Presentation of PZU's financial results for 2017 – 15 March 2018

Paweł Surówka, President of the Management Board, CEO of the PZU Group:

Thank you very much for such a great turnout. We will try to go through the general part of the presentation relatively quickly. Most of you have already had a chance to learn about our results; as you may expect, we are certainly very proud of them. This was a very strong for the entire Group. Naturally the highlight is that it we recorded the highest sales in the entire history of the PZU Group; at the consolidated level, we passed the 1 billion Euro net result mark, which shows you the new scale and strength of the new PZU Group. The parent company also had a very strong increase in the net result. We will try to show you that this happened mainly on our core business. At the same time, this was one of the strongest quarters in our history altogether. There are several factors that affected this result: the main thing, and we are all aware of that, was the high profitability in the motor insurance portfolio but also, especially in the 4th quarter, improvement in the performance of other insurance products. We no longer saw the claims that affected mainly the third quarter, which was naturally related to the storms, and there was still a very solid, very satisfactory growth in health revenues. All this time, we also worked to expand our product range. I must say that it is something that we have really unlocked, which again required us to break through several silos. Today, PZU Zdrowie is sold by virtually the entire organization, at the group level, but also as a de facto rider to life insurance products. At the same time, we are also trying to make sure that these life products are present in non-life insurance. This way, on the one hand, we are increasing cross-selling, we are increasing the number of products per customer and we are trying to build what we have said at the Strategy meeting: that the entire company is selling the entire company. At the same time, please remember that when we are talking about an increase in PZU Zdrowie sales, we are not just talking about acquiring new customers and winning additional tenders. We are also talking about having to actually build the entire network of services for these customers and we continue the work to expand both the call center and the medical companies to serve these new customers. This of course must be in accordance with the standard acceptable for the PZU Group. You can see that every time we meet we can brag about new acquisitions – this time it is the acquisition of REVIMED and NZOZ Trzebinia. From an investment point of view, it is true that at the equity level the quarter was not as strong as other quarters of the previous year, such as the first quarter. However the high profitability of our corporate debt portfolio that we are consistently building, mainly by placing ourselves in the niche where banks have smaller presence; this is why we are able, on the one hand, to obtain the margins that are interesting to us on the Polish market, while on the other hand we are using our advantage as a non-bank lender, because, by the way, we believe that our presence complements the funding landscape for many companies and complements their range of financing options. At the same time, the valuation of interest-bearing instruments increases thanks to the declining bond yield. Regarding the position of the banks, we should note that in the fourth quarter Pekao acquired the shares that it had not owned in Pekao Investment Management and Pekao TFI and this way it consolidated the whole former Pioneer TFI, now Pioneer TFI. Naturally, as you have seen, it achieved very good results in the fourth quarter. If we are talking about the gross written premiums in 2017, I have already mentioned that overall they grew by 13% over the previous year, and at 22,847 million they are the highest gross written premiums in our history. There was a significant contribution of motor TPL in the mass segment and the corporate insurance segment, but the liability insurance products have improved strongly, as well as other products. In respect to life insurance, the gross written premium is stable there, but very strong growth is recorded in individual insurance. President Pałac will expand on this segment in just a moment. If we are talking about our non-life companies outside Poland, that is our Baltic and Ukrainian companies, but mainly the Baltic companies, then there is very strong growth, which we are really pleased about. When we look at the market overall, we have said it multiple times, the PZU Group – and we would like our shareholders to get used to that – is not only a highly profitable organization focused on defending its market, but also – and you have seen this in the recent Strategy – we are focused on growth. We are consistently trying to build this growth. We have managed to increase our market share in a competitive market that has been growing as a whole. The entire market has grown by 20.4%. Motor insurance was an important factor, since it increased by nearly a third, but PZU has managed to acquire additional customers at this market size. Now, I'd like to ask Tomasz Kulik to guide us through the various elements of profitability of the non-life business.

