Conference of the PZU and PFR Management Boards held on 8 December 2016:

Announcement of the acquisition of a stake in Bank Pekao S.A.

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

Welcome, Ladies and Gentlemen. Thank you for accepting our invitation to this meeting. I understand you are familiar with our today's topic. I believe a lot has already been said, and so we would like to again go briefly through the presentation, especially through the slides that are the most relevant to you.

I am also glad that the invitation to participate in this meeting has been accepted by Mr. Paweł Borys whom you know from his previous important roles as well as from his current role as head of the Polish Development Fund [*Polski Fundusz Rozwoju*, PFR]. The Polish Development Fund, as you all know, is supporting PZU in this deal: we are jointly acquiring a significant controlling stake in Bank Pekao S.A.

Also with us today is Mr. Tomasz Kulik, CFO and Member of the PZU Group Management Board, whom you also know.

Accordingly, we would like to move on to the most important issue, namely a summary of the deal and the structure of our plans and intentions in respect of the Group itself and, most importantly, in respect of the acquired entity. We would like to demonstrate to you that the transaction makes sense not only from the investment perspective for the PZU Group. We are glad to see that, to date, the market has accommodated the transaction in a favorable manner: stock-market quotations of PZU and Alior Bank have gone up, those of Bank Pekao S.A. have been rather stable. We are of the opinion that after our meeting with analysts the situation will not deteriorate but will only get better.

I understand that CEO Borys will return in 5 minutes. Let me go through these slides.

As regards the summary of the transaction, last night we signed the SPA and the agreed on the acquisition of a 32.8% stake. We are acquiring 20% + 1 share, PFR is acquiring 12.8%. The price is PLN 123 per share. This price carries a 3.3% discount to the value-weighted average price for the last 6 months, and, as you know, it can be expressed as 1.3 times the book value, taking into account the projections for the first half of next year. This price includes a certain minimum premium over the current market valuation of Bank Pekao S.A. As you know, the valuation of Bank Pekao S.A. was at its historic low considering the last 5 years. We believe that the terms we managed to secure are attractive from our point of view.

As regards the strategic rationale, the Bank we are acquiring is very a profitable and safe bank, with surplus capital and a strong leading position, especially in the area of corporate banking. Therefore, we are implementing our strategy. This acquisition also makes sense from the investment perspective. We are also committed to ensuring that the Bank does not change its strategy and perhaps we will consider putting more emphasis on investments. Especially on technological investments within the Bank. We may also want to insist that the Bank is more balanced in terms of exposure to corporate and retail clients. Most importantly, we have a very strong motivation to earn money on this investment. And so we are committed to maintaining the current dividend policy. In particular, we would like to see the Bank continue to pay maximum dividends. As regards its impact on the Group, we have made all our calculations and we believe that the deal is favorable from the point of view of our EPS and ROE, that is, we are assuming, depending on the year, a 10 to 11-percent growth in earnings per share for PZU.

The deal is funded with the Group's capital surplus, but we are also considering the issue of a hybrid instrument, subordinated debt, to be able to diversify our capital structure and to make up for potential shortfalls to the capital adequacy level of 200% under Solvency II, as declared in our Strategy.

As regards the structure, we are acquiring for PZU, like I told you, a 20% stake + 1 share. We will strive to ensure that the Bank pays out the maximum possible dividends. We will also strive to consolidate the Bank with PZU in our results. To this end, we have entered into a pertinent agreement with the other shareholder, that is with PFR, regarding management, and the objective of this agreement is to enable us to consolidate our results in the financial sense.

As you know, UniCredit announced this morning that it will issue or perhaps that it has already issued mandatory exchangeable instruments, so this transaction is now pending at their end. It will enable them to eventually dispose of a surplus above 33%, that is of a 7.3% stake. Also from UniCredit's point of view, this will enable UniCredit to have a potential upside at a level of 7.3% and benefit from a possible increase in the share price in the future. This was also emphasized in our negotiations.

In our opinion, the legal agreement is satisfactory. In particular, we have obtained all standard security arrangements expected for this type of transaction. What we wanted to achieve, among other things, was to avoid losing any clients of the UniCredit Group. As you know, they too form a large portion of the Bank's clients. To secure it, we included appropriate non-compete clauses so that no one will be able to open or acquire their own bank here in the future. And we will enter into, and currently this is one of the things that we will negotiate, a special cooperation agreement to ensure that Bank Pekao S.A. is the bank of first choice for clients of the UniCredit Group in Poland.

And vice versa. We will respect the fact that for a large portion of Bank Pekao S.A.'s clients UniCredit was the bank of first choice, the reference bank in markets covered by the UniCredit Group's business, mainly in Italy, Germany and Austria.

The Bank's exposure to Swiss franc-denominated loans, in our opinion, is not significant, accounting for 2.7% of total assets. As you know, the Bank had a certain aversion to loans denominated in Swiss francs, and so these existing loans are mostly a portfolio inherited from the former Bank BPH. Therefore, the loans that were granted previously are characterized by good vintage and low NPLs. And we obtained, through negotiations, a hedge against changes in legislation applicable to loans denominated in Swiss francs to a certain predetermined cap, and I can say that we are comfortable with the mechanism of this specific indemnification clause for Swiss franc-denominated loans. We also have the right, and this is also very important, we have the right to receive the dividend for this year. As regards our cooperation, like I said, we have signed an appropriate shareholders agreement, and we are very comfortable with the fact that we are looking at this deal in the same way, in the strategic sense, whereas it will be PZU who will consolidate Pekao in our results. As regards the investment horizon, we also believe that it is similar. Of course, PFR was less ambiguous about it and declared that it is at least 3 to 5 years. But both our companies are considering the deal to be a long-term investment.

