

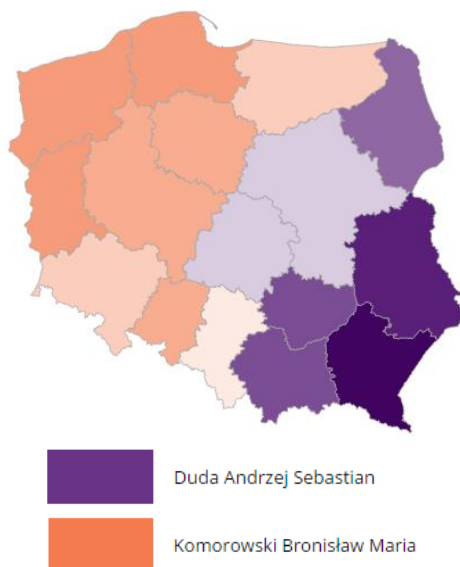
INSTANT COMMENT

26 May 2015

Wind of change

According to official results of Polish presidential election, the opposition Law and Justice party (PiS) candidate, Andrzej Duda, won the second round with 51.55% of the votes. Implementation of some of the proposals presented by Andrzej Duda during election campaign would be costly for the budget (child benefits, higher tax-free income) or could be negative for medium-term economic growth (lowering the retirement age). As the president's constitutional power is limited, Duda would need to have a majority in parliament in order to deliver on his promises. Therefore, the results of the general election in the autumn will be very important. It is hard to guess the results, although the probability of another political change seems to be increasing. One thing is quite certain – the next few months will be very interesting in Polish politics and, potentially, on the financial markets. The reaction of Polish FX and FI markets after Sunday's election was relatively muted, but we note foreign investors were absent as the main core markets were closed on Monday. Equity market reaction was stronger: banks sold off, pricing-in a risk of implementation of a bank tax or CHF loan conversion.

Election results: support for candidates by region



Source: National Electoral Commission

Poland's New President Andrzej Duda

According to the official results, the opposition candidate Andrzej Duda (43 years old) won the second round of the presidential election in Poland, with 51.55% of votes. He ousted the incumbent Bronisław Komorowski, backed by the ruling Civic Platform party. Turnout was 55.34%.

According to exit polls, Andrzej Duda was supported by younger and older voters. He won 60% of votes in the 18-29 age group, 53% in the 50-59 age group and 51% of the 60+. Bronisław Komorowski won 53% in the 30-39 age group and 50% among 40-49 year olds.

Voters with higher education supported the incumbent president Bronisław Komorowski (56%), while groups voted more widely for the challenger Andrzej Duda, with the highest support in primary education group (66%).

Cities voted for Komorowski (59% in cities over 500k, 55% in 200-500k cities, 53% in 50-200k cities and 51% in cities up to 50k), while the rural population supported Andrzej Duda (62%).

As regards professional status of voters, Duda was supported by farmers (66%), blue-collar workers (61%), students (62%), job-seekers (60%) and pensioners (52%), while Komorowski won among entrepreneurs (59%), managers and specialists (60%).

Those who supported far-right candidates in the first round (Grzegorz Braun, Marian Kowalski, Janusz Korwin-Mikke) moved to Andrzej Duda, while supporters of left-wing candidates (Adam Jarubas, Magdalena Ogórek, Janusz Palikot) voted for Bronisław Komorowski. Supporters of Paweł Kukiz, who won over 20% of votes in the first round voted mostly for Andrzej Duda (59%).

Duda's main economic ideas

During the election campaign, Mr. Duda proposed a number of economic measures he would like to implement. Below we list the most important ones:

- **Lowering the retirement age** – He proposed reversing the pension system reform introduced by the current government in 2013, which assumed a gradual rise of the retirement age to 67 for both men and women (from earlier 60 for women and 65 for men).
- **Higher tax-free rate** – Increase of the tax-free income initially to PLN8000 (from current PLN3091) and its further rise in the following years.

ECONOMIC ANALYSIS DEPARTMENT:

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

email: ekonomia@bzwbk.pl Web site: <http://www.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

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

- **Child benefits** – Introduction of the monthly allowance PLN500 per child for low income families.
- **Forced revaluation of CHF-denominated loans** – Duda proposed that the CHF-denominated loans should be converted into PLN at the exchange rate from the moment they were taken. Banks should cover the costs, in his opinion, and the state should be active in brokering the deal.
- **Introduction of bank tax** – No technical details available at this stage, but early hints from PiS politicians suggest that a tax equivalent to 0.5% of assets could be discussed. This would equate to almost PLN8bn or c50% of the sector's annual profits.
- **Euro adoption** – Andrzej Duda is clearly against the idea of fast euro adoption in Poland. It does not, however, change much in terms of euro adoption prospects, as the governing Civic Platform has not recently been in favour of the fast process either. However, the incumbent President Komorowski mentioned many times in the past a willingness to start a serious debate on the issue.

Implementation of some of those proposals would be costly for the budget (child benefits may cost the budget cPLN24bn per year, higher tax free income cPLN20bn), others could be negative for economic growth. In particular, a lower retirement age would surely be negative for the economy in the medium and long run given the demographic outlook, even though its short-term consequences would be probably limited.

One has to remember that the constitutional power of the President in Poland is rather limited – he has very minor decisive power, as all important changes in laws have to be approved by the parliament. Therefore, to deliver the above-mentioned promises, he would need to have a majority in parliament that would back those ideas. Therefore, the results of the general election in autumn will be very important (see below).

