

Magdalena Komaracka

Good afternoon, everyone. On behalf of the Management Boards of PZU and Bank Pekao, I would like to warmly welcome you to today's meeting. We are very pleased to have you here with us as we discuss the approach to the reorganization of the PZU Group and Bank Pekao. This session will be hosted by Mr. Andrzej Klesyk, CEO of PZU and Chairman of the Supervisory Board of Bank Pekao, and Mr. Cezary Stypułkowski, the CEO of Bank Pekao. We truly appreciate your time and interest in joining us today for this important discussion. I will now hand over to Mr. Klesyk to commence the meeting.

Andrzej Klesyk

Perfect. Thank you very much. Good morning, good afternoon and good evening, because I understand that everyone is in a very different time zone. We are extremely pleased, both of us, to present to you, probably the most exciting and the most innovative project in the finance sector in Poland and probably in Central Eastern Europe. We would like to make sure that the message today is only about the organization of the Group. So, therefore, any other questions related either to the Bank or to PZU, we would ask you to postpone for separate discussions and meetings for a very simple reason, because we are running two organizations that are listed, and therefore we want to make sure that we are compliant with all the regulations related to the capital market. So, let's start with the background of what we want to achieve. Both of us are obsessed with shareholder value, and we realize that one of the major questions related to our institutions is capital management, that has a direct impact on shareholder value. So, we decided to proceed with capital optimization, even last year. In December 2024, there was an agreement or MOU signed between the Bank and PZU stipulating that both institutions would think about it, and the first step was solving an issue of Alior Bank. Secondly, in March, I presented a structure of the holding of PZU Group, which was one of the ideas to improve capital management, and just to remind everyone, it was very well received by the market. However, as being very creative and ambitious managers, we decided that we should not stop here, but we should also think about the next step and use currently changing regulations and regulations that were being put in place a few years ago, that would allow us to even further maximize our capital structure, using something called Danish Compromise. And this is all today about capital management and Danish Compromise. This proposed transaction will free up roughly 20 billion PLN of capital. So, we cannot precisely determine the number, but we will talk about it later on. In addition to that, the transaction will carry three additional things or benefits. The first thing is we'll have a simplified structure. There will be only one entity listed on the Warsaw Stock Exchange. Probably it will be one of the largest, or definitely it will be one of the largest in terms of market cap entities listed on the Warsaw Stock Exchange. Secondly, it will allow us to make sure that capital allocation and capital management is efficient. And finally, there will be opportunities to increase the top line and also corporations within the Group. So, without further ado, let us go through three slides, and then we'll open for questions. I will go through the first one, i.e. transaction structure, and then Czarek will talk about capital management and potential dividend policy. The first slide shows to us and to all of you the simplified structure of PZU Group as of today. You see that we have two listed entities. We have an operating entity that has an insurance license listed that, in turn, owns majority position, well, almost majority position in bank Pekao SA and Alior. We, as we discussed with you in March, we said that this is suboptimal, and we should create a holding. And the first step of the envisaged transaction will be creating a holding, where PZU SA, you can see on the left-hand side, HoldCo, is an entity listed on the Warsaw Stock Exchange, is a small entity with a relatively big balance sheet. However, not operating in insurance. So, the license, insurance license, will not be held by PZU HoldCo. You see that the structure below will be slightly different,

i.e. Alior does not have a dotted line to anywhere, because right now we are considering two things, obviously strategic options. And I personally promised to you that in September we will come back to you with a recommendation. And secondly, we still are analyzing where is the most efficient structure and how is the most efficient structure to be designed to maximize capital management. So, Alior is still to be decided in terms of its position within the group. You also see on the right-hand side that the changes to Pekao SA are not existing. So, the first step is to create holding. Nothing from the capital or any other point of view will change in the bank. However, the revolution comes in the second step. This is exactly what today is all about. We will have a transaction where Pekao SA, a listed entity, merges or buys PZU HoldCo, not for cash, but for paper, as you call it. And PZU SA HoldCo will be delisted from the Warsaw Stock Exchange. We will have the final entity structure as envisaged up there. Today we are not prepared to talk about exchange parities or anything like that because it's too early. However, we calculated rough numbers. It would mean that the State Treasury will stay at around 27 plus percentage points of capital in the new entity. The rest will be a free float. The whole transaction, again, will create, not create, will free up roughly 20 billion PLN of capital at the level of Pekao SA, so the top call company. We are still calculating with our advisors exactly precise numbers, and we will talk about it in a second. However, that's the whole picture. You see that Alior, again, is somewhere hanging. Likewise, there is PZU Health. Likewise, entities related to our companies, i.e. investment funds, those decisions will be made by us, based on capital optimization and strategic freedom. I hope that is clear, and I will ask Czarek to walk us through the benefits. So, the money.