When it comes to our approach, first of all the Bank, as I mentioned, is very good and very well-positioned. In my opinion, the Bank is very well prepared to benefit from economic growth, growth in terms of corporate lending. We are committed to maintaining a stable ownership structure in the Bank and to ensuring compliance with the standards, independence of members of the Supervisory Board, the Code of Best Practice for WSE Listed Companies. In particular, we are of the opinion that the Bank should maintain its secure risk profile and, secondly, continue its previous strategy. Perhaps certain changes will be introduced in the technology area. We believe that the Bank could be more strongly invested in terms of technological solutions, IT, to be able, in the long term, in the best possible manner, to offer banking products to its retail and corporate clients. I believe this is also in line with a certain trend and we have good experience in this area. Also, you may take a look at what has been done by banks that are closest to us, such as Alior or PKO BP, but also by other banks, such as mBank or AIG. We want Bank Pekao S.A. to be also a leader in this field when it comes to innovation and technology, taking into account the major changes taking place in the financial sector.

Like I mentioned, we have the commitment, it is also in our interest, because we want to make some money on this transaction, to keep the most attractive level of dividend payments from the Bank in the future.

As regards the timetable and next steps, this morning we signed the transaction documents, in early January we will apply for applicable regulatory approvals to the Polish Financial Supervision Authority (KNF) and the Office for Competition and Consumer Protection (UOKiK) as well as to the Ukrainian regulator. We expect to close the deal in the second quarter.

As you know, in our Strategy we talked about exposure to the banking sector. In a sense, we inherited this Strategy from our predecessors. As PZU, we analyzed potential acquisition opportunities of insurance companies in Europe, in particular in CEE (Central and Eastern Europe), and we did not find any equally attractive acquisition targets. In particular, there are few insurance companies of the same strong profile or of the same strong profitability calculated in terms of ROE as PZU. We concluded that PZU's expansion to other markets outside Europe, including Asian markets, which, as you know, belong to some one of the most attractive markets globally today, is premature. However, we want to put our capital surplus to use, optimize our capital structure and hence we decided to turn to the market we know best and to a sector which is related to that of PZU. We also believe, and this is our strong view, that even though experience in the bancassurance area was mixed in different countries, which is something I want to talk about a bit in the context of some of the following slides, we see great potential in terms of synergies in the bancassurance channel and when it comes to savings products. However, this is not part of our model. This is an upside. In our opinion, this transaction is viable as an investment and is attractive from our point of view. And a potential strategic upside, from the PZU Group's point of view, does not have to be included in the model to be able to say that the deal is attractive for us. So what I want to say is that, as in everything we do, we try to keep our word. As you all know, when we met a few weeks ago, we had some good news in terms of our profits, our market share and our savings. This year, we have cut down our costs by tens of millions of Polish zloty and we uphold our commitment to cut down our costs to PLN 400 million of the Company's fixed costs until 2018. As regards profitability, in the context of our Strategy, through this acquisition we are achieving our strategic objective to build a banking group within the PZU Group.

May I ask you now, Paweł, CEO Borys, to talk about issues related to the price and the banking sector? That is from slide 7 onwards?

Paweł Borys, President of the Management Board, CEO of PFR:

Yes, my apologies for my brief absence. Welcome, Ladies and Gentlemen. We have acquired Pekao, because I missed analysts and banking investors very much, so I did everything I could to be able to see you again. But speaking a little more seriously, as the Polish Development Fund, I would like to be well understood. Our investment profile, what we do, is such that we indeed want to be a financial partner for sectoral investors and we have a flexible long-term investment horizon. It is not that we have to exit soon. Here we have close cooperation within the framework of the shareholders agreement with PZU where we have a long-term commitment to vote together and make sure that Pekao has the best possible strategy, a stable and secure risk profile and regular dividend payments. We as PFR have an obligation, also from the perspective of regulations concerning our classification in the public finance system and other regulations, to run our business based on market principles, so we are looking at this transaction also from the simple perspective of the rates of return that we want to achieve. We are financing the deal partly from our equity and partly on the market, assuming that this investment will enable us to generate a return on investment in excess of 10%. In this context, of course, the price on entry is important, so moving on to this slide, we are convinced that this valuation is an attractive one. I will even say more: if someone had told me a year or a year and a half ago that Bank Pekao S.A. would be available for purchase within a range of 1.3, 1.4 times the book value, I would have said that this is impossible. This is the minimum valuation for the last 5 years, both in nominal terms and in terms of multipliers with a discount to these main parameters, that is compared to the last UniCredit transaction and the average of several years. I believe that we will ensure good corporate governance and will support good management in the bank, that we will manage to avoid the so-called State Treasury-owned company effects resulting in falling valuation multipliers. I am convinced that if the market sees that we have a stable policy towards the Bank and there is no risk of a supply of shares on the market, then the fundamental valuation will also have a potential for growth. As you all know perfectly well, Bank Pekao S.A. is a very well-positioned bank in most market segments. Compared to PKO BP, its profile is a bit shifted towards corporate and affluent banking, although these differences are beginning to blur a little bit. Taking a more strategic look, we believe it might be worthwhile to put a little more emphasis in the coming years on investments in technologies, that is in IT areas. In our opinion, of course, this whole wave of digitization of services is extremely important, so most probably we would like to speed up a little bit in this area. This has an efficiency dimension. As you know, ING, for instance, mBank has completely different efficiency parameters calculated as OPEX to business volumes. These differences are of a magnitude of 30-40 bps. Thanks to the significant automation of business processes and electronic banking, Bank Pekao S.A. is closer to 200-210 bps. In this respect, ING is around 1.7. So you can see that in this business model there is still great potential for improving efficiency through primarily technological investments. But we also believe that it is possible to continue what is visible this year in Bank Pekao S.A., namely to grow a little bit faster in several market segments. In this context, however, we and PZU emphasize very strongly that we would be very keen to continue to maintain a safe risk profile. So our plan is not to enter the market with an appetite for credit risk at a level, say, 60-70 bps, but we would like Bank Pekao S.A. to remain all the time at a level closer to 50 bps, maybe between 50 and 40-60, depending on the particular moment in the cycle, that is maintaining a secure risk profile. Although it is common knowledge that when you put more emphasis on consumer loans or SME loans, then the cost of risk resulting from the mix may increase a little bit, but on the other hand, this should also have a favorable effect on the interest margin. It is very important to maintain a high quality of assets, stable dividend payments, investments in new technologies, but also focus on the Bank's growth. I think these are the main elements of Bank Pekao S.A.'s equity story which we will want to continue in the coming years.

