Global Credit Trends

2022
TRENDS

Insight stories around the globe

Australia

Rise in **unsecured debt**

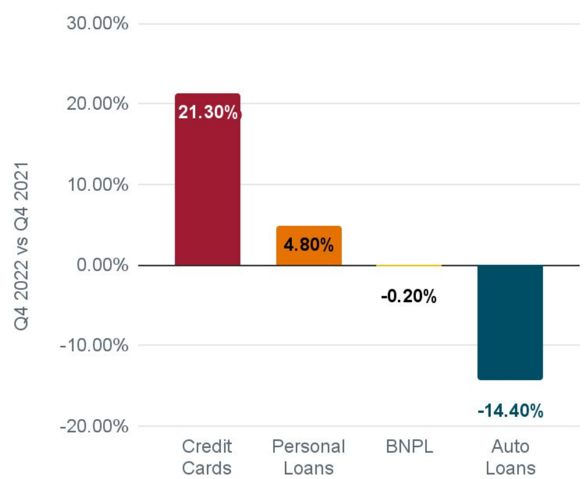
Return of credit cards after years of shrinking market

Return of credit cards: Credit card demand rose 21% compared to Q4 2021. This positive growth came after declining levels from 2018 as BNPL took off in the Australian market

Drivers: This increase can be attributed in part to the travel and retail expenses of the holiday season. Also reflects the number of consumers turning to credit to help with increasing cost of living

Other unsecured debts: While credit card delinquencies remain stable, personal loan delinquencies are increasing alongside demand and expected to grow in 2023

Consumer credit demand by loan type



What does this mean?

- Lenders can review and improve on serviceability processes as consumers spread across multiple credit products
- Help consumers understand importance of affordability and financial literacy; especially when economic environments are volatile

Consumer **delinquency**

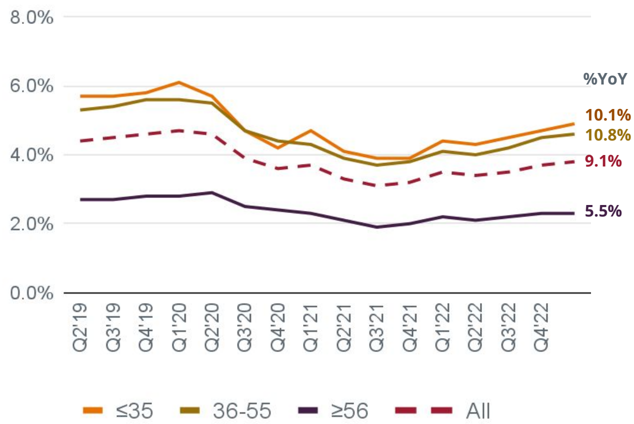
More consumers are missing payments on their credit products vs. one year ago

Non-mortgage: High inflation continues to increase the cost of living with higher proportion of younger consumers missing payments on credit cards and auto loans

Mortgage and home equity line of credit: While mortgage delinquencies remained low, increasing interest rates are putting pressure on consumers with a variable rate product. A higher proportion of older consumers are going delinquent on their HELOC payments

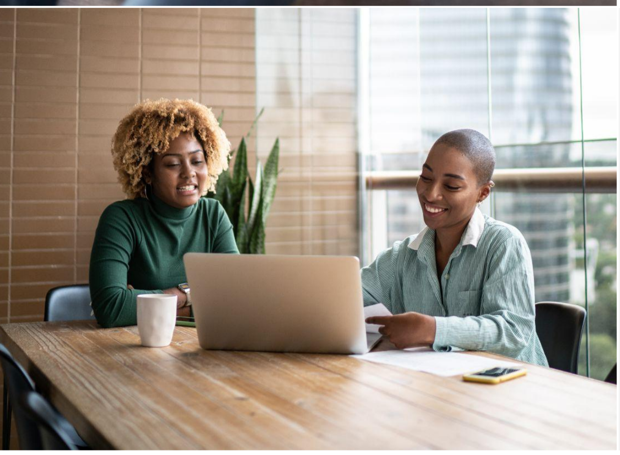
Percentage of Consumers with at Least One 30+ Delinquent Trade

By Consumer Age Band



What does this mean?

