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United Kingdom – 4Q21

Macroeconomic Outlook Report

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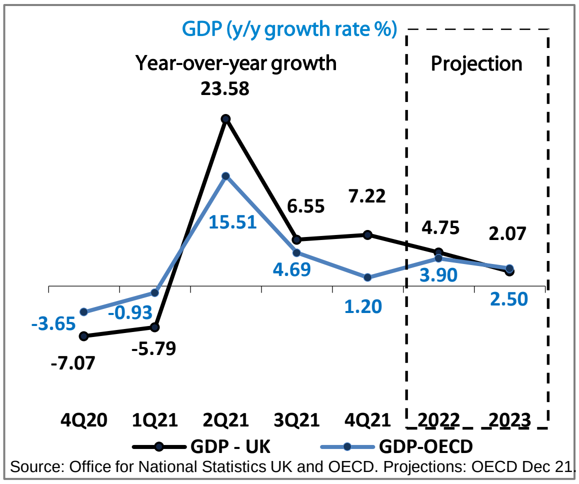
1. General Outlook

UK Macroeconomic Overview

During the fourth quarter of 2021, the UK recorded a year-on-year GDP growth rate of 7.22%, higher growth than in the previous quarter and larger than the OECD average for Q4. In turn, the average quarterly CPI grew even further above the 2% target of the Bank of England for the third consecutive quarter, standing at 4.90%. The labour market continued to recover from the economic effects of the COVID-19 pandemic, resulting in an acceleration in the employment growth rate and a decline in unemployment. The sterling pound recorded a depreciation against the dollar during the fourth quarter of 2021, standing at 1.35 $/£.

Macroeconomic Situation in UK

- In 4Q21, the y/y growth rate of GDP in the UK stood at 7.22%. It recorded a 0.67 p.p. rise in comparison with the previous quarter. Also, it further distanced itself from the average y/y growth rate of the OECD, which stood 6.02 p.p. below, at a 1.20% rate.
- This rise in the year-on-year rate of GDP was driven by a rise in activity in government and consumer-facing service sectors. However, this growth was limited by lasting disruptions to supply of inputs, shortages in the labor market and decreased consumption towards the end of the quarter following a rise in Covid-19 cases and the spread of Omicron.



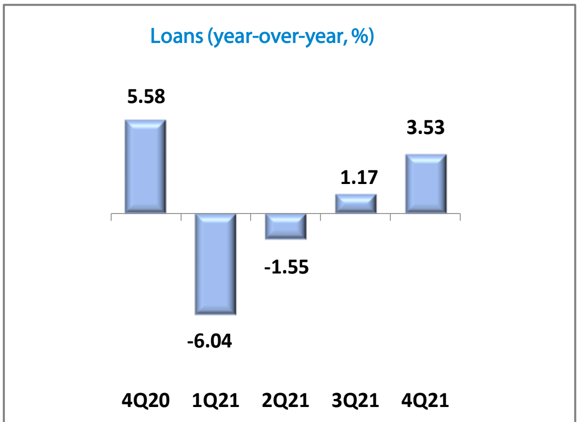
Source: Office for National Statistics UK and OECD. Projections: OECD Dec 21.

- In the fourth quarter of 2021, the Consumer Price Index grew 2.13 p.p. compared to the previous quarter, stood at 4.90%. This result reflects that inflation remained above Bank's of England 2% target, for the third consecutive quarter. High energy and tradable good prices seem to be the main driver for this increase, which will likely continue to push CPI to peak at over 7% in April, according to the BoE.
- The labour market displayed continued improvement, with an unemployment rate of 4.10%, down 0.20 p.p. with respect to the third quarter of the year, despite the termination of the Furlough scheme in September 2021. The employment year-on-year growth rate continued to increase by 0.52 p.p. when compared to 3Q21, registering a 1.05% growth rate. According to the BoE, the total level of employment is still around 460,000 lower than its pre-covid level, although the number of employees is estimated to be higher, reflecting a decrease in self-employment. Due to high activity levels in the NHS, public employment recorded higher levels than before the pandemic.
- The pound sterling registered a depreciation with respect to the US dollar in the fourth quarter, standing at an exchange rate of 1.35$/£, 0.03$ lower than in the previous quarter.
- The FTSE 100 index increased for the fifth consecutive quarter, up to 7,227 points, 2.09% above the last quarter. In 4Q21 the index registered a 1,126 points increase with respect to the same quarter last year.

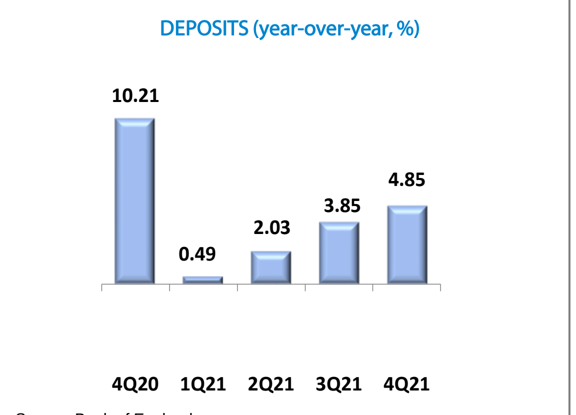
Banking Sector

In the fourth quarter of 2021, the y/y growth rate of total loans granted by the UK financial system improved with respect to last quarter, reaching a 3.53% rate. During this period, the y/y growth rate of total customer deposits also increased when compared to 3Q21, up to a 4.85% rate. The efficiency ratio improved, decreasing from 82.85% in 3Q20 to 75.94% in 3Q21*.

Banking Sector



Source: Bank of England.
Note: Considers both sterling and foreign currency loans/deposits.



Source: Bank of England.
Note: Considers both sterling and foreign currency loans/deposits.

- In the fourth quarter of 2021, the y/y growth rate of total loans granted by the UK financial system improved from the last quarter by 2.36 p.p. up to a 3.53% rate.
- The main driver of the increase in total loans was the quarterly acceleration in loans to non residents, which grew by 2.69 p.p., reaching 4.28%, relative to 3Q21. Loans to non residents represented 54.20% of total loans during the fourth quarter of 2021. Loans to the private sector (45.55% of the total) also increased their growth rate up to 2.59%, 1.60 p.p. higher than the third quarter.
- Also worth noting that loans granted to the public sector (0.25% of total loans) increased by 53.31 p.p. when compared to 3Q21, recording a 14.57% y/y growth rate.
- The y/y growth rate of total customer deposits increased by 1.00 p.p. when compared to the previous quarter, reaching a 4.85% rate. This result was driven by the increase in both non resident deposits (representing 51.55% of total deposits) which grew by 1.80 p.p., up to 3.24%, and private sector deposits (47.77% of the total), which grew 0.13 p.p. to 6.55%.
- Public sector deposits fell by 1.03 p.p.. However, the fall in public sector deposits was not significant as it only represented 0.68% of total customer deposits.
- The efficiency ratio decreased from 82.85% in 3Q20 to 75.94% in 3Q21*. This decline was mainly driven by the y/y increment in gross margin (5.20%) and the decrease in operating expenses (-3.58%).

*The most up-to-date figures available for the calculation of the efficiency ratio at the date of publication are for 3Q21.