I understand you had a chance to talk about integration within the Group [to CEO Michał Krupiński].

Michał Krupiński: Let me say more about the details. I understand that we are at slide 11. I think we can go to slide 13. Like I mentioned, we are of the opinion that even if the synergies have not been included in our basic model, from PZU's point of view the transaction is an economically viable investment. We believe there is significant potential for cross-selling and up-selling of insurance products through the outlet channel to Bank Pekao's clients, in particular when it comes to life insurance products for small and medium-sized enterprises as well as non-life insurance products, including motor insurance and real estate insurance. So we believe in the bancassurance channel, we think that due to the entry into force of the pertinent EU directives, this channel may also prove to be effective. In this field, we have some cooperation experience with Alior Bank. Similarly, as regards the acquisition of Pioneer as well as Xelion and OPF, we are of the opinion that there are potentially significant synergies between our businesses in the field of asset management. As you all know, this sector is undergoing consolidation across the world and it is a sector in which there is a strong shift towards passive funds. Thanks to such a strong distribution network, we will be able, in our opinion, to improve our sales significantly and, quite frankly, there are also some strong cost synergies to be taken advantage of, because economies of scale are at play here. It also fits with our strategy of being the largest asset manager in Central and Eastern Europe and keep increasing our market share in terms of money entrusted to us by third parties. We have the results of certain in-house analyses available and we are thinking about implementing this plan, and, like I said, our ambitions are quite big. Also in the other direction, we believe that through our network of agents, our own tied agents, our sales force, we will be able in the future to sell other kinds of products in addition to insurance products. So we believe in the model of an integrated financial group, of a diversified financial group. Moreover, this type of group will have significant potential for cost synergies. And we are practicing it and working it through with Alior, for instance when it comes to our joint procurement policy. Of course, everything must take place on an arm's length basis. We know very well that both our companies are listed companies, we also respect minority shareholders. It all has to be a win-win situation, well described from the legal perspective, from the point of view of UOKiK and also beneficial for our clients.

Let us maybe move on to slide 15 now. Tomasz, please.

Tomasz Kulik: Ladies and Gentlemen, we would like to say a few words about how the transaction will affect us from one angle, which is something we talked about some time ago, I mean how it will affect the implementation of our strategic plans which we discussed a few months ago. How will affect their significant acceleration and where the PZU Group may end up after the transaction in terms of key parameters of efficiency and profitability. First of all, according to our estimates, as early as next year this deal will have a very favorable impact on the PZU Group's ROE, increasing the ratio by 1-2 percentage points. We are talking here in terms of a range, because we are unable to tell you very precisely when the deal will be closed. We know it will happen in the second quarter, but depending on when exactly this moment occurs, it may be closer to 1 or 2 percentage points. In a moment, we will also see how it looks from the perspective of a very illustrative impact of the transaction on our indicators. Of course, the data to be presented will be purely illustrative data, based to a certain extent on your estimates. The deal should have a fairly significant impact on the expected increase in EPS. We think, and we have tested and confirmed it a number of times in many models that the increase in the next few years should be of the order of more than 10%. Because this is a very good asset, bringing a strong improvement to our results and enhancing our performance. The profitability of this asset less any costs associated with its financing is positive. The impact is, like I said, 10+ percent. Of course, this transaction entails certain financing. As you know, the PZU Group has a strong equity position. Today, our capital surplus, in relation to the declaration expressed in our capital policy, is approximately PLN 5 billion, but what is also worth mentioning in this context is that so far the PZU Group has not quite been in a position where it had to worry too much about how its capital is invested in various, often alternative revenue-generating undertakings. Today, this situation is changing significantly, and so what we have ahead of us and what has not yet been quantified as part of these financial results we are talking about, is the effect of optimization of the use of capital within the Group. Like I mentioned, today we are not using this capital in an optimal manner. We see the opportunity to improve our SCR, which will automatically translate significantly into higher coverage ratios. According to our estimate, after the deal is closed, if we did nothing else, and taking into account the figures from 30 June of this year, that is the value we talked about during the presentation of our Q3 results – let me remind you that we publish our capital position and solvency with a quarterly lag – if we did nothing else, the SCR coverage value after the transaction would drop to approx. 185%, assuming, of course, the effect of Bank BPH, which also materialized in Q3. However, like we already said, we intend to fulfill our commitments. We talked about this quite often when we discussed our capital policy and our dividend policy that within a matter of several months we would like to return with our solvency ratio to a level of approx. 200%, which is our long-term objective. Perhaps, the closing of this transaction will not entail a decrease in our coverage. It all depends on how the transaction will be carried out in connection with a potential issue of subordinated debt, which we want to receive a score from a credit rating agency. So this is also very important and we wanted to emphasize it. Of course, we are not making an assumption here that our leverage ratio might exceed the level that we talked about before, that is 35%.

For illustrative purposes, you can see a very simplified calculation on slide 16. Like I said, these values should not be treated as our commitment in terms of net profit. These are the kinds of things we cannot present or talk about. This kind of information is price-setting, these things are based on consensus when it comes to the PZU Group's net profit without the transaction, without any detailed specific values over a 3-year period. As regards PZU's share in the Bank's profit, also based on consensus after adjustments associated with this transaction, that is, on the one hand, lower revenues from assets, as there will be less of them, and, on the other hand, in the case of an issue, the costs of financing. Such are the potential effects and impact of this transaction on two key indicators, i.e. on return on equity (ROE) and earnings per share (EPS). I would like to emphasize here what has already been said that in this valuation, in this estimated impact, the factors that have not been taken into account are potential synergies both on the revenue side and on the cost side. As regards the capital position after the transaction, like I already mentioned, again, for purely presentational reasons, based on the situation as at 30 June of this year, our coverage was at a level of 256%. The closing of this transaction and the closing of the transaction associated with the acquisition of BPH by Alior entailed a decrease in own funds by approx. PLN 2.4 billion, which means that we end up with a solvency at a level of approx. 180%, based on the assumption that there is no further movements. If we want to return to the level of 200-200+, it is clear that we have to think about levels of the order of 190-200, perhaps less if SCR is optimized. Like I said, before this day SCR and capital involvement were not a problem for PZU. Starting today, capital is a scarce good, so we have to adopt a very rational approach to it. We believe that we are able to improve our position significantly, which would translate into either a lower potential issue of subordinated debt or the achievement of a surplus that could be utilized either through the development of current business or through subsequent movements of capital.