- Check consumer credit heath to identify consumers that are likely to be in financial trouble after disposable income normalizes
- Understand the impact of rising debt levels on credit performance KPIs
- Refine collection strategy to accommodate the inevitable rise in payment delinquencies
- Risk of a potential future recession amidst rising interest rates, inflation and consumer debt



New economic environment **underpins cash advance market**

Key indicators

Increasing credit demand: The new economic environment has led to an increase in demand for payday loans. In 2021 coinciding with the second year of the pandemic and in 2022 with the rising cost of living and the shutdown of traditional lenders

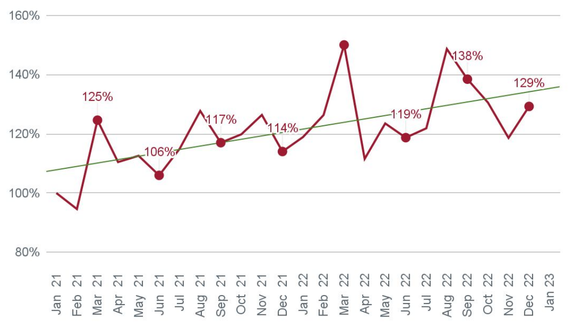
The new situation implies a review of the rating systems: Important to assess whether rating systems are still valid for the new type of credit demand and adjust if necessary to comply with internal risk appetite framework

Bringing more value to customers: Lenders that only use bureau information for risk assessment can migrate to more advanced analytical solutions, such as generic scores for this market. In addition, they can also use different attributes for recruitment campaigns

Two last years trend: Cash advance loans have presented a constantly increasing trend over the last two years

Credit Demand in the Cash Advance Market

(in base 100 compared to January 2021)



What does this mean?

- Need a better understanding of the type of population demanding credit
- Adapt admission policies and risk management tools to the new situation
- Develop global solutions that cover the end-to-end risk management process, from admission to collection

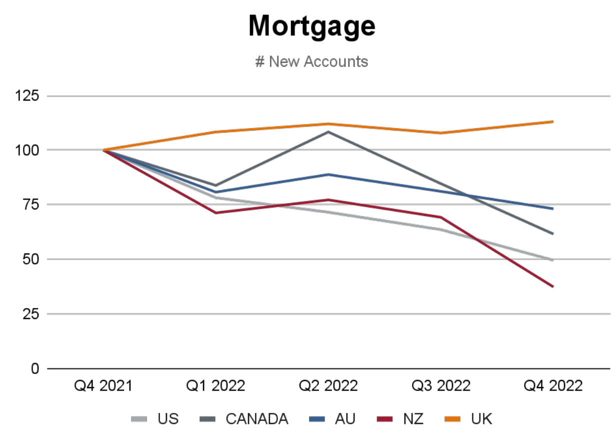
Global slowdown in mortgages

Key indicators

Slowdown across regions: Overall Mortgage originations across multiple regions fell 44% compared to 12 months ago. Bucking the trend, the **UK** experienced positive growth of 13% as consumers looked to refinance ahead of expected interest rate rises. In **Canada**, new mortgage origination decreased 38% when compared to Q4 2021

Monetary policy: Magnitude and frequency of change by local governments played a vital role to the decline of mortgage originations. **New Zealand** and **Australia** were relatively late to raise interest rates. **Bank of Canada** has raised interest rates by 425 bps in the last 11 months

Dominated by refinance activities: Flourish of market activities as consumers look for better rate to weather cost of living pressure and further rate hikes



