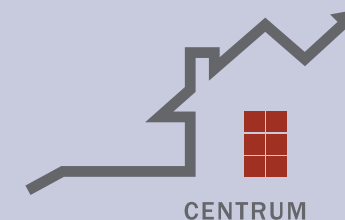


AMRON-SARFiN Report

on housing loans
and real estate transaction prices



AMRON

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COMPLETE VERSION

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Report in numbers

Q2 2016		change Q2 2016 / Q1 2016
PLN 382.858 billion	total housing loans debt	2.22% ↗
2.028 Mio	number of active loan agreements	0.68% ↗
49 118	number of concluded agreements	9.80% ↗
PLN 10.607 billion	value of concluded agreements	12.45% ↗
PLN 215 931	average value of a housing loan	3.43% ↗
197.20 points	Housing Availability Index (HAI M3)	7.61 points ↘
42.65%	share of new housing loans with LtV above 80%	4.96 percentage points ↘
98.56%	share of new housing loans in PLN, by value	0.12 percentage points ↗
0.98%	share of new housing loans in EUR, by value	0.01 percentage points ↗
65.99%	share of new housing loans with lending period of 25-35 years	2.26 percentage points ↘
PLN 426 560	total average transaction price of housing unit in Warsaw	0.48% ↗
PLN 7 503	average transaction price per square meter of a dwelling in Warsaw	1.10% ↗

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Introduction – about the Report

– dr. Jacek Furga, Chairman of the Real Estate Finance Committee, Polish Banks Association and President of the Management Board of Centre of Banking Law and Information (Centrum Prawa Bankowego i Informacji Sp. z o.o.)*



Dear Readers,

It's already the twenty-eighth issue of the AMRON-SARFiN Report published by Polish Banks Association. For 8 years, we have been providing you with quarterly updated information about mortgage loans and real estate transaction prices. This time we present the results of second quarter and first half of 2016 with reference to the results from several previous periods.

The end of 'Flat for Youth' Programme is approaching very fast. On March 15 this year, Bank Gospodarstwa Krajowego announced the suspension of accepting applications for funding the purchase of dwellings from funds budgeted for 2016 and on July 5 the process of accepting applications for subsidy from funds reserved for 2017 was suspended. A 'race' of potential borrowers to benefit from the government Programme, accompanied by strong emotions, was continued in the second quarter, this time for funds reserved for 2017. In combination with a seasonality effect typical for Polish residential market, it led to an increase in banks' lending activity in the second quarter of 2016. During this period, banks granted more than 49 thousand new housing loans for a total amount of PLN 10.6 billion, which was more by respectively 9.80% and 12.45% in comparison to the previous quarter. However, in comparison to the same period last year (Q2 2016/ Q2 2015), the number of newly granted loans increased by 5.62% and the value by 5.46%. Also, the results of the first half of 2016 were better in relation to the results of the first half of last year – by 5.84% when it comes to the number of new housing loans and by 5.27% when it comes to total amount.

However, banks announced further tightening of loan requirements in the upcoming months, which could hamper the exceeding of mortgage lending results of 2015.

Banks' prudent approach to new mortgage lending results from still unclear scale of possible burdens resulting from the so-called 'spreads law' submitted by the President to the Parliament, as well as from other costs arising as a result of not weakening claims of some groups of CHF borrowers.

Loan portfolio quality remains at the high level. The quality of housing loans in domestic currency have improved steadily since early 2015 – in the analysed quarter, the share of PLN loans with default on payment amounted to 2.63%, i.e. about 0.84 p.p. less than in the corresponding period of 2015. On annual basis, there were no changes in quality of the portfolio both in CHF (3.61%), as well as in other foreign currencies (1.55%). This very good quality of foreign currency loans confirms the lack of reasons for the statutory, general conversion of loans in CHF.

However, a further increase in share of Warsaw in total structure of newly granted housing loans from 25.02% in Q2 2014 to a record-breaking level of 43.27% at the end of Q2 2016 is alarming. This means that almost every second loan for residential investment was granted in the capital city – within the administrative borders of Warsaw or in surrounding towns and villages.

Investors' appetite was not weakened even by government announcements that people in need will have provided housing with low-rent. According to data from the developers' sector, sales of dwellings

in 6 major cities in Q2 2016 increased by more than 5% in comparison to the previous quarter. More than 14.3 thousand flats on primary market were sold.

Moods on the housing market, resulting in a significant increase in the number of new construction permits issued, do not surprise – an increase accounted to 33% in comparison to the previous quarter and to 17% in relation to Q2 2015. The number of constructions started increased by 52% and 7% respectively. The number of 36 211 dwellings completed in Q2 2016 meant a decrease by 3% in quarterly terms, but in relation to Q2 2015 it grew by 12%.

The high demand on real estate market in Q2 2016 improved developers' sales results and caused a slight increase in transaction prices in the largest Polish cities. In Q2 2016, the average transaction price per 1 sq.m. of dwelling increased in three of eight analysed agglomerations, i.e. in Cracow, Bialystok and Warsaw, respectively by PLN 138 /sq.m., PLN 101 /sq.m. and PLN 81 /sq.m. in comparison to the previous quarter. In Gdansk, the average price remained at the level of the first quarter this year, while in the other surveyed cities a slight declines were observed – the largest in Poznan – by PLN 134 /sq.m. and in Wroclaw – by PLN 133 /sq.m.

Attentive observation of the chart presenting changes in average transaction prices shows clearly a slight upward trend, typical for the residential market in equilibrium. The observed increase in the average transaction price per 1 sq.m. in the period from Q1 2013 to Q2 2016 in all analysed locations ranges from 3.79% for Wroclaw to 10.13% for Cracow. The increased activity of developers on one side and tightening loan requirements of banks on the other, will not change this situation in the near future.

It is also difficult to expect any significant changes as a result of the government's activities in the area of housing policy. The National Housing Programme announced by the government is too enigmatic, especially in scope of housing loans refinancing. Polish Banks Association responded to the published document and directed to the Ministry of Infrastructure and Construction comments to the proposed solutions on July 27, 2016. Just as in a letter sent earlier to the Prime Minister Morawiecki with comments to information materials on Plan for Responsible Development published by the Ministry of Development, Polish Banks Association pointed out the need to run in Poland the building societies system. It is effective system, verified in many countries and in different macroeconomic conditions, which can help to build households' propensity for long-term, systematic savings.

The proposals submitted by the government in these two documents will be discussed on the XIII Congress on Housing Finance, organized by the Real Estate Finance Committee at Polish Banks Association and AMRON Centre on November 24-25, 2016. We are open to your suggestions on topics that should be the subject of a debate and declarations to participate in the Congress.

Enjoy reading. Are you interested in AMRON detailed analyses of Polish real estate market, please do not hesitate to contact us. We will also appreciate your comments, which shall allow us to improve next issues of the Report.

Please send your questions and suggestions to the following e-mail address: raport@amron.pl

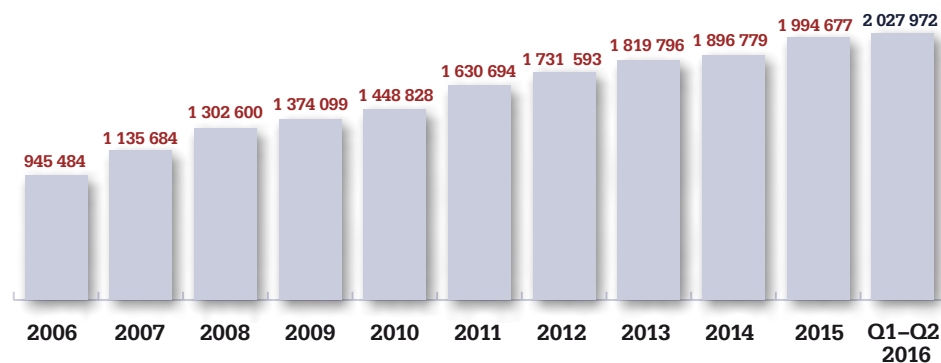
* AMRON Centre was established by Polish Banks Association to manage and develop the System for Analysis and Monitoring of Real Estate Market Transactions and it operates within the organizational structure of a limited-liability company Centre of Banking Law and Information.

Situation on housing loans market

Number of active housing loans

In Q2 2016, housing loans portfolio increased by **0.68%** (nominally by **13 698** loans) comparing to the status as for the previous quarter. At the end of June this year, the total portfolio of housing loans amounted to **2 027 972** active agreements.

Chart 1. Total number of active housing loans in 2006 – Q2 2016



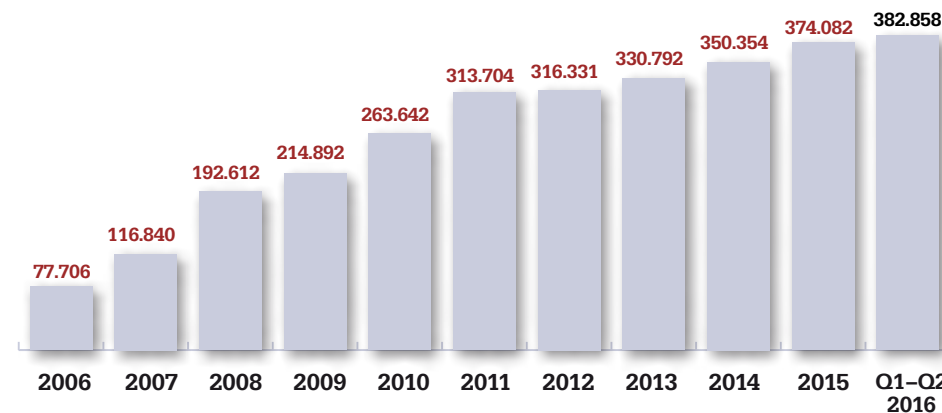
Source: Polish Banks Association – SARFiN

Total housing loans debt

At the end of Q2 2016, total value of all active mortgage loans equalled to **PLN 382.858 billion**. This meant an increase in analysed period by **2.35%**, i.e. by **PLN 8.776 billion**.

Chart 2. presents changes in value of total housing loans debt (PLN billion) of Polish households since 2006.

Chart 2. Total debt from housing loans in 2006 – Q2 2016 (PLN billion)



Source: Polish Banks Association – SARFiN, NBP

Number and value of new housing loans

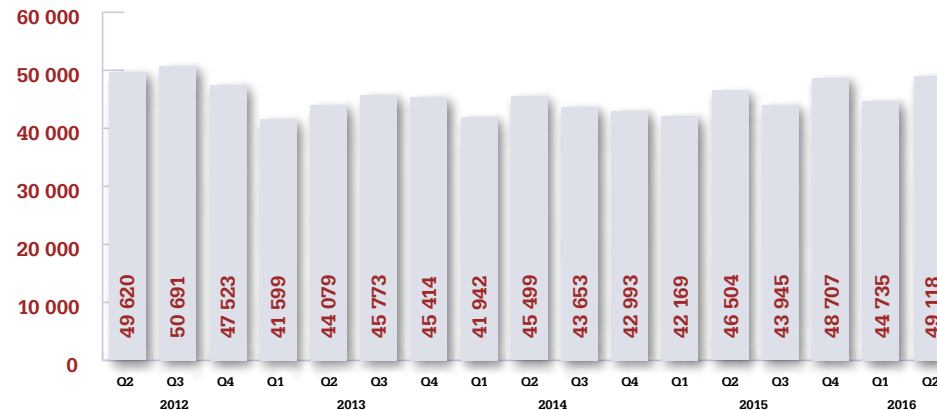
In the period from April to June 2016, banks granted **49 118** new housing loans for a total amount of **PLN 10.607 billion**, which was more by respectively **9.80%** (**4 383** loans) and **12.45%** (nominally by **PLN 1.175 billion**) in comparison to the previous quarter. However, in comparison to the same period last year (Q2 2016/ Q2 2015), the number of newly granted loans increased by **5.62%** and their value by **5.46%**.

