PZU – Presentation of the financial results for 2015 – 15 March 2016

Piotr Wiśniewski, Head of Investor Relations at the PZU Group:

Ladies and Gentlemen,

I have the privilege to welcome you to this meeting during which we will discuss PZU's results for 2015. Our today's meeting will be hosted by Mr. Michał Krupiński, CEO of PZU SA. Also with us today is Mr. Przemysław Dąbrowski, CFO of the PZU Group. My name is Piotr Wiśniewski and I am the head of the Investor Relations Team. Our meeting is being broadcast live on the Internet. As usual, you may ask questions directly through the webcast site or by sending an e-mail to my e-mail address. First, permit me to request Mr. Dąbrowski to go through the results, and in the second part of our meeting we will also present the initial conclusions from the Management Board's review of existing strategy.

Przemysław Dąbrowski, Management Board Member, CFO of the PZU Group

Good morning, Ladies and Gentlemen. Welcome to our conference devoted to a discussion of the PZU Group's financial results for 2015. I will try to go swiftly through the main elements of our results and then give the floor over to CEO Michał Krupiński whose part, I believe, will be more interesting to you, because he will talk about what is going to happen in the future. Ladies and Gentlemen, this is a short slide with an update on the structure of our Management Board which, as you know, has changed. We have a new management team which has certain ambitious tasks ahead of it. CEO Michał Krupiński will discuss them more thoroughly. Moving on to our results, well, 2015 was a rather difficult year for our Group. If you look at the results on a year-over-year basis, you will see that premiums increased, but this was predominantly due to the acquisition of the RSA Group companies, whereas net profit was significantly lower. Equity basically remained at the same level, although, unfortunately, given the lower profit, ROE fell down significantly. Jumping on to the following part of the results, let us keep in mind the situation of the insurance market as a whole. Let me remind you that, as usual, we will be presenting materials that we have available. Today, we are presenting data for Q3, because these are the available figures. We are looking at official data provided by KNF. If you look at the slide, you will see slight growth in the non-life business but with a big slump in profitability. We talked about it a number of times at our performance conferences last year. The price war and an increase in the average loss in motor insurance were the primary factors that caused the profitability of the whole market to decrease significantly. And besides, you have seen it in our results as well: our profitability has also deteriorated. Later on, when we go through the slide with specific lines of business, you will see that the combined ratio in the motor insurance lines is above 100%. And this, unfortunately, affected the results, as you can see, also for the whole market. If you look at the life insurance market, you will see small, actually only minimal growth, also with a declining profitability. Ladies and Gentlemen, we have discussed this a number of times before – the life insurance market is undergoing a serious transformation with low interest rates and regulatory risks. As a result, these increases are minimal. The important thing is that in this market, as is also the case in the non-life market, the PZU Group is still the leader in profitability. As regards our market shares, we managed to maintain them. The market shares are in principle at the same level in non-life insurance and in life insurance with a 1-percentage-point increase in regular premium insurance. Let us now move on to the details of our performance. A strong price competition, a low level of average premiums in motor third party liability insurance, an adverse impact on the profitability of the portfolio. A lower level of indemnification benefits in other third party liability insurance, but this is something we have already talked about. Indeed, it should be kept in mind that we had certain one-offs there at the beginning of last year which we simply reversed – those were certain provisions for losses that we assumed we would pay out, and they also improved the result on a one-off basis. Life insurance. Well, throughout the year we managed to maintain a high profitability of this insurance despite, as you may remember, the first 5 months which were quite tough. A large decline in profitability, a large number of deaths. We also had a problem with indemnifications in medical insurance. We took steps to tighten the claims handling process in this area. As a result, on an annual basis we showed a pretty good profitability and we are maintaining it, even though it is quite difficult. In a moment, I will elaborate more on this issue. Our result on investment activity is significantly lower. Well, unfortunately, the Warsaw Stock Exchange did not quite perform the way we expected. We made the assumption that the stock market would grow by approximately 15% in terms of the main index. It did not happen. The situation in the bonds market was not the best either. As a result, the lower net result generated by the PZU Group was largely caused by the lower income on investment activity. The client satisfaction index is increasing. In this respect, we are significantly better than our competitors. Foreign operations – we have already talked about them. Incidentally, it was one of our one-offs, we sold our Lithuanian operations, as you remember, the deal was closed, the closing of the acquisition of Lietuvos in Lithuania was contingent on the sale of the company we owned, that is of PZU Lithuania. We are satisfied. We are of the opinion that this transaction was very successful, because the sale was much more expensive ratio-wise than the acquisition of Lietuvos Draudimas. Lietuvos Draudimas is a much more profitable business, it is the Lithuanian counterpart of PZU. Here we have classic two slides on the major operating segments. Non-life insurance, on the left-hand side the mass segment, on the right-hand side the corporate segment. Written premium is on the increase, but I would say that this 11% is primarily transaction-driven but also due to increasing sales of our non-life insurance. Unfortunately, although the combined ratio remains at a similar level of 95.2-95.8%, it should be noted that the profitability of motor insurance deteriorated significantly. At the end of the year, we managed to exercise more control over the amount of paid indemnifications. Nevertheless, in the context of this profitability, as you can see, our operating profit decreased. The corporate segment recorded a decline in nominal terms, primarily as a result of the price war in the corporate segment, in the corporate motor insurance segment. We sold significantly more risks but the average premium was considerably lower, below 10% year-over-year. Because we generated much better results in non-motor insurance, our operating profit increased, but this increase, I will tell you straight away, is of a non-recurring nature. This was a matter of certain positive events in the claims handling area. Life insurance. In the continued group insurance segment, written premiums increased 2.3%, which, I might say, takes place every year. The margin was slightly lower, I have already talked about it. A much larger number of deaths in the first 5 months of last year. We also had a problem with claims handling where we suffered some leakage. But we managed to put it back under control. For the whole year, as you remember, when we presented the results for Q1, the profitability was at 14%. We finished the year at 22.4%. Well, unfortunately, operating profit was lower, primarily due to deposits and, unfortunately, also decreasing margins on insurance. In individual insurance there was a decline. However, the important thing is that in the context of this 0.7% decrease, it occurred mainly in single-premium insurance. These types of insurance are primarily of an investment nature. Since 2014, we have switched very strongly towards the sale of protection insurance. Let me remind you that we made the decision already in 2014 that we stop selling unit-linked insurance through the agency network because, as you know, the controversies on the market about these products and potential miss-selling in respect of products with a long maturity. The main result of the switch from investment products to protection products was a repaired margin. This is what you can see in the middle. Annual premium equivalent is smaller, but this also results from the fact that there was less written premium. Foreign operations. A significant increase, but we also need to be aware that there is a certain lack of comparability in this context. In 2014, we basically purchased the RSA companies but we started to consolidate them. In the case of the largest of them, Lietuvos Draudimas, we began to consolidate it only during the last two months, so, actually, this increase is predominantly the result of incomparability. What I can say about all of our purchases is that they are growing. Last year, the Lithuanian, Latvian and Estonian markets grew faster than the Polish market. The profitability of our business in Lithuania is very high, it was comparable or even perhaps higher last year than in Poland. The combined ratio is lower. Latvia recorded a significant increase with pressure on profitability, but the combined ratio was also below 100%. Estonia is still a company at an early stage of development, so we are still in the red when it comes to profitability. But it is a growing company. What is very important is that in Ukraine in 2015 we managed to significantly improve our results and the company showed no losses. This was a big problem, the company suffered a loss after the Ukrainian crisis when the hryvnia was significantly depreciated and the costs of claims went up very sharply. The costs. Well, in a way, I am personally not satisfied with this slide. As you may remember, in 2014 we had a significant increase in costs during the year but we forecasted flat costs for the whole year. And this indeed happened. Unfortunately, in 2015 we did manage to repeat it and this is not only the result of incomparability. We spent significantly, perhaps notably is a better word, more funds on the implementation of our strategy. These recurring costs are flat, but together with the strategy implementation costs we have a significant increase. Moving on to the section on detailed financial data, let me immediately jump to slide 3 in this section. This slide shows in detail what happened in the PZU Group's main lines of business. As we go from the top, we have the following categories of insurance: Poland, mass insurance, corporate insurance. As regards motor third party liability and motor own damage insurance, we recorded large increases. The only problem when it comes to the mass segment is, unfortunately, the right-hand part of this slide. The combined ratio in motor third party liability insurance is above 100%, and in motor own damage insurance we have a significant increase also to 101%. In other products, the combined ratio was stable, we are very pleased with the increase in premiums in non-motor insurance. For many years now, we have made efforts aimed at increasing the share of voluntary products purchased by Poles and we are slowly beginning to be successful, although we still have a lot of ground to cover. In corporate insurance, we recorded a decrease in premium. The biggest problem in our insurance is the combined ratio in motor third party liability insurance of 124%. We began to change our prices in corporate sales during the year. But this effect is not permit an improvement, that is a decrease in the rate of growth in motor third party liability insurance. The important thing is that all the time we continue to be able to maintain the combined ratio in motor own damage insurance below

