

credit trends

Semi-Annual Report
Credit Information Bureau

2018



BIURO INFORMACJI KREDYTOWEJ

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Key findings

- In the second half-year 2018, a high dynamics of the number of housing loans continued; annual dynamics of the number of housing loans exceeded the GUS housing dynamics indicators in both consumer credits and housing loans. The level of sales, in terms of value in 2018 was the highest since the financial crisis of 2008.
- There was a high dynamics of the number of currency consumer credit sales, with a clear weakening of instalment credit sales in the 2nd half-year. 2018 saw the fastest rise in consumer credit sales in the amount segment of 50-100 thousand zlotys.
- The number of debtors was stable; it rose only in housing loans. The debt on the part of private customers in housing loans and consumer credits was on the rise.
- The number of newly concluded credit card contracts continued to decline all the time, though the number of credit cards in use was stable.
- The quality of credits in all products remains on a stable, safe level. The transfer of risk between bank and loan companies portfolios is worrying. Most of the loan companies customers service bank credits at the same time.
- We observe the repayment of currency loans all the time, including those in the Swiss franc. The recent data confirm a low currency credit loss rate. Their holders are better at the repayment of instalments in comparison with borrowers servicing the zloty housing loans.



Andrzej Topiński, PhD
BIK Chief Economist

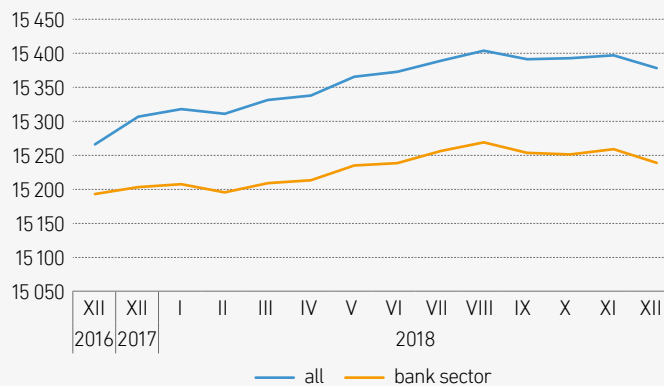
The number of borrowers, outstanding credit

The number of borrowers servicing credits/loans has been on the rise for a long time, their debt has been rising faster.

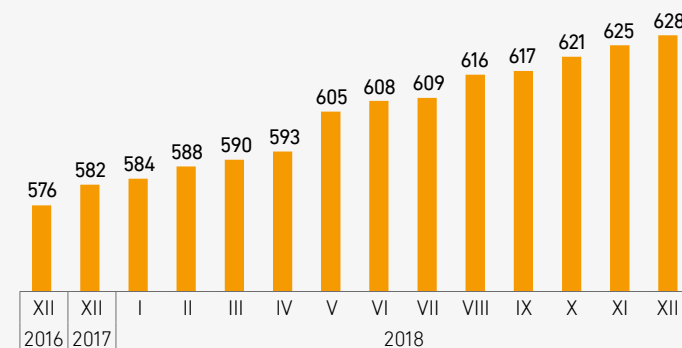
In December 2018, the number of borrowers with liabilities in use in both sectors (banks and loan companies) amounted to 15,377 thousand in the BIK database. In June 2017, the number was lower by 70 thousand (a rise of 0.46% in 2018). Nearly all of it occurred in the 1st half-year, in the 2nd half-year the number of customers was stable. The number of bank sector borrowers rose by 35 thousand (0.23%) in 2018, and in the loan sector the number of borrowers rose by 92 thousand (19.1%).

The outstanding debt of households amounted to 628 billion zlotys in December 2018; in the course of the year, it rose by 45.5 billion zlotys (7.8%). In December 2018, the Swiss franc was 24.5 groszes more expensive than a year before. Due to this, the debt of private customers rose by 10 billion zlotys. Thus, 22% of the debt rise of private customers resulted from exchange rate differences.

The number of borrowers (in thousands) with liabilities in the bank and loan sector



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



Borrowers by products

The number of borrowers increases only in housing loans.

In the whole 2018, the number of borrowers servicing housing loans rose by 112.8 thousand (3%); in the 2nd half-year, the rise amounted to 48.3%. The rising trend was stable: in 2017 the number of borrowers rose by 105.8 thousand. The growth in housing loan sales clearly seen in statistics did not translate into the rise in the number of borrowers.

The rises in the number of customers servicing instalment and cash credits was not considerable in 2018, it amounted to 108.7 thousand customers (1.3%). The 1st half-year, with 66.1 thousand new customers, was better than the 2nd half-year. The 2nd half-year saw weaker sales of instalment sales, hence a lower growth in the number of customers servicing consumer credits (instalment and cash jointly).

The number of credit card holders was stable. At the end of 2018, the number of credit card holders amounted to 4.9 million. In the course of 2018, there was a rise of 21.5 thousand customers (0.4%).

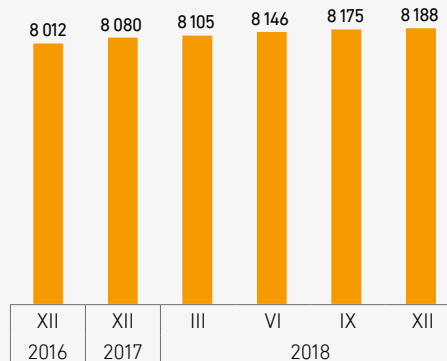
The number of customers possessing overdraft was on a constant decline. At the end of 2018, there were 7.2 million of them, in the course of the year the number declined by 133 thousand (-1.8%).

Borrowers (in thousands)

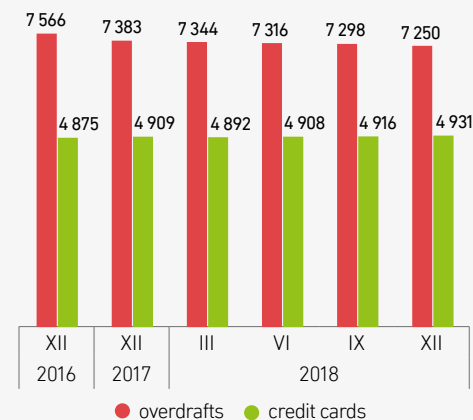
Housing loans



Instalment and cash credits



Overdrafts and credit cards



Customers of loan companies

The rise in the number of non-bank loan customers seems to be fading.

2018 saw a considerable rise in the number of customers of loan companies. At the end of the year there were 577.7 thousand borrowers, i.e. 92.8 thousand more (19%) than a year before. Nearly all the growth occurred in the 1st half-year, in the second half-year there were only 7.9 thousand new borrowers, with a decline of 7.4 thousand customers in the 4th quarter. Only 24% of loan companies customers did not service a loan together with a bank credit, a decisive majority of them were indebted in both bank and loan sectors.

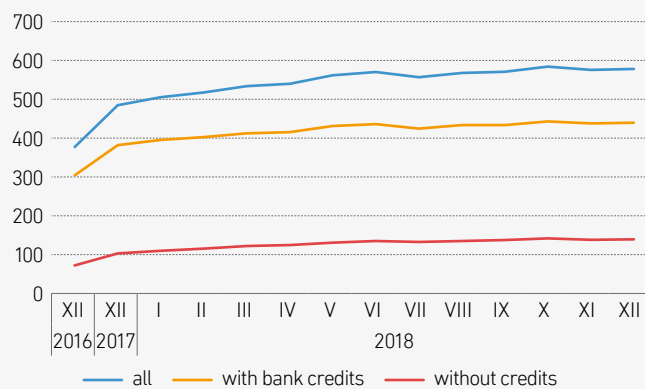
Conceivably, a strong growth in the number of customers of loan companies in 2017 and the 1st half-year of 2018 may have resulted from a tighter cooperation of these companies with BIK. As a result, the number of customers did not really rise, it was simply disclosed.

The loan sector customers are much younger than bank sector customers; it refers to customers repaying both loans and credits.

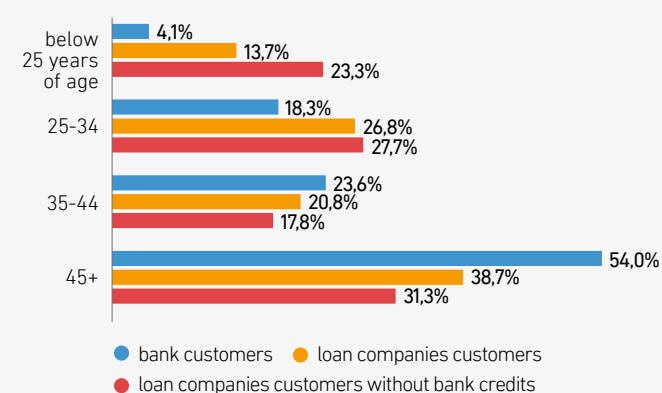
The 2018 data reveal that only 4% of bank customers were not 25 yet, among borrowers without credits this percentage amounted to 23.3%, and in the group of common customers (banks and loan companies) it accounted for 13.7%. The share of borrowers in the age group of 24-34 years of age was much higher in loan companies in comparison with banks.

Loan companies are decisively more open to financing the young. This segment is characterised by a higher risk.

Loan companies customers (in thousands)



Structure of bank and loan companies borrowers by age



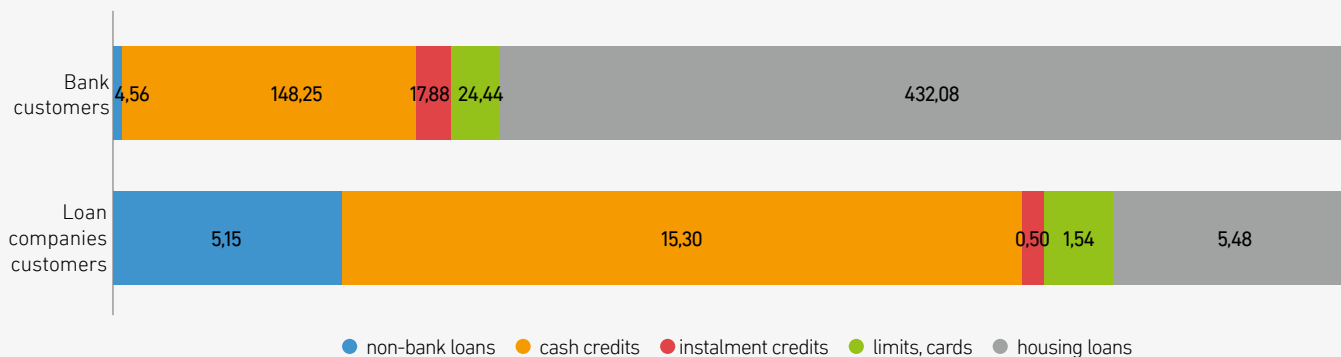
The structure of liabilities of bank borrowers and loan companies customers

Loan companies customers prefer cash credits also in banks. They do not have many housing loans.

Only 18.4% of the debt of borrowers having a non-bank loan was owed to loan companies, the remaining part was owed to banks. And the share of liabilities of bank customers to loan companies was marginal (0.7%). Loan companies customers did have many housing loans, which may result from a considerably lower age structure of this group. Bank cash

credits amounted to more than half of the borrowers' debt. The share of instalment credits or limit products (credit cards or overdrafts) in the liabilities of loan companies customers was not large either (7.3%). Loan companies customers looked for cash in the non-bank sector as well as in banks.

Debt of loan sector customers and bank customers (in billions of zlotys)



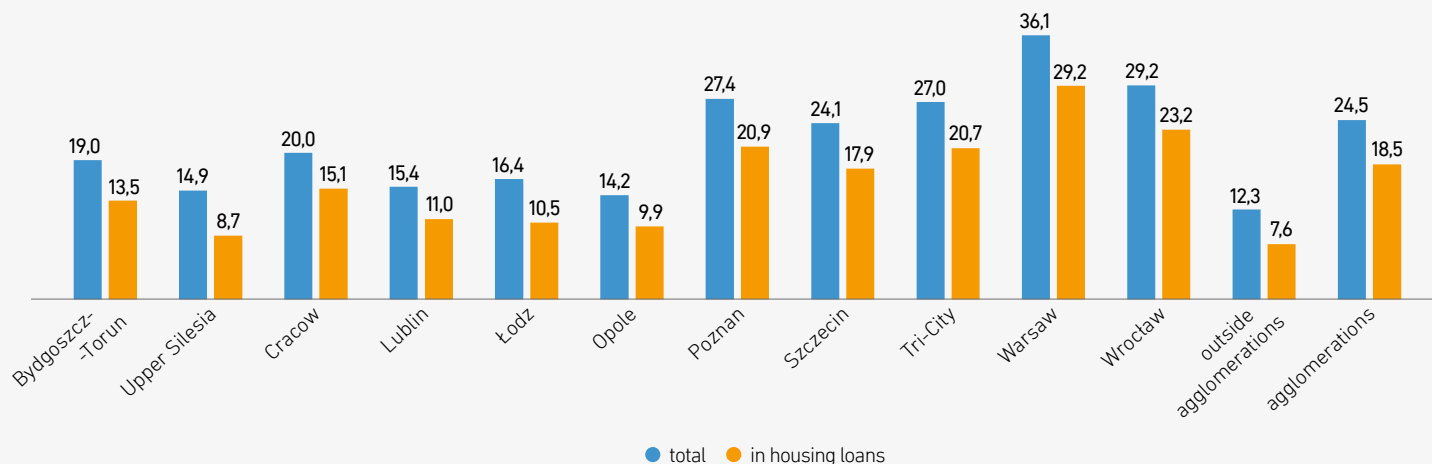
Credit market in major agglomerations

11 major agglomerations are inhabited by 36% of Poland's population, but the inhabitants of these agglomerations make up 53% of the credit market of private customers.

The debt of private customers in major agglomerations amounted to 329.7 billion zlotys at the end of 2018, which amounted to 53% of the total debt of private customers in Poland. The share of inhabitants of agglomerations in housing loans amounted to 58%. There were substantial differences per inhabitant between agglomerations. On average, the debt of an inhabitant amounted to 24.5 thousand zlotys; the Warsaw agglomeration inhabitants are the most indebted (36.1 thousand zlotys), and Opole and Upper Silesian agglomeration are least indebted 14.2 thousand zlotys and 14.9 thousand zlotys respectively. The leading positions besides Warsaw are taken by Wrocław (29.2 thousand

zlotys thousand zlotys and Poznań (27.4 thousand zlotys) and Tri-City agglomeration (27 thousand zlotys). People living outside agglomerations, who constitute two thirds of the country population, owed only 12.3 thousand zlotys per capita. The differences result from differences in wealth, higher flat prices and also lower age of inhabitants of agglomerations. The biggest share of people aged 24-44 was in the Wrocław and Poznań agglomeration (34% each), the lowest in Łódź (30%), outside agglomerations the share of this group amounted to 30%. We present the debt owed to the bank and loan sector jointly, the list of communes belonging to agglomerations is based the GUS data.

Debt (in thousands of zlotys) per inhabitant in major agglomerations and elsewhere



Key findings

- A dynamic rise in instalment credit sales observed in the 1st half-year slowed down in the 2nd half of 2018. In both instalment and cash segments, the average amounts of granted credits were on the rise, which made the dynamics indicators in terms of value higher than those in terms of numbers.
- In connection with the weakening of instalment credit sales, especially in terms of numbers, the growth in the number of consumer credits also declined (instalment and cash jointly), granted by banks for lower amounts. The fastest growth was recorded in the number of consumer credits in the amount segment of 50-100 thousand zlotys.
- The household consumer credit debt rose at a double digit rate in 2018, while the number of borrowers did not increase much.
- In 2018, we could observe a slowdown in the rise in the granted non-bank loans. Admittedly, the YoY dynamics was still high, but it resulted from a very low base. Monthly levels of sales remained at a stable level, they did not grow. The rises in 2017 partially resulted from a tighter cooperation of the Credit Information Bureau with loan companies. Loan companies financed the customers whose majority simultaneously serviced bank credits. The loss rate of loans was three times than that of low amount bank credits. There is a threat of risk transfer between sectors.
- The quality of consumer credits granted by banks was at a stable, safe level. From the portfolio perspective, we observed a slight rise in the number of accounts entering the overdue status.

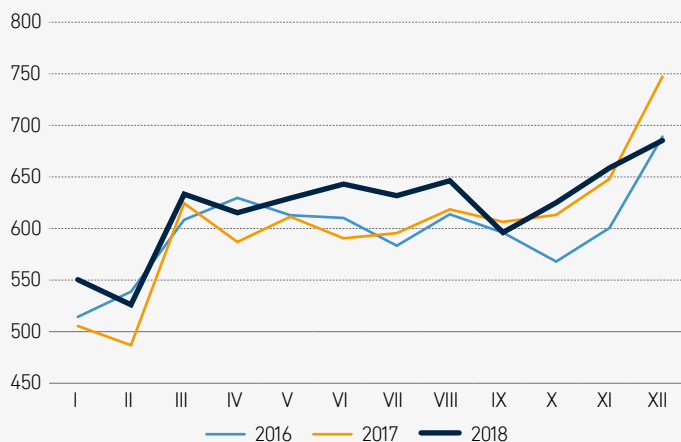
The number of granted credits

The dynamics of sales of consumer credits in the second half of 2018 slowed down.

