

# **Merger of BZ WBK and Kredyt Bank**

**February 2012**

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The securities of Bank Zachodni WBK S.A. to be issued in connection with the merger will solely be offered in Poland and the proposed merger will be conducted on the basis of an information memorandum or other offering circular to be published in Poland by the issuer in connection with such offering and merger. Any such information memorandum or offering circular will be available free of charge as of a date yet to be determined in the offices of the issuer. Investors in jurisdictions other than Poland may be subject to restrictions and may not be able to receive securities to be issued in connection with the merger.

## Description of the transaction

**Strategic rationale**

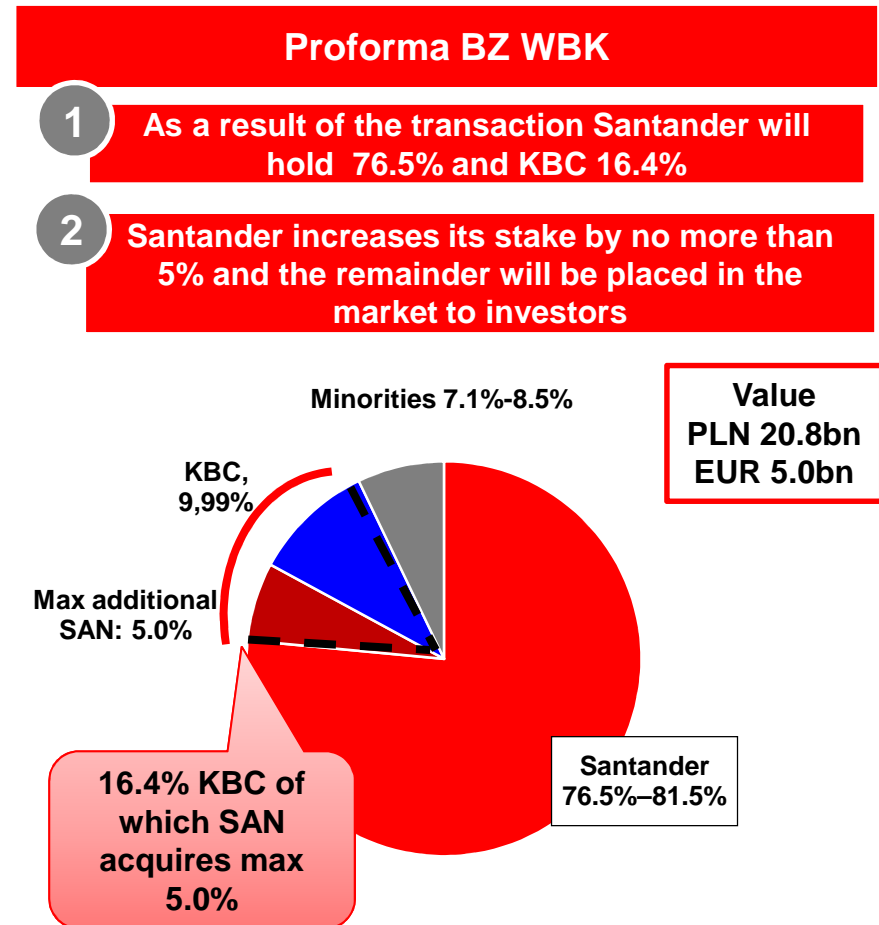
**Financial impact**

**The New BZ is a very compelling story**

**Summary**

# Merger of BZ WBK and Kredyt Bank – Description of the transaction

- 1 Santander and KBC have reached an agreement to merge BZ WBK and Kredyt Bank in Poland for a total combined value of PLN 20.8 bn equivalent to EUR 5 bn
- 2 The agreement is based on an exchange ratio of 6.96x BZ WBK shares (PLN 226.4 per share) for each 100 shares of Kredyt Bank (PLN 15.75 per share). As a result of the transaction, the shareholding structure will be Santander 76.5%, KBC 16.4% and 7.1% other minority investors.
- 3 Santander has committed to help to lower KBC's stake from 16.4% to below 10% in the combined entity after the merger
  - Santander and KBC are looking into incorporating investors that have already shown interest in a potential placing
  - Santander will acquire up to a maximum of 5% of the combined entity at 226.4 PLN per share
  - KBC's stake will be below 10%



## Merger of BZ WBK and Kredyt Bank – Other considerations/ Agreements

- KBC will provide funding in CHF for 3 years<sup>(A)</sup> maintaining similar terms & conditions
- Kredyt Bank will continue to distribute KBC TFI Funds
- In the context of this agreement, Santander has also agreed to acquire KBC's consumer finance origination platform in Poland, Zagiel
- Shareholders agreement between KBC and Santander includes governance rights granted to KBC (among others Supervisory board representation and protective rights)

(A) CHF 3bn in year 1, CHF 2.5bn in year 2 and CHF 2bn in year 3. The structure will be CHF 1,5bn direct funding and CHF 1,5bn through a swap structure

# Overview of Kredyt Bank combined with BZ WBK

6

<i>PLN m</i>		Kredyt Bank	BZ WBK	Combined	Combined EUR
Balance Sheet (4Q 2011)	- Total Assets	42,003	59,873	101,876	24,372
	- Gross Loans	30,494	39,432	69,926	16,729
	- Customer Deposits	28,043	46,829	74,872	17,912
	- Shareholders' Equity	3,066	7,356	10,422	2,493
Net Income (A)	- 2011	293 (A)	1,273 (A)	1,566	375
Other	- Employees	4,963	9,383	14,346	14,346
	- Branches	373	526	899	899
	- Clients	1.1m	2.4m	3.5m	3.5m
Asset Management	- AuM	4,397 <sup>(B)</sup>	7,805	12,202	2,919

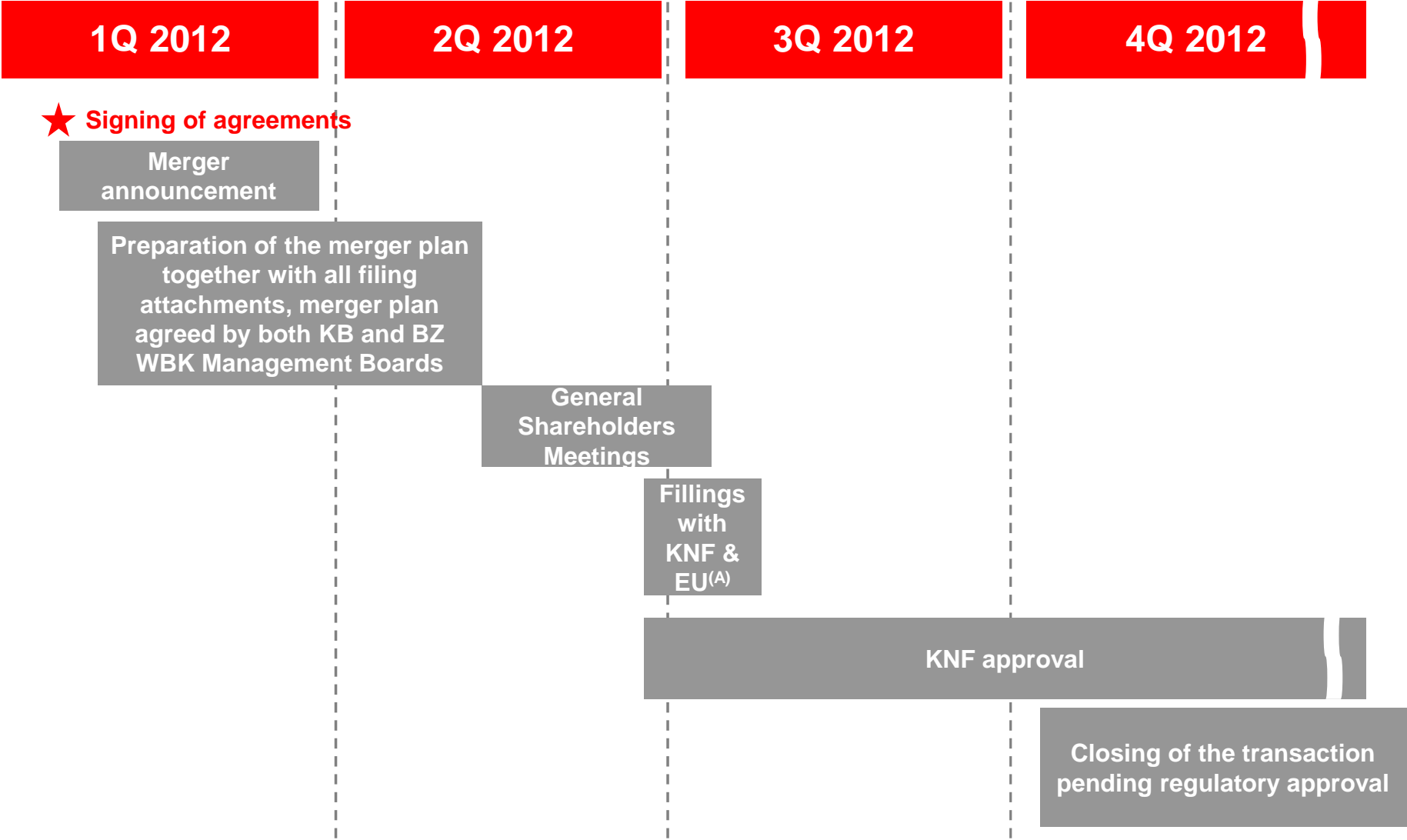
Source: Company data as of 4Q 2011.