100%. There is also a significant growth, but it continues to be a profitable product. In other non-motor insurance, a 10% drop year-over-year. Like I said, this is a profitable product, but the long-term profitability of this line of business is rather closer to 80-odd percent than 59 percent as reported here for last year. Group and continued insurance, I have already talked about it, an increase by 2.3%, still a high profitability, smaller but significant. In individual insurance, an increase in profitability thanks to a switch, a change in the product mix and a switch to protection insurance. Ukraine – the premium is on the increase. Our combined ratio is still high, but like I said, the company's bottom line in net terms is around zero and this is very important to us. In the Baltic countries, if we make a comparison, we have a 106% combined ratio in non-life insurance versus 97.5%. Actually, this is the effect of the sale of PZU Lithuania. We simply sold PZU Lithuania in Q3 2015 and the absence of PZU Lithuania in one quarter resulted in a significant improvement in the combined ratio for the whole business area. The main one-off factors that affected the performance, actually there was one that had been occurring for years, the effect of the conversion. In principle, nothing changed. And there were two results which, in principle, were counterweighing each other. We began consolidating Alior Bank and this, in a sense, these 175 million, is what I would call an accounting result, actually. Here is how it worked: we acquired Alior Bank in three tranches; after the acquisition of the first tranche, Alior was not yet consolidated; we began to consolidate it after the acquisition of the second tranche. According to IFRS 10, this meant that we were required to revalue the first tranche. As you know, we acquired Alior for PLN 89, slightly above PLN 89 per share, but at the end of the year the Alior share price was much lower, so that tranche had been overstated, but in the subsequent tranches this effect disappeared. Alior is consolidated and so its share price will not affect the future valuation of Alior in the Group's balance sheet. And the second one-off factor which works the other way round is the effect of the sale of PZU Lithuania. Four waterfalls showing the movement or changes in profitability between 2014 and 2015. The combined ratio in the mass insurance segment was 95% in the previous year and 95.8% last year. The only thing which, I would say, may be of some concern here is that, as you may remember, last year in Q4 we created additional technical provisions in the context of redress. Well, last year this effect did not seem to occur, so here we have a certain problem with comparability, so in practice we are actually have an increase in the combined ratio. Corporate insurance, the loss ratio, a big drop, but it is thanks to non-motor insurance where we indeed had certain very favorable solutions associated with claims handling. Other factors were insignificant for a change in the ratio. Group individually continued insurance. The main factors that had an impact here were lower investment income, higher indemnifications and net insurance benefits. The situation was a little better in terms of the behavior of the insurance provisions. In individual life insurance, actually, indemnifications and benefits played a negative role. This was the biggest factor, investment income, but we also had movement in other technical provisions net of reinsurance. This was primarily a result of the fact that these provisions are not strictly related to protection insurance but to investment insurance, and we simply had a change in the provision related to investments made at the insured's risk.

