

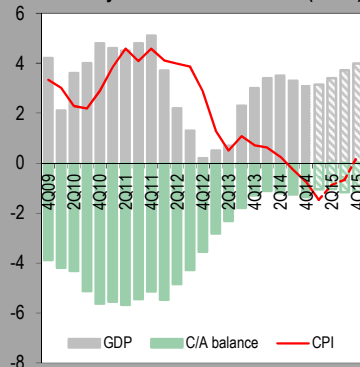
MACROscope

Polish Economy and Financial Markets

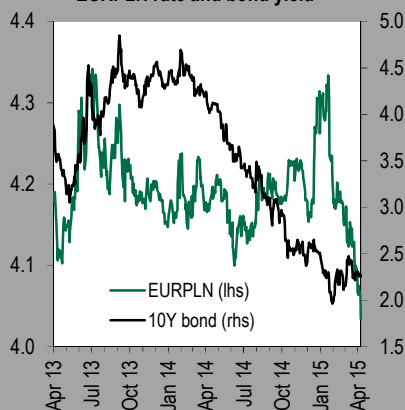
April 2015

Poland's 4x4 Economy: Treading Safely Over Difficult Terrain

Quarterly economic indicators (%YoY)



EURPLN rate and bond yield



In this issue:

Economic update	2
Housing market update	4
Monetary policy watch	4
Fiscal policy watch	6
Interest rate market	7
Foreign exchange market	8
Market monitor	9
Economic calendar	10
Economic data & forecasts	11

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 5868340
 email: ekonomia@bzwbk.pl Website: skarb.bzwbk.pl
 Maciej Reluga (chief economist) +48 22 534 18 88
 Piotr Bielski +48 22 534 18 87
 Agnieszka Decewicz +48 22 534 18 86
 Marcin Luziński +48 22 534 18 85
 Marcin Sulewski +48 22 534 18 84

■ Last month we wrote that March could represent a turning point for both expectations regarding Poland's economic situation as well as developments affecting financial markets. We suggested a series of GDP upgraded growth forecasts and a continuation of positive sentiment towards the zloty. While the scale of the strengthening even outperformed our expectations (approaching 4.0 against the euro), we decided to upgrade our GDP forecast for the upcoming quarters (4% YoY in 4Q15E).

■ Currently, we expect GDP growth at 3.6% on average in 2015E (up from 3.2%). It now looks like economic power is being now supplied to all four wheels: consumption, private investment, public investment and exports. The jobs market is booming, with the number of employed (according to the Labour Force Survey) already at an all-time high (over 16mn) and still growing over 2%YoY, at a pace consistent with ~10%YoY growth of fixed investments. Also, public investments are likely to show acceleration throughout the year (with a slight slowdown likely during 2016E). At the same time, export performance is still positive and it turns out that the slowdown observed in 2H14, due to unfavourable external shocks proved to be only temporary.

■ Recent weeks have clearly shown that the Polish fixed income market is currently more correlated with expectations regarding the US monetary policy outlook than with the ECB's QE or domestic data. We still cannot rule out that continuing money expansion in Europe could trigger some portfolio flows to Polish bonds later during the year, but the room for yield declines does not seem to be very big given the: (1) improving economic outlook (in Poland and abroad); (2) expected bottoming out of domestic inflation; (3) geopolitical risks (Russia, Greece); and (4) the Fed's approaching rate hike (probably in September). These factors could push domestic yields/IRS rates up in the medium term.

■ In our opinion, the zloty should remain quite strong, helped by: (1) an improving macro outlook; (2) the potential positive impact of ECB's QE; (3) and the Polish central bank's declaration about the end of easing cycle. **We believe the zloty should remain strong but we think EUR/PLN may persistently fall below 4.0 only at the year-end** (which does not rule out temporary moves). Currently, any potential for further appreciation may be limited by the still unsolved case of Greece, worries over intensification of the Russia-Ukraine conflict, as well as uncertainty about the timing of first interest rate hike in the US.

■ Overall, we believe Poland's economy can tread quite safely over the global economy's currently difficult and uncertain terrain. The main risk in this cycle is probably connected with an excessive appreciation of the zloty (which is not yet the case). If EUR/PLN slides significantly and persistently well below 4.0, maintaining the growth rate at 4% should be even more challenging.

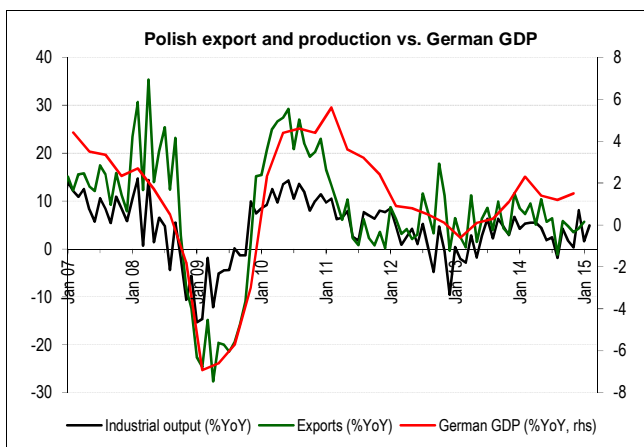
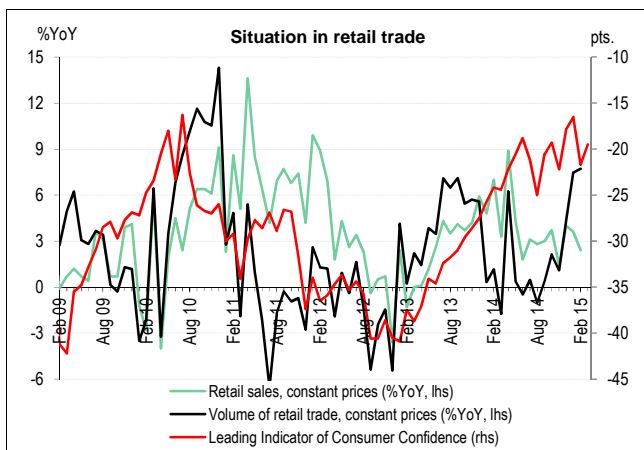
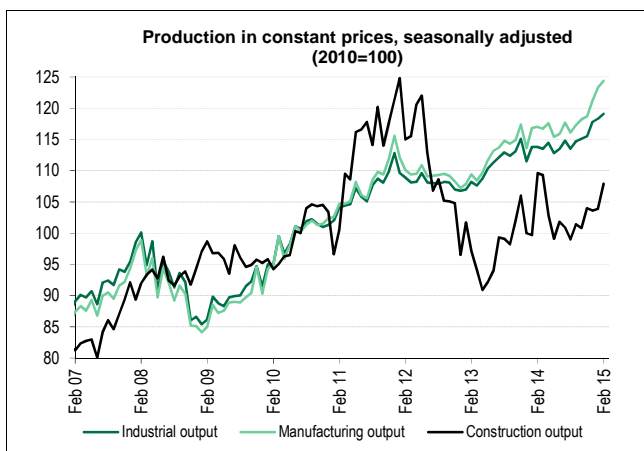
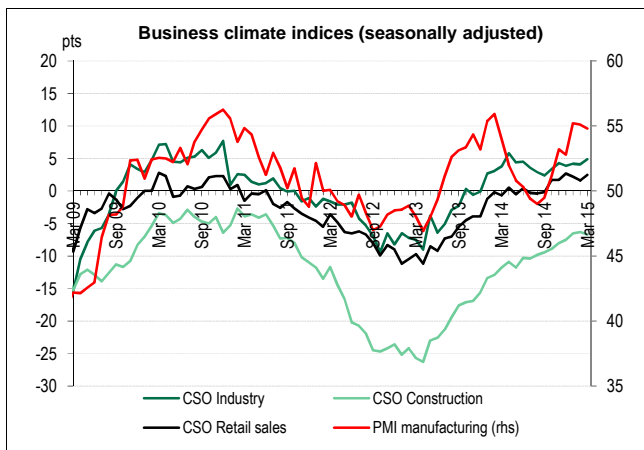
Financial market on 8 April 2015:

NBP deposit rate	0.50	WIBOR 3M	1.65	EURPLN	4.0340
NBP reference rate	1.50	Yield on 2-year T-bond	1.56	USDPLN	3.7135
NBP Lombard rate	2.50	Yield on 5-year T-bond	1.86	CHFPLN	3.8592

This report is based on information available until 8.04.2015.

US investors' enquiries should be directed to Santander Investment Securities Inc. (SIS) at (212) 692-2550. US recipients should note that this research was produced by a non-member affiliate of SIS and, in accordance with NASD Rule 2711, limited disclosures can be found on the back cover.

Economic update



Source: CSO, Eurostat, Markit, BZ WBK.

Recovery under way

▪ Last month we wrote about growing evidence that the trend in the economy was changing and that economic activity was about to start accelerating soon. After the latest round of monthly data releases we see even more arguments supporting this view, with positive information coming not only from Poland but also from other European economies. Accordingly, we have decided to revise our economic forecasts for Poland, raising expected GDP growth for 2015E to 3.6% from 3.2%.

▪ Most of leading indicators and business climate surveys confirmed that economic situation was improving in March. Even though the EC's Economic Sentiment Index (ESI) and Markit's manufacturing PMI for Poland decreased slightly in March, both indicators remained at relatively high levels, consistent with solid growth of economic activity. Interestingly, PMI survey signalled faster growth of export orders, mainly thanks to the zloty's depreciation vs USD, and the record-fast pace of job creation. The Polish statistical office's Business climate survey indicated an improvement of situation in most sectors except construction.

