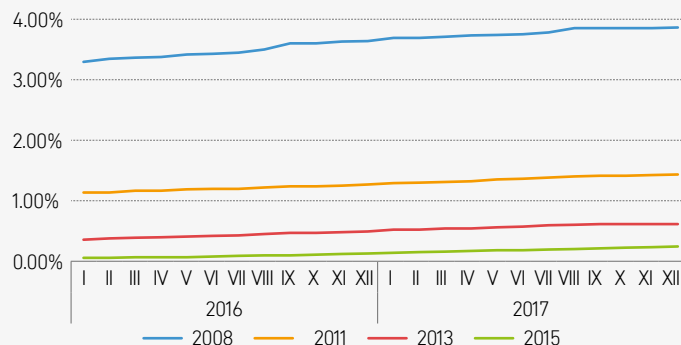
The quality of granted housing loans

The process of rise in the share of overdue loans along with the age of loans is slow.

The loss rate of loans granted in the year/cohort rises linearly over time, though at a different pace.

The highest loss rate measured in December 2017 with the share of loans overdue in servicing refers to the crisis year of 2008 (3.9%). The following years have a much lower loss rate, though over time they deteriorate, and certainly they will not achieve of the level of the years from the previous decade.

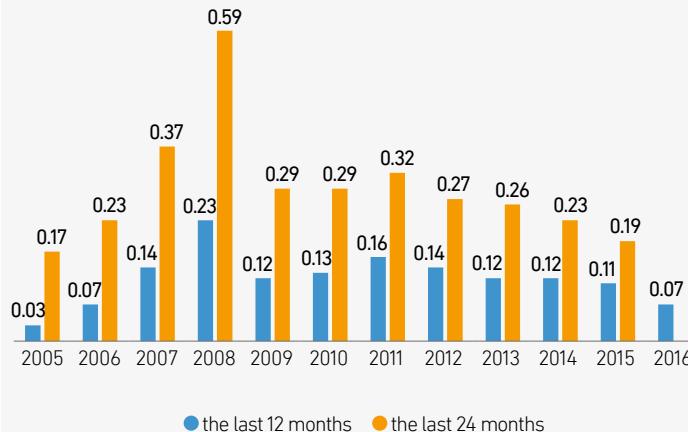
The share of accounts past due > 90 days in the number of loans granted in selected generations



The rises in the share of past due loans in the last 12 and 24 months in generations 2005-2016 are shown in the graph below. The year 2008 does not only have the highest loss rate but deteriorates fastest, the remaining generations (up to 2016) deteriorate, except the oldest ones, at a similar pace.

In order to assess the loss rate, we use the relation of the number of past due accounts to the number of loans granted. In older generations many loans have already been repaid, for example: half in the 2005 generation. Thus, the relation, especially in the case of older loan generations, of overdue loans to accounts in use is considerably higher.

The rises (in percentage points) in loans past due > 90 days in the number of granted loans in the generation 2005-2016

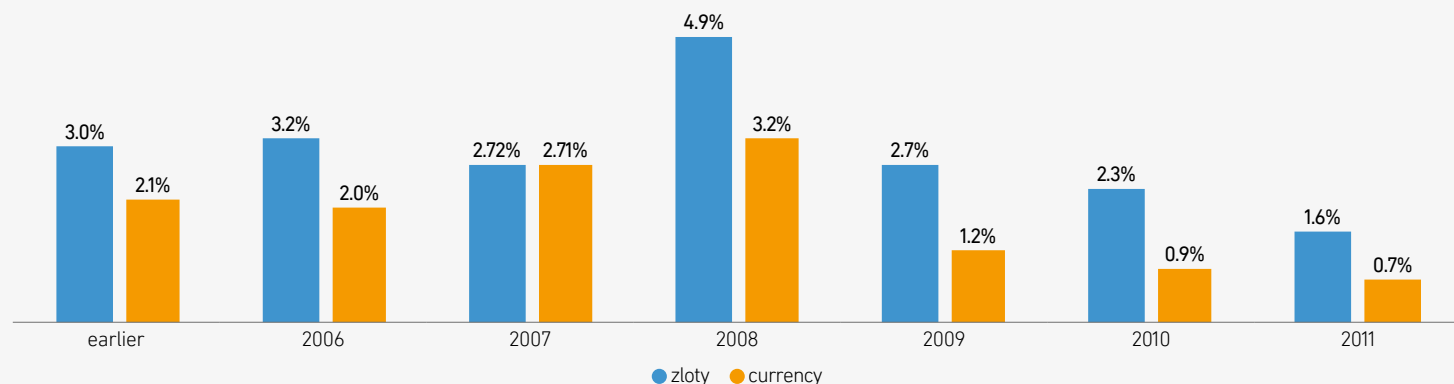


The quality of granted housing loans: the comparison of the zloty and currency loans