Tomasz Kulik, Management Board Member, CFO of the PZU Group:

Ladies and gentlemen, when it comes to the property insurance market and our position on that market, regarding its contribution to the result, the 4th quarter in insurance activity was very good for PZU, in respect to other property insurance both in the mass segment and in the corporate segment, where we closed the year with profitability of about 80% in the mass segment, measured by the combined ratio and slightly above 87 in the corporate segment, both ratios including the effects of weather conditions. We were dealing with storms and cyclones in the summer and autumn, which contributed quite significantly to the increase in this ratio, but after adjustments we can see, what is very important to us, that we are capable of maintaining high profitability in both these segments on a recurring basis. Regarding motor insurance, we have very good news. We continue to grow in terms of the number of customers, and we are growing in terms of the number of policies and exposure. Comparing year on year, or 2017 to 2016, this is an increase by roughly 200,000 policies, with a market share of 38.5%. We plan to grow in this area. When we presented our strategy, we told you what our ambitions were and we are absolutely going to achieve them in a profitable fashion. As I said when describing the non-motor segment, the motor segment was one of the drivers of the good performance in 2017. The combined ratio in this segment is 93% and, after three consecutive years (2014, 2015, 2016) we have returned to overall profitability in TPL, MOD, in the corporate segment and the mass segment, so this is an excellent starting point for 2018.

Paweł Surówka:

Thank you very much, Tomasz. Now I'd like to ask Roman Pałac, President of PZU Życie to say a few words about the life business.

Roman Pałac, President of the PZU Życie Management Board

Good morning. Looking at the life market, this segment of the insurance market behaves differently from the non-life market. 2017 was, in fact, a very stable year for the market. We have seen no large increases and PZU was no different here; I could even say that the market shrunk slightly. We performed very well in this market; our total life insurance premium exceeded 8.5 billion, which was 7% more than the year before. What makes us particularly happy is that in the market that interests us the most, which is the periodic premium market, we were growing quite significantly and dynamically, considering the market growth rate, by more than 2%. We closed the year with an increased market share of almost 46%. Looking at our main business segment, that is group and individually continued insurance, our main objective there is stable development. We are not doing anything that could affect our profitability in this segment. We have made a strategic assumption that we want to keep our profitability in this segment above 20%, so we are very selective in how we approach growth. What we are particularly pleased about is the growing contribution of health insurance to this part of the market. At the moment, more than 1.5 million customers are actively using our health products, most of them in the group insurance segment.

A few words about the profitability of group and individually continued insurance. We are closing the year 2017 with a margin of 20.6%. I believe this is a very solid performance, taking into account both our strategic assumptions and how the year 2017 began. Please remember that we closed the first quarter with the lowest margin in history, because of the demographic cycle and the mortality rate, which was visible especially in the winter quarters, but we recovered to a significant extent after the full year. However, what I have already told you, we have adopted a very selective approach to portfolio growth and we select risks very carefully. A few words about the health area: the President has already said that we are developing very dynamically. We have set a goal within the Strategic perspective, that is until 2020, to exceed one billion, or actually double our 2017 business. Although I believe it is already a solid business with high visibility in our group with a result of 465 million. For us, the main goal is to use the potential offered by the customer base of our distribution networks, but on the other hand, to keep a close eye on the quality of our service. We are expanding our branch network, investing in our branch network, in our own outlets, while we show care for quality. Today, PZU Zdrowie guarantees the best quality on the market, which is confirmed by all the studies, both in terms of the quality of patient service, as well as the speed of access to services.

Paweł Surówka:

Thank you very much; now I would like Tomasz Kulik to guide us through the results of his portfolio and the cost aspects.

Tomasz Kulik:

Regarding our investment result, without the banking segment which affected the year-on-year comparability of this line item of the profit and loss account quite strongly, since Pekao SA added quite a significant element of this result, so without the banking segment, the increase was 50% from 1,200 million to 1,855 million, with the equity instruments being the key contributing factor. The year 2017 was a very good year for the Polish capital market; both our customers and our own portfolio benefited. As far as interest-bearing instruments are concerned, the situation is also positive year on year, with an increase of 200 million, because on the one hand we are building high-margin corporate debt portfolios, while on the other hand, the bond yields fell, which boosted the prices. This item associated with our insurance operations was 1,850 million and after the banking segment was added, the entire item was 7,137 million. With regard to our cost position, what is most important for us, and what we are reporting to you quite often, is our capacity to grow while maintaining strict control over the costs that we are measuring using the cost to premium ratio. This seems to be the most appropriate measure, as we have improved in virtually every area compared to the previous year, both in the Polish insurance companies and in our foreign subsidiaries. Cost effectiveness is increasing and the cost to premium ratio is declining. We are on track to achieve our strategic objective, which is 6.5% by 2020.