Solid production in manufacturing and construction

▪ Industrial output grew 4.9% YoY in February, while construction and assembly output contracted 0.3% YoY. It is worth noting that the total industrial output was negatively affected by a significant drop of production in mining (-11.3% YoY). In contrast, output in the manufacturing sector expanded by 6.6% YoY. If one looks at the seasonally adjusted production index, there was a clear revival in the last two months, probably driven by a recovery of demand from Western Europe. In construction, the annual output growth rate fell to -0.3%YoY, but it was due to a very high base effect. However, the seasonally adjusted index recorded a noticeable rebound after two months of stagnation. All in all, we find production data to be very positive, indicating that recovery is well on track.

Retail sales probably underestimating consumption strength

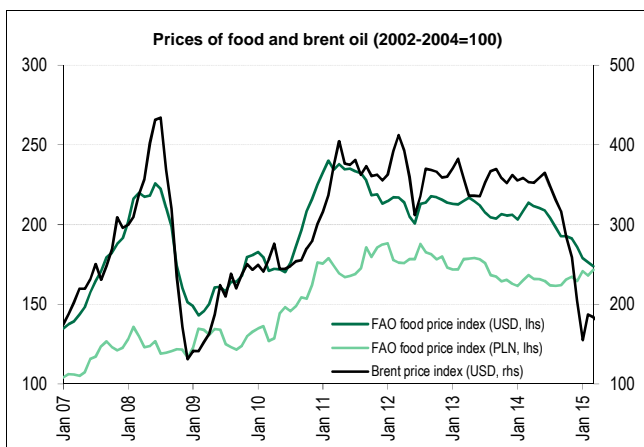
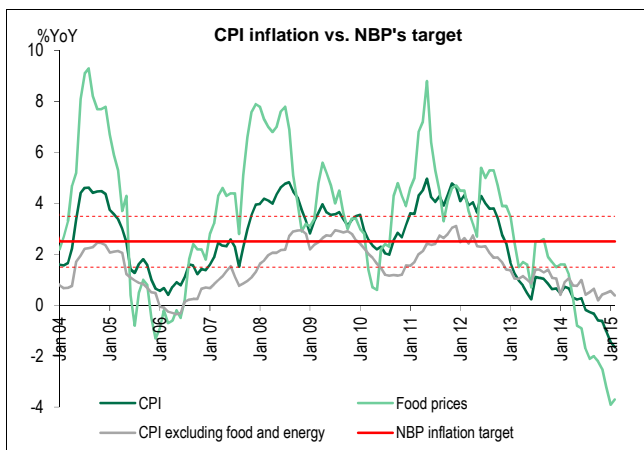
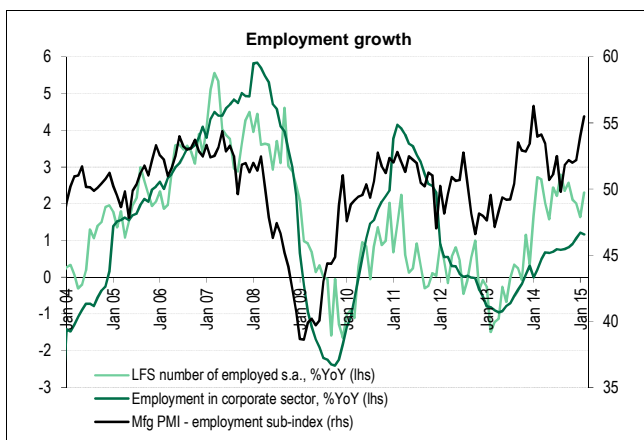
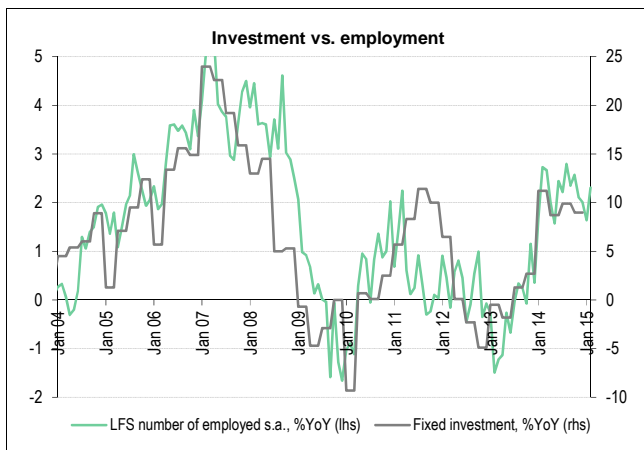
▪ Retail sales at constant prices rose 2.4% YoY in March, which was a bit of disappointment. Weaker growth was recorded in the majority of categories, with the strongest slowdown in the case of clothing and other sales in non-specialized stores. In nominal terms, retail sales decreased 1.3% YoY amid a further drop in retail prices (-3.6% YoY). At first glance, the data certainly did not look impressive, but we have doubts whether they properly reflect the real trends in private consumption demand.

▪ Please note that retail sales data comprise of only bigger shops, employing more than nine people, which leaves smaller business out of the sample. Meanwhile, Eurostat's data on retail trade volumes (which include sales in small shops, but omit car sales) recorded a 7.7%YoY rise in February (the biggest since December 2010) after 7.5%YoY in January. It seems that food sales in small shops may explain a large part the discrepancy between the data. Booming online sales (almost 50%YoY) could be another explanation, as many online shops are probably too small to be reflected in retail sales figures. Please note that since the beginning of 2014, the pace of retail sales has not been a good prognosticator of private consumption growth. In a situation where: unemployment is falling, household incomes are rising, consumer confidence is improving, interest rates and energy prices are declining, a slowdown in consumption would seem highly surprising.

External demand also improving

▪ Export growth surprised in Jan, reaching 5.7%YoY. We believe this good result was possible thanks to economic revival in the euro zone. Detailed foreign trade data from CSO and Eurostat show that over the past few months Polish exports to major Euro zone countries have been rising. An improving economic growth outlook in Europe allows us to expect further accelerations in export growth in the forthcoming months and quarters.

Economic update



Source: CSO, NBP, FAO, Eurostat, Markit, BZ WBK.

Unemployment approaching record lows

It seems that the positive trends observed in the Polish labour market for months are not losing steam, but instead are even strengthening. While average employment in the corporate sector increased by 'only' 1.2%YoY in February (the same as in January), slightly below expectations, the data from the Labour Force Survey (LFS) suggested that the total number of employed is still growing above 2%YoY. This pace is consistent with c10%YoY growth in fixed investments. Moreover, most of business climate surveys report that companies are still very optimistic about the employment outlook. According to the PMI survey, job creation rate accelerated in March for the fourth month in a row to equal the survey record posted in January 2014.

As a result, seasonally adjusted unemployment is decreasing quickly. The LFS-based jobless rate fell in February to 7.8%, its lowest since April 2009. According to our estimates, if the pace of employment growth persists at the current level in the next quarters (which seems quite likely, assuming robust investment demand), the LFS unemployment rate should drop by one percentage point more by the end of this year, to the all-time low level of 6.8%.

Strong job creation and unemployment approaching record lows should contribute to further acceleration of wage growth. In February, the average pay rise in the corporate sector slowed down to 3.2%YoY, mainly due to postponed bonus payments in the mining sector (some mining companies decided to split the usual bonus payments into two instalments, the second one now due in September). However, wage growth in other sectors remains decent, with services leading the way (trade and repairs 5.4%YoY, 'others' 6.8%YoY). This should have a positive effect on consumer demand and economic growth.

Inflation has bottomed out

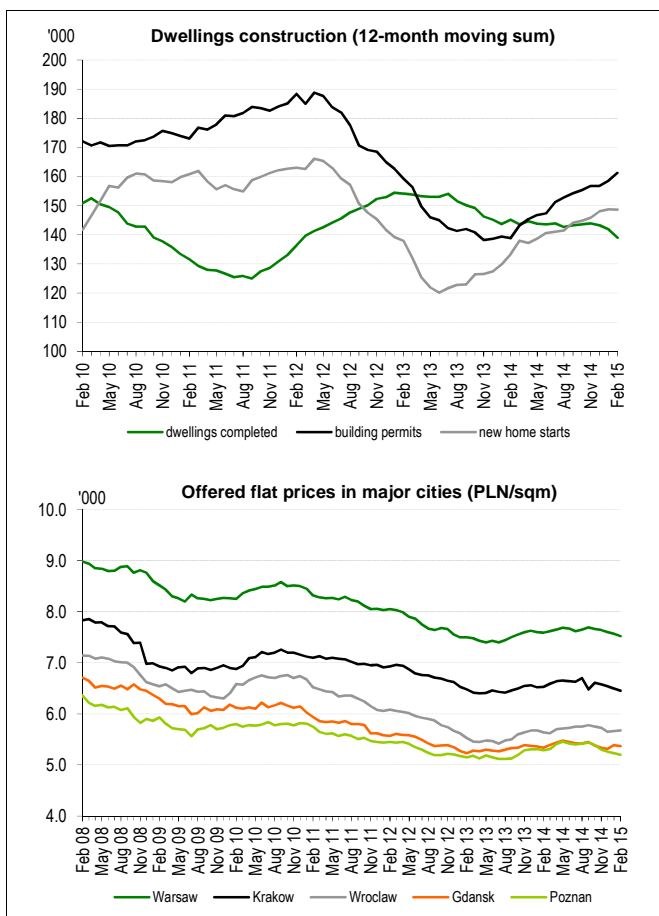
CPI inflation fell to -1.6%YoY in February, which was the lowest level in post-1989 history, and – according to our forecasts – also the bottom of the deflationary cycle. The following months are likely to see a reversal of trend, as fuel prices are no longer falling (since the bottom set at the start of February, prices of unleaded fuel at the pumps have already risen by 9%, according to our estimates), strong domestic demand is putting some pressure on services prices, and additionally the effect of extremely low base in food prices should push annual CPI growth up.