Cezary Stypułkowski

A few words from my side. I think that, you know, what we owe you is really to explain the background of that transaction, which, you know, as Andrzej has said, is evolution from the 2nd of December, when we started the debate, mostly around Alior. And at that time, it was pretty clear that for Pekao SA to acquire the stake from PZU and, consequently, to buy out the minorities, that will require the capital increase on the Pekao SA side in a significant amount of money. And, you know, our current capital buffer couldn't help. So, either we will be diluting PZU, or we will come with some different capital instruments, namely, AT1, with a big magnitude, that the market was not tested for that amount. So, that was a dilemma at Pekao SA. At the same time, CRR 3 has been implemented as of 1st of January 2025, with some easing in terms of equity holding by banks of the other financial institutions, namely the insurance companies. During the discussions, which we had between ourselves, we realized also that, you know, PZU will be under more constraint down the road, namely 2026-2027, when there will be, when the Solvency II will kick in and, you know, with the consequences, basically doubling the capital charge of PZU in terms of not changing the current structure and position vis-a-vis the equity holdings in the respective banks. All these created an environment where we started to dig down and to try to understand better the consequences and potential options which, you know, are in front of us. And, to be honest, we investigated five options which were on the horizon. The option which ultimately has been presented and endorsed also by the major shareholder, that has been very much supported by the Minister of Finance and Minister of State Treasury, endorsed, and I would say also welcomed by our regulator, who was involved from the very beginning in our discussions. We realized that the most optimal structure, the ultimate most optimal structure, on top of the holding process, which has been already announced by PZU and, you know, the steps which, you know, need to be done at PZU Group, that this reverse shareholding, because of the nature of the regulation which is existing in Europe, and I would say also some industrial logic, which is behind, and, you know, as a person who used to work in insurance and in the bank, I have to say that when I was trying to understand and explain to myself the logic behind the different treatment of equity holdings, you know, in the banks and in insurance groups, and I would say reverse direction,

because CRR 3, which has been implemented formally at the beginning of this year, even lowered down the threshold for the banks to keep the holding in the insurance companies. It used to be treated as a risk-weighted asset, the capital of insurance holding, with a risk-weight of 370%. Now the threshold has been lowered down to 250%. And I in-depth investigated, you know, what is the background, and that has been in the process of implementation of these new rules of post-BASEL-III, BASEL-IV. I understand that, you know, the lowering of the threshold was the consequence of relatively extensive studies, which had been done by most the IBA and other regulators coming to the conclusion that, you know, the threshold at 370 was even, you know, too high. That's one. The second is that at the same time when, you know, there is this easing for the banks, you have the situation where the regulators came to the conclusion that for the insurance companies that has to be effectively doubled, due to the fact that Solvency II at 2026-2027 will require the insurer to basically calculate the full capital position of the bank instead of the regulatory minimal requirement, which was under the current regulation. One can ask why, you know, this direction, why the vectors of these regulatory changes are opposite. And the only explanation I have is that the regulators came to the conclusion that the overall risk profile of the banks is more aggressive than insurers. So, if you have a conglomerate, and we are effectively a conglomerate already, so if the bank merges or the insurer has the equity position in the bank, significant equity position because it has to be above 10%, then obviously the proper risk of that institution is sort of getting more aggressive. And opposite, when the bank is owing, you know, a significant stake in insurance, as a consequence, it is being seen like, you know, lowering the risk profile of the bank. So, I would say, conceptually, this is the background of the overall regulatory changes which has happened and obviously, if there will be more questions around this issue, I will step in and will try to explain. Returning back to our particular case. We made some rough estimates, which, and when I'm saying rough estimates, the issue needs to be explained the following way. The figures which you will be seeing are based on the third quarter of 2024. That's the background. And we also adopted some assumptions that the bank will be operating with the TCR expected level of 14.5. That doesn't mean that we will be working with that level, but, you know, that's the assumption for the calculation. And in the case of insurance, PZU, namely, we have estimated that, you know, the ultimate solvency requirement will be at 180. That's for the calculation purposes. So, when we return back to the case of Pekao SA, you see that the current excess capital is in a magnitude of 3.9 billion PLN. As Andrzej has said, after the transition, assuming that, you know, post the steps which will be done at PZU, which, you know, which requires some pushing down the operational activities and leaving the PZU SA, as a holding company for the Group, and also cleaning up the situation where PZU has 20% in the bank, and so there is an expectation, and I'm sort of stepping in front of this more detailed structure. So I would say we will be encouraging the shareholders of PZU to accept, to accept in exchange the shares at Pekao SA. And currently, as we know, PZU shareholders, via PZU SA, they control 20% of stock in the bank. So with this 20% being moved to the shareholders of Pekao SA, we will end up in a situation, where ultimately the bank will do the call on the shareholders of PZU to exchange into the Pekao SA stock. We will issue new shares, and with this step, in our calculation, and assuming also that the companies, meaning the PZU HoldCo, will be merged with Pekao SA, we will end up in a situation where, in our calculation currently, will create a potential of 10.7 billion PLN of additional or the capital to be free up. As a consequence, we will be, with these two moves, we are ending up with 14.6 billion PLN of the capital, which additional, I would say, the capital which will be at disposal. That obviously elevates the TCR to the level of 19.9%. So we are talking, you know, currently 16.9, for the calculation, 14.5. In reality, you know, when these two steps will be done, we will end up with a pro forma excess capital of 15 -16 billion, which you see on the chart, which will lead us to the 19.9% TCR ratio. There was the issue about Alior, and, you know, this is a relatively complex issue because, as I said before, in 2024, when we started this dialogue, we have realized that PZU does not have its own ability to acquire full-scale Alior without issuing new stock. So the