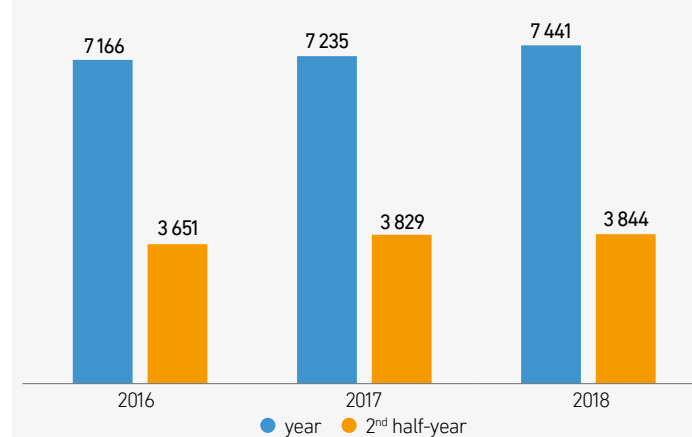
In the 2nd half-year of 2018, the dynamics of consumer credit sales slowed down clearly. After the 1st half-year, it amounted to 5.6% YoY in terms of numbers; in the 2nd half-year, it amounted only to 0.4%. In the 2nd half-year, in particular in the 4th quarter, the dynamics of sales declined. In September and December it was YoY negative. The seasonal pre-Christmas growth in consumer credit sales was clearly weaker

in December 2018 than in 2017. The weaker sales of consumer credits in the second half-year concern primarily the segment of instalment credits. In 2018, banks and SKOK credit unions granted 7.4 million consumer credits, i.e. 2.8% more than a year before. In the 2nd half-year the sales of these credits were only slightly higher: 0.4% YoY.

Consumer credits (in thousands) granted monthly in 2016–2018



Consumer credits granted in 2016-2018 (in thousands)

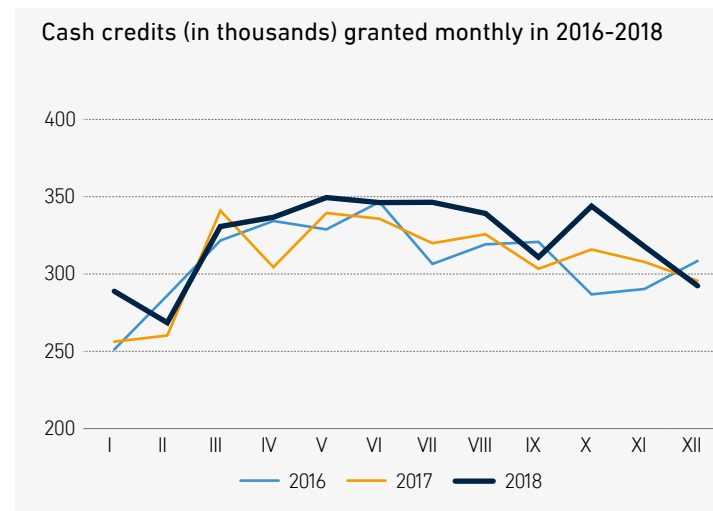
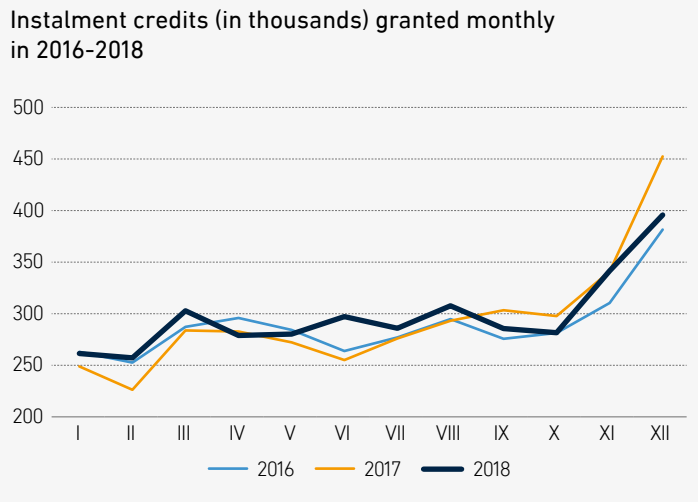


Instalment and cash credits – lending in terms of numbers

A clear credit sales slowdown in the instalment segment in the 2nd half-year.

In 2018, banks and SKOK credit unions granted 3,574 thousand credits to finance hire purchase, i.e. 1.2% more in comparison with 2017, but the number of instalment credits granted in the 2nd half-year was YoY 3.3% lower. Till August the sales of instalment credits exceeded the number of credits granted in 2017, but in the 4th quarter they were at a lower level. In comparison with 2017, the pre-Christmas instalment credit sales were weaker in December 2018. The slowdown is difficult to account for as retail trade sales remained at a high level. A certain impact may have been exerted by the Sunday retail trade ban.

The number of cash credits granted in 2018 was YoY 4.5% higher. In 2018, banks and SKOK credit unions granted 3.9 million cash credits. The dynamics of cash credit sales in terms of number of credits granted in the 2nd half-year was close to the annual result (4.4%). In this segment, we did not notice a slowdown then. The dynamics of cash credit sales in terms of the number of credits granted in 2018 was higher than in 2017. In 2017, the annual dynamics of granted credits amounted to 2%.



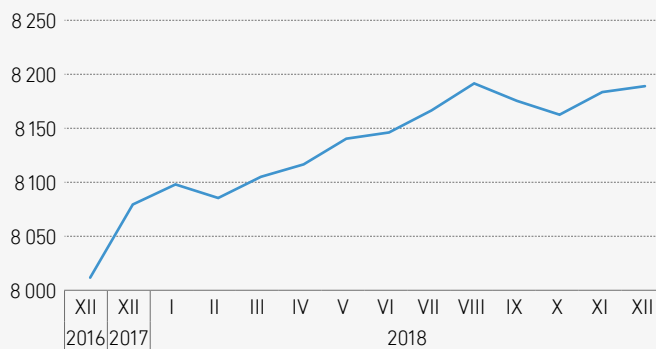
Bank sector. Consumer credit debt, the number of borrowers

Bank dues on account on the granted consumer credits are on the rise all the time. The rise in the number of borrowers slowed down.

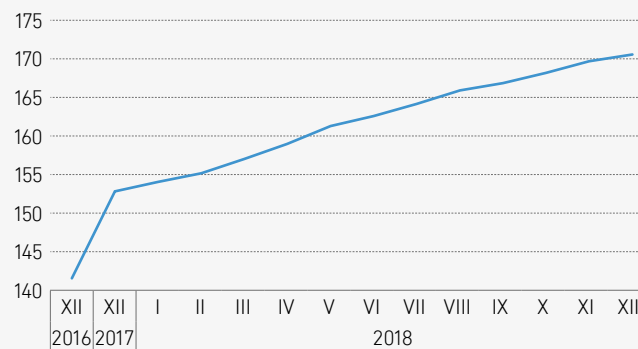
In December 2018, 8,188 thousand customers serviced instalment or cash consumer credits. A year before, there were 108 thousand borrowers less. In the 2nd half-year, the number of borrowers did not grow. It resulted from poorer sales of instalment credits. A faster growth in the number of borrowers in the 1st half-year appeared to be temporary. Flat growth trends in the segment of consumer credits observed in previous years returned. In comparison with 2016, in 2017 there were only

67 thousand (0.8%) borrowers more in the segment of consumer credits. And the dues to the bank sector on account of consumer credits are on the rise all the time. In 2018, they rose by 17.3 billion zlotys (11.3%) up to the amount of 170.5 billion. In 2017 the growth in dues amounted to 11 billion zlotys. The dues growth results from the growth in an average amount of granted credits and extended credit periods.

The number of borrowers (in thousands) servicing consumer credits



The consumer credit debt (in billions of zlotys)



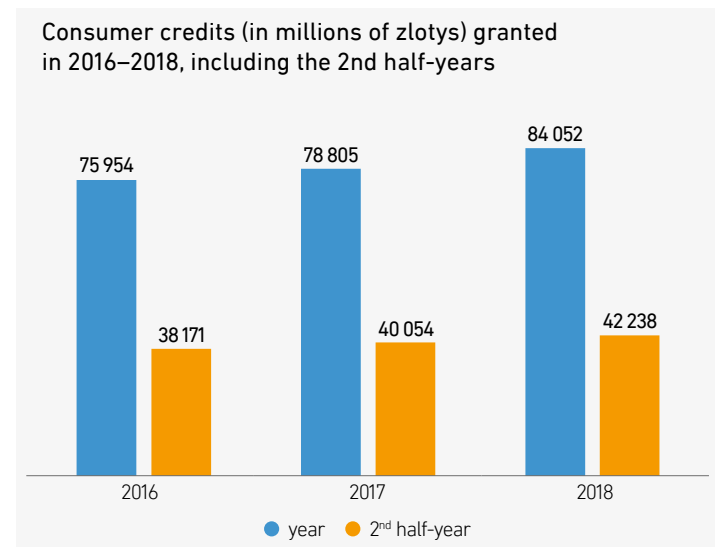
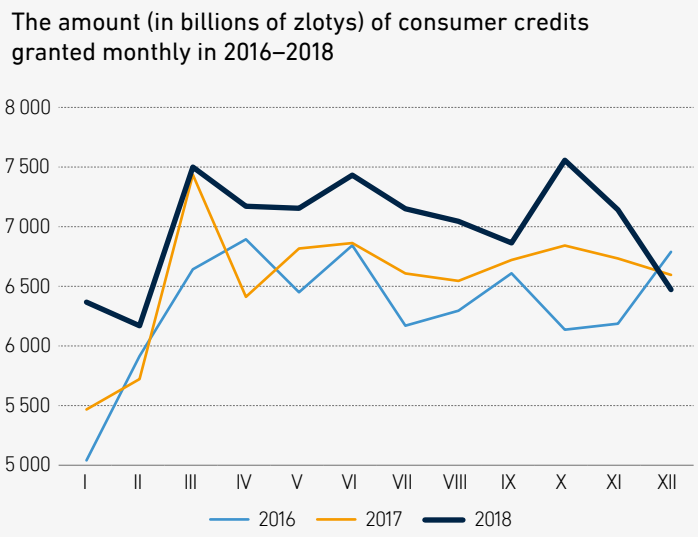
The value of consumer credits granted

The value of consumer credit contracts is on the rise all the time.

The value of concluded contracts in 2018 considerably exceeded the level of the previous year nearly every month. Only in December 2018 credits were granted for a lower amount than a year before. Generally, the end of the year was weaker. In some months (February, April, October), the dynamics indicators were double digit. In the 1st half-year 2018, banks and SKOK credit unions granted instalment and cash credits amounting

to 41.8 billion zlotys, 7.9% more than a year before. Thus, an upward trend seemed to be stabilising.

The YoY sales dynamics in terms of value is higher than in terms of numbers, but the difference between these indicators increased in the first half-year. The in first half-year this difference amounted to 2.3%, against 5.1% in the second.



Instalment and cash credits – sales in terms of value

The value of instalment credits granted in the 2nd half-year grew more slowly than in the first, but definitely faster than the number of granted credits. Cash credits grew in the 2nd half-year at a rate similar to the first one.

The 1st half-year 2018 was characterised by a high dynamics (11% YoY) of instalment credit sales. The second half-year was considerably worse. Credits were granted for the amount of 7 billion zlotys, only 2.9% more than a year before.

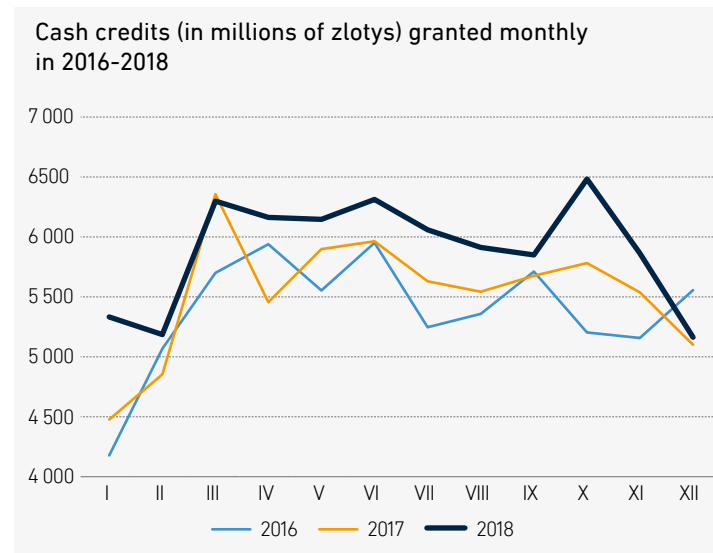
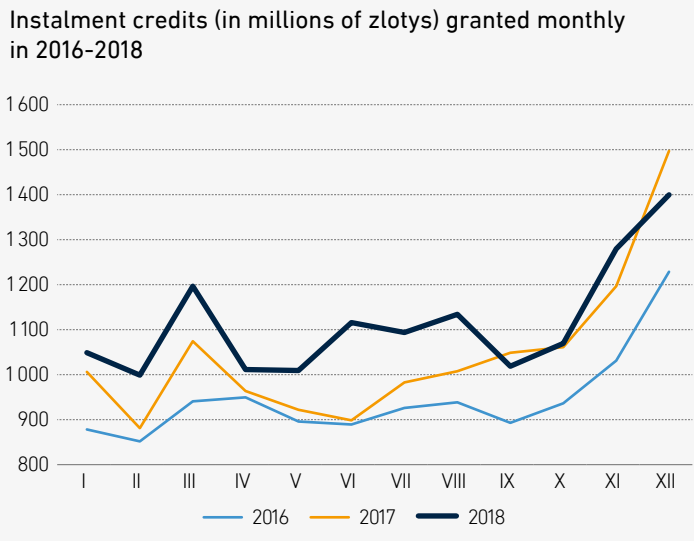
In the whole 2018, the amount of granted credits came up to 13.4 billion zlotys, i.e. 6.6% more in comparison with 2017.

The sales of instalment credits remained at a high level till August, then they returned to the 2017 level.

The cash credit sales dynamics in the 2nd half-year was slightly weaker. The credits granted in the 2nd half-year amounted to 35.3 billion zlotys, i.e. 6.2% more than in the 2nd half-year 2017. The annual dynamics in the 1st half-year amounted to 7.3%.

In the whole 2018, banks and SKOK credit unions granted cash credits amounting to 70.7 billion zlotys, i.e. 6.7% in comparison with 2017.

Like in the case of instalment credits the end of the year was poor.



Consumer credits in amount segments

In 2018, the number of credits granted for low amount rose, also in the bank sector, but in the 2nd half-year the growth in the number of low amount credits slowed down.

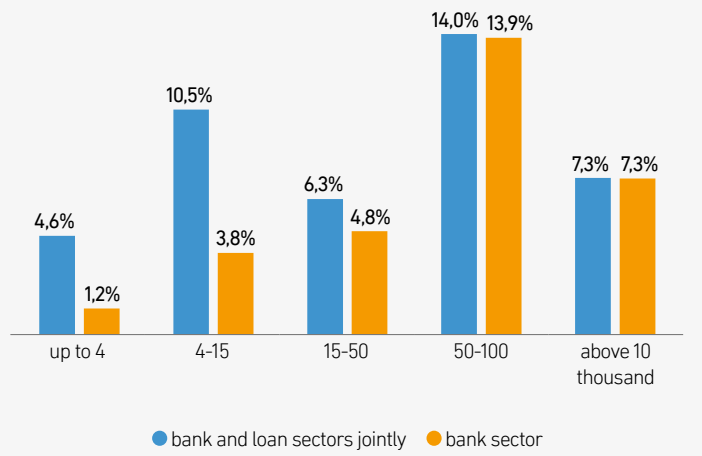
After the 1st half-year 2018, in the CREDIT TRENDS we presented growths, also in the bank sector, in the number of granted credits for low amounts. It was a new phenomenon; previously, particularly in the bank sector there were declines in the low amount segments. In the whole 2018, banks granted 4.6% more credits in the segment up to 4 thousand zlotys, and 10,5% more in the amount segment of 4-15 thousand zlotys. After the 1st half-year, we reported growths in these groups of 8.4% and 15.6% respectively.

The growth slowdown may have been connected with poorer sales results in the 2nd half-year of instalment credits often granted for lower amounts than cash credits.

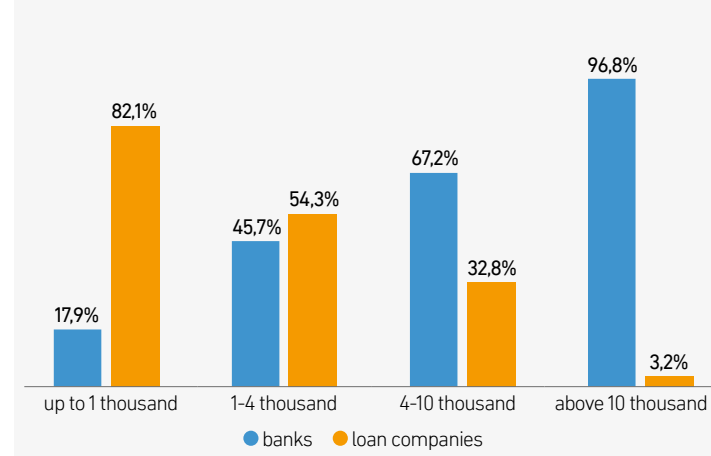
The dynamics of joint financing of the bank and loan sector for lower amounts in whole 2018 was lower than after the first half-year.