Table 1. Value and number of new housing loans in Q2 2012 – Q2 2016

	value (PLN Mio)	change/ previous quarter	number	change/ previous quarter
Q2 2012	10 044	1.53%↓	49 620	1.84%↑
Q3 2012	10 021	0.23%↓	50 691	2.16%↑
Q4 2012	8 843	11.76%↓	47 523	6.25%↓
Q1 2013	8 017	9.34%↓	41 599	12.46%↓
Q2 2013	9 160	14.25%↑	44 079	5.96%↑
Q3 2013	9 531	4.05%↑	45 773	3.84%↑
Q4 2013	9 767	2.48%↑	45 414	0.78%↓
Q1 2014	8 854	9.35%↓	41 942	7.65%↓
Q2 2014	9 577	8.17%↑	45 499	8.48%↑
Q3 2014	9 232	3.61%↓	43 653	4.06%↓
Q4 2014	9 161	0.77%↓	42 993	1.51%↓
Q1 2015	8 978	1.99%↓	42 169	1.92%↓
Q2 2015	10 058	12.03%↑	46 504	10.28%↑
Q3 2015	9 704	3.52%↓	43 945	5.50%↓
Q4 2015	10 580	9.03%↑	48 707	10.84%↑
Q1 2016	9 433	10.85%↓	44 735	8.15%↓
Q2 2016	10 607	12.45%↑	49 118	9.80%↑

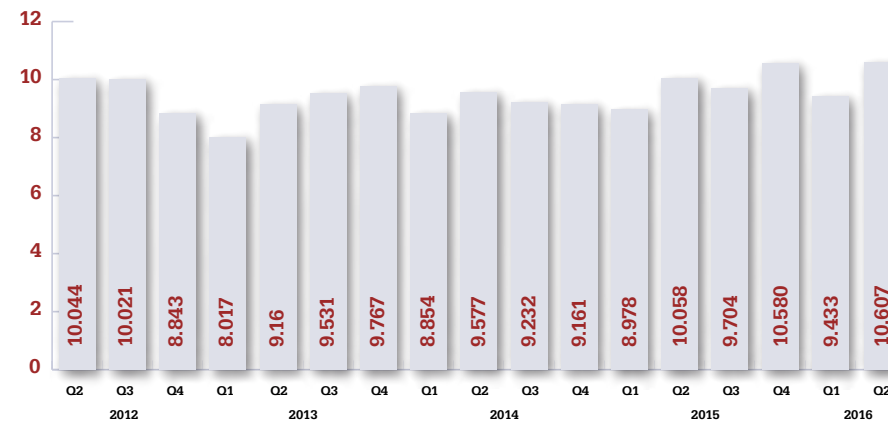
Source: Polish Banks Association – SARFiN

Chart 3. Number of new loan agreements in Q2 2012 – Q2 2016



Source: Polish Banks Association – SARFiN

Chart 4. Value of new loan agreements in Q2 2012 – Q2 2016 (PLN billion)



Source: Polish Banks Association – SARFiN

Loan currency

It can be considered that the currency structure of housing loans granted in Q2 2016 in terms of value has not changed comparing to the previous quarter. The share of PLN loans amounted to **98.56%**, loans denominated in EUR accounted for **0.98%** of all new mortgages and CHF loans – only **0.04%**.

In comparison to the same period last year, a minimal decrease in the share of newly granted PLN loans was noted – by **0.20 p.p.** The share of housing loans in EUR increased by only **0.14 p.p.** and the share of loans denominated in other foreign currencies remained at the level of Q2 2015.

Table 2. Currency structure of the value of new loans in Q2 2012 – Q2 2016

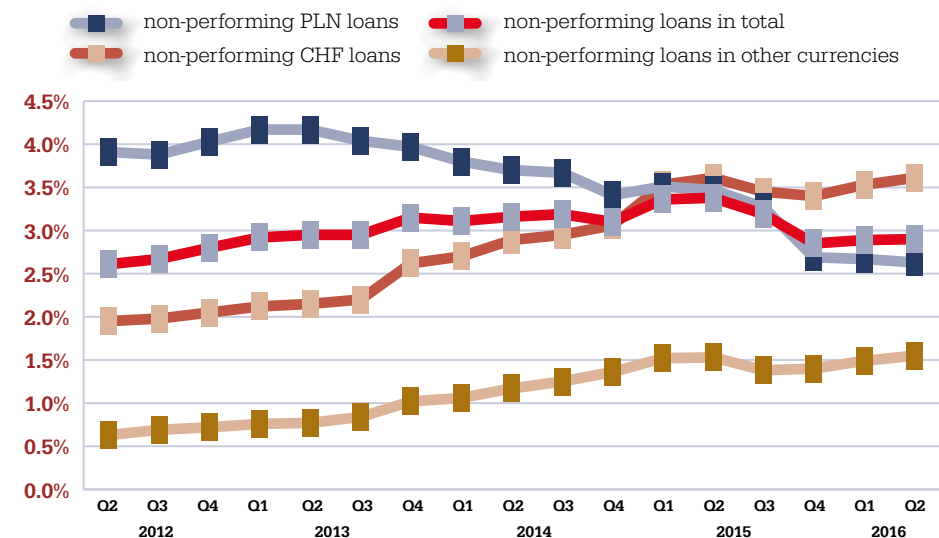
	PLN	CHF	EUR	other
Q2 2012	94.61%	0.12%	5.19%	0.08%
Q3 2012	97.37%	0.17%	2.42%	0.04%
Q4 2012	98.70%	0.02%	1.25%	0.04%
Q1 2013	98.83%	0.01%	1.11%	0.06%
Q2 2013	99.05%	0.01%	0.89%	0.05%
Q3 2013	99.35%	0.00%	0.61%	0.04%
Q4 2013	99.07%	0.01%	0.91%	0.02%
Q1 2014	99.48%	0.00%	0.51%	0.01%
Q2 2014	99.69%	0.00%	0.28%	0.03%
Q3 2014	99.13%	0.01%	0.67%	0.19%
Q4 2014	98.81%	0.02%	0.81%	0.36%
Q1 2015	97.88%	0.08%	1.49%	0.55%
Q2 2015	98.75%	0.02%	0.84%	0.39%
Q3 2015	98.45%	0.03%	1.01%	0.51%
Q4 2015	98.63%	0.09%	0.87%	0.41%
Q1 2016	98.44%	0.03%	0.97%	0.56%
Q2 2016	98.56%	0.04%	0.98%	0.42%

Source: Polish Banks Association – SARFiN

Quality structure of mortgage loans portfolio

In Q2 2016, the share of non-performing housing loans in the mortgage portfolio remained at the level of the previous quarter and amounted to **2.90%**. The quality of housing loans in domestic currency has improved steadily since early 2015 – in the analysed quarter, the share of PLN loans with default on payment amounted to **2.63%**, i.e. **0.04 p.p.** less in comparison to Q1 2016 and about **0.84 p.p.** less than in the corresponding period of 2015. Changes in shares of non-performing housing loans granted in foreign currencies were minimal – there were no changes on annual basis, while on quarterly basis the share of non-performing CHF loans increased by **0.08 p.p.** and amounted to **3.61%**, and the share of non-performing loans in other foreign currencies increased by only **0.06 p.p.** and amounted to **1.55%**.

Chart 5. Share of non – performing loans in total mortgage portfolio in Q2 2012 – Q2 2016



Source: National Bank of Poland

Table 3. Share of non – performing loans in total mortgage portfolio in Q2 2012 – Q2 2016

	non-performing loans in total	non-performing PLN loans	non-performing CHF loans	non-performing loans in other currencies
Q2 2012	2.61%	3.91%	1.95%	0.63%
Q3 2012	2.67%	3.88%	1.98%	0.69%
Q4 2012	2.80%	4.03%	2.05%	0.72%
Q1 2013	2.92%	4.17%	2.12%	0.76%
Q2 2013	2.95%	4.17%	2.15%	0.77%
Q3 2013	2.95%	4.04%	2.20%	0.84%
Q4 2013	3.15%	3.97%	2.62%	1.02%
Q1 2014	3.11%	3.80%	2.70%	1.06%
Q2 2014	3.16%	3.70%	2.89%	1.17%
Q3 2014	3.19%	3.67%	2.95%	1.25%
Q4 2014	3.10%	3.41%	3.05%	1.35%
Q1 2015	3.36%	3.51%	3.53%	1.52%
Q2 2015	3.38%	3.47%	3.61%	1.53%
Q3 2015	3.19%	3.27%	3.45%	1.38%
Q4 2015	2.86%	2.70%	3.40%	1.40%
Q1 2016	2.89%	2.67%	3.53%	1.49%
Q2 2016	2.90%	2.63%	3.61%	1.55%

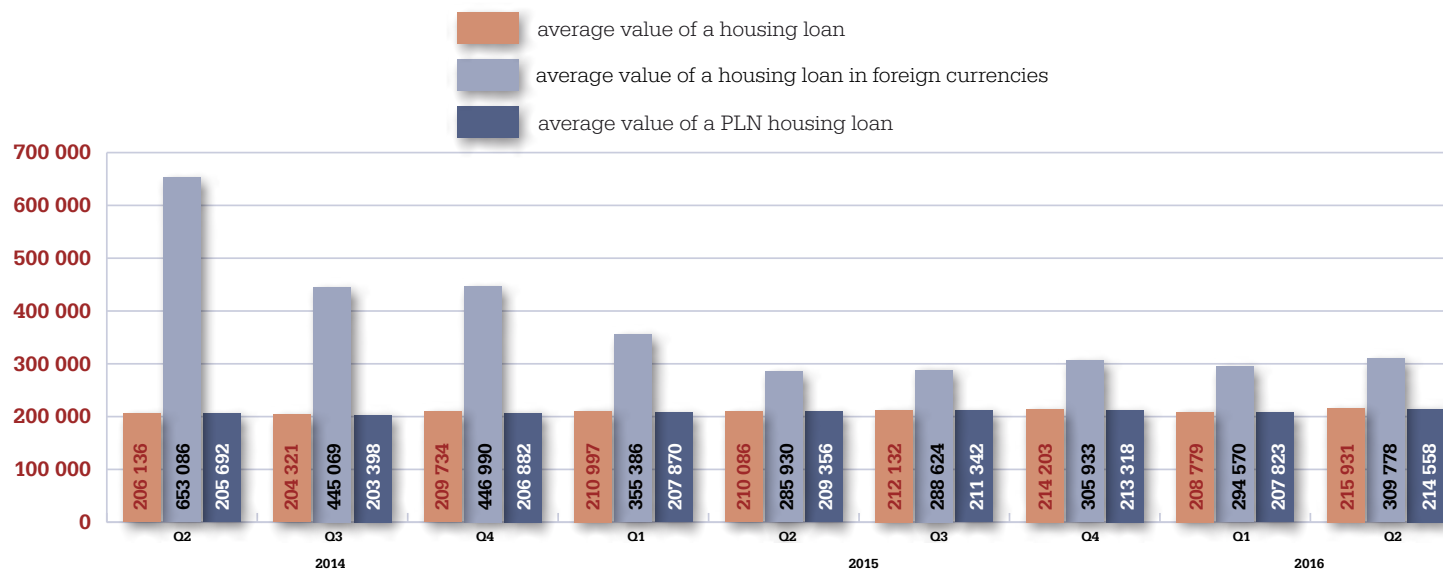
Source: National Bank of Poland

Average value of a loan

The average value of housing loan granted by banks in domestic currency in Q2 2016 amounted to **PLN 214 558** – it increased nominally by **PLN 6 735 (3.24%)** comparing to the previous quarter. The average value of a loan denominated in foreign currencies also increased – by **PLN 15 208 (i.e. 5.16%)**, reaching the level of **PLN 309 778**. At the same time, the average aggregated value of a housing loan amounted to **PLN 215 931**, which was more by **3.43% (PLN 7 152)** comparing to the value recorded in Q1 2016.

On an annual basis (Q2 2016/ Q2 2015), a slight increase in both the average value of new PLN loans (by **2.48%**) and loans denominated in foreign currencies (by **8.34%**) was noted. In the analysed quarter, the average value of a housing loan increased by **2.78%** in comparison to the same period last year.