(A) Recurrent Net Income.

(B) Represents KBC TFI funds distributed by KB



# Expected timetable



(A) Antitrust

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# A strategically compelling transaction

1

**Increased presence in Poland, an attractive market, with significant growth potential, that fits very well in Santander's business portfolio**

- Further potential to grow in a stable, underpenetrated and large market that Santander knows well

2

**Improved critical mass: clear top 3 market position, with a highly complementary business mix**

- Achieve market share close to 10%
- The new entity will have a strong balance sheet
  - Stable funding profile (L/D of 90%<sup>(A)</sup>)
  - Strong capitalisation pro-forma (2012E total capital of 14.7%, core capital of 12.2%)

3

**Significant cost and revenue synergies, leveraging on Santander's group best practices**

- Improve efficiency and eliminate duplications
- Productivity enhancement by combining complementary networks

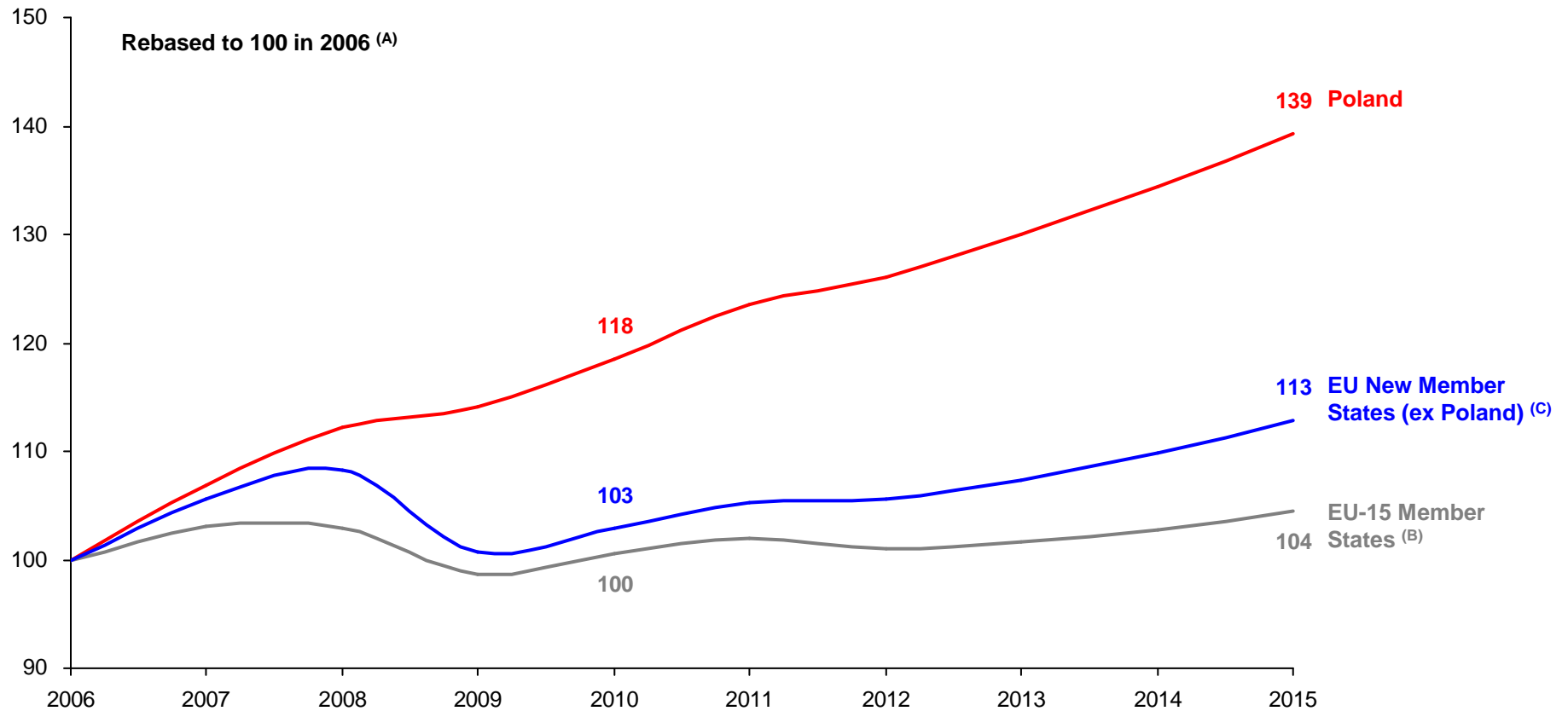
(A) Net Loans to Deposits. 84% adjusted for CHF 1,5bn of funding provided by KBC

# 1 Increased presence in Poland

10

Poland is an attractive market as it offers strong and stable growth expectations...

Evolution of Real GDP



Source: EIU as of 24 February 2012.

(A) GDP in US\$ at 2005 prices.

(B) EU 15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK

(C) Incl. Cyprus, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Slovakia, Slovenia.

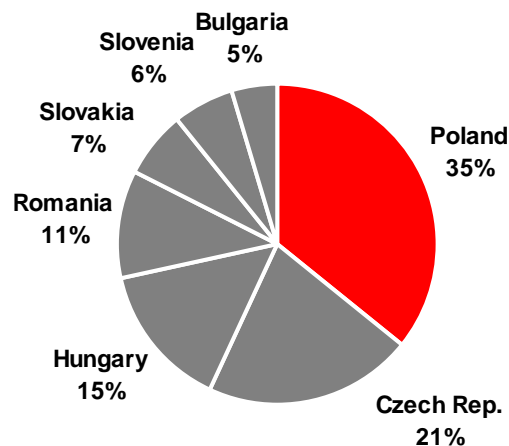


# Increased presence in Poland

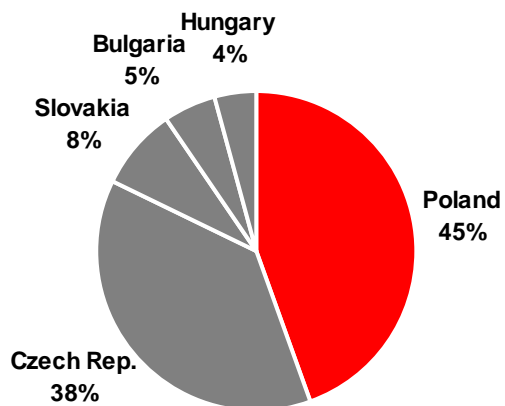
...and ranks well in terms of size, stability and growth: c.40m population

**Poland is the largest market in 'New Europe'...**

**Significant under-penetration of banking business**

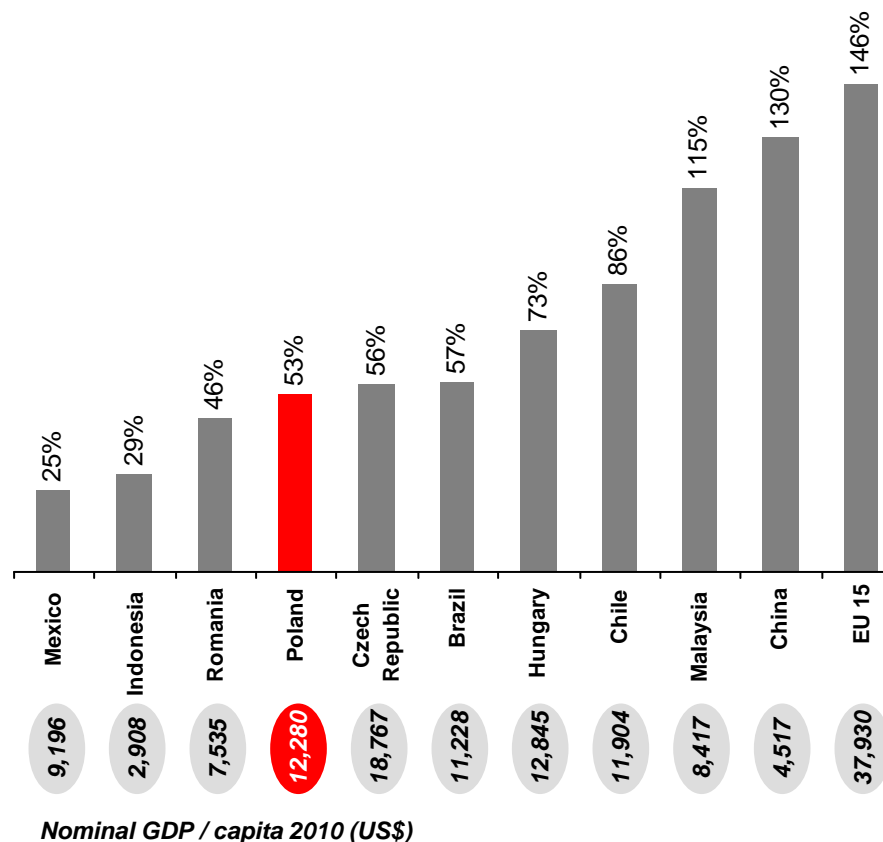


...representing 35% of the region's total banking assets...