The comparison of the currency and zloty loans looks different depending on the adopted measure. In the graph below we show the shares of the number of 90+ day-overdue loans in portfolios in December 2017 in the number of loans granted in the generation. The numerator and denominator of this indicator include also loans already closed in the regular or past due servicing status. The number of loans granted and past due in servicing in the currency portfolio is enlarged by the accounts converted into the zloty in the mode of debt recovery/restructuring of loans.

With the application of this measure, currency loans indicate a lower loss rate than zloty loans in nearly all generations. It refers to nearly all the generations; only in the year 2007 (in which the zloty loans prevailed) the shares of past due loans, after the conversion adjustment, were similar.

The share of loans 90+ days past due in servicing in the number of loans granted by the year of granting. The state of the BIK base in December 2017, after conversion adjustment including accounts closed before



The quality of the Swiss franc portfolios

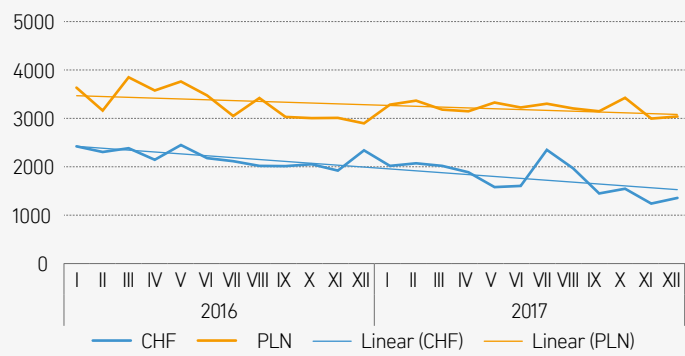
The quality of zloty and currency portfolios improved, measured with the percentage of loans entering the first overdue status (> 30 days).

The number of accounts entering the first overdue status of 30+ days decreases, in both zloty and franc portfolios. The declines in the zloty portfolio is even (the trend line) faster.

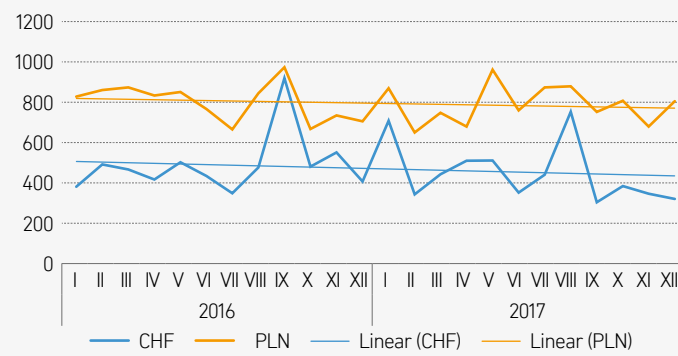
In 2016 on average 0.423% of currency accounts in use and 0.223% of zloty accounts in use entered monthly into the 30+ day-overdue status. There were fewer zloty accounts because the portfolio was younger. In 2017 an average monthly number of entries into the status of > 30 days in the percentage of accounts in use decreased by 0.071 percentage point; and by 0.025 percentage point in the currency portfolio.

A monthly number of entries into the status > 90 days in terms of absolute numbers also decreased, but more slowly than the number of entries into the status of > 30 days. It may be expected that a fast decline in early overdues will result in a smaller number of entries into the status of > 90 days. The entries into the status of > 90 days referred to the number of accounts in use were in 2016 and 2017 at the similar level to 2016. In the currency portfolio, on average 0.09% of accounts in use entered the status > 90 days monthly, and 0.05% of accounts in the zloty portfolio.