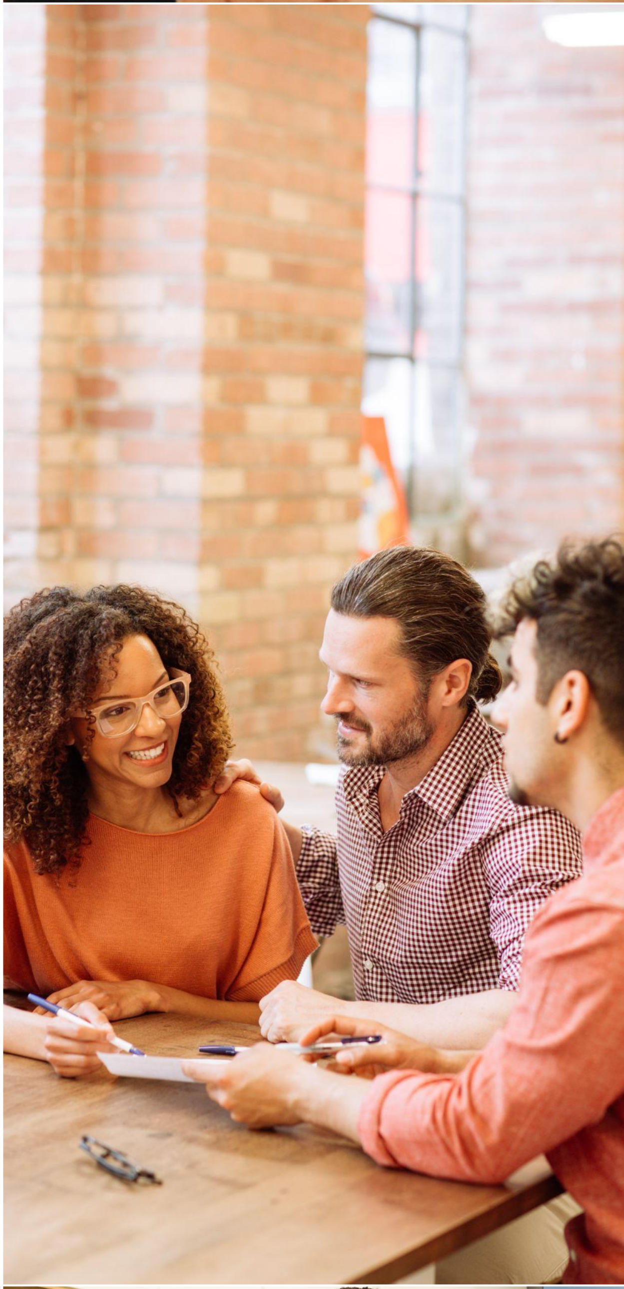


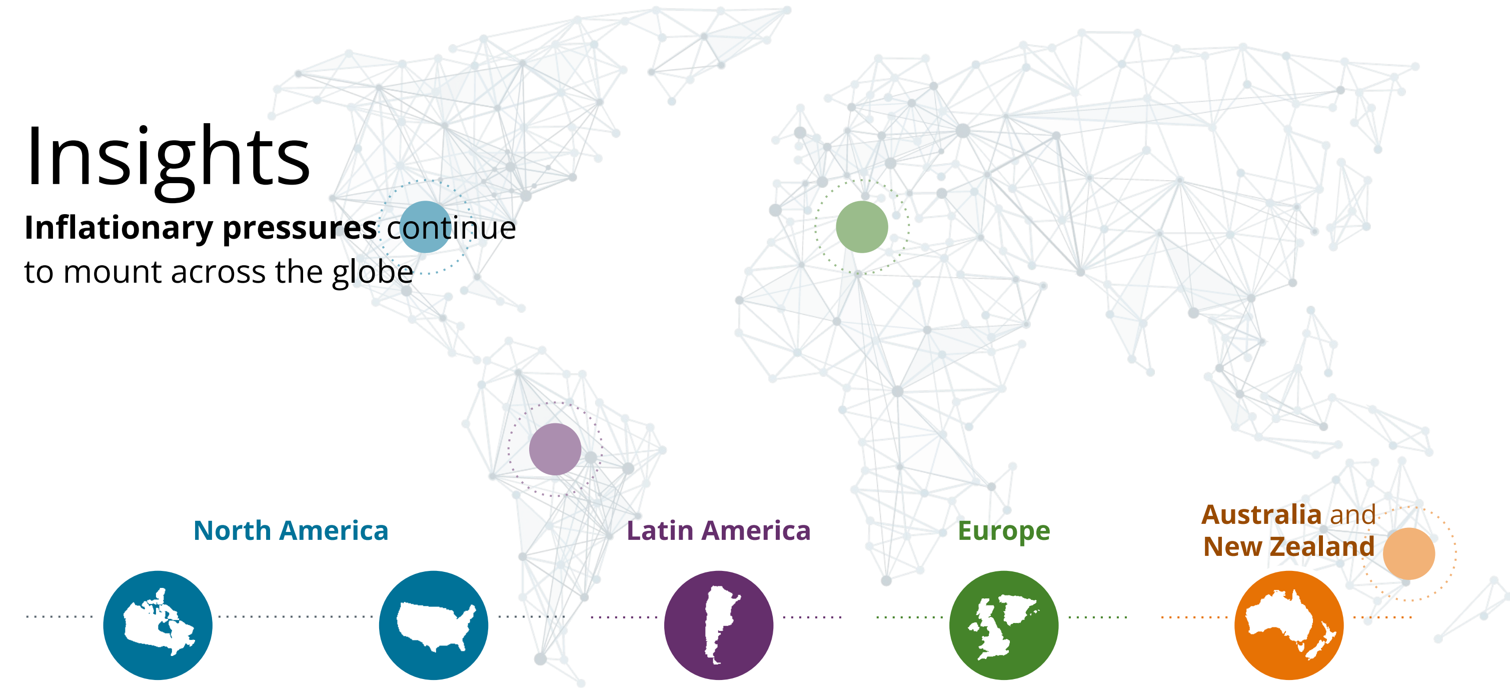
Chart data is indexed as of Q4 2021

What does this mean?

- Proactive customer management to avoid churn and retain good quality customers
- New customer acquisition opportunities to grow mortgage accounts with consumers looking to refinance

Insights

Inflationary pressures continue to mount across the globe



North America | Latin America | Europe | Australia and New Zealand

Canada

- **High inflation:** Inflation highs are showing initial signs of cooling but food prices continue to increase
- **Delinquency and insolvency:** More consumers are going delinquent on their credit products but levels are still below pre-pandemic
- **High interest rates:** First-time home buyers are being pushed out of the mortgage market with extremely high cost of borrowing with very little impact on house prices

United States

- **High inflation:** U.S. annual inflation rate for 12 months ending in January 2023 is at 6.4%, slowing down from 2022 inflation rates
- **Interest rates** Interest rates shot up, with the rates more than double their all time low of 2.65% in January 2021; the average 30-year fixed-rate has jumped from 3.22 in January 2022 to 7.08% at the end of October (Source: Freddie Mac)
- **Auto loans** signaled signs of stress with delinquency of subprime auto loans continuing to increase and are now above pre-pandemic levels (Source: Equifax Market Pulse)

Argentina

- The monthly **inflation rate** in Argentina was 5.1% in December 2022. Consumer prices rose 94.8% YTY
- The **official exchange rate** rose 6.4% in December. During the last three months of 2022, the exchange rate started moving at the same rate of inflation, maintaining the trend
- Central Bank rose the **interest rate** to 71.08% in December

(Source: INDEC and BCRA)

United Kingdom

- **Energy price cap** Electricity prices in the UK rose by 66.7% and gas prices by 129.4% (Source: House of Commons Library)
- **Inflation** The Consumer Prices Index (CPI) rose by 10.5% YoY (Source: Office for National Statistics)

Spain

- **GDP** closed at 5.3% in 2022 (YoY) and forecast of 1.1% forecast for 2023
- **Inflation** 5.9% (YoY) in 2022, and forecast of 3.5% for 2023
- **Interest rates** sharply increased in the last quarter; Euribor: 3.02% (Dec 2022)
- **Unemployment rate** at 12.8%

(Source: Oxford Economics)