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 tIn 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)

Argentina** 11.87%

Brazil 1.56%

Chile** 17.34%

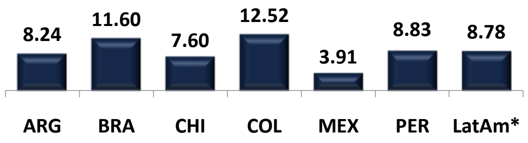
Colombia 10.70%

Mexico 1.62%

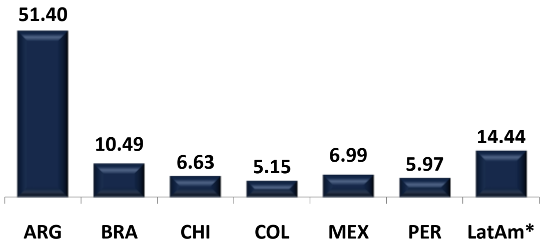
Peru 3.20%

LatAm* 7.72%

UNEMPLOYMENT RATE 4T21 (%)



INFLATION RATE 4Q21 (%)



LONG TERM RATES 4T21

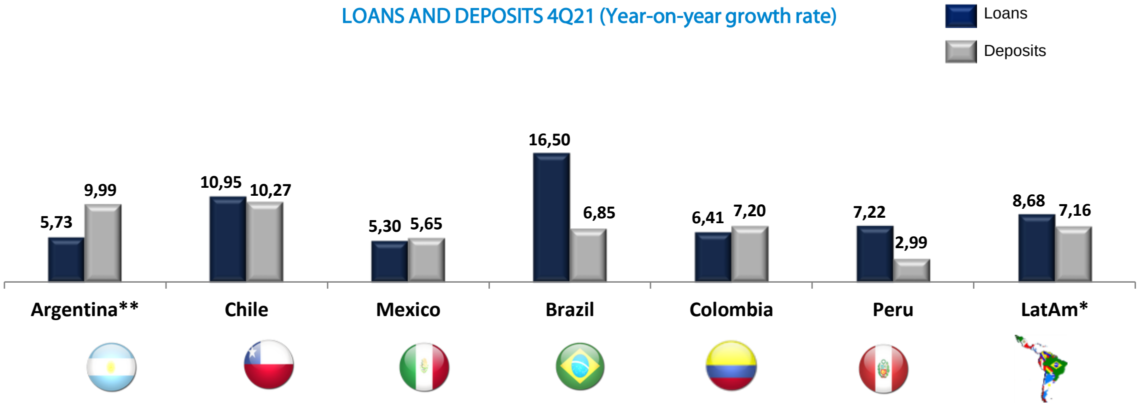
	MOODY'S		S&P		FITCH	
Argentina	Ca	–	CCC+	–	CCC	–
Brazil	Ba2	–	BB-	–	BB-	–
Chile	A1	–	A	–	A-	–
Colombia	Baa2	–	BB+	–	BB+	–
Mexico	Baa1	–	BBB-	▼	BBB-	–
Peru	Baa1	–	BBB+	–	BBB	–

▲ 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 a consolidation in the vaccination process. However, a slowdown in the dynamism of the economic recovery is expected as a result of a greater persistence of inflationary pressures, due to the rise in energy prices.

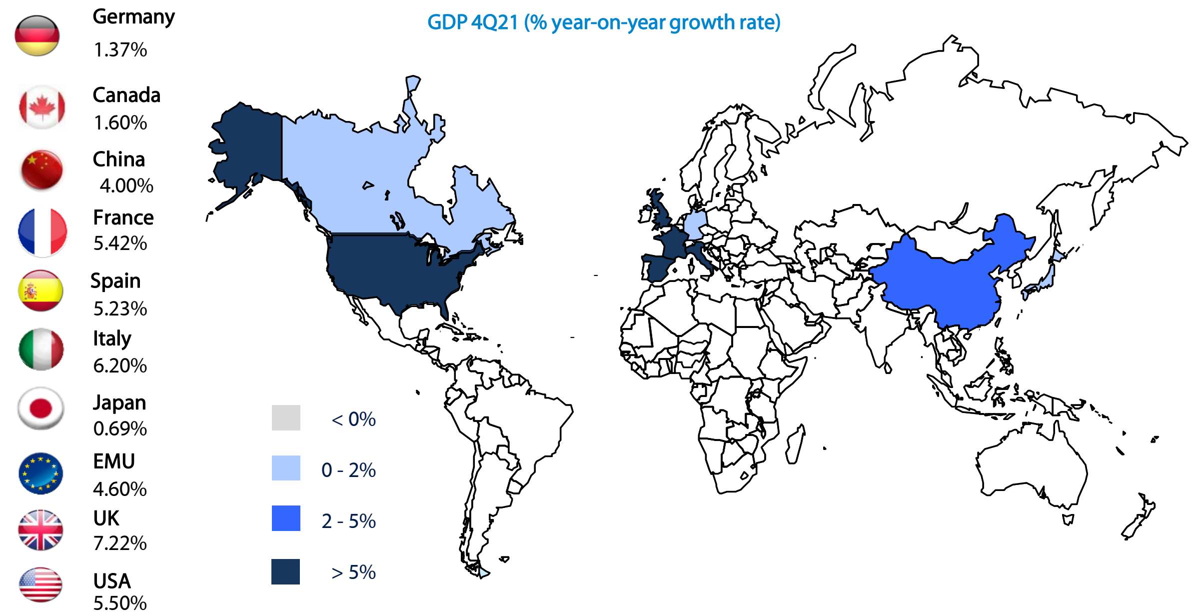
Macroeconomic Overview

- 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.

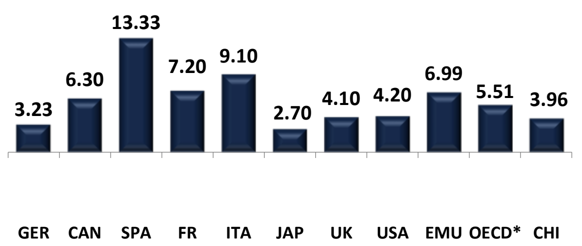
Financial Sector

- 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%).

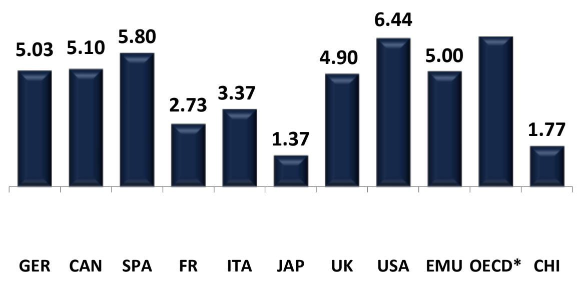
GDP 4Q21 (% year-on-year growth rate)



UNEMPLOYMENT RATE 4Q21 (%)



INFLATION RATE 4Q21 (%)

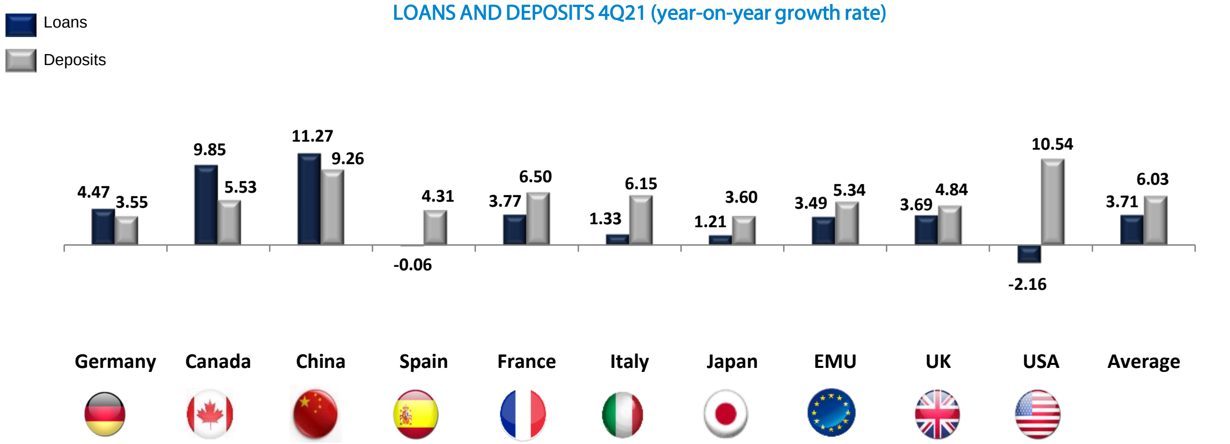


LONG TERM RATINGS 4Q21

	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. UK Macroeconomic overview

In the fourth quarter of 2021, the UK economy continued its recovery due to the growth in the service sector, although it stagnated in December due to the Omicron variant. Inflation continued to rise above 2% levels for the third consecutive quarter.