And what we told you some time ago when we presented our dividend policy is not changing: all the time the jigsaw is 50-30-20.

50% is guaranteed, that is, no matter how and when the transactions will take place, even such large transactions as this one, we declare our readiness and fulfillment of our commitment that we will pay at least 50% of our net profit generated in the previous year in the form of a dividend. And I will immediately answer the question whether the 50% – because I expect this question – whether the 50% is everything to be expected? No, this is not necessarily everything. But we are certainly going to take into consideration what we have communicated to you all quite clearly. It means that in the case of large transactions, very capital-intensive transactions, we may keep 30% of last year's net profit in order to provide capital support to such a transaction. We will certainly consider such a move this time due to the size of the transaction. Of course, the remaining 20% is internal growth, innovations. As you all remember, we talked about it during our presentation of the Q3 results. We are experiencing quite strong organic growth, we have invested in the acquisition of a market share organically, we have acquired market shares in non-life insurance business on a year-over-year basis. After two quarters of this year, these market shares increased by more than 3 percentage points. As regards our insurance business, the share of this business in the regular premium market has increased to 45%, and are the kinds of increases that require capital support. Of course, we will analyze what the final proposed dividend for 2016 will look like and we will share this information with you in due course.

And let me ask CEO Krupiński to say a few words about how the Group will look after the acquisition.

Michał Krupiński: These slides are more illustrative. We added up market shares and this is what we obtained, so in this area we in fact did not need much support from the investment banks. But speaking completely seriously, we have 16 million PZU clients and we will have another 5.4 million Pekao clients. Also on the side of employees, Bank Pekao has 18,000 employees and offers, as we already discussed, the opportunity of product cross-selling and up-selling. Like we said, we will strive to consolidate. What is important, I think, is the fact that we are also gaining more than PLN

20 billion in assets under management. These cost synergies, how the sector consolidates and the fact that we see a significant opportunity in the savings creation plan by Deputy Prime Minister Morawiecki and CEO Borys have also been some of the topics we have discussed.

Moving forward, our Company will remain the insurance market leader in both life insurance and non-life insurance. As you all know, this year we gained several percent, we increased our market share in non-life insurance due to a better TPL pricing policy and a greater level of sophistication of this policy, also due to other initiatives, such as our Mutual Insurance Company. We will be the leader in asset management, with an estimated market share of 25%, and, taking into account our exposure to Bank Pekao and Alior, we will be, let us say, the runner-up, if I may use this word, in the banking market. Of course, it is our ambition to reach the leader, and the undisputed leader in the banking sector remains PKO Bank Polski. So, to move on and wrap it up, because we have a few more slides in the Appendix to our presentation, containing information on corporate loans, the Bank's performance ratios and our understanding of the most important statistics on the acquired entity, but I think it would be enough at this point. We are available if you have any questions.

Thank you very much.

Michał Konarski, mBank: I have a few questions concerning Bank Pekao. You are showing the impact on EPS and ROE. Do these figures takes into account the costs of PZU's debt issue or not?

Tomasz Kulik: They do.

Michał Konarski: OK, great. Then I have some questions about asset management. You have talked about some strong cost synergies that may be achieved. Are you planning a merger of PZU TFI and Pioneer or intend to keep two separate mutual funds? And another question: if TFI PZU were to acquire Pioneer, what would it look like?

Michał Krupiński: We will respect the decisions made by the relevant corporate bodies, in particular of Bank Pekao S.A., which has received an offer to repurchase assets from UniCredit, but we have no binding decisions yet as to a merger of assets in the asset management area. In any case, we see that this is a sector that has a very big potential for cost synergies, including synergies involving an even better exchange of knowledge between the asset managers, so we are keeping an eye on global trends. In particular, on the transition to passive strategies and ETFs, and we would like to make the best possible use in the future of our sales channels, including the direct channel, to sell these types of products.

Michał Konarski: But as regards the stakes still to be acquired from UniCredit, would you be more willing to have PZU or Bank Pekao S.A. acquire them?

Michał Krupiński: According to our agreement, the option to acquire these assets from UniCredit has been granted to Bank Pekao S.A.

Michał Konarski: I have one more question for CEO Paweł Borys. You said you had missed analysts, so I have the following two questions. The first one is about PFR's impact. Will you expect Bank Pekao S.A. to be more actively involved in financing your projects, especially in the SME area?

Paweł Borys: I already had a similar question during the session with journalists and considered it to be a tricky one. No, I want to say right off the bat here that we will not have these kinds of expectations. The transaction is not intended to encourage Bank Pekao S.A. in a moment to provide more financing to one cause or another. They must conduct their own policy. What I strongly believe in is that the de minimis program is a good program, and it is so in many respects, both for small and medium-sized enterprises and for the commercial banking sector, because it indeed enables easier access to financing. It removes an important part of the risk, so I encourage all banks, whether it is Bank Pekao S.A., PKO BP or others, to participate in this program. As we all know, it seems to me that most banks in their strategies consider small and medium-sized enterprises or mid-corpos to be a kind of a golden grail. Because, obviously, given the bank levy, large clients and a low margin, the big challenge here is to build a good return on equity. These margins in the middle segment are even better. So it seems to me that in this area Bank Pekao S.A. has quite a significant potential, although competition is very strong. So I will put it very explicitly: I cannot imagine us to use Bank Pekao now for some projects. What is more, I want to tell you that in the Polish Development Fund we have no problems with financing. We have a fairly large capital, BGK has the potential for balance sheet growth by tens of billions of Polish zloty, we just raised the capital by 3 billion, so the challenge is rather the availability of good projects. So there is completely no such risk, and please do not worry about it.

