4 October 2016 – Presentation of the PZU Group capital and dividend policy for 2016-2020

Michał Krupiński, President of the PZU Group Management Board:

Good morning to you, ladies and gentlemen. Today, we would like to discuss with you and present our new dividend policy. With me today there is Paweł Surówka, the President of the PZU Życie Management Board and Tomasz Kulik, controlling Financial Director who is the acting head at TFI PZU. We would like to plan our today's meeting in such a way, and there will be no surprise here, that we will go through the slides and the presentation first, to explain to you properly and in as much depth as possible, the process we used to develop the dividend policy and the key rules and consequences for the shareholders, and then we are ready to answer all your questions.

I don't know if we have any questions in English – I'm asking the Head of Investor Relations. Yes, there will be some at the end, and the presentation is in Polish.

As you all know, more than a month ago we announced the PZU Group strategy. The dividend policy is an important part of the Group's strategy. It took us a few weeks to consult the dividend policy properly and in particular to make sure that that dividend policy can be reliably implemented in all the assumed growth scenarios. In our strategy, we proposed to you and I'd like to go back to the key assumptions for the new PZU strategy for 2016-2020, we assumed in particular that we would focus on the insurance business and growth in selected market segments. This year's data confirm very strong growth in gross written premiums in individual segments. Secondly, and this is our firm commitment, we have committed to reduce fixed costs by PLN 400 million over a 3-year period, to address the challenges that the financial sector in general and the insurance sector in particular are facing. We want to focus on implementing growth initiatives in health and investments. These plans have been on track since our last meeting over a month ago. And third, during our last meeting, we talked about our investment in banking. Even though if it is not emphasized in the presentation, I am sure that this will be of interest to you. And as a result of all these things, we have strong commitment and conviction that we can build one of the most innovative insurance groups, one of the most innovative groups in Europe. I believe that any dividend strategy is a sort of a management tool for the management board and it is inextricably linked to the group's strategy; this is why we want the dividend and capital strategy to be coordinated as much as it can be with the Group's strategy. At the same time, we'd like to uphold the statement that PZU is a dividend company; perhaps the statement in the strategy that PZU is a dividend and growth company may confuse some people. But from the investors' point of view, we would like PZU to remain a dividend company; this is where the proposed and accepted dividend strategy comes from. In particular, having analyzed dividend strategies of our peers, we would like the payout ratio to be between 50 and 100% during the entire term of the strategy. This is not news; these are statements from the previous dividend strategy. We have the firm commitment to make sure that the payout ratio does not go below 50%, to be able to keep the declaration that PZU has been and will be a dividend company. At the same time, we have introduced certain provisions, which should make a transparent statement and we believe that they allow the market to make a good view of how we think the strategy should be reflected in the dividend policy. In particular, because of the strategy, the need will arise to make capital expenditures for organic growth, internal growth – these are all the matters related to the implementation of growth initiatives associated with innovations; ultimately, we want to spend up to 20% for this purpose. This is a lot, but we want to be ready; this is not our commitment, well, it is not our commitment to spend 20%. We believe that it will be difficult to designate 20% for these purposes in the first year; but we have been analyzing growth initiatives, also those associated with the execution of growth and innovation projects. Therefore, we decided to designate up to 20% for internal growth. In fact, this point is similar to ones used by some of our competitors or peers. This is what I said that at least 50% of profit would be paid out in the form of the annual dividend. At the same time, we want to keep the option to use up to 30% towards mergers and acquisitions. Once again: if we decide that there is a promising takeover target during the year that we should use up to 30% for, then we will make appropriate decisions. If however we don't have such a target during the year or the transaction does not close, the payment is in the following year, then we will not take advantage of this option and we will naturally distribute the money, the profits, to investors. I would also like to make it very clear, to avoid any misunderstanding or confusion that the transactions that we are currently working on, or Alior Bank is working on – as you know, Alior Bank has publicly announced its intention to acquire Raiffeisen Bank Polska – may require, if PZU wanted to participate in the capital increase, some equity expenditures. And I would like to say that all those transactions will be covered by excess capital, which means that I am assuming that they will not affect the dividend level. And they will definitely not affect the dividend level next year.