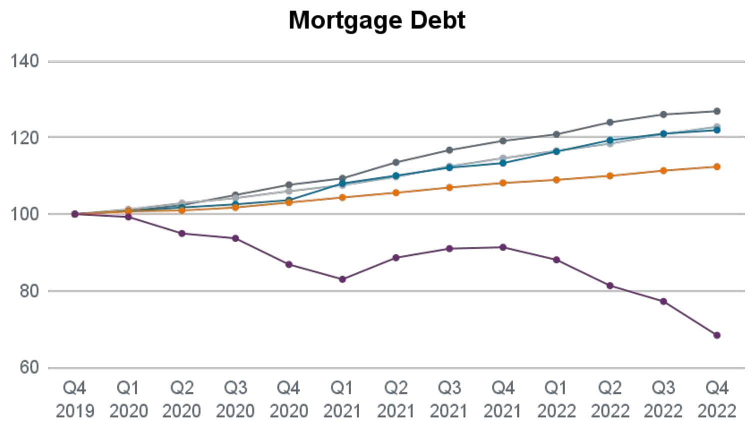
Australia and New Zealand

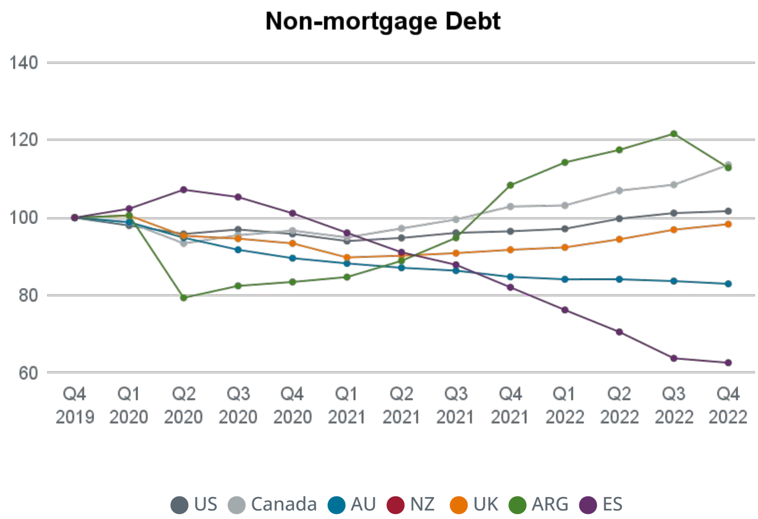
- **Official cash rate** at 3.35%, further rate increases expected for Australia after 9th consecutive increase since May 2022. Cash rate for NZ is higher at 4.25%. Reserve bank made larger and less frequent rate adjustments in comparison to AU
- **Inflation:** AU inflation rose 1.9% from Q3 2022 with annual CPI of 7.8%. NZ annual consumer price index remained at 7.2% after two quarters of increases
- **Key drivers of CPI differs between the two countries:** Australia's most significant increases in holiday travel and accommodation and electricity categories; New Zealand inflation was held up by housing and household utilities

(Source: ABS, RBNZ)

Overall debt

Non-mortgage debt continues to increase across countries globally driven by **demand and inflation**





Global outlook

Mortgage debt

United States
Total mortgage debt continued to rise, but at a slower rate as new originations slow down

Canada
Drop in new mortgage volume is slowing down the increasing mortgage debt levels

Australia
Drop in property sale price yet to show impact on overall indebtedness. Mortgage debt continues to climb; increased 6% and 15% compared to Q4 2021 and Q4 2020, respectively

Non-mortgage debt

United States
Non-mortgage debt has increased almost 9% since the end of 2021

Auto loan debt is now almost 7% higher than at the end of 2021

Canada
Average non-mortgage debt per consumer is at $21,121, an **increase of 2.1%** compared to Q4 2021

United Kingdom
Consumers paying off credit card debt throughout the pandemic with balances still **below 80%** of January 2020 levels

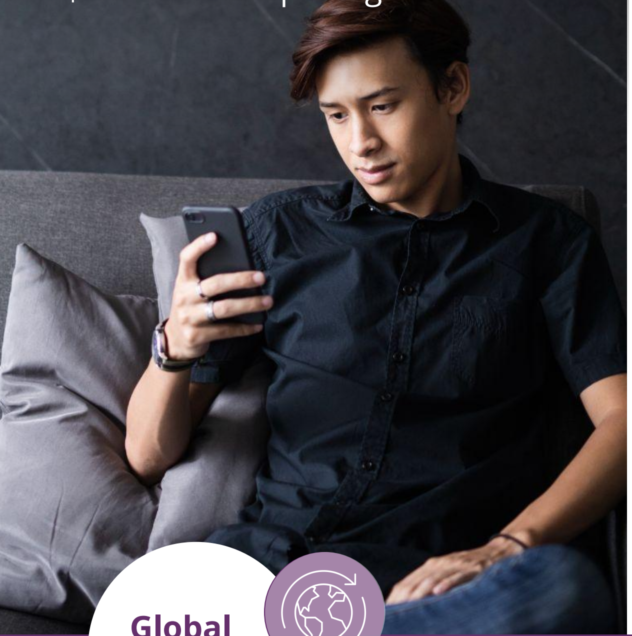
Spain
Continued **decrease in debt** due to financial government support during pandemic period, and particularly in Q4 due to sales of non-performing assets (Spain only reports defaulted assets)