Monthly shifts to the status > 30 days past due in 2016-2017 in the zloty and franc portfolios. Monthly data from 2016-2017



Monthly shifts to the status > 90 days past due. Monthly data from 2016-2017



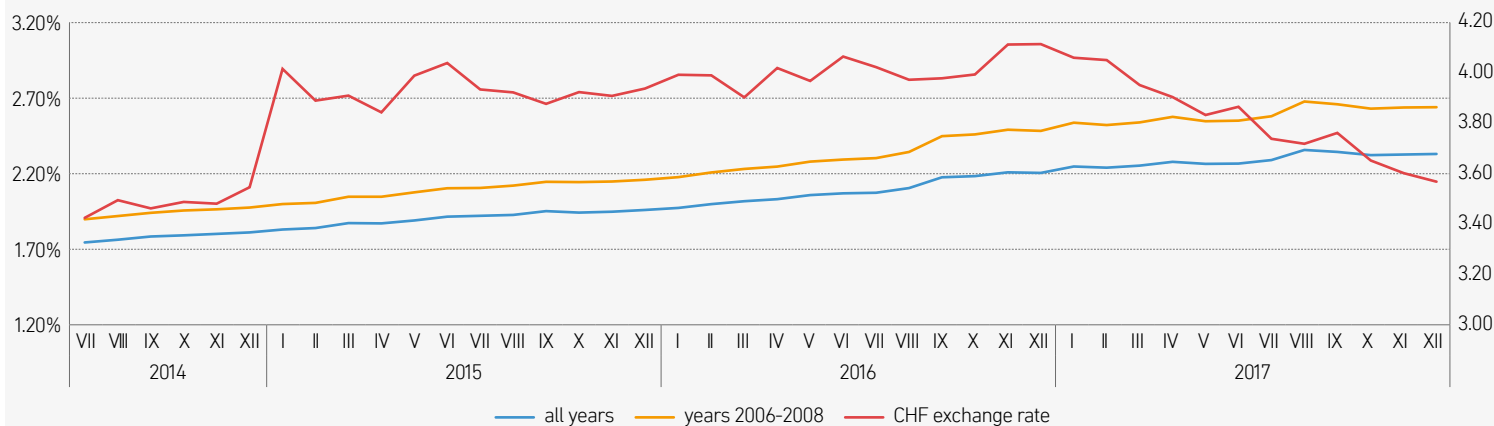
The quality of the Swiss franc loans vs. the franc exchange rate

The Swiss franc exchange rate has a weak impact on repayment of loans in this currency. In the 2nd half-year 2017 the number of overdue accounts did not grow. A result of the franc rate decrease?

Two years ago, in January 2015 the franc exchange rate was unpegged. As a result, it went up from 3.4 zlotys to 4 zlotys in June 2015. In the following 18 months it fluctuated in the range of 3.9 to 4.2 zlotys per franc. As indicated in the graph, neither the strong appreciation of the exchange rate in 2015 nor the later fluctuations had an impact of the repayment of loans by franc borrowers. We noted a slight acceleration of franc loan shifts from regular servicing in the 2nd half-year 2016. It might have related to the borrowers' expectations of a favourable franc loan conversion.

The shares of past due accounts presented in the graph were adjusted (increased) by the loans past due in servicing converted from the franc to the zloty. At the end of June 2017 in bank portfolios there were 11.8 thousand franc loans 90+ days past due in servicing. We add to 5.5 thousand loans to this number; they are presently zloty loans, converted from the franc when overdue in servicing.

The share of 90+ day-overdue accounts opened in the Swiss franc in the number of all accounts opened. The state of the BIK base: July 2014 - December 2017



Key findings

- All the time the number of the newly opened credit card accounts is falling, with the stable amounts of limits on the opened accounts.
- In the middle of 2017, we observed the stabilization of newly issued credit cards, with the falling amount of granted limits.
- The limits on the issued credit cards grow, also on the cards in use and active cards.
- The number of cards in use, in principle, stable.