Naturally, within the payout ratio range between 50% and 100%, our preference will be to be at the upper limit of the range. But we will make appropriate decisions on a case-by-case basis, based on our analysis of the emerging growth projects and mergers and acquisitions. If there is any preference on our part then – I'd like to make it clear – it is the preference to be in the upper ranges of the payout ratio. But we are also assuming that the dividend yield will not be lower than it is in our peer group – I have talked about this before. And one more important thing is that I believe that, from this year on, we would like DPS to increase; our analyses have shown that, with the proper implementation of the strategy, we can do it and we will make efforts to ensure that, in all the strategy implementation years, the dividend level measured by DPS increases.

So this is all about our dividend policy.

Paweł Surówka, President of the PZU Życie SA Management Board:

The following slides illustrate the framework that we have set for ourselves in the strategy; so we will continue to target the Group's solvency ratio of 200%, financial leverage of no more than 35%; we have also illustrated our efforts to keep competitive dividend rates. It has been our goal to maintain dividend yield at the level no lower than our competitors are offering.

Michał Krupiński:

I believe that the capital policy is as important as the dividend policy. As Paweł Surówka has said, we believe that we will manage capital efficiently, maximize rates of return on equity, while maintaining appropriate safety levels. To me, it is a very good thing that PZU is very well capitalized; we do not intend to go below 200% of the solvency ratios under the Solvency 2 regime. We do not intend to have the financial leverage ratio of more than 35%. We are not assuming any stock issues by PZU during the term of this strategy, but we allow for the possibility of a subordinated debt issue. On the last slide, there is the matrix of our quantified objectives, a reminder of the key assumptions that we have for achievement and implementation of our current strategy. I hope I have presented the key assumptions properly and that it answers your possible questions, questions from investors and introduces transparency and clarity about the management Board's thinking about the dividend during the term of the strategy and introduces more transparent, more clear principles in this respect.

I am ready to answer your questions, if you have any.

Marcin Jabłczyński, Deutsche Bank:

I have two questions. The first one is whether the company has been approached or consulted by the main shareholder in the matter that arose in the power companies, that is consolidation or movements from supplementary capital to share capital and if such thing is considered at all; the second question is about what you said about your further investments in banks, either through a possible capital increase in Alior or otherwise. How can we quantify the maximum amount that you are willing to spend for the acquisition of a bank?

Michał Krupiński:

Thank you for your questions. I have a firm answer to your first question: no, we have not discussed any such thing with the Supervisory Board, so I am quite surprised by this question. In respect to the second question, let me answer this way: we are assuming that a portion of the excess capital will be used for acquisitions of banks, but no more than that. We are also not considering using a large portion or the entire excess capital for acquisitions in the banking sector; in particular, the commitment relating to our solvency ratios, that we are presenting here, is very important to us. At present, I am not assuming that the portion of profit set aside for potential merger/acquisition transactions will be used in the banking sector. I believe that we are thinking more about financial sector transactions, but more in the direction of insurers. Right now we are not holding any talks in this respect. Does this answer your question? So we will definitely focus on capital, but not on the entire excess capital.

Maciej Marcinowski, Trigon DM:

I would like to hear more about the portion of profits designated for internal growth. You said that you are not assuming the entire 20% in the first year. Are you saying that if it was 10% than this would automatically be transferred to the dividend part, or could it increase the part designated for potential acquisitions?

Michał Krupiński:

About the first question: when you anticipate some profit figures for the year then you can assume that the amounts that should be spent on internal growth are quite substantial, especially that some of these expenditures are capitalized and some are expensed. But we are definitely committed to implementing the strategy, especially in respect to growth initiatives and innovation. And we will analyze all the potential projects in depth. If you are asking how this dividend waterfall will work then we are treating these two things separately. If we assume, hypothetically, that we are able to use 10% for internal growth then the other 10% is not added to the capital designated for mergers and acquisitions; it is distributed.

Maciej Marcinowski, Trigon DM:

One more question about Alior: so the participation in Alior’s potential issue is not included in that 30% potentially designated for acquisitions, is that right? It is coming from the current excess capital. So if you participate in Alior’s issue and there is no large acquisition then is there potential for full dividend?

Michał Krupiński:

We are talking about hypothetical situations, but I can confirm your line of thought.