The food market situation is interesting, as the USD-based index of global food prices released by the UN's FAO is still falling, and considering its correlation with the benchmark Brent oil price it probably still has some room to decline. However, please note that the FAO's food price index in PLN terms has been rising since last summer, due to the sharp PLN/USD increase. Therefore, we think that the downward trend in food prices in Poland, observed in the last few quarters, is likely to decelerate, and food prices should no longer push the Polish CPI lower.

Core inflation excluding prices of food and energy declined in Feb to 0.4%YoY after rising to 0.6% in Jan. We think that both CPI and core inflation growth should accelerate gradually in the coming months. CPI growth should probably remain negative until 4Q15E and may reach c0.7%YoY at the year-end.

As every year, the statistical office released new weightings for the CPI basket. Spending for restaurants and hotels, clothing and footwear as well as household appliances increased relatively to other products, while weightings of housing, food and transport decreased. However, the net impact of the CPI's basket reweighting on our estimated inflation is negligible.

Housing market update



Recovery of the housing market in major cities

- 2014 saw a revival of the housing market in major cities, with the rest of the country lagging behind. The total supply of new flats in 2014 was not strong, 143.2k vs 145.1k in 2013 (-1.3%YoY), according to the statistics office. However, a rebound is visible in both total building permits and new housing starts and this is likely to translate into a higher supply of available homes in forthcoming quarters. In comparison and according to REAS data, the biggest cities showed that supply rose by 50%YoY and home sales soared 20%YoY in 2014.
- Higher supply put negative pressure on home prices in the biggest cities with prices for new flats sliding by 2.2%YoY in 4Q14 and by 4.9%YoY in Warsaw alone, according to BIS. Prices in smaller cities were relatively stable.
- Demand in major cities was also quite strong, as the government's new housing programme for young adults (MdM) increased the pool of potential buyers, with some even postponing their transactions until 1Q14 in order to take advantage of this programme. Low interest rates were also supportive, yet the growth of new housing loans remained relatively stable.
- As for the housing market outlook, we are expecting an improvement of supply nationwide, given high building permits and new housing starts. Demand is also likely to revive on the back of the positive labour market situation, decent real wage growth, low interest rates and the MdM programme. Potentially, tighter regulatory requirements (decrease of LtV ceiling from 95% to 90% at the start of 2015) could put the brakes on the housing loan market. On the other hand, it could be neutralised by growing demand for houses by customers with free cash (amid low interest rates). Thus, we expect house prices to fall or stabilize in the quarters to come.

Monetary policy watch

Excerpt from the MPC's communiqué after its March meeting

Taking into account prolonging deflation and a significant increase in risk of inflation remaining below the target in the medium term, as indicated by the March projection, the Council decided to decrease NBP interest rates. The decision to lower the interest rates at the current meeting **concludes the monetary easing cycle.**

Excerpts from the minutes of the MPC's March meeting

[The majority of the Council members] pointed out that since the previous meeting, volatility in the financial markets, including the currency markets, had diminished. They underlined that the results of the March projections of inflation and GDP confirmed the assessment that the level of interest rates was too high to support a return of inflation to the target in the following years. They pointed out that in the light of the March projection, assuming that interest rates remained unchanged, inflation would not return to the target, while the output gap would remain negative over the projection horizon. They also pointed to the growth in interest rate spread in relation to Poland's immediate environment, which could be conducive to an increase in foreign capital inflows and an appreciation of the zloty. This could amplify deflation and delay the return of inflation to the target.

While discussing the scale of interest rate reduction and their desired level in the current cycle, the majority of Council members judged that interest rates should be adjusted on a single occasion so that the scale of the reduction would be significant and enough to contain the uncertainty about future monetary policy. These members were also of the opinion that **a significant one-off reduction in interest rates should come along with an announcement that this decision concluded the monetary policy easing cycle. The majority of Council members judged that such an announcement would not prevent an adjustment in interest rates in an event of unexpected strong shocks in the Polish economy or its environment.**

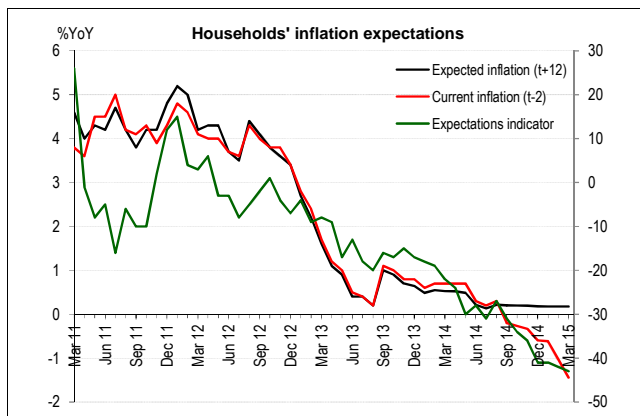
Sources: CSO, NBP, REAS, BIS, BZ WBK.

Concluding the easing cycle is (of course!) conditional

▪ After the MPC's March meeting, during which the Council decided to cut rates by 50bp and to conclude the easing cycle, a number of comments suggested that the statement of the MPC was too strong, as one never knows if economic conditions could force a re-start of the interest rate cutting cycle. In our opinion, the comment released just after the statement had to be straightforward, leaving limited room for interpretations. Nevertheless, it was quite obvious to us that the statement on concluding the easing cycle was conditional, contingent on how economic circumstances develop. Therefore, the Council did not tie their hands by any means.

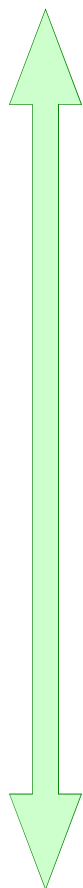
▪ The minutes of the March's MPC meeting confirmed this view. As we know, most of MPC members (we believe more than five and the Governor's casting vote was not needed) supported a significant one-off rate cut along with an announcement that this concluded the cycle. At the same time, however, the minutes left the door open for further interest rate adjustments, as the majority of Council judged that such an announcement would not prevent an adjustment in interest rates in an event of unexpected strong shocks in the Polish economy or its surroundings. As the MPC said since such shocks are unexpected, it was hard to expect a list of potential factors leading to reopening of easing cycle. Additionally, the Council is probably divided on this issue and different members would probably name different factors, which might be important enough for them. On the next page we try to name a few of potential risk factors, based on comments of MPC members (including the Governor) in their recent interviews.

Restrictiveness of the Monetary Policy (Council)



The measure of inflation expectations (has to be?) above zero

- The National Bank of Poland's measure of consumers' inflation expectations has been constant (at +0.2%YoY) since August 2014.
- This is despite the fact that two factors affecting the measure fell significantly i.e., 12M CPI and the so-called "expectations indicator" (which quantifies the responses of households regarding if prices will go up or down) – see chart.
- The only explanation is the note published on NBP's website six months ago, saying that "in the periods of 12M CPI not being positive, the measure of inflation expectations is characterised by higher uncertainty and should be treated as approximate". However in our opinion this does not seem to dispel concerns and suggests the central bank does not want to show deflation expectations.



Rzońca (1.12)

Winięcki (1.11)

Kaźmierczak (1.10)

Głapiński (1.08)

Hausner (1.06)

Belka (0.88)

Zielińska-Głębocka (0.84)

Chojna-Duch (0.83)

Osiatyński (0.35)

Bratkowski (0.26)



The index runs from 0 to 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Value of the index for a given MPC member is a weighted average of points for all votes. Recent votes have higher weights, more distant – lower.

Numbers directly by the name are values of the index for period since the beginning of current term of office of the current MPC and NBP governor.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest 12 months.

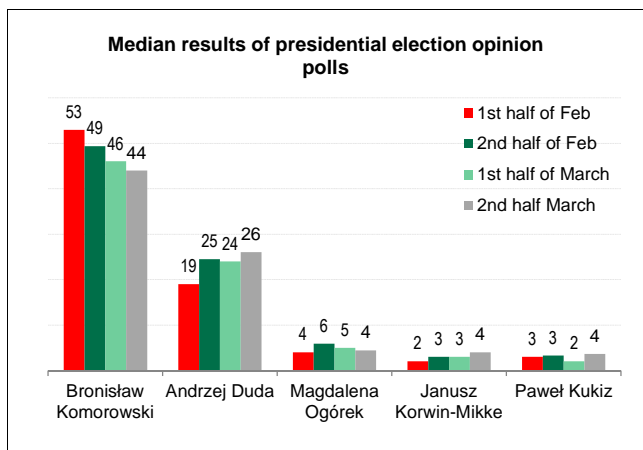
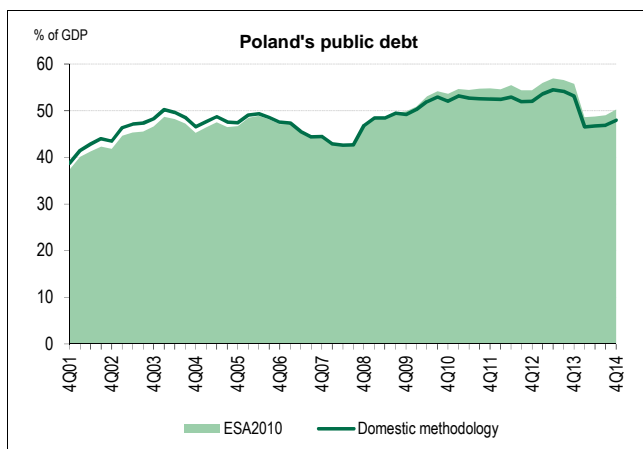
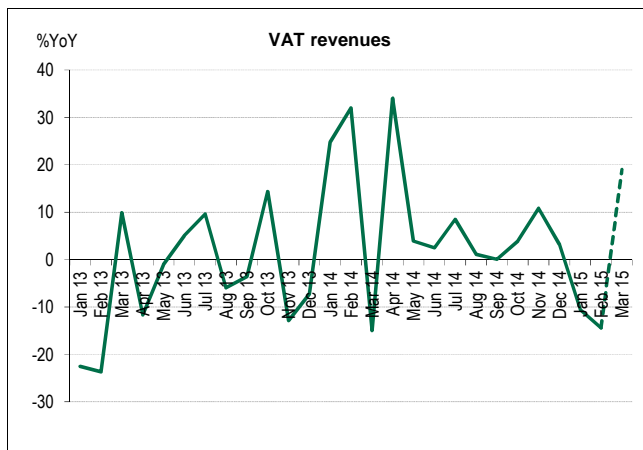
What factors could lead to reopening of the easing cycle?