dilemma, which we have been discussing, was either disposal or the merger, which will require, obviously, some payout to the minorities, significant, because PZU controls 32% of Alior right now. So one aspect is, you know, the transaction between the two companies. But the very consequent strategy will be really to merge. To be honest, at that time, and I was very clear on the issue, when we discussed with the investors post the 2nd of December last year, that Pekao, I would say, at this moment, is not fully prepared to absorb Alior. That was the capital element, and there was also an operational element. We didn't play it down. Some of you may remember, I was using the particular expression that is the option which is in front of us and which we can exercise down the road, I would say of gaining the market share and buffing also our balance sheet. So the issue around Alior ended up basically in two scenarios, which we are discussing right now, which is reflected in this step four. So disposing the 32%, you know, that potentially can create, you know, additional 4.8 billion of surplus capital. Alternatively, and, you know, that's the issue which, you know, is important from the... and that's the reason that Andrzej has said that, you know, we need more time really to decide. If Pekao SA would be supposed to acquire and then buy out the minorities, et cetera, that will have an impact again because we have, again, to issue the potentially, you know, the capital. We decided or we are discussing or we are investigating other options, namely issuance of AT1. The amalgamated structure will be a much bigger organization. So

I would say the potential to attract AT1 will be bigger, but we have to be realistic that for the time being, you know, AT1 accessibility for the Polish issuers is relatively limited. I would say the first issuance was from mBank, but it was relatively small. The bank was also much smaller. If we will go through all these steps which are on the horizon, I believe that we will be able to attract a significant amount of the investors' interest also in this more innovative or more exotic, or more complex instrument, which is AT1. In both cases, potentially, if we go down the road with these two options, not to dilute, you know, current shareholders, that will create additional value for the shareholders. So, we potentially can end up with, as it is being expressed here, somewhere around 22-23% of the pro forma capital ratio, which translates into the successive capital in the magnitude of almost 19-20 billion. There is one aspect which is on top of that. Let's assume that, you know, all the steps will be implemented. That will, including, you know, the sort of release of PZU from the Alior burden. And then on PZU's side, there is up to 8.2 billion in current calculation of excessive capital, which partly can be consumed also at the Group level. Our current estimate is that we are talking about approximately 3 billion PLN. This is mostly due to the fact that, you know, risk-weighted assets multiplied by, you know, this 250 reflecting the capital position, you know, adds up to that level. So that's in a capsule wrapping up the capital impact just to give you the flavor which direction we are moving and, you know, what is on the horizon. As Andrzej has said, this will require more work on our side, also based on the figures which will be more reflecting our current position. And let's be fair. In the meantime, the bank and the insurer, we are making, you know, significant money, which will be beefing up, you know, the current position of both institutions. One thing which needs to be definitely refrained, and this is something what is a very specific, and I would say almost a landmark, or one can say ultimate reference to the Polish market, this is the fact that both institutions have a long track record, I would say, of consequent dividend payouts. PZU, which historically was paying, you know, regular dividends, and sometimes even exceptional dividends, has this track record. Pekao SA, I would say, has a track record of 20, more than 20 plus years of dividend payouts, with an exception, I believe, 2 years. One was the post-pandemic, and one was, I think, around the 2008 crisis. But still, you know, the year after, we've been paying the dividend. There is a strong commitment on both on side of PZU and ourselves that this policy of payout will be continued, and we have currently, both institutions have a strong profit generation characteristics, which has been proven over the last years, and we've been announcing our strategy, so, you know, the more profits are on the horizon, and we are confident that we will be able to pay the dividends, at least in a magnitude which have been

paid, you know, over the last several years. If I can add one caveat to what has been already said, is obviously this transaction requires a lot of steps. I would say an important aspect is that there is an operational burden on the side of PZU, specifically in the context of, sort of pushing down the operational structure under the PZU SA, namely the PNC activities. But I would say we've been discussing this issue over the last two, three months, and we believe after, you know, investigating a number of potential transactions, that this one fits the best the ultimate goal, which is, you know, better functioning of the Group, and better utilization of capital. As you remember, and that's my assumption, that you've been witnessing or following what Ministers have said, they may this estimate about, you know, potential impact on the economy, and I think that there was a clear message from their side, that they prioritize the growth of the Polish economy, but we are realistic, you know, excessive capital ultimately belongs to the shareholders. And we will be in dialogue with shareholders about how to manage this freed up capital in a dialogue with the shareholders.

