

PZU SA – Presentation of financial results for 2014 – 17 March 2014

Piotr Wiśniewski, Head of Investor Relations at PZU – Good morning, ladies and gentlemen.

I'd like to welcome you to our meeting which will be devoted to discussing PZU's results for 2014. With us today are Mr. Andrzej Klesyk, President of the PZU SA Management Board, and Mr. Przemysław Dąbrowski, Member of the PZU SA Management Board. First, Mr. Klesyk will take you through a presentation, and then we will have time for questions and answers. Mr. Klesyk, the floor is yours.

Andrzej Klesyk, President of the PZU SA Management Board – Good morning, ladies and gentlemen.

I am very glad to be presenting our annual results to you for the eighth time as I've realized, and at the same time I am very honored to tell you that yesterday the Supervisory Board appointed me for the next term of office, which means that you will have to bear with me several more years. Ladies and gentlemen, today we'll maybe run our meeting in a manner slightly different from usual, because normally we talk for about 45 minutes and then we take questions from you. I suggest that we deliver a shorter presentation today, because you have certainly had the opportunity to see our results, and so we would only show you some of the slides to let you have more time for your questions and to avoid a situation in which you would be bored by things you already know.

Our presentation begins as usual: we start from the insurance market in Poland after the 3rd quarter. Once again let me remind you that the 3rd quarter is not because we want to avoid a discussion about the final data but the thing is that we will have the final figures for the 4th quarter only next week. However, we can tell you today what we feel. Then we will have our operating results for 2014, a slide that certainly comes as no surprise to you, by which we want to boast about how much value we generated for our shareholders, then we'll briefly speak about PZU's strategy, and then we'll open the floor for any questions you may have. The market. I have said it many times: may the market turn back from this path, but unfortunately the market has not turned back from it. As you can see, the quarter-to-quarter premium collected fell by 2.5% – so this is a reflection of the price war as there was no decrease in the number of policyholders, except for some segments, such as MOD, but the size of the market decreased. At the same time, as you can see at the bottom, the technical result for the whole sector slid down by more than 30%. Meanwhile, our share in the technical result of the whole sector remained at more or less the same level. So very roughly speaking, this is 2 times greater than our share in the premium. In other words, our market share is 30-some percent and our share in the technical result is almost 70 percent. And we hope that this situation will continue for the next few years. The life insurance market, despite various weird twists, mostly in the area of regular premium products, grew by about 3%. The situation here is such that the profitability of this segment increased and our profitability improved even more, and we have a situation here that our share in the sector's profit is disproportionately greater than in written premium. And this translates into our position in terms of market share. We are very glad, because our market share in non-life insurance is

once again in the green. As regards our share in the life insurance market, I'd like to emphasize here that these are still estimates due to the manner of reporting by some of our colleagues from other insurance companies, which means that numbers related to regular premium sometimes oscillate. So I would say that the difference of +/- 0.5% or even up to 1% is almost statistical, but we certainly maintain a market share above the 40% mark. I will not walk you through our operating results, because you will have or you already have our commentary available. As regards our operating results, as you can see written premium went up almost 2%, 2.5%. We will show you the breakdown also in terms of our foreign subsidiaries, how they contribute to the results. And our insurance business in Poland is also growing despite the shrinking market. The non-life market is growing, I mean our written premium went up by about 1.5%, in the life insurance segment by slightly below 1%. Premium from outside Poland is also on the rise, but I will return to it later. Net profit went down 10% year on year. Let me remind you that it was a very tough year in terms of results on the investment side. And we can say at this point that the Monetary Policy Council helped us very, very much last year. Equity remained virtually unchanged, ROE was very high, more than 22%. I'd like to mention that the largest insurers in Europe are of the opinion that achieving an ROE of 12-15% is already like winning the world cup, because they never see such results, so we are very happy about it. Non-life insurance: an increase in non-life insurance by 0.5% in the mass client segment, more in the corporate client segment, all this in spite of what we've already talked about, I mean in spite of the price war. And very much like in the whole business we are showing you a drop in operating profit, mostly in the corporate segment, but if you take a look at the combined ratio (COR), it is approaching European levels, that is 94-95, which is much like European levels. And it's something I once told you we would try to maintain in the long term. We believe that the market is still in a situation of a price war. We don't know how to explain it to them, so if you have any ideas on how to explain to my colleagues that they should do away with this irrational behavior, feel free to do so. Of course, I mean ideas that would not bring us to court. Life insurance – let's take a look at life insurance. We recorded an increase in regular premium, which is the one that represents over 80% of our business, which is group insurance and individually continued insurance. What we have here is pretty much like every year, more or less in line with GDP growth, perhaps a little less, but as you can see our profitability improved significantly, especially on the business side, or the insurance margin, which is the margin of core importance to us, which makes us very happy. Operating profit went up by nearly 15%, so it would be safe to say that life insurance was a driver of last year's result. In the individual insurance segment, we don't have any good things to report for the very simple reason that both the Office for Competition and Consumer Protection (UOKiK) and the Polish Financial Supervision Authority (KNF) are watching this segment very closely and are suggesting some far-reaching changes. To reassure you though: we don't see any nervousness on our side, we don't see any gigantic impact in terms of the economics of this business on our side. However, it may happen that the solutions which will be imposed by UOKiK and KNF will remove some players from the market and unfortunately we also have to say it clearly that a certain kind of discussions in the media make this market become less interesting in the clients' eyes – people simply don't believe the insurance sector,