Chart 6. Average value of a housing loan, aggregated and by currency in Q2 2014 – Q2 2016



Source: Polish Banks Association – SARFiN

Table 4. Average value of a loan, aggregated and by currency in Q2 2014 – Q2 2016

	average value of a housing loan	average value of a housing loan in foreign currencies	average value of a PLN housing loan
Q2 2014	206 136	653 086	205 692
Q3 2014	204 321	445 069	203 398
Q4 2014	209 734	446 990	206 882
Q1 2015	210 997	355 386	207 870
Q2 2015	210 086	285 930	209 356
Q3 2015	212 132	288 624	211 342
Q4 2015	214 203	305 933	213 318
Q1 2016	208 779	294 570	207 823
Q2 2016	215 931	309 778	214 558

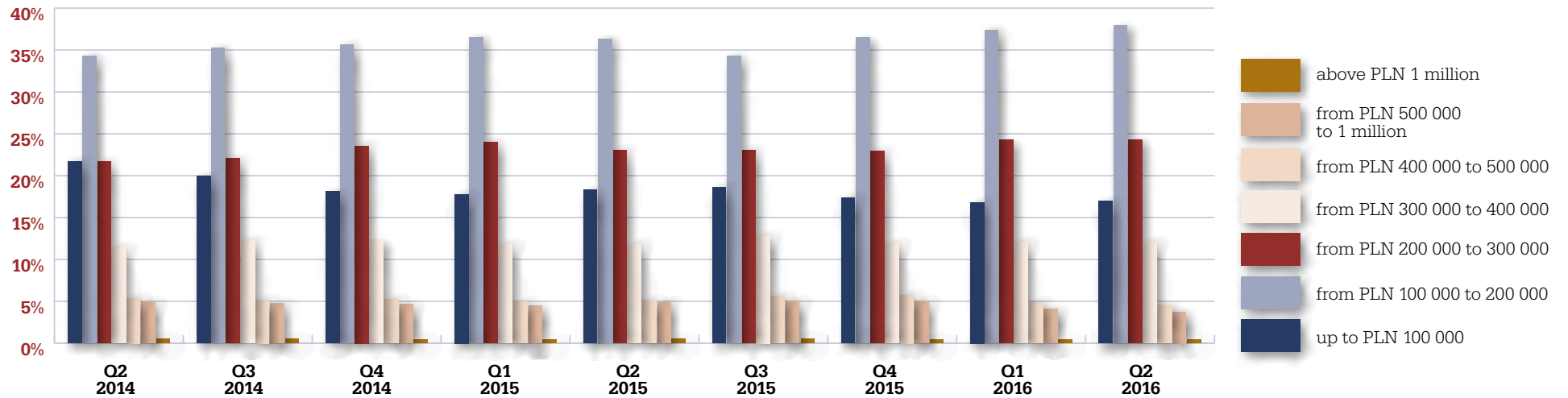
Source: Polish Banks Association – SARFiN

Structure of new loans, by amount

In the last quarter, minimal changes in the value structure of new loans were recorded. Loans of a value between PLN 100 and PLN 200 thousand were the most popular – their share increased by **0.56 p.p.** in comparison to Q1 2016 and amounted to **37.96%** of all new loans. However, in case of loans of value ranging from PLN 400 to PLN 500 thousand and from PLN 500 thousand to PLN 1 million a slight declines were recorded, respectively by **0.33 p.p.** and **0.36 p.p.** The share of other categories remained at the level of the previous quarter.

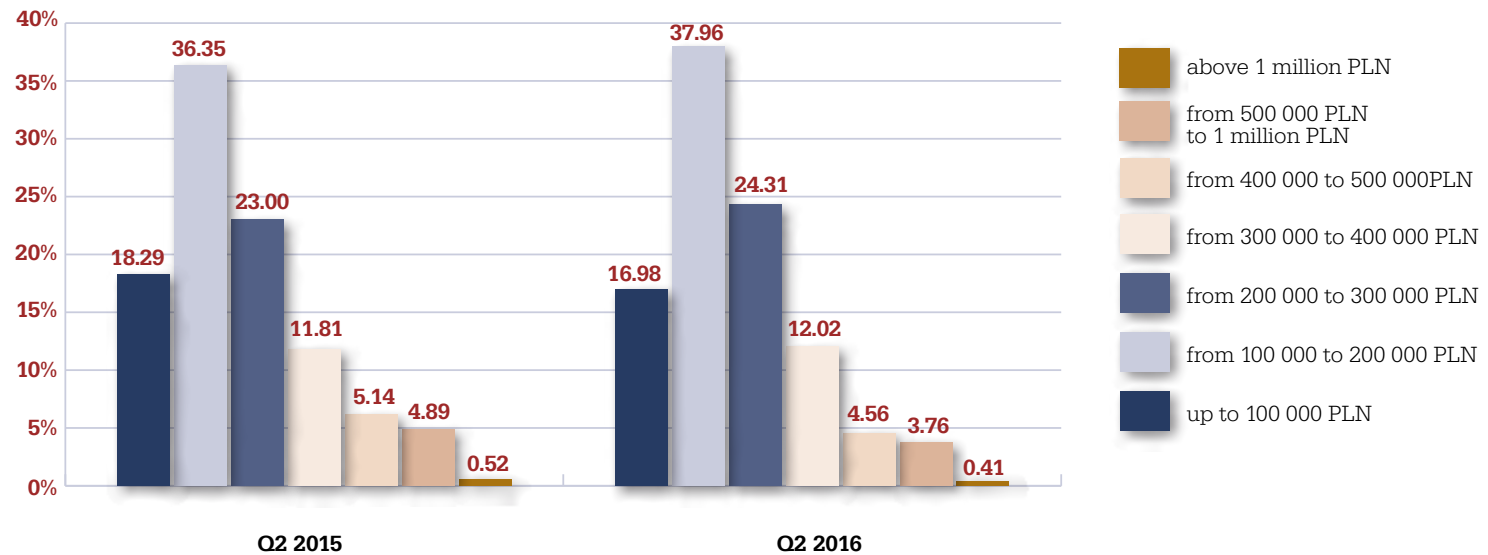
In relation to the second quarter last year, the share of mortgage loans with value up to PLN 100 thousand and between PLN 500 thousand and PLN 1 million diminished, respectively by **1.31 p.p.** and **1.13 p.p.**, while increases were recorded in the category from PLN 100 to PLN 200 thousand (by **1.61 p.p.**) and from PLN 200 to PLN 300 thousand (by **1.31 p.p.**).

Chart 7. Structure of the new loans amount in Q2 2014 – Q2 2016



Source: Polish Banks Association – SARFiN

Chart 8. Structure of the new loans amount – comparison of Q2 2015 and Q2 2016



Source: Polish Banks Association – SARFiN

Table 5. Structure of the new loans amount in Q2 2014 – Q2 2016

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
up to PLN 100 000	21.70%	19.95%	18.11%	17.80%	18.29%	18.59%	17.39%	16.84%	16.98%
from PLN 100 000 to 200 000	34.29%	35.22%	35.60%	36.47%	36.35%	34.28%	36.50%	37.40%	37.96%
from PLN 200 000 to 300 000	21.65%	22.08%	23.56%	24.04%	23.00%	23.03%	22.90%	24.28%	24.31%
from PLN 300 000 to 400 000	11.47%	12.23%	12.36%	11.86%	11.81%	12.89%	11.95%	12.07%	12.02%
from PLN 400 000 to 500 000	5.39%	5.20%	5.27%	4.93%	5.14%	5.64%	5.78%	4.89%	4.56%
from PLN 500 000 to 1 million	4.95%	4.75%	4.64%	4.46%	4.89%	5.02%	5.06%	4.12%	3.76%
above PLN 1 million	0.55%	0.57%	0.46%	0.44%	0.52%	0.55%	0.42%	0.40%	0.41%

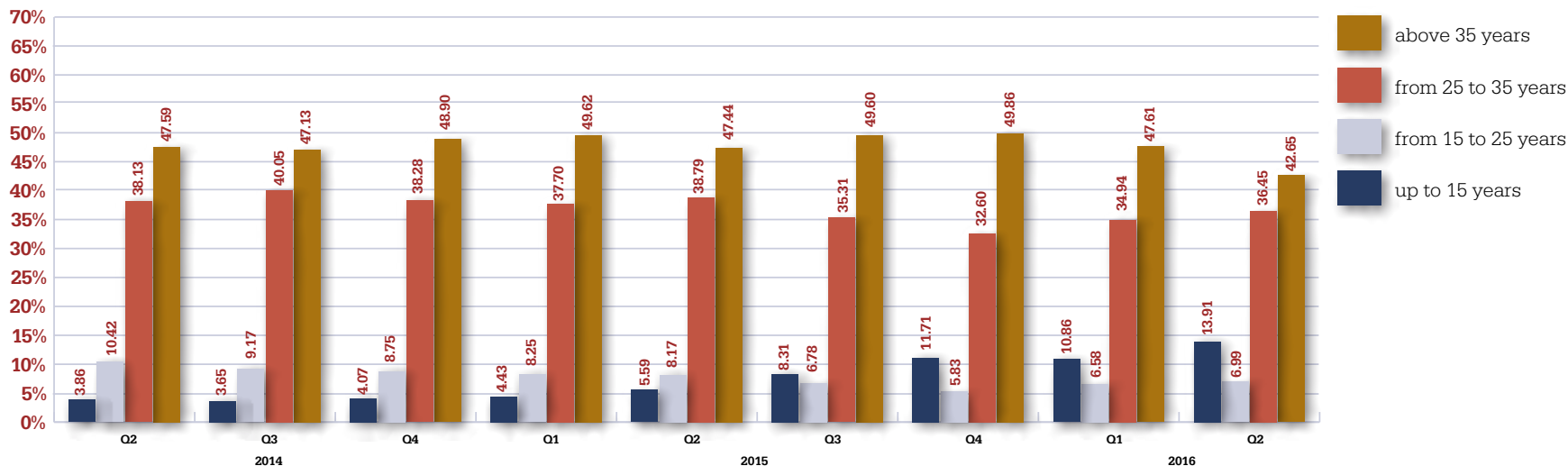
Source: Polish Banks Association – SARFiN

Structure of the LtV ratio

Loans with LtV ratio above 80% were the most frequently granted in Q2 2016, but their share in the portfolio decreased and amounted to **42.65%** of all new housing loans, i.e. by **4.96 p.p.** less than in the previous quarter. At the same time popularity of housing loans with lower LtV ratio grew. In the last quarter, loans with LtV ratio from 50 to 80% accounted for **36.45%** of the whole portfolio and loans with LtV ratio up to 30% – **13.91%**, which meant an increase by **1.51 p.p.** and **3.05 p.p.** respectively. Invariably, share of loans with LtV ratio between 30 and 50% were the lowest – in Q2 2016, share of these loans increased by only **0.40 p.p.** and amounted to **6.99%**.

In comparison to Q2 2015, positive changes in the structure of newly granted mortgage loans due to the level of LtV ratio were even more visible. The share of loans with the lowest LtV ratio (up to 30%) increased in Q2 2016 by **8.32 p.p.** in comparison with the same period last year. At the same time the share of other categories decreased, i.e. the share of loans with LtV ratio between 30 and 50% decreased by **1.18 p.p.**, the share of loans from the category 50 – 80% decreased by **2.35 p.p.** and the share of loans with the highest level of LtV ratio (above 80%) diminished by **4.79 p.p.**

Chart 9. Structure of LtV ratio of newly granted loans in Q2 2014 – Q2 2016, in terms of value



Source: Polish Banks Association – SARFiN

Table 6. Structure of LtV ratio of newly granted loans in Q2 2014 – Q2 2016

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
up to 30%	3.86%	3.65%	4.07%	4.43%	5.59%	8.31%	11.71%	10.86%	13.91%
from 30 to 50%	10.42%	9.17%	8.75%	8.25%	8.17%	6.78%	6.78%	5.83%	6.99%
from 50 to 80%	38.13%	40.05%	38.28%	37.70%	38.79%	35.31%	35.31%	32.60%	36.45%
above 80%	47.59%	47.13%	48.90%	49.62%	47.44%	49.60%	49.86%	47.61%	42.65%

Source: Polish Banks Association – SARFiN

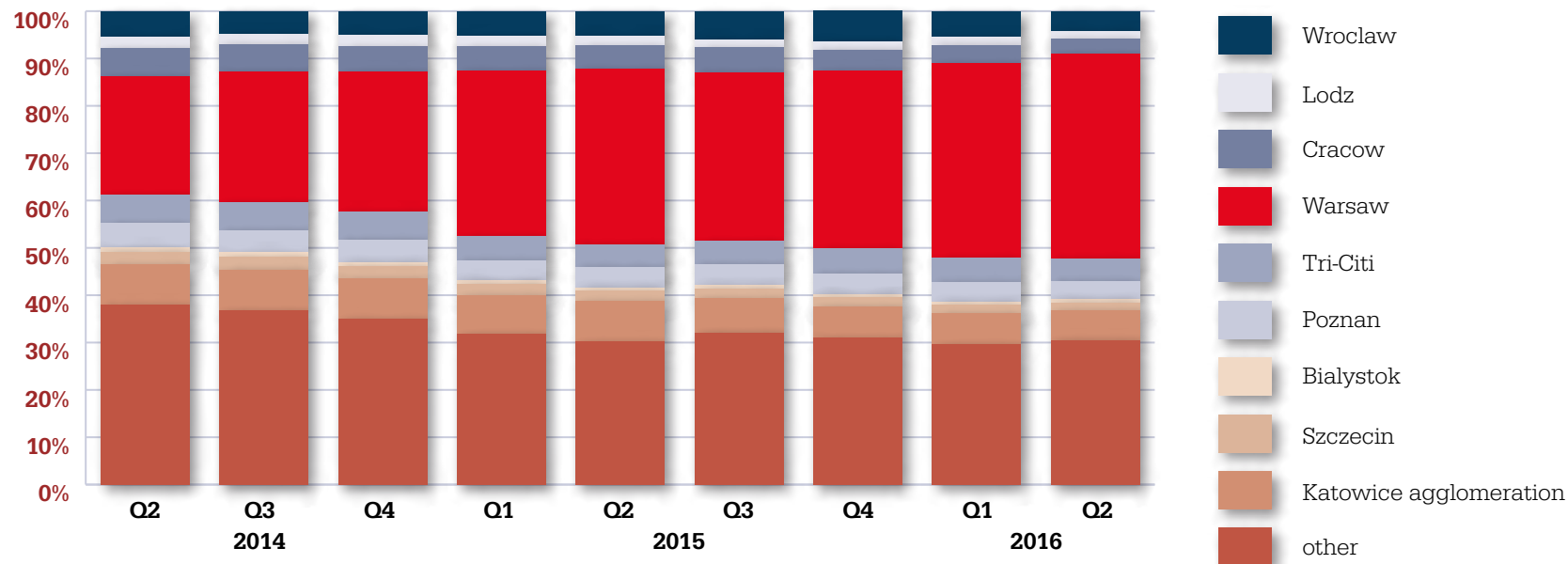
Housing loans in major Polish cities

In the period from April to June 2016, the share of Warsaw in total structure of newly granted housing loans in relation to the previous quarter increased once again, this time by **2.29 p.p.** and amounted to **43.27%**. The share of loans granted in Bialystok, Szczecin and Lodz remained at the level of the previous quarter and in case of other surveyed locations minimal declines were recorded. Loan agreements

signed in the nine largest Polish agglomerations in Q2 2016 accounted for **69.47%**, which meant a decrease by **0.87 p.p.** in comparison to the first quarter of this year.