As noted on the previous page, the MPC's March stance (about the end of easing cycle) was contingent on the future performance of the economic situation. The minutes of the March meeting were quite clear about this. There are a few factors that (if significant enough) could trigger a new wave of considerations within the MPC as regards a change in monetary policy parameters. First, excessive and deflationary appreciation of the Polish zloty. Second, a slowdown of economic growth, affecting the inflation trend (not very likely, in our opinion, as we have just increased our growth forecasts). And third, the import of low inflation / deflation from abroad, not as a result of exchange rate changes, but rather due to supply side shocks or a continuation of the deflationary environment in the Euro zone (QE not effective, while growth recovery in Europe is again questionable).

Is the recent zloty appreciation worrying for the MPC?

We put the zloty exchange rate first not because the MPC has a specific reaction function to changes in the FX market (nor a targeted level of FX rate), but rather because the influence of changes to the zloty FX rate on inflation is relatively fast. At the same time, even if the zloty is to some extent a cyclical currency, FX volatility has recently been to large extent driven by international factors. This is especially the case in an environment where other central banks are trying to inflate their economies through the exchange rate channel (eg, Euro zone, Scandinavia, Czech Republic). Therefore, the question appears to be: to what extent a central bank in a small open economy can conduct an independent monetary policy? One can complain that the policy of other central banks is too aggressive, and as long as it affects local economic parameters, it can affect your policy as well. This was reflected in the comment of the most dovish member of the MPC, Mr Jerzy Osiatyński, who said that Poland may still resume rate cuts if the zloty gets sucked into the global "currency wars". Theoretically, we can even imagine a scenario of official rates going to zero and introducing a floor on the exchange rate (a Czech scenario). Although, in our opinion this is probably beyond the imagination of some members of the Council (those for whom cutting rate below 2% was probably like reaching zero lower bound). In any case, the median of views within the Council were probably well represented by the NBP Governor Mr Marek Belka. In an interview with Bloomberg (March 23) he said that "the zloty is holding up nicely" and "while we can't be sure this will continue, we're not panicking". At the same time, he outlined the worst-case scenario (which is unlikely in his view), in which "a steep upward trend" would be dangerous for the economy, could trigger "prolonged deflation, a negative wage-price spiral, throttling demand and economic growth" scenario. In another interview, Governor Belka tried to downplay this risk. Overall, we believe that the zloty would have to appreciate significantly (more than it has so far) to push the central bank to act. Therefore, we do not expect more rate cuts in our base case scenario and we believe that a significant decline in FRA rates is excessive.

Fiscal policy watch



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	8.04	change since 11.03.15	change since 31.12.14	8.04	change since 11.03.15	change since 31.12.14
Poland	208	-15	11	60	0	-11
Czech	27	-5	7	48	0	-7
Hungary	314	-24	-1	132	0	-46
Greece	1143	89	237	219	11	40
Spain	103	6	-5	73	1	-13
Ireland	56	5	-15	45	0	-7
Portugal	147	3	-68	119	12	-82
Italy	104	-37	-31	94	4	-45
France	28	7	0	35	0	-11
Germany				15	0	-3

Source: Finance Ministry, Reuters, CSO, BZ WBK.

Deficit in line with the plan, but VAT disappointed in Jan-Feb

- The February budget deficit amounted to PLN11.3bn, in line with the schedule, with both total revenues and spending slightly lower than planned. VAT revenues amounted to PLN22.2bn and fell by 12%YoY, raising worries about the fulfilling of the full year target at PLN135bn (a rise by more than 15% vs 2014).

- There is some downward risk for VAT revenues, given overly optimistic budget assumptions about inflation in 2015 (CPI at +1.2% vs our current -0.7%E). Still, this would imply a mere 2% gap in VAT revenues (ceteris paribus), clearly lower than Feb's 12% shortfall. In our view, there is no need to worry too much as VAT revenues in January and February were subject to a number of statistical effects. Firstly, VAT regulation was changed in early 2014 and this boosted revenues at the start of that year, providing a high statistical base. And lastly, there was another change in VAT regulation in early 2015, allowing importers to pay VAT later than before. This may have postponed a major part of payments. Unofficial information on VAT revenues in March (+19%YoY) seem to confirm this view.

Fiscal deficit in 2014 only slightly above 3% of GDP

- Data on the general government's deficit in 2014 are due for release on April 17. In mid-March, finance minister Mr Mateusz Szczurek suggested that the deficit may be closer to 3.6% than to 3.3% of GDP. Two weeks later he stated just the opposite: that 3.3% is more likely than 3.6%, and recently media rumoured that it was equal to 3.2%.

- We expect the general government deficit to go down to 2.9% of GDP in 2015, which should allow Poland to exit EDP in 2016E.

Public debt lower thanks to pension system overhaul

- Public debt (domestic definition) amounted to PLN827bn or 47.9% of GDP at the end of 2014 vs 53.1% of GDP at the end of 2013. General government debt (Eurostat definition) was at PLN866.5bn, ie, 50.2% of GDP vs 55.7% of GDP in 2013. This reduction was primarily due to the transfer of bonds held by private pension funds (OFE) to the state pension fund, which deducted c8pp from public debt. We expect the GG debt to increase slightly above 51% of GDP in 2015 but then to move down on the back of a more restrictive fiscal policy.

Presidential race: one leader, one follower... and the rest

- Eleven candidates registered to take part in the presidential election. However, only two of them have an actual chance – the incumbent President Mr Bronisław Komorowski, from the ruling PO party, and Mr Andrzej Duda, candidate of the biggest opposition party PiS. The Presidential election is important from a monetary policy context, as President chooses the President of the NBP and three out of nine MPC members (two presidential members end their terms at the beginning of 2016). Mr Jerzy Osiatyński, one of the most dovish members was nominated by Mr Komorowski, so Komorowski's win could mean a more relaxed monetary policy.

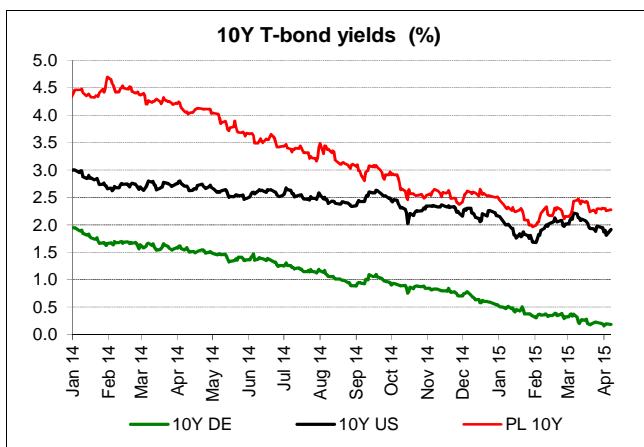
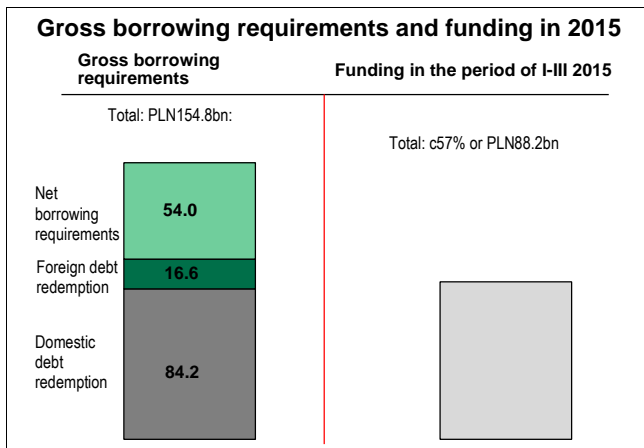
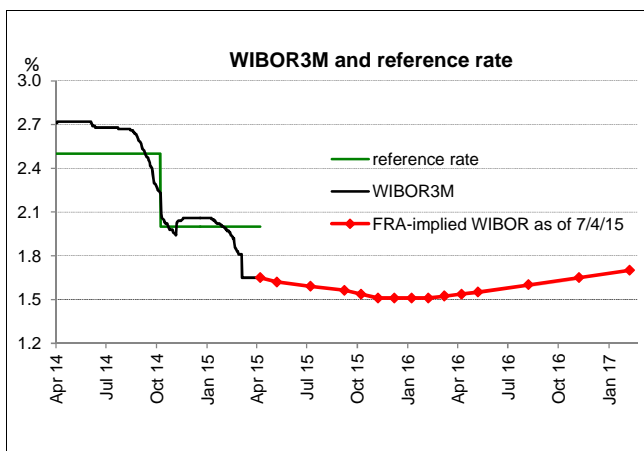
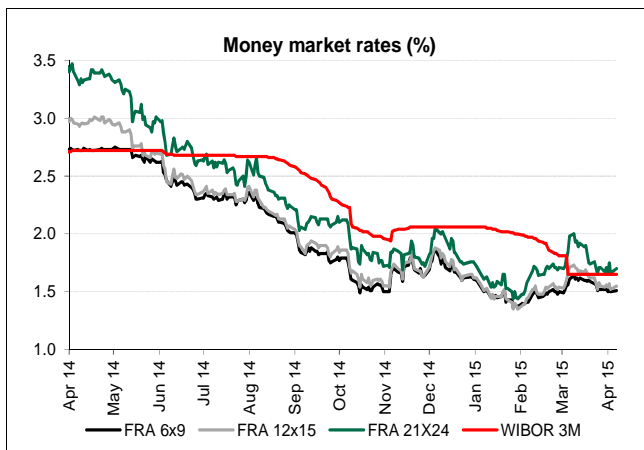
- Komorowski is leading, but recently he lost some support to the benefit of Duda and there is still a month to go, as the first round is scheduled for May 10 and the second (if needed) for May 24.