Michał Konarski: Another thing that intrigued me in what you said was the expected specific return on this investment. Looking at the consensus among analysts and at the average target price for Bank Pekao S.A., that is PLN 128, we have a 4% upside on your purchase price. So where do you now see the upside in Bank Pekao S.A. if you do not want to exert too much influence on its management board?

Paweł Borys: Here is what I mean. Let us first take my 10%. It is very simple. Even if the share price remains unchanged and the Bank distributes nearly 7% in dividends, with more than half of the investment financed with debt, it is already 10%. And as regards the increase in the Bank's value, we all know that there were some one-off items this year, so in terms of reported performance, the result next year will probably be quite flat, but in my opinion the market will grow, in the medium term of the next 3 years, at a rate of approximately 6% in terms of loan volumes. I think that the cost base in Polish banks in general, and certainly in Bank Pekao S.A., should remain quite flat in this period, or perhaps even decrease. Of course, the way it works is that when you invest a little bit in technologies, at the beginning you have higher depreciation, some costs, but there is still great potential for improvement in efficiency. Value accretion in the banking sector in Poland, with a certain constant trend in some pressure on commission margins, and interest margins depending on interest rates, will be driven by increases in scale and the spreads between revenues growing faster than costs, and this is where the value is, because then these results, net profits, even at fixed interest, have the potential for growth of at least several percentage points every year. And now, if we make the assumption that there will be no decline in valuation multiples, then this should quite simply translate into a stable value accretion of the Bank. In my opinion, Bank Pekao S.A. already has quite attractive multipliers. There were some one-offs, so next year the reported result will have a slightly different base, but we are looking at the consensus. The year 2018, for instance, also shows that it is 13 times the net profit for 2018, with a 6.5% dividend. When the deal is closed, we will acquire at a little more than 1.3 times the book value, this is a fixed price, no price adjustment for accumulated profits, so in fact when we pay we will pay for a different net asset value. These are good and healthy parameters. So if the bank is able to grow 6-7% in loan volumes, keep the margins and cut down the costs, the potential is really reasonable.

Michał Konarski: Do you assume that the Bank will keep distributing 100% of the dividend all the time?

Paweł Borys: If we look at how much surplus capital it has and even if its risk-weighted assets grow 6-7% per year, then it seems that this payout will be close to 100% in this model for at least 2-3 years, right? Later, if this growth continues to be so strong, then it would probably be closer to 75%, right? It simply depends on how fast those assets will actually grow, but this is truly a great capital position. I do not know if you agree with me, but KNF's most recent recommendations, in my opinion, already consume to a large extent this growth path under CRD IV, right? Because we are really high in terms of total Tier 1 [...], so there is probably little more potential for them to be able to tighten up in the future. There will be IFRS 9, but have also taken it into account. There are some changes in operational risk, but we have also taken them into account. This way or another, it all shows that the equity story here is a very solid one.

Michał Konarski: Thank you.

Michał Krupiński: And as regards the dividend distribution ratio, this is our baseline scenario. Let me add three additional remarks to what CEO Borys has said. Firstly, the market will consolidate. We believe that the sector will consolidate around 5 or 6 banks. If you look at other consolidated markets, such as the Czech market, these banks generate the best yields of between 15 and 20% in terms of ROE, despite low interest rates. Secondly, I think we are slowly approaching the end of the interest rate cuts cycle. If you look at the actions taken by the Federal Reserve Bank, you have heard what has been announced. Thirdly, from our point of view, we at PZU see the strategic upside and we have, let us say, quantified potential gains for us, which we can then transfer to EPS regardless of the baseline scenario, because it is not taken into account in the baseline scenario.

Paweł Borys: I would like to pay attention to one more thing when it comes to valuation. On one of the charts here we showed how the price of Bank Pekao S.A. behaved compared to the WIG-Banks index, and it is clear that in recent months the share price was heavily under pressure of, let us say, some expectations for an overhang on the market. I do not know if it has been well understood what happens to the 7% held by UniCredit. Our findings are that UniCredit will continue to be a shareholder for another more or less 3 years. They will turn up at shareholder meetings, we will have strategic cooperation agreements with them and they will also be entitled to dividends. However, the Bank has decided that it would like to release all capital and that it will issue today or tomorrow an instrument in the form of bonds convertible into shares, which means in fact that tomorrow it will cause the entire 7% overhang to disappear for good. The way these bonds work is that in 3 years investors who have purchased them will have the right to simply convert this instrument into shares, and that there is some slight hedging embedded in it, so the question is how much of this has already been discounted on the market, but in fact tomorrow we will have a situation where the question of a future supply of Bank Pekao S.A. stock by the main shareholder will no longer exist.

Michał Kużawiński, JP Morgan: I would now like to ask you about dividend disbursements from PZU, because potentially the magnitude of this dividend is quite broad. On the one hand, as CFO Kulik mentioned, are considering retaining 30%, more than 20%, which implies a 50% payout from PZU's own profits already for 2016, which is approximately PLN 1.15. On the other hand, taking into account the expectations of profit growth in PZU and adding 10% from Pekao next year, this opens up the potential for a distribution which would be twice as high: PLN 2.30-2.40. In this case, do we perhaps have a situation where the dividend will, after all, be lower next year and then will jump up after the consolidation with Bank Pekao S.A., and then will continue to grow at some, let us say, stable rate of growth, or will the first dividend will be somewhere in the middle, more or less, of the range I just mentioned and then continue to grow at some stable rate?