In relation to the same period last year, the share of Warsaw in terms of new housing loans value increased by **6.19 p.p.** Nevertheless, share of mortgage loans granted in the nine largest Polish cities diminished by **0.33 p.p.** on an annual basis.

Chart 10. Value of newly granted loans in major Polish cities in Q2 2014 – Q2 2016



Source: Polish Banks Association – SARFIN

Table 7. Value of newly granted loans in major Polish cities in Q2 2014 – Q2 2016

	other	Katowice agglomeration	Szczecin	Białystok	Poznan	Tri-Citi	Warsaw	Cracow	Łódź	Wrocław
Q2 2014	37.94%	8.52%	2.72%	0.98%	5.05%	6.01%	25.02%	5.99%	2.33%	5.43%
Q3 2014	36.74%	8.70%	2.68%	1.01%	4.49%	5.99%	27.56%	5.91%	2.16%	4.76%
Q4 2014	35.06%	8.36%	2.61%	0.94%	4.75%	5.93%	29.57%	5.42%	2.27%	5.09%
Q1 2015	31.89%	8.09%	2.36%	0.89%	4.07%	5.08%	35.05%	5.20%	2.09%	5.28%
Q2 2015	30.20%	8.60%	2.06%	0.71%	4.31%	4.81%	37.08%	5.00%	1.96%	5.27%
Q3 2015	32.10%	7.20%	2.14%	0.66%	4.38%	5.00%	35.54%	5.38%	1.58%	6.02%
Q4 2015	30.98%	6.64%	1.92%	0.63%	4.39%	5.37%	37.43%	4.54%	1.70%	6.41%
Q1 2016	29.66%	6.43%	1.83%	0.65%	4.18%	5.19%	40.98%	3.95%	1.61%	5.52%
Q2 2016	30.53%	6.21%	1.76%	0.62%	3.84%	4.74%	43.27%	3.22%	1.49%	4.31%

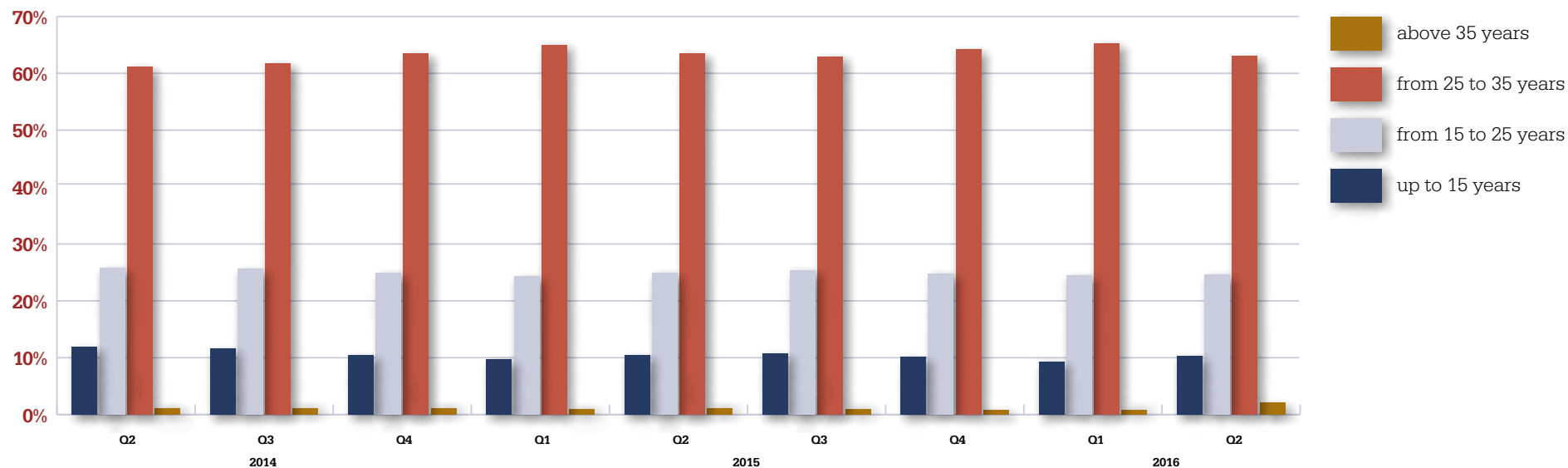
Source: Polish Banks Association – SARFIN

Lending period

In Q2 2016, the most commonly granted housing loans were still those with maturities between 25 and 35 years – it accounted for **62.99%** of all new loans, however their share in total portfolio diminished by **2.26 p.p.** in comparison to the previous quarter. In the segment of loans granted for the period from 15 to 25 years there were no changes, while the popularity of other categories slightly increased. In comparison to the first quarter of this year, the share of loans with maturities of up to 15 years increased by **0.96 p.p.** and amounted to **10.31%** and share of loan agreements concluded for a period exceeding 35 years increased by **1.26 p.p.** to the level of **2.12%**.

In annual terms, there were recorded only minimal changes in the structure of newly granted housing loans by lending period. Shares of particular categories of housing loans with maturities of up to 35 years slightly diminished. Only in case of loan agreements concluded for a period above 35 years a slight increase was noted – by **1.05 p.p.**

Chart 11. Structure of new loans by lending period in Q2 2014 – Q2 2016



Source: Polish Banks Association – SARFiN

Table 8. Structure of new loans by lending period in Q2 2014 – Q2 2016

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
up to 15 years	11.90%	11.61%	10.48%	9.67%	10.48%	10.75%	10.19%	9.35%	10.31%
from 15 to 25 years	25.79%	25.66%	24.93%	24.36%	24.93%	25.39%	24.83%	24.53%	24.58%
from 25 to 35 years	61.20%	61.68%	63.52%	65.03%	63.52%	62.98%	64.21%	65.25%	62.99%
above 35 years	1.11%	1.05%	1.07%	0.94%	1.07%	0.89%	0.78%	0.87%	2.12%

Source: Polish Banks Association – SARFiN

Housing Availability Index M3 – HAI M3

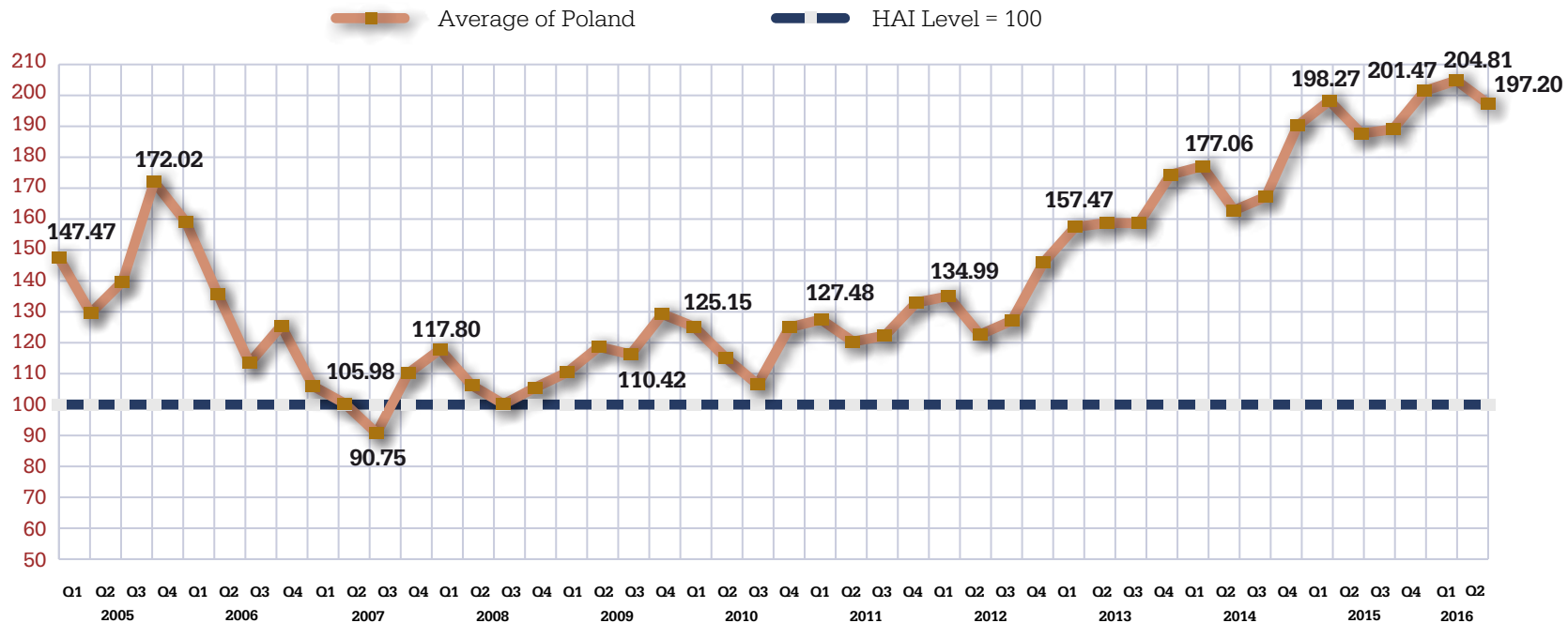
Housing Availability Index (HAI M3), a synthetic measure presented in AMRON-SARFiN Reports, shows quarterly changes in availability of housing units in Poland for the exemplary family comprising of two employed adults with one older child. Slightly decrease of dwelling availability in Q2 2016 was influenced by the following factors:

- a quarterly slight decrease of housing prices in monitored cities in order to calculate HAI M3 Index (8 biggest cities) – recorded prices decreased by **0.91%** in relation to Q1 2016;
- an increase in the average interest rate of loans granted in Q2 2016 – according to the National Bank of Poland, it increased by **8 basic points** – the real interest rate of loans granted in Q2 2016 amounted to **4.66%** (in Q1 2016 – **4.58%**);
- a decrease in average family income in Q2 2016 – by **3.88%** in comparison to the previous quarter;

- the living costs, which for the Report purposes are expressed as the minimum subsistence level of the previous quarter (calculated as inflation quarter on quarter due to the postponement of announcing the minimum subsistence level by the Institute of Labour and Social Affairs for the next quarter), decreased by **0.57%** (from **PLN 2 788.87** to **PLN 2 773.07**).

All the aforementioned factors caused that the disposable income for HAI M3 (which is the difference between the family income and the amount of the loan instalment amount, or the value of the minimum subsistence level – in order to calculate the Housing Availability Index the lower amount is taken into account) decreased by **2.58%**, which resulted in the decrease of the Index by **7.61 points** in Q2 2016 (Index level in Q1 2016 amounted to **204.81 points**).