... and 45% of its Net Income (A)

Loans/GDP for selected emerging markets – 2010 (B)

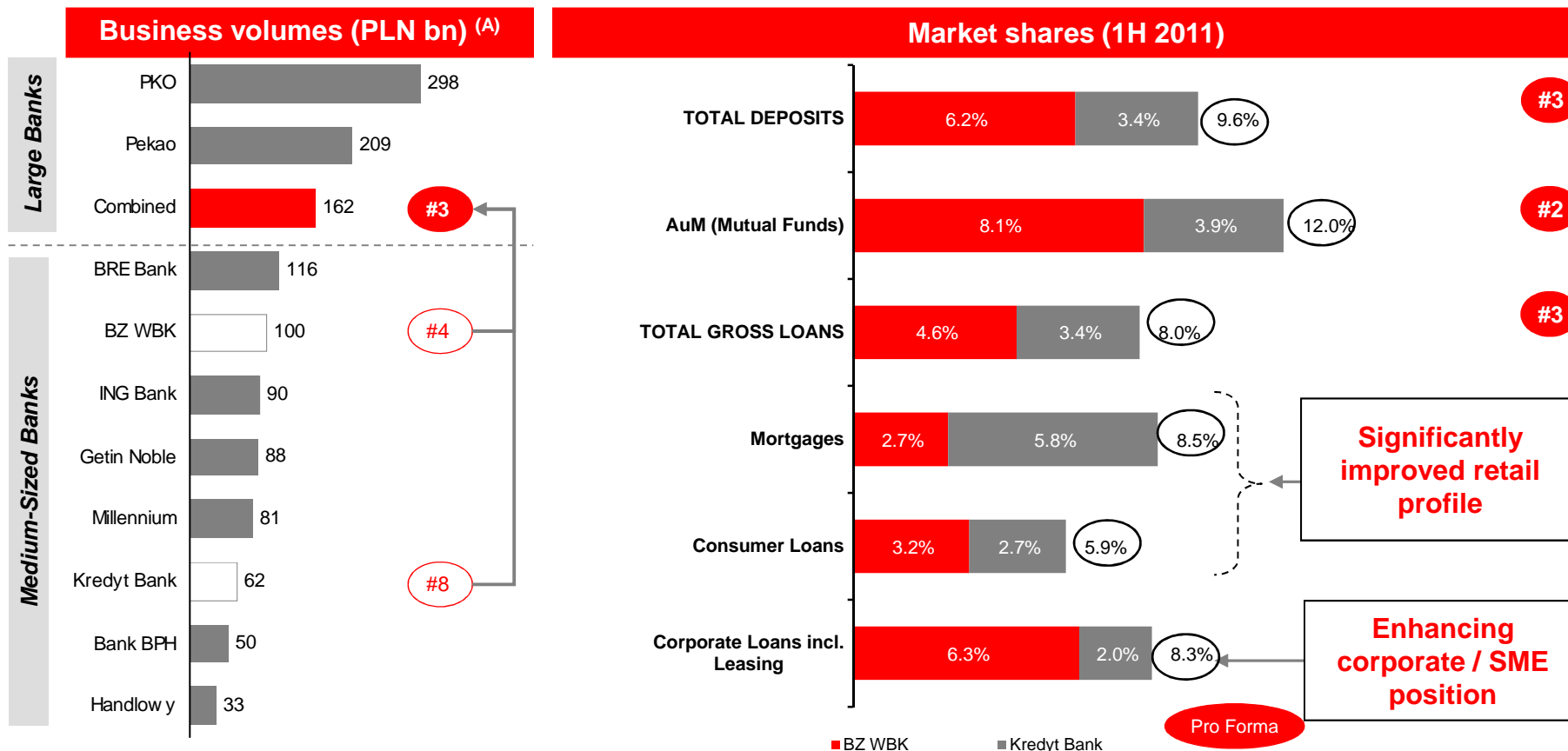


Source: EIU as of 24 February 2012, Worldbank, Raiffeisen Research.

(A) Data as of 2010. Net income calculation excl. Slovenia and Romania due to negative income in 2010.

(B) Domestic credit to private sector (% of GDP).

The deal creates the top 3 bank by all measures and closing the gap to the market leaders...



...consistent with Santander's "vertical strategy": strong presence in a selected number of core markets

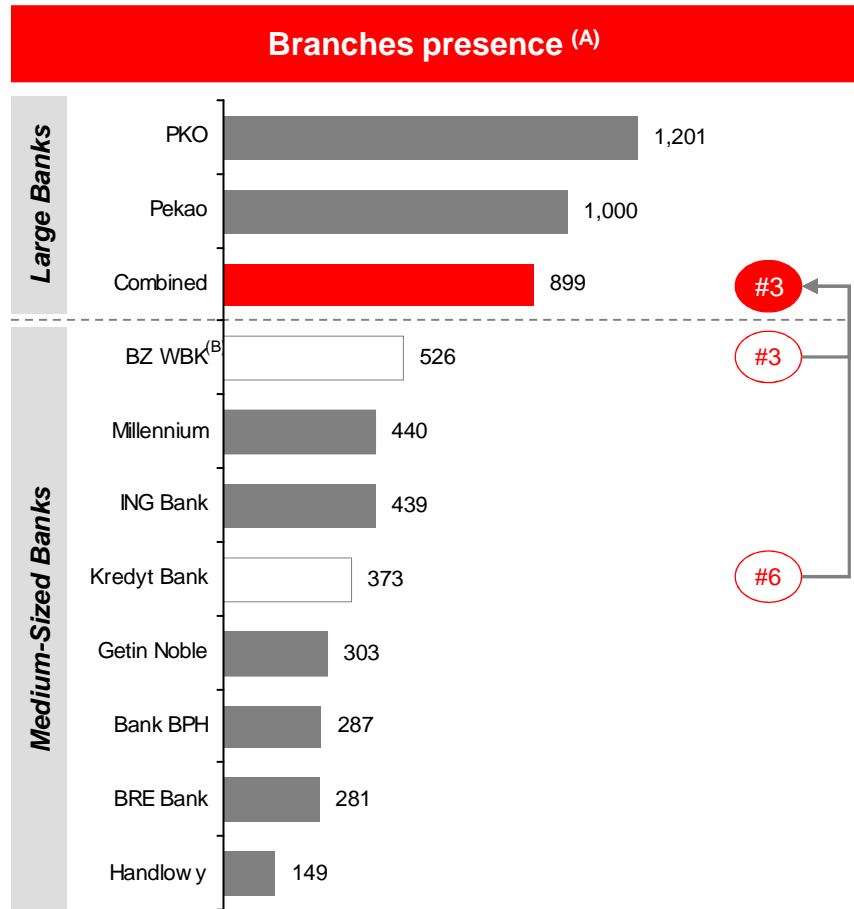
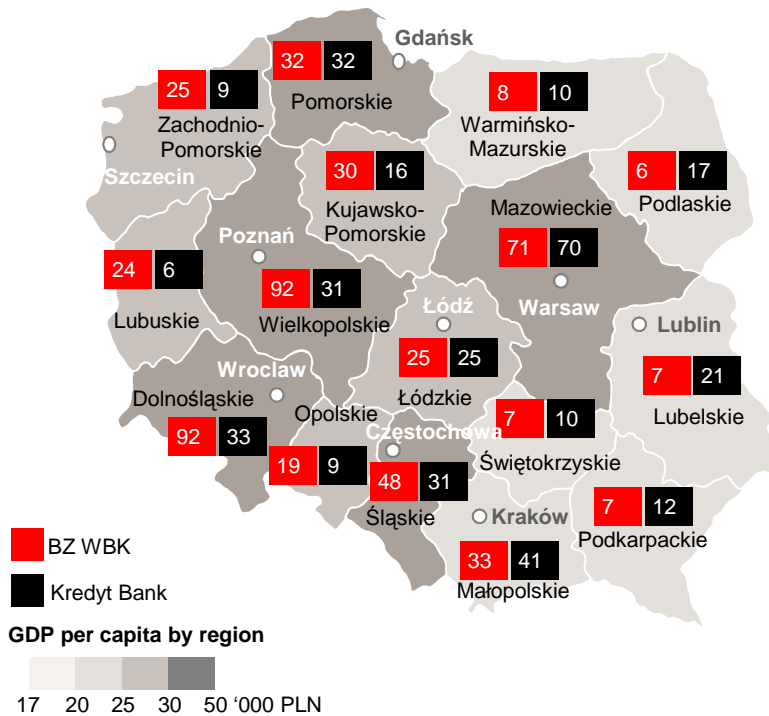
Source: Company data, KNF, IFZA.  
 (A) Includes Gross loans, deposits and mutual funds (3Q2011).