Greece and strong data diminish the impact of the QE

- ECB QE was supposed to fuel a rally on the European fixed income market. German debt appeared to be the clear winner, with yields falling to new all-time lows. Meanwhile, the bonds of other Euro zone countries, which had strengthened significantly in the previous weeks in anticipation of QE starting, suffered a correction, or at least saw the downward trend in yields halted.

- The first few weeks of QE showed that even a considerable inflow of cash into the system will not keep yields falling when risk factors are present. The Greek case does not look likely to be resolved any time soon and this may continue to limit the gains that European debt can achieve from QE. Also, more positive economic data might encourage investors to seek higher-risk assets.

Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

Investors see rising odds for more monetary easing

- The MPC's March decision to cut rates by 50bp and to conclude monetary easing had a significant impact on the money market. WIBOR rates fell sharply by 11-22bp, with the biggest move on the front end of the curve. The shape of WIBOR curve is now normal, with the 1M rate at 1.63% and the 12M at 1.68%.

- The initial reaction of FRA market to the MPC's decision had been significant – rates increased with FRA21x24 reaching temporarily 2%, the highest level since mid-December 2014. However, improved moods on both IRS and FX markets caused the longer FRAs (eg, 15x18, 18x21, 21x24) to decline by over 20bp. Consequently, while in mid-March the market had been pricing in the first rate hike in roughly 18 months, now it sees rising odds of additional monetary easing as soon as this year.

- We expect WIBORs to stay close to their current levels in the coming months. However, FRAs should be more vulnerable to the currency movements, especially since NBP governor Marek Belka had signalled that sharp zloty appreciation may be a problem for the economy. We believe that the scale of the zloty's appreciation would have to be much more noticeable than it has been recently to push the central bank into action. We therefore do not expect more rate cuts in our base case scenario and we think that a significant decline in the FRA rates is unjustified. Moreover, strong signals from Poland's economy may imply correction on FRAs in upcoming weeks.

Mixed mood on the bond and IRS market

- In March investors' moods were mixed. The first part of the month brought sharp increase in yields and IRS rates as the MPC concluded monetary easing. But, the relatively dovish outcome of March's FOMC meeting (downward adjustment in market expectations for the scale and pace of rate hikes in the U.S.) and favourable auction results helped the market to rebound later on. In spite of this both belly and long end of the curves shifted up in monthly basis (by 10bp on average), implying a very visible widening in the 2-10Y spread. Moreover, risk premium rose, with the spread over the 10Y Bund growing well above 200 bp (in March it hit a YTD top at nearly 225bp, the highest since August 2014).

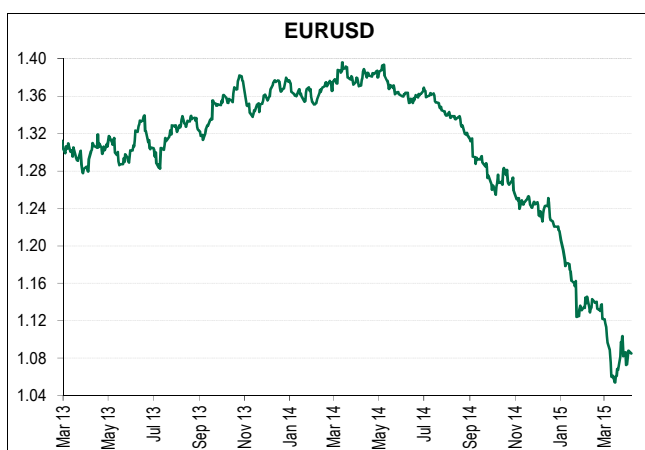
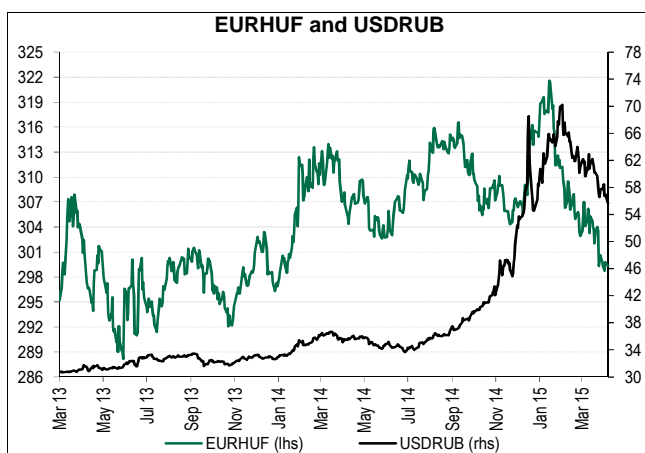
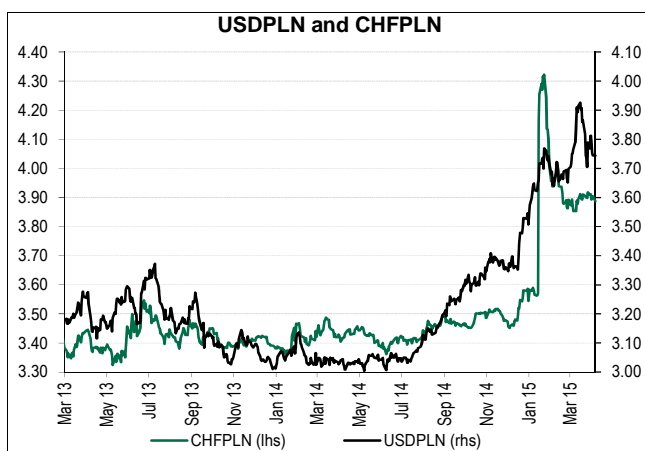
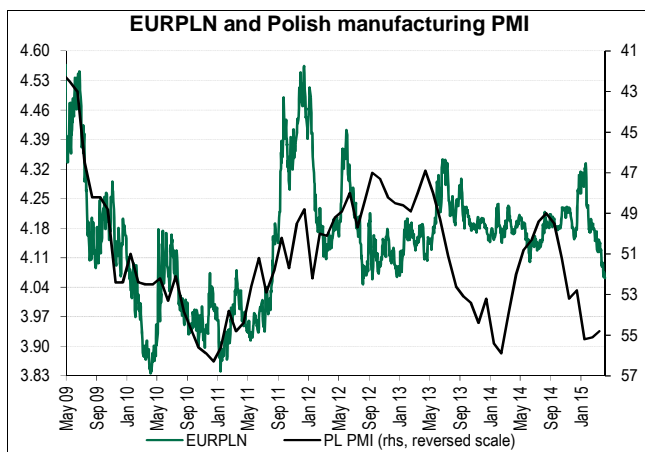
- Poland's Ministry of Finance successfully launched T-bonds not only on the domestic, but also on the international market. At the end of March it issued a 12Y Eurobonds worth €1.0bn that was priced at a record-low yield of 1.02% (or 35bps above the average swap curve), entering the euro market after more than a year's absence. After this issue the Ministry has covered c57% of this year's gross borrowing requirements.

External factors remain key for domestic assets

- Recent weeks clearly show that domestic curves are more affected by the U.S. monetary policy outlook than by the ECB's QE or domestic data. While there is no doubt that the Fed's next move is going to be a hike, there is uncertainty about the timing, with the yield swing depending on whether data (or comments) suggest a hike sooner or later. In our opinion, the Fed should start a tightening cycle in September. Therefore, until then, the long end of the curve is likely to be very sensitive to news flow from the US. We think that positive surprises in US macro data, confirming a scenario of healthy growth and job creation, could drive up domestic yields/IRS rates at the long end of the curves. As regards the front ends, we think that yields/rates are well anchored by perspectives of stable rates and continued deflation.

- Domestic macroeconomic data showing continued recovery (our forecast of March's industrial production is one of the highest on the market) will also weigh on the domestic curves, adding to market volatility in the short term.

Foreign exchange market



Sources: Reuters, Bloomberg, BZ WBK.

Zloty supported by the central banks

▪ EUR/PLN continued its decline, initiated after the January ECB extension of the asset purchase programme. The zloty was also supported by the Polish MPC's pledge to end the easing cycle after the 50bp rate cut in March, and the less-hawkish-than-expected outcome of the FOMC's March meeting. The decisions and signals from the central banks pushed EUR/PLN to 4.0, the lowest level since July 2011.

▪ In our opinion, the zloty should remain strong. First of all, expectations for more rate cuts in Poland should no longer weigh on the currency. Secondly, even after the March 50bp cut, real interest rates in Poland are still among the highest in the emerging markets world. This, combined with quantitative easing in the Euro zone, could potentially result in bigger capital inflows to the Polish debt market, which may support the zloty. Admittedly, this has not happened in the first weeks of QE. Instead, it seems Polish bonds are lagging the rally in Euro zone debt markets. However, we think that when Euro zone yields drop further, approaching zero or negative levels, foreign investors' interest in alternative markets may increase and Polish bonds may prove an attractive alternative for some portfolio managers. Furthermore, the outlook for economic growth is improving, in our view, and upcoming data releases should confirm the optimistic picture, with strong domestic demand and external orders also picking up. Last, but not least, the recent change in the FOMC's statement and extremely disappointing nonfarm payrolls number suggested that monetary policy tightening in the US is less imminent, which is net positive for emerging market currencies.