Chart 12. Housing Availability Index M3 for the period from Q1 2005 to Q2 2016



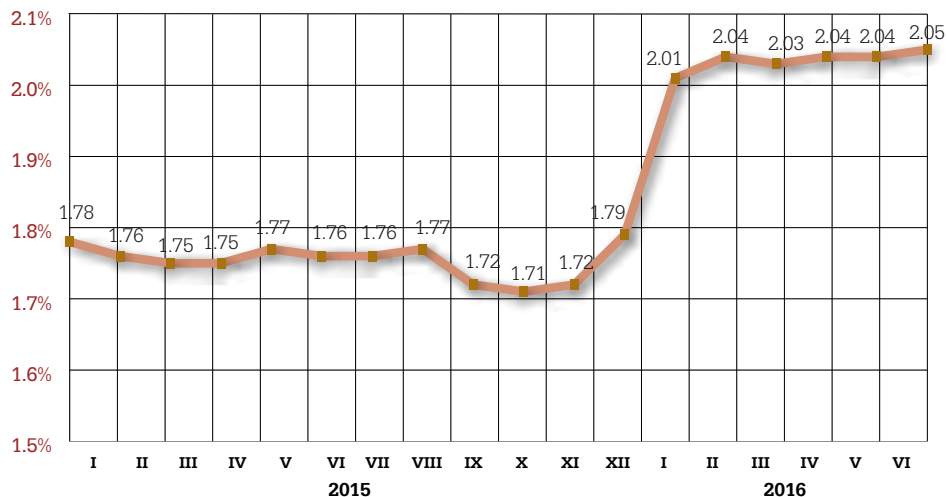
Source: Polish Banks Association

Average margin levels and mortgage interest rates

In Q2 2016, only symbolic increases in margins and lending rates were recorded. The average margin of a mortgage loan (in amount of PLN 300 000, at the LtV ratio of 75% and granted for the period of 25 years) in June 2016 amounted to **2.05%** and it was higher only by **0.02 p.p.** than the average margin noted at the end of March. The NBP's

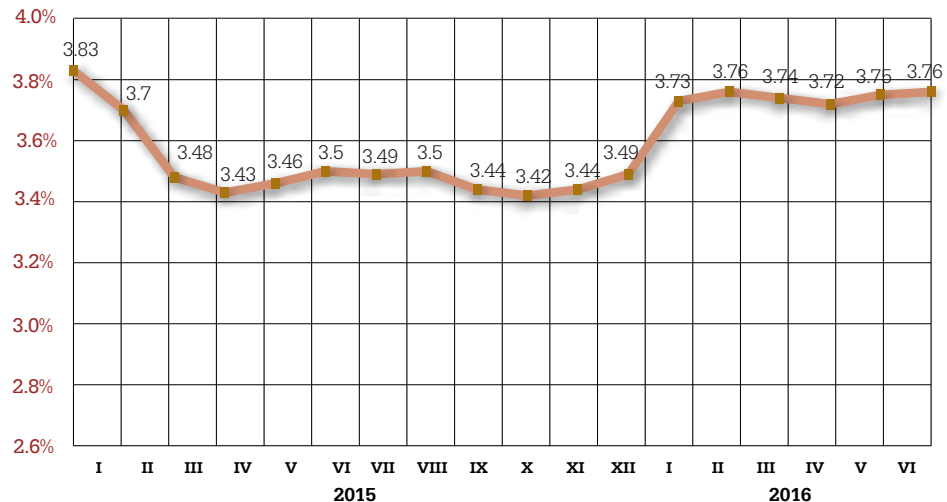
reference rate remained at the level of **1.50%** and WIBOR 3M increased slightly – from **1.67%** in March to **1.69%** in June 2016. As a result the average interest rate of a model mortgage loan increased by **0.02 p.p.** comparing to March 2016 and at the end of the reporting quarter amounted to **3.76%**.

Chart 13. Average margin of a housing loan in January 2015 – June 2016



Source: AMRON Centre based on banks' credit offers

Chart 14. Average interest rate of a housing loan in January 2015 – June 2016

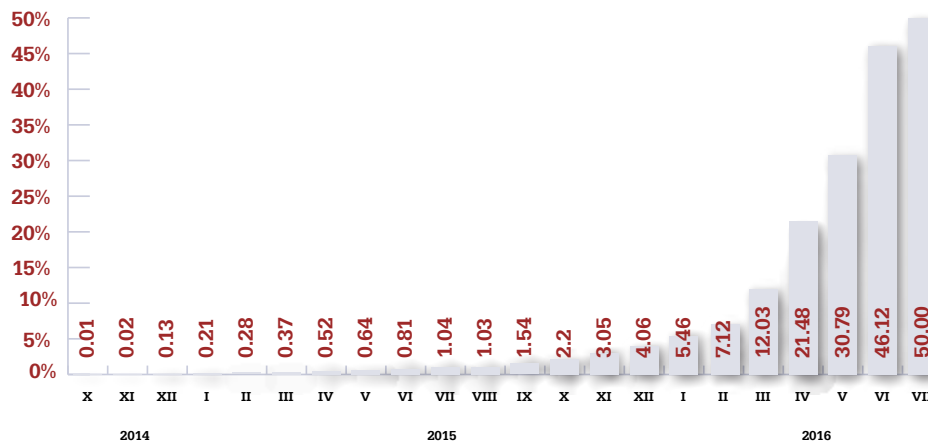


Source: AMRON Centre based on banks' credit offers

'Flat for Youth' Programme

The end of 'Flat for Youth' Programme is approaching very fast. On March 15 this year, Bank Gospodarstwa Krajowego announced the suspension of accepting applications for funding the purchase of dwellings from funds budgeted for 2016, and on July 5 the process of accepting applications for subsidy from funds reserved for 2017 was suspend. This means that the limit of the 'Flat for Youth' Programme reserved for the financial support in the current year, which amounted to **PLN 715 million**, had been exhausted already in the first quarter, whereas the limit that has been determined by the government for the next year (**PLN 746 million**) had been reserved already in 50%. The resumption of accepting applications for funding borrowers' down-payment with the date of payment in the next year will start on January 1, 2017. Currently, buyers may submit only applications with payment in 2018 – at the end of Q2 2016, **0.69%** of the amount of **PLN 762 million** budgeted for subsidies in 2018 was reserved.

Chart 15. Use of the maximum limits of funds in 'Flat for Youth' Programme in 2017



Source: BGK

Throughout the whole period of Programme's functioning, i.e. from January 1, 2014, to June 31, 2016, **66 081** beneficiaries profited from state aid in young people first housing purchase. The total amount of signed loan agreements under the Programme equalled to **PLN 11.5 billion** and a total support for borrowers' down-payment amounted to more than **PLN 1 648.17 million**.

As for June 30, 2016 the total amount of state support for borrowers' down-payment and additional financial support to repay part of the housing loan reserved for disbursements (in case of birth or adoption a third child in the period of 5 years from the date of signing the purchase agreement) was equal to **PLN 1 779.25 million**. **11.65%** of this value was paid from funds provided for subsidies in 2014, **29.27%** came from the Programme's budget earmarked for 2015, **39.45%** – from funds for 2016, **19.33%** from funds for 2017 and **0.30%** – for 2018.

The average floor area of a dwelling acquired in 'Flat for Youth' Programme amounted to **53.57 sq.m.** and a detached house – **85,80 sq.m.**

In Q2 2016, the maximum price per square meter of a flat or house in 'Flat for Youth' Programme remained at the current level only in Gdansk – it amounted to **PLN 5 020.40** for the primary market and by **PLN 4 107.60** for the secondary market. In the other cities price limits have been reduced – the most in Poznan, where the reduction amounted to **PLN 110.00** for new housing (the limit was set at **PLN 5 814.60**) and **PLN 90.00** for the premises from secondary market (the limit amounted to **PLN 4 757.40**). A maximum purchase price of the apartment on the primary market in the capital city accounted for **PLN 6 353.30** and on the secondary market – **PLN 5 198.15** (reduction by **PLN 64.19** and **PLN 52.53** respectively).

Table 9. Price limits in 'Flat for Youth' Programme in selected Polish cities – comparison of Q1 2016 and Q2 2016

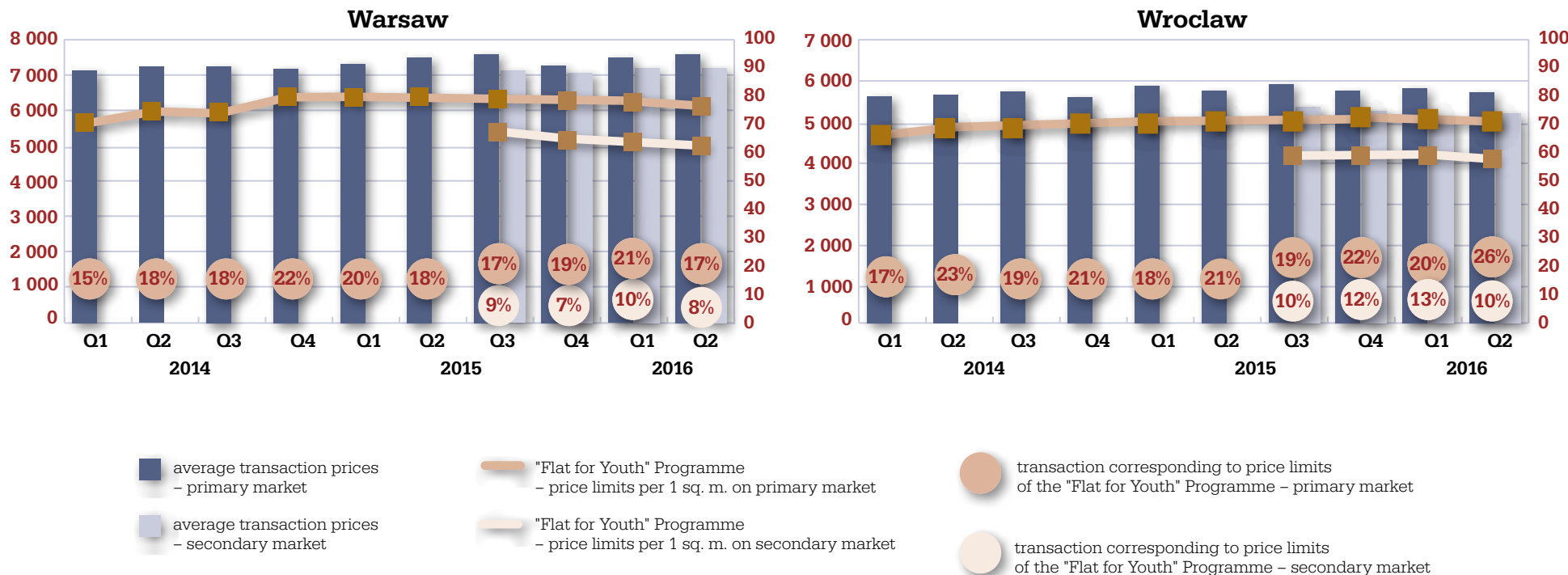
City	price limits in the 'Flat for Youth' Programme – primary market (price per 1 sq. m.)	change on primary market Q2 2016/Q1 2016	price limits in the 'Flat for Youth' Programme – secondary market (price per 1 sq. m.)	change on secondary market Q2 2016/Q1 2016
Warsaw	PLN 6 353.30	PLN – 64.19	PLN 5 198.15	PLN – 52.53
Wroclaw	PLN 5 181.00	PLN – 62.70	PLN 4 239.00	PLN – 51.30
Gdansk	PLN 5 020.40	PLN 0.00	PLN 4 107.60	PLN 0.00
Cracow	PLN 5 239.30	PLN – 7.70	PLN 4 286.70	PLN – 6.30
Poznan	PLN 5 814.60	PLN – 110.00	PLN 4 757.40	PLN – 90.00
Lodz	PLN 4 254.25	PLN – 75.90	PLN 3 480.75	PLN – 62.10