Kamil Stolarski, Haitong Bank:

I'd like to go back to the question that my colleague asked. You have made a firm commitment for yourself to maintain this minimum 50% payout ratio and I'm wondering now whether absence of such a fall-back option to go below the 50% payout ratio is an indication that you are no longer interested in large acquisitions in the banking sector, or perhaps that you believe that even if you make such a large acquisition in the banking sector, the ratios will still remain above the levels that you mentioned? Or perhaps there is another reason why there is no exception for a possible M&A?

Michał Krupiński:

Well, we were thinking along different lines. First of all, we were analyzing what the dividend level should be for the company to be attractive for investors. We decided, also by analyzing the history of our payouts and yields in the past and analyzing our sector, relevant dividend strategies of our competitors and the situation on global financial markets, talking to our investors, we decided that it would be advisable to make a firm commitment at 50%. We are adopting a strategy, which will be in effect for several years, for the term of the strategy. The dividend strategy and the Group strategy will not change, so I believe that it would not be appropriate to adapt the dividend strategy to the possible M&A opportunities, which may or may not be realized. So this is our thinking and this is our firm commitment to our investors. I believe that it makes things transparent and helps investors anticipate our thinking about internal growth and growth through mergers and acquisitions.

Paweł Surówka

You could say that it took us quite some time to announce this dividend policy, but among other things, it was because we analyzed all the possibilities that could occur with the strategic objectives that we announced as part of the strategy; we have been serious and responsible in developing this policy and it takes into account all the possibilities that could arise under the strategy. And if we can declare these thresholds today then it is the minimum of 50% and no more than 30% for mergers and acquisitions in an extreme scenario, taking into account all the opportunities that we can see.

Kamil Stolarski

Kamil, Haitong Bank: You have presented 3 components of your dividend policy. My understanding is that if there are no M&As on the horizon then the minimum payout would be 80%. Is that correct?

Michał Krupiński:

Yes, I can confirm that.

Kamil Stolarski:

I would like to ask for more details about the increasing DPS; I understand that the base level would not be the dividend that was paid recently, the one above PLN 2, but rather the next dividend.

Michał Krupiński:

I can confirm that and this is what our analyses have shown; we will make efforts to increase DPS.

Agnieszka Morawiecka, ISB News: I have a question about your acquisition targets. Assuming that a banking asset emerges that is of interest to you and at the same time an insurance asset, which of these two transactions would be more valuable to you, from your current point of view.

Michał Krupiński:

We are analyzing many acquisition targets in the broadly defined financial market on an ongoing basis. We have been looking at some insurance companies. But each and every time we make the relevant decisions by looking if the potential acquisition targets are attractive financially. The banking sector is a neighboring sector of the insurance sector. The previous management board made a decision to acquire Alior Bank. We can confirm that Alior is a good asset but it should not only grow organically, but perhaps also through acquisitions. On the one hand, we can say that insurance and strong comparative advantages in insurance are in this company's DNA. We are more and more happy with the earlier acquisitions in the Baltics; these companies perform very well and we as an organization are also learning oversight over foreign companies and I believe that we have achieved great progress in this respect. At the same time, we are aware that such cross-border synergies in the insurance sector are not as clear as they are in the banking sector. We are limited by the number of potential acquisition targets, especially in the Central and Eastern Europe. We are also limited by the fact that the market doesn't always appreciate the fact that a financial institution has the leading position in not so large a country in the Central and Eastern Europe. On the other hand, we have been very opportunistic about acquisitions in the banking sector; we make careful analyses in each case, even if we have those soft provisions in the strategy about building the Group, in respect to Alior, but in each instance we are very careful in analyzing the potential acquisition targets. In particular, if we invest our excess capital, we really want the returns to be better than we are currently earning on our excess capital. So we can achieve a positive "carry trade" in this area and this has been our philosophy and our thinking about acquisitions.

Mariusz Gawrychowski, Puls Biznesu:

If an acquisition opportunity emerges that requires capital expenditures greater than the 30% of profit that you want to use for this purpose according to the dividend policy, then will you allow the possibility of using a greater portion of capital or profit for that acquisition, or use excess capital or a debt issue instead? Which of these models is more probable?

Michał Krupiński:

I think that this dividend and capital management logic requires first of all that we use the excess capital in a safe manner. Then, if it becomes necessary, we should resort to the debt market, by which I mean a subordinated debt issue. The third option would be to reach for the dividend. I believe that this way of thinking is not a surprise to anyone.