Tomasz Kulik: I am not sure if I understand your question regarding the middle part. But I will try to provide an overall answer. You are using the dividend per share value. We know what the situation looks like after three quarters, because we talked about it some time ago. However, we do not have the full knowledge of the fourth quarter yet. The issue of a fairly high volatility of financial markets is open all the time. We could see what happened on the Warsaw Stock Exchange yesterday, what is happening there today, what happened the day before yesterday, so providing an estimate of how we will close the year is difficult even for this reason. On the insurance side, at the moment there are no situations comparable to severe winter damage, therefore, considering what happened to the prices during the first three quarters, I can say that in the coming quarters we should recognize a very positive impact of this on the bottom line. And referring to the structure and distribution of profit, we will deal with the 2016 result next year. Therefore, according to our policy, we should consider retaining part of the profit, probably a little more than we did previously because of this particular transaction. We mentioned quite openly that if there are any large transactions, we should take something like this into account, we communicated it very clearly. We assume that, after this transaction, the probability of occurrence of a second Pekao is low. In other words, taking into consideration the following year, that is 2017 and dividends for 2017 in 2018, the following approach may be adopted: the range which we should always keep in mind when thinking about the dividend is 50-80%, because, like we also mentioned, the 20% will be something we will consider in the context of distribution or retaining, taking into account the development of our current business. This year, like we said, our current business requires quite a big capital support due to the scale and rate of its growth. I do not suppose we will be able, in the coming years, to consume capital faster than we will be able to generate it, which, compared to higher profits, even if only due to the impact of Bank Pekao S.A. on the consolidated result, should translate directly into higher nominal values per share, earnings per share, which will be subject to distribution in the form of dividends. However, if you estimate us by building consensus, by building your expectations as to our next year's results, then please remember that in this whole jigsaw we also have Alior, which has acquired BPH and now has to consume or digest it, whichever word you want to use in this context. What does it mean? It means that Alior will have to invest, incur some costs associated with the integration of the two entities before it starts to demonstrate the full synergies. According to our estimates, this period will last approximately one year or slightly more than one year, therefore probably on a year-over-year basis the impact generated by banks other than Pekao may be smaller. But I will leave the math behind it for you.

Michał Kużawiński: I understand, but from what you said, can we, let us say, have the idea of a smaller one-off dividend next year and then a sharp increase the following year?

Tomasz Kulik: You mean in 2017 for 2016?

Michał Kużawiński: In 2017 and later a sharp increase, taking into account the larger base for distribution and a reduced need for additional capital strengthening.

Tomasz Kulik: I think so, because like we said when we discussed our dividend policy, we will also try to build a very steadily growing base both in absolute terms and in relative terms, which means that we would like, if you are using this EPS indicator, we would like it to grow year by year and, in terms of proposed dividend distributions, we would also definitely like to be comparable to our European and global competitors and offer payouts probably at a similar level, taking into account the fact that: (a) as a group, we will grow, (b) like we said, the potential for the emergence of another bank similar to Pekao is low, and, in consideration of the fact that, in practice, we will immediately jump to achieve part of the key indicators expressed in our Strategy thanks to the acquisition of Bank Pekao, and in the subsequent periods our next challenge will be to appropriately rearranging the jigsaw pieces that we have in our basket. We would like to achieve a steady and stable growth in dividend per share. Whether or not it be a big jump from 2017 to 2018, I would not like to declare it with certainty. It all depends to some extent on the current capital intensity of our business, but anyway the declaration is all the time as follows: 50-80% is something we want to distribute and 20% is something we will consider whether to retain in the Group or not depending on our further development plans.

Michał Kużawiński: Thank you. I have one more question about the ability of Bank Pekao to continue to operate after being cut off from its, so to speak, head office in Milan, right? So in terms of potential integration costs related to such things as, for instance, software licenses used within the UniCredit group on the one hand and, on the other hand, how do you intend to keep the Bank's existing management board, which is to a significant extent the author of the Bank's success?

Paweł Borys: As regards the IT systems, thanks to the efforts made by this good management board, the extent of integration with the UniCredit group is negligible, meaning that Bank Pekao S.A. is a standalone bank with a very small degree of integration with the group. This applies to several services pertaining to the areas of compliance, HR and the Murex system, which is operated under a common license in the treasury area – we have it identified and we have it covered by a transitional service agreement in which we agreed that these systems will be transferred. The scale of these payments is several million per year, so this amount is very small. We are assuming a relatively simple migration of these solutions to Bank Pekao S.A.'s own platform. So in the IT area this really is not a major problem. As regards the management board, it is also something we have already talked about. Even this morning we talked to CEO Lovaglio. We are counting on good cooperation in this area, we appreciate what he and management have done for Bank Pekao S.A. and we are not planning any sudden changes in the management board, so we will want to ensure really good corporate governance and stable changes in the Bank to avoid any unfavorable surprises to investors.

Michał Kużawiński: I see. And one last question from me concerning the effective cost of the transaction: I understand that this is the PLN 123 per share less the dividend, right? Because the dividends for 2016...

Paweł Borys [interrupting]: If we manage to collect it. No, I mean it is ours. Yes.

Michał Kużawiński: It is yours.

Paweł Borys, Michał Krupiński, Tomasz Kulik: Yes, it is.

Michał Kużawiński: But if you fail to obtain UOKiK's approval by the time the dividend...

Paweł Borys: Then the price will fall.

Michał Kużawiński: Oh, the price will fall.

Michał Krupiński: It is ours.

Michał Kużawiński: I see.

Paweł Borys: That is why we are using the multiplier of 1.3. In fact, all profits accumulated by Bank Pekao S.A. are ours. So, assuming that the closing will take place in the second quarter, then this value will be greater and will pay a fixed price. Accordingly, the price to book value will be more attractive than it is at the moment.

Michał Kużawiński: I have one last question about the issue of subordinated debt. Will it take place only after obtaining approval from UOKiK, KNF and the Ukrainian regulator or will you be planning this issue regardless of it?

Tomasz Kulik: Let me turn the question around a bit. Are you asking if we are going to go ahead with the issue regardless of everything? Is that the question?

Michał Kużawiński: Well, sort of. Yes, what will you do in such a situation?...

Tomasz Kulik [interrupting]: Well, we have already answered this question that the issue for the sake of the issue itself does not make any sense to us as it would be economically unjustified.