However, the President has a notable destructive power, as he may effectively block changes proposed by the government, using the power of veto, which can be rejected only with three-fifths of votes in the parliament (and since 2005 there was no ruling coalition numerous enough to reject the presidential veto).

First nominations by Andrzej Duda

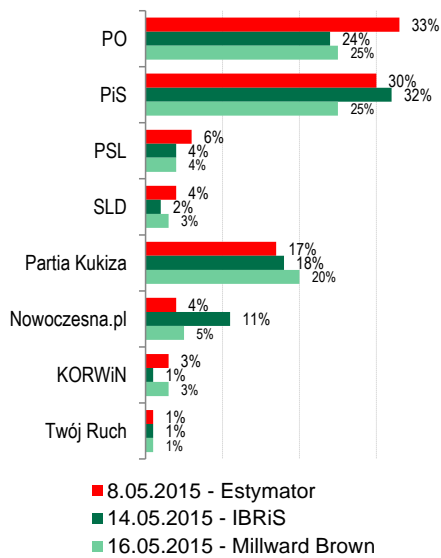
Even though his powers are limited, the President may influence nominations of important policymakers, who can have a material impact on the country's economic policy.

- **Banking supervision** – The President's representative is one of the seven members of Polish Financial Supervision Authority (KNF). The current president's representative is Jerzy Pruski, the head of the Bank Guarantee Fund. If he is replaced, the most important issue will probably be the approach of a new person to the issue of CHF loans conversion.
- **MPC members** – The President designates three members of the Monetary Policy Council, however only two of the presidential members end their term of office at the start of 2016 (on February 19), as Jerzy Osiatyński was appointed for a six-year term in December 2013. Three other MPC members will be appointed at the start of 2016 by the Sejm and three remaining by the Senate. The new Council members to be designated by Andrzej Duda are likely to present dovish views on monetary policy, in our view.
- **NBP Governor** – In this case the situation is more complicated, as according to the Polish constitution the candidate for the head of the central bank named by the President has to be approved by the parliament. Therefore, the results of autumn general election will be important for the nomination of the central bank governor. At this stage, however, it seems unlikely that President Andrzej Duda will propose Marek Belka for the second term.
- **Brokering appointment of the PM** – The President has an active role in the process of forming the government after the general election, as he is the one who designates the candidate for the new PM. His role may be particularly important if no party is a clear winner of the election in the autumn and different ruling configurations are possible. In this case, the President's choice may determine who will have the right to form the ruling coalition first.

What next on the political scene?

Results of presidential election signal looming significant changes on the Polish political scene. Ahead of the approaching general election (autumn), public support for the ruling Civic Platform (PO) is in a downward trend. Additionally, formation of two new political parties is possible by the autumn. The first one is that created by Paweł Kukiz, a former rock-star and independent anti-establishment activist, who gained over 20% of votes in the first round of presidential election (mostly thanks to the support of the young people). The second was created under the auspices of Leszek Balcerowicz, the former finance minister

Support for the Polish political parties in opinion polls



and mastermind of Poland's economic transformation of the early 1990s, economist Ryszard Petru and centrist politician Władysław Frasyniuk. They formed the civic association "Nowoczesna.pl" at the end of April 2015. The recent opinion polls showed a rapid increase in support for the new parties, despite the fact that they are not officially registered yet. Meanwhile, the support for the ruling PO is falling, for PiS is rising, and other opposition parties i.e., current junior coalition partner the Polish Peasant's Party (PSL) and the left-wing Democratic Left Alliance (SLD) would not even find themselves in the Sejm as support for both parties could be lower than a minimum threshold of 5%.

With respect to the proposals of Andrzej Duda, mentioned above, these are probably in line with the main opposition party's (PiS) programme. They are potentially costly for the budget. At the same time, there is a risk that once the election campaign heats up, the current government under the pressure of falling support in the opinion polls may also decide for more expansionary policy in order to get more votes. Hence, Duda's win on Sunday means an upward risk for fiscal spending.

There are also some worries that the new President will go on a "legislative war" against the government, once he is appointed (on August 6). For example, the President can start sending his "election-promises" bills to the parliament. He did actually pledge to present some bills in three months after the election (CHF loan conversion). Parliament's rejection (or freezing of the bills), which is quite obvious, can serve as an argument against the ruling parties (rejecting citizen-friendly bills). On the other hand, the government can also submit its new bills, hoping that the president will veto them, presenting himself as a blocker of the government's initiatives.

It is hard to guess the results of the parliamentary elections, given the recent surprise in the presidential election. On the one hand, one might expect that the opposition party will keep the momentum and take a majority in the parliament too (or at least form a majority coalition with some minor parties). On the other hand, the country may prefer not to concentrate all the power in one party. After all, President Bronisław Komorowski won as much as 8 million votes on Sunday.

The bottom line is that some risk premium should be visible in the Polish market in the next few months – weaker zloty, steeper curve, weaker equity (banks). We see a volatile five months ahead – the first two months will see what bills the Civic Platform will try to accept before the formal Presidential change (scheduled for August 6). The following two or three months will see an election campaign at full-steam with a possibility of new legislative initiatives of the new President Andrzej Duda.

This analysis is based on information available until 25.05.2015 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

* 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.

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 United Kingdom and subject to limited regulation by the Financial Services Authority, UK ("FSA"). 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.