Poland – 4Q21

Macroeconomic Outlook Report

R&D

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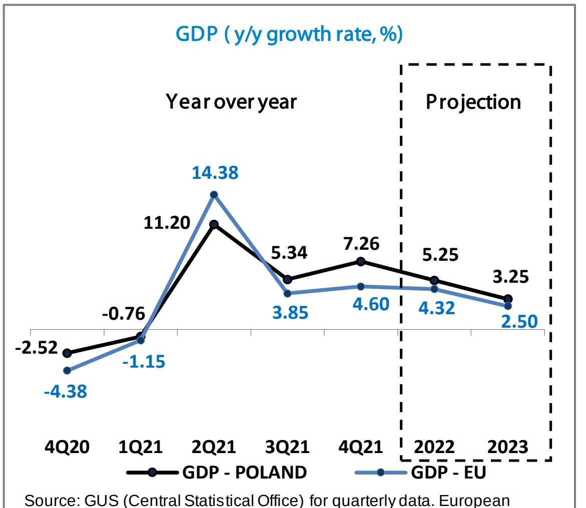
1. General Outlook

Poland macroeconomic overview

The last quarter of 2021 experienced an acceleration in the growth rate of the economy driven by Household consumption and Investment. Despite a worsening epidemic situation towards the end of the year, household consumption stood strong thanks to a favorable labour market and consumer adaptation to the pandemic. Moreover, CPI continued rising, driven by increases in energy and commodity prices. Regarding the labour market, the unemployment rate fell and stood equal to its record-low pre-pandemic level in 4Q19, while employment levels still have a larger gap to close.

Macroeconomic overview

- In the fourth quarter of the year, the y/y GDP growth rate of Poland stood at a positive 7.26% rate, recording a 1.92 p.p. increase with respect to 3Q21. Furthermore, the growth of the Polish economy stood further above the average of EU countries than in 3Q21, which reached 4.60% during the fourth quarter.
- In its December forecasts, the OECD maintained a positive expectation of sustained growth for the Polish economy, predicting a 5.25% y/y GDP growth rate for 2022 and 3.25% growth for 2023.
- In this context, domestic demand continued with strong positive y/y growth of 11.19% due to a favorable labour market with rising real wages, consumer adaptation to the pandemic and less severe restrictions, increasing by 2.55 p.p. from the previous quarter. Moreover, the external demand showed a higher growth of imports (13.21%) than exports (6.01%), reflecting the growing value of imports of intermediate goods and the supply chain bottlenecks for the Polish export sector.



Source: GUS (Central Statistical Office) for quarterly data. European Central Bank. Projections: OECD December.

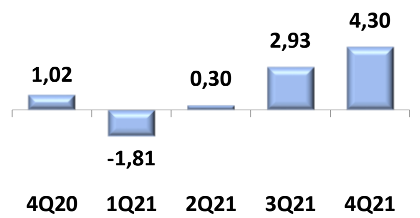
- During the fourth quarter of 2021, inflation increased by 2.26 p.p. compared to the previous quarter, recording a 7.73% rate. Due to prolonged CPI growth, at the end of 4Q21, the NBP council stated its intentions to maintain increased interest rates after having made the decision to raise them in 3Q21 to improve the chances of reaching the objective 2.5% inflation rate in the medium-term.
- In the fourth quarter, the Polish unemployment rate decreased compared to the previous quarter and stood at a rate of 2.90%, equal to the record-low rate recorded just before the pandemic outbreak (2.90% in 4Q19).
- The zloty depreciated against the euro during the fourth quarter of 2021, with the average exchange rate standing at 4.62 PLN/€, 0.05 PLN/€ higher than the one registered in 3Q21.
- In the fourth quarter of 2021, WIG20, the main Polish stock index, continued to post record highs although registering a decrease of 22 points with respect to the previous quarter, down to an average of 2,289 points during the period.

Banking sector

Total loans registered a 4.30% growth rate during the fourth quarter, 3.28 p.p. higher than the y/y growth rate recorded during the fourth quarter of 2020. Concerning total deposits, its y/y growth rate increased by 0.96 p.p., from 7.01% in 3Q21 up to 7.97% in 4Q21. During the fourth quarter of 2021, the efficiency ratio in the Polish financial system increased by 0.87 p.p. when compared to the same quarter of the previous year, standing at 58.83%.

Banking sector

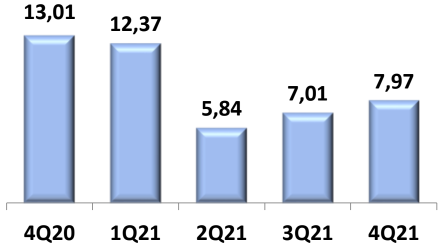
Total Loans to the Non-Financial Sector (Year-on-year, %)



Source: Polish Financial Supervision Authority (KNF).

- During 4Q21, the growth rate of total loans granted to the non-financial sector increased by 3.28 p.p. compared to 4Q20.
- The share of loans conceded for housing represented 47.10% of total loans. The share of loans granted to corporations accounted for 35.66%. Lastly, the share of loans granted to consumers stood at 17.24% of total loans in this quarter.
- During the fourth quarter of 2021, the ratio of impaired loans of the total sector decreased by 0.54 p.p. compared to the previous quarter, down to a rate of 5.74%. This performance was motivated by the decrease registered in the impaired loans ratio of all entities.

Total Deposits from the Non-Financial Sector (Year-on-year, %)



Source: Polish Financial Supervision Authority (KNF).

- In 4Q21, deposits from the non-financial sector increased their y/y growth rate, up to 7.97%, 0.96 p.p. above the rate reached in the previous quarter.
- This slight acceleration was driven by the increase in the y/y growth of commercial banks (1.25 p.p.), against the decrease in growth of cooperative banks (-0.53 p.p.) and branches of credit institutions deposits (-6.76 p.p.).
- The efficiency ratio of the total financial sector increased by 0.87 p.p. compared to the same quarter of the previous year, standing at 58.83%. The deterioration in efficiency was due to an annual increase in gross margin (0.60%) smaller than that of operating expenses (2.11%).

2. International Overview

LatAm

During the fourth quarter of 2021, all the countries analysed continued with their economic recovery despite the deceleration experienced with respect to the previous quarter. This behaviour was mainly explained owing to external demand boost, whose dynamism was hampered by raising inflation, as a result of persistent bottlenecks. On its side, heterogeneous labour market recovery pursued, although at a lower pace than economic activity.

Macroeconomic Overview

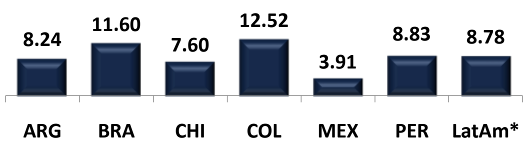
- Economic activity recovery in Latin America was consolidated in the second semester of the year, after being disrupted in almost all countries down to pandemic course. The recovery continues to be heterogeneous by country and is being supported by the favorable evolution of external demand and commodity prices, by the generalized support of economic policies (which, although they have begun to withdraw, maintain an expansive tone) and by financing conditions in the region (which, despite having tightened recently, remain accommodative in historical terms). Colombia* was the country registering the higher year-to-year growth (10.70%) whereas Brazil accounted for the lowest (1.56%).
- In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has improved its forecast for the Latin American economy for 2022, setting the region's growth at 2.90%. This projection is mainly due to the progress in the global immunization process that has been consolidating during the fourth quarter of 2021. The normalization of the pandemic continues to be the main conditioning element of the recovery. However, according to the IMF, this expansion will not be sufficient to reach pre-covid trends in the medium run as lingering social impacts and the improvement of the labor market, damaged after the crisis, will be prolonged during the recovery phase. In its December update, the OECD placed its forecasts for Argentina, Brazil, Chile and Mexico below the OECD average (3.93%) in 2022, with Colombia being the only country to be above this average with 5.54% for 2022.
- Inflation has rebounded sharply and in general terms all over the region. Although this rebound appears to be predominantly transitory in nature, the region's central banks have begun a cycle of monetary policy tightening. Higher inflationary persistence is expected to restrict monetary policy room for maneuver. Argentina was once again the country with the highest inflation rate at 51.40%, while Colombia posted the lowest price increase with 5.15% inflation in 4Q21.
- During the fourth quarter of 2021, the labor market continued to recover from the economic consequences of the pandemic, however the negative effects on the labor market are being more persistent than in activity. Most countries fell their unemployment rate compared to 3Q21 ,with the exception of Argentina. Mexico became the country with the lowest unemployment rate (3.91%) and Colombia with the highest rate (12.52%).