but this is a larger problem, not only ours but of the whole category. Ladies and gentlemen, foreign operations. This is the area I feel sorry for you, because you will have to try to reconcile it all somehow. On the left-hand side, you have the consolidated results of each company. And now, this is not all, because in the coming year, one of these lines, namely PZU Lithuania, but only the non-life business, will disappear, although we are not sure when exactly. All the other lines will be annualized, because, for instance, Lietuvos Draudimas, you can see its contribution to our P&L in terms of revenue, which is approximately PLN 83 million, but as early as next year, this contribution will be at a completely different level, because we will start consolidating them from 1 January throughout the year. The combined ratio in that business is almost, well, slightly above 100%, but most of this excess above 100% can be attributed to non-recurring events associated with the transaction itself or with certain accounting treatments that we had to apply in order to complete this transaction. Without it, I'm being told by my colleagues here, the result would have been some PLN 32 million better. One more remark: I will say two things about Ukraine. First of all, all our employees are safe, there is no threat to the lives of our employees and, on top of this, our business is growing very strongly. As regards written premium, we are growing much faster than the plan. In terms of financial results, we are also growing much better than plan. Indeed, we did not anticipate the gigantic depreciation of the Ukrainian hryvnia, which means that in Polish zloty, which is our reporting currency, the results are what they are. We have a problem that we can tell you about, but I want to say straight away that it's not a big problem. The thing is that one of the local banks went bankrupt and we had a very small problem with our assets. But the magnitude was minimal. We conducted a certain kind of remedial action consisting of a transfer of our assets to more trustworthy institutions. As regards administrative expenses, well, I also feel sorry for you in this context, because in theory, if you look at our results, they went up 8.5%, but, as usual, in line with earlier requests and with what Mr. Dąbrowski always shows you, our recurring administrative expenses increased less than 2%, which makes us relatively happy, because we said there would be some increase, also due to certain strategic projects or investments that we decided to make, with Everest being a leader among such investments. Shareholder value. I am very happy here, especially that it seems that today's exchange rate is approaching the level we had at the end of the year, because we had almost 500, then it went above 500, then dropped to 460, and today, I believe, it is 479, at least that's where it stood when I entered this room. So, 480, and thank you for your recommendation. Summary of PZU's strategy. I will not go through this, you already had the opportunity to meet with us 1.5 months ago: these are this year's results, summarizing the most recent strategy dubbed PZU 2.0. Please take a look: the only thing that has changed, and it's a kind of a benchmark for the new strategy, is at the bottom: the client – we are beginning to measure very seriously client satisfaction and client value. We are introducing NPS, which in the new strategy is also a measure of the Management Board's results. What I would also like to tell you is that practically every department in our company has NPS included in its tasks when it comes to internal client satisfaction. So if a department fails to meet the required level of satisfaction and service in the eyes of other departments, then, unfortunately, part of the bonus will not end up in the pockets of its managers. So there's a big incentive to start providing the client with