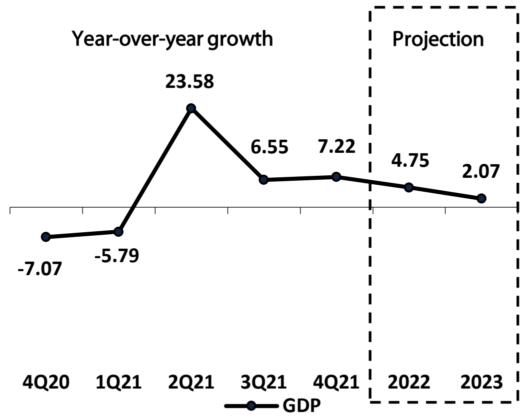
MAIN MACROECONOMIC INDICATORS (Interannual growth %)

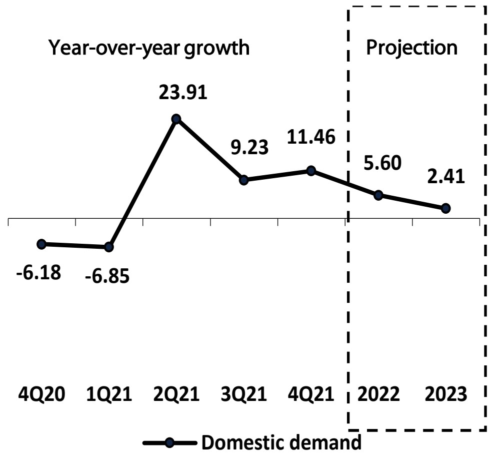
INDICATOR	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
GDP	**-7.07**	**-5.79**	**23.58**	**6.55**	**7.22**	**4.75**	**2.07**
DOMESTIC DEMAND	-6.18	-6.85	23.91	9.23	11.46	**5.60**	**2.41**
HOUSEHOLD CONSUMPTION	-9.19	-11.03	20.50	6.52	12.87	**6.61**	**2.81**
GOVERNMENT CONSUMPTION	0.27	3.71	32.94	20.47	14.04	**3.87**	**1.07**
GROSS FIXED CAPITAL FORMATION	-2.59	-3.71	25.58	6.39	3.97	**4.20**	**2.90**
EXTERNAL DEMAND							
EXPORTS	-17.33	-11.31	8.00	5.83	-0.71	**8.04**	**4.50**
IMPORTS	-4.04	-8.32	22.85	15.76	2.09	**5.13**	**3.67**
INFLATION							
CPI*	**0.53**	**0.60**	**2.03**	**2.77**	**4.90**	**4.39**	**2.43**
LABOUR MARKET							
UNEMPLOYMENT	**5.20**	**4.90**	**4.70**	**4.30**	**4.10**	**4.26**	**4.21**
EMPLOYMENT	**-2.38**	**-2.52**	**-1.01**	**0.53**	**1.05**	**0.76**	**0.61**

Source: Office for National Statistics UK. Projections: OECD December 21.
*BoE Inflation objective: 2%

- During the fourth quarter of the year the interannual GDP rate of the UK achieved positive figures for the third consecutive quarter reaching a 7.22% rate, 0.67 p.p. above last quarter's rate.
- During Q4, the service sector output increased and stood 0.5% above pre-covid levels (4Q19) for the first time driven mostly by the increase in output for the sectors of human health and social work activities (4.5%) due to vaccination and NHS activities, especially towards December with the wave of the Omicron variant.
- Administrative and support activities were boosted (5.9%) during this period due to more activity in employment and travel agencies. While the retail and accommodation sectors started strong, they decreased their output towards the end of the quarter due to Omicron. Taking this into account, domestic demand accelerated its growth by 2.23 p.p. compared to 3Q21, although it had the potential to have increased further.
- In terms of external demand, exports decreased compared to 3Q21, although growth was registered with respect to the same period last year driven by an increase in exports of goods including fuels, chemicals and machinery and transport equipment. Meanwhile, imports increased compared to 4Q20, but fell with respect to 3Q21 driven by a 3% drop in service imports.

GDP and domestic demand interannual growth (%)



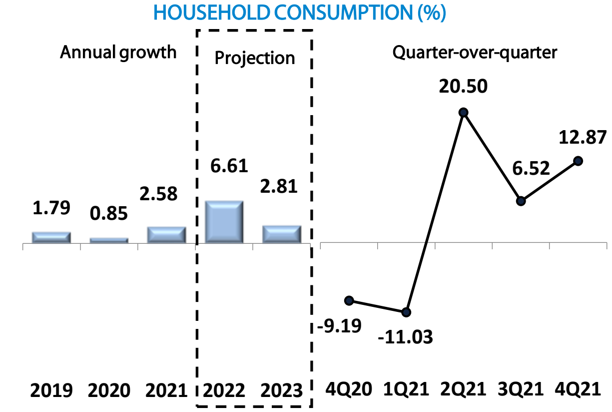


Sourcee: Office for National Statistics UK Projections from the OECD December 2021

During the fourth quarter of the year, household consumption recorded an acceleration in its y/y growth rate compared to the previous quarter, up to 12.87%. Moreover, inflation continued on the rise and registered a 4.90% rate, standing further above the 2% target of the Bank of England for the third consecutive quarter.

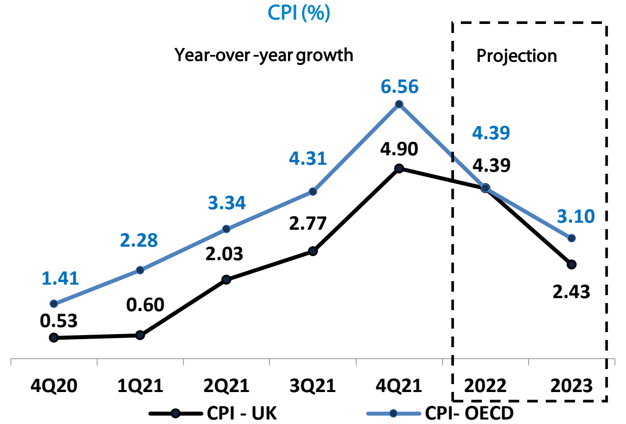
- Household consumption growth increased 6.35 p.p., remaining in positive figures for the third consecutive quarter. Household consumption also recorded an increase with respect to 3Q21 driven by enhanced spending on transport, net tourism, clothing and footwear. However, these were counterbalanced by negative growth in food and accommodation towards the end of the quarter with the rise of Omicron cases.
- The OECD points out that the recovery will be stronger in 2022, with a predicted y/y growth rate of 6.61%, which will stabilize again in 2023 to 2.81%.
- The CPI year over year growth increased 2.13 p.p. reaching 4.90%. This means a third consecutive quarter of levels above the 2% objective for UK's inflation. Nevertheless, the UK CPI stood 1.66 p.p. below the OECD average inflation rate in the fourth quarter of 2021 (6.56%).
- The BoE states that the high inflation reflects rising global energy and tradable goods prices. According to the ONS December price inflation report, CPI's growth was driven by price increases mainly in food and non-alcoholic beverages, restaurants and hotels, furniture and household goods, and clothing and footwear.
- According to the Bank of England projections, inflation is expected to rise even further, driven mainly by surges in energy prices, reaching over 7% by April 2022. The OECD also projects increasing inflation for the coming months, projecting 4.39% for 2022.
- In 4Q21, bond yields showed rates between 0.112% to 0.198% for maturities between 1 and 6 months and from 0.474% to 0.944% for maturities between 1 to 10 years. The bond yield for 15-year maturities averaged at 1.096% while averaging at 1.12% for 20-year maturities.
- Bond yields in 4Q21 stood above those of the same quarter last year for all maturities analyzed, and above those of 4Q19 for maturities between 1 and 10 years.
- The increase in long term yields reflects a rise in inflation compensation, according to the Bank of England.