Michał Kużawiński: Thank you.

Michał Krupiński: What would certainly be very important for us would be to maintain high capital adequacy ratios and the best possible rating score. And we will adapt to these objectives our capital policy, our dividend policy and our financing policy. However, like Tomasz said, we will definitely not issue subordinated debt at any cost. The issue only makes sense on a standalone basis. In the context of diversification of our financing sources, we will react as appropriate, also in consideration of the cycle of pertinent regulatory approvals.

Michał Kużawiński: Thank you.

Łukasz Jańczak, Ipopema Securities: I have two questions. One of them concerns the management board. You have said that there will be no changes, but speaking purely theoretically, would your two stakes enable you to make any changes in the management board or you would need the support of another shareholder or, for instance, UniCredit to effect such changes? I am talking about voting hand in hand at the shareholder meeting.

Paweł Borys: We have also talked about it before. We are not assuming any amendments to the articles of association of Bank Pekao S.A. which provide for a large participation of independent representatives in the supervisory board. We believe that this 32.8% stake will in fact give us a majority in the supervisory board. But, of course, we will also be open to minority investors in this respect. So, we assume that, of course, through the supervisory board and its decisions, and our representatives, we will exercise such control over the management board.

Łukasz Jańczak: And one more question, about the assumption of risk by UniCredit. Is this in the context of Swiss franc-denominated loans, foreign currency-denominated loans? Or does this assumption of risk apply only to potential costs? I am talking here about spreads, for instance, or about a worse-case scenario involving a conversion of loans. Or are we talking also about, for instance, increasing the risk weights and, possibly, additional capital needs in this respect?

Paweł Borys: It includes all conditions, all events which entail any loss in any form. An increase in risk weights does not fall under this definition, but any conversion, returns of spreads or any other form of change causing the cash flow under a given mortgage loan simply to fall. This will be compensated until the deal is closed.

Łukasz Jańczak: Thank you.

Maciej Marcinowski, Trigon: I have a question about the impact of Bank Pekao S.A. on your financial results. Because on the slide presenting the effect you have mentioned that this is without taking into account transaction costs and potential synergies. So my question is this: what is the scale, or perhaps the range, of these estimated synergies? Because in the context of the acquisition of Alior, you always said that your intention was not to create a banking and insurance group and that you do not expect too much synergy on this account. So has there been some kind of a change in communication here?

Michał Krupiński: We have some very conservative estimates of transaction costs, but for a transaction of this scale they are immaterial. As regards potential synergies, we also have some very conservative estimates, and based on our experience in bancassurance sales channels we have a good track record, for instance, with Bank Millennium. But I think that at this stage we cannot declare any numbers with absolute certainty. We can only say that in our opinion we can bring in via this channel hundreds of millions in new written premium, and we see large synergies on the side of savings products, so we have some of these scenarios calculated. They are based on references to the success that we have had in other banks. It is also important for us that Bank Pekao S.A. finances small and medium-sized enterprises and we want to grow strongly in the SME segment, also in terms of group insurance. As you all know, PZU is the leader in Poland in this sector, we are present in all large companies, or almost all large companies. But we are developing rapidly and we want to increase our market share in the smaller corpo segment. So this is where we see great potential for cross-selling. There is a similar situation with respect to retail products in the bancassurance channel. As regards the cost synergies, we think that the investment horizon in the case of Bank Pekao S.A. is maybe a little longer than in the case of Alior Bank, although we are committed to remaining a shareholder in Alior Bank also in the medium and long term. Hence, we will equally strongly try to exercise the potential cost synergies also within our purchasing groups in the IT area. We have a fairly good track record here, we have established our internal project with Alior and, so to speak, we are on the upward tail of the learning curve when it comes to the realization of revenue synergies. I would be able to go on speaking about this topic, because we have it more or less quantified how it translates into, let us say, additional accretion in terms of EPS, but I think it is too early to declare any amounts. We need to prepare a detailed strategy in this area, indeed this must be a win-win situation from the regulatory and legal points of view, respecting the rights of minority shareholders. But we also have some good experience and models of cooperation with Alior Bank. Tomasz, would you like to add anything?

Tomasz Kulik: Like we said, providing any values today concerning the leverage of these synergies on the two key indicators, I mean ROE and EPS, would be a bit too premature. You all know what Bank Pekao's cooperation with its insurance partners looks like today. It goes without saying that in this type of transaction we will want, after some time, to present our offer in the Bank. Of course, as CEO Krupiński said, respecting the rights of minority shareholders. But even taking the foregoing into account, you can calculate yourselves our potential additional revenues from bancassurance activity. As regards the effects on the cost side, in the case of two companies that are so large, these effects will also not be small. But it is too early today to give you any figures if we are to take them seriously. So, I would not like to give you a precise answer to your question.

[Incomprehensible question from the audience]

Paweł Borys: It is ensured in the agreement between UniCredit and us. UniCredit came out from the simple assumption that it now holds not a 100% stake but only a 40% stake in the Bank and it would not make much sense for one of the shareholders to give any identification for the Bank. So this is within the framework of our contractual relationships, at the ownership level.

Marcin Jabłczyński, Deutsche Bank: I have a question about Alior. Alior ended up not acquiring Raiffeisen, having walked away from the table. What is your current perception of this situation? PZU holds two minority but controlling stakes in two different banks...

Michał Krupiński: Not yet in Bank Pekao S.A.

Marcin Jabłczyński: Right. But this will change soon. So what will the relationship between Pekao and Alior look like? These two banks compete against each other on the market. I saw your statement where you said that the game is not over between the two banks, but what will the future of your investment in Alior look like and what will be Alior's relationships within the Group?