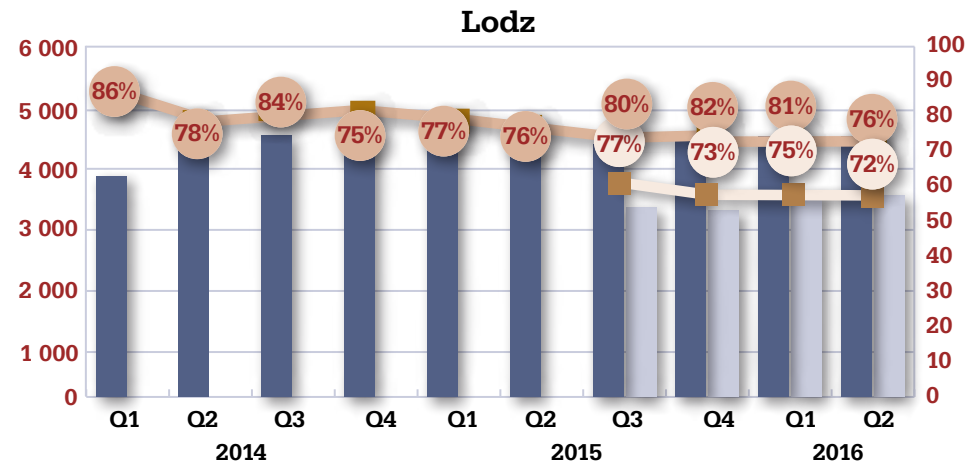
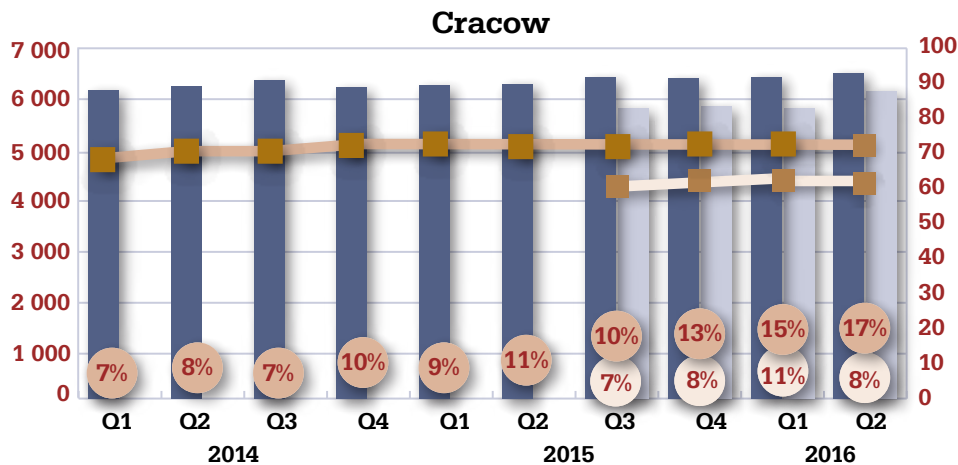
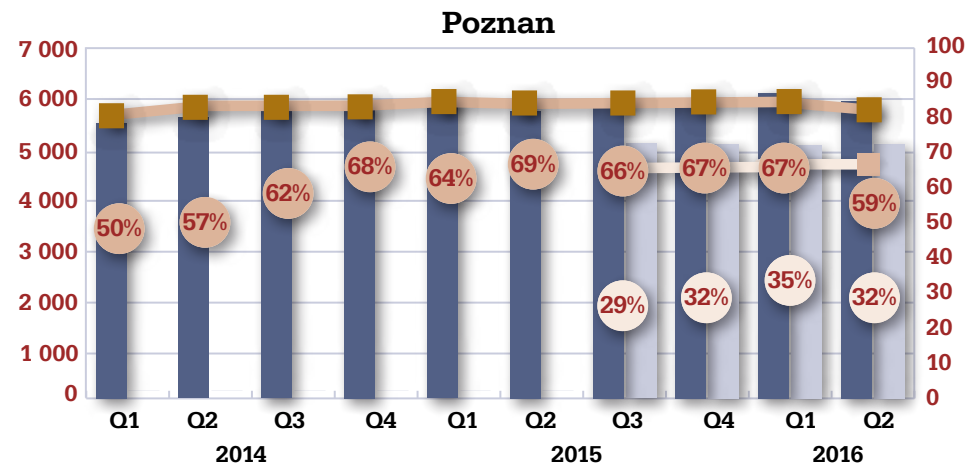
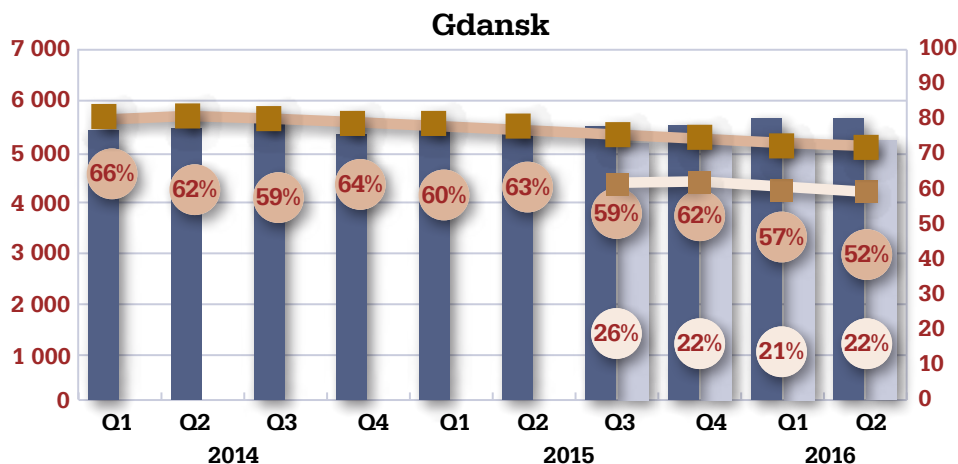
the price limits per 1 sq.m. of dwelling in the 'Flat for Youth' Programme change twice a year – for the Pomeranian voivodship in January and July, for the other provinces – in April and October
Source: BGK

In Q2 2016, the largest share of transactions with price per square meter and floor area within the limits of 'Flat for Youth' Programme was recorded in Lodz – in analysed period it was **72%** of all transactions concluded on primary market and up to **76%** on secondary market. Good situation in terms of the Programme's availability is also in Poznan and Gdansk, where respectively **59%** and **52%** of transactions on

primary market and **32%** and **22%** of transactions on secondary market concerned housings of the price lower than the limit. The least likely to benefit from the government subsidy were potential buyers from Cracow and Warsaw, where the share of transactions corresponding to the limits of the Programme amounted only to **17%** on primary market and 8% on secondary market.

Chart 16. Comparison of average transaction prices per 1 sq. m. of flats in Q1 2014 – Q2 2016 and price limits in 'Flat for Youth' Programme





- average transaction prices - primary market
- average transaction prices - secondary market
- "Flat for Youth" Programme - price limits per 1 sq. m. on primary market
- "Flat for Youth" Programme - price limits per 1 sq. m. on secondary market
- transaction corresponding to price limits of the "Flat for Youth" Programme - primary market
- transaction corresponding to price limits of the "Flat for Youth" Programme - secondary market

* average transaction price of dwellings with floor area up to 75 sq.m.

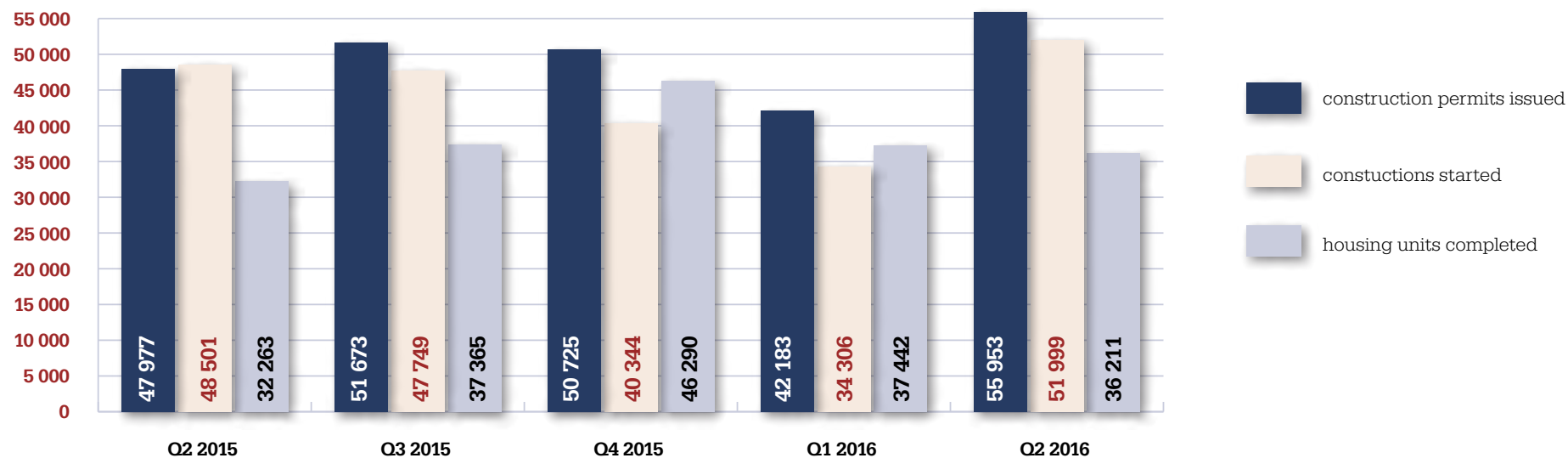
Source: BGK, AMRON

Situation on housing market

Recent data published by Central Statistical Office show that the Polish real estate sector is still in good condition. In Q2 2016, the number of new construction permits issued accounted for **55 953** dwellings, which meant an increase by **33%** in comparison to the previous quarter. The number of constructions started increased by **52%** in the period from April to June 2016 and amounted to **51 999**, while the number of completed housing units decreased by **3%** quarterly and amounted to **36 211** dwellings.

On an annual basis, increases were recorded in all analysed categories. In comparison to Q2 2015, a significant increase was noted in the number of construction permits issued and the number of dwellings completed, respectively by **17%** and **12%**. At the same time the number of constructions started was higher by **7%** comparing to the same period last year.

Chart 17. Number of construction permits issued, constructions started and housing units completed in Q2 2015 – Q2 2016



Source: Central Statistical Office

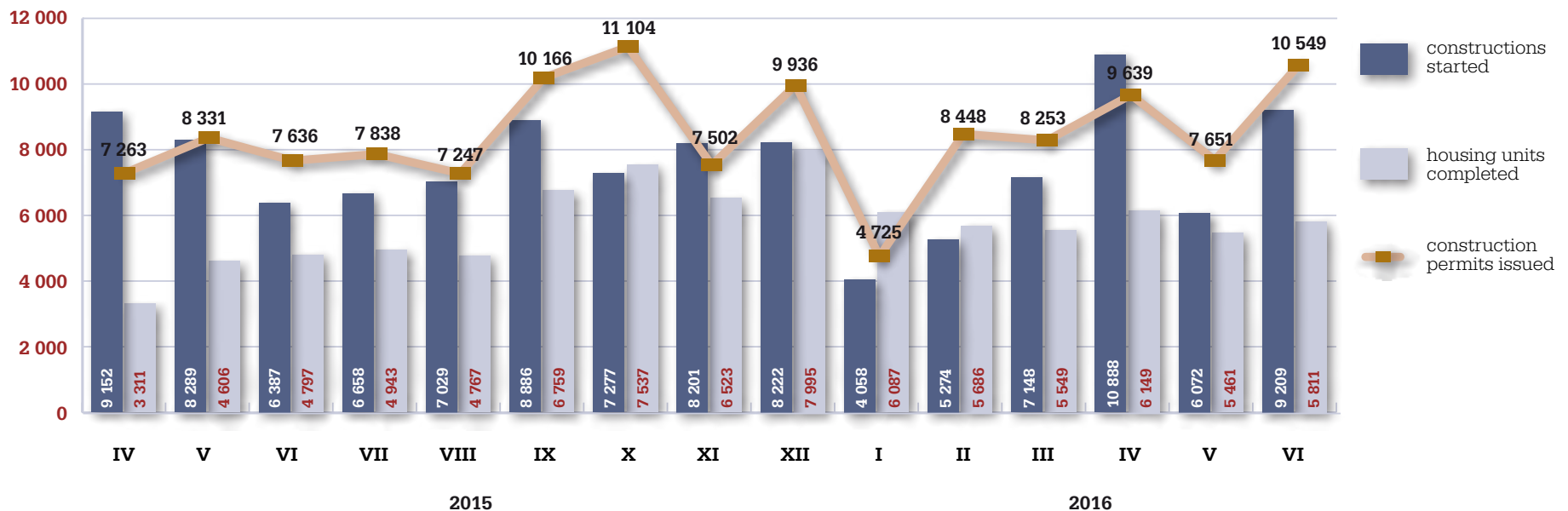
Record-breaking sales results encouraged developers to build more and more. Despite the slightly worse results recorded in May, whole Q2 2016 was better both in comparison to Q1 2016 and the same period of 2015.

According to preliminary data published by Central Statistical Office, in Q2 2016 developers' sector recorded increases in all analysed categories. Development investments started in analysed quarter accounted for **26 169** dwellings, which meant an increase by **59%** in comparison to the previous quarter and by **10%** in reference to Q2 2015. In the period from April to June developers completed **17 421** housing units (an increase

by only **1%** quarterly, but by **37%** in yearly comparison) and obtained permits for the construction of **27 839** dwellings (more by **30%** in comparison to Q1 2016 and by **20%** in relation to the second quarter last year).

In Q2 2016, **50%** of all construction permits issued were those obtained by developers. Development investments started in the analysed period also accounted for **50%** of all new projects and the premises completed by developers' sector amounted to **48%** of all new dwellings ready to move in.