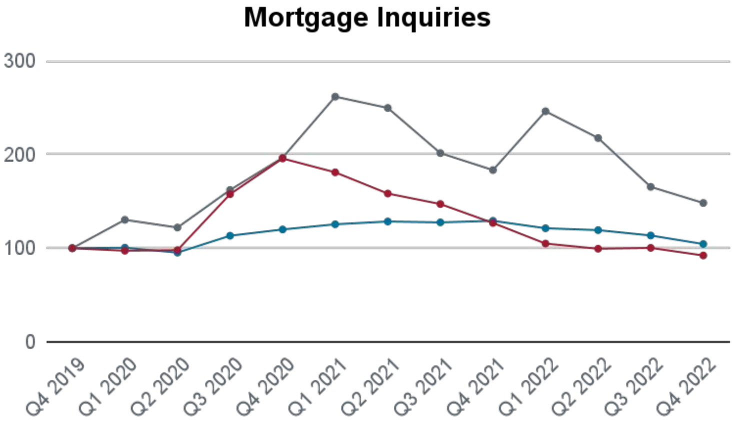
Argentina
Non-mortgage debt presents a decrease between Q3 and Q4, mainly caused by movements in **inflation** and **exchange rate**. Debt stock has remained stable during 2022

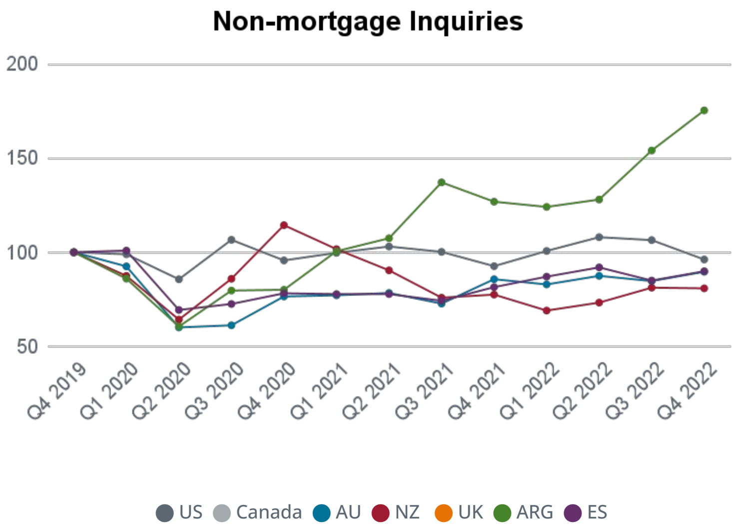
Chart data is indexed as of Q4 2019
Data not reported for all regions in all charts

Demand

Strong growth in **credit card and personal loan** demand across multiple regions







Global outlook

Canada

- Non-mortgage credit demand is **going up, driven by credit cards**
- Mortgage broker inquires are **slowing down** with rising interest rates

United Kingdom and **Spain**

- Credit demand has now reached pre-pandemic levels in the **UK** compared to 2019, although it is not in the same situation in **Spain** (~90%)
- **UK** annual growth rate for all lending at 7.5% in January 2023 (12.4% for credit cards)
- **Spain** shows as increase in Q4 2022 from previous quarter

Australia and **New Zealand**

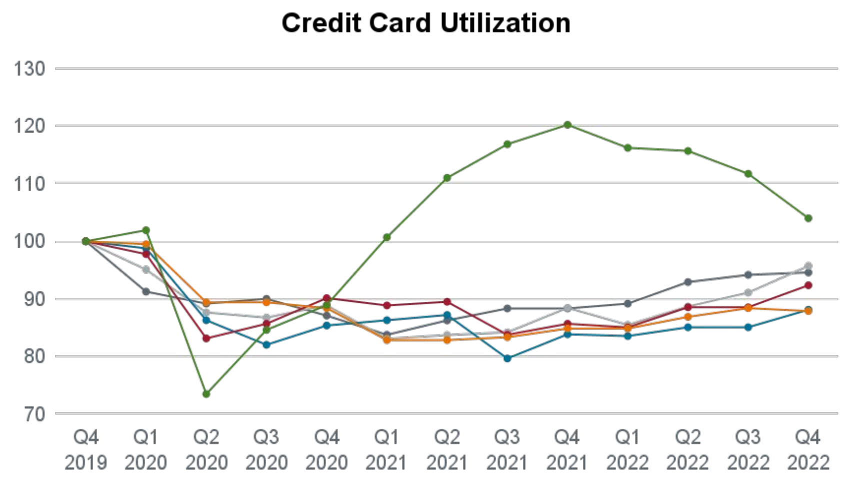
- Largest fall in mortgage demand since pandemic, down 16% compared to elevated demand levels during Q4 2021. Widespread fall in property prices nationwide as consecutive rate hikes and cost of living pressure continues
- On top of rate pressures, tighter lending requirements introduced in late 2021 contributed towards lower mortgage demand in NZ; Q4 fell 27% YoY. However, despite softening market over 2022, this is 8% below pre-pandemic levels