Financial Sector

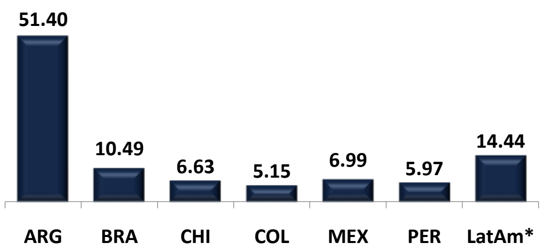
- When it comes to ratings, all Latin American countries maintained their ratings constant in the fourth quarter of the year, except for Mexico, which went from an S&P rating of BBB to BBB- during this period. This rating considers that, despite the country having a good credit quality and an adequate capacity to meet its financial obligations, this capacity could be affected by its exposure to adverse economic conditions.
- Regarding economic policies, the introduction of additional stimulus is more limited than during the previous year, facing the tightening of global financial conditions and the increase in inflation as well as inflation expectations in some countries. Thus, despite the effectiveness of the policies promoted, factors such as the different sectoral structure (for instance, the high importance of tourism for Mexico), the unlike dependence on commodity prices (for example, the dependence of Chile and Peru on the price of copper), the different pace of withdrawal of monetary and fiscal stimuli, or the uneven degree of trade openness, will make a difference in the dynamism of the region's recovery.
- Finally, there has been a notable slowdown in lending, linked in part to the generalized withdrawal of support programs, with Argentina being the only country to decrease its lending terms. Concerning deposits, all countries undertook positive year-on-year growth during the period, although half of them, Argentina, Brazil, Chile and Peru, decreased their rate with respect to the previous quarter. Colombia presented the largest increase in its rate, after an acceleration of 3.52 p.p. compared to 3Q21.

GDP 4Q21 (% year-on-year growth rate)

UNEMPLOYMENT RATE 4T21 (%)



INFLATION RATE 4Q21 (%)

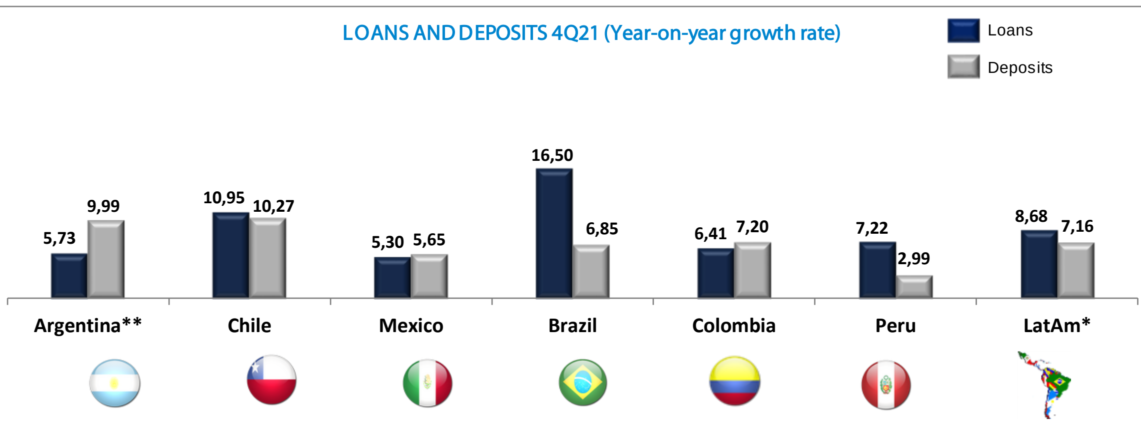


LONG TERM RATES 4T21

	MOODY'S		S&P		FITCH	
Argentina	Ca	–	CCC+	–	CCC	–
Brazil	Ba2	–	BB-	–	BB-	–
Chile	A1	–	A	–	A-	–
Colombia	Baa2	–	BB+	–	BB+	–
Mexico	Baa1	–	BBB-	▼	BBB-	–
Peru	Baa1	–	BBB+	–	BBB	–

▲ Increase since 3Q21
– Constant since 3Q21
▼ Decrease since 3Q21

LOANS AND DEPOSITS 4Q21 (Year-on-year growth rate)



*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.
**Most updated figures available at the date of the release correspond to 4Q21, except for Argentina and Chile (3Q21)

2. International Overview
OECD & China

In the fourth quarter of 2021, the recovery of economic activity in OECD countries continued. This performance was explained by private consumption, favored by consolidation in the vaccination process. However, a slowdown in the dynamism of the economic recovery is expected as a result of greater persistence of inflationary pressures, due to the rise in energy prices.

Macroeconomic Overview

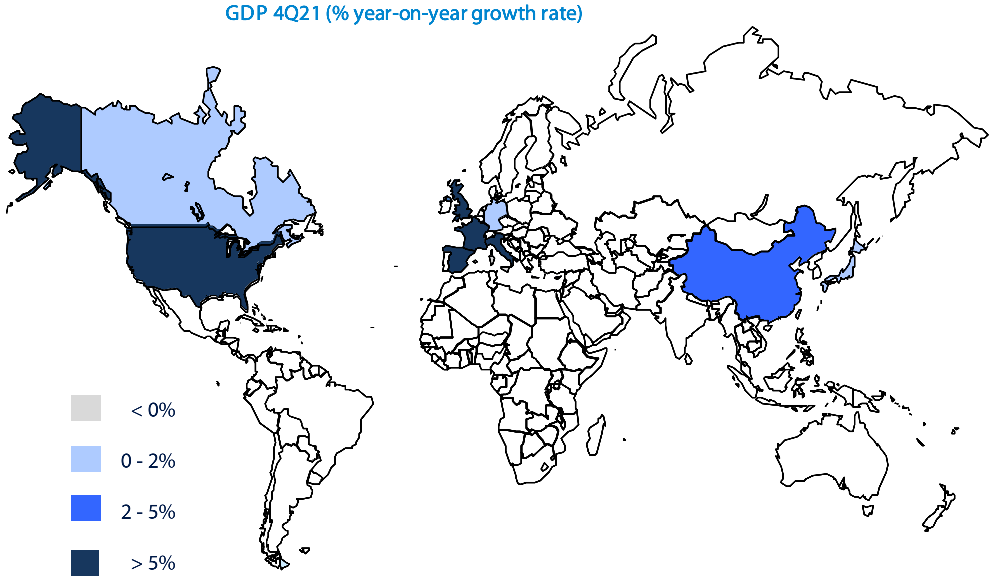
- In the fourth quarter of 2021, the Eurozone continued to recover with a year-on-year GDP growth rate (4.60%), accelerating from the previous quarter. Accordingly, the OECD, in its December forecast, envisions year-on-year GDP growth for 2022 and 2023 to reach 4.32% and 2.50%, respectively, down slightly from its September predictions. The European Commission acknowledges a faster-than-expected economic recovery, driven primarily by private consumption, although it highlights the disparity between countries. The labor market continued to improve and is expected to reach pre-pandemic levels by the end of 2022. However, the Commission warns of inflation and its greater persistence over the time horizon, thus slowing the pace of recovery in the short term. Among the countries analyzed in the region, France and Italy recorded the highest year-on-year GDP growth rates (5.42% and 6.20%, respectively).
- The United States tied the recovery of its economic activity in this period with another positive year-on-year GDP growth rate of 5.50%, also accelerating with respect to 3Q21. This greater dynamism of activity was explained by strong domestic demand, driven by private consumption, although the escalation of inflation remains a cause for concern. Meanwhile, the United Kingdom recorded higher GDP growth during this period with respect to the previous quarter, with a rate of 7.22%. However, the British economy was seriously affected at the end of the quarter by the resurgence of new COVID cases, derived from the Omicron variant, thus restricting the dynamism of the services sector.
- China recorded a lower GDP growth rate during the fourth quarter compared to 3Q21, with a rate of 4.00%. This performance is due to the lowering of interest rates by the Chinese central bank alongside the slowdown in the real estate market, as a result of the fall of Evergrande. Similarly, Japan recorded a shrinkage in its GDP rate in 4Q21 compared to 3Q21, falling from 1.15 p.p. to 0.69%. In 2022, the OECD estimates Chinese and Japanese GDP growth to reach 5.06% and 4.37% respectively.
- G20 international trade level of merchandises held constant in line with the economic recovery. However, the volume of trade in services was still dampened by border restrictions, mainly affecting tourism and leisure. The Regional Comprehensive Economic Partnership, which will come into effect in January 2022, will promote investment and economic recovery among the Association of Southeast Asian Nations (ASEAN) countries. On the other hand, the ratification of the ICA agreement between the US and China remains stalled as of May 2021, given the recent political tensions. The UK's trade agreements with Australia and New Zealand also stand out as a potential boost to British trade relations on its strategy to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- In 4Q21, inflation rose in all the economies studied with respect to 4Q20, with the most pronounced increases in Germany and the United States. On its side, the EMU registered an acceleration of 5.30 p.p. compared to 4Q20. China recorded the smallest rise compared to 4Q20, with inflation at 1.77%. Inflation grew at a frenetic pace due to the energy component and to a lesser extent to core inflation. All economies contracted their labor markets due to the restrictions derived from the new strains, although the recovery is expected to consolidate throughout 2022.

Financial Sector

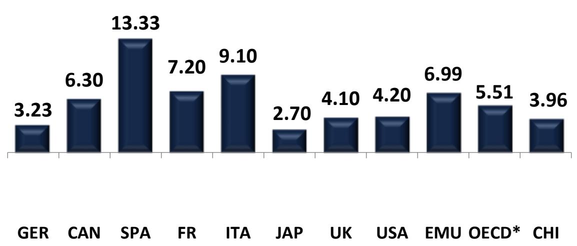
- Italy upgraded its S&P rating, increasing its grade from BBB to BBB+, while Spain downgraded its S&P rating from A to A-.
- Regarding the monetary policies of the different countries, the Fed promoted an imminent interest rate hike of 25 basis points to cope with inflation in early 2022 while the ECB took a more cautious stance and will do so progressively through the withdrawal of its "Emergency Pandemic Purchase Program", scheduled for the end of March 2022.
- During this period, year-over-year credit growth slowed in all countries except Germany, Canada and Mexico compared to 4Q20, with Argentina being the country with the highest decline rate (-32.61%). As for deposit growth, it declined for all countries compared to 4Q20. Brazil registered the second highest year-on-year decrease rate (-38.02%), right after Argentina (-62.12%).