Michał Krupiński: Well, we decided that these conditions, due to good negotiations by the Alior Bank management board, are completely satisfying, including the pricing conditions. As you all know, everything we do must make sense commercially. We cannot make any decisions which we any doubts about. We believe that the management board of Alior Bank should also focus on delivering the full synergies following their acquisition of BPH. We are satisfied with this process. They are on track or even slightly ahead, so to speak. They have accelerated the integration process, and I think that the results will become clear sooner than we expected, very quickly. In our opinion, Alior is a very good, innovative and growth-oriented bank. I think that from the standpoint of managing the two groups, the costs of potential integration, as we indicated earlier, due to their differing business models, would be greater than the benefits stemming from this type of integration. From the viewpoint of management and value creation in Alior, we believe that Alior may, within a few years, significantly improve its profitability and begin to pay dividends. Looking at what we perceive to be favorable trends in the banking sector, from the perspective of further consolidation and digitization, we believe that Alior should also be valued with some upside due to its involvement in the field of innovation. We cooperate with Alior, for instance, and we will create a joint innovation lab. We are deeply involved in knowledge exchange, so management synergies are fairly significant even from the point of view of human resource management. We do not think there is anything preventing us from managing the two banks and, of course, we will properly manage any potential conflicts of interest. But these investments are also of a financial nature. We do not think this is a problem, and as is the case with any investment, whether it is Alior or Bank Pekao S.A., we want to generate a proper return on our investment.

Michał Konarski, MBank: I have one more question about follow-up synergies. You have emphasized that Alior is technologically a very strong bank, and, on the other hand, this kind of technology is sort of missing in Bank Pekao S.A. Is there any possibility of some close cooperation between Alior and Bank Pekao S.A. aimed at, for instance, transferring Alior's IT systems to Pekao?

Michał Krupiński: You know, from the point of view of innovation, it is sometimes better to have only one 'Silicon Valley' as opposed to the concept that was once pursued in the European Union where the objective was for each country to have own 'Silicon Valley'. In microeconomics, I think it is called a Marshallian externality – it is better to create something together. That is why we decided that it is better to create our own innovation lab with Alior to enable the exchange of this knowledge. We also have LINK4, we are in full control of LINK4 and we are of the opinion that it is a very innovative insurer. As you all know, LINK4 was the first insurance company in Poland to have introduced advanced solutions in the field of pricing, telematics and the use of big data. We also have innovative companies in the Baltic states. In Estonia, you can buy and pay for TPL insurance in our company within 60 seconds. So we will strive to ensure that activities in the field of innovation are consolidated together in the best way possible. And I think there is a good chance that when we and PFR end up controlling Bank Pekao S.A. the Bank will take advantage of the best experience available not only within the PZU Group but, for instance, in PKO BP and in other banks. Because you can learn a lot both by taking into consideration the solutions that have been successfully implemented and you can also learn a lot from failures. So I think this is a good idea.

Paweł Borys: I would only like to make one remark. I would not like you to think that in our opinion the IT platform in Bank Pekao S.A. is outdated, because this is not the case. It is actually quite good, it is scalable. Probably in this respect it is stronger than Alior's platform. The point is that here you simply have to run very fast. I only said that some banks are already in a slightly different place, as is the case with AIG. And that is where we need to start moving faster, which requires certain prioritization driven to a larger extent by strategy, and where we need to accept that depreciation will increase by PLN 10-20 million. It is not very much, but it will allow us, at the next step, to benefit from potential cost cuts. And this does not always have to be a reduction in costs but may be an increase in volumes. If efficiency is improved significantly, this depreciation of PLN 10-20 million will be made up for 3 times.

Michał Konarski, MBank: On the part of Alior, would it be some kind of a non-profit business or any sort of licensing where it might be expected that some...?

Michał Krupiński: I think it is too early yet to talk about it. But I think that CEO Sobieraj would be more than willing to share his experience and Alior Bank's experience with you, and at the same time he is a person who manages his bank with a strong commercial focus, representing the interests of the bank and its shareholders. But I also think, like Paweł Borys said, that this is the trend, and we have noticed what Alior Bank and AIG have managed to achieve. Their applications are very good, thanks to them they expand their market shares also in the retail business. Perhaps this was also the desire of the management board of Bank Pekao S.A. to strengthen this retail pillar of the business, to be able to appropriately extend and match assets with liabilities. I think this is also the right direction, in line with prevailing trends in the banking sector not only in Poland but also in Europe and across the world. But we do not want you to think that in our opinion it requires subtracting several hundred million a year from OPEX and CAPEX. Rather, this is more about a certain culture, like Paweł said, a culture of keeping up with innovation, introducing of pilot projects, also to be able to keep up with clients. We at PZU also have to face it every day. I travel a lot to visit our branches and I can see that we are becoming innovative, we have had some success in this field. As you all know, we have announced a project, as the second insurance company after Warta (Talanx), introducing the so-called self-claims handling via the Internet, where I think we are highly advanced, but looking at this in the long term perspective, it can be assumed that the generation of 'millennials' will purchase banking products in a slightly different manner from that of their parents or grandparents. We will need to work hard on this but I think that Poland is very innovative when it comes to financial services – this is one of the most innovative banks, one of the most innovative banking and financial services sectors in Europe, and as the PZU Group with the support of PFR, given the exchange of knowledge with PKO BP and with other banks, we have all the ingredients to think about this innovation. We have already had some success with Alior, LINK4 and our Baltic companies. From the global perspective, we are not too big and we are not too small: we have tens of millions of records or clients. On the CRM side, on the claims handling side, on the side of adaptation of new products and the use of big data certain things are already happening. We have established the Witelo Fund, before the end of the year we will make our first investments in the sectors that are important from the point of view of our financial group, namely in big data, cars and so on. So we are thinking about the Company's interests in the long term. Perhaps we have a longer perspective than some of you have, I am talking about mutual funds, but I think we are already achieving significant success in this area, both in the context of what Tomasz said about our dividend policy and allocation of up to 20% to internal growth, that is to innovation, and in the context of what Paweł said about Bank Pekao S.A. and the need to adapt and change their IT systems, but those kinds of expenditures will not significantly decrease dividend or valuation or other such ratios in the medium term. I think it is more about a certain attitude, a certain culture, a culture of cooperation, and we will be developing in this direction.

Thank you.