Generally, loan companies dominated banks in low amount financing (up to 4 thousand zlotys).

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



The shares of bank and loan sectors in the number of consumer credits/loans granted in 2018 in amount segments



Entries into the 30+day-overdue status

The rise in the number of entries of consumer credit accounts into the 30+day-overdue status accelerates.

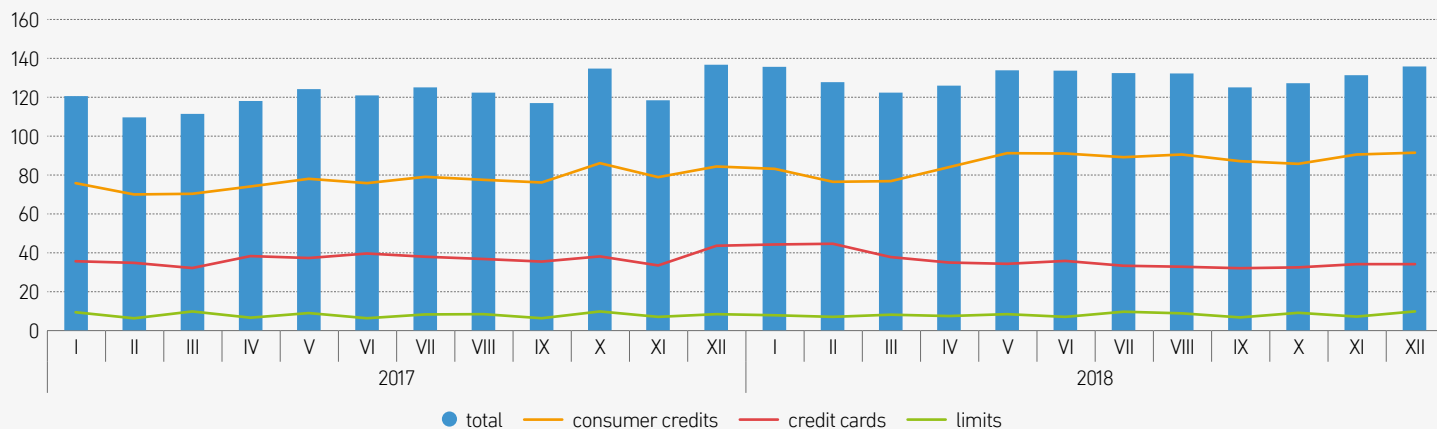
The number of entries into the 30+day-overdue status may be treated as the first signal of the portfolio quality deterioration. In the CREDIT TRENDS report for the first half-year 2018, we said that the number of entries into the 30+day-overdue status increased faster than the total number of consumer credit accounts in use, which was a worrying signal. However, after the 1st half-year, we did not notice yet a rise in entries into the status 90+ overdue. As expected, in the 2nd half-year, i.e. with delay, the rise in the status 30+ days overdue shifted to the status 90+ days overdue (next page).

The fastest rise in the entries into 30+day-overdue status in 2018 was recorded in instalment and cash credits; on the average 8% more accounts entered this status than a year before.

In credit cards, the YoY rise in entries into the 30+day-overdue status amounted to 1.9%; in overdrafts a rise in entries of 3.6%, with a slightly falling number of overdrafts in use (-0.5%).

In total, the number of consumer credit entries into the 30+day-overdue status rose (monthly on average) by 6%, with a rise in accounts in use of 4.3%. The forecast for the next half-year with regard to entries into a default status (90+) is not optimistic.

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

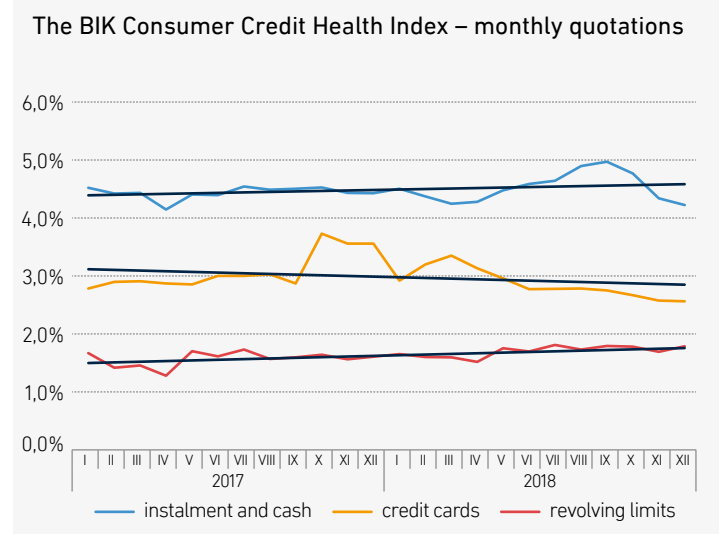
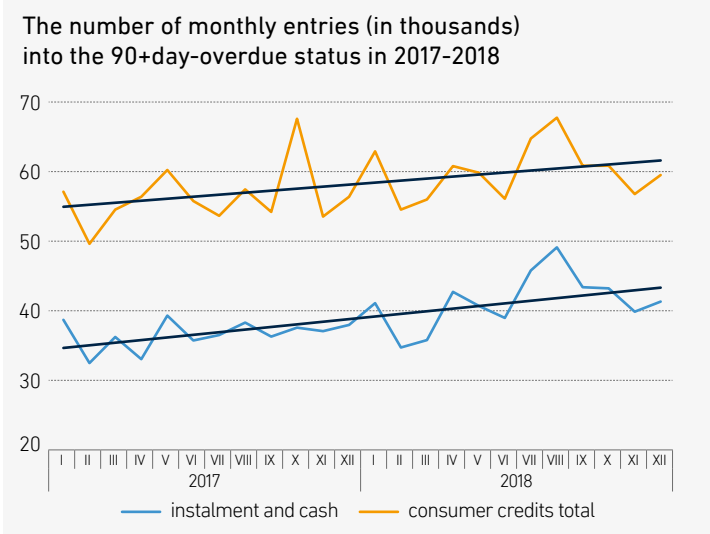


Entries into the 90+day-overdue status and the Consumer Credit Portfolio Health BIK Index

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

The rise in the number of entries into the 30+day-overdue status began to shift to the rise in the number of entries into the 90+day-overdue status, even if adjusted by the rise in the number of credit accounts in use. The quality of portfolios measured with the number of entries into the 90+day-overdue status is growing. A monthly average number of entries into the 90+day-overdue status in all consumer credits in 2018 amounted to 58.0 thousand accounts, i.e. 3.7% more than a year before. The Credit Information Bureau publishes the Consumer Credit Health

Index in the Newsletter every month, calculated on the basis of entries into the 90+day-overdue status and accounting for the dynamics of a rise/decline of the number of accounts in use. In order to avoid considerable fluctuations in the number of monthly entries, a moving average for the last 3 months is taken into account. The Index began to show upward trends in consumer credits and limit products, and a downward trend in credit cards.



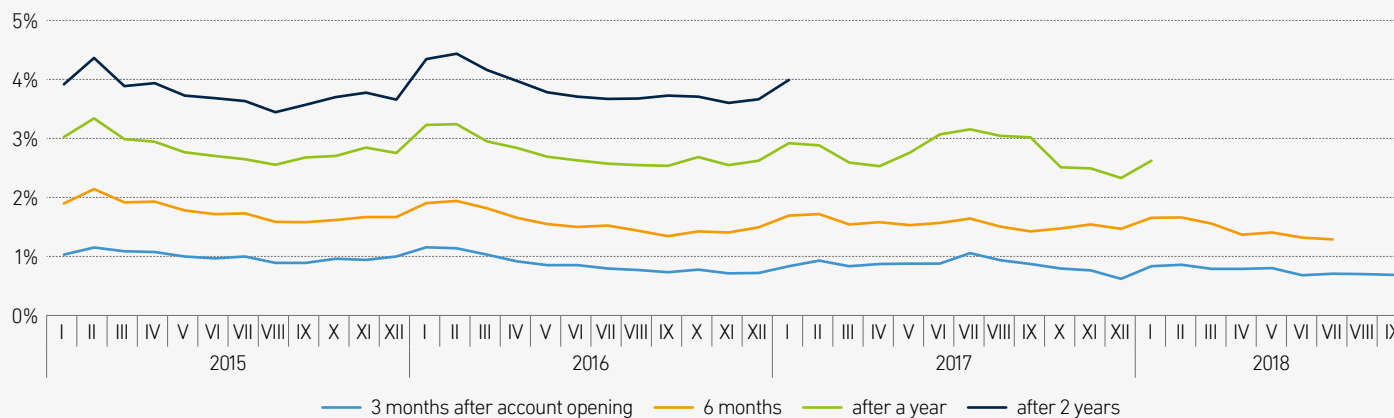
The quality of consumer credits granted in the bank sector (30+day-overdue status)

The lending quality improved – the younger the cohort, the lower the loss rate, as measured with the number of accounts in the 30+day-overdue status.

The number of entries into overdue statuses, indicated on the preceding pages, does not result yet in a change in trends in vintage charts. The younger the cohort, the lower the share of 30+day-overdue accounts in all the accounts opened in the cohort. The graph below shows that the loss rate of subsequent credit generations, regardless of the seasonal factor, shows a downward trend.

The experience so far indicates that half of the accounts entering monthly the 30+overdue status return to the status of regular servicing in the following month. Hence, the quality of crediting measured with the percentage of the cohort accounts, which had the 30+day-overdue status at least once in their history, is nearly twice as high.

The share of 30+day-overdue accounts in the number accounts opened in 2015-2018

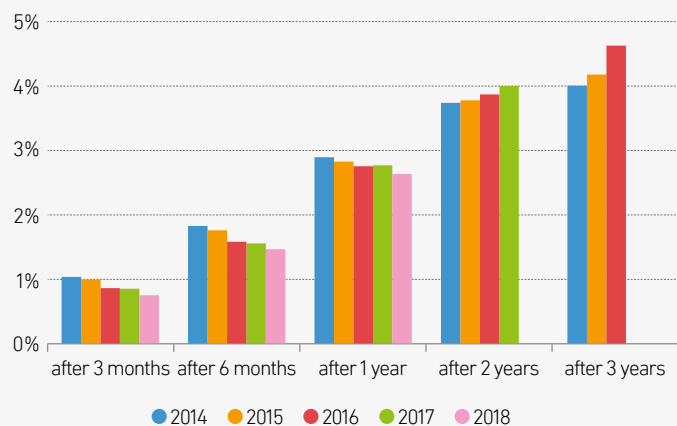


The credit loss rate grows with credit amount granted

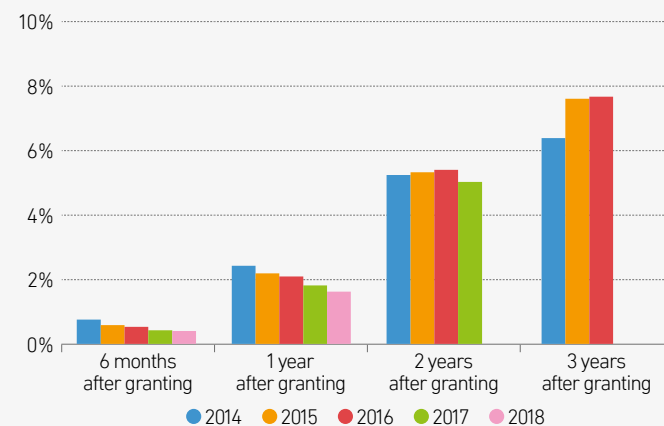
The loss rate of bank consumer credits measured with vintage indicators – the share of overdue credits in the number of granted credits in the cohort in a comparable period follows the principle: the younger the cohort, the lower the loss rate, but measured only in the first year after granting the credit. Measured in the following years, on the contrary: the later the generation, and the younger the cohort, the higher the percentage of 90+day-overdue credits. Consumer credits have the highest loss rate 5 years after granting. The vintage indicator of overdue credits comes close to 4.5% then; and it does not really grow later. Instalment credits always have a lower loss rate than cash credits (see the previous edition of CREDIT TRENDS).

Credits for higher amounts have a considerably higher loss rate than those for lower amounts. This relationship has been illustrated by us in CREDIT TRENDS many times. In the graph below, the loss rate of credits granted for amounts up to 50 thousand zlotys achieves the level of 7.7% three years after granting in generations 2015-2016. In the fourth and fifth year after granting the share in the 90+overdue status continues to grow in this group and exceeds the level of 8%. These credits are granted for longer periods and many of them are still being repaid in the fourth and fifth year.

The share of 90+day-overdue credits in the number of credits opened in 2014-2018



The share of 90+day-overdue credits in the number of accounts opened for amounts above 50 thousand zlotys in generations 2014-2018



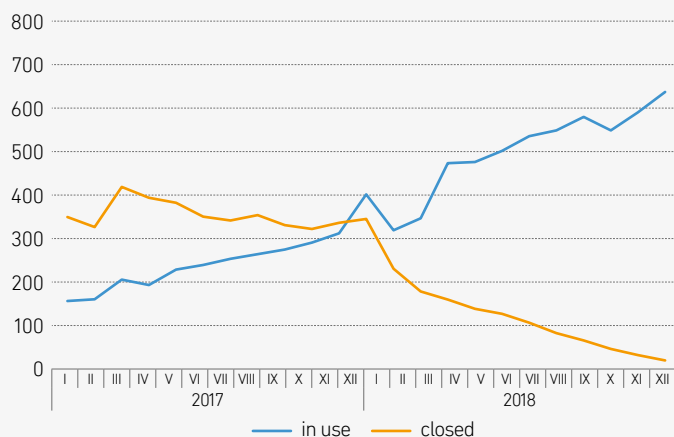
Half of credit accounts are closed within 12 months of opening

Consumer credit accounts are closed early.

Consumer credits are granted for different periods; most of them for short periods. Hence, half of the credits granted by banks and SKOK credit unions in the last months of 2017 have already been closed. It is worth remembering when analysing the loss rate data on previous pages using indicators referring to all credits within a cohort, those in use as well as those already closed. If the loss rate of a credit portfolio is calculated only with regard to credits in use, it will be different then. Credits for higher amounts are granted for longer repayment periods;

hence the process of repayment in terms of value is pursued in a different way than in terms of numbers. At the end of December 2018, the same amounts of principal: closed and in use, are observed in the cohort from October 2016. In this cohort, 50% of principal was to be repaid in December 2018, but only 8.8% of the principal of this cohort was 90+ days overdue in servicing. Thus, they were credits in use but not being serviced.

Accounts in use and closed (in thousands) in December 2018 coming from monthly cohorts of generations 2017-2018



Accounts in use and closed (in millions of zlotys of principal) in December 2018 coming from monthly cohorts of generations 2017-2018



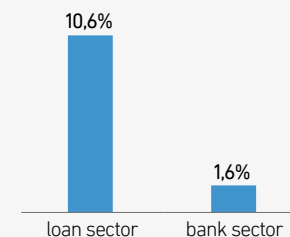
Non-bank loans

In the course of 2018 loans remained at a stable level in terms of numbers, but in terms of value we observed a slightly upward trend.

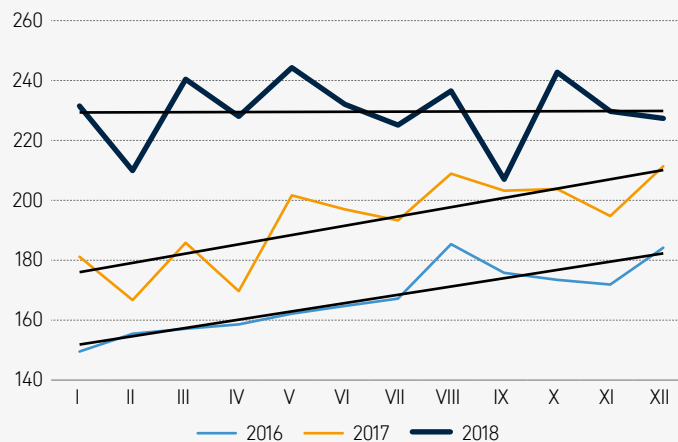
Loan companies reported to BIK granting 2.7million loans in 2018 for the total amount of 7.4 billion zlotys. It was much more than in 2017: 18.9% in terms of numbers, and 41.9% in terms of value. The growths resulted partly from a low base; in 2018 itself, the sales of loans oscillated around an average amount of 229 thousand loans granted monthly, not indicating an upward trend. In terms of value, we can see a slightly upward sales trend in the graph, but weaker than the trends of 2016 and 2017. A considerable part of growth in loans reported in 2016-2017 in terms of numbers and value resulted from a tighter cooperation of loan companies with BIK.

Non-bank loans are characterised by a much higher loss rate in comparison with bank credit for low amounts.