Investment activity, well, we have talked about it. We had a worse situation in stocks, we managed in one segment, in two exposures, to have a little better result in terms of stocks. Worse performance on financial assets, with year-over-year profit lower by 33.3%. Here you can see a split showing income from investment activity broken down into the PZU portfolio and the client portfolio where the risk is borne by the clients. As regards the effect of commencement of the consolidation of Alior Bank, two significant elements may be observed here: consolidated assets increased to PLN 105 million and consolidated equity went up from PLN 13 billion to PLN 15 billion.

Here is the last section and perhaps I will finish on this slide. Probably here comes information about Solvency 2. We are still discussing the shape of these disclosures, we are doing it for the second time. We are presenting data on Solvency 2. As you may remember, we presented these data for the first time in September, after last year's September results, it was in the fall of last year. Now we are presenting data as at 30 September 2015. As time passes by, we will probably gain enough operational efficiency to be able to publish our current solvency under Solvency 2 together with the results. Here we have a shift by one quarter. So, as you can see, the bar on the right-hand side shows solvency according to Solvency 2, so we still have a very high solvency ratio, 296% of margin coverage according to Solvency 2, meaning that we are still a very strongly capitalized organization, as shown in this slide.

Ladies and Gentlemen, we are including here a few specific slides on Solvency 2, but I do not think I will go through them now, because later, should you have any questions, I will be happy to answer any questions you may have in the questions section. And now I suggest we switch to a presentation about the future. I told you about the past, CEO Krupiński will tell you what is going to happen in the future.

Michał Krupiński, President of the Management Board, CEO of the PZU Group:

Thank you, Przemek [Przemysław Dąbrowski]. I am happy to have the opportunity to attend our first meeting. I hope we will meet more often. I want to spend a lot of time, just like the Management Board, Przemek and the other Management Board members, meeting with you and so I am glad that our first meeting is taking place today. Przemek has presented the results. If you have any questions that dig into the details, unless someone wants to provide an answer straight away, then we can ask questions about perhaps specific numbers right now. But I would like to go quickly through the conclusions from our review of the strategy. I was appointed by decision of the Supervisory Board on 19 January. We do not have a strategy ready in the sense of documents. We would like to be able to return to you within 3 months with such a document. Let me tell you right off the bat that I do not think the company is in need of a revolution. However, I have noticed certain negative trends and I think some of our business areas, mainly our core business, require increased attention. But I would like to go through each of these slides in detail. Together with new Management Board members and old Management Board members like Przemek, Darek [Dariusz] Krzewina and Sławek [Sławomir] Niemierka, we have performed what I think has been a fairly detailed review of all our business areas in terms of specific figures and today we would like to present our conclusions to you. As regards the financial result, Przemek presented it on a year-over-year basis, but I am looking at a broader trend, and indeed this trend is somewhat worrying. All in all, we have lowest result since the IPO in 2010. What is more, if you look at profitability, it has also decreased, it is lower by 4.6 percentage points compared to the previous year. Another thing noted by Przemek is that our administrative expenses are going up. We had positive developments in the years 2009-2011 when these expenses were decreasing. And now, for the last 5 years, we have seen a reverse trend. In general, this category of expenses is an area to which we want to draw a lot of attention both in the short term and also in the long term. I am of the opinion that, given the fact that products are becoming more uniform and distribution channels are becoming increasingly competitive, expenses will to a greater and greater degree determine comparative advantages. Hence, from our point of view, this category will require increased attention. Przemek has talked about the price war in motor insurance. We believe that this war, let us say the height of this price war, is already over. I am talking about market data that you are familiar with. At the same time, we now have historically low interest rates, both in Poland and also in the economies of developed countries. As far as I know, 56% of the global economy works on interest rates equal to 0 or even below 0, and this is an important observation. At the same time, perhaps the company should have been better prepared, especially on the side of its investment business, for these historically low interest rates. I will want to say more about this in a moment.

What do we intend to do? After our review of the existing strategy, our conclusions are as follows. First of all, we must pay attention to profitability and intensify our focus on the core business. In my opinion, this company has always been and remains an insurance company. And this will not change. We want to maintain our market share in terms of the whole business, we want to grow in certain specific areas of corporate insurance, we want to ensure stronger growth also for other brands, that is other companies within the Group, I am talking mainly about LINK4. And we want to maintain our profitability in group life insurance. Most certainly, our intention in the short term is to stop the negative trend in the Group's results and we believe that we are able to achieve this in a relatively short period of time. Secondly, we have had a number of discussions about areas of potential growth. I think we have identified and continue to work on those areas. I would like to tell you where else in other areas we see potential for growth and how we imagine the effective implementation of growth initiatives. Thirdly, we are not looking at the company only, although perhaps I should not put it this way, like you do, but surely the time horizon for analysts is shorter, whereas our outlook is longer. We are also looking at the company from the long-term perspective and we believe that product innovation, both in terms of the possibility of insuring different categories of risks and in terms of marketing and CRM when it comes to the area of claims and the distribution of products. Product innovation, in general in our sector globally in the case of insurers competing against us but also in our case, will to an increasing extent provide competitive advantages. Therefore, we want to put a very strong emphasis on innovation. And I am of the opinion that we have all the necessary ingredients to become an innovative company, perhaps the most innovative company in our part of Europe. In terms of specifics, firstly, we want to achieve a better match of prices to risks. Roger Hodgkiss who joined the Management Board in January, the former CEO of LINK4, is planning to build a pricing center of excellence based on LINK4 and based on PZU in order to make us the most innovative company in modern price management. As you know, the world is moving towards telematics. LINK4 was the first company to introduce it to the Polish market. The world is heading towards payasUdrive solutions, and even though so far they have not caught on very strongly in the market, we are thinking about them in the long-term perspective and based on our analysis of data we want to be able to better adjust our prices to specific risks. Secondly, we intend to present a detailed cost-cutting plan within the next 3 months. In our opinion, I believe we can achieve a 20% cut in fixed costs over a period of 3 years, by the end of 2018. We are credible and already this year we assume that our costs will not be greater than last year, so we are able to reverse this trend and it would be one of our first decisions. When it comes to growth, we have identified new growth areas and we also want to implement our growth strategy in other areas in a more effective manner: firstly, I believe that there is still unutilized potential to be taken advantage of by our Group in Poland, 16 million clients, the strongest distribution network, we intend to focus on the creation of innovative products. In the case of corporate and retail clients, we intend to address all the needs pertaining to analysis of specific risks. We intend to put a lot of emphasis on cross-selling, which I believe is also part of the untapped potential, and on the strength of our brand. At the same time, as you know, we are probably one of a rather small number of companies, perhaps the only one that has a higher rating than the sovereign rating and therefore we have a very large potential on the leverage and funding market. This is also associated with potential acquisitions, hence we believe that is also our potential both in the Polish market and in the global market. Secondly, we want to continue our international expansion program focusing on Central and Eastern Europe but we do not want to confine ourselves to Central and Eastern Europe. We have started some very serious analytical work on potential acquisition targets as well as potential growth opportunities by means other than acquisition, using also the Group's various brands. Such an aspirational objective is to diversify our business at a level of 15-20% of revenues or written premium outside of Poland by 2020. Thirdly, we can see a certain trend in the asset management market. We believe that we have strong comparative advantages in this regard. We are of the opinion that this sector will consolidate and we will selectively look at consolidations also in the context of TFI. We recognize market trends concerning the growing rate of savings among Poles and our aspirational objective is to acquire an additional PLN 30 billion worth of assets through a very strong channel of our internal distribution which may have not been fully utilized, the external channel, mainly bancassurance and consolidations. Most of you are very familiar with this sector, so you know how strong the economies of scale in the sector are. As regards PZU Zdrowie [Health], this is a certain strategic option that we intend to continue to bet on. We believe that by taking greater advantage of our distribution strength we will be able to achieve revenues of PLN 1 billion within the framework of PZU Zdrowie by 2020. As you know, here we have been growing from a low base but we are pleased with the growth rate of premium income. Our last strategic direction is innovation. Like I told you, we have all the ingredients to be an innovative company, in particular by controlling LINK4, by controlling our Baltic companies, especially our Estonian company which is very innovative, and to prove it I would like to show you a video.