GDP 4Q21 (% year-on-year growth rate)

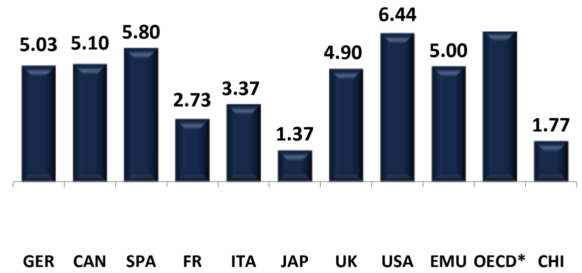
Germany 1.37%
Canada 1.60%
China 4.00%
France 5.42%
Spain 5.23%
Italy 6.20%
Japan 0.69%
EMU 4.60%
UK 7.22%
USA 5.50%



UNEMPLOYMENT RATE 4Q21 (%)



INFLATION RATE 4Q21 (%)

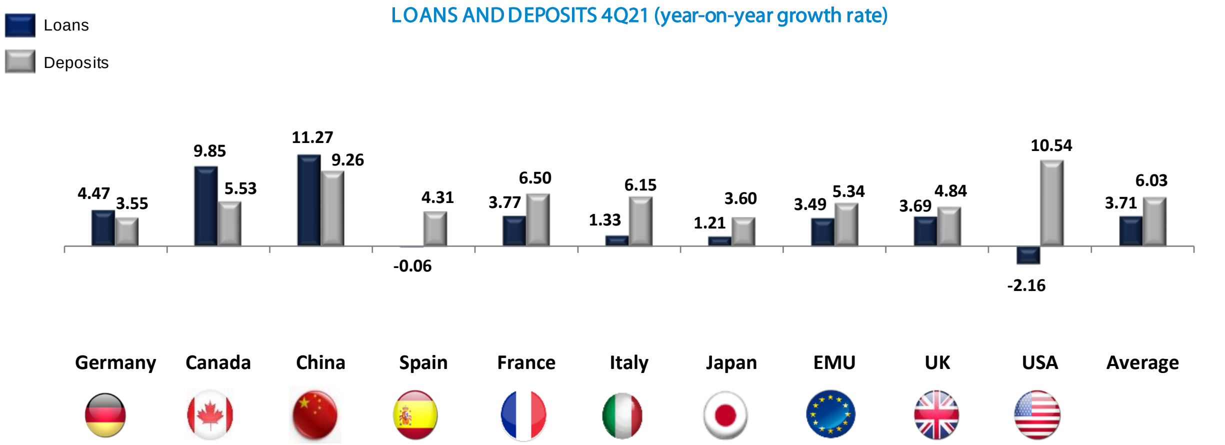


LONG TERM RATINGS 4Q21

	MOODY'S		S&P		Fitch	
Germany	Aaa	–	AAA	–	AAA	–
Canada	Aaa	–	AAA	–	AA+	–
China	A1	–	A+	–	A+	–
Spain	Baa1	–	A-	▼	A-	–
France	Aa2	–	AA	–	AA	–
Italy	Baa3	–	BBB+	▲	BBB	–
Japan	A1	–	A+	–	A	–
UK	Aa3	–	AA	–	AA-	–
USA	Aaa	–	AA+	–	AAA	–

▲ Increase since 3Q21
– Constant since 3Q21
▼ Decrease since 3Q21

LOANS AND DEPOSITS 4Q21 (year-on-year growth rate)



*OECD aggregate data, latest available data at publication date corresponds to 4Q21

3. Polish Macroeconomic Overview

As a result of the continued easing of Covid-19 restrictions and a favorable labor market, Poland continued with its economic recovery. Economic growth was mainly driven by private consumption and investment, leading to an accelerated growth rate compared to the last quarter.

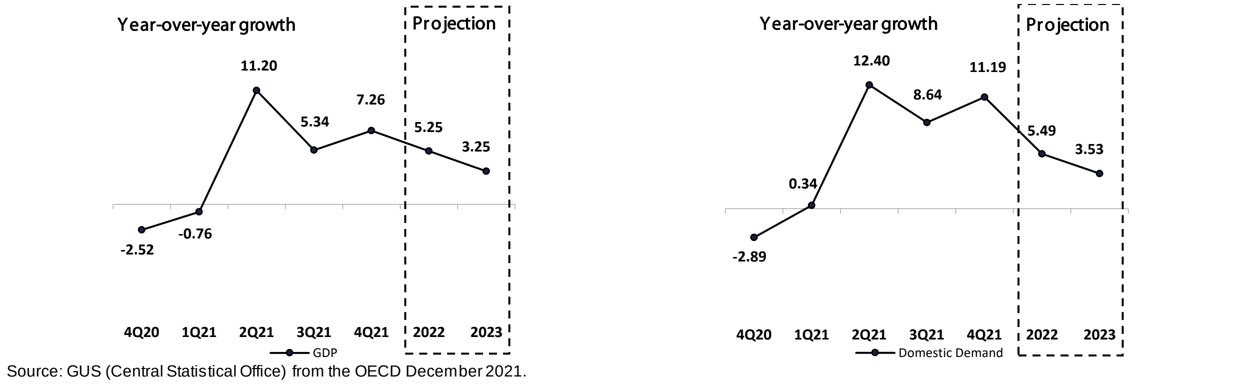
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
GDP	**-2.52**	**-0.76**	**11.20**	**5.34**	**7.26**	**5.25**	**3.25**
DOMESTIC DEMAND	-2.89	0.34	12.40	8.64	11.19	**5.49**	**3.53**
HOUSEHOLD CONSUMPTION	-3.10	0.05	13.10	4.65	7.95	**5.72**	**3.18**
PUBLIC CONSUMPTION	10.95	4.94	8.45	6.80	7.42	**2.16**	**2.02**
GROSS FIXED CAPITAL FORMATION	-11.07	0.40	21.90	33.82	30.03	**7.79**	**7.09**
EXTERNAL DEMAND							
EXPORTS	8.08	7.32	29.20	8.64	6.01	**11.45**	**4.04**
IMPORTS	8.45	10.34	34.50	15.16	13.21	**14.60**	**5.09**
INFLATION							
CPI *	**2.83**	**2.73**	**4.47**	**5.47**	**7.73**	**6.17**	**3.49**
LABOUR MARKET							
UNEMPLOYMENT	**3.10**	**4.00**	**3.50**	**3.00**	**2.90**	**3.37**	**3.37**
EMPLOYMENT	**-0.70**	**-1.20**	**0.30**	**0.40**	**n.d.** **	**0.82**	**0.15**

Source: : GUS (Central Statistical Office) , OECD December forecast.
*Central Bank inflation objective set at 2.5%
**No data available for 4Q21 at the time of publication

- During the fourth quarter of 2021, Poland's year-on-year GDP growth stood at 7.26%, up 1.92 p.p. from the previous quarter. Economic activity rose in all sectors, highlighting industry as the one with the strongest recovery. Construction continued to rise although it has not yet recovered its pre-pandemic levels. The sharp decrease in restriction levels together with consumer adaptation to living with the pandemic has enabled the service sector activity levels to accelerate during the fourth quarter.
- Household consumption continued to grow despite a worsening epidemic situation towards the end of the fourth quarter and a dampening consumer sentiment. Nevertheless, the Omicron wave did not have as much effect as previous ones due to the lower extension of restrictions. This growth in household consumption was mainly fueled by the adaptation of consumers to coping with the pandemic, improvement in the labor market and a rise in real wages.
- Investment growth continued at high levels thanks to high-capacity utilization and a solid financial situation of enterprises together with a favorable demand. However, rising commodity and energy prices could hamper this growth in upcoming quarters. Moreover, a rise in public consumption was partly enabled by cuts in expenditure of anti-crisis support related with Covid-19.
- Year-on-year import growth fell 1.95 p.p. compared to 3Q21, although remaining in strong positive levels. For the fifth consecutive quarter imports outpaced exports, causing a negative trade balance. This was driven by the high value of imports of intermediate goods and a harmed export sector amid supply chain disruptions.

GDP and domestic demand interannual growth (%)

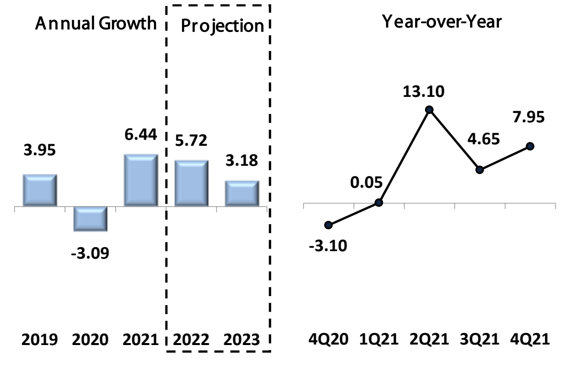


Source: GUS (Central Statistical Office) from the OECD December 2021.

In the fourth quarter of 2021, private consumption recorded an increase in its y/y growth rate compared to the previous quarter, although the OECD projects a stabilizing scenario for the coming years. In turn, the inflation rate continued its rising trend, reaching a 7.73% rate. Regarding bond yields, long-term yields stood higher than in 2020 and 2019 for all maturities of 2 months and above. The Polish National Bank seems inclined to maintain high interest rates in order to reach medium-term inflation targets.