Paweł Surówka:

Thank you very much. Let me summarize briefly how these factors contributed to the overall performance. As I've said earlier, the consolidated profit of the PZU Group was 4,233 million. As we were preparing these results, we realized that we had reached the net result of 1 billion euro. Even though this figure includes a large contribution from the bank, which was not there in 2016, that bank is a real acquisition of the PZU Group. It is a true member of our Group and that is the base, on which we can develop further synergies and cost savings. And this scale that reflects the true strength of our Group and the league in which we are now playing. Nevertheless, the parent company also recorded a 50% net profit growth to 2,910 million. And in a moment there will be another slide where we will show you that, on a recurring basis and looking at the operating profit only, this shows even better how strong this year was. As I've mentioned, there is a 13% growth in premiums, and of course we have crossed the psychological level of 20% return on equity, reaching 21.1%. Tomek, perhaps you could briefly summarize all the factors for us once again.

Tomasz Kulik:

Let me summarize the year for you. In terms of sales, we were talking about a 13% year-on-year growth. Virtually every segment of life and non-life (motor and non-motor) insurance contributed strongly to these increases. We had similar increases in our foreign companies. Today we are closing the year 2017 with the highest annual sales in history. Obviously, an increase in claims and benefits followed from the portfolio growth. What is important, however, is that we are growing profitably. Last year, this assertion was not entirely true for group and individual continued insurance, where there is a slight decline year-on-year, of about 2 percentage points, when one-offs are eliminated. Let me remind you that in 2016, a portion of the provisions were released in this segment because of a change in the provisioning assumptions for permanent dismemberment in individually continued products. This affected the 2016 result by about PLN 216 million. What is important and what we should emphasize again is that we have stable administrative costs; they are virtually flat year-on-year in absolute terms, which results in a much greater cost effectiveness. Similarly, acquisition costs increase more slowly than sales, which means that we are able to sell cheaper, acquire customers cheaper, acquire business cheaper, which gives us higher profitability. The investment result, as we have talked about it, increased by more than 52% year-on-year. In terms of net profit attributable to owners of the parent company, from non-banking segments, we closed the year with 2.5 billion, compared to 1.7 billion in the previous year. This is a very decent growth – more than 40%. When we add the banking segment, we end up with 2,910 million. A significant increase of ROE and a material improvement of profitability in non-life insurance. Regarding the margins in group products, in spite of what happened in the first and fourth quarters above the long-term strategic objective, which is 20%.

A few words about the comparability of data year on year, which is something that you have asked for a few times already. So we would like to fulfill this request. We wanted to show directly the impact of one-off events and large events on our results both in 2016 and 2017, the events that could somehow distort the comparability of these results year on year. As far as 2017 is concerned, the largest event was the weather phenomena that we discussed, which affected mainly property insurance and reduced our results in these segments by about 170 million. In respect to the possible equivalent in 2016, that would naturally be the ground frost, in the amount of roughly 230 million in the first half of 2016. There were no such one-off events in 2017. On the other hand, the comparability of 2016 to 2017 was affected by the acquisition of and the profit realized on the separated part of BPH Bank, which was 465 million. The restructuring provision related to the merger between Alior Bank and the separated part of Bank BPH. Additionally, as I have already mentioned, in the fourth quarter of 2016, the assumptions for permanent dismemberment in individually continued products were changed, which resulted in the release of 216 million directly into the 2016 result. As far as the banking segment is concerned, in 2017 Alior Bank at 100% had over 1 billion, Pekao SA 1,814 million, which makes comparability between these items much more difficult. However, let me re-emphasize that it is very important for us that we have managed to improve profitability of our core business, that is insurance, very significantly, which resulted in better profitability and higher result attributed to owners of the parent company.