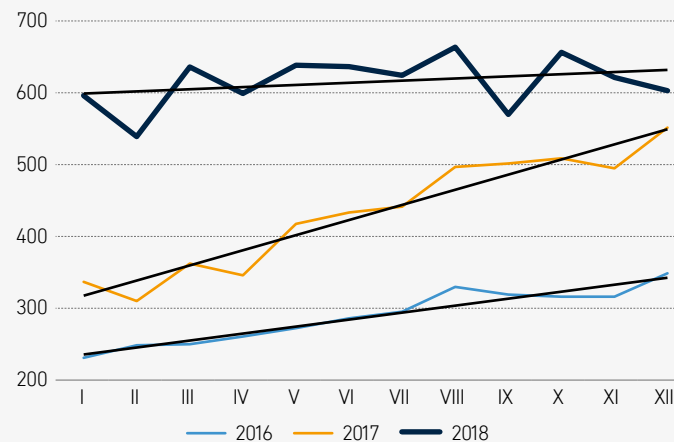
The share of 90+day-overdue accounts in the number of accounts opened for amounts up to 15 thousand zlotys in 2017 after 12 months



The number of non-bank loan (in thousands) granted monthly in 2016-2018



The value of contracts (in millions of zlotys) for non-bank loans granted monthly in 2016-2018



Key findings

- 2018 saw the highest sales of housing loans since 2008 in terms of value. In 2018, 227.3 thousand housing loans were granted (the highest number since 2002) for the amount of 56.2 billion zlotys (the highest amount since 2008). The growth in the amount of granted credits resulted partially from the number of loans granted, and also from the growth in an average credit amount.
- The dynamics of the number of granted housing loans in 2008 was considerably higher than the housing construction dynamics indicators. This is a new observation. In recent years, lending did not keep pace with the growth in housing construction.
- The average amount rise resulted from a faster growth in the number of loans granted for higher amounts and a clear decline in the number of loans for low amounts.
- However, transactions for relatively low amounts were still very important in the structure of granted loans. In terms of numbers, loans in the amount segment of 100-250 thousand zlotys were dominating. The number of loans for higher amounts grew faster; hence in terms of value, the next segment: 250-400 thousand zlotys gained a slight advantage
- The quality of housing loan portfolios was at a stable high level. Currency loans were repaid better than zloty loans.
- In the housing loans for amounts above 100 thousand zlotys, transactions for the periods of 25-30 years were dominating. Many loans were repaid early or prepaid.

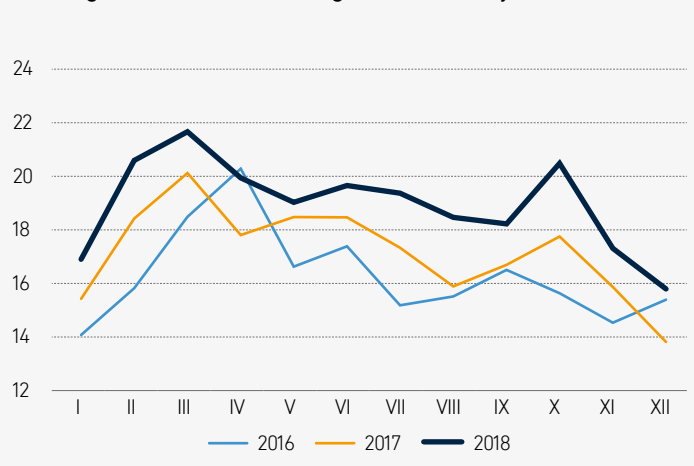
The number of granted housing loans

In the first half-year 2018, high rises in the number of housing loans granted continue.

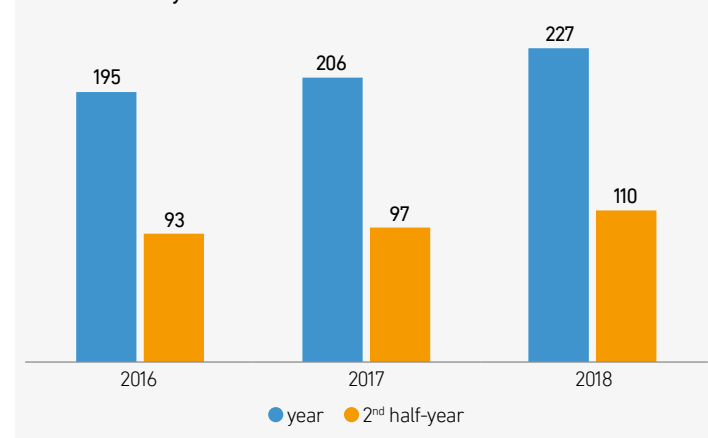
Every month in 2018, the sales of housing loans exceeded the previous year's level. Like in the previous years, the number of loans granted in the 2nd half-year was slightly lower than in the 1st half-year, but the YoY 12.6% dynamics of the 2nd half-year 2018 was impressive. The highest annual dynamics could be seen in the summer months: the highest in August: 16.2%, but it came as a low base effect: weak sales in 2017. In 2018, banks granted 227 thousand housing loans, i.e. 10.3% more than

in 2017. It is the highest sales result in the last seven years. A larger number of loans were granted in 2011. So far, the dynamics of granted loans was behind the dynamics of the number of new flats provided on the market as reported by GUS. In 2018, the YoY dynamics of the number of granted loans (10.3%) was higher than the dynamics of the number of new flats provided (3.6% acc. to GUS) and the dynamics of the number of building projects in progress (7.7%).

Housing loans (in thousands) granted monthly in 2016–2018



Housing loans (in thousands) granted in 2016-2018, including the 2nd half-years

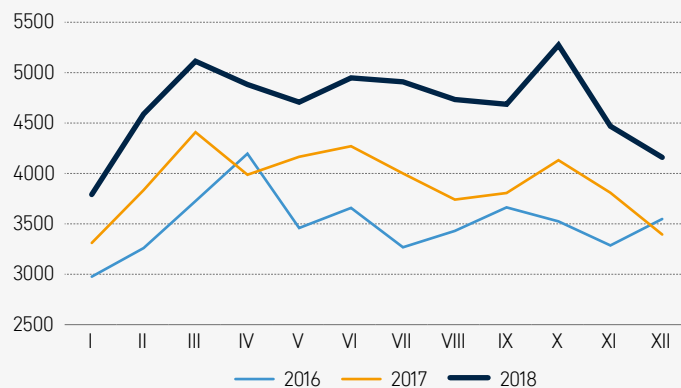


The value of granted housing loans

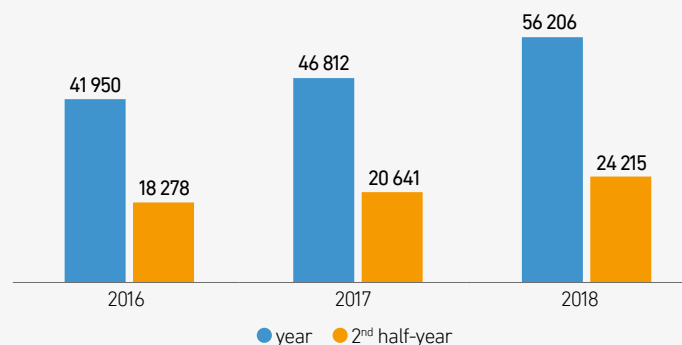
Housing loan sales in terms of value grew twice as fast as sales in terms of numbers; the average amounts of granted loans kept growing.

In 2018, banks granted housing loans for the amount of nearly 56.2 billion zlotys, which meant a rise of 20.1% compared to 2017. The 20.1% rise resulted fifty-fifty from the rise in numbers and the rise in the average amount of granted loans. The rise in the average amount of loans may also have resulted from the growing flat prices, and partly from a decline in the number of loans granted for lower amounts. The sales of housing loans at the level of 56.2 billion zlotys were the highest from the time of boom and crisis of 2006-2008. The sales in that time exceeded 60 billion zlotys.

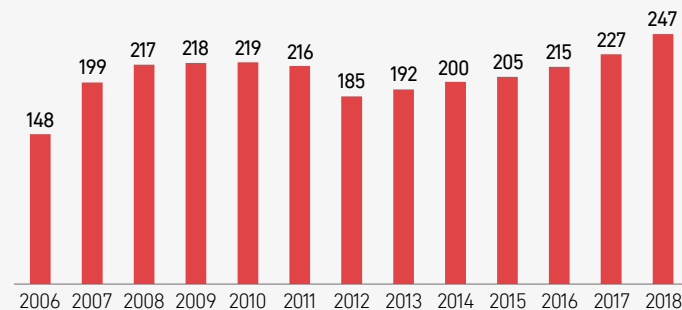
Housing loans (in millions of zlotys) granted monthly in 2016-2018



Housing loans (in millions of zlotys) granted in 2016-2018



Average amounts of housing loans (in thousands of zlotys) granted in 2006-2018

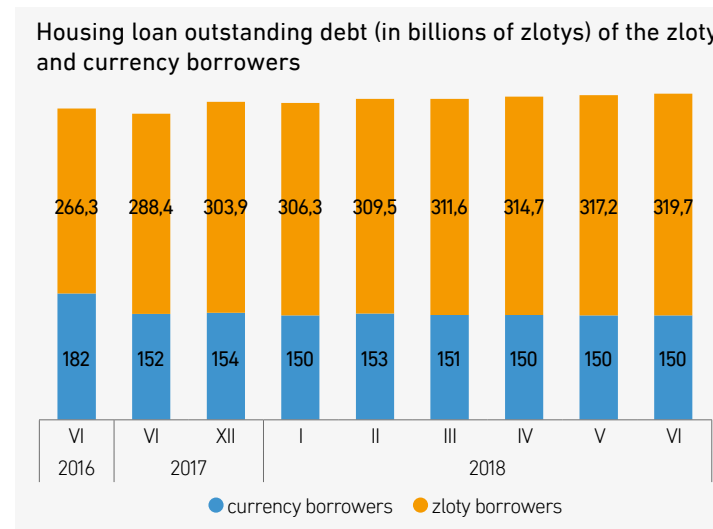
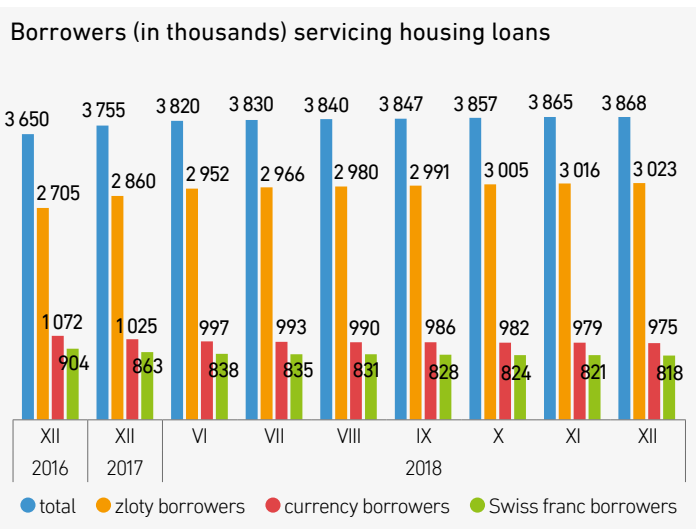


The number of borrowers, outstanding debt

The number of housing loan borrowers was on the rise. The amount of their liabilities also rose.

There were 3,868 thousand borrowers servicing housing loans in December 2018. In the course of 2018, the number of borrowers increased by 112.8 thousand, the number of the zloty loan borrowers increased by 163.3 thousand, and the number of hard currency borrowers declined by 49.3 thousand. The increases/declines in the number of borrowers in 12 months are slightly higher than those reported in the previous CREDIT TRENDS issue according to the state at the end of June 2018. The zloty and currency loans were simultaneously serviced by 130.2 thousand customers. Their debt is shown twice on the right hand side graph below, i.e. as zloty loan borrowers and currency loans borrowers.

In December 2018, the housing loan outstanding debt of households amounted to 432.1 billion zlotys and was higher by 27 billion zlotys than in December 2017. The outstanding debt of zloty borrowers was 31.3 billion higher than a year before, while the debt of currency borrowers was 2.7 billion lower. The changes in the level of debt, especially that of currency borrowers, resulted besides the repayment of loans from the exchange rate differences. The rate of Swiss franc was YoY higher by 24.5 groszes (6.8%) in December 2018. The outstanding debt of Swiss franc borrowers, compared with December 2017, declined in December 2018, as calculated in the zloty, by 2.5 billion zlotys, but the weakening of the domestic currency caused the rise in debt on the part of currency borrowers by 19.8 billion zlotys. The chart of CHF/PLN exchange rate is presented on p.30.



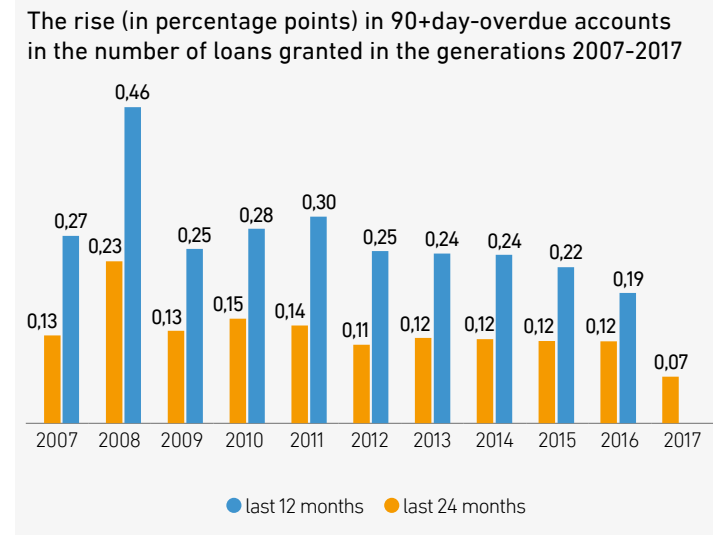
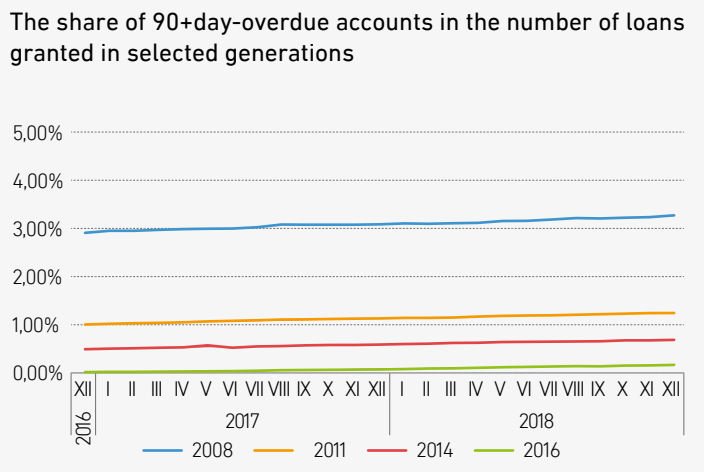
The quality of granted housing loans

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

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

The highest loss rate measured in December 2018 with the share of loans overdue in servicing occurred in the crisis generation of 2008 (4.08%). The post-crisis years have a much lower loss rate, though over time they deteriorate, and certainly they will not achieve of the level of the generations from the previous decade.

The rises in the share of overdue loans in the last 12 and 24 months in generations 2007-2017 are shown in the graph below. The year 2008 does not only have the highest loss rate but it deteriorates fastest, the remaining generations (up to 2015) deteriorate at a similar pace. In order to assess the loss rate of a generation, we take into account the relation of the number of overdue accounts to the number of loans granted. In older generations many loans have already been repaid, for example: nearly half in the 2007 generation. Thus, the relation, especially in the case of older loan generations, of overdue loans to accounts in use is different.



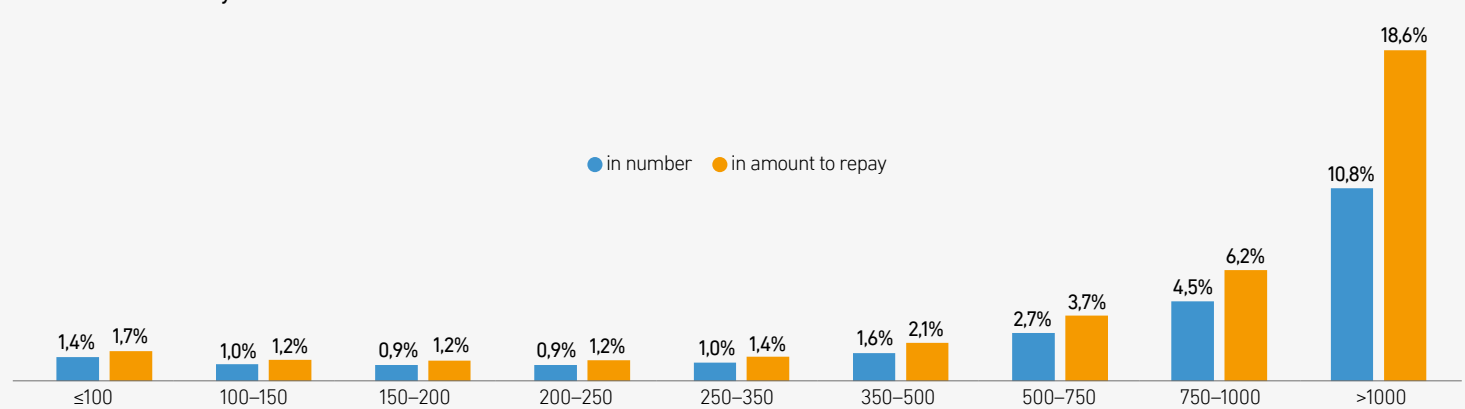
Quality of housing loans in relation to the granted amount (balance approach)

Housing loans granted for high amounts were marked with a considerably higher loss rate, but the interpretation of this observation is not explicit.