Andrzej Klesyk

Perfect. Thank you very much, Cezary. Before we open for questions, I want to make sure that we also are well understood that the dividend for 2025 will be kind of decided by respective institutions. So we are talking about the future, because the envisaged transaction will not happen in the first quarter and first half a year of 2026, or maybe by the end of second quarter. Secondly, I just want to make sure that also we are very well understood that some questions will not be answered today. We are right now in the process of negotiating a term sheet between two institutions, as it was stipulated in the Memorandum of Understanding, and the minute we are finalized with the term sheet and appropriate corporate governance decisions are made, then we will communicate with the market. So don't be, how to put it...

Cezary Stypułkowski

Too specific.

Andrzej Klesyk

Too specific or if we kind of barge the question, so don't be upset with us. Thank you very much. Let's open the floor for discussion, for questions.

Magdalena Komaracka

Yeah. Thank you very much for your insightful presentation and for sharing your perspectives. We will now move on to the Q&A session. You are kindly invited to use the Q&A feature on your screen. We will try to accommodate as many questions as possible during the remaining half an hour. And the first question comes from Santander, and this is about the capital creation, calculations. And the question is, what options are considered for Alior Bank, and how do you calculate the excess capital creation for Pekao? Today, Pekao is not a shareholder of Alior. What is the base here?

Cezary Stypułkowski

Sorry, I didn't follow.

Magdalena Komaracka

OK. What options are considered for Alior Bank? How do you calculate excess capital creation for Pekao? Because today, Pekao is not a shareholder of Alior. What is the base here?

Andrzej Klesyk

Okay, I think that there are three questions. So the second question, how we calculate the capital, I would ask Czarek because this is how we agreed. In terms of options, we are standing behind what I said and communicated to the market in March, i.e. that we will come back to our investors by the end of September with specific recommendations. As you understand, we are right now in discussions, so we need to, again, recalculate capital impact. As Cezary said, there is a wide range of potential impact in terms of capital, and obviously, we would need to discuss it internally and check it with our corporate bodies. So today, no specific answer. Czarek[...], and obviously, Pekao SA does, well, maybe in an investment fund, they do have shares in Alior, but I don't know and I shouldn't know.

Cezary Stypułkowski

Yeah, that's correct. We are not shareholders and I'm not aware that we are in any form. Specifically, if we are moving any threshold in this respect. I will not exclude that TFI has some positions, but obviously, this is a completely different animal than the bank. So this is not for me to ultimately decide, this is a pure calculation in the case that 32% will be disposed of. You know, it's not that difficult really to calculate that 32% multiplied by current, you know, valuations will impact. Obviously, we don't know all the internal issues, which are at PZU because, you know, how it was booked, you know, what's the current value, etc. But in our calculations, which we have sort of rechecked between ourselves, you know, that adds up to that amount. The alternative, which, you know, has been reflected here at 7 billion, this is a slightly different situation. This is the issue, what type of capital structure we'll be using for the potential acquisition. It's a semi-artificial exercise, to be honest. So I don't want to commit ourselves in this respect. I'm just saying that the, and that was the reason that the 14, that, you know, in the public announcement, which has been done, this estimate had been done between 15 and 20 billion. And Alior is a very important aspect of this announcement, because potentially it can impact, you know, if there will be a just disposal that would add up. But in the case of potential sort of repurchase of the minorities, it's a different game, and obviously that will require either, you know, utilization of the excessive capital, which we have, which, you know, needs to be decided, and we are not at that moment, you know, really ready to make this decision or alternatively, as I said, you know, go to the market and invite the investors to put the money into the play in a different form. But the capital in the form of AT1 is very expensive.

Magdalena Komaracka

Another question about that comes from Wood & Company. What will you use PLN 20 billion of surplus capital for?