Paweł Surówka:

Thank you very much. Once again a brief reference, you were largely present at our Strategy presentation and we had the pleasure of talking about it. On this slide, we wanted to describe briefly our view how the results achieved in the fourth quarter and in the entire 2017, how they position us in the context of the long-term goals that we have set for ourselves for 2020 – these are medium-term goals. Of course, starting with ROE, this figure of 21.1% puts us very close, or on the right track, to achieving our target of breaking the 22% level. You are all aware that this is a very unusual profitability for a financial company, not only in Europe, but also globally. However, even though every percentage point, every tenth of a point here represents a huge effort on the part of the entire Group, we are optimistic that this ROE is certainly possible and we believe we have demonstrated it with the growth from last year to 2017. The same is true for the market shares in non-life insurance. Our market share here is still 35.8% and what I said at the beginning still applies: We want to continue to grow and we want to continue to attract customers. In 2017, the combined ratio was of course very satisfactory at 89.3%. We are, of course, trying to be realistic and also take into account that the market cycle will not always work to our benefit in the medium or long term. That's why we are assuming the combined ratio of 92% in 2020. It is a very ambitious target but we believe we will achieve it. The administrative expense ratio; again, despite this ambitious growth, we believe we will be able to keep costs at a level that is not higher than 6.5%. Life insurance: we have discussed this topic often already. The number of customers is not growing by itself. In this instance, our declaration to maintain the number of customers actually imposes a very ambitious and very dynamic new sales goal for the life portfolio, to make up for the decline due to demography. This includes mainly the activities that Roman started and continues. As for the acceleration of sales in PZU Życie, especially in the agency channel and in the small and medium business segment, we want to focus on new sales, we want to grow. At the same time, however, we want to maintain profitability, and here we are still bound by this level of profitability above 20% on life products; we have maintained it this year and we hope we will be able to maintain it in 2020 as well. Solvency II – you know our commitment: we don't want this to be below 200%. With regard to assets from external customers, we obviously have high hopes for the employee capital programs in which we want to participate and in which we see a great opportunity for the sector to democratize access to investment products. But at the same time, we cannot rule out our participation in the consolidation of this market in order to achieve the level that we believe is achievable for us, and also a corresponding net result. As for the surplus of the rate of return: here we believe that this level and the range of about 200 bps over the risk-free rate is exactly what we would like to aim at; this year we reported a level much higher than last year and we would simply like this result to remain flat at this level. PZU Zdrowie: we practically have to double our revenues, but given the growth rates that have averaged 30% in recent years, we believe we have demonstrated our capacity to deliver, as Roman Pałac said, "without sacrificing quality". In the same way, using the scale and, above all, the larger number of our own customer service outlets, we believe and are convinced that at the same time, we will be able to increase our EBITDA margin from 8.2% to 12%. In the banking segment, we believe that the assets of our banks, which constitute the basis for their future profits, will exceed the threshold of PLN 300 billion. This is reflected in the very strong focus on growth and new sales in Pekao SA, which presented a very ambitious strategy and showed this dynamics in its most recent quarterly results. Accordingly, we can see the financial results of both banks exceeding PLN 900 million of contribution to our net result. Finally, ladies and gentlemen, I would like to say that I read the reports that you are writing very carefully, at least those of you who publish your reports. And I had the opportunity to talk to some of you after we announced our Strategy. I attach great importance to your comments and we often discuss how you perceive us. What I took from these conversations is that most of you believe that the "New PZU" Strategy focuses mostly on cross-selling, data usage, universal sales and the use of the entire Group as one big product offering for the customers that accompanies them over their entire life, and most of you believe that it is a good direction and it actually stabilizes PZU's competitive advantage. Some of you, however, had doubts as to whether all the initiatives that we were going to announce would actually translate into the results that we showed as our target in 2020. Mainly breaking the 22% level in 2020. We hope that this quarter and the entire year 2017 will convince you that we are able to deliver on those goals and that we exceeded your expectations this quarter. We are always very pleased if we can have a positive surprise for you. We hope we will be able to surprise you more positively than negatively. We can also say that you underestimate us and I hope that we will be able to convince you, quarter by quarter, that this Group is growth-oriented, that we do deliver the results and that we take very seriously the goals we have set ourselves in the new PZU Group and we will deliver them.