▪ These circumstances, and the zloty's bigger-than-expected gain in recent weeks, have led us to revise our EUR/PLN forecasts further. We now assume a faster zloty appreciation this year (for details see the table on page 12). We think the zloty should remain strong but the potential for further appreciation may be limited by the still unsolved case of Greece and worries over intensification of the Russia-Ukraine conflict. At the same time, from the technical analysis point of view, even if EUR/PLN rose to 4.10, its down trend would still be valid.

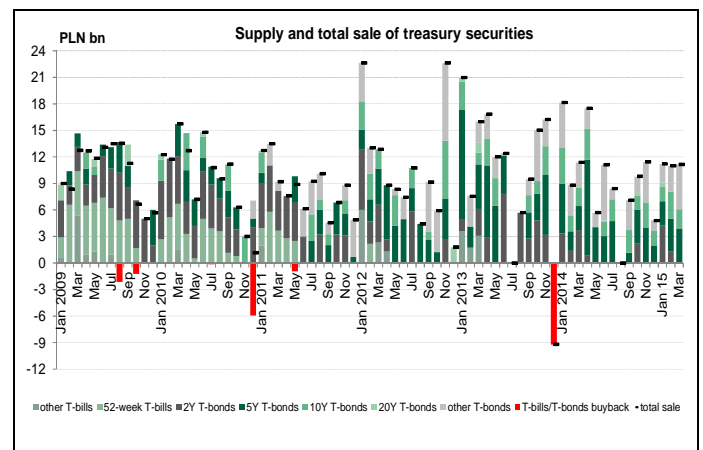
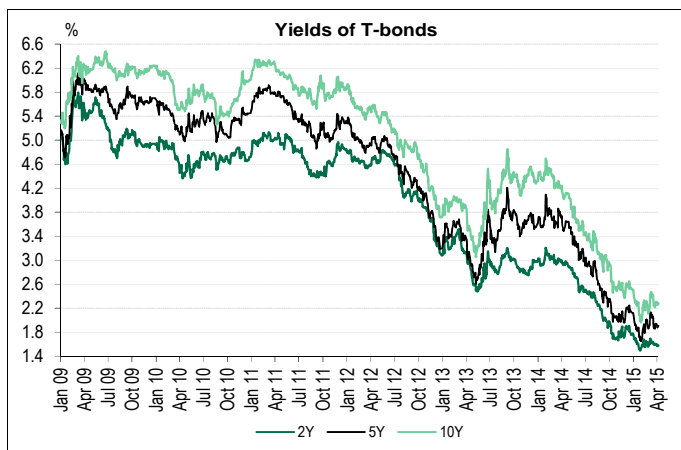
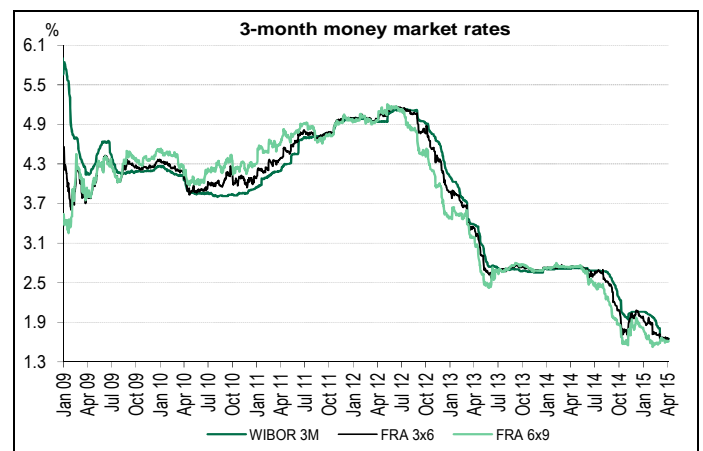
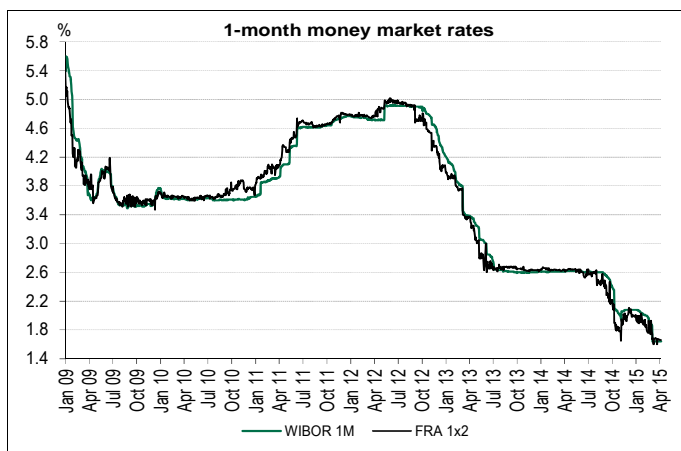
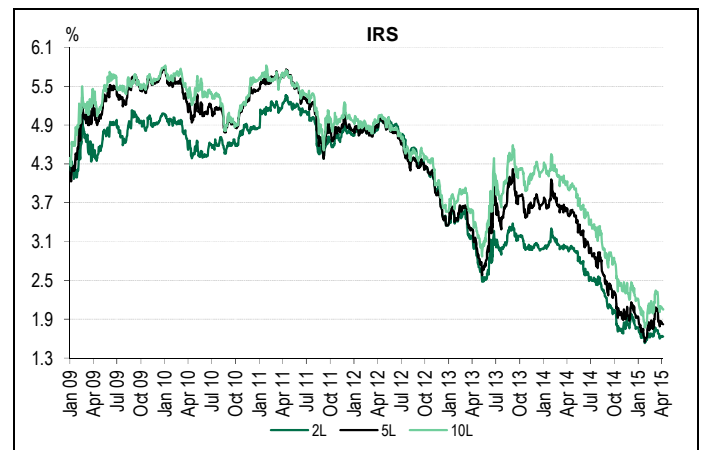
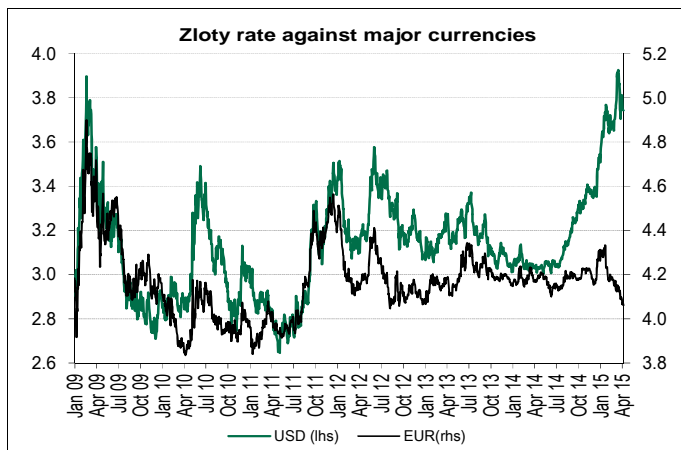
Euro recovers slightly vs. the dollar

▪ Since the beginning of the ECB's QE, EUR/USD rebounded from the multi-year low at c1.05 and reached nearly 1.11. The euro was supported by the somewhat below-consensus US data and the less hawkish than expected outcome of the March FOMC meeting. Due to the recent, deeper than we had expected, plunge, our forecasts have been downgraded – to 1.12 from 1.14 in 2Q15 and to 1.16 from 1.18 at the year end.

▪ Despite the US dollar's appreciating tendency, we still anticipate EUR/USD to rebound in the course of the year. First, we think that the market has already priced in the monetary policy tightening in the US and the data show that the number of EUR/USD shorts is near the all-time high. After the recent less hawkish than expected signals from the Fed and very weak US nonfarm payrolls numbers the market is more cautious in pricing in the first rate hike and the number of rate hikes. At the same time, the ECB staff has revised its inflation and GDP forecasts up and Mario Draghi said that the first positive effects of monetary policy easing are emerging gradually. This was particularly noticeable in the case of March manufacturing PMIs that surprised well on the upside for Germany and whole euro zone. Also, the ongoing correction is the biggest (the exchange rate rose the most) in the still valid down trend started in mid-2014 suggesting that next impulse is needed to push EUR/USD below 1.05.

▪ The risk factor to our scenario is the still pending agreement on the Greek financial aid. Prolonging negotiations may weigh on the single currency.

Market monitor



Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction				Second auction			Switch auction			
	date	T-bonds	offer		date	T-bonds	offer	date	T-bonds	offer	
April '14	3.04	DS1023/WZ0119	3000-5000	5781.0	23.04	OK0716/PS1016/PS0718	5000-10000	11722.3			
May	8.05	PS0719/WZ0119	3000-5000	5694.2	22.05	IDS1024	1000-2000	1270.0			
June	5.06	DS/WS/WZ	3000-5000	4989.7					18.06	OK0714/WZ0115	WZ0119/PS0719
July	3.07	DS0725/WS0428	1000-3000	2419.0	23.07	WZ0119/PS0719	2000-6000	5999.0			
August	-	-	-	-							
September	4.09	DS0725/WS0124	2000-3000	3595.0	25.09	USD20150716**	Up to \$400m	\$354.4m	18.09	WZ0115/PS0415	WZ0119/PS0719
October	23.10	OK0716/PS0719	2000-6000	6062.1					2.10	WZ0115/PS0415	WZ0124/DS0725/WS0428
November	6.11	WZ/DS/WS	2000-4000	4495.7					20.11	WZ0115/PS0415/OK0715	WZ0119/PS0719
December									18.12	WZ0115/PS0415/OK0715	PS0719/WZ0124/DS0725
January '15	15.01	WZ/DS/WS	3000-5000	4198.5	22.01	OK0717/PS0420	5000-7000	7005.2			
February	5.02	WZ/DS/WS	3000-5000	5980.0	12.02	OK0717/PS0420	3000-5000	5000.0			
March	5.03	USD20150716/ USD20151019**	up to \$500m	\$400.6m	12.03	WZ0124/DS0725/WS0428	3000-4000	4639.0	26.03	PS0415/OK0715/DS1015	WZ0120/PS0420
April	9.04	WZ0124/DS0725	2500-4500		23.04	to be announced	5000-9000				

* with supplementary auction, ** buy-back auction, *** demand/sale.