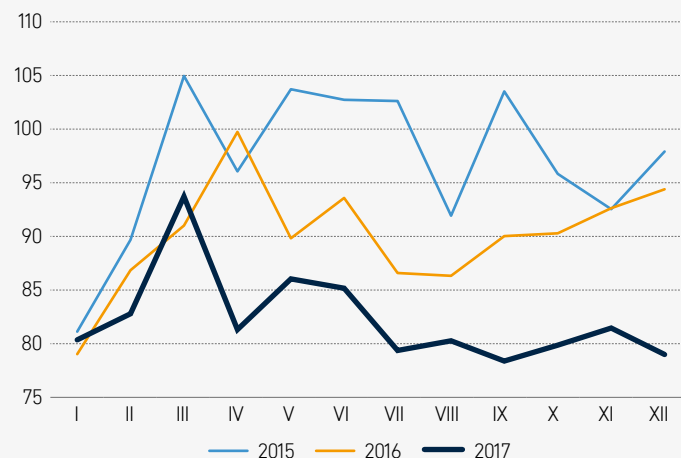
The number of credit cards issued

The number of newly opened credit card accounts declined, stabilization recorded in the 2nd half-year.

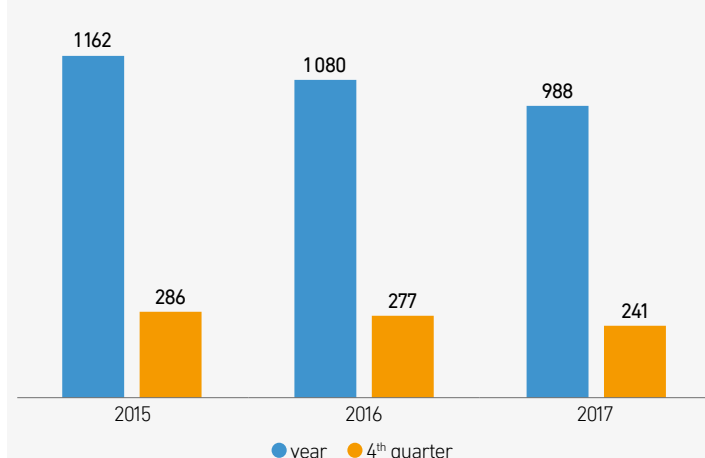
In July 2017 the number of concluded credit card contracts stabilized at the monthly level of 80 thousand. In 2016 there were on average 90 thousand accounts opened monthly, and 97 thousand in 2015. It seems that a few important issuers on the market revised their business models, possibly in relation to the interchange rate reform. It is difficult to say whether or not the issuance level of the 2nd half-year will be maintained in 2018.

In 2017 there were 8.5% newly opened accounts less than a year before. In the 4th quarter the decline in the issuance of cards amounted to 13.2% YoY; deeper declines, in view of stable issuance in the 4th quarter, resulted from the base effect. Declines in the number of issued cards resulted primarily from the change in the method of crediting hire-purchase by some banks. These banks ran instalment credit accounts on card accounts.

The number (in thousands) of credit cards issued monthly in the years 2015-2017



The number of credit cards (in thousands) issued in 2015-2017, including those issued in the 4th quarters in these years



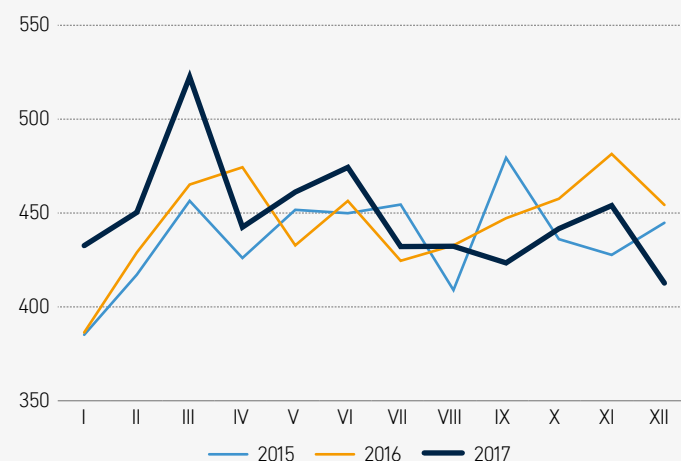
The value of limits on the opened accounts

The value of limits granted on newly opened credit card accounts also declined, although more slowly than the number of the cards issued.