And for those in doubt – this is part of the PZU Group. If we are selling this solution successfully in other countries, we believe that we can use the Group companies as incubators of innovation and a change in culture towards a culture of innovation at the Group level, which, in my deepest conviction, will be of decisive and substantial importance within a few years . Alior, where we are an investor, and I want to emphasize is: an investor, is not only the most innovative bank in my opinion but also one of the most innovative banks in the world, which fact has been confirmed by a number of awards. We are cooperating very closely, we learn various innovative solutions from Alior – both on the fraud and CRM side and in terms of the way we manage our operations and our back-office. Alior, as you are aware, has a culture in which clients do not use, for instance, paper, and we believe that we will be able to learn a lot also on the cost side from Alior's experience. As you know, we are also very much advanced in introducing programs in the claims handling area. I am talking, among others, about our anti-fraud program that we believe is among the best in Europe and we are going to be all the time in this line of innovation in terms of claims handling. It is my deep conviction, like I said, that innovation will change the products offered. Our PZU-lab is working on other types of insurance risks, for instance risks associated with cyber-attacks, risks associated with climate changes, catastrophic insurance. We are no different in this respect from other global insurance companies that introduce these types of insurance. We believe that innovation will also change marketing, the skill or the ability to provide clients with insurance for all their possible risks both in the area of more complex commercial risks in the corporate segment and also in respect of retail clients where innovation will change the claims handling process. So our dream is to be the most innovative company in this regard.

To wrap this up, we want to stabilize our financial result, reverse the negative trend by focusing on our core business. We want to make the most of our growth potential both in Poland and abroad and we want to create the most innovative insurance group in Europe. How do we achieve this? Here is our staff – you know Darek Krzewina already as you do Przemek. Let me introduce to you the other members of our team. On the business side, we have been joined by Roger Hodgkiss, who in my opinion is one of the best experts in motor insurance. Robert Pietryszyn who is focusing on foreign business and healthcare business. Paweł Surówka who is in charge of investments and is working on a new model of allocation on the investment side. Sławomir Niemierka who is our CRO. Roman Pałac who is with us here today and who is in charge of claims handling, which is an area he has previously been involved in in his professional career. And Beata Kozłowska-Chyła who is in charge of the legal and administration department.

Well, thank you, and I think now is the time to answer your questions. If you have any, that is.

Kamil Stolarski, Haitong Bank: Good morning. I have a lot of questions but perhaps I will limit them a little. At the beginning, I would like to ask you about your strategy for healthcare. It appears that the new government has a slightly different vision for private healthcare than the previous government, so my question concerns this issue. The way I understand it is that you are going to continue this old strategy, so the question is why and how you approach healthcare now. Perhaps also the question is: what is Alior going to do to your Solvency 2 ratio? What will be the impact? From April on, the new Insurance Act prohibits the charging of commission on the distribution of group insurance. Your group products in life insurance are responsible for a very big chunk of profitability, so how do you find yourselves in this? Perhaps I will stop right here, although, of course, I have more questions, but this...

Michał Krupiński: Regarding the first issue, I have a different opinion. Based on my discussions and perception of how the health market regulator, that is the Ministry of Health, is looking at the market, I believe that our strategy is not inconsistent with the government's strategy, this is a certain strategic option. You may calculate it precisely yourselves what the impact would be on the entire Group if we reached PLN 1 billion on the side of revenues and written premium. There is a certain strategic option here, which we intend to continue to apply, even if in the short term no mandatory supplementary medical insurance is introduced in one form or another. We can talk about several forms of this business. Our objective, or the objective of PZU Zdrowie, is to create a network of service providers both through additional acquisitions in the outpatient area and merging other units of this type, so I do not think, and we are after a certain in-depth analysis in this respect, I do not think that this strategy is a contradiction of what is going to happen, or what may happen in Polish politics, or in healthcare in general.