Chart 18. Number of construction permits issued, constructions started and housing units completed by developers in April 2015 – June 2016, monthly



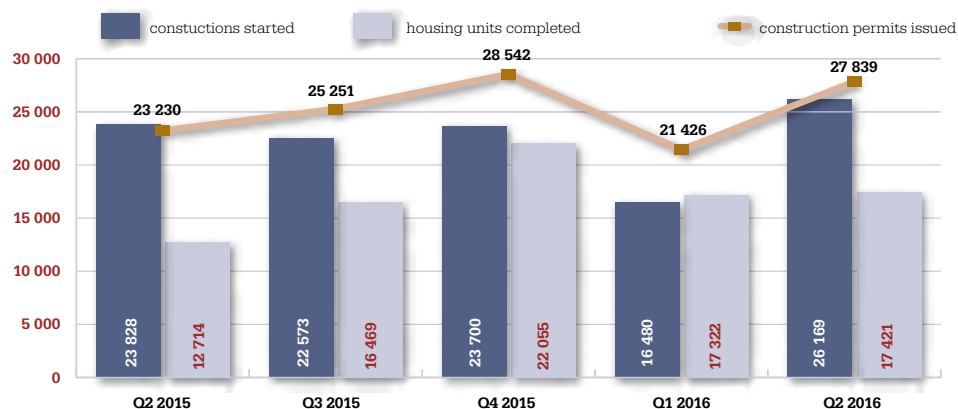
Source: Central Statistical Office

Table 10. Number of construction permits issued, constructions started and housing units completed by developers in Q2 2015 – Q2 2016

	2015			2016	
	Q2	Q3	Q4	Q1	Q2
Construction permits issued	23 230	25 251	28 542	21 426	27 839
Constructions started	23 828	22 573	23 700	16 480	26 169
Housing units completed	12 714	16 469	22 055	17 322	17 421

Source: Central Statistical Office

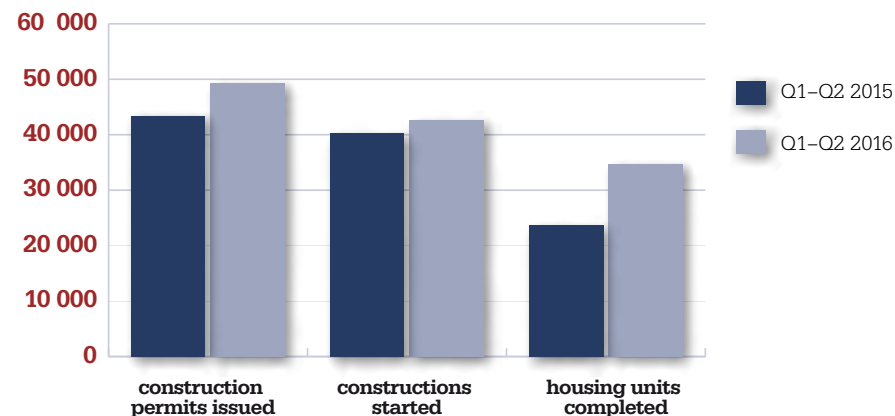
Chart 19. Number of construction permits issued, constructions started and housing units completed by developers in Q2 2015 – Q2 2016, quarterly



Source: Central Statistical Office

In the first half of 2016, developers started construction of **42 649** dwellings (i.e. **6%** more than in the same period last year), obtained permission to build **49 265** units (**13%** more) and built **34 743** flats (**46%** more).

Chart 20. Comparison of numbers of construction permits issued, constructions started and housing units completed by developers in Q1 – Q2 2015 and Q1 – Q2 2016



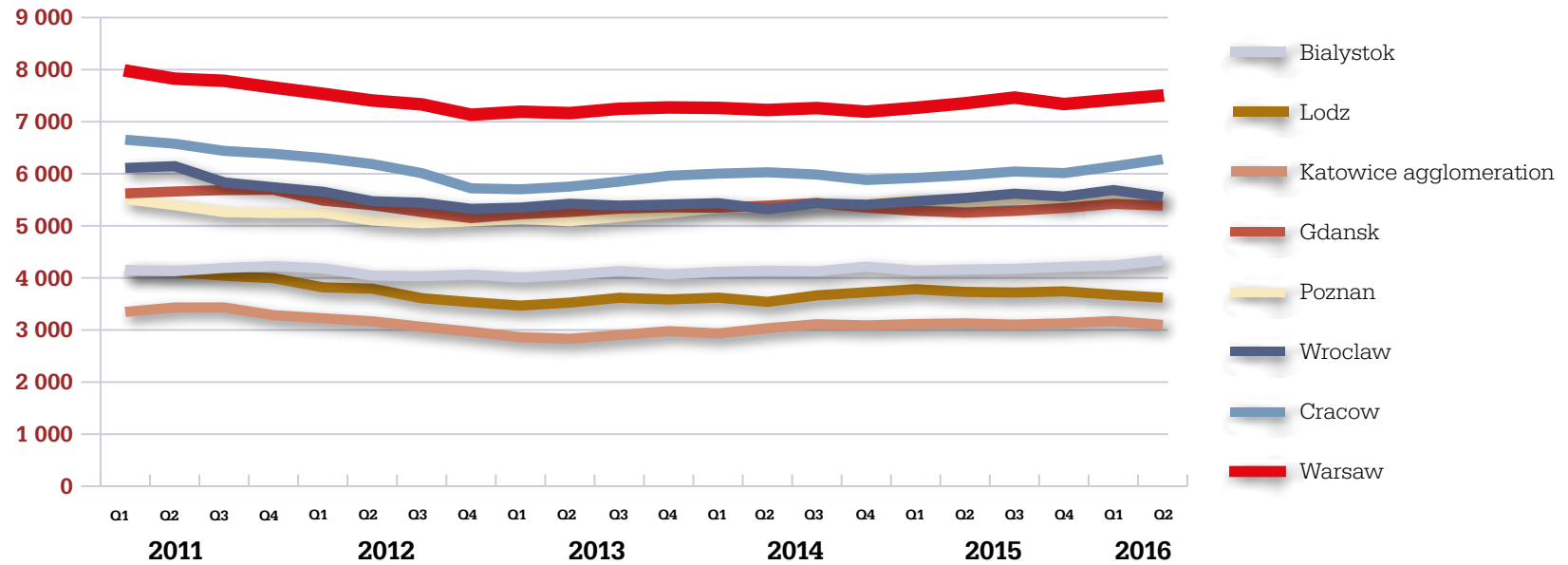
Source: Central Statistical Office

Average transaction prices of housing units

In Q2 2016, the average transaction price per 1 sq.m. of dwelling increased in three of eight analysed agglomerations, i.e. in Cracow, Bialystok and Warsaw, respectively by **PLN 138 /sq.m.**, **PLN 101 /sq.m.** and **PLN 81 /sq.m.** in comparison to the previous quarter. In Gdansk, the average price remained at the level of the first quarter this year, while in the other studied cities a slight declines were observed – the largest in Poznan – by **PLN 134 /sq.m.** and in Wroclaw – by **PLN 133 /sq.m.**

On an annual basis (Q2 2016/ Q2 2015), the average transaction price in Poznan, Wroclaw and Katowice agglomeration has not changed. A decrease by **PLN 111 /sq.m.** was observed in Lodz and increases were noted in all other cities: in Cracow by **PLN 306 /sq.m.**, in Bialystok by **PLN 177 /sq.m.**, in Warsaw by **PLN 149 /sq.m.** and in Gdansk by **PLN 135 /sq.m.**

Chart 21. Average transaction prices per square meter of a housing unit in selected cities in Q1 2011 – Q2 2016



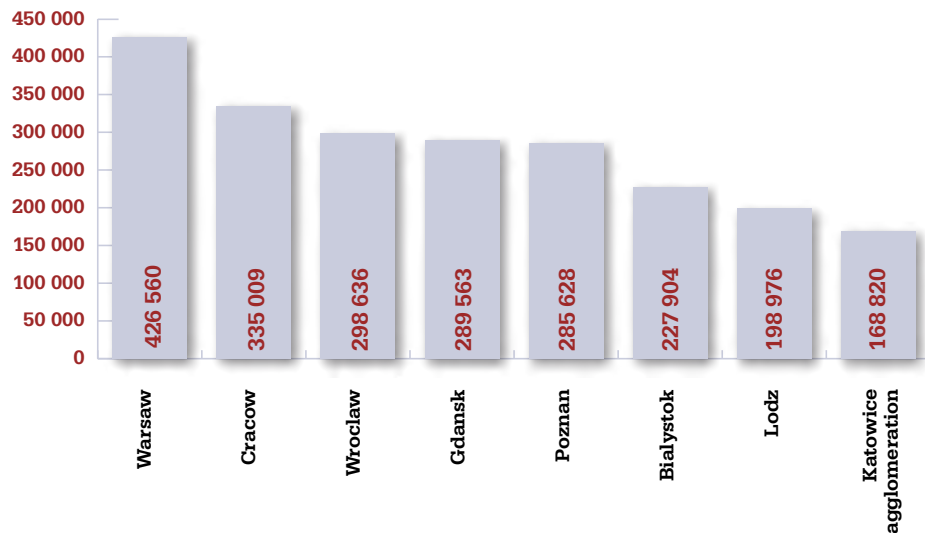
Source: AMRON

Table 11. Average transaction price per square meter of a housing unit in selected cities in Q1 2011 – Q2 2016

quarter		Warsaw	Bialystok	Katowice agglomeration	Wroclaw	Gdansk	Cracow	Poznan	Lodz
2011	Q1	7 982	4 136	3 348	6 112	5 622	6 654	5 513	4 142
	Q2	7 826	4 130	3 432	6 146	5 660	6 577	5 396	4 116
	Q3	7 785	4 191	3 433	5 834	5 686	6 440	5 263	4 042
	Q4	7 656	4 226	3 285	5 741	5 694	6 384	5 246	3 995
2012	Q1	7 536	4 182	3 225	5 655	5 484	6 302	5 248	3 819
	Q2	7 407	4 045	3 166	5 473	5 397	6 187	5 103	3 793
	Q3	7 333	4 033	3 061	5 444	5 265	6 012	5 052	3 611
	Q4	7 134	4 064	2 967	5 327	5 149	5 721	5 086	3 535
2013	Q1	7 192	4 008	2 862	5 351	5 224	5 702	5 132	3 468
	Q2	7 165	4 060	2 832	5 425	5 266	5 754	5 089	3 526
	Q3	7 249	4 134	2 903	5 389	5 331	5 849	5 173	3 618
	Q4	7 274	4 069	2 978	5 411	5 355	5 962	5 248	3 587
2014	Q1	7 265	4 117	2 934	5 436	5 347	6 003	5 343	3 621
	Q2	7 225	4 137	3 034	5 318	5 388	6 029	5 364	3 540
	Q3	7 262	4 126	3 111	5 432	5 441	5 985	5 420	3 665
	Q4	7 192	4 216	3 088	5 406	5 352	5 880	5 432	3 724
2015	Q1	7 267	4 140	3 114	5 475	5 289	5 921	5 509	3 782
	Q2	7 354	4 162	3 127	5 534	5 253	5 973	5 454	3 732
	Q3	7 463	4 174	3 103	5 617	5 287	6 044	5 502	3 720
	Q4	7 339	4 211	3 127	5 563	5 343	6 013	5 426	3 742
2016	Q1	7 422	4 238	3 172	5 687	5 423	6 141	5 564	3 677
	Q2	7 503	4 338	3 098	5 554	5 388	6 279	5 429	3 621

Source: AMRON

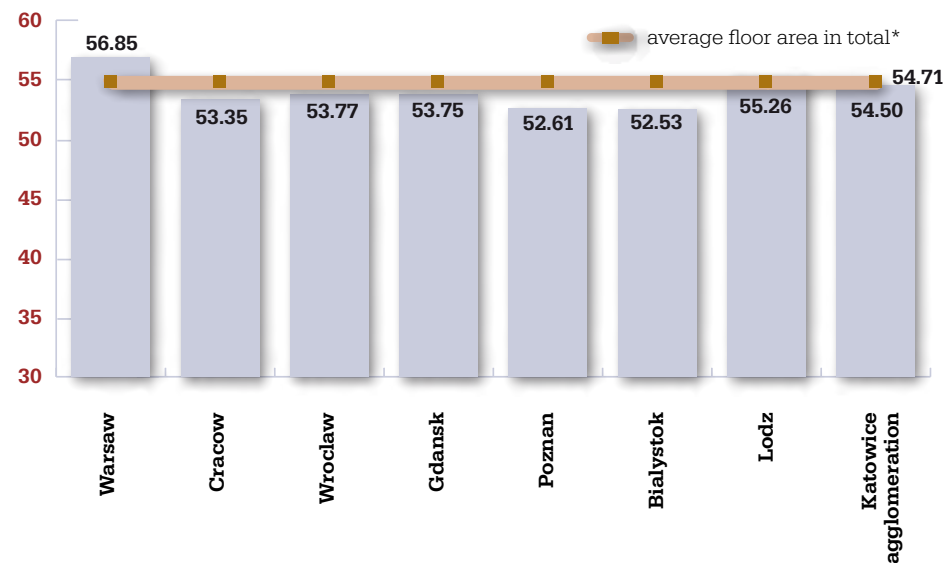
Chart 22. Total average transaction prices of housing units in selected cities in Q2 2016



Source: AMRON

In Q2 2016, the average floor area of a dwelling purchased in eight major Polish cities increased by **0.37 sq.m.** in comparison to the previous quarter and amounted to **54.71 sq.m.** The largest dwellings were traded in Warsaw, where the average floor area amounted to **56.85 sq.m.**, while the smallest – in Bialystok (**52.53 sq.m.**) and in Poznan (**52.61 sq.m.**).