**Enhancing distribution network reaching a combined 899 branches present in all Polish regions and having the opportunity to rationalise branch overlap**

**BZ WBK focused on Southwest and West, Kredyt Bank well spread**

BZ WBK branches network: 526  
Kredyt Bank branches network: 373

Combined network: 899



Source: SNL. Latest available company information. Total numbers of branches as per SNL may not equal to total number of branches reported due to SNL methodology.

(A) Excluding agencies / franchise network.  
(B) BZ WBK excluding 96 agencies.

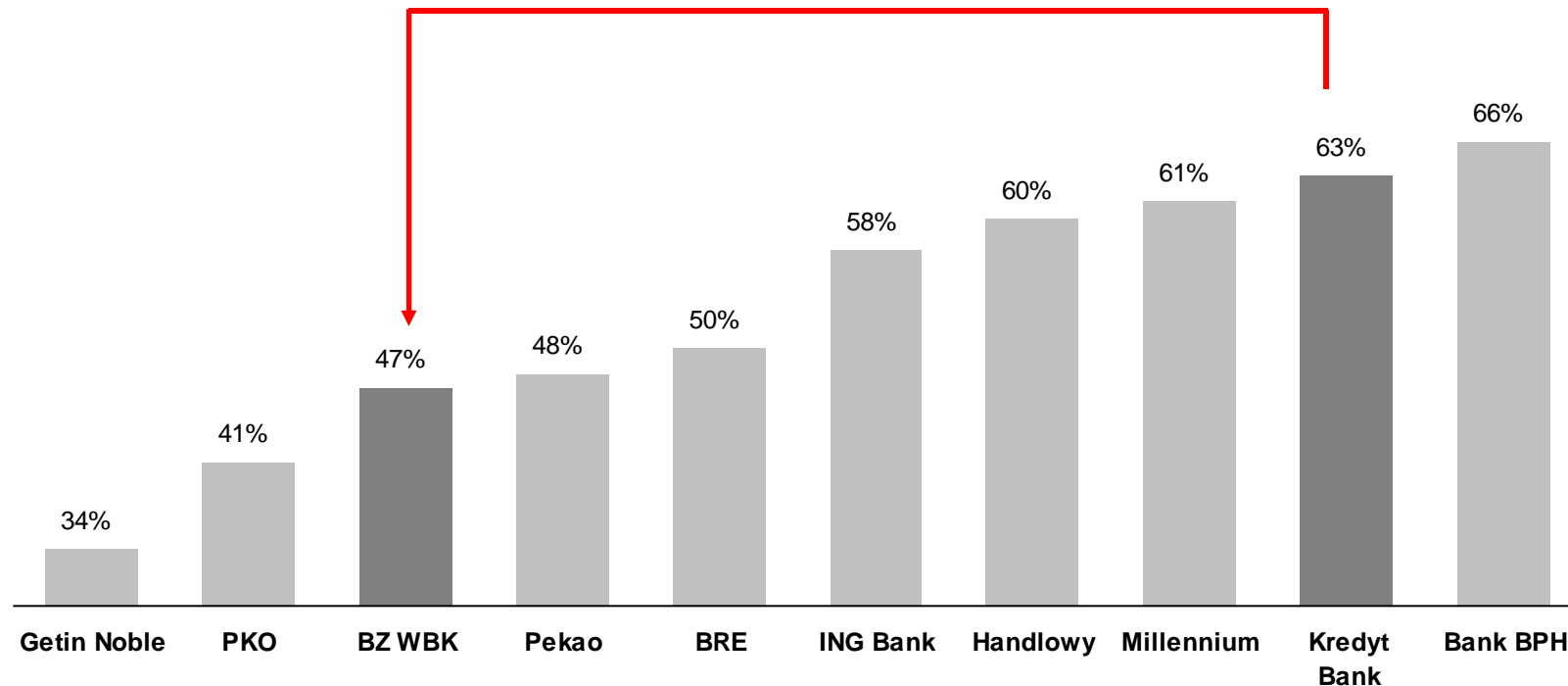
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## Significant synergy potential: costs

14

High potential to improve efficiency leveraging on BZ WBK cost management expertise

Cost / Income Ratio (9M 2011)



Source: Company data

### Key Cost Synergies Drivers

- **Potential to improve operating efficiency by leveraging Santander Group's and BZ WBK's capabilities and best practices:**
  - Apply Santander's cost management best practices to reduce *marketing* and *administrative* expenses
  - Leverage Santander Group's *economies of scale* (e.g. joint purchasing)
  - Optimization of combined *branch network*
  - One single IT platform
  - Benefit from Santander Group's global units to improve cost efficiencies

Expected  
efficiency  
improvements  
by 2015:

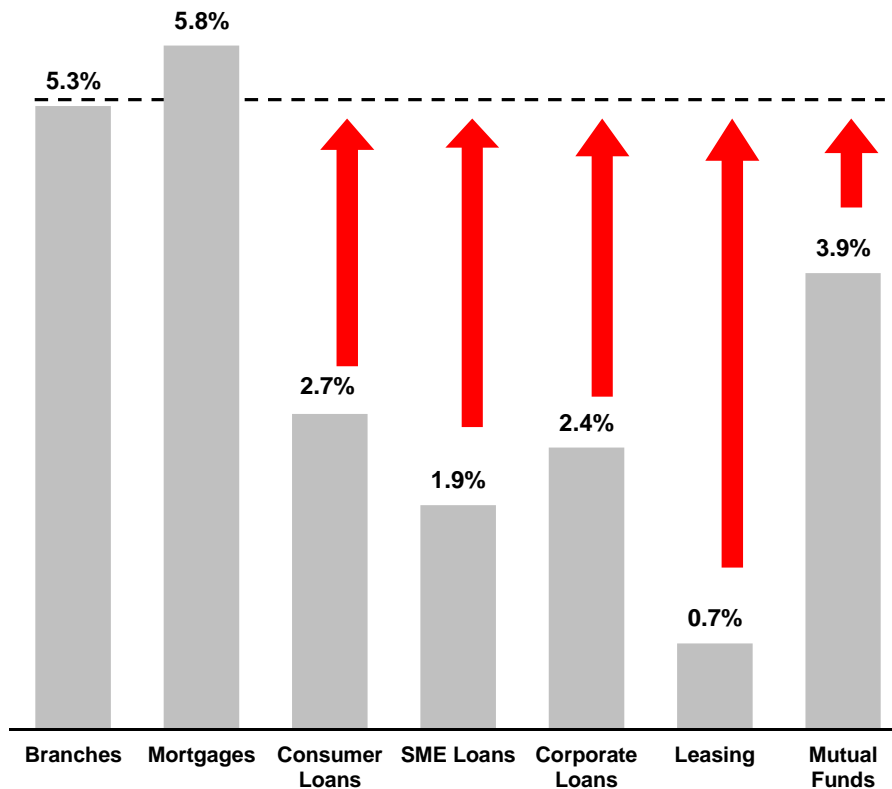
**PLN 322m**  
before tax

(ca. 12% of the  
combined  
2011PF cost  
base)

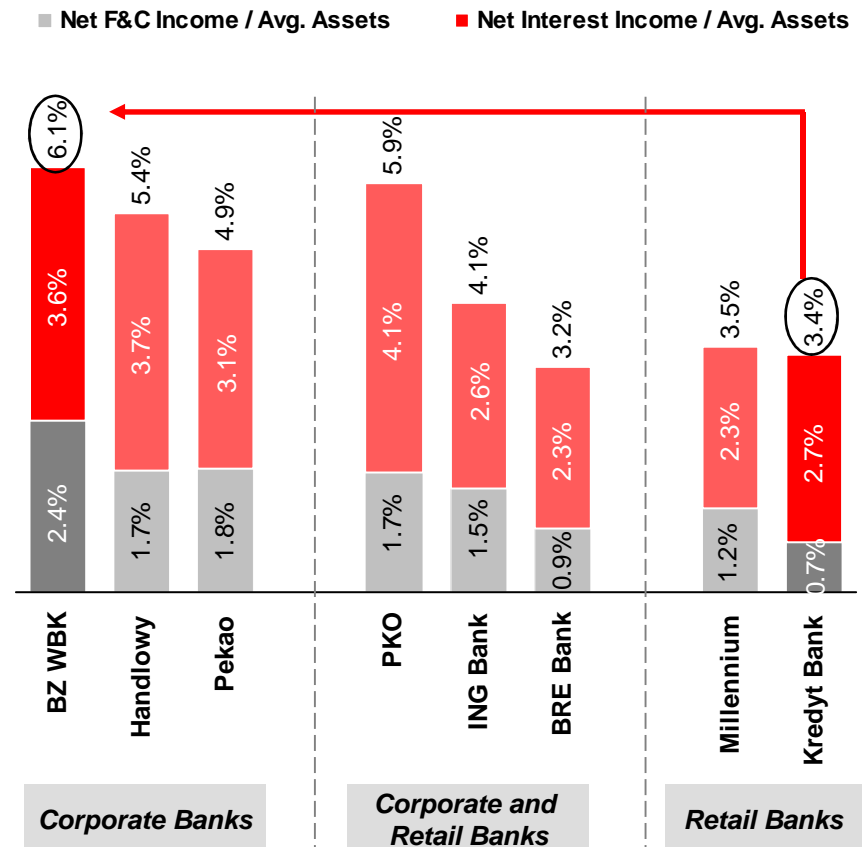
## Significant synergy potential: revenues