Housing loans granted for amounts below 1 million zlotys still being repaid had a clearly higher loss rate at the end of December 2018. Assuming the measure of the quotient of the number of 90+day-overdue accounts and the number of accounts in use, it amounts to 10.8%, while measured with the relation of the balances on these accounts, the loss rate amounts to 18.6%. For all housing loans they amount respectively to 1.2% and 2.5%. Loans in the segment 750,000 – 1 million show a clearly higher loss rate than loans for lower amounts. This view may be surprising as high amount loans are granted to customers with higher incomes, and these have higher income and property buffers. It appears that a high loss rate refers to high amount housing loans for the periods up to 5 years. We

do not have information in BIK about the repayment period of all loans, especially those granted long ago, but on the basis of the information about the crediting periods of 20% of 90+day-overdue accounts, we can see that a high loss rate of 90+day-overdue accounts concern only loans granted for the periods up to 5 years (17%). What kind of loans are they? Certainly, they are not classical loans for having a house or flat built. They may be mortgage loans, including those connected with borrower's business activities. They may also be mortgage backed credits to restructure or consolidate a former overdue debt. In the graph below, we omit SKOK credit unions, which applied a broader scale of mortgage securities to restructure overdue debts.

The share of 90+day-overdue accounts in relation to the loan amount. Bank sector without SKOK credit unions

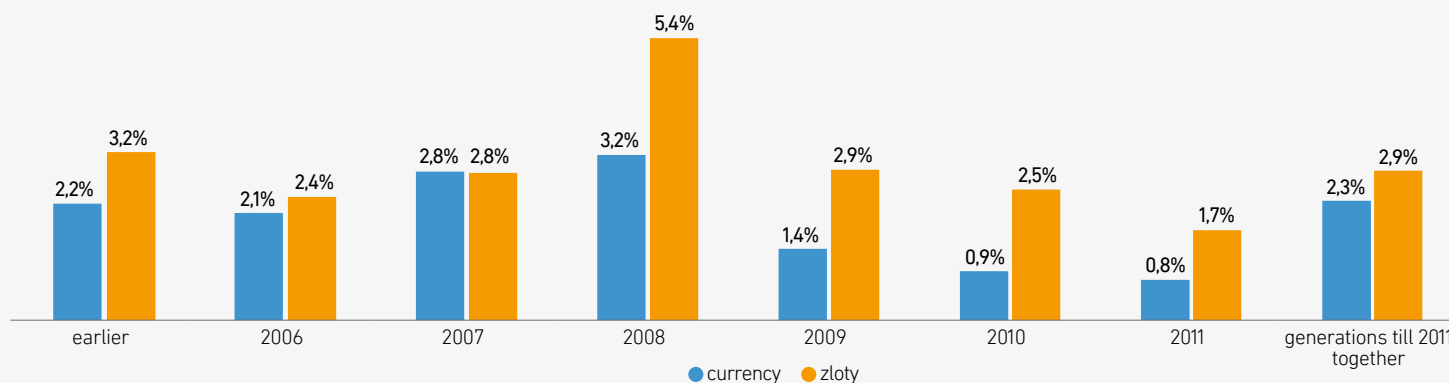


Currency housing loans are repaid better than zloty loans

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 2018 in the number of loans granted in a generation. The numerator and denominator of this indicator include also loans already closed in the regular or overdue servicing status. The number of loans granted and overdue in servicing in the currency portfolio is enlarged by the accounts converted into the zloty in the mode of debt recovery/restructuring of loans (reduced in the zloty portfolio).

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 overdue loans, after the conversion adjustment, are similar.

The share of loans 90+days overdue in servicing in the number of loans granted in generations till 2011 the year of granting. The state of portfolios at the end of 2018 after conversion adjustment



The quality of the Swiss franc portfolios

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

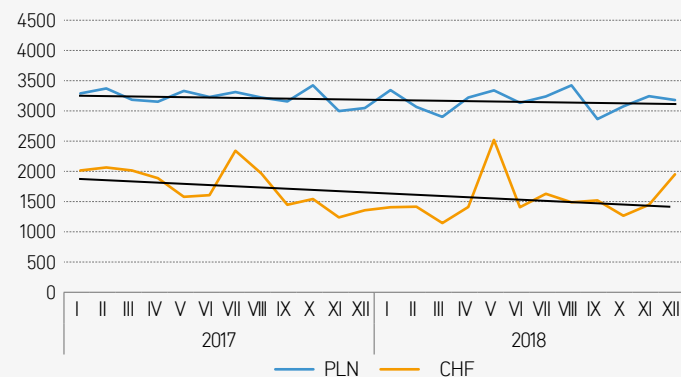
The number of accounts entering the first overdue status of 30+ days decreases, in both zloty and franc portfolios. The declines in the franc portfolio are even (the trend line) faster, but it results from the decline in the number of accounts in use.

Referring the number of shifts from regular servicing to the 30+day-overdue status to the number of accounts in use, we noted an average monthly shift of 0.20% in the zloty portfolio, and 0.35% in the Swiss franc portfolio in 2017. In 2018, respectively in the zloty portfolio 0.18%, and 0.33% in the franc portfolio.

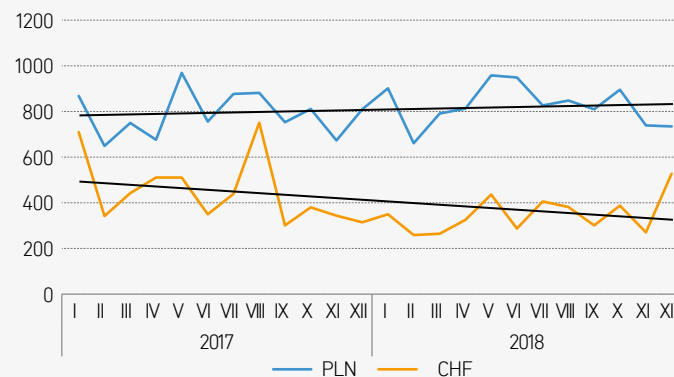
In 2018, an average monthly number of entries into 90+day-overdue status in the zloty portfolio amounted to 827 accounts, 4.7% more compared to 2017. An average monthly number of entries into 90+day-overdue status in the currency portfolio amounted to 352 accounts, which means a decline of 22% compared to 2017.

The Swiss franc portfolio gets more mature and under the condition of good economic situation and a relatively stable exchange rate, the number of borrowers in trouble does not grow much.

Monthly shifts to the 30+day-overdue status in the zloty and franc portfolios. Monthly data from 2017-2018



Monthly shifts to the 90+day-overdue status in the zloty and franc portfolios. Monthly data from 2017-2018



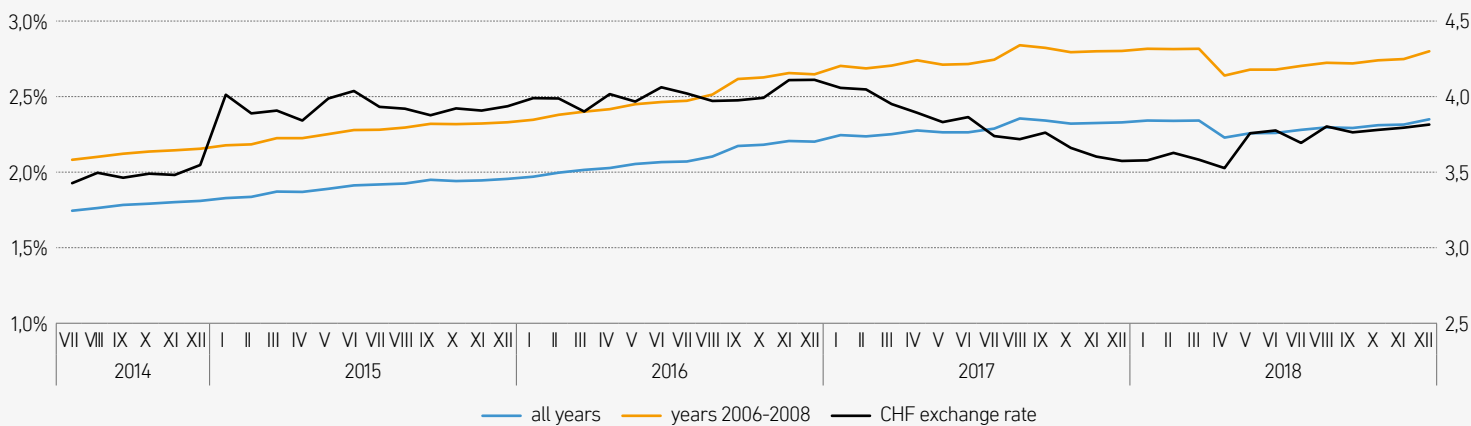
The quality of the Swiss franc loans and the franc exchange rate

The Swiss franc exchange rate has an insignificant impact on repayment of loans in this currency.

Four 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, with a growing trend, in the range of 3.9 to 4.2 zlotys per franc. As indicated in the graph, from July 2014 to January 2017, 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. The rise of the indicator of overdue accounts was of a linear character at that time. In 2017, the zloty began to make up for the losses against the franc.

The shares of overdue accounts presented in the graph were adjusted (increased) by the overdue loans converted from the franc to the zloty. In December 2018, according to the information we possess, there were 11.8 thousand currency accounts 90+days overdue or closed in this status. We add 5.3 thousand loans to this number, presently zloty loans, having been converted from the franc when overdue in servicing (together 17.1 thousand). Most overdue franc loans (12.3 thousand after the conversion adjustment) come from the generations 2006-2008.

Swiss franc loans. The share of 90+day-overdue accounts opened in the Swiss franc in the number of accounts opened. The state of the BIK base: July 2014 - December 2018

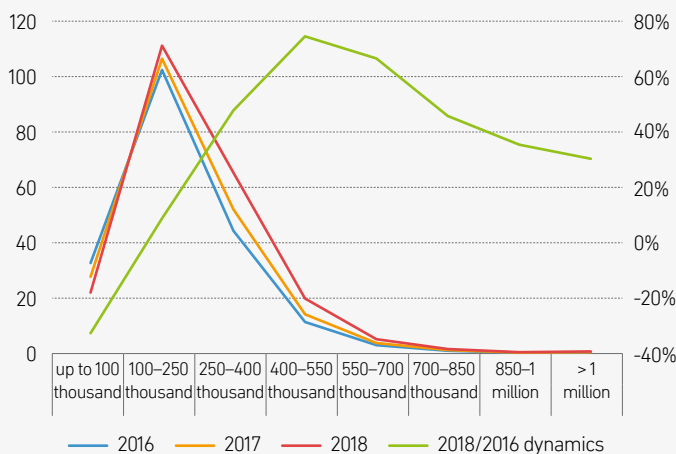


Sales are dominated by low amount loans, but sales of higher amount loans grow faster

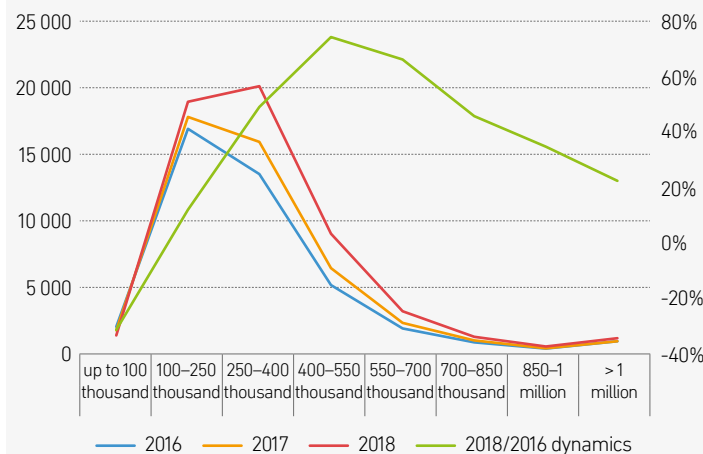
In Poland, housing loans for relatively low amounts are prevailing. The largest number of loans in 2016-2018 were granted in the amount segment of 100-200 thousand zlotys, i.e. for amounts seldom sufficient for a flat purchase. If this group is to be divided into segments, 50 thousand each, the 100-150 thousand segment would be dominant, and in 2018 a similar number of loans were granted in the following segments: 150-200 thousand and 200-250 thousand zlotys. The fastest growth in 2016-2018 was recorded in the number of loans granted in the segment of 400-450 thousand zlotys (74%). In the dominant group in terms of numbers (100-250 thousand zlotys), in 2018 there were only 9% more

housing loans granted than in 2016. Due to the fast growth of granted loans for higher amounts, the dominant of the distribution of loans granted in 2018 (the graph on the right) moved to the segment of 250-400 thousand zlotys. The 2018/2016 growth in this segment amounted to 47% in terms of numbers and 49% in terms of value. There was a rapid decline in the number of granted housing loans in the segment up to 100 thousand zlotys (of 32% in 2018/2016), but this decline may to a large extent result from the requalification of unsecured mortgage loans financing renovations and adaptations as well as reporting these loans as instalment or cash loans.

Housing loans granted in 2016-2018 (in thousands) in amount segments and the 2018/2016 dynamics in % (right scale)



Housing loans granted in 2016-2018 (in millions of zlotys) in amount segments and the 2018/2016 dynamics in % (right scale)

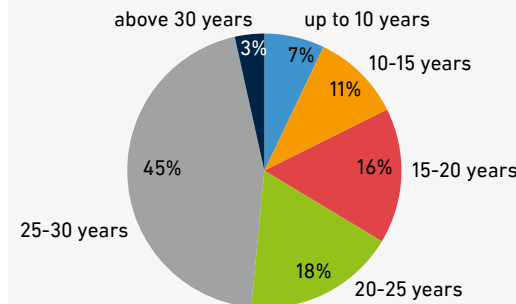


Granted loans are dominated by contacts concluded for 25-30 years

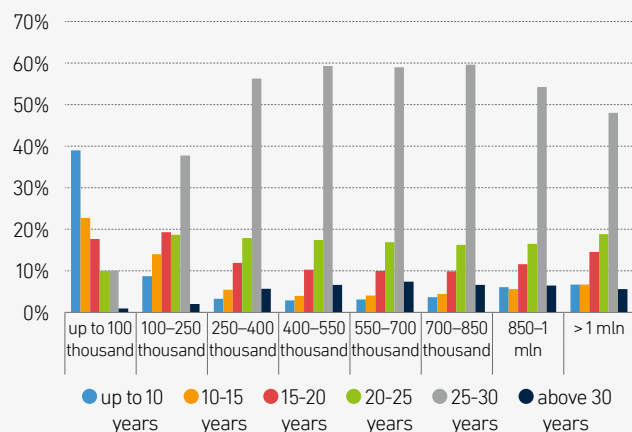
The repayment period of 25-30 years prevails.

The highest number of housing loans is granted for the period of 25-30 years. Loans granted for up to 10 years prevail only in the group of loans up to 100 thousand zlotys. Already in the next group (segment 100-250 thousand zlotys), loans granted for 25-30 years are dominant, though in this group loans granted for shorter period have still a considerable share. Beginning with loans for 250 thousand zlotys, the distribution of the numbers of granted loans in groups by the loan period, are similar and reach 60% of housing loans granted in 2016-2018 in the segments of 400-850 thousand zlotys. What may come as a surprise is a lower share of the dominant loan period of 25-30 years in the highest amount groups (above 850 thousand zlotys). There may be mortgage loans there, also for purposes indirectly related to business activity, and mortgage loans are granted for shorter periods. Statistics does tell the difference between housing loans and mortgage loans, and mortgage loans are granted for shorter periods. It comes as no surprise that the extension of a loan period was accompanied by a rising average loan amount, though the growth in the lowest segments was insignificant.