Cezary Stypułkowski

Well, I think that for people like yourself, it's not that difficult to imagine, you know, what are the forms of utilization of capital. There are basically three avenues which, you know, can be used. Clear, clear preference of the official sector participants, if I may say, that means the major

shareholder, the endorsement done by the Minister of Finance was focusing on one aspect, growth of the economy and, you know, injection of the, or utilization of this money for the growth of economy. In this respect, I think, you know, you can say two things, just focusing on this aspect. The 20 billion or 15 billion can create a lot of value because the banks have the, really, to leverage this money, you know, via the credit issue to the economy. You know, it's not that complex to say that depending on the risk weights and the product, you can go to a variety of numbers, but in a bulk one can say we are somewhere between 100 and 200 billion PLN of additional credit creation to the economy. So that's, that's one fact, you know, that's, you know, just sort of, before you will ask me the question, you know, what will be the timeframe in which I will be able to dispose this money in this format. Yeah, that's, that's the separate issue which needs to be addressed. You know, the current appetite for credit in the economy used to be relatively low, to some extent due to the fact that, you know, there was an injection of relatively cheap money from the European Union, which has been distributed recently. But, you know, as the National Bank of Poland is stating, we will be approaching the momentum when there will be a cliff. And I think that that will create, you know, much more space and more appetite for utilization. One aspect, which I don't know whether it was reflected in our memorandum and post the memorandum, also the public statement, is that with this move, Pekao SA, I would say, will be benefiting in terms of one client exposure limit, which, you know, currently is at 5 billion, you know, that will be doubled, which definitely creates much more space and, and I would say potential for the Group really to go and offer and, and organize syndications or organize the consortia that will be much, much stronger player in the market than today. So putting aside, you know, this aspect, definitely, you know, the number two is potential, you know, M&A activity, both on the insurance side and the bank side. This has not been, I would say, we didn't profile this yet. But, you know, having this reservoir of the capital muscle definitely, you know, positions the Group very favorably vis-a-vis other players in the market. And the third is a dividend. And I would say, you know, we are talking about, you know, utilization of this money was in this triangle.

Magdalena Komaracka

OK. Last question about calculations from Santander. Could you please share with us, what is the assumed level of TCR of Pekao after the transaction expressed in PLN billion?

Cezary Stypułkowski

TCR model?

Andrzej Klesyk

No. What's the...

Magdalena Komaracka

Not the, not the ratio, but the billions. What's the TCR? Total capital, I guess.

Cezary Stypułkowski

So I have to check just a second. I don't have a particular figure in my...

Andrzej Klesyk

Why don't you guys do it, the calculation yourself.

Cezary Stypułkowski

Yeah, basically they should do that.

Andrzej Klesyk

Because when you think about the slide, let's go back, you see that it's 23% TCR in column number five. So if there's 20, yeah, I know. But if they, if they want to calculate it, then you can, you can see what the TCR is.

Cezary Stypułkowski

If I'm not mistaken, we are talking about 56 billion PLN of our own funds in terms of the TCR post-transaction.

Magdalena Komaracka

OK, thank you. There are two questions, very similar, coming from Trigon and mBank about the holding step, step number one of the transaction. So the transformation of PZU into a holding company was intended to optimize capital from bank ownership. If the bank is not ultimately to be the parent company, why is it necessary to transform PZU into a holding company in the first place? Couldn't Pekao immediately take over PZU in its current form?

Andrzej Klesyk

Czarek mentioned five different scenarios, and indeed, this was one of the scenarios that was contemplated, and indeed, it seems kind of obvious to create such a transaction. However, after having analyzed all the pros and cons, and especially risks related to making a tender, because it would need to be a tender for shares of PZU, we decided that this scenario carries too much risk related to the transaction, and therefore, the transaction was envisaged in a two-step scenario. This is what we are talking about, creating a holding for a very simple reason, because the bank should be able to merge with HoldCo, and HoldCo will not have any banking or insurance license. So, therefore, it is possible, it will be possible for the bank to merge. Merging directly with PZU would be impossible, so therefore, merging in the first scenario would not be an option. I think that that's it.

Magdalena Komaracka

Let's move to a group of questions about the regulations and legal steps. Santander is asking, what steps of the transactions are conditional on changes in law?

Andrzej Klesyk

Two steps, when you think about it, require different changes in law. I will spend some time mainly on the first step, and then also comment a little bit on the second step. The first step requires two changes in law. The first is a change in insurance law related to the ability or possibility of an

insurance company to split its operations. We would need to split operations related to insurance and everything else. Right now, unfortunately, there is not such an option in the insurance law. However, such an option exists in the banking law. So, we believe that it would be relatively easy to get this change in law, because this is pretty much adopting a law in insurance to the law that is, frankly speaking, ahead of insurance, i.e. banking.

Cezary Stypułkowski

Yeah, the background is, just to follow on, the background is that, you know, in banking law, there was not that I was splitting until the BPH has emerged. And then, you know, it has been amended. And in insurance, there is only about the merger, not about the splitting.

Andrzej Klesyk

Exactly. And there is also a small change in the law related to distribution, i.e. allowing agents to be, let's say, not transferred by, moved from one entity to another entity without necessity to go through a very painful process of registration, and so on and so on. So, this is technical. And we got, I wouldn't say assurance, but in our informal discussion with our regulator, the regulator understands the issue, and we believe that we can count on positive kind of support of the regulator. There are two other changes. There are changes in the banking law required for the second step, because right now a bank can merge with a bank, but a bank cannot merge with a holding company. It would need to be amended. The banking law would need to be amended. And one thing that needs to be amended, not amended, changed, is adding Pekao SA on the list of state strategic assets. I even don't know how this law is called in English precisely, but it relates to strategic assets that should be, not controlled by, approved by the state in terms of sales or anything else related to this specific entity. So, therefore...