HOUSEHOLD CONSUMPTION (%)



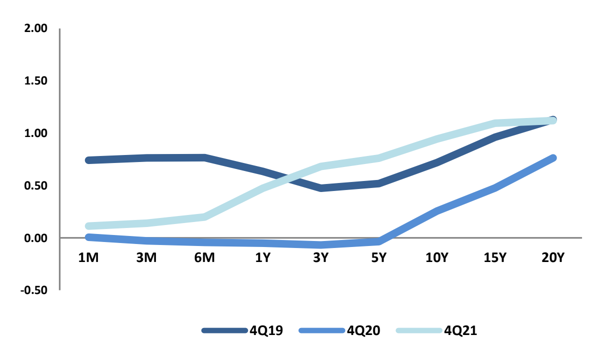
Source: Office for National Statistics UK. Projections: OECD December 21.

CPI (%)



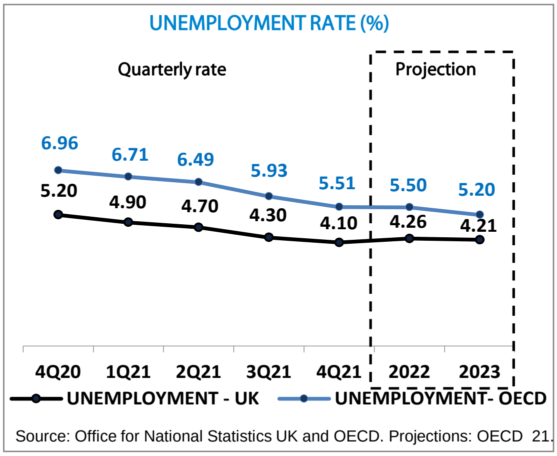
Source: Office for National Statistics UK and OECD. Projections: OECD December 21.

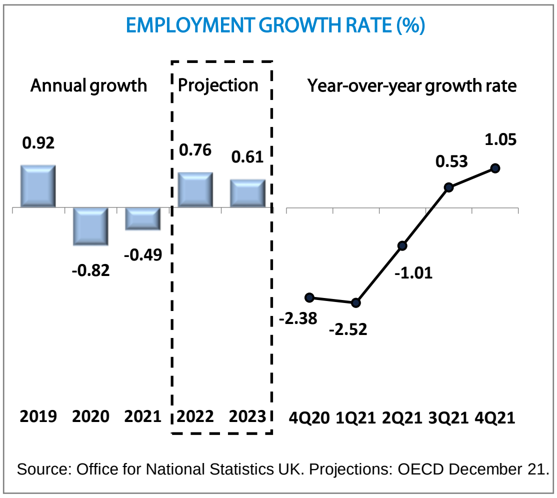
TREASURY YIELD CURVES RATES (%)



Source: World Government Bonds..

During 4Q21, the labour market continued reflecting signs of recovery from the effects of the pandemic. The unemployment rate decreased when compared to the third quarter of the year, down to a rate of 4.10%. Employment recorded a year-on-year growth rate of 1.05% during the fourth quarter of the year, reaching positive figures for the second time since 1Q20.

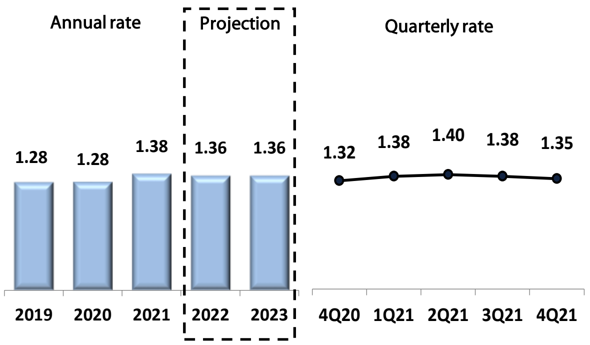




- During the fourth quarter of 2021, the unemployment rate decreased by 0.20 p.p. when compared to the previous quarter, down to a rate of 4.10% despite the termination of Furlough scheme in September 2021. It has continued to decrease from 5.20% in 4Q20, the highest rate since 2016 according to the ONS. Furthermore, unemployment was 1.41 p.p. below the OECD average in the last quarter of the year (5.51%).
- Forecasts from the OECD for 2022 and 2023 place the unemployment rate of the UK at 4.26% and 4.21%, respectively.
- The employment year-over-year growth rate recorded an increase of 0.52 p.p. when compared to 3Q21, registering a 1.05% growth rate. The OECD forecasts for 2022 and 2023 place the employment rate at values of 0.76% and 0.61%, respectively, thus a continuation of growth values is expected for upcoming quarters.
- According to the labour market overview published by the ONS for the fourth quarter, the number of self-employed workers has still to recover following decreases during the pandemic, meanwhile, the number of employees continued to rise to record-high levels.
- The ONS estimates that quarterly growth in average total pay has picked up to a little over 4%, however, this rate falls to -0.1% on the year when adjusting for inflation.
- According to the Bank of England, unemployment is predicted to continue to fall in 1Q22 but face subsequent rises due to the inability of the economy's supply to match the growing demand. Pressures from the increase in global energy and tradable good prices will continue to squeeze real income, which will bring a lagged effect on employment growth.

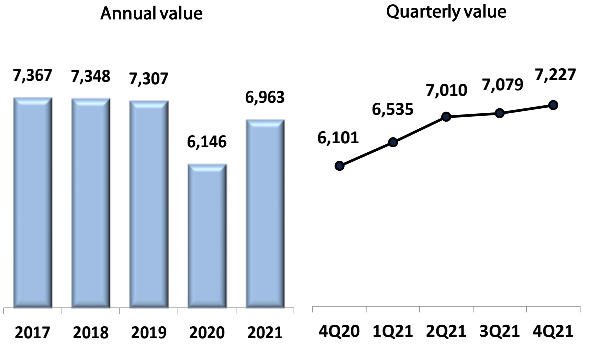
- During 4Q21, the sterling pound registered another depreciation against the dollar. The exchange rate stood at 1.35 $/£, after a decrease of 0.03 dollars per pound when compared to 3Q21.
- The first quarter of the year recorded a more pronounced rise of the pound against the dollar due to the early benefits of the UK's vaccination programme and the reduced uncertainty regarding Brexit. However, this effect started to fade in the third and fourth quarter. The OECD expects the pound to stabilize at an annual average exchange rate of 1.36 $/£ for both 2022 and 2023.
- During the fourth quarter of the year, the quarterly average of the FTSE 100 Index increased by 2.09% when compared with the previous quarter and stood at 7,227 points. The index registered a 1,126 point increase with respect to the same quarter last year.

EXCHANGE RATE (USD/GBP monthly average)



Source: Bank of England. Projections: OECD December 21.