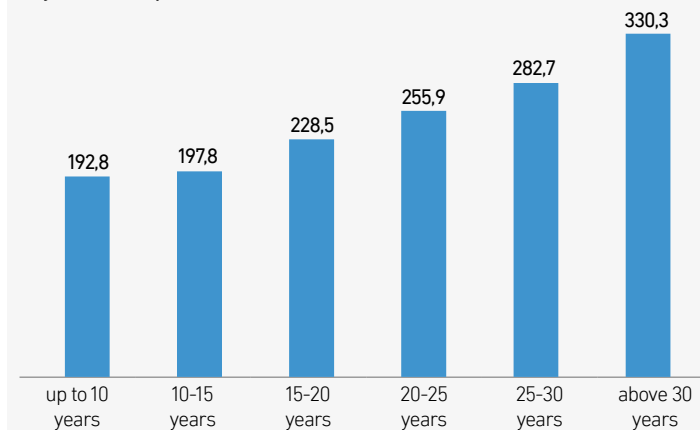
Numerical structure of loans granted in 2016-2018 by the loan periods for which they were granted



Shares of housing loans in the number of granted loans in 2016-2018 in amount segments by the loan period



Average amounts housing loans granted in 2016-2018 by the loan period



Housing loans are often repaid earlier than indicated by the contractual loan periods

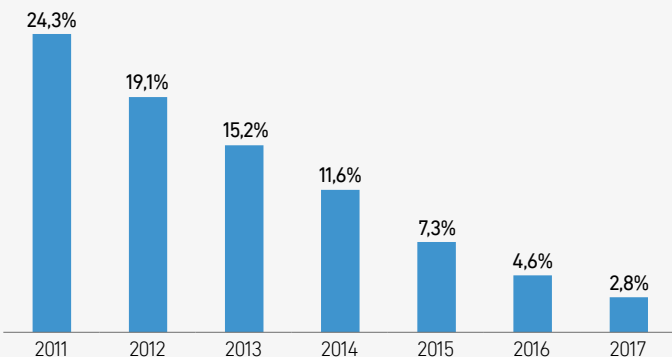
Loan repayment is made ahead of contract schedules.

Housing loans are granted for long repayment periods (previous slide), most frequently repaid in annuity schedules. As a result of application of fixed instalments the principal decreases slowly. In the oldest generation (2011) analysed, after 8 years of repayment, the borrowers servicing the loan in December 2018, had repaid only one fourth of the principal. On the other hand, a similar percentage of accounts opened in 2011 had already been closed. Early repayments result partly from closing loan accounts opened for shorter periods, and partly from prepayments.

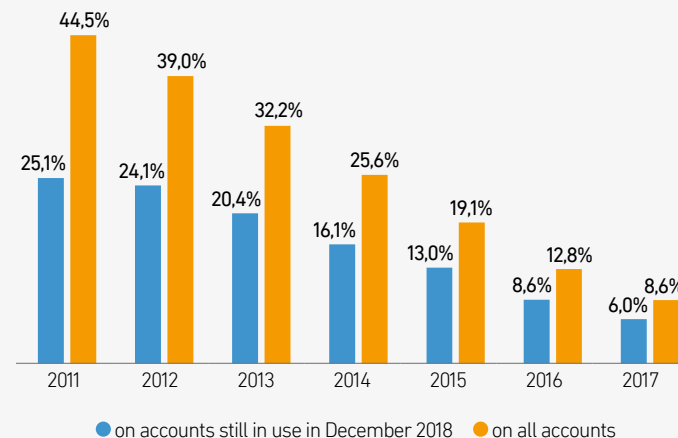
As a result of both these factors, 44.5% of the principal granted in 2011 returned to banks, so quite a lot.

The analysis concerns only the zloty loans granted for amounts up to 100 thousand zlotys. We exclude loans for lower amounts due to completely different loan period and currency loans due to exchange rate fluctuations.

The share of accounts closed till December 2018 in the number of accounts opened in 2011-2017



The principal repaid in generations 2011-2017 in % of granted principal

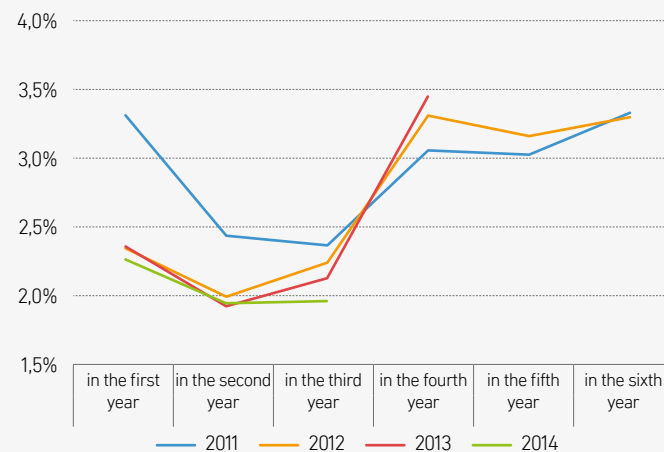


Closed accounts

We observe a considerable scale of account closures in the first years after granting

In the first three years after granting the loan in generations 2011-2014, about 7% of accounts were closed, in absolute numbers it is a significant figure: over 9 thousand accounts annually, in generation 2011: nearly 12 thousand. The analysis deals with zloty accounts up to 100 thousand zlotys. Prompt repayments, to a large extent, come as a result of treating the loans as a form bridge financing. Bridging loans are to finance the purchase of real property before the former property has been sold. Promptly repaid loans may also leverage purchasing flats for sale. Anyway, the segment of promptly repaid loans is of a considerable size. In the fourth and fifth year after taking a loan, account closing accelerates. A similar course of prepaid account closing in generations 2012-2014 suggests that similar bridge financing volumes may take effect also in the next generations.

Housing loans granted in 2016-2018 (in thousands) in amount segments and the 2018/2016 dynamics in % (right scale)



Borrowers often repay ahead of contractual repayment schedules

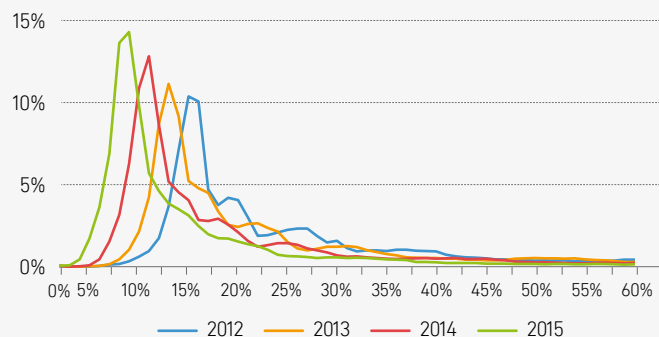
Instalment prepayment is frequent.

Bridge financing may have a form of complete or partial repayment of a former loan. In the case of partial repayment, a considerable part of the loan is repaid at the beginning of the loan period, but the loan is still in use. This sort of situation may happen when for example the income from the sale of the former flat is not enough to make a full repayment of the loan incurred to buy a new flat. Below, we show the degree of repayment of principal in generations 2012-2015 on accounts in use (zloty loans up to 100 thousand zlotys) being repaid in December 2018. In generation 2012, a dominant part (85%) of accounts indicated the repayment of the third part of the borrowed principal. And in 2015 the respective dominant part (93%) of accounts indicated the repayment of

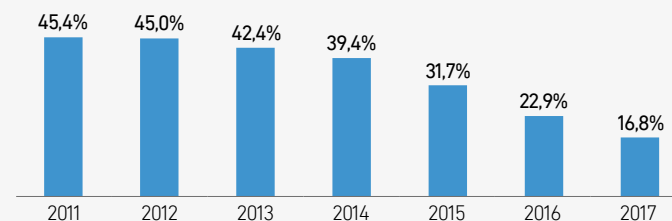
45% of principal. A clear, though a low level dominant of the degree of repayment of principal resulted from the annuity repayment model, in which repayment of principal grows in the later part of the repayment period. In order to assess the scale of early repayment on accounts in use, we assumed that prepaid accounts are those on which the repayment of principal exceeds by 5 percentage points the dominant seen in the graph. With this, quite an arbitrary, assumption we present the percentage of prepaid zloty loan accounts in use incurred for the amount up to 100 thousand zlotys.

Thus, the scope of prepaid accounts was considerable. In generations 2011-2013, it approaches 50% of accounts in use, and in older generations many accounts were closed, in generation 2011 – 24.3%, in 2012 – 19.1%. Prepayments seem to be concentrated in the first 3-4 years after incurring a loan.

% of repayment (vertical axis) of principal on zloty housing loan accounts in use in December 2018. On the horizontal axis % of accounts indicating a degree of repayment of principal



The share of accounts with prepaid principal in December 2018 in the number of accounts in use in generations 2011-2017



Key findings

- The development of a non-cash turnover did not translate into the credit card market growth. Poles, open to payment innovation, used payment cards more willingly.
- The issuance of credit cards in terms of numbers as well as value remained at a stable level, the observed rises/declines were not substantial.
- The limits on cards in use kept growing; also limits on the newly opened accounts were on the rise.
- The number of card holders and the number of accounts in use did not show a distinct upward tendency.
- Bank dues on account of credit cards explicitly increased.

The number of credit cards issued

The number of newly opened credit card accounts was subject to considerable monthly fluctuations, but generally it was at a slightly lower level in comparison with 2017.

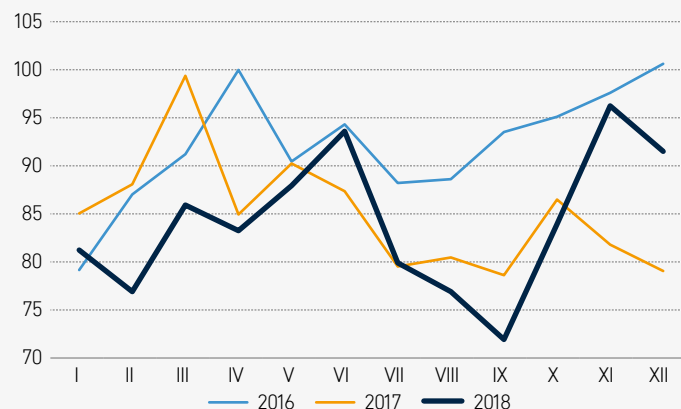
After the 1st half-year 2018, it seemed that the card issuance downward trend came to a halt. In June, 93.5 thousand accounts were opened, i.e. 7% more than in 2017.

In the 3rd quarter the decline returned; in September 72 thousand accounts were opened, i.e. 8.5% less than a year before. On the other hand, in November and December, we noted a YoY double digit growth in the number of issued cards. Banks seem to be looking for an appropriate

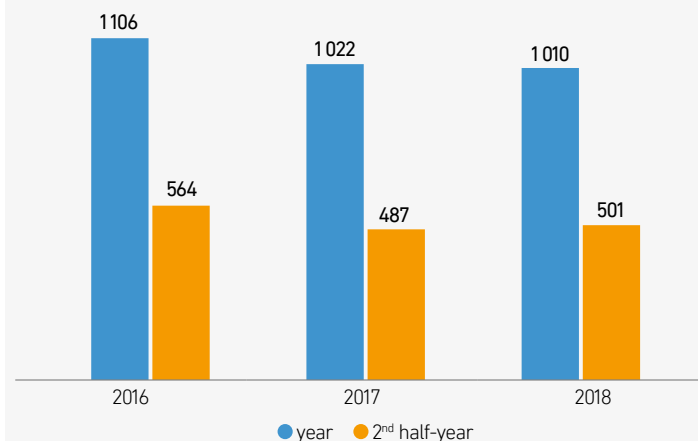
business model in the card system which is well-adjusted to the new level of interchange rates.

Totally, in 2018, 1 million credit cards were issued, i.e. 1.2% less than in 2017. Half of it was issued in the 2nd half-year, which was YoY 2.9% more. On the average, in 2018 there were 84.1 thousand cards issued every month and this is the level of card issuance we can observe since the middle of 2017, with considerable monthly fluctuations though.

Credit card accounts (in thousands) opened monthly in 2016–2018



Credit card issuance 2016–2018 (in thousands of accounts)



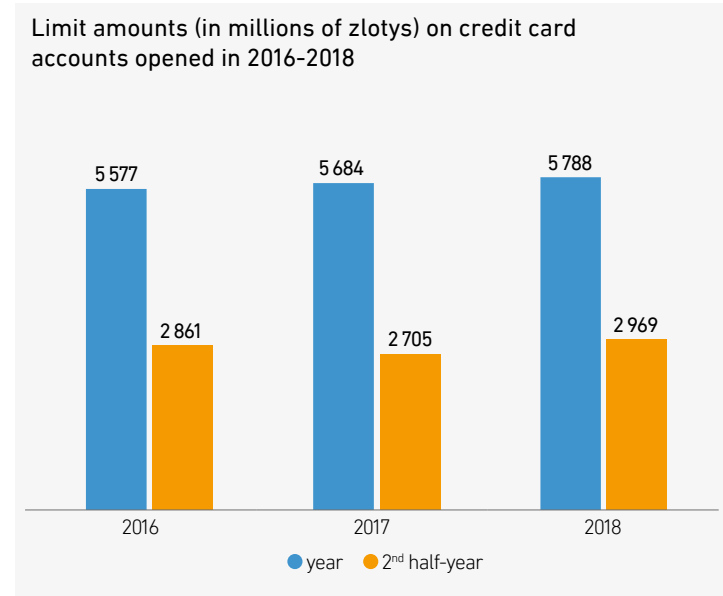
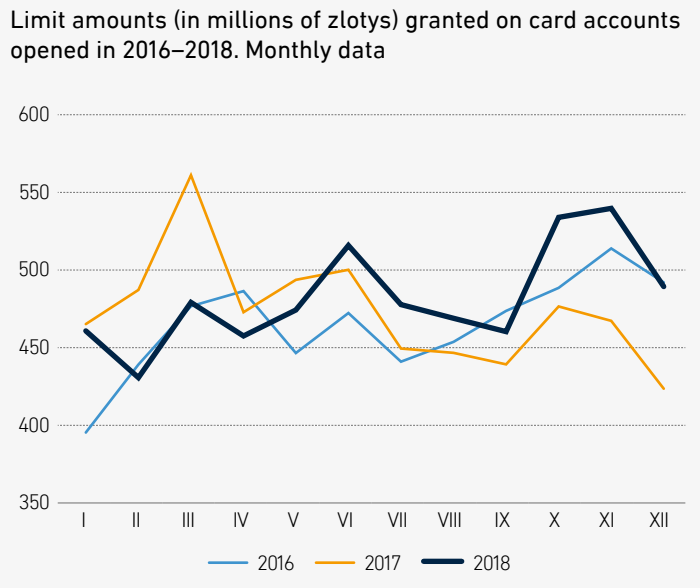
The value of limits on the opened accounts

The value of limits granted on newly opened credit card accounts in 2018 slightly increased.

The course of credit card sales in 2018 in terms of value was a little different than in terms of numbers. While in terms of numbers we could see slight sales declines, in terms of value there were rises, also slight though.

In the 1st half-year, we observed MoM rises in the amounts of granted limits, but these amounts till June 2018 were lower than in 2017. In the 2nd half-year, the MoM rises were considerably weaker, but in comparison with 2017, the YoY dynamics of granted limits was clearly higher (base effect).

In 2018, on the newly opened accounts limits of 5,788 million zlotys were granted, i.e. 1.8% more than a year before. In the 2nd half-year, the granted limit amount of 2,968 million zlotys was YoY 9.8% higher, but this increase results from a poor base of the 2nd half-year 2017. Generally, in terms of value, the credit card issuance market stabilised, with considerable monthly fluctuations, at an amount level of 500 million monthly, with a weak upward tendency.

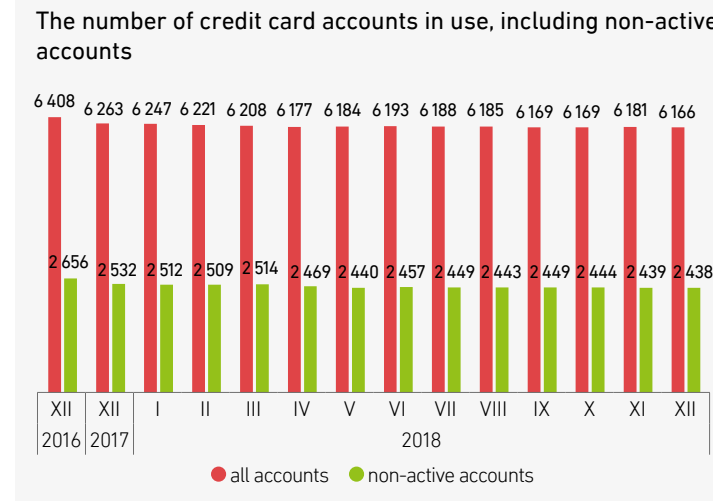
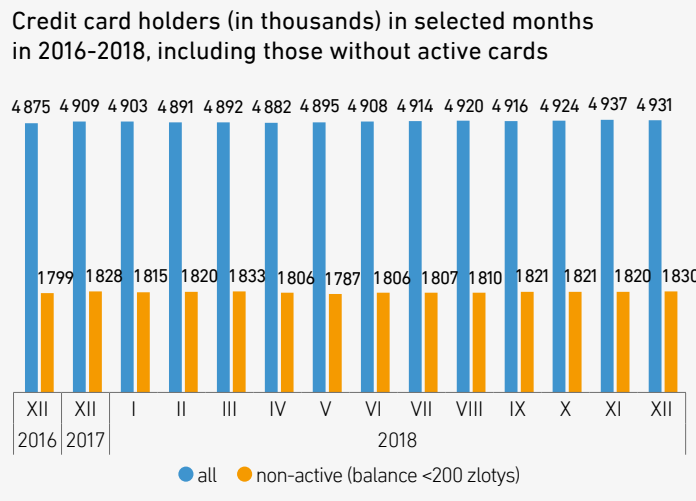


The number of credit card holders, including the active ones

The number of credit card holders remained at a stable level in 2018; the number of accounts in use declined, mainly in the group of non-active accounts.