a good level of service. We are satisfied with the numbers on the right-hand side, because over, almost 92% of our clients are satisfied or very satisfied with our claims handling. Strategy 3.0, just to remind you, so that we all have the same picture in mind, which is for our return on equity to be above 20% in the new strategy, and that's the assumption. We want our market share by the end of 2020 to increase both in the life segment and in the non-life segment. We want to double our contribution of written premium from foreign operations. And we want to achieve this without any potential acquisitions, because it is not our objective. I mean, acquisitions do remain to be one of our objectives, but it is not our aim to achieve this result through additional acquisitions. And as regards investments, we want to practically triple our market share in TFI's non-captive assets, that is excluding PZU's assets from the denominator. And, of course, we have revenues from PZU Zdrowie, we're talking about PLN 650 million. We also have an objective here in terms of EBITDA, because we will be inclined to measure our performance with EBITDA rather than with the technical result. We are aiming at between 8 and 10% of EBITDA, so we are sure that even though this objective is ambitious, we should be able to achieve it. And now I'd like to give the floor to Mr. Dąbrowski so that he can walk you through the results of each business line. But in the end I'd like to dispel a certain doubt you may have: you know, of course, that the result generated by the Group and the result to be distributed among the shareholders are completely different kinds of results. The result generated by PZU SA is PLN 2 billion 636 million and this very amount will be available for distribution to our shareholders at the next Shareholder Meeting. I don't think that at the next Shareholder Meeting the dividend may be greater than 100%, and I'm telling you this straight away, for various reasons, of which the main two reasons are gentlemen from KNF who still refuse to give us the green light for subordinated debt and, the second reason, we realize that the payment of direct dividends in excess of 100% is treated in budgetary revenues below the line rather than above the line, which is a very interesting piece of information meaning that the State Treasury does not have any incentive to pay itself more than 100% of the dividend from a company, because then it falls into privatization revenues. So in summary: PLN 2.636 billion. To date, the Management Board has not made a decision on what to recommend to the Shareholder Meeting. The Shareholder Meeting will be held at the very end of June, on 30 June. So we will most probably make these kinds of decisions at the end of April. We're not changing our dividend policy, which you know very well. Just to remind you: in our tenure, we have not had a situation where we paid less than 80 percent of the net profit available to our shareholders. We don't think, especially as we have a kind of continuation of the President of the Management Board, that our dividend policy should change.

Thank you very much.

Przemysław Dąbrowski, Management Board Member, CFO of the PZU Group – Good morning, ladies and gentlemen.

If you permit me, just like CEO Klesyk did, I will not go through all the slides but I will turn your attention to the most important issues in the financial area. The first thing is this slide here which shows you once again the main components of the Group's profit and loss account. But what is