FTSE 100

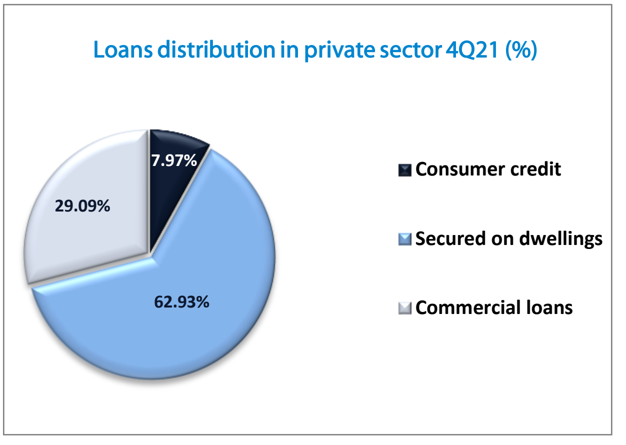


Source: Yahoo Finance.
Note: Annual values: averages of the 12 months' closing values. Quarterly values: averages of the 3 months' closing values.

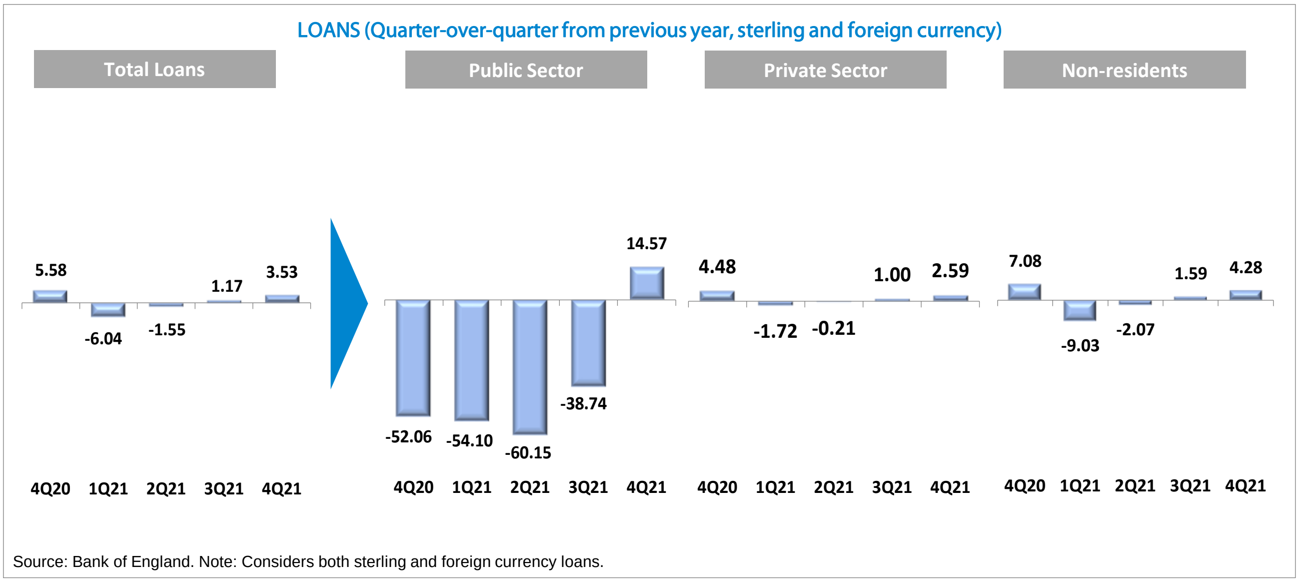
4. Banking Sector: Overview

Loans

In the fourth quarter of 2021, the y/y growth rate of total loans granted by the UK financial system accelerated with respect to the previous quarter, up to 3.53%. This behaviour was motivated by an increase in the y/y growth rate recorded by loans granted to non-residents and loans to the private and public sector. Regarding the distribution of loans in the private sector, 62.93% of total loans granted in the UK were loans secured on dwellings.



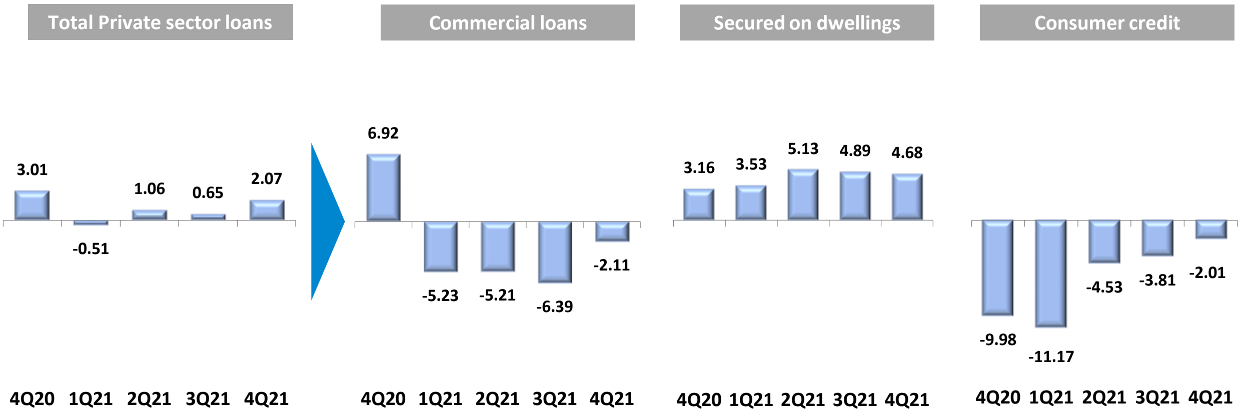
- During 4Q21, still following a positive trend, total loans granted by the UK financial system registered a 2.36 p.p. acceleration in their y/y growth rate when compared to the previous quarter (1.17%), up to a rate of 3.53%.
- The increase in the y/y growth rate of total loans was driven mainly by the acceleration in loans to non-residents compared to the third quarter. In the fourth quarter it registered a rate of 4.28%, 2.69 p.p. above that of the third quarter (1.59%). Loans to non residents represented 54.20% of total loans during the fourth quarter of 2021.
- Loans granted to the public sector were significantly boosted by 53.31 p.p. when compared to 3Q21, recording a 14.57% y/y growth rate. However, this change was not significant to the performance of total loans, since it only accounted for 0.25% of total loans in 4Q21.
- Loans to the private sector rose in their y/y growth rate to 2.59%, a 1.60 p.p. increase when compared to the previous quarter. This segment represented 45.55% of total loans.
- The distribution of loans in the private sector did not see any notable changes during 4Q21. The proportion of loans secured on dwellings to total loans decreased by 0.07 p.p. compared to the previous quarter, down to 62.93%. In turn, commercial loans accounted for 29.09%, after increasing by 0.20 p.p., while consumer credit loans stood at 7.97% of total loans, having decreased of 0.13 p.p. with respect to 3Q21.



Source: Bank of England. Note: Considers both sterling and foreign currency loans.

In the fourth quarter of 2021, the y/y growth rate of total private sector loans accelerated up to 2.07%. This increase was caused by the rise in growth rate registered for commercial loans and consumer credit when compared to the third quarter of 2021.