Chart 23. Average floor area of housing units in selected cities in Q2 2016 (sq. m.)



* in 8 surveyed locations

Source: AMRON

Share of particular floor area segments in total turnover volume in Warsaw

Flats with a floor area between 45 and 55 sq.m. have still been the most popular segment in total turnover volume in Warsaw – the share of those dwellings in Q2 2016 amounted to **25.39%**, i.e. **0.91 p.p.** more than in previous quarter.

The popularity of the smallest dwellings, i.e. in category up to 35 sq.m. increased the most – by **1.49 p.p. (9.17%** of total turnover in Warsaw). Decreases were recorded in the segment of flats with the floor area between 55 and 65 sq.m. (by **2.65 p.p.**), between 75 and 85 sq.m. (by **1.67 p.p.**) and in case of the largest units with floor area exceeding 100 sq.m. (by **1.17 p.p.**).

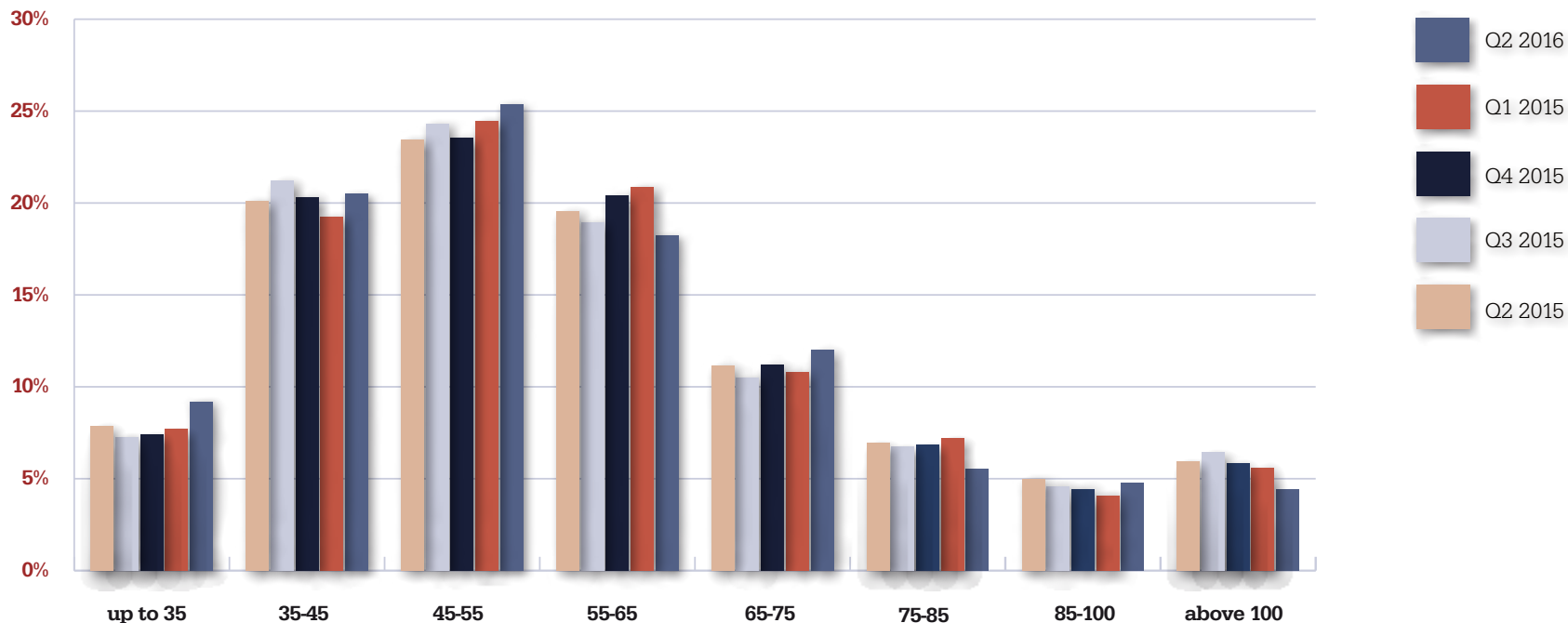
In relation to the same quarter of 2015, an increase in size structure of the Warsaw dwellings was recorded in the category of the floor area up to 35 sq.m. (by **1.28 p.p.**) and from 45 to 55 sq.m. (by **1.95 p.p.**), while decreases were noted in segments of 55 – 65 sq.m. (by **1.30 p.p.**), 75 – 85 sq.m. (by **1.43 p.p.**) and over 100 sq.m. (by **1.53 p.p.**).

Table 12. Share of particular floor area segments in total turnover volume on housing market in Warsaw in Q2 2015 – Q2 2016

floor area (sq. m.)	Q2 2015	Q3 2015	Q4 2015	Q1 2015	Q2 2016
up to 35	7.89%	7.26%	7.40%	7.69%	9.17%
35 – 45	20.10%	21.20%	20.32%	19.27%	20.50%
45 – 55	23.44%	24.30%	23.57%	24.48%	25.39%
55 – 65	19.53%	18.96%	20.39%	20.88%	18.23%
65 – 75	11.17%	10.52%	11.21%	10.81%	11.99%
75 – 85	6.95%	6.75%	6.87%	7.19%	5.52%
85 – 100	4.97%	4.58%	4.42%	4.09%	4.78%
above 100	5.94%	6.43%	5.82%	5.58%	4.41%

Source: AMRON

Chart 24. Share of particular floor area segments in total turnover volume on housing market in Warsaw in Q2 2015 – Q2 2016



Source: AMRON

Commentary to the Report

– Professor Jacek Łaszek, Warsaw School of Economics



It is not so bad

Well, we have a boom on the housing market in the largest Polish cities. It is a boom understood in a classic way, i.e. a situation, in which production exceeds results from the previous cycle. As I have already mentioned before, it is not linked neither to mortgage loans boom nor growing price bubble – prices are stable, banks' lending activity is growing, but rather slowly.

The main factors of this situation are well known,

one even might say that this is a model situation. Although demographic factors seem not to work, the factor of equalizing the gap in the level of housing consumption works and apparently it works effectively. Current level of housing consumption recently was adequate to our level of development, but today it is not and if our income will continue to grow steadily, our housing aspirations will also rise. Part of the existing housing will become redundant and people will want to build a new one. They will want to have better housing, in a better location, perhaps a second flat, perhaps in a better city, or maybe a dwelling for rent. This growth of housing aspirations can be really big if we compare Poland and European Union and I hope it will not grow too fast, because then we could be in trouble. Stable growth in real incomes in the long-term perspective generate growth in housing demand little less than 1%, but calculated in relation to the value of resources. Permanent, several years increase of the income at a level of 3 – 4% can generate demand for more than 200 thousand dwellings a year. Especially when other factors affect favourably, i.e. housing loan is accessible, interest rates are favourable and government subsidies are available. A decrease in the interest rate from 7% to less than 4% causes a further decrease in the loan price

by 40%, and – what is more – there are also subsidies. But it is worth remembering that these interest rates will increase. In this extremely favourable situation, housing demand is not inhibited either by the consequences of a bank tax or a new, more restrictive requirements of LtV ratio. Banking sector has avoided potential big problems with CHF housing loans so far. So we have a lot of luck. Analysis of the real estate market model in major Polish cities show that the consumption module does not explain the acceleration in 2015 and 2016. Market phenomena were explained until the investment module was add, estimated on approximately 30%. Investment module is thereby treated as a purchase of dwellings for rent. It is understandable that in today's uncertain times savers do not trust paper money and want to have something more substantial and (real)concrete. Housing investments are favourable for the economy as opposite to another, traditional store of value – gold, which would have to be imported. Looking forward, it is worth noticing that these flats sooner or later will be available for rent, creating pressure on the reasonable regulation of relations between renter and tenant. And how many governments have already promised rational solutions in this area? What is very interesting all the time, the speculative factor does not work and transaction prices are stable and this is confirmed by the modelling of housing sector, as well as by observation. On the other hand it can also be said (and this will be true) that prices are stable, so there is no speculation at all. Well, developers' market is doing well and contrary to the rest of the economy, there may not be ambitious plans, but also there are no problems with private investments. Let us try to combine luck with reason and at least do not spoil what we've got.

Expert's comments published in AMRON-SARFiN Report reflect authors' opinions, which not always are consistent with opinions presented by Polish Banks Association and AMRON Centre.

AMRON and SARFiN Systems



System for Analysis and Monitoring of Real Estate Transactions

AMRON System is a standardized, nationwide database on real estate prices and values, equipped with advanced reporting and analytical modules for monitoring changes on the property market. System was established in 2004 in response to the banking supervisory requirements related to credit risk management and monitoring security instruments for mortgage lending. Since 2010, System is available for all real estate market participants. For twelve years we have created a new quality of information on value of real estate and from that point of view it is fully justified to literally understand the anagram of Polish name of the System: **AMRON – NORMA (the norm)**. For participants of Polish real estate market, **making use of AMRON System became a norm**. We have consistently implemented our goal, which is to create a comprehensive database on Polish real estate market. AMRON provides quick and direct access to the reliable information necessary for all participants on the market.

Our offer also includes periodic analytical publications and reports on prices changes of housing unit, construction plots and rural areas in selected provincial real estate markets – those reports are available on AMRON website. We also offer the individual reports prepared

accordingly to the detailed specifics of the market segment, location and time period. Since the beginning of 2014, we also offer services of real estate valuation realized by a network of appraisers cooperating with AMRON Centre.

AMRON Centre cooperates with commercial and cooperative banks, credit unions, insurance companies, Agricultural Property Agency, real estate appraisers and realtors, as well as with developers, financial advisors and municipalities. Currently, AMRON System is used by more than 500 entities active on real estate market. AMRON database is also available for National Bank of Poland, General Prosecutor's Office and Polish Financial Supervision Authority.

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sarfin System for Analysis of Real Estate Financing Market

System for Analysis of Real Estate Financing Market (SARFiN) is a system for exchanging information on sales of housing loans and information relating to the monitoring of the risk portfolio of housing loans.

The System is run by the Polish Banks Association since July 2001. The System is used by 19 banks, which, in accordance with the principle of reciprocity, submit to the System own information contribution and in return receive the reports containing aggregated data. Those reports allow to assess the volume and dynamics of the whole market and identify banks' own position on that market. The information generated in the System reflects about 95% of the market for retail lending. Access to the data stored in the SARFiN System has also the National Bank of Poland.

The data processed in the SARFiN System are also used in specialist analytical publications prepared by AMRON Centre, developed at the individual request of banks, investors, developers and other entities interested with reliable information about a particular market segment in the selected location and time period.

SARFiN also develops new services for banks and their customers: a loan affordability index, evaluation and estimation of the potential of the real estate lending market and the presentation of "risk maps" for different regions.

SARFiN System is an additional source of information for banks and enables them to verify the trends in the real estate financing market.

The Management Board of Polish Banks Association decided that service and administration of SARFiN System have been submitted to the Centre of Banking Law and Information, which supports also other Exchanging Information Systems of the PBA in a similar range. This means that the SARFiN System is a subject of internal policies and procedures to guarantee the high quality of the processed information, application security and project management in a manner consistent with the KNF requirements defined in Recommendation D. The contractor of maintenance and administration of the SARFiN System is the AMRON Centre, operating within the organizational structure of the Centre of Banking Law and Information.

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In addition to the data collected in the AMRON and SARFiN Systems, this Report also includes data from Bank Gospodarstwa Krajowego, Central Statistical Office, National Bank of Poland.

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