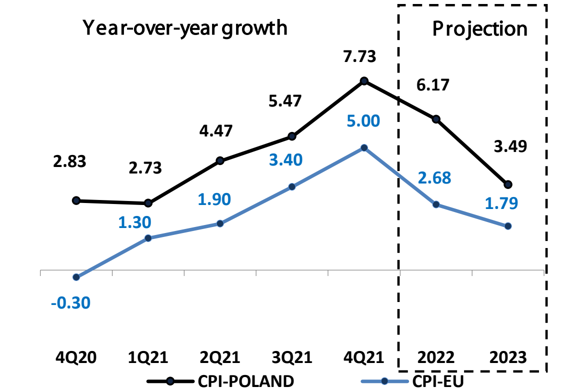
- During the fourth quarter of the year, private consumption continued its recovery, registering a 7.95% y/y growth rate, increasing by 3.30 p.p. when compared to the previous quarter. The strong consumer demand has been fuelled by the favorable labor market conditions and rising wages. Consumption growth was limited due to the worsening epidemic situation and dampened consumer sentiment, although restrictions were not as severe as in previous waves.
- The OECD forecast for private consumption predicts a decline on the year-over-year growth rate down to 5.72% for 2022 and 3.18% for 2023.
- In 4Q21, the year-on-year growth rate of Poland Consumer Price Index rose by 2.26 p.p., following the ascending trend initiated in 2Q21, up to a 7.73% rate. Poland's CPI continued above the EU average, widening the gap by 0.66 p.p. compared to the third quarter. This quarter's rate also distances itself more from the NBP inflation target set at 2.5% since 2004.
- Council members of the NBP pin factors beyond the control of domestic monetary policy, such as higher global energy prices, rising commodity prices, as well as global disruptions in transport and supply chains as the main factors leading to this inflation.
- According to the OECD, the inflation rate will fall progressively during 2022 down to 6.17%, further stabilizing down to 3.49% in 2023.
- All bond yields of Polish Treasury bonds with maturities of above 2 years presented interest rates in 4Q21 of over 2.00%.
- When compared to 4Q19, bond yields grew for all maturities above 2 months with the largest variation corresponding to 4Y and 5Y maturities.
- When compared to the same quarter of 2020, bond yields increased for all maturities, the largest gap recorded in those of 3Y and 4Y.
- Most NBP Council members agreed in their January meeting that interest rates should remain high in order to bring inflation back down to the NBP target of 2.5% in the medium-term.

PRIVATE CONSUMPTION (%)



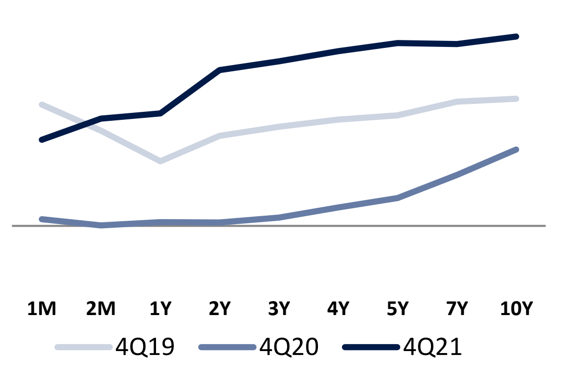
Source: : GUS (Central Statistical Office) . Projections: OECD December 2021.

CPI (Interannual growth %)



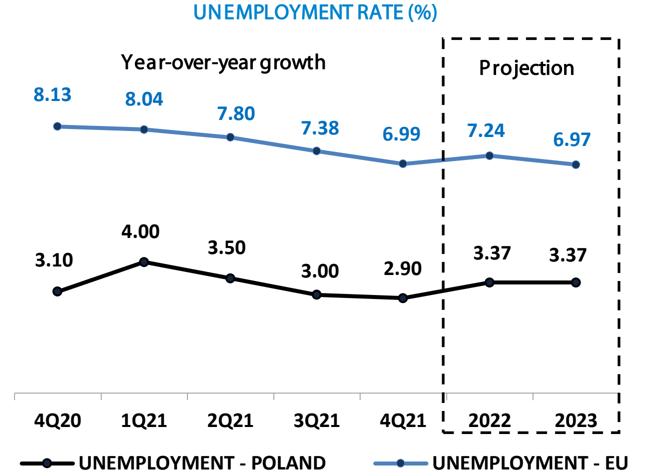
Source: GUS (Central Statistical Office). European Central Bank. Projections: OECD December 2021.

TREASURY YIELD CURVES RATES (%)

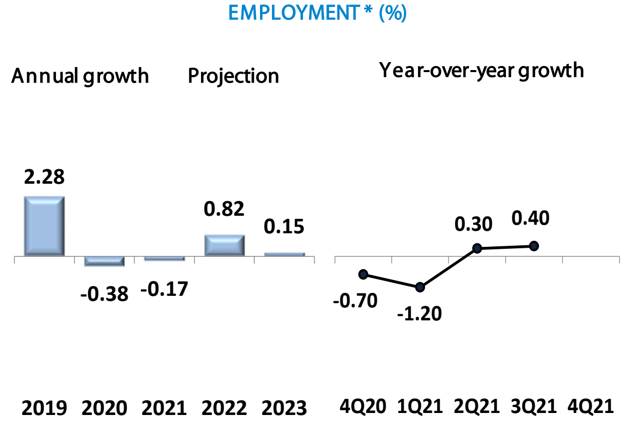


Source:. National Bank of Poland

Regarding the labor market, during the fourth quarter of 2021, the unemployment rate decreased compared to the previous quarter, standing at a 2.90% rate. Similarly, in year-over-year terms, unemployment decreased by 0.20 p.p.. Concerning the y/y growth rate of employment, it grew slightly reaching a 0.40% rate in the third quarter of 2021* as Covid-19 restrictions continued to ease during the summer.



Source: Bureau of Labor Statistics and OECD. European Central Bank. Projections: OECD December 2021.
Note: Annual rates refer to the annual average of the quarterly rate.



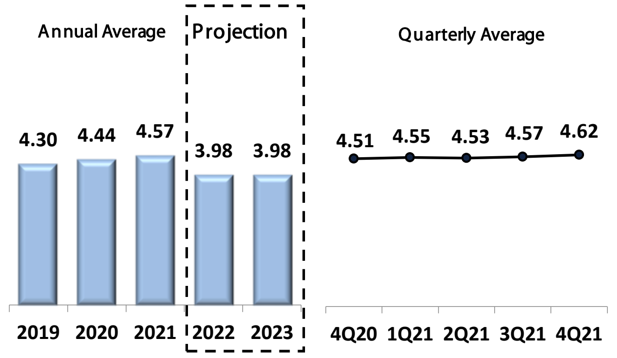
Source:. Bureau of Labor Statistics. Projections: OECD December 2021.
* Employment data not available for 4Q21. 2021 data reflects the three first quarters.

- In the fourth quarter of the year, the unemployment went down to more positive levels standing at a 2.90%. Furthermore, it fell by 0.20 p.p. relative to the same quarter of the previous year. The unemployment rate was notably lower than that of the average EU countries (6.99%) in 4Q21, following the trend of the last quarters.
- According to the NBP, the unemployment rate is expected to stabilize while wage growth to remain high, with around 47% of companies planning to raise wages during 1Q22. During 4Q21, the average nominal wage recorded a y/y growth rate of 9.8%.
- According to the OECD, the labor market is expected to stabilize and pins an unemployment rate around 3.37% for the two upcoming years.
- These projected levels of unemployment would mean that the unemployment rate of Poland will continue to be below the average of EU countries.
- Regarding the employment growth rate, it rose up to a 0.40% interannual rate in 3Q21, 0.10 p.p. higher than in the second quarter.
- Data from labor offices suggested that most employment positions were taken up by the services and industry sectors.
- In its December projections, the OECD has improved its forecast for the Polish employment growth rate in 2022, predicting a 0.82% growth. For 2023, they expect the y/y employment growth rate to fall back down to 0.15%.

* Employment data not available for 4Q21. 2021 data reflects the three first quarters.

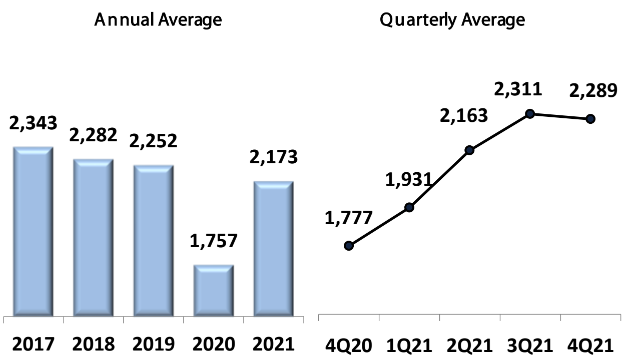
- During the fourth quarter of 2021, the Polish Zloty depreciated against the Euro when compared to the previous quarter. The average quarterly exchange rate stood at 4.62 PLN/€, 0.05 PLN above last quarter's rate.
- The OECD expects the annual average PNL/euro exchange rate to fall and stabilize at around 3.98 PNL/€ for 2022 and 2023, supposing appreciations of the Zloty against the euro with respect to 2021. This reflects the rising interest rates of the Bank of Poland, the tightening monetary policy and favorable economic conditions
- According to the NBP, the depreciation of the zloty against the US dollar and euro during the second half of 2021 were driven by global factors such as the announcement of rising interests by the FED and the decrease in the Polish current account balance below zero in a context of rising commodity and fuel import prices.
- In the fourth quarter of 2021 the polish main reference Index, WIG20, recorded a quarterly average of 2,289 points. Therefore, the Index decreased 22 points relative to the previous quarter.
- According to the NBP, the fall in equity prices on the Warsaw Stock Exchange was in harmony with most international markets due to rising inflation and monetary tightening.