PRIVATE SECTOR LOANS (Quarter-over-quarter from previous year, sterling)

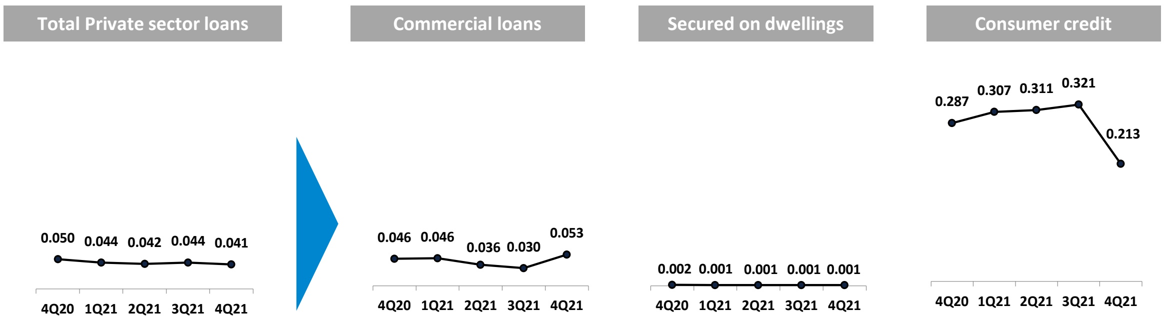


Source: Bank of England.
Note: Considers only sterling loans.

- Total loans granted to the private sector registered a 2.07% y/y growth rate in the fourth quarter of 2021, after a 1.42 p.p. acceleration in their growth when compared to the previous quarter.
- This result was driven by the increase of commercial loans and consumer credit when compared to the third quarter of 2021. The first increased by 4.28 p.p., up to a growth rate of -2.11%. The second accelerated by 1.80 p.p., reaching a growth rate of -2.01%. In turn, loans secured on dwellings decelerated slightly by 0.21 p.p. with respect to 3Q21, down to a y/y growth rate of 4.68%.

- Within the private sector, in the fourth quarter of 2021, write-offs over total lending slightly decreased to a rate of 0.041%. This value also decreased when compared to the one registered in the same quarter of 2020, with a fall of 0.009 p.p..
- Write-offs over total loans ratio of commercial loans experienced an increase of 0.023 p.p. when compared to the previous quarter. Loans secured on dwellings saw no variation. Write-offs over total loans ratio of consumer credit loans were the only ones to experience a deceleration, with a significant fall of 0.108 p.p. with respect to the previous quarter, therefore driving the fall in write-offs over total private sector loans.

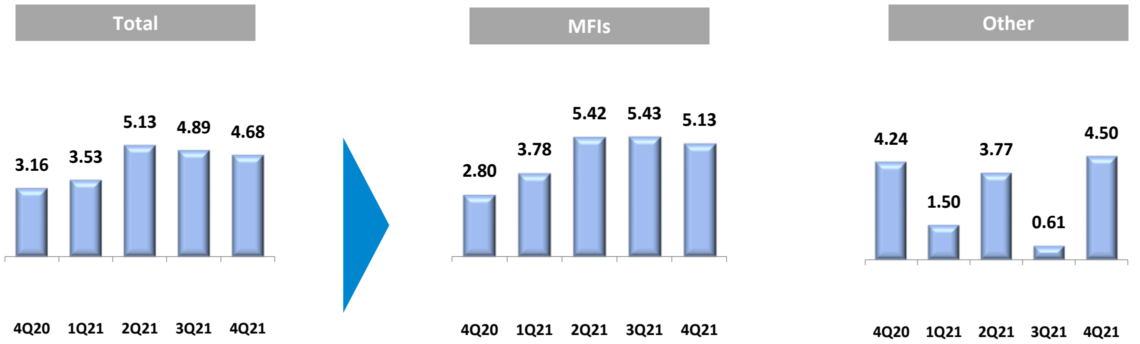
WRITE-OFFS / LOANS – TOTAL PRIVATE SECTOR (%)



Source: Bank of England.
Note: Considers only sterling loans.

The y/y growth rate of loans secured on dwellings decelerated down to 4.68% in the last quarter of 2021 due to the decrease in loans granted by Monetary Financial Institutions. The growth rate of consumer credit slightly increased when compared to 3Q21 because of a rise in consumer credit granted by MFIs and other agents.

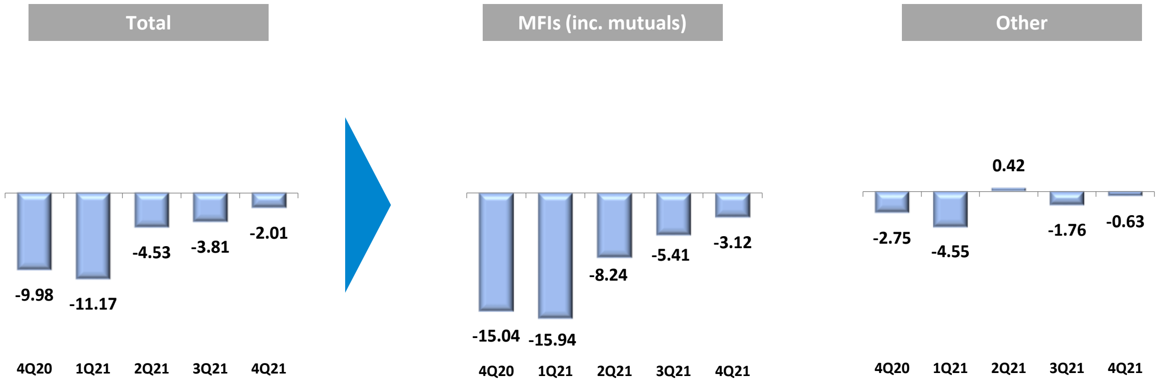
LOANS SECURED ON DWELLINGS (Quarter-on-quarter from previous year)



Source: Bank of England.
Note: Considers only sterling loans. MFIs include UK-resident banks and UK-resident building societies; Other includes non bank and non building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations including the Student Loans Company, insurance companies and pension funds.

- In 4Q21, loans secured on dwellings recorded a y/y growth rate of 4.68%, after a decrease of 0.21 p.p. with respect to the previous quarter. Secured loans on dwellings granted by MFIs recorded a y/y growth rate of 5.13%, 0.30 p.p. below that of 3Q21. However, loans granted by other agents registered a 3.89 p.p. acceleration in their y/y growth rate, which stood at 4.50%.
- Consumer credit increased its y/y growth rate by 1.80 p.p. when compared to 3Q21, however, at -2.01%, it remained standing in negative values for the seventh consecutive quarter. This rise is explained by growth in credit issued by MFIs and other agents.
- Credit issued by MFIs saw an increase of 2.29 p.p., rising to a y/y growth rate of -3.12%. In addition, consumer credit issued by other entities recorded a 1.13 p.p. acceleration in its y/y growth rate, up to a negative rate of -0.63%.

CONSUMER CREDIT (Quarter-on-quarter from previous year)



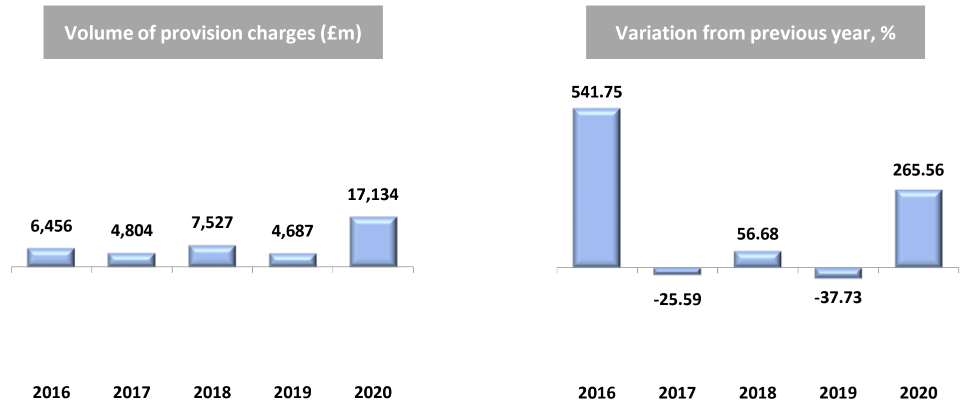
Source: Bank of England.
Note: Considers only sterling loans. MFIs include UK-resident banks and UK-resident building societies; Other includes non bank and non building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations including the Student Loans Company, insurance companies and pension funds.

