

8 December 2016

Powszechny Zakład Ubezpieczeń SA jointly with Polski Fundusz Rozwoju takes over a 32.8% stake in Bank Pekao from Unicredit

PZU jointly with PFR signed an agreement with UniCredit S.p.A. for the purchase of 32.8% of the shares of Bank Pekao S.A. for a total amount of PLN10.6bn. The purchase price per share is PLN 123. This makes it one of the largest transactions in the European banking sector in recent years. The acquisition of Pekao's shares is in line with PZU's strategy until 2020, which assumes building a banking group with at least PLN140bn in assets and accumulating PLN50bn of third party AuM. PZU and PFR will cooperate in order to ensure the effective implementation of Pekao's development strategy, preserving the low-risk profile of the bank, its strong profitability and a stable, long-term dividend policy.

– Thanks to the finalisation of the transaction, PZU has become the largest financial group in Central and Eastern Europe, being a leader both in insurance and in the banking and asset management sectors. I am convinced that the existence of such a strong financial institution headquartered in Warsaw will have a significant influence on the financial stability and prospects of the sound development of the Polish economy. This institution will have unique possibilities, thanks to its strength and scale, to create value for our shareholders, clients and employees – said Michal Krupinski, PZU's CEO.

– One of the challenges for the Polish economy is a lack of the strong local investor base, which is also visible in the banking sector. This is why PFR is interested to act as a long-term financial partner for strategic investors and the support we provide for various initiatives aimed at promoting and strengthening the domestic financial market. Pekao is a strong institution well positioned to further capture the high growth potential of the Polish economy and prospects of the banking sector. In cooperation with PZU we will be a stable investor for Pekao, to the benefit of the employees, clients and investors of this bank – said Paweł Borys, PFR's CEO.

The transaction structure assumes that PZU will indirectly acquire a 20% stake in Pekao at closing, for a total amount of PLN6.5bn. Simultaneously, PFR will acquire 12.8% of Pekao's shares directly from UniCredit for a total amount of PLN4.1bn.

In accordance with the assumptions, Bank Pekao may acquire UniCredit's stakes in Pioneer TFI, Pioneer PTE and Xelion to become the 100% owner of key subsidiaries.

The agreed purchase price of PLN 123 per share implies a total consideration of PLN10.6bn for the 32.8% stake in Pekao being acquired by PZU and PFR and represents a price/book value multiple of approx. 1.3x based on Pekao's book value as at the date of the planned closing and price/earnings multiple of 13.1x based on the 2018 consensus earnings.

The purchase price represents a 2.4% discount to the sale price of the 10% stake in Pekao by UniCredit in July 2016 and a 3.3% discount to the average price of Pekao's shares on the Warsaw Stock Exchange over the last six months.

PZU and PFR have entered into a long-term shareholders' agreement, which regulates the cooperation between PZU and PFR in relation to the investment in PKO. PZU expects that post-closing it will be able to consolidate Pekao in its consolidated financial statements.

This transaction enables the PZU Group to achieve one of the goals stated in its Strategy 2020, namely building a Polish banking group with target total assets of PLN140bn. PZU perceives the Polish banking sector as uniquely attractive in offering growth potential, driven by still low loan penetration and healthy economic growth and stable profitability at moderate levels of risk. It is anticipated that Pekao and PZU will benefit from the cooperation in the distribution of insurance products and asset management that will result in a growth of revenues from this area for PZU and Pekao.

PFR's aim as a long-term strategic financial partner is to support PZU in the implementation of the strategy to build a strong Polish banking group with high growth potential. PFR assumes that the transaction will help to achieve an attractive return on investment. It will be financed from own funds and those raised on the financial markets.

Pekao is a leading Polish bank operating in the corporate, SME and retail banking and asset management sectors, which has consistently delivered strong financial results. In FY2015, Pekao had a 13.0% market share in mortgage loans and an 18.0% market share in corporate loans, and from FY2014 to 3Q'2016 achieved a CAGR of 11.0% in core retail loans and 7.1% in core corporate loans. Pekao has demonstrated strong cost control, good asset quality with a 6.4% gross NPL ratio (in 3Q2016) and 43 bps of cost of risk¹, which resulted in strong ROTE levels above 10%, despite operating with a CET1 ratio of 18.1%, the highest in the sector.

Pekao and Unicredit will sign an agreement on strategic cooperation, especially dedicated to Polish companies operating abroad and international clients investing in Poland.

The Transaction is expected to bring a number of financial benefits to PZU. It is expected that the acquisition will be immediately substantially earnings-accretive, resulting in 10-11% EPS accretion in 2017-2018. The additional earnings are expected to have a positive impact on PZU's medium-term ROE and contribute to achieving its planned target ROE of 18%. Pekao's high capital adequacy and high ROE will contribute to maintaining Pekao's current dividend policy of paying out close to 100% of its earnings. PZU's pro-forma Solvency II coverage ratio will remain in line with PZU's "capital and dividend policy for the years 2016-2020". PZU's financial leverage ratio is expected to remain below 35%, in line with the strategic target.

PFR expects to achieve a return on investment in Pekao of above 10% p.a. and assumes at investment horizon of at least 3 to 5 years.

Advisers to PZU:

Financial adviser - Deutsche Bank

Legal adviser - Clifford Chance

Advisers to PFR:

Valuation opinion - JP Morgan

Legal adviser - Gide Loyrette Nouel

Due diligence adviser - Ernst & Young

¹ Annualised, as reported by Pekao in 3Q2016 results presentation

PZU Press Office

Marta Wolańska
rzecznik@pzu.pl;
+48 603 679 680

PFR Press Office

Agata Nałęcz
PR & Communications Manager
agata.nalecz@pfr.pl;
+48 517 372 890