important in this slide is in fact the depiction of the Group's profit and loss account broken down into quarters. So we have a comparison of the last quarters of the year 2013/2014 and the 3rd quarter of 2014, and as you have probably noticed, when it comes to the last quarter of 2014, we increased here, as you can see, the combined ratio, which is significantly greater than in the 3rd quarter, it is also greater than in the 4th quarter of the previous year. Just like one year before, in the 4th quarter we additionally increased our provisions having reached a good net result. It seems that after this step we are fully prepared to face scenarios associated with compensations. And we have informed you before that perhaps such a situation will take place. And here it's the main reason, when we take a look at these quarterly results, for the significant increase in the combined ratio in the 4th quarter. Let's now move on to the slide which decomposes our business into the main business lines. And the things that CEO Klesyk talked about. As regards non-life insurance, an increase in Poland by 1.5 percentage points, although we also need to remember that part in this increase is attributable to LINK4, which we started to consolidate from mid-September. If it hadn't been for LINK4, we would be, in principle, PZU SA itself would be at more or less 0, but in a situation of a declining market, well, it means that we managed to increase our market share. As regards premium in motor insurance, in TPL in both the corporate line and the mass line – or for the corporate client and the mass client –we unfortunately recorded lower premiums in nominal terms but, as we have mentioned a number of times, we've been under a very strong price pressure in this segment. We are very glad that despite the strong price pressure we managed, in the area of voluntary insurance, predominantly MOD, to increase written premium in the mass client segment. It was another year in which the PZU Group increased its market share in the MOD segment. This is very important, because MOD is a type of insurance where the client considers other factors in addition to the price. If we look at other products, then in non-life insurance, both in the mass client segment and in the corporate client segment, but mostly in the corporate client segment, most of the growth took place in other insurance. When it comes to corporate clients, the most important events were several large transactions we executed, mainly related to broadly construed third party liability insurance. As regards the profitability of these two business lines, that is mass non-life insurance and corporate non-life insurance, in both of these lines we see an increase in the combined ratio, although if you take a closer look, then this increase in the combined ratio results predominantly from the issue of the already mentioned compensations. Quite simply, having considered, just in case, different scenarios that may materialize in the next few years, we decided that we would further increase the provision for compensations. As you remember, we made the first such move a year ago. I'd say we added roughly the same amount to this provision as we did a year earlier. I will also tell you at this point that when it comes to the level of established provisions, not the IBNR provision, which is our estimate for the future, but provisions which are reflected in cases that are already open, then so far the amount of these direct provisions related to compensations is rather small – we are talking about tens of millions of Polish zloty. We're talking about 20-some to 30 million Polish zloty. So in the fall of last year we saw some intensification in this area when a justification was issued for the Supreme Court's judgment, but at this point in time, at the turn of the year and in the first months of this year, we're

not seeing a very large wave of compensations coming. If you take a look at our life insurance, then, as CEO Klesyk already mentioned, we are extremely happy about 2014 in the area of individually continued group insurance. Perhaps the increase was not very large, 1.9%, but we experienced an increase in profitability – at this time the profitability ratio is at a level of almost 26% – well, it's a very good result. At the end of the presentation I'll show you slides on embedded value which we publish only once a year. As can be seen from the changes in embedded value, the profitability of this business keeps growing – slightly but continuously – it also records new sales and acquires new risks. As regards individual insurance, our revenues were lower. In 2013, especially in the first half of the year, we sold a lot of structured insurance products. At the moment, we see a lot less interest in such insurance in the market. Already at the end of last year, at the end of 2013, we decided to discontinue the sale of certain insurance products – we discontinued the sale of unit-linked products through the agency network, which means that our agency network this year is slowly switching toward the sale of mainly protective products, and this is the result of the increase in profitability, as you are aware, from 10 percentage points to almost 13 percentage points. When it comes to our foreign operations, non-life insurance in Ukraine, CEO Klesyk already explained this, the depreciation of the Ukrainian hryvnia against the Polish zloty, but what we really have is continued growth. Very many clients in Ukraine transferred their policies from companies linked to Russian capital to other companies, including PZU, so we recorded a growth in hryvnias but, unfortunately, the conversion makes the result in Polish zloty fall. Profitability remains at the same level all the time: the combined ratio is slightly above 100%. As regards the Baltic countries, we unfortunately have incomparability here, because the results are presented in an accounting approach rather than an economic approach in the sense that we have been consolidating these results as these companies joined our Group. Since the mid-year, we have had the Latvian company Balta. Since the beginning of November, we have had the Lithuanian company, which is our largest acquisition, and the Estonian company. Besides, as we have mentioned earlier, especially the Lithuanian business, which is very similar to PZU's non-life business in Poland, has a combined ratio at a level of 93-94%, a 30-31% market share and a stable position. The next player at the moment is about half the size, which is pretty much like between us and Warta in Poland, where the next player is 2 times smaller. The Latvian business is also profitable, a little less profitable, but it's also number 1 in the market, whose position is perhaps not quite as excellent, because player number 2 is 3 percentage points behind Balta, but Balta is also number 1 and is a profitable business. And we have Estonia, where the business at the moment is not profitable, but it's growing and at the moment it is number 4 or 5 in the Estonian market, and we assume that it will be one of the top three companies in the next few years. Life insurance: in Ukraine we have exactly the same situation as the one I talked about earlier. The problem is that even though we don't have a decrease in hryvnias in nominal terms, when we convert the numbers into Polish zloty, we see a decline. In principle, the results remain around zero all of the time. As regards non-recurring factors affecting the result, in 2014 there were substantially no significant one-off events. Moving on to the profitability of the main lines of business, the factors that caused changes in profitability in terms of an increase in the combined ratio in non-life insurance in the mass client