Przemysław Dąbrowski: Let me answer your next two questions. As regards the impact on Solvency 2, our capital charge is roughly 30%, meaning that approximately 30% of what we spent is charged to our capital at the moment, but let me also remind you that probably in Q3 we will become a financial conglomerate and then these ratios will be defined differently. For a conglomerate, it will be simply... Under Solvency 2, we recognize it at the moment as if this 30% figure is strictly a capital investment. As to the second question: that is correct. The regulations on group insurance are changing, but, Ladies and Gentlemen, I will not explain to you how we have done it, but please believe me that these regulations do not pose any problem to the PZU Group. Indeed, according to these regulations, commissions may not be paid out for the sale of group insurance in the model applied to date. But PZU has a new model in place. This model is working and this issue is not a problem for us.

Michał Krupiński: I also want to say that we very clearly see the great potential of using the entire network, including the group insurance sales network, for instance, to sell health insurance, and this model is beginning to work very well.

Marcin Jabłczyński, Deutsche Bank: Thank you for your presentation. I have a question regarding the dividend, because in your annual report there was a brief sentence, the existing dividend policy was repeated and it was mentioned that it will be reviewed from the Solvency 2 point of view, and CEO Krupiński told I believe the Polish Press Agency earlier this morning, I saw this in the Polish Press Agency's news, that in the second half of the year these changes will take place, so since you are announcing changes in the second half of the year, well, my question is what they will be, but what I mean above all is that this was so intriguing in the context of Solvency 2, because Solvency 2 has significantly improved the company's recapitalization, but on the other hand through PZU's likely acquisitions of banks, which have been announced for some considerable time now, but we also do not know what form they would take, so that is probably a question for you, investors obviously look very closely at dividends, so that is what I wanted to ask you about: how is your perception changing when it comes to dividends? Thank you.

Przemysław Dąbrowski: I would like to say only one thing. We have to change the dividend policy in the context of Solvency 2 for a few reasons. Firstly, Solvency 2 requires that such a document be formally adopted, it is actually called capital and dividend policy. This document must be adopted both by the Management Board and by the Supervisory Board, so we are working on it. Secondly, you have to remember that our existing policy has ceased to be applicable due to the fact that it refers to safety ratios calculated on the basis of Solvency 1. In fact, our existing dividend policy and KNF's recommendations on the payment of dividends are based on two ratios: the coverage of the solvency margin and the coverage of provisions with assets. We are waiting at the moment for the regulations to be clarified, which is something that insurance companies will recommend to KNF as part of the so-called national specifics and we assume that the coverage of provisions with assets ratio will cease to exist, because there is no such ratio in Solvency 2. And because these changes have occurred, we need to update our dividend policy, if only for this simple reason that we have to determine what the Group's target level of coverage of the solvency margin under Solvency 2 is. So, it is for these reasons that we must change this policy, and we probably would have done it faster, but on the one hand we are waiting for KNF a bit, because KNF keeps thinking about what additional data and financial ratios we will report to them. I am making the assumption that the coverage of provisions will disappear, because this risk of the coverage of provisions is simply included in the solvency margin under Solvency 2, so we are waiting for KNF, and on the other hand, Ladies and Gentlemen, this is also a very important document, we have undergone significant changes – the Supervisory Board, the Management Board, so the new management team has to get used to it.

Michał Krupiński: I will add for my part that I do not expect... I confirm that the company is a dividend-paying company expected to bring the investors a significant dividend yield. This year, as you rightly mentioned, we are talking about amendments to or possible modifications in our policy arising from the requirements of a formal nature or about clarifying our dividend policy in the context of the formal requirements for the next year and the following years, which will not affect this year's level of dividends. But what I want to confirm is that in the long term the company is of a dividend-paying nature and I do not see any major changes coming in this respect.

Michał Kużawiński, JPMorgan: One of the things mentioned by CEO Krupiński was that the company may have been better prepared for the environment of low interest rates. And you also you mentioned a new allocation model on the investment side. Could you please lift for us a bit of the veil of secrecy by telling us more or less in which direction this investment policy might tilt and what your ideas are for improving the investment performance?

Michał Krupiński: May I lift the veil of secrecy? Let me tell you what I had in mind. We are working on a new model of allocation, on a model that is adequate for the level of risk borne by an insurance company and that is applied by our competitors. If there is a certain change in approach, it will be towards a top-down allocation approach to the diversification of assets based on an assumed reasonable level of risk. I think there are additional asset classes which may also be invested in at the fixed-income level beyond sovereign bonds. We will return with details on this in Q3 of this year.

Michał Kużawiński: Thank you. One more thing in this context: on slide 6 there is an item about considering new investment products, including ones of an infrastructural nature. Could you give us any examples of which sectors and which potential investments might come into question?

Michał Krupiński: In this area, we are also not going to do anything out of line with what our competitors do. In particular, some insurance companies in Europe create their own funds by acquiring money from third parties to invest, for instance, in infrastructural, regulated sectors. Allianz has such a fund, as do several other companies. Of course, we are talking about for-profit commercial investment vehicles.

Michał Kużawiński: One more question, if I may, regarding your planned cost cuts. The figure mentioned in this context is a reduction in fixed costs by 20% in 3 years – what is the basis for this reduction, that is, how high are your fixed costs and by how much are they expected to be cut as we stand today?

Michał Krupiński: We are talking about some PLN 2 billion. Hence, we believe that it is possible to cut fixed costs by PLN 400 million, running, in the sense of every year, over a period of 3 years.

Marcin Jabłczyński: And may I have a question about Alior or perhaps more generally about the banking project? Because this project has been evolving since it appeared during the previous term of the Management Board. At first, it was an investment of a purely portfolio nature, then it evolved into a huge project aimed at building a large bank, perhaps one that would even be in the top 5. Initially, we obtained information that it will not be about the creation of a banking and insurance alliance, because these types of combined models performed rather poorly, let us say, in other countries. Now, instead, we are hearing about taking advantage of synergies and also we are hearing it from Alior, because most of us deal with banks as well. So I would like to ask you whether this is supposed to be a full integration? And, on a side note, regarding the suspension of the bancassurance project in PKO BP due to their search for a partner. We are also hearing announcements from the State Treasury Minister who says that State Treasury-owned companies should cooperate more closely with one another. So my question is: what may be your bancassurance strategy in this regard and how does it fit this whole reality? Thank you.