EXCHANGE RATE (PLN/ €)



Source: National Bank of Poland.

WIG20 INDEX



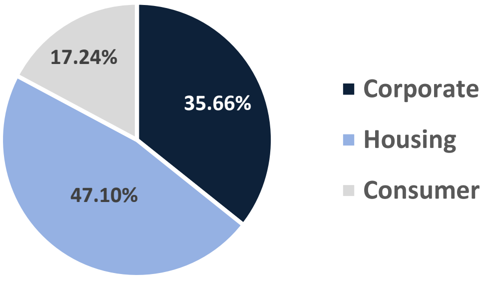
Source: Bloomberg.

4. Banking sector: general overview
Loans and leases

During the last quarter of 2021, the mix of loans in the private sector showed an increase with respect to the previous quarter. Housing loans represented the largest segment (47.10%), followed by corporate loans (35.66%) and consumer loans (17.24%). Regarding the market structure within the non-financial sector, commercial banks remained by far the segment with the highest share (90.24%), followed by cooperative banks (5.90%) and finally branches of credit institutions (3.86%).

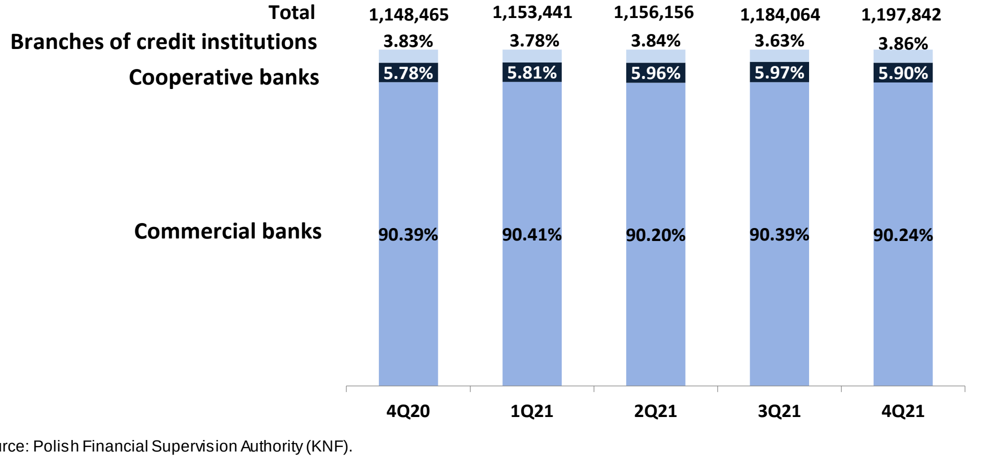
- During the fourth quarter of 2021, the growth rate of total amount of loans to the non-financial sector increased compared to the previous quarter by 1.37 p.p. up to 4.30%.
- The share of loans conceded for housing represented 57.10% of total loans in 4Q21. The amount of loans granted to corporations accounted for 35.66%. Lastly, the amount of loans granted to consumers stood at 17.24% of total loans.
- In terms of market share by type of lending institution, commercial banks continued as the largest segment (90.24%), although decreasing 0.15 p.p. with respect to their share in 3Q21.
- Cooperative banks´ loans amounted to 5.90% of total loans, after decreasing their share by 0.07 p.p. with respect to 3Q21.
- Regarding loans from branches of credit institutions, they recorded a share of 3.86% after an increase of 0.23 p.p. when compared to the previous quarter.
- Total loans in the private sector amounted to PLN 1,197,842 million during the fourth quarter, after increasing by 1.16% with respect to the previous quarter.

Loans distribution in private sector 4Q21 (%)



Source: Polish Financial Supervision Authority (KNF).

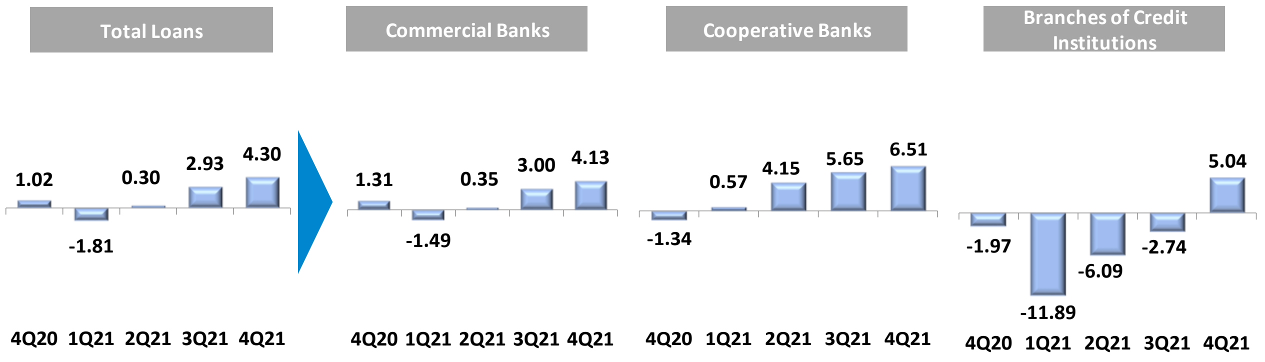
LOANS MARKET SHARE TO THE NON-FINANCIAL SECTOR (Million PLN)



Source: Polish Financial Supervision Authority (KNF).

Total loans in the Polish financial system registered a 4.30% growth rate in 4Q21. All types of entities recorded accelerations in their loan y/y growth rates when compared to the previous quarter. Cooperative banks continued to have the highest ratio of impaired loans, at 8.23%, despite a decrease compared to 3Q21. Branches of credit institutions experienced a steeper decrease in their impairment ratio, achieving once again the lowest ratio among the segments analyzed (2.81%).

TOTAL LOANS TO THE NON-FINANCIAL SECTOR (Year-on-year, %)

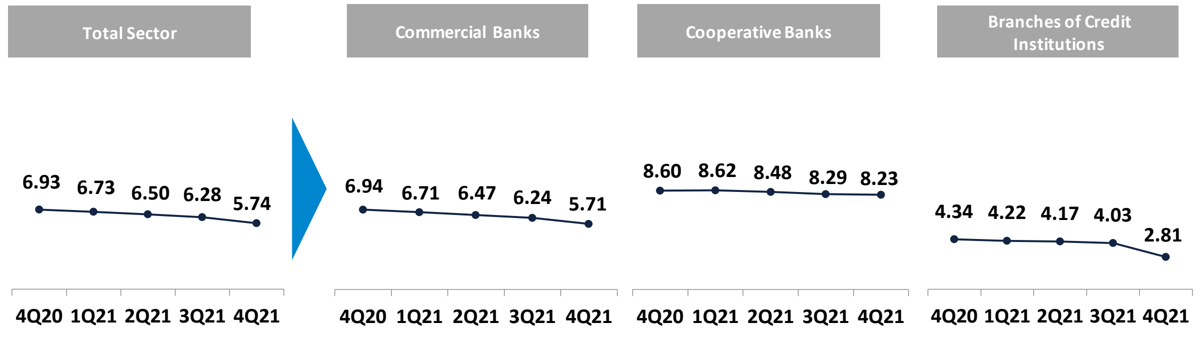


Source: Polish Financial Supervision Authority (KNF).

- During 4Q21, the growth rate of total loans granted to the non-financial sector increased by 1.37 p.p. compared to the previous quarter.
- Commercial banks recorded an acceleration of 1.13 p.p. when compared to the previous quarter standing at a y/y growth rate of 4.13%.
- Branches of credit institutions recorded a positive growth rate (-2.74%) for the first time since 2Q20 after an increase of 7.78 p.p. during the period. Meanwhile, cooperative banks presented a growth rate of 6.51% after an acceleration of 0.96 p.p.

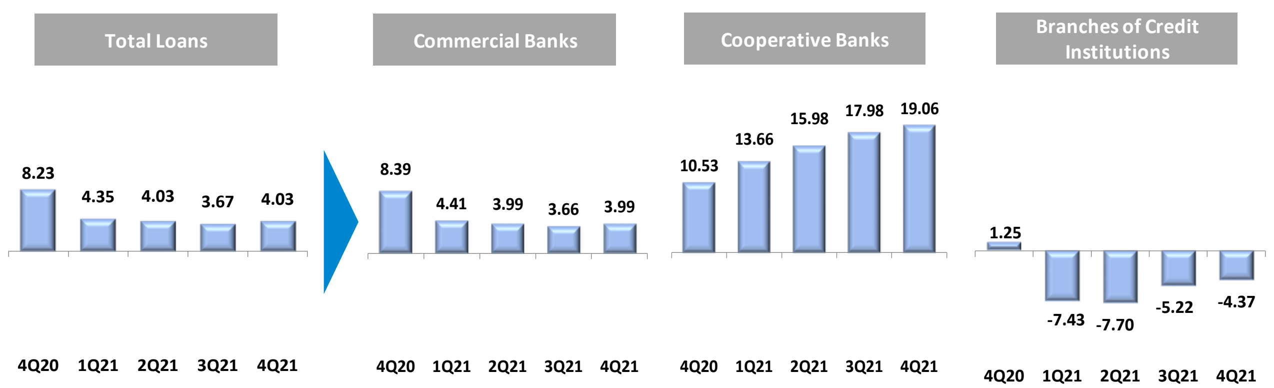
- During the fourth quarter of 2021, the ratio of impaired loans of the total sector decreased by 0.54 p.p., down to a rate of 5.74%. This performance was motivated by the decreases registered in the impaired loans ratio of commercial banks, cooperative banks and branches of credit institutions.
- Commercial banks experienced a decrease in their impairment ratio of 0.53 p.p. down to 5.71%, when compared to 3Q21. Cooperative banks slowed down their impairment ratio by 0.06 p.p. to a rate of 8.23%. Branches of credit institutions registered the lowest impairment ratio of all three segments, standing at 2.81%, after a significant decrease of 1.19 p.p.