Cezary Stypułkowski

Yeah, these changes are relatively technical, to be honest. And we had the dialogue already with, specifically with KNF, and I would say even the emergence of, let's say, PNC under the HoldCo of PZU, technically could be done just based on the Commercial Code. But I would say KNF would prefer to have that type of regulation. So, I think the dialogue is being continued. I want to refrain from what the chairman of the... Chairman Jastrzębski has said during his speech in Sopot. He said "with respect to the interests of all stakeholders' groups, active involvement in the project gives us the opportunity to fully understand all conditions and provide support to the project leaders in conducting it, so that all assumptions can be realized safely without disruption and turbulence". So, that's very important that, you know, we are not talking about transactions which we will then try to present to both the regulator and the official authorities. We came with this memorandum after also an intensive dialogue, which has been done with the official sector. I'm not saying that, you know, we are done. We are at the very early stage. But definitely what I'm seeing is that, you know, these changes are of a technical nature and they can help, I would say, PZU significantly on the operational side. There was this question about, you know, the direct tender offer on PZU stock, which we discounted as a solution. And I think that the major issue was, you know, there was, in my opinion, too many market-driven risks which potentially we would be exposed to. So, as an expense, there are more operational challenges, which are in front of us, specifically on the PZU side.

Magdalena Komaracka

OK. There's another question from J.P. Morgan, which is slightly similar, but also has additional information that is being asked for. Could you please outline the various steps in the approval process, which you just did, but could you expect, could you go through the expected timeline of these steps?

Andrzej Klesyk

Again, we are right now negotiating and finalizing the term sheet. In Memorandum of Understanding, we committed ourselves to trying to close this by June 2026. Right now, we are calculating the time frame based on a date when the legal changes are implemented, are in force. Because when we were signing the docs, we were assuming a certain legal process, because there would need to be changes approved by the Parliament and the President. So, I would ask you to wait for two more weeks or three more weeks and the detailed timeframe, including assumptions in terms of timing and assumptions when the decisions are going to be enforced, will be in place. So, again, we are committed to do it as quickly as possible. Just to remind you, everyone, there is an axe hanging over PZU, because, as Czarek also mentioned in his speech, was the fact that we have to do something before the end of 2026. So, we want to do something by the end of 2026, hopefully in the first half a year of 2026. Otherwise, we'll have problems in terms of capital and excess capital on the 1st of January 2027.

Magdalena Komaracka

Another question from J.P. Morgan. On the Danish, could you please remind us the various steps and relevant authorities to get approval and the expected timeline only on the Danish Compromise? And there's another similar question here. Has the approval of the Danish Compromise been discussed with the ECB?

Cezary Stypułkowski

Yeah. The Danish Compromise approval, which is a regulatory requirement, that will come only after the full, I would say, all steps implementation. That's the reason that we are presenting this transaction, independently of what has been already said, that PZU has to do something with its holdings in full scale, targeting June next year with respective steps, which needs to be delivered, which will lead to the freeing up, you know, significant amount of money. The approval can happen only after implementation of the full transaction, on which we signed a memorandum. And on top of that, you know, we will be operating, as we do right now, as a financial conglomerate, which requires also the decision-making by the regulators. Responding to the ECB, I don't think that, you know, sort of Danish approval requires the ECB direct involvement. I think, but I'm not 100% sure, that there is a certain procedure, since, you know, we are not under ECB regime, that in the case of the financial conglomerate, there is certain procedure between the KNF and ECB required. I can imagine it has happened also in the case where PZU was amalgamating, you know, the whole Group. So, there is, I think, more type of notification, as far as I know, than formal approval or consent.

Magdalena Komaracka

So, the deal first, and the Danish Compromise then?

Cezary Stypułkowski

Yep.

Andrzej Klesyk

Think about it, to even simplify it further, think about it as if we, it's exactly similar process, as if we were to issue a long-term debt, and then we ask for permission to keep it as capital. That's exactly the same thing. We issue, money flows in, and then you submit to the regulator an application. And obviously, how to phrase it, we would be completely stupid and naive not to pre-discuss certain things before doing such a transaction. So, we will be definitely in the discussions with KNF on a regular basis to make sure that the deal has a very, very, very high probability of being approved.

Cezary Stypułkowski

I would say even more, we would not sign the memorandum without pre-screening the whole transaction with KNF.

Magdalena Komaracka

Another question from J.P. Morgan. Do you expect some kind of add-on to the bank capital requirements as a consequence of the transaction, for instance, in the form of higher systemic institution buffer?