Marcin Gocłowski, Reuters:

Can you say that as the Group, you are closer to the acquisition of PeKaO today than you were one month ago?

Michał Krupiński:

I will not comment on this.

QUESTION FROM THE INTERNET

Dhruv Gahlaut, HSBC:

Should we make an assumption that the PLN 1.3 billion of special dividend is not part of your planning process?

Michał Krupiński:

I believe that this is the right assumption. As we have discussed, we will use the excess capital and excess capital will be the first thing to be designated for investments. Unless the circumstances change and we go back to the special dividend, if we can see no particular way of utilizing our excess capital.

Dhruv Gahlaut, HSBC:

Maximum leverage of 35%; can we make an assumption that the Group can raise from PLN 3 to 5 billion? Is this the right assumption?

Tomasz Kulik:

I think that this assumption concerning an additional issue of PLN 3-3.5 billion, and I'm talking Polish zloty here, is slightly excessive. Today, if we take a look at our financial statements for the first half of the year, we must remember that as we are speaking or thinking of leverage, we are speaking and thinking about debt financing, which is on the balance sheet of the entire Group, which includes PZU but also all the consolidated subsidiaries. In particular, please take a look at the balance sheet of Alior Bank and its structure, in the bank that we are consolidating today. So the level that was stated here, which is PLN 3-3.5 billion is a bit overstated as at today.

Michael Huttner:

You want to increase the dividend. Is the 2.07 from 2015 the base?

Michał Krupiński:

No, that is not our base. This year is the starting point.

Michael Huttner:

You are claiming that there will be no impact on the current dividend. Does that mean that the current transactions will not use the dividend?

Michał Krupiński:

That is true. We will use mainly our excess capital.

Jason Kalamboussis, Societe Generale

Would you consider any special dividend to come from excess capital or do you consider this to be only for future M&A and investments?

Michał Krupiński:

We have already discussed this.

Jason Kalamboussis:

You mention a leverage ratio of 35% maximum. Can you please remind us where you stand now, and why the maximum is that much higher that the insurance sector where most companies target 25-30% max?

Can you please indicate what do you consider believe to be your excess capital/firepower if you have 200% Solvency 2 ratio and 35% leverage ratio?

Michał Krupiński:

I don't know if we can answer this question. I think that the analysts must conduct their analysis on their own here. In my opinion, we have no liberty to discuss these things, unless Tomasz thinks otherwise.

Tomasz Kulik:

The first of the two questions – 35% and where are we right now? I believe it is very easy to calculate, based on the financial statements for the first half of the year. After the half of the year, this ratio is about 30%. Do we think that 35% is too much? We have compared ourselves in this respect to both our group of international peers and we've also looked at how the specific levels of financial leverage are viewed by rating agencies in terms of their opinion on our capacity to pay our liabilities. Our feeling is that the leverage ratio of 35% is still at a safe level.

Michał Krupiński:

And this ratio cannot be analyzed separately from the Solvency 2 ratio, which remains very safe at 200%. In particular, it compares very favorably with our peers, which are often below and also much above the minimum Solvency 2 or KNF requirements. So we are in a comfortable position in terms of both leverage ratio and Solvency 2 ratio.

Sebastian Kalbarczyk, PAP:

If you were to consider the management board's recommendation for the dividend for 2016, would you be looking closer to the upper limit of the 50%-100% range?

Michał Krupiński:

It is obviously too early to make any recommendations. The Management Board will make appropriate decisions next year. As we have said already, we have a preference for the upper register of the range, but we will conduct case-by-case analyses of development projects classified as internal growth projects as well as potential acquisition targets. We will naturally have the relevant discussions with our Supervisory Board, which must approve each plan, and with the shareholders. You cannot leave the shareholders out of that.

To conclude, I'd like to say that we are at your disposal if you have any additional questions or for any additional meetings with analysts or journalists. This week, we will also have meetings with our investors, our minority shareholders from the United States, where we have a series of meetings planned in Boston, New York and Washington, where World Bank meetings are held and IMF as you know this week, and in London. We want you to have the best possible understanding of our dividend and capital strategy, especially with regard to our intentions and the link to the strategy of the entire Group.

Thank you very much.