KB market share below “natural market level” in corporate and SMEs

Market shares (1H 2011)



Net Interest Income and Net Commission Income as % of Average Assets (9M 2011)



Source: Company data



### Key Revenue Synergies Drivers

Potential to leverage on BZ WBK best practices to exploit revenues opportunities in segments currently under-penetrated:

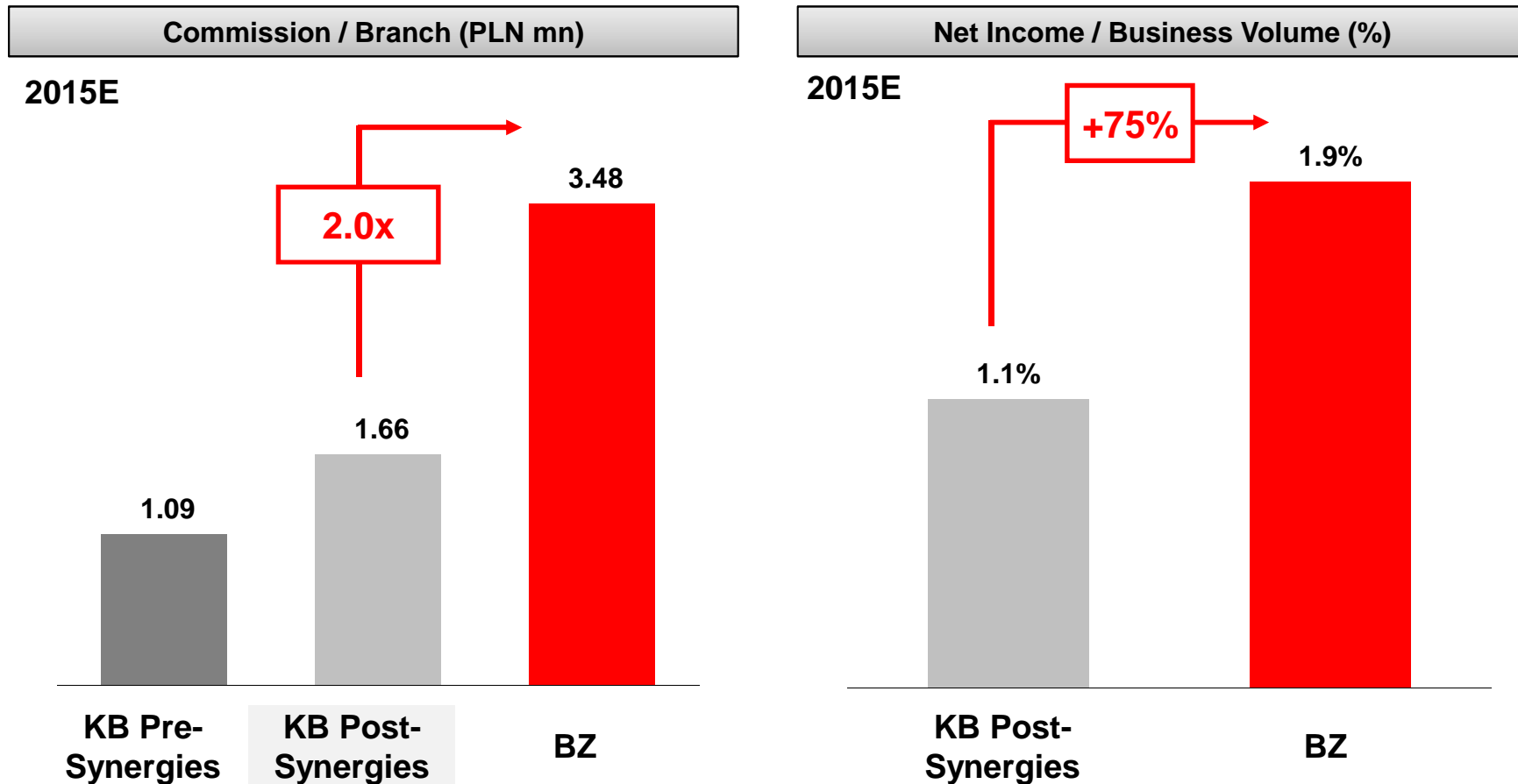
- *Insurance & asset management* exploitation
  - Potential to increase insurance productivity
  - Leverage BZ WBK Asset Management business to increase market share and pricing levels
- Cross-selling opportunities
- Enhanced *pricing* policy and *product mix*
- *FX income* improvement through increase in KB trading income

Expected productivity improvements by 2015:

**PLN 114m**  
before tax

(ca. % 2 of the combined 2011PF revenue base)

After synergies, there would still be room for improvement due to the “market power” of the combined KB and BZ



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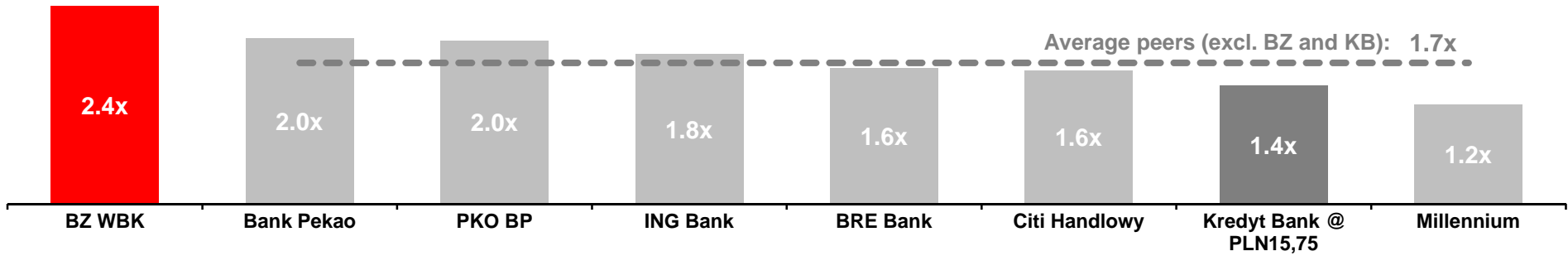
**Financial impact**

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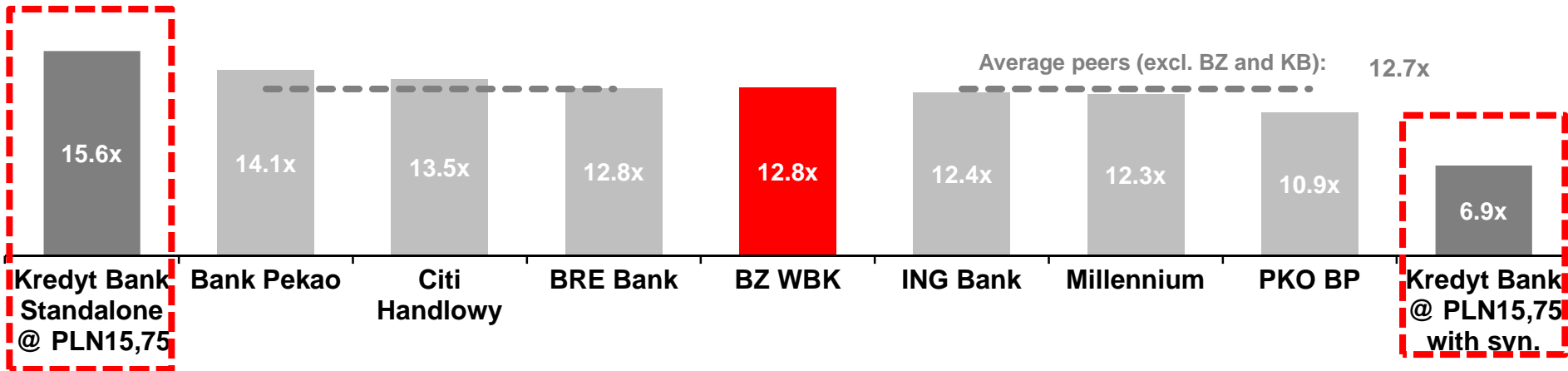
# Valuation underpinned by synergy potential

**Fair value of transaction multiples in terms of P/BV...**



**...and attractive in terms of P/E with fully phased in synergies**

P/E 2012



Source: Bloomberg as of 27 February 2012.