Cezary Stypułkowski

I don't think that, you know, well, currently, because there is this SD., whatever, four letters. No, significant, what's the full?

Andrzej Klesyk

SIFI. Significant, important financial institution.

Cezary Stypułkowski

Significant, yeah, requirement. You know, I think Pekao SA is currently at what level? 1.4, 1%. I can imagine that that can be slightly elevated. I would risk an opinion that to the level which is the leading financial institution in the banking sector is being charged right now.

Magdalena Komaracka

About Alior, from, keeping the current 32% stake in Alior is also an option. What would be the three key reasons to buy out minorities in Alior?

Cezary Stypułkowski

That means for “sale”, this is for PZU. For “buy”, it's for us. So, in this sequence.

Andrzej Klesyk

Again, we want to make sure that before we go to the market and say anything, we need to discuss those things. Just to make it very clear, before any merger or any completion of the transaction, it is in the hands of PZU to manage and control the destiny of Alior. Obviously, we will be discussing it from the shareholder point of view of the whole structure. Right now, I would say that we both know that current structure is not optimal. So, we know that we have to do something with Alior. Options are very different. Obviously, a strategic option, as some people say. Another is merger. But there are options in between. And those options in between might include keeping a stake that would not impede capital position. So, below 10%, for example, and selling the rest. So, this might be all the discussions that are ahead of us, but we don't want to speculate on this.

Cezary Stypułkowski

That type of question was in front of us, you know, when we entered this agreement or memorandum in December. And I was frequently asked the question, so, about, you know, what is the response of Pekao SA. And I think the situation has not changed. And it's, again, to some extent, generic. I would say purchasing 32% of other banks and consolidating does not make a lot of sense from the banking perspective. That's the reason that in our debates, and I think I started to elaborate on the capital consequences, you know, also referring to this aspect. But I made it clear that, you know, if the Alior will stay in the Group, I think that it makes much more sense to amalgamate. But down the road, that's something what I call the option. So, I'm not stepping out of what has been already said. But as Andrzej has said, this requires much more internal discussions within the Group. And also, one has to be realistic, you know, with outside stakeholders.

Magdalena Komaracka

A question from J.P. Morgan. Could you please comment on the revenue synergies that you hinted in the press release? What are these related to, and do you have any initial rough estimate?

Andrzej Klesyk

I wouldn't be brave enough to commit to a specific number. However, we can say that these revenue synergies are well, well, well below our ambition level. To put it differently, there is, from the PZU point of view, I will ask Czarek to comment from the bank point of view. From PZU, we are getting more revenues from the bank assurance activities with Alior than we are getting from bank assurance activities with Pekao SA. So, it can show you the potential, and this potential will be definitely, definitely, and again, definitely captured. Czarek?

Cezary Stypułkowski

Yeah, I'm 100% with you. I think that in our strategy, which has been published, you know, a few months ago, we have declared, you know, the ambition really to grow our bank assurance business. The target was at 1 billion in 2 years' time. I have to say, I consider this number conservative, and we are still discussing, you know, what can be done in this respect and how to grow. We believe that, you know, we didn't spend, you know, I have to say this transaction is not driven by synergies. There was something that needed to be done up front to all the analysts and investors. There is a strong potential on the revenue side. We believe that. We both believe in the

bank assurance being, you know, important, I would say, distribution channel, which will be emerging slowly in the published market as well. But I would say the essence of this transaction is really to focus on the capital side and how much we can derive from the structure of our conglomerate right now in a more sophisticated way. As Andrzej has said, I'm very confident, and once we will deliver this transaction, this will be a reference financial conglomerate in Europe, and I would say the markets will find, you know, the value creation, which is, I would say, incomparable.

Magdalena Komaracka

Question from Principal Asset Management. Will Pekao pay annual bank tax on the assets acquired?

Cezary Stypułkowski

Bank tax?

Magdalena Komaracka

Yes, on the assets acquired.

Cezary Stypułkowski

I don't think so, but obviously, we are at a stage where not all the aspects have been already investigated. But the probabilities, at this moment, I'm estimating are relatively low.

Andrzej Klesyk

Think about it differently. To make sure that we understand, this is, operating entities that are regulated under insurance law and banking law will be completely different. So, therefore, if there's any tax on the insurance, it's PZU who will pay. And if there's anything on the banking, it's the bank that would pay. PZU in the bank's financial statements will be just one line. So, I don't think that, obviously, we'll need to get interpretation, but I don't think that there will be any. But, before doing the deal we will obviously check all the tax implications, not only from the banking law perspective, but also VAT, CIT, and all other T's related to tax.

Cezary Stypułkowski

So, this won't be the first transaction of that nature in the market, and I don't think that's the reason, I'm so confident that these implications will be not significant.

Magdalena Komaracka

Thank you, and I have a last question from PKO BP Securities. Gentlemen, you are two very experienced managers. Are there any discussions who would be in charge of the merged entity?