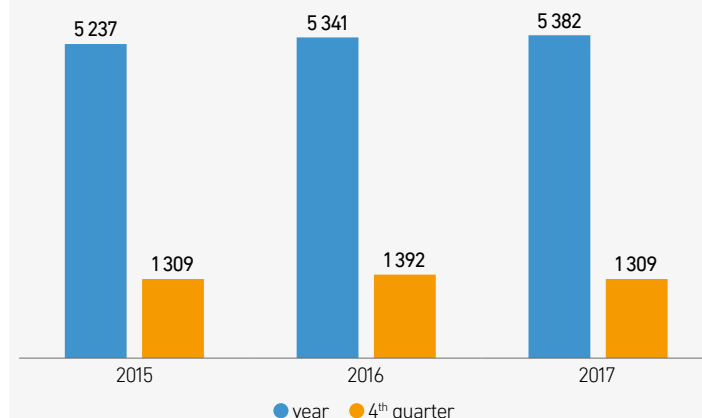
The amount of credit limits on newly opened accounts was 0.8% higher in 2017 than a year before; the rise resulted from the successful first half-year. In view of the falling number of issued cards, it meant a strong rise in an average limit on an opened card. In the 2nd half-year we recorded a decline in the amounts of granted limits of 3.7% YoY, and 6% in the 4th quarter. A slower decline of amounts of limits than in terms of numbers meant a rise in the average amount of a granted limit. In 2017 it amounted to 5.446 zlotys and was 19% higher than a year before.

Credit cards are not intensively used to finance Christmas shopping. The issuance of cards in December in the years 2015-2017 did not indicate rises in comparison with the preceding months. The repayment amount at the end of December did not differ much from the preceding months either. There was no considerable animation of cash credits in December. In December 2017, only instalment credits indicated a seasonal rise.

Limit amounts (in millions of zlotys) granted on credit card accounts opened in 2015-2017



The limit amounts (in billions of zlotys) granted in 2015-2017 on newly opened credit card accounts, including the 4th quarters of these years

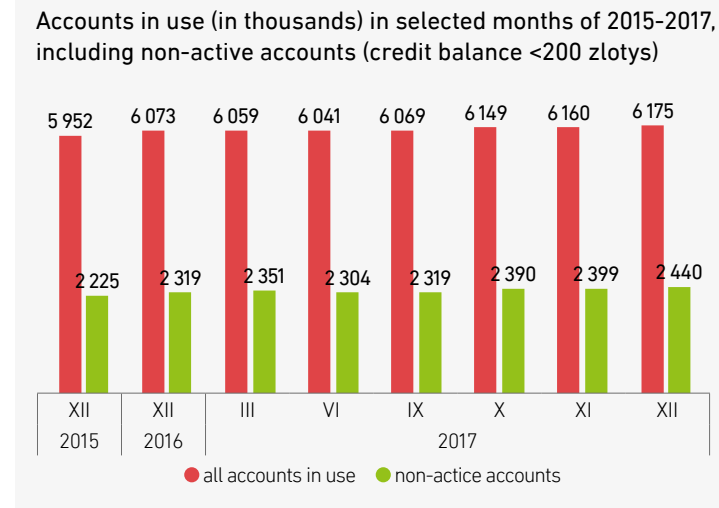
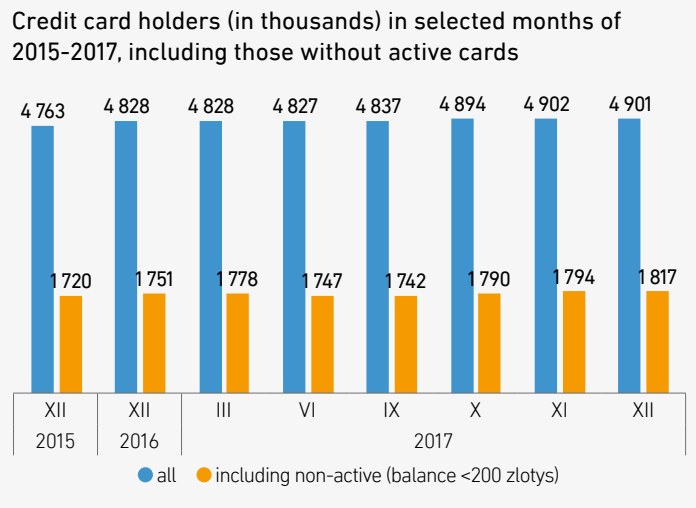


Credit card holders, active accounts/non-active accounts

In the 1st half-year 2017 the number of credit card holders slightly rose, like the number of credit accounts in use, but these were ostensible rises.

2017 saw 72.8 thousand new credit card owners, the number of card accounts rose by 102 thousand, but these increases only took effect in the group non-active holders. We call this way customers who do not possess a credit balance on their cards over 200 zlotys. The number of credit card holders was higher only by 6.4 thousand than a year before.