Michał Krupiński: I want to uphold the statement that Alior is treated as an investment. Our decision-making dilemma, because this is also a certain pre-existing investment, so our decision-making dilemma is quite simple: we are a shareholder committed to KNF and we must support Alior both in its organic growth and through potential acquisitions. We do not have any aspirational objective that the bank must be in the top 7, 6, 5 or 3. However, if the Management Board of Alior finds it necessary for their growth to participate in the consolidation of the sector, which is underway already, we will analyze such projects from the point of view of the participation of the PZU Group's representatives in the Supervisory Board and from the point of view of a shareholder. As regards PKO BP, this is probably a question for PKO BP. I do not know if I can speak on their behalf. Maybe I can – I do not know.

Michał Krupiński: Yes, we have a team both in terms of potential insurers in the insurance sector and in the banking sector, so I suppose that investment bankers also approach us with such ideas, but we refer them to Alior, because Alior should decide which bank and which type of growth: organic or by acquisitions from the bank's point of view.

Kamil Stolarski: Regarding profitability, I am focusing on profitability, I am looking at the evolution of premiums in third party liability and, let us say, in mass motor own damage I can see growth year-over-year, let us say, by 9%, and my first question is: what is the increase or decrease in the number of policies signed during the year and what policy will PZU have in this respect? Should we assume continued growth in market share in this area or will you focus on the profitability and price? What is your way of thinking about non-life motor own damage/third party liability?

Przemysław Dąbrowski: If you look at this increase on a year-over-year basis, you must also remember that it was also partially generated by LINK4, hence you should be aware of the following: LINK4 has somewhat different profitability objectives than PZU. Please keep in mind that LINK4 is supposed to be a low-cost insurer. It shows a very high rate of growth. PZU SA is more focused on profitability, and so its rate of growth is lower. So, actually, these increases are largely generated, I mean in the mass market, they are largely generated by LINK4. As regards the number of policies sold, we generally have, when it comes to LINK4, we have a lot more, and when it comes to PZU SA, this did not result from any specific, target-driven strategy, but we experienced a certain outflow of clients. The number is not large, the year-over-year outflow is not very significant, and like I said, between these two, PZU SA focuses strongly on profitability and maintains, is more of a prime insurer, with the profitability higher in PZU SA. LINK4 is looking for growth, of course, assuming that even if it briefly loses profitability, in the long term its combined ratio must be significantly below the 100% mark.

Iza Rokicka, Ipopema Securities: To start off with, I would like to have a few follow-ups to the topics that have already been raised. As regards the dividend, the one to be paid out in 2016, or even your general approach to the dividend policy, does the Management Board uphold the intention to disburse a dividend from capital after the issue of structured debt?

Przemysław Dąbrowski: To date, we have not changed any plans. This, Ladies and Gentlemen, is something, like we said, we need to get back to you about with all the assumptions, but so far no plans have been changed. Just bear in mind that a couple of things are underway: one of them is Solvency 2, the other one is banks. But for now, these plans are in place. But when KNF, and I would not like you to quote me as putting it this way, get their act together on Solvency 2, I mean in the operational sense, we will start working on the development of a structure that will be acceptable for the regulator.

Iza Rokicka: Thank you. When CEO Krupiński was talking about the health segment, he sounded quite optimistic in terms of the contribution of this segment to the company's future results. I am wondering: on these PLN 260 million of revenues in 2015, what was the combined ratio?

Przemysław Dąbrowski: I am sorry, firstly, we are not disclosing this, because this line of business is too small yet. I am just trying to feel out how much... Let me share with you this one curiosity that the only significantly unprofitable group of health insurance policies, as I look at the last 2 years, is the insurance of the PZU Group's employees, where we are incurring a loss, but in most cases this business is not as profitable as group insurance, where you have to honestly say, we are talking about the profitability of 7-8%, but this is the magnitude of profitability we are dealing with. Like I said, there is quite a large population of the Group's employees, and that is where we were at a loss. On most of these policies, we are earning 5-7-8%.

Michał Krupiński: This is also a certain strategic option for the future in terms of growth. I think that in terms of this strategy we do not differ significantly from the stalemate shared with other companies that have heavily invested in this sector. From other sectors, but this is also about creating strategic opportunities of entry into this sector.

Iza Rokicka: CEO Krupiński emphasized several times that the company intends to focus on its core business and improve its profitability in this area. I am wondering: what is it that is currently not the core business for PZU?

Michał Krupiński: The core business is insurance and asset management. So in this context, banks are not our core business but an investment.

Iza Rokicka: OK. I am sorry I am taking up so much of your time, but I still have a few questions concerning strictly your Q4 results. And in this context, I will refer to the results for Q4 in particular rather than for the whole year. First of all, we had a very large increase in gross written premium quarter-over-quarter, which was not fully reflected in the net earned amount. It looks like some large, several-year contract.

Przemysław Dąbrowski: I can confirm this. I mean in addition, Ladies and Gentlemen, to us announcing a price increase in Q2 there was indeed such a situation that especially the last quarter showed a high increase in revenues, which allows us to think about last year with optimism. This rate of growth is also a consequence of higher prices, and this is certainly one of the factors that played a role. And I can confirm that we indeed sold one fairly large, perhaps not very large, policy in Q4, one of a significant weight.

Iza Rokicka: This policy is probably of a magnitude of PLN 400-500 million [well, you are close]. For how many years was it sold? What period does it cover?

Przemysław Dąbrowski: The term of this policy is one year.

Iza Rokicka: In this case, can we expect it to be renewed in the following years or was it some kind of a tender, a one-off thing?