Thank you very much; now the questions, if you have any.

Jaromir Szortyka, PKO BP:

Good morning. I have a few questions, the first one about the non-life segment. Indeed, this fourth quarter was very profitable in this segment, which is probably not sustainable in the long term. Some players in this market declare possible price reductions. How do you see the current market and what your expectations are regarding the combined ratio for 2018?

Paweł Surówka:

I will have a few words of introduction and then I will ask Tomek to fill in the details. Our perception of the situation is, and we said that at the last meeting, that we can see that the actions taken by the Polish Financial Supervision Authority led to a certain price equilibrium on the Polish market for TPL insurance. Because it set a certain floor that insurers will not be able to cross in the future. There are players that we believe use a certain loophole in European regulations to operate in the Polish market, slipping out of the oversight of the Polish Financial Supervision Authority. In our opinion, they escape any European supervision. We as PZU, but also as members of PIU, let's say as the entire insurance sector, we look at this with great concern. We believe this will be addressed, in some way, by the sector and by regulators. We trust that the equilibrium that formed in the TPL insurance market will not be disturbed and this corridor of potential fluctuations, the amplitude, will be much smaller than what we had seen in previous years. As our combined ratio shows, we do not expect this to be always at the 2017 level. At the same time, we believe that initiatives such as telematics and the much better matching of price to risk will also allow us to somewhat bypass these large price movements, especially for the existing portfolio.

Tomasz Kulik:

I think this topic has been covered very well already. If I may add, today the greatest challenge for us as a community is to deal with the branches that are outside the scope of regulation, because it spoils the market, historically it spoiled the market and undermined confidence in the market. Today, if the market does not resist these actions, we might have a repeat of what happened a few years ago. What we are observing when it comes to price movements, I mean on the standard market outside these topics, our competitors conduct price optimization, they work on their portfolios, and when you look at the PIU data, you can see that the gross written premium of our competitors does not change significantly year on year. Today, everyone tries to optimize premiums for new sales as they are trying to acquire them. They are very cautious when it comes to the portfolio, because they realize that it can have some undesirable effects. Anyone who is not careful enough will suffer very severe consequences, negative consequences when prices drop. Therefore, today the market is sensitive to those who spoil it, trying to address the problem at the regulatory level, while on the other hand, to optimize their position considering the segments to which the offer is addressed. So this is what has been happening at the beginning of this year and at the end of last year.

Jaromir Szortyka, PKO BP:

Are you, as PZU, making any major price movements? Or is that, likewise, an optimization?

Tomasz Kulik:

This is also a sort of an optimization. We have never been a price change leader and I believe it will stay this way. Today I understand this question as: Will you drop your prices first? No, because we remember that, at the claims costs side, there is an increasing frequency and such sudden decisions may simply lead to decreases in profitability. This is something that we do not want.

Paweł Surówka:

We would like to once again refer to the New PZU Strategy – we are talking about one product, in fact one section of this product. We and the entire Management Board are trying refocus the Group on cross-selling. The telematic solutions that we have proposed, linked to the Moje PZU platform, to be launched this year, should allow us, on the one hand, naturally to continue to benefit from the profitability of this product (which was not always profitable historically) but also add more and more products to this existing customer base. Obviously, the TPL customers and the life customers are our largest customer bases, so we are currently very focused on thinking about customer profitability as a whole and on convincing our sales representatives to think about this overall return.

Jaromir Szortyka, PKO BP:

Another question. This time, it's about the life business; the poorer profitability in Q1 is something that we have already seen in the past, but I have a feeling that this quarter's life performance was a bit disappointing in terms of profitability. What was the reason for this and, in the context of the whole year 2018, can you see any risk that this 20%+ margin is at risk?