The number of credit card accounts with credit balance was nearly 20 thousand lower. The average number of credit cards per holder did not change. It amounted on average to 1.26 cards per holder.



Limits on card accounts and their utilisation

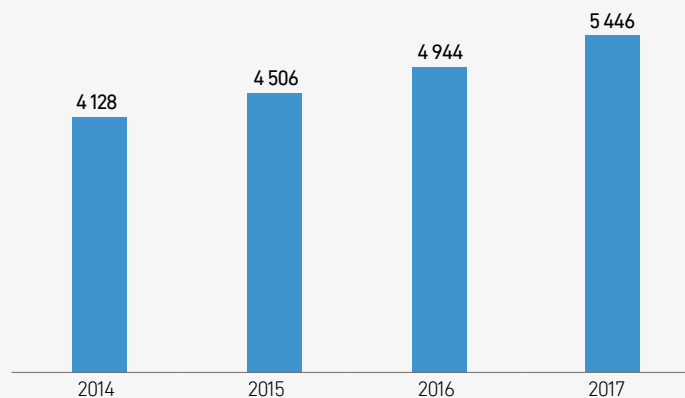
We observed increasingly higher limits on the newly opened credit card accounts, the average limits on accounts in use (opened earlier) were also on the rise.

Strong declines in the number of credit cards issued, with the amounts of granted limits remaining at a similar level, indicated a rise in an average limit amount. There is an important change in the strategy of card issuers behind this arithmetic relationship. Most of them seem to offer the product primarily to the proven customers they know.

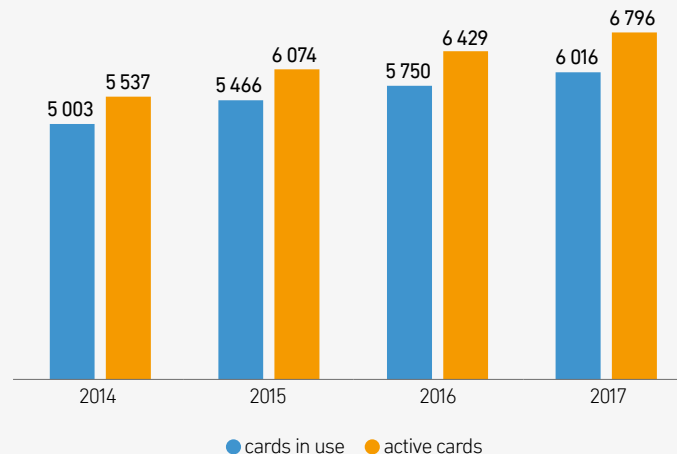
The rise in limit amounts was affected also by the resignation of some banks from the settlement of low amount credits financing hire-purchase on card accounts.

An average limit on the accounts in use was higher than that on the newly opened accounts. An average limit on cards in use in December 2017 exceeded the limit on newly opened accounts in 2017 by 11%. There were lower limits granted on the newly opened accounts. Low limit accounts are closed sooner. In December 2017 card holders made use of 36.7% of the credit limit granted to them, which meant a growth of 1.6% percentage points in comparison with December 2016.

An average limit (in zlotys) on credit cards opened in 2014-2017



An average limit (in zlotys) on a credit card account in use and active cards 31 December



Key observations

- The value and number of credits granted by banks to microentrepreneurs continued to grow. Both the portfolio value and sales value were on the rise.
- There was a high concentration of the credit portfolio of microentrepreneurs from the sectoral perspective. Two sectors are dominating: trade and services, which is closely related to the sectoral structure of Polish microenterprises.
- An average value (amount) of credits granted in the period 2014-2017 was stable. The only rise was recorded in the average value of investment credits.
- The quality of the credit portfolio measured with the NPL factor deteriorated by about 1 percentage point.
- Revolving credits were dominating in terms of value and number of granted credits. Their share in sales amounted to 31,7% and 32.8% respectively.