Przemysław Dąbrowski: I mean, you know, I would not like to dwell on these speculations much further. In a moment, you are going to ask me what policy it is exactly. The assumption I am making is that we are dealing with, rather, I would say this: firstly, I think we have a recurring situation here. This is not a long-term policy of the kind sold, for instance, by Hestia which suddenly sold a 3-4-year policy for a power plant. This is not the case here. But we are also glad that we did it. To make your lives a little easier, I would say this: this policy is not... it is big, that is right, but it is not a policy that has a significant impact... I mean you could not say that its impact on our profitability is strongly correlated with its size.

Iza Rokicka: Speaking of profitability, looking again at your quarterly results rather than annual results, something happened, I do not know, that cannot be fully explained by seasonality in terms of your operating result on individual third party liability insurance. There is that minus for Q4 of PLN 110 million, so it looks like this loss deepens from quarter to quarter on this business, so is it a trough or can it be worse? On the other hand, we have a very strong result on other corporate products, by contrast this is a positive PLN 118 million compared to a one-digit result in Q3.

Przemysław Dąbrowski: As regards motor third party liability insurance, we perform a review, every year in Q4, of our technical provisions, and as part of this review sometimes certain provisions are simply increased. Last year, we, of course, did not have such challenges as we had a year and two years earlier, when the legislation on redress was introduced, so last year the challenges were somewhat smaller. If you ask us what happened in Q4, the answer is simply a kind of an annual revision of technical provisions and, like I said, profitability, especially in the mass products, was already improving last year and it will demonstrate further improvement in the following quarters. Of course, adjusted for seasonality.

Iza Rokicka: If this is the case, can we already count on a positive result for the whole of last year or is it still too early to say?

Przemysław Dąbrowski: We are unable today to say it today because, Ladies and Gentlemen, it is March now, we can see data after the first 2 months, we can see that the situation is developing favorably, but like we told you – the prices have gone up in the market and this happened last year. Still a major challenge for the market is the level of indemnification payments, not in terms of the number, because the frequencies are not increasing, as you can see, there is no winter here, it is really good. We still have a problem with the average disbursement in motor insurance. Of course, we have here a certain overlapping concern and we should be aware of it. But it seems that we prepared appropriate provisions for the first wave of redress, so the development of these claims today, after 18 months, does not differ from what that we predicted. Unfortunately, we are dealing here with a new category of claims related to redress, we are talking about redress which is not for death but for permanent health impairment. And here the statistics are such that permanent impairments are much more frequent, well, we have such claims appearing. For now, we do not see any need to create provisions for these claims but are keeping an eye on this situation. As a rule, I am making the assumption that the profitability situation in motor insurance will now keep improving on a quarter-over-quarter basis. Will it be able to go into positive numbers? I would not like to speculate about it just yet.

Iza Rokicka: And these corporations in other products?

Przemysław Dąbrowski: I do not know if this is not a question of seasonality and the completions of certain claims handling processes. Because, from my perspective, this movement quarter over quarter is not so big, especially historically.

We have two questions from abroad:

We have not answered them yet. Let me read them out, but this is a correct comment.

UBS: Can you tell us how you are planning to cut your costs by 20% over the next 3 years? And which segments will benefit the most from these cost cuts?

Przemysław Dąbrowski: Like CEO Krupiński said, we are working on a plan, the plan is not fully prepared yet, it is a challenging task, I think that it is feasible and it will touch all our cost areas. The objective is, above all, to improve profitability of the insurance part of our business. If you look at the Group's structure, you will see that most costs are allocated today to the insurance business. Our health business, this new health business, is generally being built today in lean culture, so there this level is lower. Asset management is again lower by its nature, at least in nominal terms we are not talking about a great value. So this is mainly intended to help insurance, because it is our core business, and this is where these costs are so significant.

And another question. We have three questions: **Jason Kalamboussis, Societe Generale:** What is the date when we will know on new dividend policy announcement and if no date the latest by when? Do you see the ordinary dividend coming down to more normalized levels, and using more dynamically the special dividends going forward?

Przemysław Dąbrowski: Like we said, this is probably a matter of a few more months for us to have this policy in place. So let us say somewhere in the middle of the year. And so far it is hard to comment on. Well, CEO Krupiński said that the Management Board perceives PZU as a dividend-paying company which is to provide what seems to us to be a steady stream of dividends to our shareholders. This matter is difficult to comment on at this time. As regards the special dividend, we have such plans, but let me remind you that there was one such dividend, not a series of special dividends. Also please bear in mind that capital surplus under Solvency 2 is not available to shareholders in the form of a dividend.

Question 2. Could you please elaborate on your strategy to increase to 20% you revenues outside of Poland? Countries in mind?

Michał Krupiński: As regards these countries, we are focusing on Central and Eastern Europe, but we do not confine ourselves to Central and Eastern Europe. Here, in general, we do not have any major constraints. Of course, we are talking first and foremost about developed countries, let us say, advanced economies, so this is perhaps the only criterion that limits us in this context. In turn, as regards the question of how we will arrive there, we will, on a regular basis, monitor potential acquisition opportunities as well as channels of growth abroad through other distribution channels. In particular, we want to use our brands, other brands of the Group, and competencies built within the Group to achieve this, but right now we are working on the details.

Question 3: Do you intend to reinstate your special dividend strategy (year 2 and year 3 of the previous plan)?

We have talked about this one already.

4. When are we going to know more on your banking intentions and strategy?

Like I said, the strategy of our presence in the banking sector is an investment strategy, so it is not the case that we have some special strategy for the banking sector. We are the leading shareholder in Alior and, like I said in my answers to some of the earlier questions, we will monitor the situation on an ongoing basis and support Alior in its growth of shareholder value.

Przemysław Dąbrowski: And the last question (the author is revolving around the dividend here): Overall can you please tell us how you intend to split your excess capital usage between the 3, growing outside of Poland, pursuing a banking strategy and possibly reinstating a special dividend strategy?