RATIO OF IMPAIRED LOANS (%)



Source: Polish Financial Supervision Authority (KNF) and own analysis.

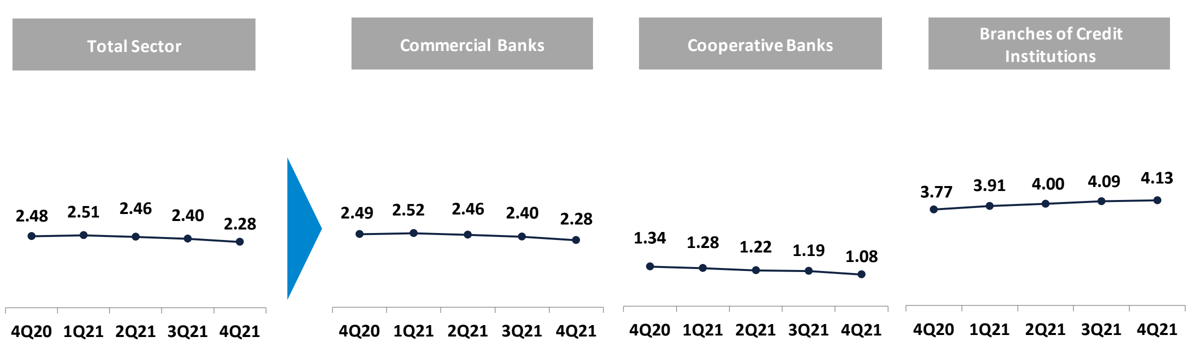
During the fourth quarter of 2021, housing loans registered an increase of 0.36 p.p. in their y/y growth rate when compared to the previous quarter. This performance was explained by the increase recorded in loans granted by all entities. Total housing impaired loans ratio registered a slight decline, falling to a ratio of 2.28% during the period.



Source: Polish Financial Supervision Authority (KNF).

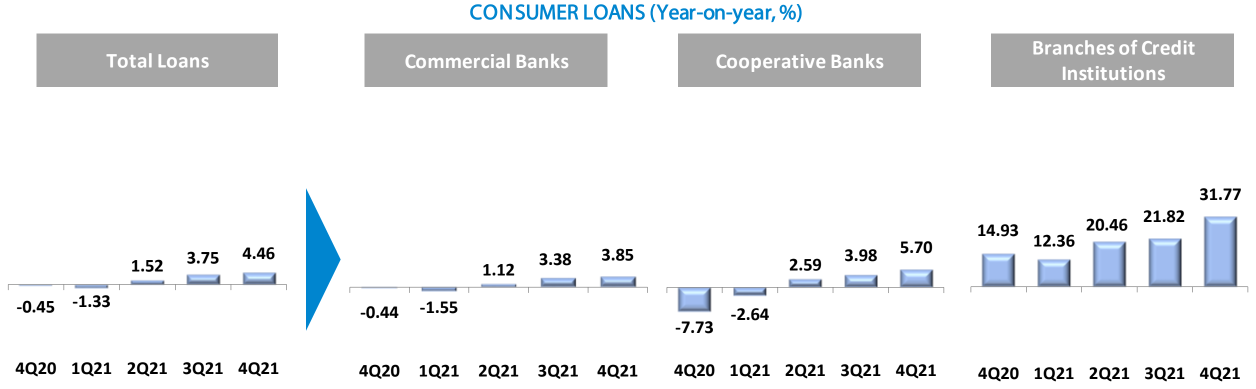
- In the fourth quarter of the year, loans granted for house purchases accelerated to a y/y rate of 4.03%, which was 0.36 p.p. higher than the growth rate observed in 3Q21.
- This performance was mainly driven by the acceleration in the growth rate of housing loans granted by commercial banks, which was of 0.33 p.p., up to 3.66%.
- However, cooperative banks and branches of credit institutions also recorded accelerations in their housing loans' growth rate of 1.08 p.p. and 0.85 p.p. up to rates of 19.06% and -4.37%, respectively.

- The impairment ratio of housing loans decreased during this quarter by 0.12 p.p. when compared to the previous quarter, standing at 2.28%, the lowest among all loan segments to the non-financial sector.
- This performance was due to the 0.12 p.p. decrease recorded by commercial banks, also down to an impairment ratio of 2.28%, and a 0.11 p.p. deceleration by cooperative banks. The latter remained as the entities with the lowest ratio of housing impaired loans (1.08%).
- In turn, branches of credit institutions registered an increase of 0.04 p.p. up to an impairment ratio of 4.13%.



Source: Polish Financial Supervision Authority (KNF) and own analysis.

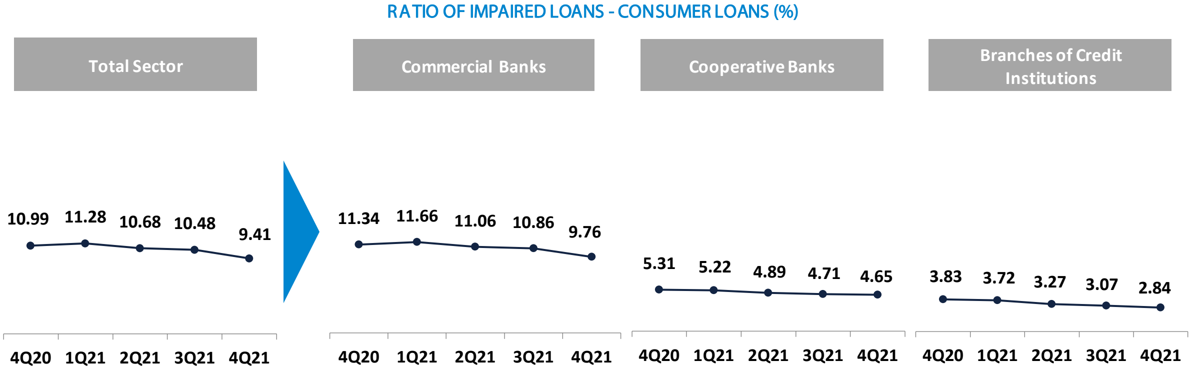
During the fourth quarter of 2021, consumer loans growth rate accelerated to a rate of 4.46% when compared to the previous quarter. After a deceleration, the total ratio of impaired consumer loans recorded a ratio of 9.41%.



Source: Polish Financial Supervision Authority (KNF).

- The growth rate of consumer loans increased by 0.71 p.p., up to a y/y growth rate of 4.46% in the fourth quarter of 2021.
- In 4Q21, commercial banks accelerated their growth rate of consumer loans by 0.47 p.p., up to a final rate of 3.85%. Cooperative banks' loan growth also accelerated (1.72 p.p.), consolidating a positive growth trend (5.70%).
- Finally, branches of credit institutions significantly increased their growth rate by 9.95 p.p. up to 31.77%.

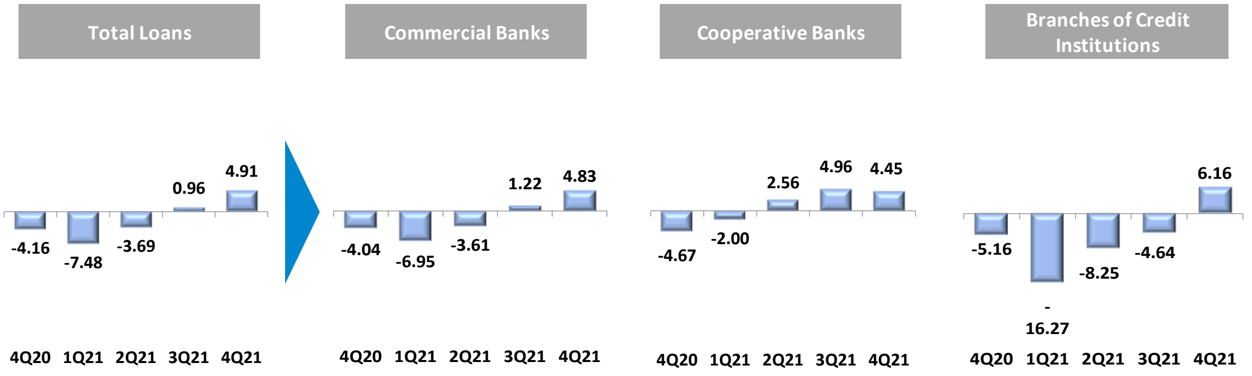
- The impairment ratio of consumer total loans registered a 1.07 p.p. decrease during the fourth quarter of the year when compared to the previous quarter, standing at 9.41%.
- By segments, commercial banks decreased their ratio of impaired loans when compared to the previous quarter, standing at 9.76% (-1.10 p.p.). Cooperative banks recorded a decrease of 0.06 p.p. down to 4.65%. Branches of credit institutions also decreased their ratio of impaired loans by 0.23 p.p. down to 2.85%.