At the end of December 2018, there were 4.9 million customers possessing credit cards, 3.1 million of them had active cards (the ones with credit balance of above 200 zlotys in December). The quoted numbers are similar to those a year before. There were 21.5 thousand new card holders (0.4%), nearly all of them in the active group (19.2%). Similarly, there were no increases in the number of active credit card accounts; at the end of December, there were even slight YoY declines. In December

2018, there were 6,166 thousand credit card accounts in use, 96.7% less than a year before (1.5%), but nearly all this decline concerned non-active accounts. A clear growth in non-cash payments observed on the market did not affect the rise in the issuance of credit cards or the number of card users. In Poland, there was an absolute domination of debit cards, also those installed in mobile phones.



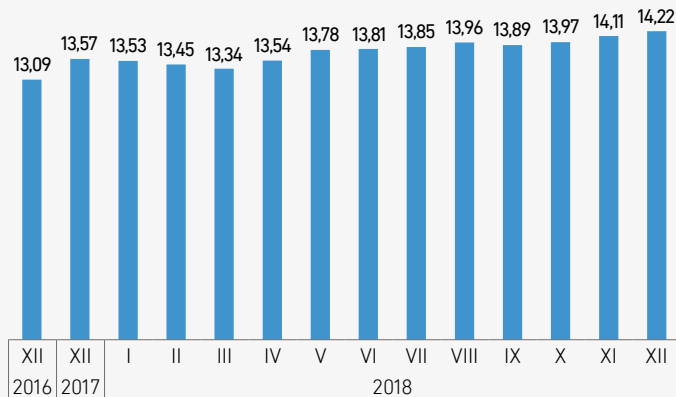
Limits and dues on card accounts

Despite the stagnation in the card issuance and the number of card holders, bank dues and granted limits on accounts were on the rise.

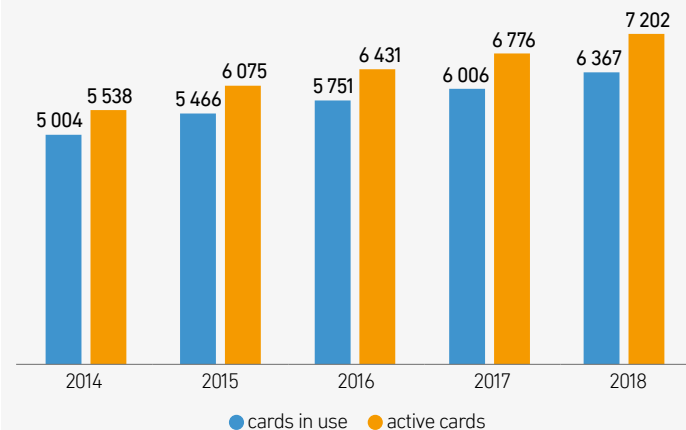
Bank dues from credit card accounts run by them increase. At the end of December 2018, they amounted to 14.22 billion zlotys, i.e. 4.8% more than a year before. We noted a slightly lower but conspicuous rise of 3.7% in 2017. Banks seem to pursue different strategies in the card segment, some of them developed this segment, and others limited the issuance of cards. A common feature is their offer focusing on the customers well-known to them.

The credit card limits increase. It concerns an average limit on cards in use as well as an average limit granted on newly opened accounts. We observe the highest limits on active cards (those above 200 zlotys), on which in December 2018 an average limit amounted to 7,202 zlotys and was 6.3% higher than a year before. We noticed a similar rise in limits on all cards in use in December 2018. The rise in limits in 2017 was slightly lower (5.4% on active cards). An average limit granted on newly opened accounts in 2018 amounted to 5.732 zlotys and was 3% higher than a year before.

Bank dues on account of credit cards (in billions of zlotys)



An average limit (in zlotys) on a credit card account in use and 2014-2018



Key observations

- We could observe a slight rise in credit sales to microentrepreneurs in 2018, in terms of value they were 1.1% higher than a year before. In the case of credits granted to farmers, the value of financing declined by 5.4% in comparison with 2017, which results primarily from a weaker 2nd half-year.
- There is a high sectoral concentration of the credit portfolio of microentrepreneurs. Two sectors are dominating: trade and services, which is closely related to the sectoral structure of Polish microenterprises. However, agriculture and services have the largest share in the joint portfolio of microentrepreneurs and farmers.
- The quality of credit portfolio in 2018 measured with the NPL indicator deteriorated at the level of the number of credit accounts as well as in terms of value, in relation to both microentrepreneurs and farmers. At the end of 2018, in terms of numbers, it amounted to 11.1% for microentrepreneurs and 2.4% in the case of farmers. In terms of value, it amounted to 14.2% and 4.5% respectively.
- The portfolio of credits granted to farmers is of a better quality than microentrepreneurs'.
- The risk of crediting microentrepreneurs and farmers is determined by the number of credits serviced and the number of banks providing credits. The more credits repaid simultaneously, or the more banks which provide financing to them, the higher the credit risk.

The groups of microentrepreneurs and farmers discussed in this chapter, are identified by us according to the following definitions:

Microentrepreneurs are entrepreneurs registered in the Central Register and Information on Economic Activity (CEiDG), without farmers running their farms, who are registered in CEiDG.

Farmers are private individuals running their farms not registered in CEiDG and farmers running their farms and registered in CEiDG and in the register of civil partnerships.

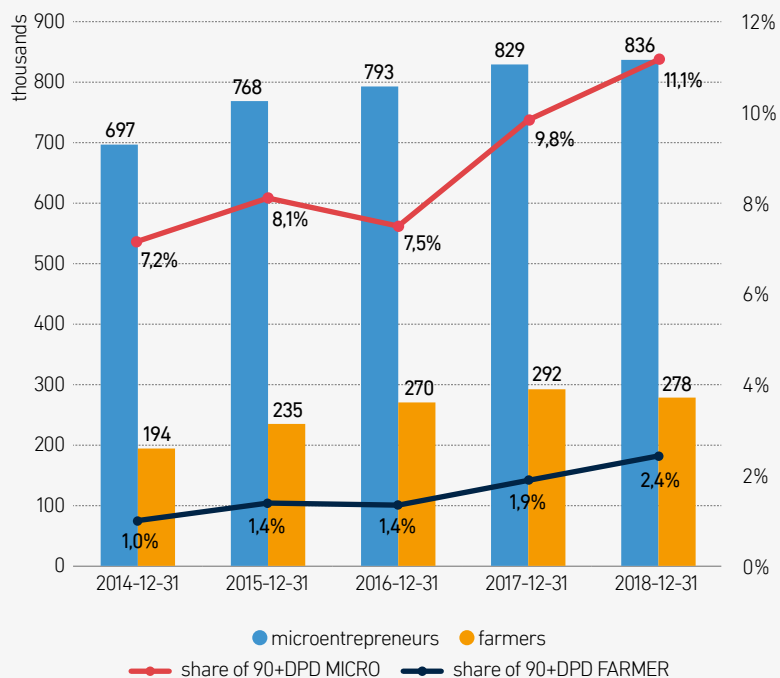
The number and quality of the credit portfolios of microenterprises and farmers

We can observe only a slight rise in the number of accounts in the microenterprise and farmer credit portfolio, with a deterioration of microentrepreneur portfolio of 1.3 pps and a slight (0.5 pp) deterioration of the quality of farmers' portfolio.

At the end of December 2018, the number of microenterprise credit accounts in use amounted to 838,440; it increased by 7,440 (0.9%) during the year. In the same period the quality of the portfolio measured with share of 90+day-overdue accounts in the number of accounts in use (NPL) deteriorated in comparison to December 2017 by 1.3 pps and amounted to 11.1%. The number credit accounts in use in the credit portfolio of farmers at the end of December 2018 amounted to 278,220, i.e. 13,560 less than at the end of December 2017 (a decline of 4.65%).

Despite a slight deterioration of 0.5 pp in the whole 2018, the portfolio quality of credit accounts (NPL with regard to numbers) of farmers was high and amounted to 2.4%. In comparison with the quality of microentrepreneurs credit quality, the credit portfolio for farmers had a few times lower loss rate.

The state and quality of the microenterprise and farmers' credit portfolio in terms of numbers (in thousands / %)



The value and quality of the credit portfolios of microenterprises and farmers

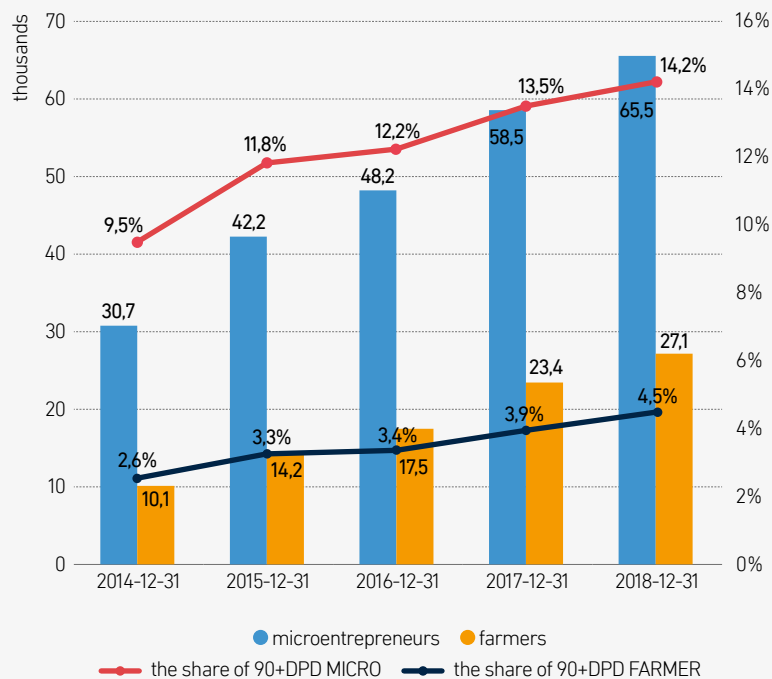
We can observe an increasingly high value of the credit portfolios of microenterprises and farmers, with a rise in the level of risk.

At the end of December 2018, the value of microenterprise credit portfolio amounted to 65.5 billion zlotys and it increased by 7 billion zlotys (12%) in comparison to December 2017. In the same period the quality of the portfolio measured with the value share of 90+day-overdue accounts in the value of accounts in use (NPL) deteriorated by 0.7pp compared to December 2017 and amounts to 14.2%.

The value of farmers credit portfolio amounted to 27 billion at the end of December 2018, i.e. 4 billion more than at the end of December 2017 (a rise of 17.4%). Despite a portfolio quality deterioration of 0.2 pp in the period January – December 2018, the portfolio quality of credit accounts (NPL in terms of value) of farmers is high and amounts to 4.5%.

In comparison with the quality of microentrepreneurs credits, the credit portfolio for farmers has a few times lower loss rate.

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



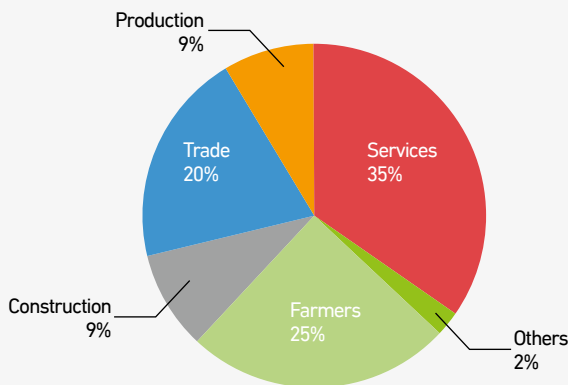
The sectoral structure of credit portfolios of microenterprises and farmers

There is a high sectoral concentration of credit portfolios in terms of the numbers of serviced credits. Three kinds of activity are dominating: services, agriculture and trade.

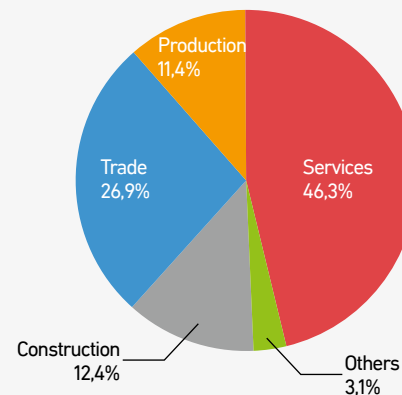
At the end of December 2018, service companies possessed 35% of all the credit accounts in use. Farmers serviced 25% of credits in use and retail and wholesale companies serviced 20.2%. The structure is stable over time. It reflects a sectoral demand for credit in the segment of SMEs and farmers.

In the sectoral structure of microenterprise portfolio (without farmers) nearly half (46.3%) of credit accounts in use belong to microentrepreneurs rendering services. 26.9% of all credit accounts in use belong to microentrepreneurs in the sector of retail and wholesale trade, and 12.4% credits in use belong to construction firms.

Sectoral structure of the portfolio of microentrepreneurs and farmers in terms of numbers



Sectoral structure of the portfolio of microentrepreneurs in terms of numbers



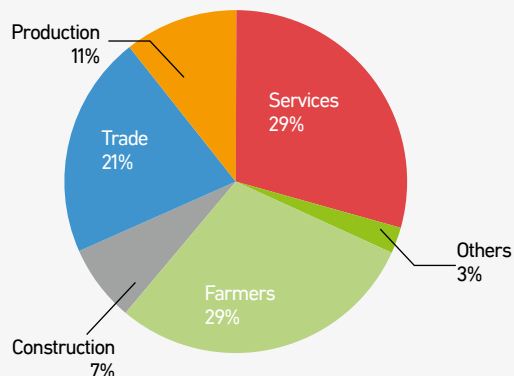
The sectoral structure of credit portfolios of microenterprises and farmers

In terms of value we observed a high sectoral concentration of credit portfolios. Three kinds of activities were dominating: agriculture, services and trade, which accounted for nearly 80% of the value of the portfolio of microentrepreneurs and farmers.

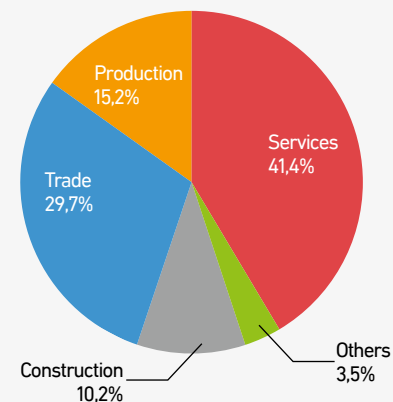
At the end of December 2018, service companies had 29.3% of the credit portfolio in terms of value. Farmers accounted for 29.3% of the portfolio value, and value of credits of firms in the sector of retail and wholesale trade amounted to 21%.

In the sectoral structure of microenterprise portfolio (without farmers) as much as 41.4% of the debt value belonged to microentrepreneurs rendering services. Financing of microentrepreneurs in the sector of retail and wholesale trade accounted for nearly 30% of debt. The value of credit portfolio belonging to construction microentrepreneurs amounted to 15.2%.

Sectoral structure of the portfolio of microentrepreneurs and farmers in terms of value



Sectoral structure of the portfolio of microentrepreneurs in terms of value



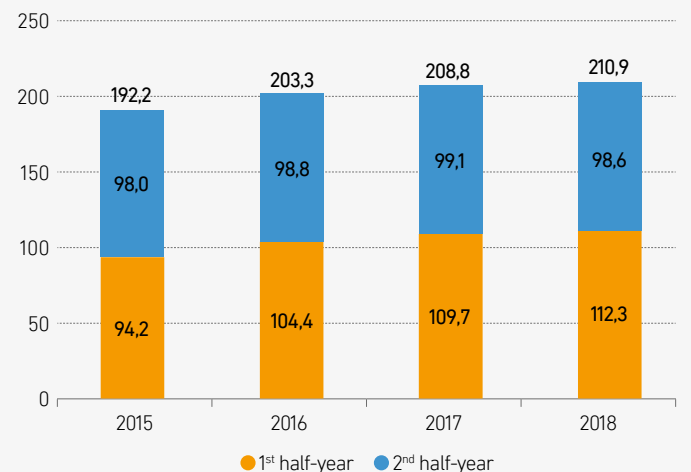
The number and value of financing granted by banks to microentrepreneurs.

In the 2nd half-year 2018, we could observe a decline in lending addressed to microentrepreneurs, in terms of numbers as well as value. This tendency, i.e. worse 2nd half-years, has been observed for three years. The sales in the 2nd half-year 2018 were lower by 12% than in the 1st half-year, in terms of both numbers and value.

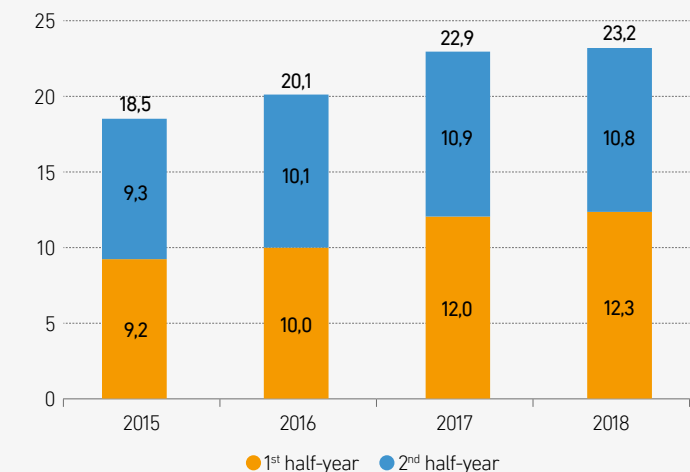
In the whole 2018, banks granted totally 210.9 thousand credits to microenterprises, 98.6 thousand of which in the 2nd half-year (46.8% of the whole amount); only 466 (0.5%) less than in 2017.