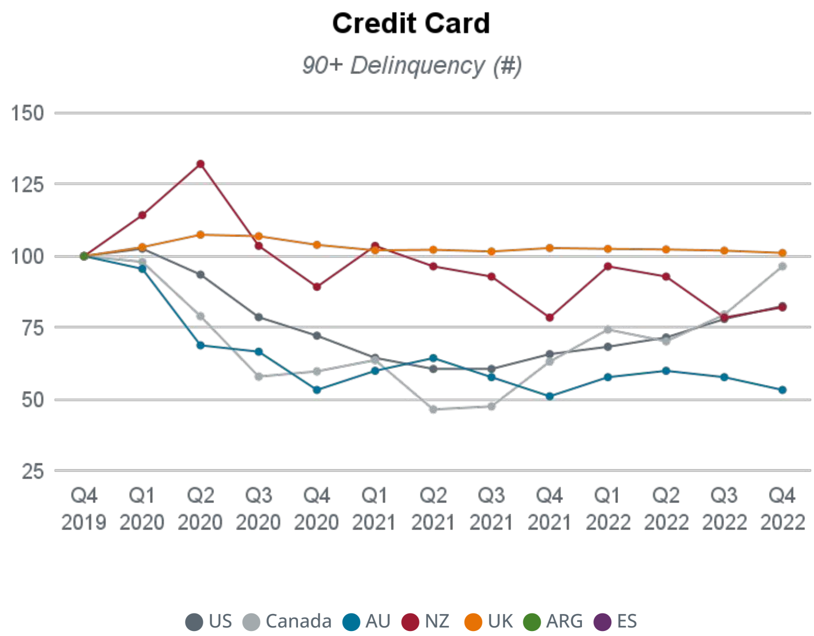
Argentina

- Argentina shows an **increase of non-mortgage inquiries** during the last two quarters of 2022, still this movement would not necessarily show an increase in new clients later
- Financial Institutions have been active in the market, especially in online offerings. Big banks present a new tendency to have a pre-approved offer to any client generating a new trend of massive bureau inquiries

Utilization

Continued **moderate increases** in card utilization across regions





Global outlook

Rising card delinquencies

Overall
Multiple regions are showing an uptick in credit card delinquencies

Canada
Non-mortgage debt in Canada surpassed pre-pandemic levels with huge growth in new credit card volume

United States
While the credit card unit delinquency rate is increasing, it is not quite back to pre-COVID levels. Subprime delinquency rates are showing more significant increases

Revolving debt

Argentina
Credit card utilization has been stable during 2022. Inflationary adjustments in credit card limits during the last quarter caused a drop in the utilization ratio

Canada
Credit card utilization is increasing with high consumer spending. It is currently at 22.7%, up 7.3% from Q4 2021

United States
Subprime credit card utilization has been rising faster than prime and near prime and now exceeds pre-Covid levels