Roman Pałac:

If you mean the fourth quarter then it depends what you are comparing it to. It is usually the fourth and the first quarters – these are the quarters where mortality is seasonally higher and I would not be concerned too much about when it actually happens. We have seen elevated mortality in Poland in the autumn and winter season for many years now. This is the main cause. Sometimes it differs and moves between quarters. So that's one argument. The other is that, when you make comparisons to 2016, this is something that Tomek Kulik has already commented on: In 2016, the permanent dismemberment provision was reversed, which contributed directly to the high profitability of this segment in 2016. There was no such situation in 2017, which makes it more difficult to compare the results. When it comes to profitability in 2018, I can only say what our goal is; our goal for this segment is profitability above 20% and we have a few elements that we can work on. We will not win with some ratios, some external elements. Our portfolio is strongly correlated with what is happening in the society in general and in all demographic trends. However we do have some wiggle room that we are using, in how we approach the work on our portfolio and this is what we are trying to optimize to reach our strategic objective.

Jaromir Szortyka, PKO BP:

It's March already. Perhaps you could share with us if the effect that occurred so often in the first quarter, is that something that we are dealing with this year?

Roman Pałac:

Well, we can comment on that when we are commenting the first quarter 2018 results.

Jaromir Szortyka, PKO BP:

Ok. So there is one more question, in the context of the overall result. Does the fourth quarter result include the one-off in Pekao SA, the revaluation of the investment in Pekao TFI, or has it been eliminated somehow?

Tomasz Kulik:

No, this has not been eliminated somehow. Right now, it is part of our provisional purchase price allocation, since it was an asset that we acquired along with the bank. Therefore, any revaluation of this asset that the bank recognized, we do not recognize it in our result, but rather as an integral element of assets identified when we acquired Bank Pekao or obtained control of Bank Pekao.

Jaromir Szortyka, PKO BP:

So it had no effect on net profit?

Tomasz Kulik: No, it didn't.

Jaromir Szortyka, PKO BP:

Thank you. Perhaps one more question about the asset management area. You have two large asset managers in the group. I understand that it would probably be a reasonable idea to look whether a possible merger in this area is justified. Could you share any of your thoughts on that?

Paweł Surówka:

We were always forthright with you that we do share your analysis and the discussion is ongoing. However, we have announced that we want to tap the synergies within the Group, also in the asset management segment. These conversations are complicated because there is a context that most of you are very familiar with: MIFID II, which is difficult for a bank to assess, in terms of its impact on the bank's ability to cooperate with asset managers. So there are several issues to consider and this is why the conversations are taking quite a long time. However, the goal is to take advantage of this synergy and indeed to create the largest asset manager in this part of Poland.

Jaromir Szortyka, PKO BP:

My last question and I'm off the floor. Capital: the Solvency II ratio was very high at the end of the third quarter. I remember that when we discussed the previous quarter, we talked about it being unusually high. Are we expecting a decline from the Q3 level? Has something happened between Q2 and Q3?

Tomasz Kulik:

Something already happened between Q2 and Q3 and therefore it is lower than it was at the end of Q2. At that time, we said that it was not representative. We said that the normalized figure, if we reversed all the balance sheet optimizations, were done to potentially achieve or maintain such a high level of this ratio in case of a failure to issue subordinated debt – and I'd like to remind you that we did it on the last day of the quarter, so if we disregarded all these elements, it would be 230%, after three quarters, 237%, and accordingly we are slowly reaching this target figure. Assuming that there is no movement in capital.

Michał Kuzawiński, J.P. Morgan:

I will continue the subject of the margin in group life insurance. I am wondering about the impact on the margin, on the provisioning level, of the new pension system in Poland, or reduction of the retirement age. Does the effect of the possible earlier conversion of the insured upon retirement to individually continued insurance have any particular potential impact on the margin? Has it already been included in the actuarial assumptions?

Roman Pałac:

Of course. Regarding the effect of transfer to individual continuation, it obviously affects the level of provisions. However the new product solution that we have introduced allows us to allocate these provisions slightly differently to this product. Tomek, would you like to comment?