Provision charges

During 2020*, the amount of provision charges increased compared to the amount registered in 2019. On a year-over-year basis, in 2020 the provision charges increased up to 265.56% from £4,687 million in 2019 to £17,134 million in 2020.

- Since 2010, provision charges had registered a downward trend. However, in 2016 and 2020, this trend was halted. In 2016 the value increased by 541.75% to £6,456 million. In 2020 the provision increased by 265.56% to £17,134 million.
- In 2017, provision charges dropped again by 25.59%, down to £4,804 million, but, in 2018, the growth registered an increase up to £7,527 million. In 2019, provision charges dropped again by 37.73%, down to £4,687 million.

NET NEW PROVISION CHARGES*



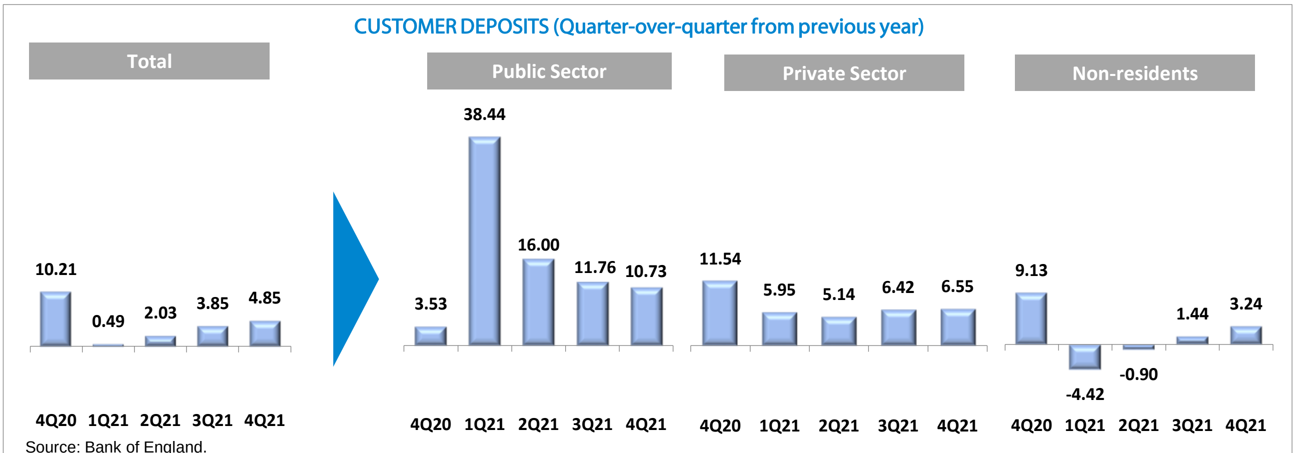
Source: Bank of England. Last data available.
Note: This data is published on an annual basis.

*This data is published on annual basis by the Bank of England. 2021 data not available yet.

Customer Deposits

During the fourth quarter of the year, total customer deposits y/y growth rate experienced a 1.00 p.p. acceleration when compared to 3Q21, up to 4.85%. This change has been mainly due to the increase in non-residents' deposits.

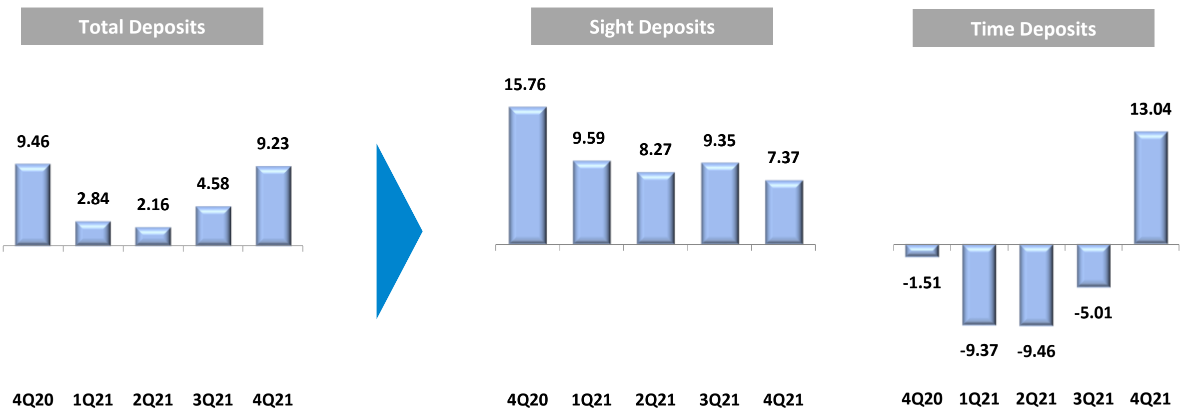
- The y/y growth rate of total customer deposits rose by 1.00 p.p., up to a 4.85% rate during the last quarter of 2021. This increase was driven by the growth acceleration registered by non resident and private sector, even though the growth rate on deposits for the public sector fell.
- Non resident deposits incremented their growth rate by 1.80 p.p. compared to the third quarter, up to a rate of 3.24%. The acceleration in this section is significant to explain the behaviour of customer deposits since it represents 51.55% of them.
- Public sector deposits experienced a reduction of 1.03 p.p. on their y/y growth rate compared to the previous quarter, dropping to 10.73%. Despite this fall, this section only explains 0.68% of the variation in total customer deposits.
- Private sector deposits y/y growth rate also accelerated compared to 3Q21 in 0.13 p.p., standing at a 6.55% rate.



Source: Bank of England.
Note: Considers both sterling and foreign currency deposits. Deposits include currency and money market instruments.

- The y/y growth rate in total sterling customer deposits recorded a 4.65 p.p. increase in 4Q21 when compared to the previous quarter, standing at a rate of 9.23%.
- The behaviour of total sterling deposits was mainly explained by the acceleration registered in the y/y growth rate of time deposits, which increased by 18.05 p.p., up to a rate of 13,04%. The y/y growth rate of sight deposits decreased by 1.98 p.p., down to 7.37%.
- Regarding the structure of customer deposits, in the fourth quarter of 2021, sight deposits represented 66.05% of total sterling customer deposits, whereas time deposits accounted for the remaining 33.95% of total sterling deposits.

CUSTOMER DEPOSITS (Quarter-over-quarter from previous year, Sterling)

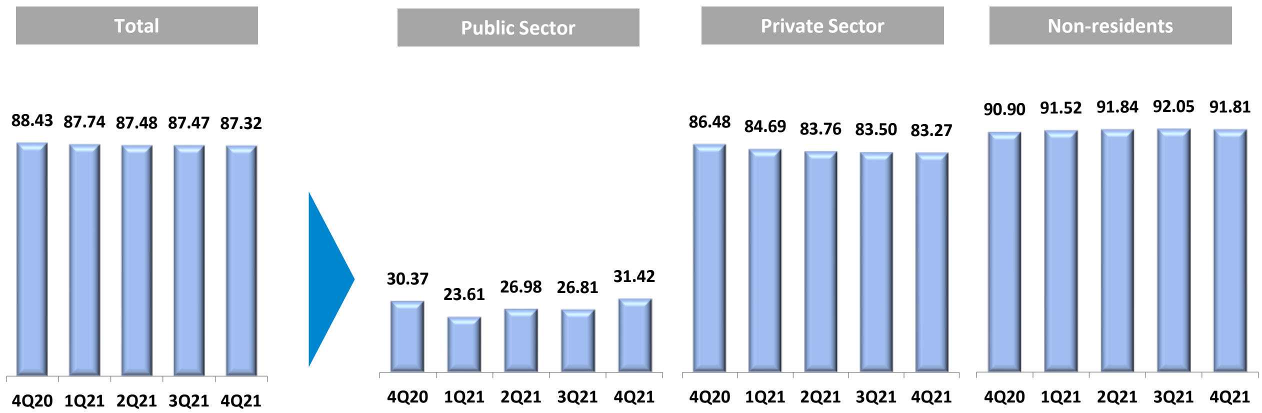


Source: Bank of England. Considers only sterling deposits.