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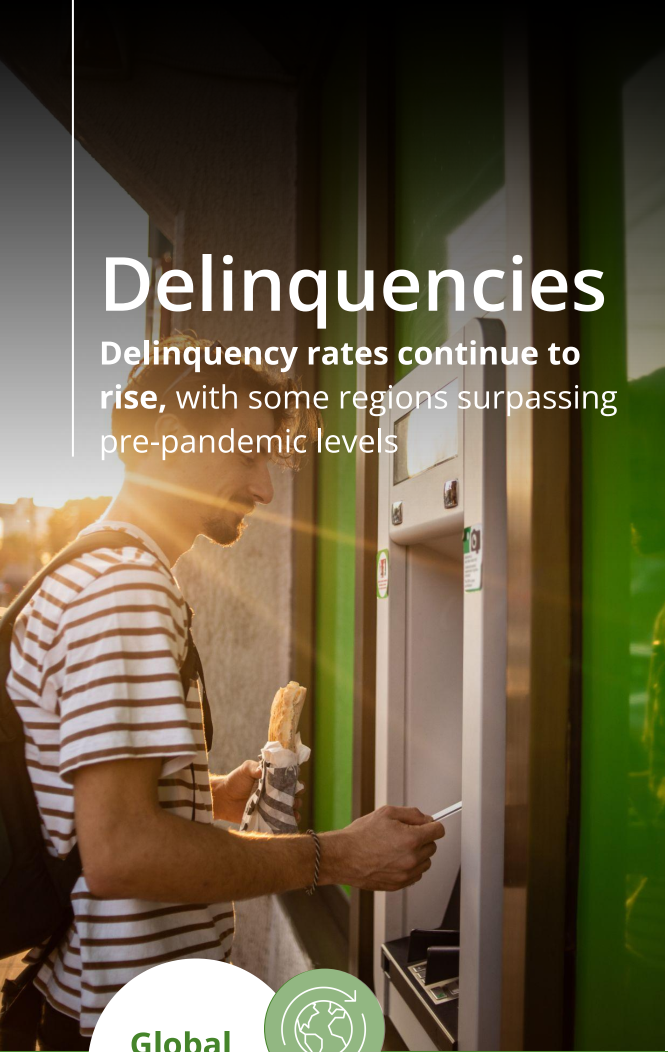
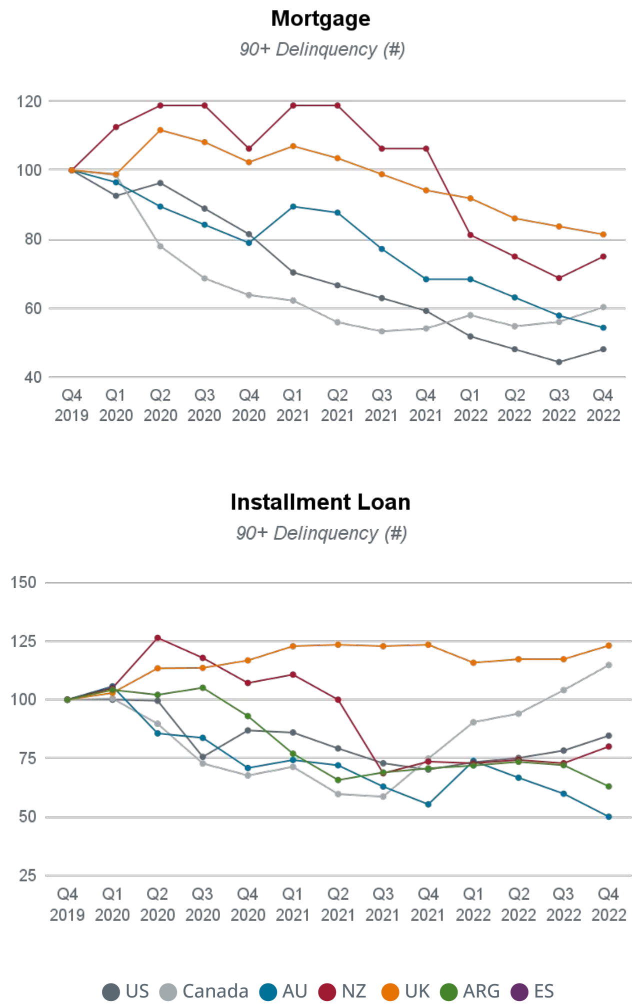


Delinquencies

Delinquency rates continue to rise, with some regions surpassing pre-pandemic levels



Global outlook

United States

- **Auto loan** delinquency has surpassed pre-COVID levels, in both subprime and non-subprime segments
- **Bankcard** delinquencies are rising across the US YoY but there are differences in the rate of increase by geographic region

Canada

- **Credit card and auto loans** are starting to see a rise in delinquency rate with auto delinquencies fast approaching pre-pandemic levels
- **Mortgage** delinquencies remained low

United Kingdom

- **Mortgage** delinquency rates remain at low levels with many households still on low interest rates, expected increase in delinquencies as consumers roll off fixed rates
- **Unsecured** delinquency rates are starting to rise uniformly, with most product types approaching pre-pandemic levels

Argentina

- **Delinquency** remains stable during 2022. This market behavior shows the same trend since 2021, according to historical loan delinquency levels

Australia and New Zealand

- **AU:** Early personal loan delinquency increased by 0.4% compared to Q4 2021. This is likely to rise further due to the after-effects of the holidays season and increasing cost of living
- **NZ:** Signs of strain on mortgage delinquencies in recent months as home ownership seeks to meet significant increases in mortgage interest payments as they roll off fixed rates

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