Source: MoF, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
6 April US: ISM – services (Mar)	7 DE: PMI – services (Mar) EZ: PMI – services (Mar)	8 DE: Industrial orders (Feb) HU: CPI (Mar) US: FOMC minutes	9 DE: Industrial output (Feb) DE: Exports (Feb) CZ: CPI (Mar)	10 CZ: Industrial output (Feb)
13 <i>PL: Balance of payments (Feb)</i>	14 <i>PL: Money supply (Mar)</i> EZ: Industrial output (Feb) US: Retail sales (Mar)	15 <i>PL: MPC decision</i> <i>PL: CPI (Mar)</i> EZ: ECB decision US: Industrial output (Mar) US: Fed Beige Book	16 <i>PL: Core inflation (Mar)</i> US: House starts (Mar) US: Building permits (Mar) US: Philly Fed index (Apr)	17 <i>PL: Wages and employment (Mar)</i> EZ: HICP (Mar) US: CPI (Mar) US: Flash Michigan (Apr)
20 <i>PL: Industrial output (Mar)</i> <i>PL: Retail sales (Mar)</i> <i>PL: PPI (Mar)</i>	21 DE: ZEW index (Apr) HU: Central bank decision	22 US: Home sales (Mar)	23 <i>PL: MPC minutes</i> CN: Flash PMI – manufacturing (Apr) DE: Flash PMI – manufacturing (Apr) EZ: Flash PMI – manufacturing (Apr) US: New home sales (Mar)	24 DE: Ifo index (Apr) US: Durable goods orders (Mar)
27	28 US: Consumer confidence index (Apr)	29 US: Advance GDP (Q1) US: Pending home sales (Mar) US: FOMC decision	30 <i>PL: Inflation expectations (Apr)</i> EZ: Flash HICP (Apr) US: Personal income (Mar) US: Consumer spending (Mar)	1 May US: ISM – manufacturing (Apr) US: Michigan index (Apr) HU: CPI (Apr)
4 <i>PL: PMI – manufacturing (Jun)</i> CN: PMI – manufacturing (Apr) DE: PMI – manufacturing (Apr) EZ: PMI – manufacturing (Apr) US: Industrial orders (Mar)	5 US: ISM – services (Apr)	6 <i>PL: MPC decision</i> DE: PMI – services (Apr) EZ: PMI – services (Apr) US: ADP report (Mar)	7 DE: Industrial orders (Mar) CZ: Industrial output (Mar) CZ: Central bank decision	8 DE: Industrial output (Mar) DE: Exports (Mar) US: Non-farm payrolls (Apr) US: Unemployment rate (Apr)
11	12 CZ: CPI (Apr)	13 DE: Advance GDP (Q1) EZ: Advance GDP (Q1) EZ: Industrial output (Mar) HU: Advance GDP (Q1) US: Retail sales (Apr)	14 <i>PL: CPI (Apr)</i> <i>PL: Money supply (Apr)</i>	15 <i>PL: Advance GDP (Q1)</i> <i>PL: Balance of payments (Mar)</i> <i>PL: Core inflation (Apr)</i> CZ: Advance GDP (Q1) US: Industrial output (Apr) US: Flash Michigan (May)

Calendar of MPC meetings and data releases for 2015

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	22	-	5	15	-	3	16	-	3	22	-	3
MPC meeting	13-14	3-4	3-4	14-15	5-6	2-3	7-8	-	1-2	5-6	3-4	1-2
MPC minutes	22	19	19	23	21	18	-	20	17	22	19	17
Flash GDP*		13			15			14			13	
GDP*	-	27	-	-	29	-	-	28	-	-	30	-
CPI	15	13 ^a	13 ^b	15	14	15	15	13	15	15	13	15
Core inflation	16	-	16	16	15	16	16	14	16	16	16	16
PPI	21	18	18	20	20	18	17	19	17	19	19	17
Industrial output	21	18	18	20	20	18	17	19	17	19	19	17
Retail sales	27	18	18	20	20	18	17	19	17	19	19	17
Gross wages, employment	20	17	17	17	19	17	16	18	16	16	19	16
Foreign trade	about 50 working days after reported period											
Balance of payments*			31			30						
Balance of payments	13	13	16	13	15	15	14					
Money supply	14	13	13	14	14	12	14					

* quarterly data. ^a preliminary data for January. ^b January and February.

Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg

Economic data and forecasts for Poland

Monthly economic indicators

		Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep14	Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15E	Apr 15E
PMI	pts	54.0	52.0	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.9
Industrial production	% YoY	5.5	5.5	4.4	1.8	2.4	-1.9	4.2	1.7	0.3	8.1	1.6	4.9	8.3	4.1
Construction production	% YoY	17.4	12.2	10.0	8.0	1.1	-3.6	5.6	-1.0	-1.6	5.0	1.3	-0.3	3.6	5.4
Retail sales ^a	% YoY	3.1	8.4	3.8	1.2	2.1	1.7	1.6	2.3	-0.2	1.8	0.1	-1.3	1.1	1.8
Unemployment rate	%	13.5	13.0	12.5	12.0	11.8	11.7	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.3
Gross wages in corporate sector	% YoY	4.8	3.8	4.8	3.5	3.5	3.5	3.4	3.8	2.7	3.7	3.6	3.2	3.4	3.4
Employment in corporate sector	% YoY	0.5	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.9	1.1	1.2	1.2	1.2	1.3
Exports (€)	% YoY	9.5	5.1	10.4	5.7	6.4	-1.2	5.8	4.7	3.5	4.3	5.7	8.7	10.0	8.5
Imports (€)	% YoY	4.1	8.9	11.8	7.5	7.7	0.7	7.0	5.6	5.0	9.8	-1.5	4.0	10.9	8.5
Trade balance	EUR mn	132	39	-160	86	-270	-215	492	-43	10	-791	1,021	500	28	42
Current account balance	EUR mn	345	269	-161	-927	-729	-1,063	12	-371	-181	-1,414	56	-115	253	265
Current account balance	% GDP	-1.1	-1.1	-1.1	-1.2	-1.3	-1.4	-1.3	-1.4	-1.3	-1.4	-1.2	-1.0	-1.1	-1.0
Budget deficit (cumulative)	PLN bn	-17.5	-21.3	-22.5	-25.4	-26.4	-24.6	-22.4	-27.2	-24.8	-29.8	-0.6	-11.3	-18.7	-20.2
Budget deficit (cumulative)	% of FY plan	36.8	44.8	47.3	53.4	55.5	51.9	47.1	57.4	52.1	62.7	1.3	24.6	40.6	43.8
CPI	% YoY	0.7	0.3	0.2	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.3	-1.0
CPI excluding food and energy	% YoY	1.1	0.8	0.8	1.0	0.4	0.5	0.7	0.2	0.4	0.5	0.6	0.4	0.4	0.6
PPI	% YoY	-1.3	-0.7	-1.0	-1.8	-2.0	-1.5	-1.6	-1.3	-1.6	-2.7	-2.8	-2.7	-2.6	-3.0
Broad money (M3)	% YoY	5.2	5.4	5.2	5.2	6.0	7.4	7.9	7.7	8.4	8.2	8.6	8.8	8.5	8.1
Deposits	%YoY	4.7	5.4	5.5	5.5	6.7	7.8	7.5	7.8	8.5	8.1	8.2	8.0	8.0	7.5
Loans	%YoY	5.3	6.1	5.4	4.9	5.4	6.3	6.2	7.2	7.4	7.3	8.0	7.7	7.7	7.7
EUR/PLN	PLN	4.20	4.18	4.18	4.14	4.14	4.19	4.19	4.21	4.21	4.21	4.28	4.18	4.13	4.06
USD/PLN	PLN	3.04	3.03	3.04	3.04	3.06	3.15	3.25	3.32	3.38	3.42	3.68	3.68	3.81	3.76
CHF/PLN	PLN	3.45	3.43	3.42	3.39	3.41	3.46	3.47	3.48	3.50	3.50	3.96	3.93	3.89	3.88
Reference rate ^b	%	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	1.50	1.50
3M WIBOR	%	2.71	2.72	2.72	2.69	2.68	2.65	2.45	2.07	2.03	2.06	2.03	1.92	1.67	1.65
Yield on 2-year T-bonds	%	2.99	2.94	2.79	2.54	2.45	2.30	2.02	1.77	1.78	1.84	1.60	1.60	1.62	1.59
Yield on 5-year T-bonds	%	3.68	3.60	3.36	3.10	2.89	2.73	2.40	2.12	2.04	2.16	1.82	1.88	1.99	1.92
Yield on 10-year T-bonds	%	4.26	4.10	3.80	3.54	3.34	3.23	2.98	2.63	2.54	2.55	2.21	2.20	2.32	2.25

Note: ^a in nominal terms, ^b at the end of the period.