**Financial impacts:  
the deal is attractive by all financial metrics for both BZ and SAN  
shareholders**

PLN million	2011E	2012E	2013E	2014E	2015E
	PF	PF	Year 1	Year 2	Year 3
BZ WBK net income business plan	1,273	1,477	1,741	2,002	2,308
Kredyt Bank net income business plan	293	275	320	369	412
After-tax Synergies			56	226	349
<b>Net income from combined entity</b>	<b>1,566</b>	<b>1,752</b>	<b>2,118</b>	<b>2,597</b>	<b>3,069</b>
<hr/>					
<b>BZ WBK shareholders' EPS accretion</b>			<b>(3%)</b>	<b>3%</b>	<b>6%</b>
<hr/>					
<b>Santander earnings accretion (€ mn)</b>			<b>€ 3 m</b>	<b>€ 36 m</b>	<b>€ 58 m</b>
<hr/>					
<b>RoI <sup>(A)</sup></b>			<b>8.8%</b>	<b>13.9%</b>	<b>17.8%</b>

**Core capital impact for Santander below 5bp**

Note: Based on business plan elaborated by Shareholders. Assuming a 81.5% interest from SAN in the combined entity (76.5%+5% maximum)  
(A) Based on a total value of PLN 4,279 for KB and net income for KB including synergies



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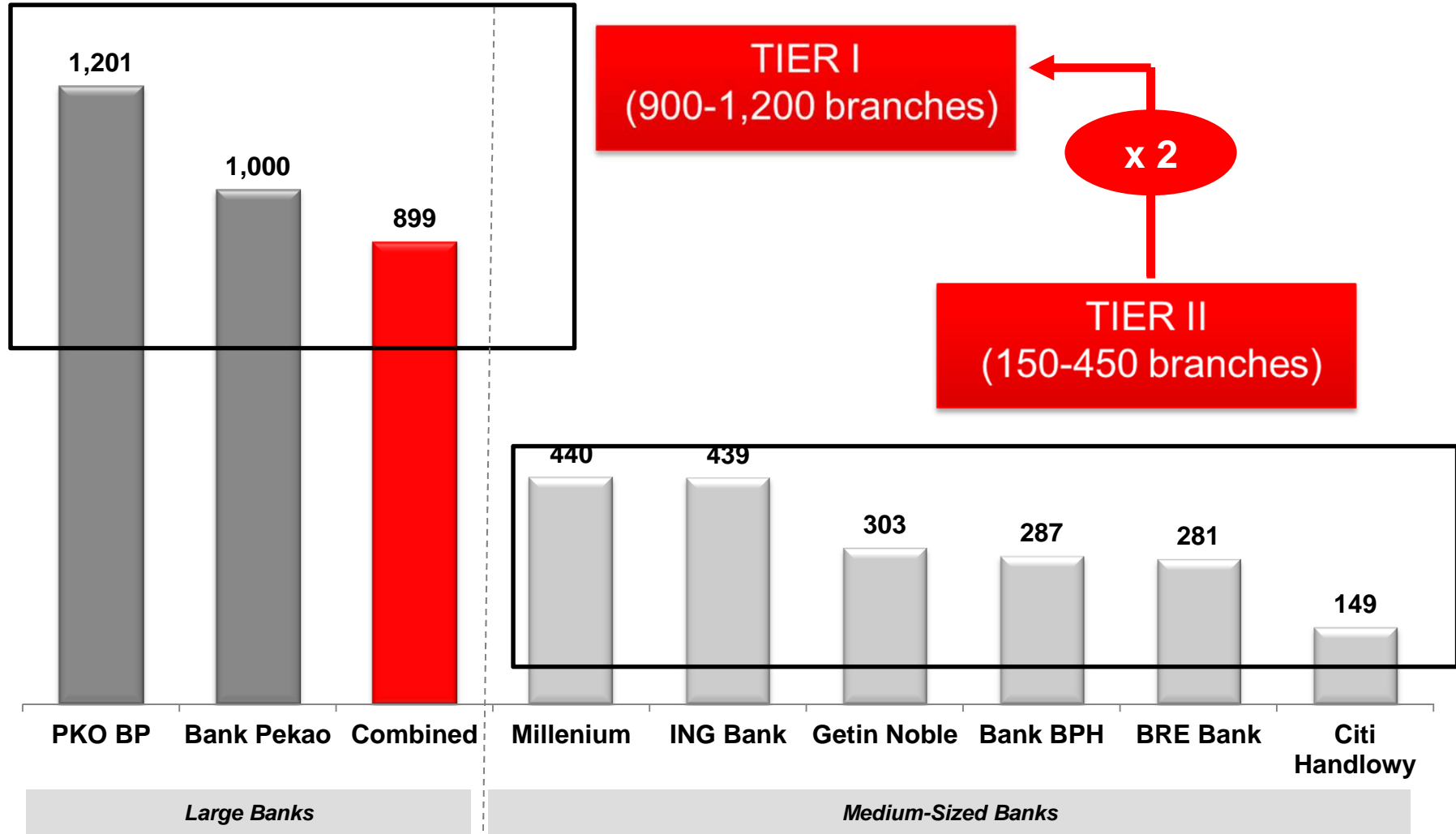
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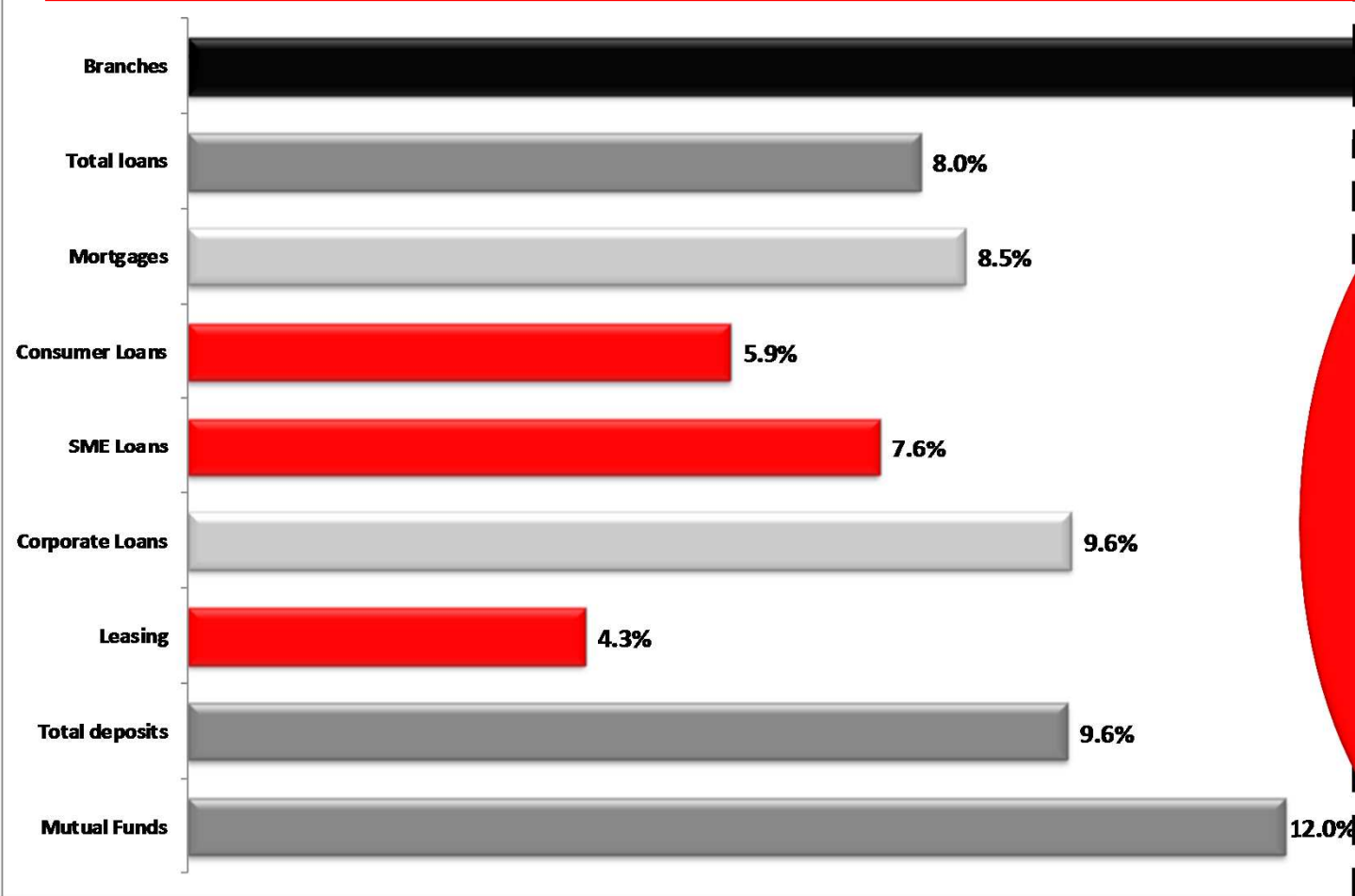
The new bank would clearly reinforce its position as **Top 3** in terms of distribution network ...