Tomasz Kulik:

The greatest challenge is that people generally work a bit more shorter. Accordingly, they are in the group scheme for a slightly shorter period. For us, the group scheme is the annual renewable insurance products. Accordingly, from the point of view of provisions, this is quite a light solution. When these people disappear from the portfolio then the matter is obvious. If we manage to maintain contact with them because they either had the right to individual continuation paid for, or they didn't but are interested in continuing; so we are trying to "catch them", colloquially speaking, in open groups. We are trying to form them in baskets of homogeneous risks and make them an offer to continue their adventure with the PZU Group. Any such transition to individual continuation, which is no longer an annual insurance but rather a whole life product, means that at the moment of such a transition we must recognize a provision for the full risk of death. So, to answer your question: we will recognize this effect as these people transition earlier, by the proverbial two years, assuming they stay with us in the Group – this is what we care about. Because we can offer attractive solutions for customers – and they are really successful – but also for continuations, since these customers are still profitable for us.

Paweł Surówka:

To add to these two statements, your question was about profitability in the context of reduction of the retirement age; to summarize, this does not mean that we are using a client, because in individual continuation we have a product, which continues our relationship with the customer after he or she leaves the group scheme. However we must mention that the individual continuation product is, we can safely say, no less profitable than the group products. However, because of the different structure, mainly because it is treated as a *whole life* product, the provisioning level is different. Accordingly, it has a different effect on our recognition of this result.

Tomasz Kulik:

What is important is the date of transition between these two insurance schemes.

Michał Kuzawiński:

So my understanding is that: profitability is similar over the entire life cycle of the product, but upon this transition additional provisions are created, or may be visible, which is recognized at the moment that you see how many people actually retire earlier.

Roman Pałac:

Yes. Exactly. But please remember also that we are managing a portfolio where it balances at the end of the day. This is not a portfolio that will be so sensitive to these effects.

Michał Kuzawiński:

I also have a question about dividends. Are you any closer to the decision about the level of dividend that you would like to distribute to the shareholders. I am also wondering to what extent this decision depends on the discussions that are currently held between Pekao and Alior. It is clear that ultimately we can imagine a scenario, in which your basis for dividend payment is conditional upon the decision in this field. Should we connect both events in any way?

Paweł Surówka:

During the previous meeting with journalists, I was asked to give any guidance. I said, referring as usual with the results, my response is that there is an appropriate moment when we will present a profit distribution proposal to the shareholders and it will be before the shareholder meeting. At that moment, we will propose a number. Since it requires several corporate approvals, this is not something that I could decide on right now and tell you. However, considering the very strong performance that we had, plus the fact that there are no such indicators, events or effects that could convince us now that this dividend should be reduced, at least by the MA part, we are assuming that it will definitely be that upper limit of our policy. At the previous meeting, I said, referring to the number, that it would be within that *higher tier.* What we achieved by this is that everybody is wondering whether we've changed the allocation. No, we have not changed the allocation. This figure will just be in that higher range. The payout ratio in our banks is relevant. However, considering the previous declarations by the management boards of our banks, we are assuming that the talks will have no effect on our decision about the distribution level and, for the PZU Group, this range will definitely be within that higher range.

Michał Kuzawiński:

Perhaps one more question from a slightly different sector. We keep hearing that the Ministry of Energy should finally make the decision about the nuclear plant in Poland. And generally, the financial *modus operandi* in the ministry's earlier assumptions is that the plant will be co-funded by Polish companies. I am wondering whether PZU could also participate in any financing scenario for such an investment, meaning participation in such a project beyond this purely insurance aspect.

Paweł Surówka:

I can only say for the moment that no one has approached us, as the PZU Group, with a proposal to co-finance this project and, to my knowledge, no one in the Group is working on such a solution. So at the moment, we are not considering such a thing. That is all that I can say.

Łukasz Jańczak, IPOPEMA Securities:

I also have a question detailing the dividend issue. I understand that the range that you mentioned is in reference to the consolidated result. But please correct me if I am wrong. At the same time, we are limited by the level of PZU's separate result and that will be the maximum payout.

Paweł Surówka:

Yes, obviously. I was referring more to the fact that you should rather assume that our dividend cap is 80%, taking into account for example that we issued this M&A guidance up to 30%. Internal growth up to 20% and most of you assumed that the "up to 20%" was equal to 20%. So most of you assumed that the PZU dividend was limited by the 80% cap. My message to you has always been that there is no 80% cap. It's "up to 20%" so we're free to move anywhere from 50 to 100. I'm not saying that the dividend will be 100%. I am just saying that it is very likely that the distribution will be within the range that I have specified.