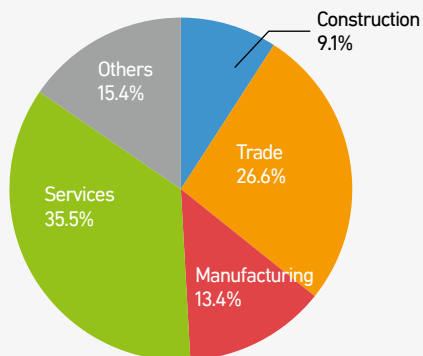
The value, quality and sectoral structure of microenterprise credit portfolio

We observed an increasingly high value of the microenterprise credit portfolio. There is a high sectoral portfolio concentration.

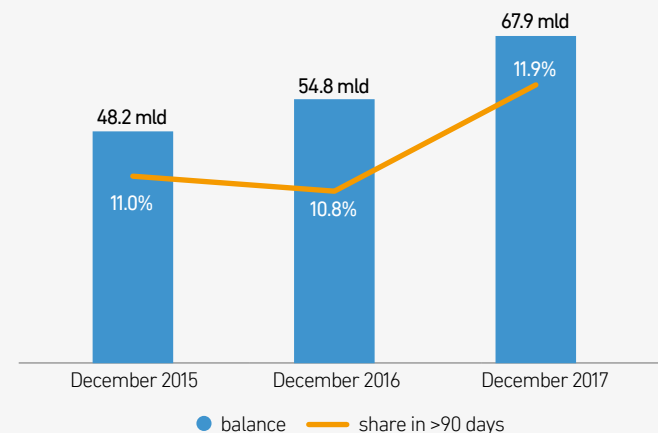
At the end of 2017 the value of microenterprise credit portfolio amounted to 67.9 billion, having risen in the course of a year by 13.1 billion zlotys (24%). In the same period, the quality of the credit portfolio measured with the NPL factor deteriorated by 1.1pps.

62.1% of the value of microenterprise credit portfolio is concentrated in service companies (35.5%) and trade (26.6%).

The value structure of microenterprise credit portfolio by sectors



The state and quality of the microenterprise credit portfolio in terms of value (in billions of zlotys / %)



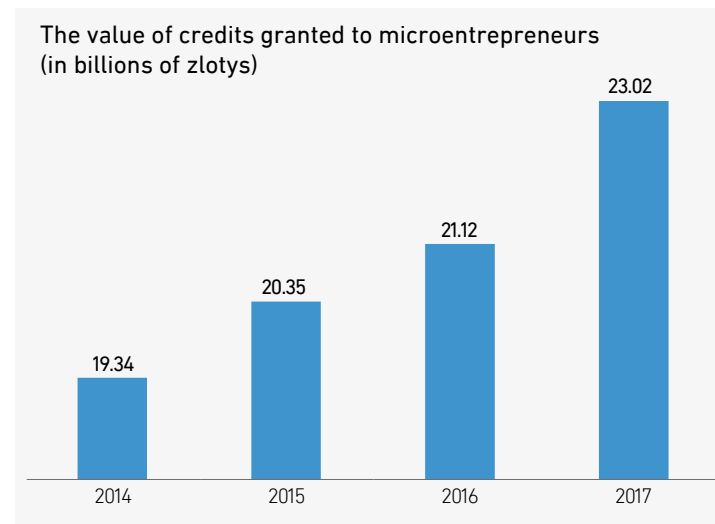
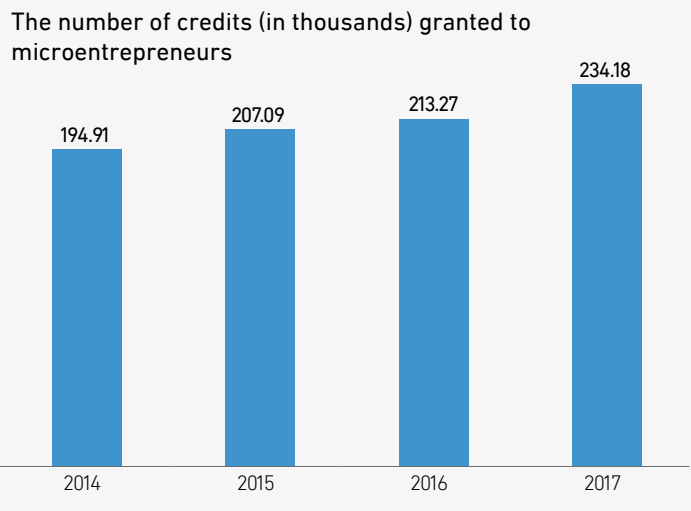


The number and value of financing granted by banks to microenterprises in 2017

We observed a rise in credit action addressed to microentrepreneurs in terms of numbers and value.