The regulations require that the Management Board and the Supervisory Board adopt a capital and dividend policy, which will take place by the end of Q2. This is also an important document for shareholders, so definitely some part of it will be communicated to you. We really need to think it over, we need to know what KNF's expectations are, because, let me remind that KNF has the right to go beyond the directive, in other words this would be permitted for KNF, so we need to know what KNF's plans are. We also need to know how KNF will look at PZU as a conglomerate. And I think that because the decision has to be made in Q3, KNF will tell us in Q2 how they see it. Because we must not forget that one set of regulations applicable to us is Solvency 2 and the other set are the regulations on conglomerates. And this is kind of like a second important element that affects PZU's capital requirements. And I think, like I said, that we will get back to you on this, but we need to know ourselves.

Kamil Stolarski: I have one last question. I have just read your comments where you mentioned that ROE this year will be below 20% but, on the other hand, that the result will improve on a year-over-year basis, which gives us a bit of a narrow range for net profit of, let us say, 2,340-2,560, so this gives us some 220 million. Here is my question: is anything changing in terms of guidance?

Przemysław Dąbrowski: Our intention was to generate a higher result, but we cannot promise that ROE will be 20%, that it will return to this level. So what is the point in changing anything?

Piotr Palenik, ING: I have some questions concerning capital requirements under Solvency 2. For the first 9 months of last year, the requirement for risk increased by as much as 600 million. What was the reason behind it and what can be expect as to the development of this charge? And my second question concerns corporate insurance. CEO Krupiński saw fit to note here that you will increase your market shares. Here is my question: what is, sort of, your new idea for this segment, because if I remember well, the Company has already twice tried to enter this segment more deeply, but it has always ended in fierce competition, then in the following years, however, the idea was to increase the efficiency of this insurance and the market share in this segment was reduced. So the question is: what is now your idea for increasing the market share and, at the same time, prevent the occurrence of losses in this segment?

Przemysław Dąbrowski: As regards market risk, the PZU Group actually had a growing exposure to stocks last year, and let me remind you what we presented recently, I mean the data for December 2014, where this factor was demonstrated. Like I told you, we had a strategy in 2015 of a significant exposure to stocks and this is the main growth factor for this item. As for our strategy of selling corporate insurance, Ladies and Gentlemen, this is a one-to-one continuation of what we had in the strategy adopted at the turn of 2014 and 2015. In generally, the point was to address the so-called midcaps in the sense that we are quite well represented in large companies, which on the one hand results from our sales capacity or sales skills and also results from the fact that we are party to large insurance contracts where there is co-insurance, and we are in this co-insurance, because it rarely happens in such deals that there is only one supplier of the policies. There are always groups in such situations, and PZU has the insurance capacity. So we have penetrated well into large companies and we are doing very well in SMEs where we have a very high penetration. We are weak in the middle, in these medium-sized companies. And this, frankly speaking, is due to the fact that, historically, we failed to develop a sales force that would be able to quickly respond to the needs of such medium-sized businesses. Large companies are served mainly by PZU's head office, small companies are handled by mass sales. We are quite good at this, because this is done largely by our agents. Medium-sized clients are a level served by medium-sized brokers throughout Poland. And this is where we intend to significantly improve the quality of services provided by these brokers, the speed of quoting and the quality of customer service. So this is what makes us underweight here, we are below the 20% mark according to our estimates.

Piotr Palenik: I have two last questions if you do not mind. One of them concerns the trend in the average claim, which is what has been mentioned as one of these negative elements last year. After Q3, as I remember, it was said that this negative trend was put under control to a certain extent as a result of improvements in claims handling and also cooperation with repair shops. I have the following question: what happened later that made this worse again? At least that is my impression. And my second question is probably the last one concerning the dividend. My perspective as a sell-side analyst, as CEO Krupiński rightly noted, is slightly shorter, so my question is simply the following: what is the risk that the payout for last year, which you will have to announce much earlier than your dividend strategy, will be significantly different?

Przemysław Dąbrowski: Perhaps I will speak about the average claim and will request CEO Krupiński to comment on the dividend. I seem to have been a bit misunderstood. In general, the average claim for the whole 2014 was a big challenge. The actions that had been taken slowed down the increase in the average claim in both Q3 and Q4. Q4 was even more so – it has a higher loss ratio, Q4 alone, not due to a large increase in the average claim, because it was really stable, but what I said earlier about the average claim is still a challenge, because we assumed the possibility of a significant reduction. And here you also asked me how I see this year. Well, I am talking about this average claim a bit in the context of this year and not in the context of what happened last year. That it is not the case that we stopped this negative trend and that it seems to have turned around. So this is it. This is rather a challenge for this year. At the end of last year, we were able to maintain it. And, Ladies and Gentlemen, please remember that as the average claim is concerned, a number of different factors are taken into account, including the level of client satisfaction. And we also monitor it on an ongoing basis. So far, this level has been very high, and as you have seen, it is 7% higher compared to our competitors, but here too there is a risk of what we fear may be too much of a squeeze in the payment of indemnifications. Because then we may have a problem with client satisfaction. So this is said more in the context of this year rather than a threat to our historical performance. And as regards the dividend, CEO Krupiński will have the answer for you.

Piotr Palenik: I understand that your strategy will be announced... but the decision as to the dividend for 2015 will have to be made probably within the next two months at the latest, that is before the announcement of your dividend strategy, so my question is: what is the risk that the payout will be significantly different from what it was in 2015?

Michał Krupiński: Like you noted, within 2 months we will come up with a proposal for the payout ratio. Besides, I uphold what I said that the company is a dividend-paying one and is expected to provide investors with a dividend at an appropriate level. There are formal requirements resulting from Solvency 2 when it comes to the presentation of a long-term dividend strategy. And we are working on this strategy for the years 2017-2018. But I would not like to quantify or evaluate the risks. We will come up with specific proposals.

Przemysław Dąbrowski: However, what we are working on is our dividend payout strategy for 2016 and beyond, therefore it will not address 2015. As regards 2015, I would say April, which is the month when the Management Board has usually made the decision on the payment of dividends. And this will still be based on the old policy.

Well, I can see that we seem to have appeased your hunger for knowledge. Let me now invite you to appease your other hunger.

Thank you very much. Goodbye.