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2012	2013	2014	2015E	1Q14	2Q14	3Q14E	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLN bn	1,615.9	1,662.1	1,724.7	1,791.9	403.1	418.4	426.8	476.4	418.8	432.4	442.2	498.6
GDP	% YoY	1.8	1.7	3.3	3.6	3.4	3.5	3.3	3.1	3.1	3.4	3.7	4.0
Domestic demand	% YoY	-0.4	0.2	4.7	4.5	3.4	5.6	4.9	4.6	4.0	4.7	4.6	4.8
Private consumption	% YoY	1.0	1.1	3.0	3.6	2.9	3.0	3.2	3.1	3.5	3.6	3.6	3.5
Fixed investments	% YoY	-1.5	0.9	9.5	8.8	11.2	8.7	9.9	9.0	9.0	9.0	9.0	8.5
Industrial production	% YoY	1.0	2.3	3.4	5.2	4.9	3.7	1.8	2.8	5.0	5.2	5.6	5.1
Construction production	% YoY	-1.0	-10.3	4.3	4.7	9.8	9.9	1.1	1.0	1.7	5.2	5.7	5.0
Retail sales ^a	% YoY	6.0	2.6	3.1	4.5	5.1	4.6	1.9	1.4	0.0	3.0	6.0	8.3
Unemployment rate ^b	%	13.4	13.4	11.5	10.1	13.5	12.0	11.5	11.5	11.7	10.4	9.9	10.1
Gross wages in the national economy ^a	% YoY	3.7	3.4	3.6	3.9	4.2	3.5	3.5	3.1	3.6	3.5	4.1	4.1
Employment in the national economy	% YoY	0.0	-1.1	0.1	0.9	-0.3	0.1	0.3	0.5	0.7	0.8	0.8	0.7
Exports (€)	% YoY	6.5	5.7	5.6	9.5	8.2	6.6	3.8	4.1	8.3	8.5	10.0	11.0
Imports (€)	% YoY	2.2	0.2	7.2	8.7	6.9	10.1	5.2	6.6	3.3	8.2	11.0	12.0
Trade balance	EUR mn	-7,146	635	-1,629	-512	-381	-431	9	-826	1,549	-349	-383	-1,329
Current account balance	EUR mn	-13,697	-5,148	-5,762	-5,040	-1,222	-789	-1,780	-1,971	194	-822	-2,402	-2,010
Current account balance	% GDP	-3.5	-1.3	-1.4	-1.1	-1.1	-1.2	-1.3	-1.4	-1.0	-1.0	-1.2	-1.1
General government balance	% GDP	-3.9	-4.3	-3.2	-2.9	-	-	-	-	-	-	-	-
CPI	% YoY	3.7	0.9	0.0	-0.7	0.6	0.3	-0.3	-0.7	-1.5	-0.9	-0.7	0.3
CPI ^b	% YoY	2.4	0.7	-1.0	0.7	0.7	0.3	-0.3	-1.0	-1.3	-0.8	-0.5	0.7
CPI excluding food and energy	% YoY	2.2	1.2	0.6	0.7	0.8	0.8	0.5	0.4	0.4	0.6	0.7	1.2
PPI	% YoY	3.4	-1.3	-1.5	-2.3	-1.2	-1.2	-1.7	-1.9	-2.7	-2.8	-2.5	-1.2
Broad money (M3) ^b	% oY	4.5	6.2	8.2	6.6	5.2	5.2	7.9	8.2	7.8	7.4	7.0	6.6
Deposits ^b	%YoY	4.7	6.0	8.1	6.8	4.7	5.5	7.5	8.1	7.8	7.4	7.1	6.8
Loans ^b	%YoY	1.2	3.6	6.9	6.2	5.3	4.9	6.2	7.3	7.0	6.7	6.5	6.2
EUR/PLN	PLN	4.19	4.20	4.18	4.06	4.19	4.17	4.18	4.21	4.20	4.04	4.03	3.97
USD/PLN	PLN	3.26	3.16	3.15	3.61	3.06	3.04	3.15	3.37	3.72	3.69	3.56	3.46
CHF/PLN	PLN	3.47	3.41	3.45	3.82	3.42	3.42	3.45	3.50	3.93	3.86	3.82	3.68
Reference rate ^b	%	4.25	2.50	2.00	1.50	2.50	2.50	2.50	2.00	1.50	1.50	1.50	1.50
3M WIBOR	%	4.91	3.02	2.52	1.71	2.71	2.71	2.59	2.06	1.87	1.65	1.65	1.65
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.63	3.01	2.76	2.26	1.80	1.61	1.59	1.63	1.70
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.03	3.71	3.35	2.67	2.11	1.90	1.94	2.08	2.23
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.37	4.38	3.82	3.18	2.58	2.24	2.27	2.43	2.55

Note: ^a in nominal terms, ^b at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 8.04.2015 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

Al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): <http://www.skarb.bzwbk.pl>

Maciej Reluga* – Chief Economist

tel. +48 22 5341888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski* +48 22 534 18 87

Agnieszka Decewicz* +48 22 534 18 86

Marcin Luziński* +48 22 534 18 85

Marcin Sulewski* +48 22 534 18 84

TREASURY SERVICES DEPARTMENT

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań

tel. +48 61 856 58 14/30

fax +48 61 856 44 56

Warszawa

al. Jana Pawła II 17
00-854 Warszawa

tel. +48 22 586 83 20/38

fax +48 22 586 83 40

Wrocław

ul. Rynek 9/11
50-950 Wrocław

tel. +48 71 369 94 00

fax +48 71 370 26 22

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga***, **Piotr Bielski***, **Agnieszka Decewicz***, **Marcin Luziński***, **Marcin Sulewski***.

* Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

IMPORTANT DISCLOSURES (CONT.)

This report has been prepared by Bank Zachodni WBK S.A. and is provided for information purposes only. Bank Zachodni WBK S.A. is registered in Poland and is authorised and regulated by The Polish Financial Supervision Authority.

This report is issued in the United States by Santander Investment Securities Inc. ("SIS"), in Poland by Bank Zachodni WBK S.A. ("BZ WBK"), in Spain by Banco Santander, S.A., under the supervision of the CNMV and in the United Kingdom by Banco Santander, S.A., London Branch ("Santander London"). SIS is registered in the United States and is a member of FINRA. Santander London is registered in the UK (with FRN 136261) and subject to limited regulation by the FCA and PRA. SIS, BZ WBK, Banco Santander, S.A. and Santander London are members of Grupo Santander. A list of authorised legal entities within Grupo Santander is available upon request.

This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Furthermore, this report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein.

Any reference to past performance should not be taken as an indication of future performance. This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BZ WBK.

Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take into account whether an investment, course of action, or associated risks are suitable for the recipient. Furthermore, this document is intended to be used by market professionals (eligible counterparties and professional clients but not retail clients). Retail clients must not rely on this document.

To the fullest extent permitted by law, no Santander Group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report.

BZ WBK and its legal affiliates may make a market in, or may, as principal or agent, buy or sell securities of the issuers mentioned in this report or derivatives thereon. BZ WBK and its legal affiliates may have a financial interest in the issuers mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa.

BZ WBK and its legal affiliates may receive or intend to seek compensation for investment banking services in the next three months from or in relation to an issuer mentioned in this report. Any issuer mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group is a market maker or a liquidity provider for EUR/PLN.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company of the Santander Group has been lead or co-lead manager over the previous 12 months in a publicly disclosed offer of or on financial instruments issued by the Polish Ministry of Finance or Ministry of Treasury.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group expects to receive or intends to seek compensation for investment banking services from the Polish Ministry of Finance or Ministry of Treasury in the next three months.

ADDITIONAL INFORMATION

BZ WBK or any of its affiliates, salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BZ WBK or any of its affiliates' trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

Investment research issued by BZ WBK is prepared in accordance with the Santander Group policies for managing conflicts of interest. In relation to the production of investment research, BZ WBK and its affiliates have internal rules of conduct that contain, among other things, procedures to prevent conflicts of interest including Chinese Walls and, where appropriate, establishing specific restrictions on research activity. Information concerning the management of conflicts of interest and the internal rules of conduct are available on request from BZ WBK.

COUNTRY & REGION SPECIFIC DISCLOSURES

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Banco Santander, S.A. Investment research issued by Banco Santander, S.A. has been prepared in accordance with Grupo Santander's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only regarded as being provided to professional investors (or equivalent) in their home jurisdiction. **United States of America (US):** This report is being distributed to US persons by Santander Investment Securities Inc ("SIS") or by a subsidiary or affiliate of SIS that is not registered as a US broker dealer, to US major institutional investors only. Any US recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security or issuer discussed herein should contact and place orders in the United States with the company distributing the research, SIS at (212) 692-2550, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the US Securities Exchange Act of 1934) under this report and its dissemination in the United States. US recipients of this report should be advised that this research has been produced by a non-member affiliate of SIS and, therefore, by rule, not all disclosures required under NASD Rule 2711 apply. **Hong Kong (HK):** This report is being distributed in Hong Kong by a subsidiary or affiliate of Banco Santander, S.A. Hong Kong Branch, a branch of Banco Santander, S.A. whose head office is in Spain. The 1% ownership disclosure satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission, HK. Banco Santander, S.A. Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. The recipient of this material must not distribute it to any third party without the prior written consent of Banco Santander, S.A. **Japan (JP):** This report has been considered and distributed in Japan to Japanese-based investors by a subsidiary or affiliate of Banco Santander, S.A. - Tokyo Representative Office, not registered as a financial instruments firm in Japan, and to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. Some of the foreign securities stated in this report are not disclosed according to the Financial Instruments and Exchange Law of Japan. There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading and that a loss may occur due to the exchange rate in the case of foreign share trading. **China (CH):** This report is being distributed in China by a subsidiary or affiliate of Banco Santander, S.A. Shanghai Branch ("Santander Shanghai"). Santander Shanghai or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. **Poland (PL):** This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only and it is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Information presented in the publication is not an investment advice. Resulting from the purchase or sale of financial instrument, additional costs, including taxes, that are not payable to or through Bank Zachodni WBK S.A., can arise to the purchasing or selling party. Rates used for calculation can differ from market levels or can be inconsistent with financial calculation of any market participant. Conditions presented in the publication are subject to change. Examples presented in the publication is for information purposes only and shall be treated only as a base for further discussion.