Note: Latest available data, excluding agencies

..with potential to **improve its commercial performance and accelerate revenue** growth (consumer loans, SME loans, leasing, among others)

**Market Shares Pro-forma (%)**



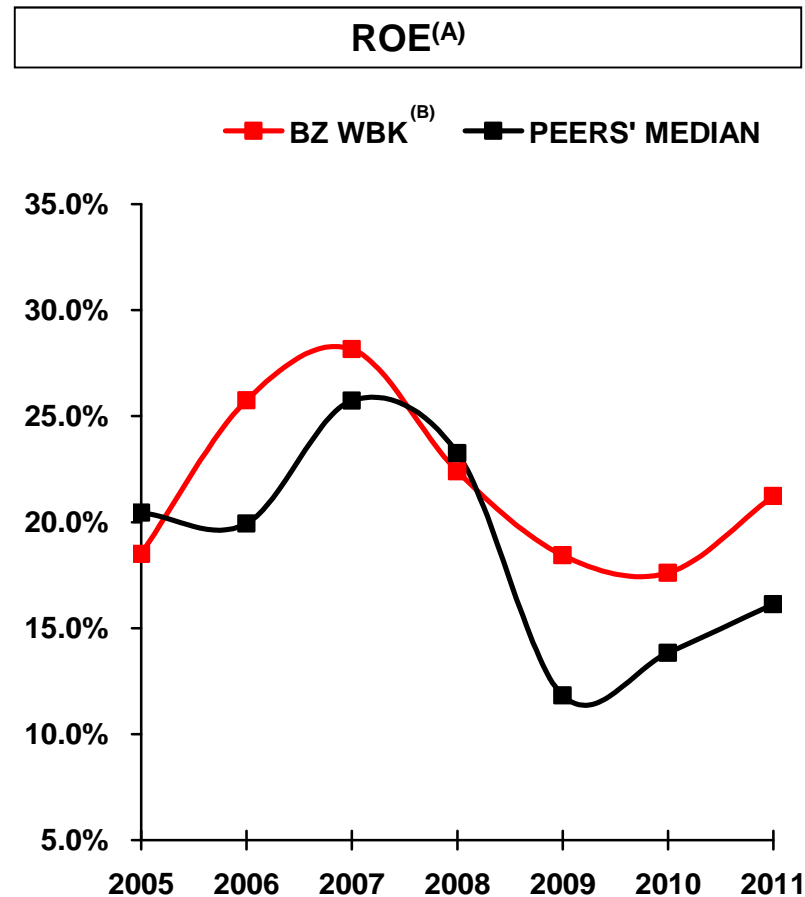
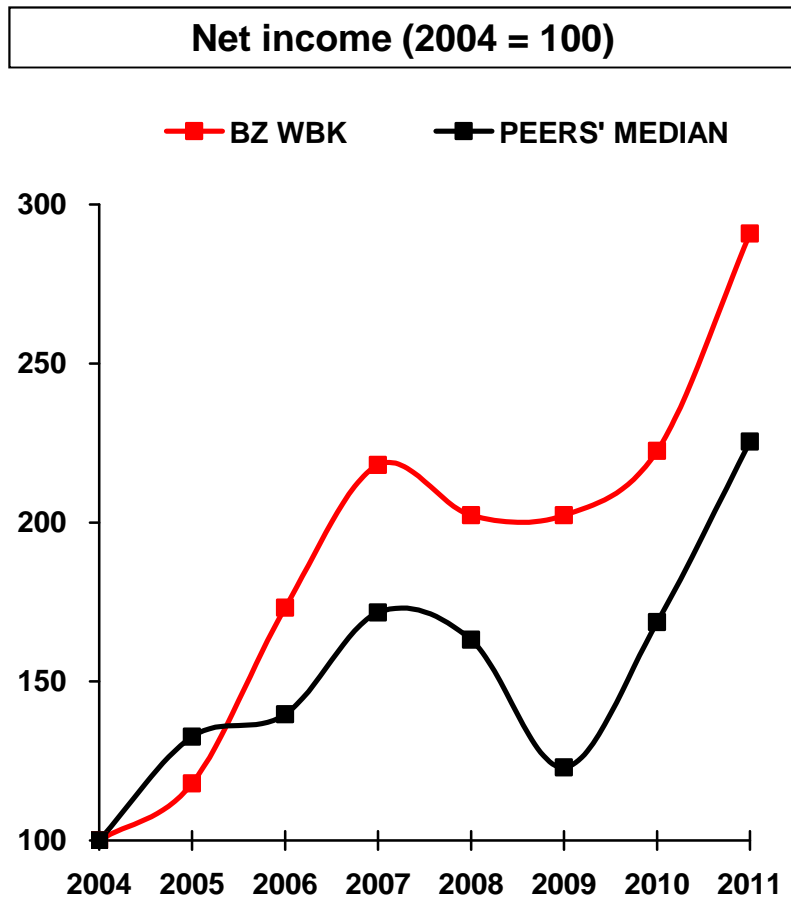
Market share below its “natural level” with sizeable gap and improvement potential

(A) Excludes agencies



We have a proven track record of efficiency and profitability, and we are able to take advantage of this opportunity

**BZ WBK has consistently outperformed its closest peers both in terms of profit growth and profitability**



Source: Company information, Bloomberg.

(A) Annualised net profit attributable to the shareholders (4 consecutive quarters) to the quarterly average of equity calculated based on total equity at the end of

five consecutive quarters, net of the current period profit, non-controlling interests and dividend due to shareholders

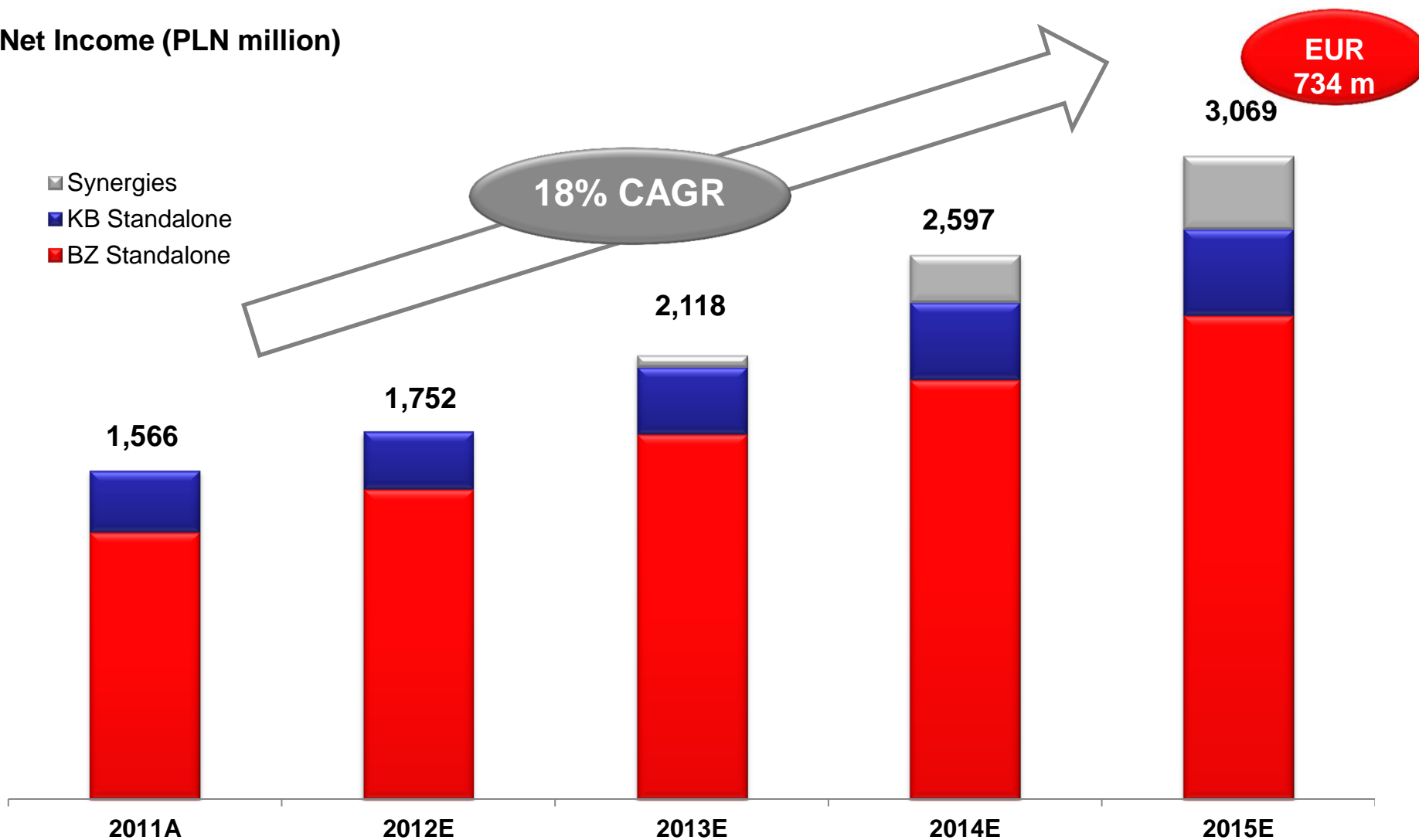
(B) ROE for BZ WBK for 2011 excluding ones-off adjustment.