Łukasz Jańczak:

One more question – it is more of an accounting question. What will be, more or less, the level of annual amortization of intangible assets related to the acquisition of Pekao SA and what is the horizon for amortizing those intangible assets?

Tomasz Kulik:

When we allocate the purchase price to the assets identified as part of the acquisition, we are talking about, on the one hand, the Pekao SA brand, and on the other hand customer relations, and the third item is the core deposits on savings accounts plus the entire difference between the price and the value of the identified assets, or *goodwill.* This depends on whether we look at it according to Polish standards, that is whether we are talking about the separate accounts of PZU SA or looking at the consolidated account. In the consolidated account, goodwill will be subject to regular impairment testing. In the separate accounts, it will be amortized over the period of 25 years. As far as other assets are concerned, I wouldn't want to tell you exactly what the useful life is for them – 5 or 7 – I simply don't remember that. We could make arrangements afterwards.

Paweł Surówka:

If you allow me, I will read and comment on some of the questions that we have received online. Here is a question from Autonomous Research:

Would you support a merger between Alior and Pekao? What benefits do you see from a merger considering they have similar cost/returns and Alior is retail oriented and Pekao more corporate focused?

Paweł Surówka:

Our understanding is that the banks are now talking to each other, examining the possible cooperation scenarios. At this moment, it seems to me it is too early to speculate whether a merger would be a good idea or not. It seems to me that it wouldn't. The word "merger" can take many meanings, but we believe it will largely depend on the details that would follow. Such an assessment would not influence financial terms only, but rather, above all, the potential synergies that a scenario like that could release. The banks have communicated that, as I understand, these analyses are still ongoing. Like you, we still don't know the results of these studies. I understand that, since we are all under the MAR regime, this scenario testing element would have to be examined around a specific scenario. The banks will have to and will want to communicate this. If we are to pursue any scenario, I would really like to know the details of the possible scenarios: the pros and cons of the synergies achieved in respective scenarios, before I discuss any of them. I'd like to ask you to show your understanding that we are under the MAR regime and that affects us.

Paweł Surówka:

Can you provide some detail on the 42% growth in individual life and what the margins are on new sales?

Roman Pałac:

As far as the retail segment is concerned, the key contributors to growth are life components with an investment element distributed through our banking channel. As for the margins in these segments, we do not publish them in any way, but that is sort of a guidance for you.

Paweł Surówka:

A question about the state of competition in the motor market: *Is a combined ratio of 89% in non-life sustainable?*

Very similar questions as they were with PKO BP, so I recognize that we have already responded to them.

Paweł Surówka:

We have a question here from a colleague at Raiffeissen about the maintenance of the 2017 results. I will be happy to read it to you, because it begins by "Congratulations on your 2017 results". Thank you. Does the 2020 financial result attributed to PZU at the level above 900 million assume increases in interest rates? If so then what is the scale? I will ask Tomek to address that. However on a somewhat different scale, we have already communicated to some of you and in fact most of you have arrived at it yourselves that the contribution that we assumed from the banking segment to our net result was slightly lower than the sum of net results anticipated in their strategy. This was because we had a different view on the structure of changes in interest rates in Poland. As at today, it seems that the scenario that we chose may prove to be the right one.

Tomasz Kulik:

Yes. First of all, what we did in this exercise was to unify the assumptions adopted by both banks as they approached to their own strategies separately. Since this is the strategy of the Group, we had to do it to have, some will say a safety margin, others – reasonable judgment, while others still may consider it hyper optimistic in view of the most recent statement by the President of NBP. But we did it before those statements were made. Accordingly, we are not assuming that we would be able to do that with these rates. Our Strategy did not assume that there would be no interest rate increases by 2020. It assumed a change of approximately 100-120 bps by 2020 in three moves. Out of that, the first was to occur at the end of this year, which was more or less consistent with the consensus. Whether or not this will happen – you can assess the probability of how these rates will be distributed.

Paweł Surówka:

Do we have any more questions from the room? I can't see any from the Internet.

If so then thank you. We are also available if necessary for one-on-one or meetings – we are at your disposal.

Thank you very much.