Cezary Stypułkowski

As I'm the one being older, I will step in. And I have to say, you know, we know each other, you people will not believe, but since '97. Even '96, and I, our first encounter was when we together

created the Handlobank, which unfortunately was ruined by Citigroup, and recently, you know, remains of this beautiful creation, which would have been, you know, result of our co-working, has been, you know, disposed in the transaction, which I don't want even to refer to. I believe that, you know, between the two of us, we will find out the best way, really, to manage the company, and I think that we are too mature not to understand, you know, the, I would say, complexities of this transaction. And that's the reason that our dialogue is critical for making things happen, and definitely, you know, this is a justified question, that at some point, you know, the governance structure needs to be also explained. I think that, you know, I think that, you know, from my perspective, I'm confident that we will be working very cooperatively in the upcoming months.

Andrzej Klesyk

I cannot underwrite such statements more strongly. I would also add one thing. In the term sheet that probably part of it will become public, we have a specific working group that will be devoted to not only governance structure, but also how we're going to manage in the interim process. Because there will be some very important decisions that right now are in the hands of the bank, but also in the hands of PZU. But at the end of the day, we need to think about the bigger picture going forward.

Cezary Stypułkowski

It does not happen very often, at least in my life, that, you know, we are in front of a transaction which can create such a big value. I would say it is a privilege to have this unexpected, to some extent, situation where, you know, remaking, to some extent, the Group. We can free up 20 billion PLN, things like that do not happen every day. And as I said, I feel personally privileged to have the chance to participate in a transaction, which will impact, you know, the potentially Polish market. But as I said, potentially will be the reference for conglomerates in Europe.

Andrzej Klesyk

Let me conclude on this question, one thing. If we had people who didn't trust one another as we do, this transaction would not have happened.

Cezary Stypułkowski

And, you know, if that would be a tender offer, I just don't want to even imagine that, you know, that type of situation. That's the reason that we came to the conclusion that the merger is the best structure of a transaction, because this is an amicable transaction. And that's something, and that's something, one has to be realistic. The change of the seeds, to some extent, it's not trivial. It's not the situation which, you know, does not impact. But I would say that the core of management is really to manage that type of situation. And we are both mature enough to make it happen.

Magdalena Komaracka

Can we take one more?

Andrzej Klesyk and Cezary Stypułkowski

Sure.

Magdalena Komaracka

It's from, Krishendra Duby. Apologies...

Cezary Stypułkowski

From who?

Magdalena Komaracka

Krishendra Duby. Apologies if this is being asked, where would Alior stake sit post-transaction and pre-Alior optimization? Also, are there any costs which we should be aware of in the process of merger?

Andrzej Klesyk

We discussed the Alior situation, so I think that there is nothing to add. In terms of costs, obviously, this transaction would require advisors, that probably require investment bankers, fairness, opinion, and so on and so on. But think about 20 billion capital that could be freed up versus the cost of transactions. And, you know, this is, I believe that given the fact that we are working on this transaction together, the cost as a percentage of value creation will be much lower than in any M&A activity.

Magdalena Komaracka

It looks like there are no further questions at this time. If you would have any further questions, please reach out to the investor relations teams at the PZU and Bank Pekao. And at this point, I will hand over back to the gentleman for their closing remarks.

Andrzej Klesyk

Well, thank you very much for participation. And again, I want to stress that we want to be very open with the market as much as we can say at this stage. We will come back to you when we are ready to talk to you and share some more details. Some more details, again, will be shared even in the later stage. For example, Alior.

Cezary Stypułkowski

Yeah, on my side, I think that, you know, I made some effort to familiarize, you know, yourself with the background of the Danish Compromise and, you know, the consequences also in the Polish context. I believe that this creates unbelievable opportunities, specifically that we already have a conglomerate, which consists of insurance and banking. And this allows us to execute and exercise in a better way the capital utilization, which, you know, is on the table and it will be, I would say, irresponsible by ourselves if we will not come with that type of a transaction to our shareholders. That's our duty. This is the way we approach this issue.

We will be in an education process with the investors and shareholders and also with analysts as the transaction will progress. So this is our commitment. There is nothing to hide. You know, since I was asked, you know, on a number of occasions about the potential risk on the legislation side, I want to assure that, to the best of my knowledge, you know, being the PhD in law, I should say these are technical changes, which I don't think, you know, will be controversial. I think that they will enhance, in principle, the Polish corporate law and Polish banking law and Polish insurance law. The political risk, you know, they are always, you know, all my life, my 45 years of professional career was mostly about being, you know, around, you know, political risks. But, you know, there are things which we can impact and, you know, things which we can impact, we just elaborated.

Andrzej Klesyk

So, thank you very much then, all the best. Cheers.

Cezary Stypułkowski

Thank you very much