Our goal is to deliver annual growth rates of 15-20% over the next four years

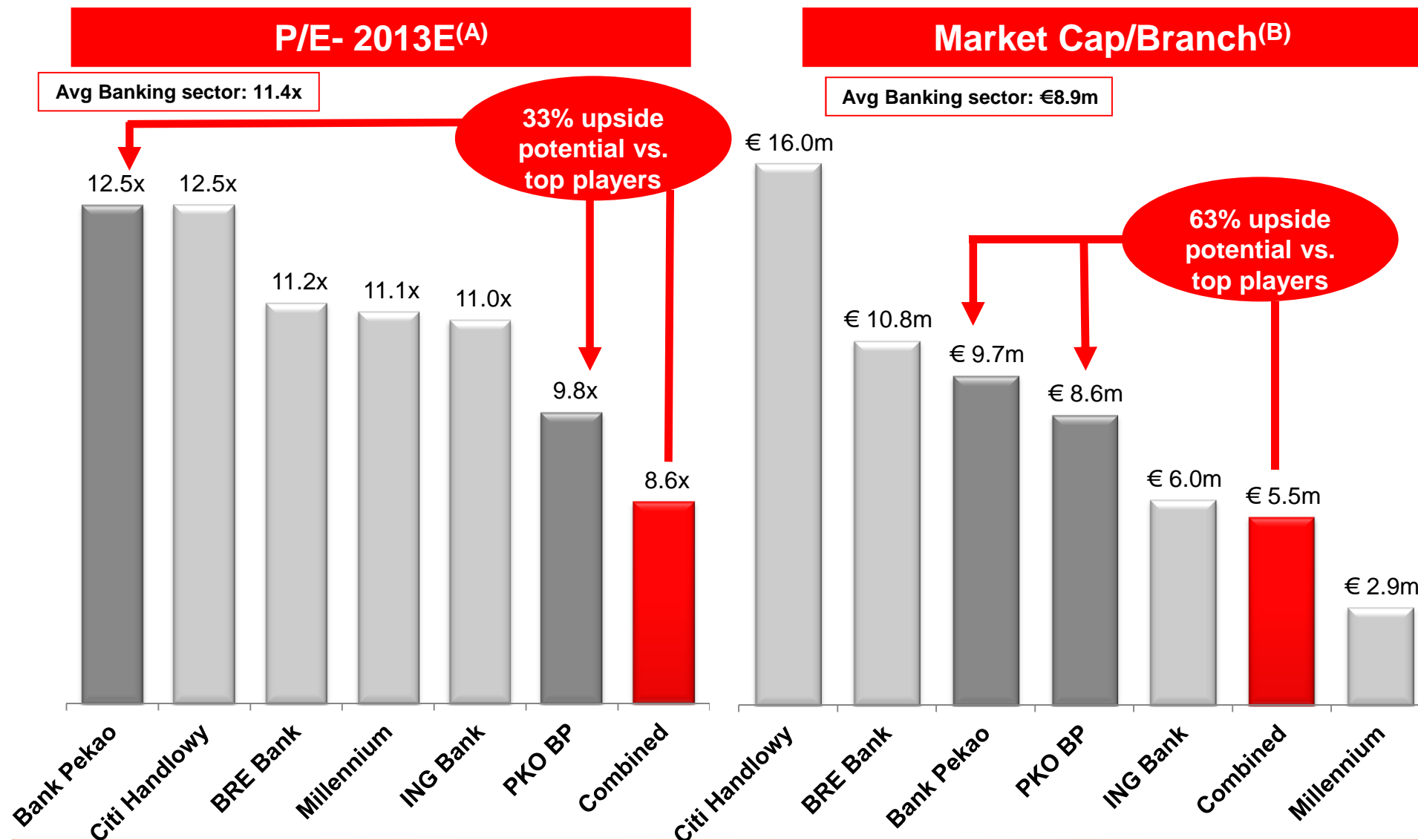
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Net Income (PLN million)



Source: Based on business plan elaborated by shareholders

# The new bank will trade pro-forma at attractive multiples given its growth and upside potential



Source: Bloomberg as of 27 Feb 2012

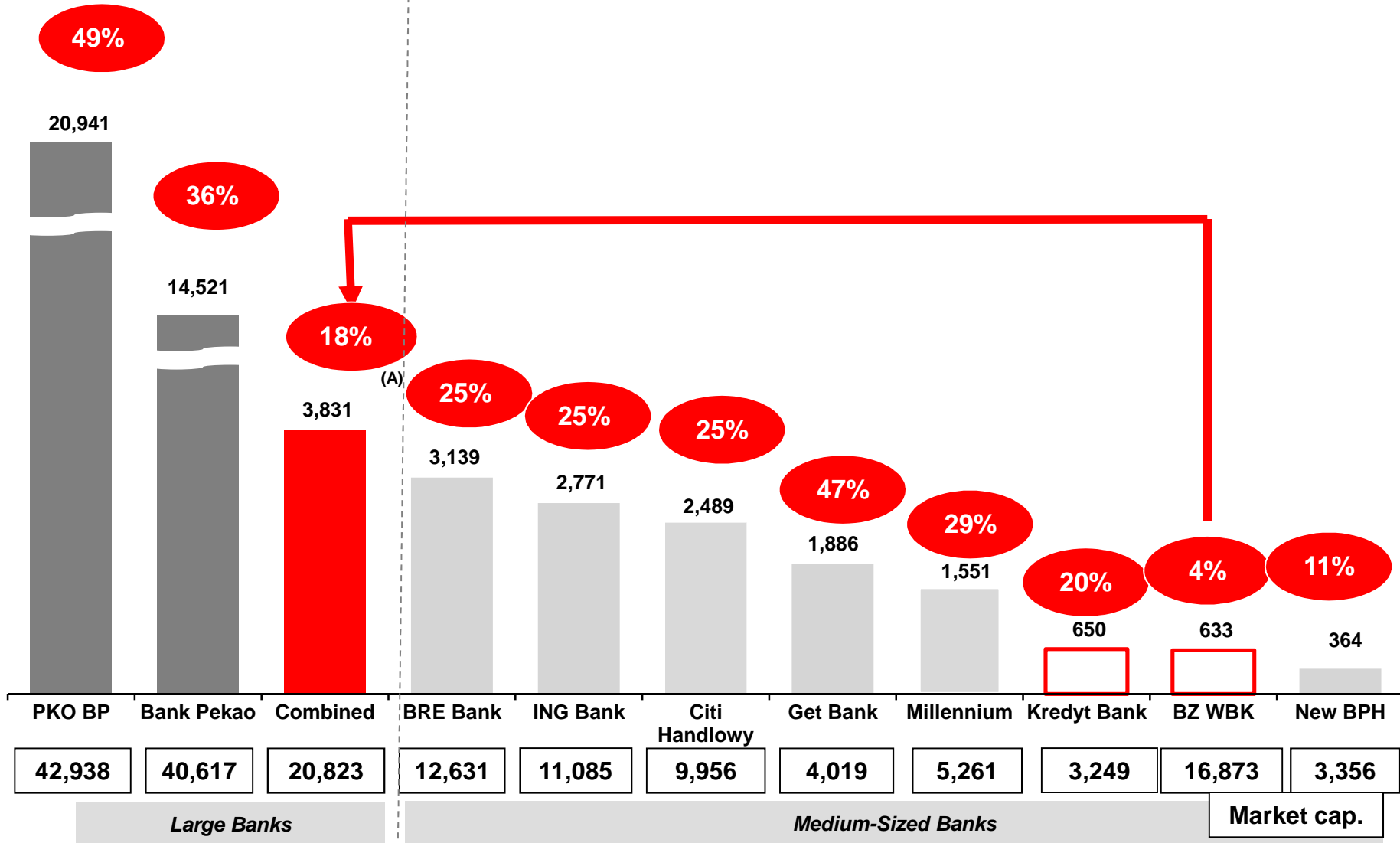
(A) Based on proforma transaction valuations (€5,0bn) and full run rate synergies of PLN 349 post tax; combined multiples not included in average calculation

(B) Does not include agencies



# With significantly improved free-float and liquidity

## Free float (PLN mn)



Source: Bankier.pl and Bloomberg as of 27 Feb 2012.

(A) Assuming Santander acquires up to a maximum of 5% of KBC's stake to lower it below 10%, and places the remainder in the market to investors, plus 9.9% from KBC as financial investor

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30

The merger of BZ WBK with Kredyt Bank has a strong rationale...

- ✓ **Consistency with Santander's strategy** to increase weight of high growth core markets as Poland
- ✓ **Improved critical mass**: creation of the 3<sup>rd</sup> largest Polish bank and positioning of BZ WBK among the end-game winners in a fragmented market
- ✓ **Good complementarity between both franchises**: creation of a well-balanced diversified commercial bank as a result of Kredyt Bank's retail focus
- ✓ **Significant opportunity for growth and enhanced profitability**: strong synergy potential from combining BZ WBK and Kredyt Bank by eliminating duplications and leveraging on Santander's best practices
- ✓ For Santander the transaction will be **EPS and value accretive; with an attractive ROI; and almost capital neutral**
- ✓ The combined entity will be a unique investment opportunity in terms of **scale, positioning, profitability, upside potential and higher liquid stock** with a proven track record and attractive valuation