LTD Ratio

During 4Q21, the overall loan-to-deposits (LTD) ratio for the whole financial system registered a 1.11 p.p. year-on-year decrease when compared to 4Q20, down to a 87.32% ratio. This decline was motivated by an annual increase registered in total deposits (4.85%) higher than the one registered on total loans (3.53%). In addition, the private was the only sector that registered a decrease in the LTD ratio during this period, compared to 4Q20.

- In the fourth quarter of the year, the overall LTD ratio decreased by 1.11 p.p. when compared to the same quarter of 2020, standing at a 87.32%. This behaviour was driven by an annual increase registered in total deposits (4.85%) higher than the one in total loans (3.53%), when compared to 4Q20.
- During this period, private and non-resident deposits recorded a decrease in their LTD ratio when compared to the previous quarter, meanwhile public sector deposits registered an increase.
- The ratio for the public sector grew by 1.05 p.p. with respect to the same quarter of the previous year, up to a rate of 31.42%, as loans increased significantly (14.57%) and deposits did so at a lower rate (10.73%).
- Regarding the LTD ratio recorded by the private sector, it decreased by 3.21 p.p. when compared to 4Q20, standing at a rate of 83.27%.
- Furthermore, the ratio for the non residents sector increased by 0.91 p.p., up to a rate of 91.81%.
- All sectors maintained their ratios below 100%, which contributed to the whole financial system preserving its net borrower status during this period.

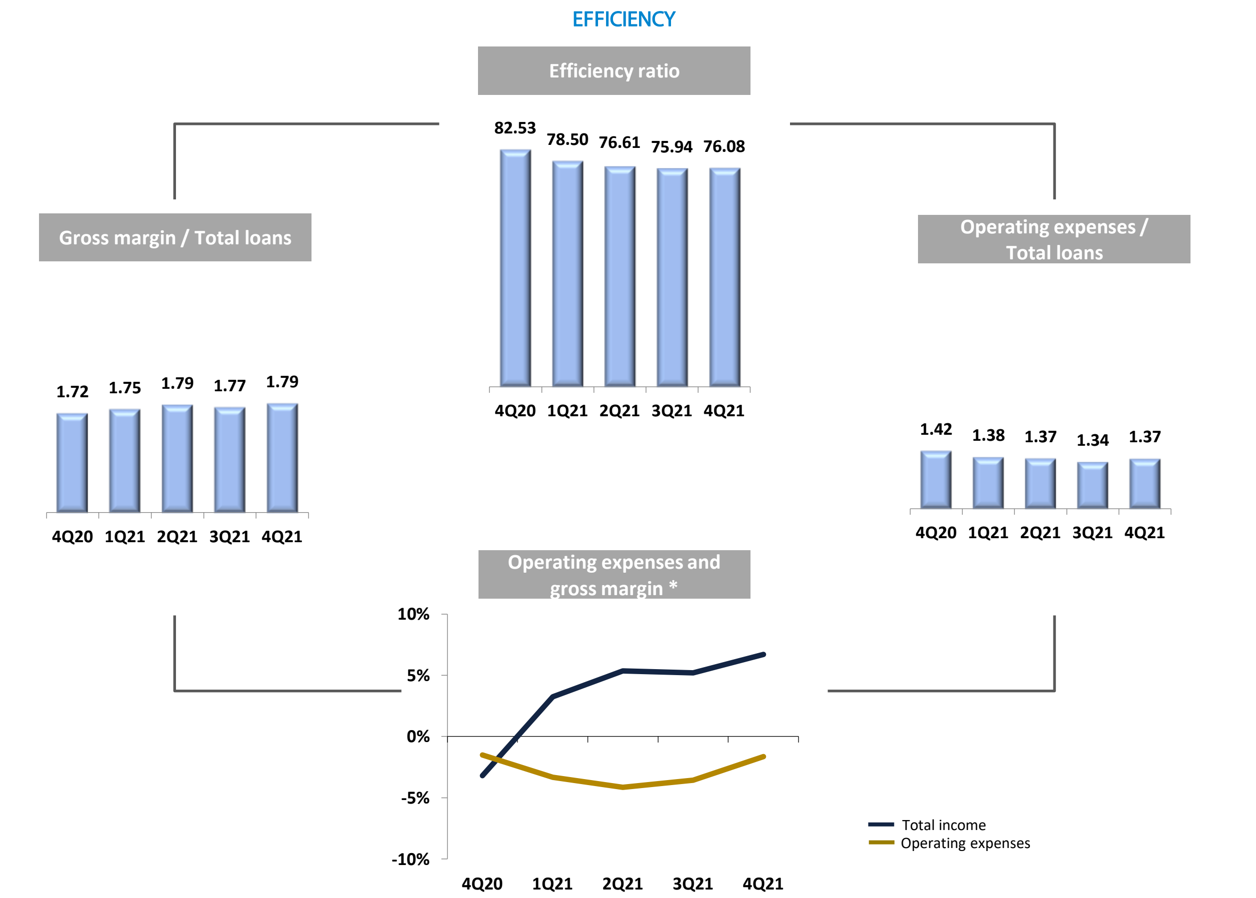


Source: Bank of England.
Note: Considers both sterling and foreign currency deposits. Deposits include currency and money market instruments.

Efficiency

The efficiency ratio decreased from 82.53% in 4Q20 to 76.08% in 4Q21. This behaviour was mainly driven by the y/y increase in gross margin (6.70%) and the decline in operating expenses (-1.64%).

- The efficiency ratio decreased by 6.45 p.p. when compared to 4Q20, reaching a ratio of 76.08% during the fourth quarter of 2021. This decline was mainly driven by the y/y increment in gross margin (6.70%) and the decrease in operating expenses (-1.64%).
- The ratio of gross margin to total loans stood at 1.79% in 4Q21, registering an increase of 0.07 p.p. with respect to the one registered in the same quarter of 2020. This growth was caused by the increase of gross margin (6.70%) which was larger than the acceleration experienced by total loans (3.53%) when compared to 4Q20.
- As for the ratio of operating expenses to total loans, it registered a decline of 0.05 p.p. with respect to 4Q20, down to a 1.37% ratio. This behaviour is explained by the decrease in operating expenses (-1.64%) and the growth in total loans (3.53%) when compared to 4Q20.
- According to the latest Risk Dashboard of the EBA, corresponding to the fourth quarter of 2021, the efficiency ratio of the financial system of the UK stood above the average ratio of the European Union 63.34%



Source: Bank of England.
*Operating expenses and gross margin displayed as % change over the same quarter of the previous year.

SOURCES

MACROECONOMIC OVERVIEW

- Office for National Statistics (ONS):
  http://www.ons.gov.uk
- IMF:
  http://www.imf.org/external/index.htm
- HM Treasury:
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GLOSSARY

- **Efficiency Ratio:** Operating expenses / Total income.
- **Return On Equity (ROE):** Net profit after tax / total equity.
- **Return On Assets (ROA):** Net profit after tax / total assets.

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