Source: Polish Financial Supervision Authority (KNF) and own analysis.

Total corporate loans registered an acceleration in their y/y growth rate during the fourth quarter of the year, reaching a positive rate of 4.91%. This was due to the acceleration experienced in the growth rates of Commercial Banks and Branches of Credit Institutions. The impairment ratio of corporate loans stood at 7.34%, which was 0.72 p.p. lower than the ratio recorded in the previous quarter.

CORPORATE LOANS (Year-on-year, %)

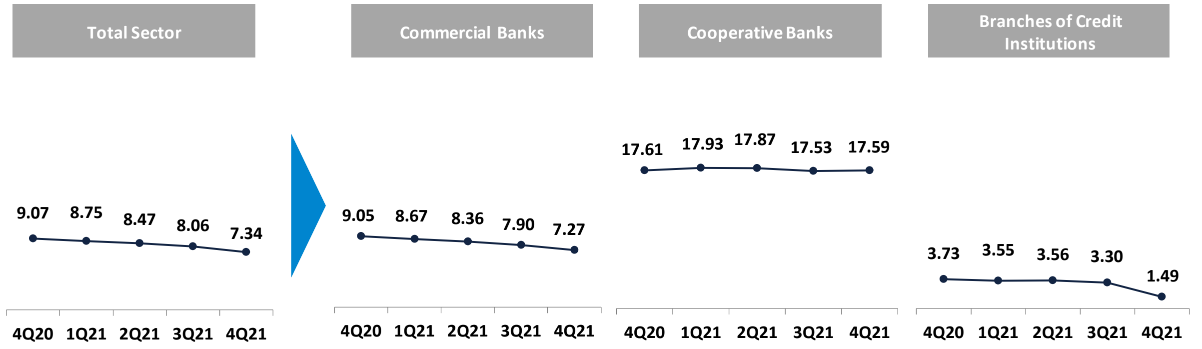


Source: Polish Financial Supervision Authority (KNF).

- During the fourth quarter, corporate loans growth rate increased up to a rate of 4.91%, the second positive value after 5 semesters in negative growth levels and 3.95 p.p. higher than the rate registered in 3Q21. After a 9.80 p.p. acceleration for branches of credit institutions, now standing at a 6.16% growth rate, none of the types of institutions studied continue to show negative growth for corporate loans.
- Commercial banks recorded an increase of 3.61 p.p. when compared to the growth rate recorded in the previous quarter, standing at 4.83%. However, Cooperative banks decreased by 0.51 p.p. down to 4.45%.

- The impairment ratio of corporate loans of the total sector decreased during this quarter. Impaired loans accounted for 7.34% of total corporate loans, showing a decrease of 0.72 p.p. with respect to the previous quarter.
- Commercial banks decreased their impairment ratio of corporate loans by 0.63 p.p. reaching a ratio of 7.27%. Additionally, cooperative banks recorded a slight increase of 0.06 p.p. reaching a ratio of 17.59% during 4Q21, maintaining its place as the type of institution with the highest ratio of impaired corporate loans. Meanwhile, Branches of credit institutions recorded a ratio of 1.49% after a notable decrease of 1.81 p.p. with respect to the previous quarter.

RATIO OF IMPAIRED LOANS - CORPORATE LOANS (%)



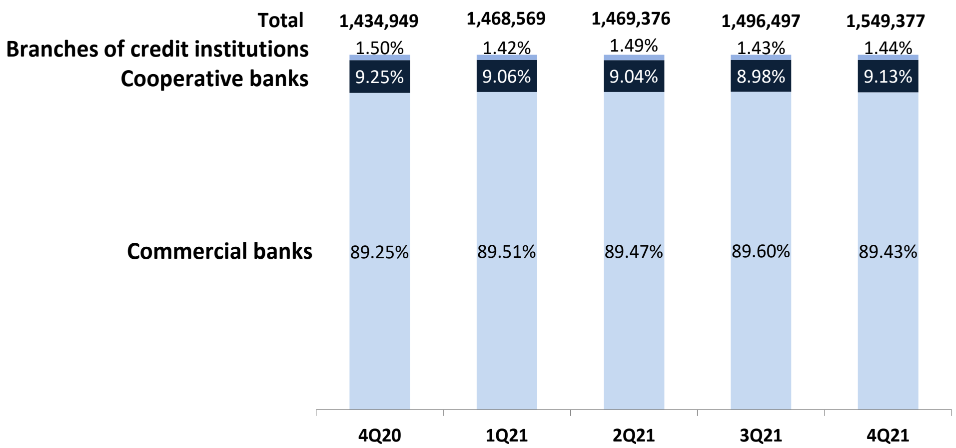
Source: Polish Financial Supervision Authority (KNF) and own analysis.

Deposits

In the fourth quarter of 2021, the volume of total deposits from the Polish non-financial sector increased by PLN 52,880 million with respect to 3Q21. In terms of market share, commercial banks decreased their share (0.17 p.p.), which stood at 89.43%, when compared to the previous quarter although they remained by far as the institution segment with the largest portion of total deposits from the non-financial sector.

- During the last quarter of 2021, the number of total deposits from the non-financial sector increased when compared to the same quarter of the previous year, registering a total volume of PLN 1,549,377 million.
- In terms of market share, commercial banks continued to register the largest share, representing 89.43% of total deposits. This reflected a decrease of 0.17 p.p. with respect to the share recorded during the previous quarter. On the other hand, cooperative banks increased their share by 0.15 p.p. (up to 9.13%). Finally, branches of credit institutions slightly increased their share by 0.01 p.p. with respect to the previous quarter, up to a share of 1.44%.

DEPOSITS MARKET SHARE FROM THE NON-FINANCIAL SECTOR (Million PLN)



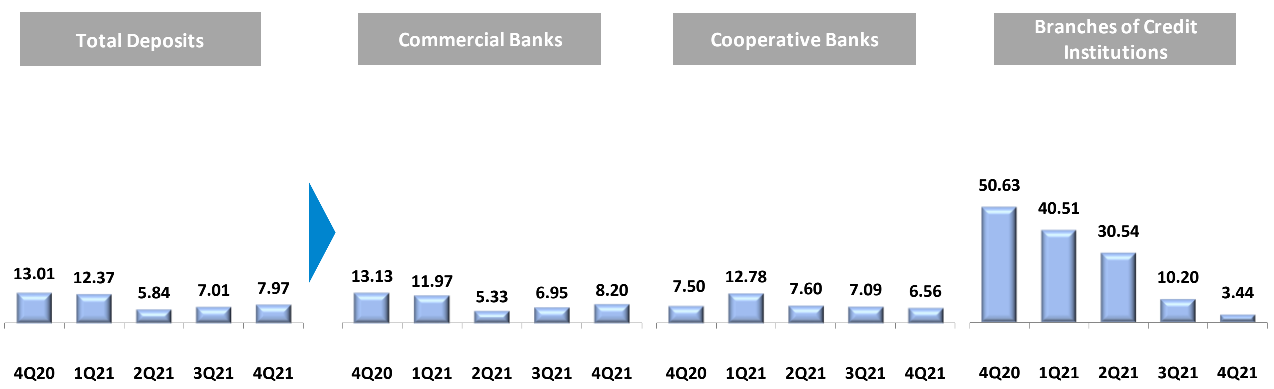
Source: Polish Financial Supervision Authority (KNF).

Deposits

Total deposits accelerated their y/y growth rate by 0.96 p.p., from 7.01% in 3Q21 to 7.97% in the last quarter of 2021. This performance was driven by the increase in the growth rate of commercial banks.

- In 4Q21, deposits from the non-financial sector increased their y/y growth rate, up to 7.97%, 0.96 p.p. higher than the rate reached in the previous quarter.
- This acceleration was driven by the increase in the y/y growth of commercial banks' deposits by 1.25 p.p. when compared to the previous quarter, and was limited due to decelerations in the growth rates of cooperative banks and branches of credit institutions, which fell 0.53 p.p. and 6.76 p.p., respectively.

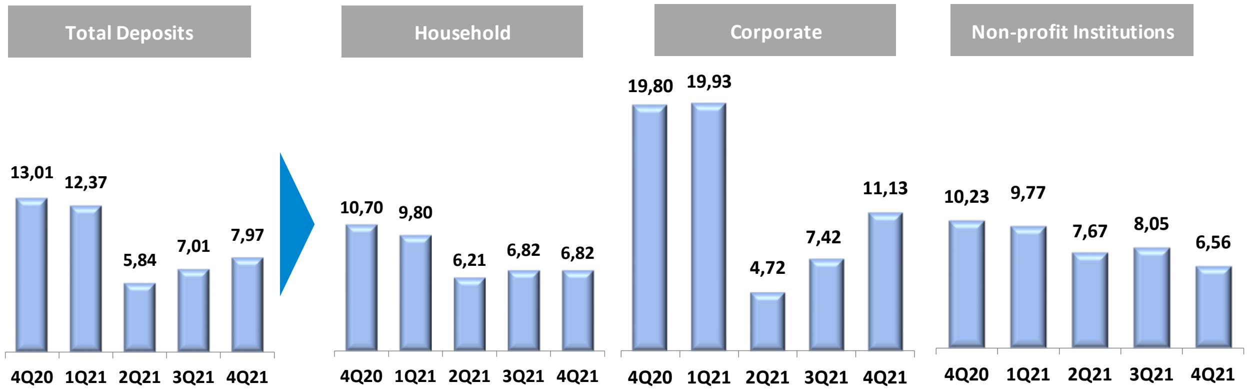
DEPOSITS TAKEN FROM NON-FINANCIAL CUSTOMERS (Year-on-year, %)



Source: Polish Financial Supervision Authority (KNF).