In 2017 banks granted totally 234.17 thousand credits to microenterprises, i.e. 21 thousand more than in 2016.

In 2017 banks credited microenterprises with totally 23.0 billion zlotys to, i.e. 1.9 billion more than a year before.



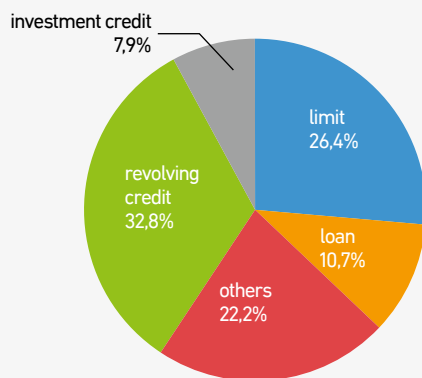
The structure of credit sales to microenterprises in 2017 in terms of value and numbers, by product

In credit sales in terms of value there are three dominating classical kinds of products: revolving credit, account credit limit and investment credit.

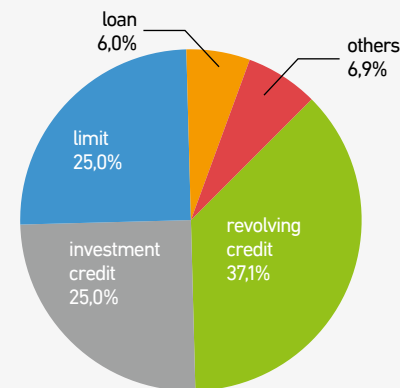
In 2017 one third of financing granted to microenterprises concerned financing in the form of revolving credits. Investment credits amounted to below 8% of credits granted in 2017.

In terms of value, revolving and investment credits had the largest share, which comes as no surprise due to their specific character (financing of tangible assets). Company account limits had a 25% share in sales in terms of value.

The structure of sales in terms of numbers by the kind of products in 2017



The structure of credits granted to microentrepreneurs in terms of value by the kind of product



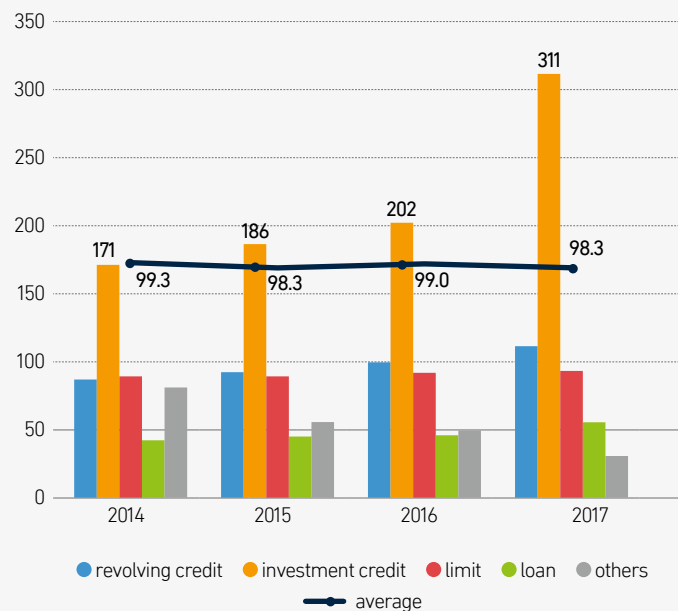
Average values of credits granted to microenterprises

Except for investment credits we did not observe in the period 2014-2017 a conspicuous rise in the average value of financing granted by banks to microenterprises.

In the period of the last four years, i.e. in 2014-2017, the average value of financing granted by banks to microenterprises was stable and amounted to about 99 thousand zlotys. Interestingly, in this period, there was a considerable rise of 80% in the value of the investment credit granted. In 2017, the average value of investment credit granted to microenterprises amounted to 311 thousand zlotys.

The value of revolving credit rose by 28%. In 2017, the average value of this credit amounted to 111.2 thousand zlotys.

The average amount (in thousands of zlotys) of credits granted to microentrepreneurs, by the kind of product



Semi-Annual Report Credit Information Bureau CREDIT TRENDS

Prepared by the Business Intelligence Department at the Credit Information Bureau.

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