In the 2nd half-year 2018, banks credited microenterprises with the total amount of 10.8 billion zlotys, i.e. 100 million (- 0.1%) less than in 2017.

The number of credits granted to microentrepreneurs (in thousands)



The value of credits granted to microentrepreneurs (in billions of zlotys)



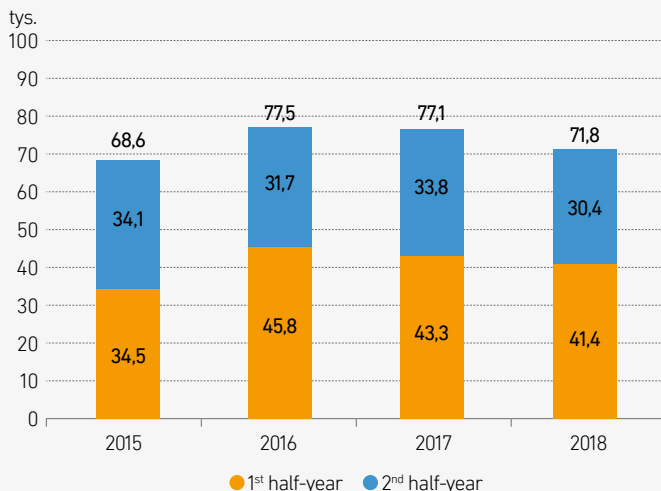
The number and value of financing granted by banks to farmers

In the 2nd half-year 2018, we could observe a decline in lending addressed to farmers, in terms of numbers as well as value. This negative phenomenon can be seen, in particular, in the value of granted credits. In the 2nd half-year, the value of credits granted by banks to farmers was 14% lower than that in the 2nd half-year 2017.

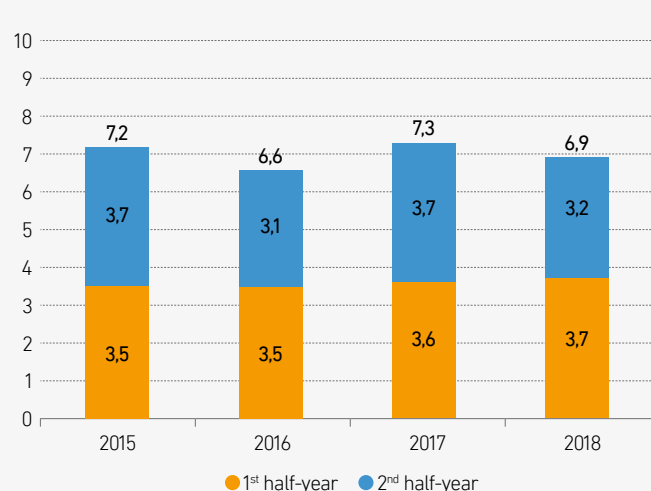
In the 2nd half-year 2018, banks granted totally 30.4 thousand of credits to farmers; about 3.4 thousand less than in the same period a year before. In the whole 2018, banks granted 71.75 thousand credits to farmers, i.e. 7% less than in 2017.

In the 2nd half-year 2018, banks credited farmers with the total amount of 3.2 billion zlotys only. It was 0.5 billion (14%) less than in the same period a year before. The decline in terms of value was twice higher than in terms of numbers.

The number of credits granted to farmers (in thousands)



The value of credits granted to farmers (in billions of zlotys)



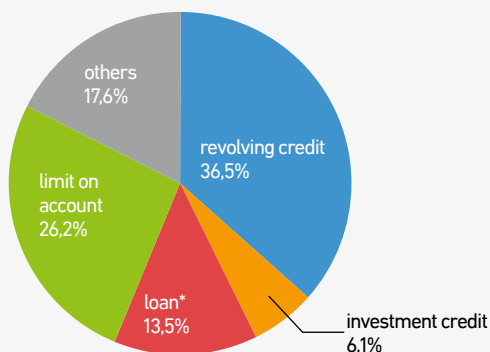
The structure of credit sales to microenterprises in terms of value and numbers, by product

In credit sales, in terms of value there were two dominant basic classical kinds of credit products: revolving credit and credit limit on account. In the 2nd half-year, the structure of credit product sales was similar to that of the 1st half-year.

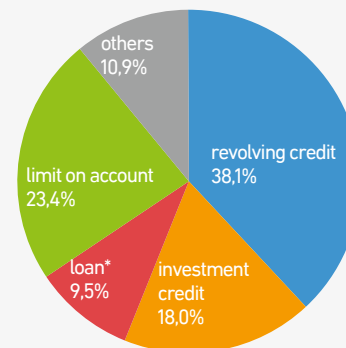
In the whole 2018, more than one third of financing granted to microenterprises concerned financing in the form of revolving credits. Investment credits amounted to only 6.1% of credits granted from January to December 2018. Both credits were used to finance the current operational activity amounted to 62.7% of the granted financing.

In terms of value, revolving credits and limits on current accounts also had the highest share, which does not come as a surprise taking into account their specific character connected with financing current activities. Investment credits had an 18% share in credit sales, due to a higher average amount of granted investment credits, which, despite a much lower share in terms of numbers, results in a much higher share in terms of value.

Microentrepreneurs - the structure of sales in terms of numbers by the kind of product in 2018



Microentrepreneurs - the structure of sales in terms of value by the kind of product in 2018



* A loan granted by bank

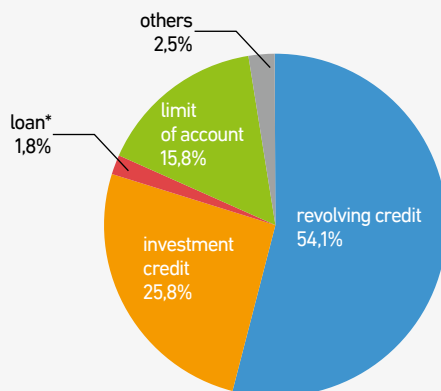
The structure of credit sales to farmers in terms of value and numbers, by product

In credit sales to farmers, in terms of numbers there are three dominant basic classical kinds of credit products: revolving credit, investment credit and credit limit on account. Investment credits are dominating in terms of value.

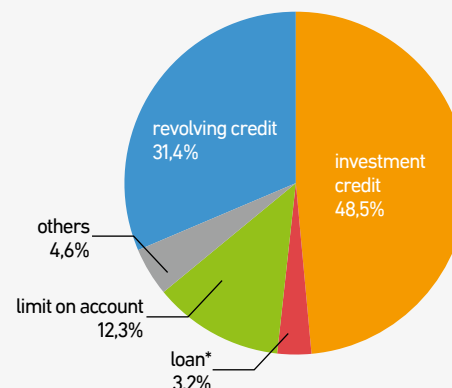
In 2018, more than half of financing granted to farmers (54.1%) concerned financing in the form of revolving credits. The share increased in comparison with the 1st half-year by 2.1 pps. Investment credits accounted for 25.8% of credits granted from January to December 2018. Their share in sales compared to the 1st half-year declined by 2.3 pps.

In terms of value, investment credits had the highest share (48.5%) in the sales in 2018: a slight decline in comparison with the 1st half-year, in which this share amounted to 51.7%. Furthermore, investment credits had a share of 31.4% in the sales in terms of value.

Farmers - the structure of sales in terms of numbers by the kind of product in 2018



Farmers - the structure of sales in terms of value by the kind of product in 2018



* A loan granted by bank

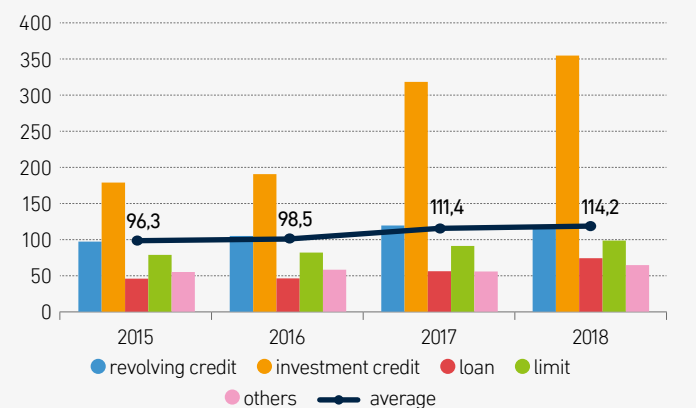
Average amounts of credits granted to microentrepreneurs and farmers

In 2018, there was a rise in average amounts of investment and revolving credits granted to microentrepreneurs and farmers in comparison with 2017.

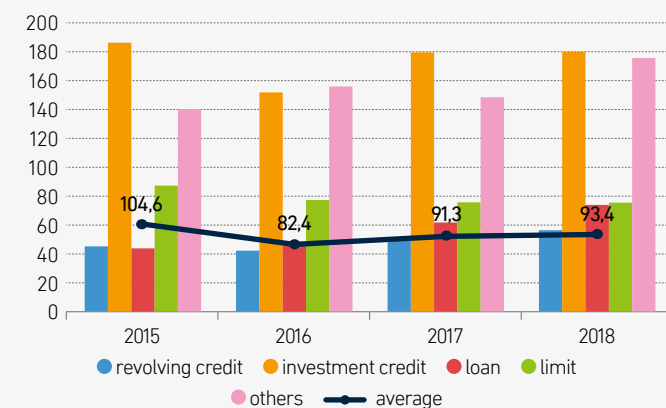
In 2018, an average value of financing granted by banks to microenterprises amounted to 114.2 thousand zlotys and was insignificantly higher (by 2.5%) than the average amount in 2017. Interestingly, in that period, there was a considerable rise of 9% in the value of the investment credit granted. In 2018, an average amount of investment credit granted to microentrepreneurs rose in comparison with 2017 by 36.43 thousand zlotys (11.5%). And an average amount of revolving credit granted decreased by 4.6 thousand zlotys (-3.8%).

In 2018, an average value of financing granted by banks to farmers rose by 2.1 thousand zlotys (2.3%) compared to 2017 and amounted to 93.4 thousand zlotys. In 2018, the amount of investment credit increased by 246 zlotys (0.1%). In the group of other products, the most important one is the provided guarantee.

An average amount of credit granted to microentrepreneurs by the kind of product (in thousands of zlotys)



An average amount of credit granted to farmers by the kind of product (in thousands of zlotys)



Microentrepreneurs and farmers credit risk increased with the number of banks crediting microentrepreneurs

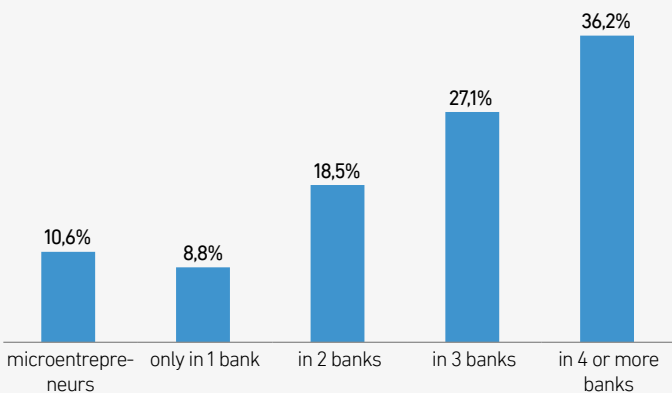
The number of banks used by microentrepreneurs or farmers in their business pursuit has a significant impact on the timely repayment of their credits and as a consequence on the quality of credits of microenterprises or farmers. On average, 10.6% of entrepreneurs and 2.5% of farmers had overdue repayment liabilities.

About 85% of firm owners running a one man company made use of credits taken only in one bank. As a rule, it was not the one they have to do with as private borrowers.

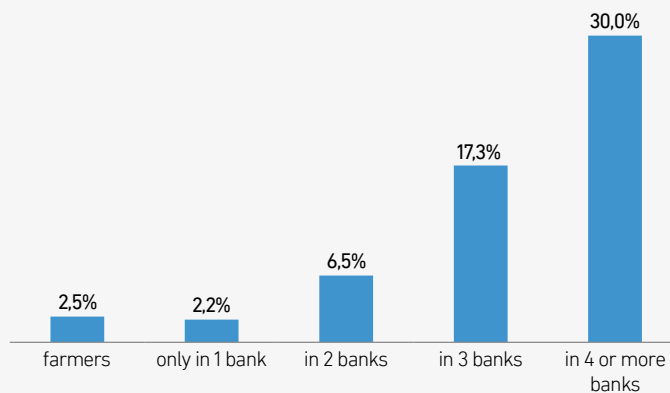
Having credit liabilities to only one bank, only 8.8% of entrepreneurs and 2.2% of farmers had 90+overdue repayment liabilities. When a microentrepreneur or farmer obtained financing from two banks, the share

increased up to 18.5% and 6.5% respectively. And with credit products provided by 4 or more banks, every third microentrepreneur and nearly every third farmer had at least one 90+day-overdue liability. Thus, the number of crediting banks determines the level of credit risk.

The share of microentrepreneurs with a 90+day-overdue credit by the number of crediting banks



The share of farmers with a 90+day-overdue credit by the number of crediting banks



Microentrepreneurs credit risk increased with the number of credits to repay

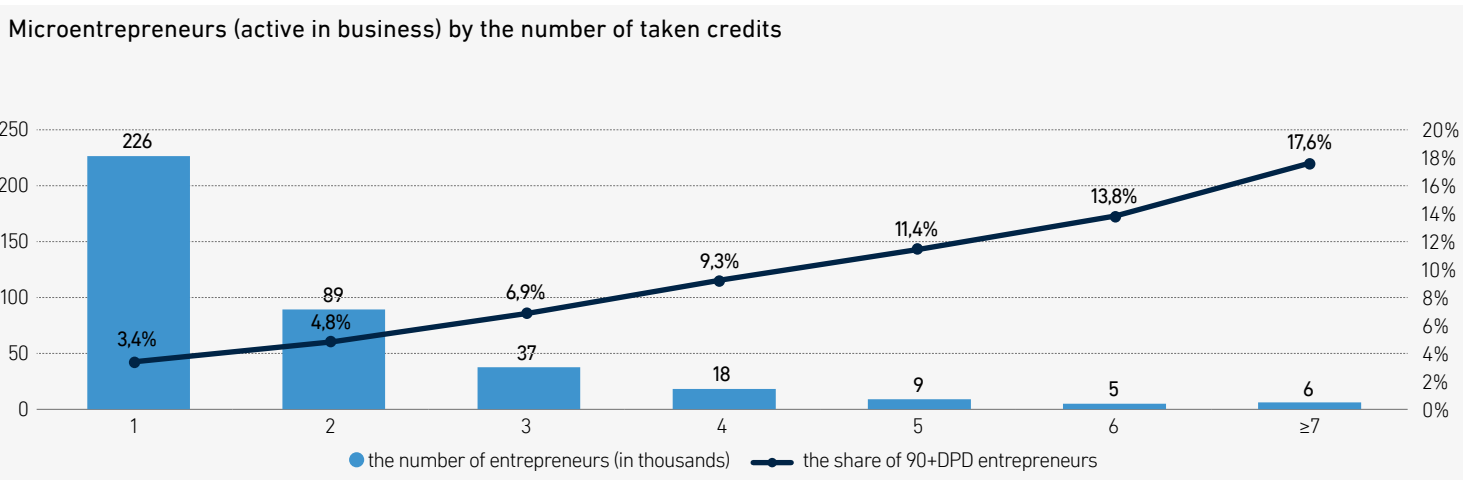
226 thousand, i.e. nearly 60% of Polish microentrepreneurs repay only one credit at present. Among these firms, only 3.4% have 90+day-overdue credits. 6 thousand microentrepreneurs (1.5%) repay more than 7 credits; the level of loss rate amounts to as much as 17.6% in this case.

On 31 December 2018, 390 thousand microentrepreneurs (about 17% of active microentrepreneurs acc. to CEiDG data) had a bank credit in use. BIK analyses suggest that the more credits are taken, the higher the share of microentrepreneurs who have difficulty with a timely repayment of them.

1.5% of Polish entrepreneurs having credits in use repaid as many as 7 or more corporate credits. Among them, as many as 17.6% have 90+day-overdue repayments.

The group of microentrepreneurs overactive in terms of credit should include microentrepreneurs with 7 or more credits to repay, generate an above average level of credit risk.

Thus, an analysis of credit risk should include the number of serviced credits as an important risk factor.





Semi-Annual Report 2018 Credit Information Bureau CREDIT TRENDS

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

Any comments or questions concerning this publication are to be addressed to Sławomir Grzybek (tel. 22 348 4240) or Andrzej Topiński (tel. 22 348 4269), Waldemar Rogowski (tel. 22 348 42 60) or mailed to kredyttrendy@bik.pl.

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