- Regarding the type of customer, the increase experienced in total deposits up to 7.97% in 4Q21 was driven by the behavior of Corporate institutions.
- Households' deposits did not experience any change in their y/y growth rate compared to 3Q21, registering the same rate of 6.82%. Corporate institutions experienced an increment in their growth rate of 3.71 p.p. up to 11.13%. Furthermore, non-profit institutions' growth rate decelerated by 1.09 p.p., registering a rate of 6.56%.

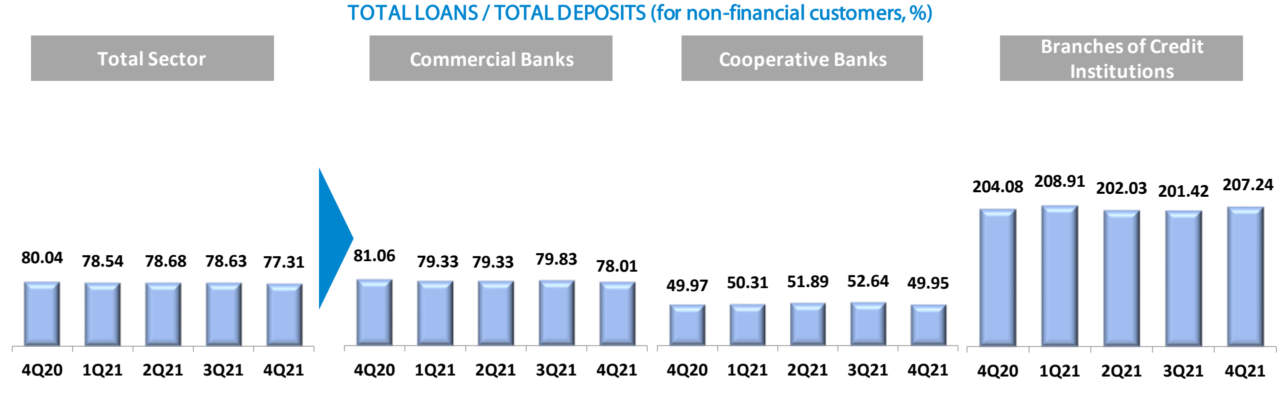
CUSTOMER DEPOSITS (Year-on-year, %)



Source: Polish Financial Supervision Authority (KNF).

LTD Ratio

During the fourth quarter of 2021, the LTD ratio of the total sector experienced a decrease of 1.32 p.p. with respect to 3Q21, standing at 77.31%. Moreover, the LTD registered a decrease of 2.73 p.p. when compared to the same quarter of the previous year. The whole system stood as a net borrower, influenced by commercial and cooperative banks.



Source: Polish Financial Supervision Authority (KNF) and own analysis.

- During the last quarter of 2021, the LTD ratio of non-financial customers registered a decrease of 2.73 p.p. down to 77.31% when compared to the same quarter of the previous year.
- Both Commercial and Cooperative banks decreased their loans-to-deposits ratios in this period when compared to 4Q20. Commercial banks recorded a decrease of 3.05 p.p. standing at 78.01% while cooperative banks registered a 0.02 p.p. decrease, standing at 49.95%. Finally, branches of credit institutions ratio increased by 3.16 p.p. down to a ratio of 207.24%.
- Thus, the whole system stood as a net borrower with a ratio of 77.31%, driven by commercial and cooperative banks which registered a larger volume of deposits than loans. On the other hand, branches of credit institutions were the only type of entity to register a ratio above 100%, standing as net lenders (larger volume of loans than deposits).

Efficiency

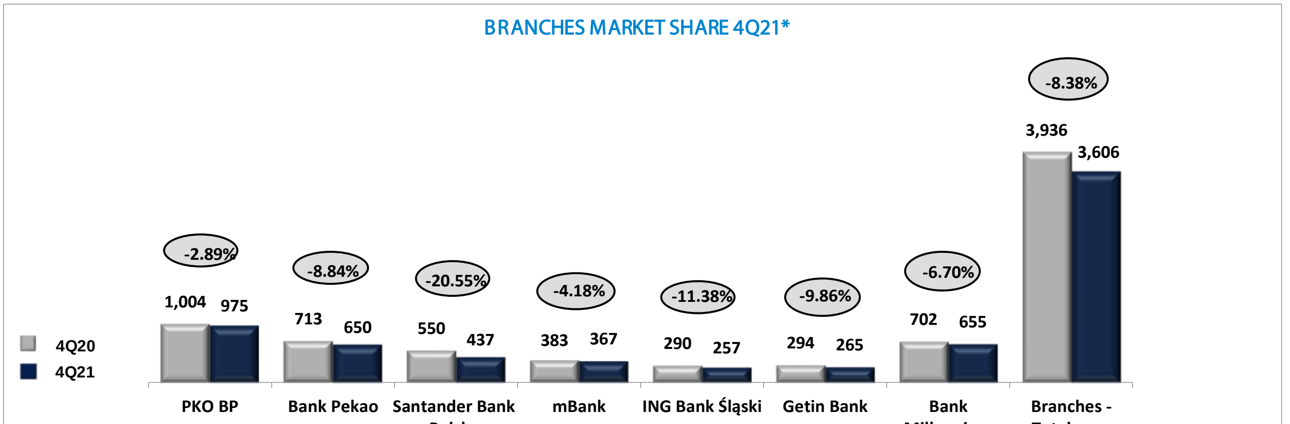
During the fourth quarter of 2021, the efficiency ratio in the Polish financial system increased by 0.87 p.p. when compared to 4Q20, standing at 58.83%. In y/y terms, gross margin stood at 0.60%, whilst operating expenses reached 2.11%.

- The efficiency ratio of the total financial sector increased by 0.87 p.p. during the last quarter of 2021 compared to the same quarter of the previous year, standing at 58.83%. The deterioration in efficiency was due to an annual growth in gross margin (0.60%) smaller than that of operating expenses (2.11%).
- By type of entity, this performance was driven by the increase experienced by Commercial Banks of 0.88 p.p. compared to 4Q20, although they remained the most efficient segment (56.10%).
- Moreover, when compared with the previous quarter, the total efficiency ratio increased similarly by 0.68 p.p.
- Total sector GM/ATA increased its ratio by 0.36 p.p. with respect to 4Q20, while OE/ATA decreased by 0.19 p.p. Gross margin over assets stood at 2.86% in 4Q21, whilst operating expenditure over average total assets stood at 1.68%.

Source: Polish Financial Supervision Authority (KNF) and own analysis.

During the fourth quarter of 2021, the number of total Peer Group branches decreased by 330 when compared to 4Q20, down to 3,606 branches. Every entity within the Peer Group decreased its number of branches. ING Bank Śląski registered the lowest number of branches within the Peer Group, having only 257 branches, whilst PKO BP had the largest number of branches, a total of 975.

- The number of branches in 4Q21 for the Peer Group fell by 330 when compared to the same quarter of the previous year, down to 3,606 branches. PKO BP accounted for 27.04% of the total Peer Group with a total of 975 branches, followed by Bank Millennium (18.16%) with 655. The entity with the lowest share of branches was ING Bank Śląski (7.13%).
- Santander Bank Polska Group presented the largest relative drop in the number of branches, from 550 in 4Q20 to 437 in 4Q21, which represented a 20.55% fall.



Source: Banks' consolidated quarterly reports.
* Values for Getin Bank from 3Q21. Year-over-year variation showed above the graph.

5. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- National Bank of Poland (NBP): http://www.nbp.pl
- Central Statistical Office (GUS): http://www.stat.gov.pl/gus
- Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/
- World Bank: http://www.worldbank.org/
- International Monetary Fund (IMF): http://www.imf.org
- Organisation for Economic Co-operation and Development, OECD: http://www.oecd.org/home/
- European Central Bank: http://www.ecb.int/ecb/html/index.es.html
- Central Bank of the Republic of Argentina: www.bcra.gov.ar
- Central Bank of Chile: www.bcentral.cl
- Bank of Mexico: www.banxico.org.mx
- Central Bank of Brazil: www.bcb.gov.br
- National Administrative Department of Statistics of Colombia (DANE): http://www.dane.gov.co/
- Bank of the Republic of Colombia: http://www.banrep.gov.co/
- Central Bank of Venezuela: www.bcv.org.ve
- Central Reserve Bank of Peru: www.bcrp.gob.pe
- BBVA Research: http://www.bbvaresearch.com/KETD/ketd/esp/index.jsp

GLOSSARY

Cost / income ratio: Operating expenses / operating income.

Gross margin: Net interest income + Net fee and commission income + Dividend income + Net trading income and revaluation + Gains (losses) from other financial securities + Other operating income (expenses).

Ratio of impaired loans: Impaired claims / Total loans.

Return on equity (ROE): Net profit after tax / total equity.

Return on assets (ROA): Net profit after tax / total assets.

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