segment were the following: the loss ratio and higher acquisition costs. The loss ratio resulted mainly from compensations and, as regards the acquisition costs indicator, we're simply – and when it comes to this segment we've talked about it many times before – we're simply moving away from our own channels own toward external channels. All the time, our exclusive agents continue to be the most important distribution channel in this segment, but we keep increasing our exposure to multi-agencies and, as part of the implementation of the Everest system, we have started paying commission to our agents for automatic renewals. Of course, the negative effect of this kind of approach is obvious, because our costs are a bit higher due to the fact that we pay our agents for automatic renewals, but, on the other hand, we are talking about PLN 1 billion in written premium where automatic renewals – we observed it historically in recent years – used to have a very high lapse ratio, which is a very high ratio of client withdrawals, because nobody took care of these automatic renewals. Thanks to the implementation of the Everest platform, we are now able to send agents to those our clients about whom we have concerns that they will not renew their policy automatically, so from our perspective, taking all things into account, it is worth paying a little higher acquisition costs but at the same time maintain a larger client base. When it comes to corporate non-life insurance, the factor that had the biggest effect on the change, or on the increase, in the combined ratio was the increase in the loss ratio, and, actually, there was another factor, namely compensations, but when it comes to this business what played a role was not simply the increasing loss ratio, because we're not really observing a large increase in it the frequency of claims, but in this segment the price war is much tougher than in the mass segment when it comes to fleets and leases, yes, the competition here is so strong that the increase in the loss ratio is also to a large extent the result of lower prices, which PZU also has to apply in the wake of the market. When it comes to group insurance and continued insurance, the main drivers of our higher results, well, we simply had an increase in revenues without a change in profitability. There are two rectangles there, one of them is red and the other one is green – this is an accounting treatment: we simply moved part of the PP program for the PZU Group from the insurance policy format to the TFI programs format. This caused, on the one hand, the payment of the benefit, which was in fact the payment of all money to TFIs, and, on the other hand, a decrease in the provision. And as I said, the main factor behind the improved results in group insurance was the maintenance of profitability with a simultaneous increase in premiums. Insurance, excuse me, individual life insurance. Here we also have an increase in profitability caused simply by sales, more specifically by much greater sales of protection insurance which are simply much more profitable. The only drawback, I would say looking at this slide, is the increase in acquisition costs – we simply pay our agents more for the sale of protection products, we believe that these products, in the long term, in principle mostly these products, will remain in the individual life insurance market. As regards foreign companies, we will present quarter by quarter more and more information about our foreign companies. Right now we are showing them for the first time and we are in general open to any suggestions you may have. Here you can see the development of the combined ratio. As CEO Klesyk mentioned, probably until the end of the 2nd quarter we will continue to present it in the same manner, because the results of our foreign subsidiaries will be distorted by PZU Lithuania, which is in

the process of being sold. As you know, we have signed an agreement to sell it and I hope that by the end of the 2nd quarter we will close this transaction and, as a consequence, we will stop consolidating PZU Lithuania. As you can see, the main factor when it comes to changes in profitability, it is the loss ratio and the rate of increase in administrative expenses. As regards the development of the loss ratio, then mainly these are all our foreign companies, so also Ukraine and also our Lithuania. It was mainly our Lithuania which saw slightly worse results at the end of the year. Investments. It was another year when we failed, especially in 2014, to achieve our anticipated profits on equity portfolios, but we significantly exceeded our expectations in terms of income from portfolios linked to interest rates, index portfolios linked to debt securities, mostly treasury securities. Strong capitalization continued all the time, so maybe I'll skip this one. As regards embedded value, in principle embedded value remained at the same level, but had we not paid dividends in 2014, embedded value would have increased. The increase in embedded value was observed mainly in the life company. We are no longer showing embedded value for PTE, and here you can see the factors I mentioned earlier, the value of new sales was PLN 157 million. Improved assumptions, let me move to a more detailed slide, that is to the improved operating assumptions. We have a better, lower loss ratio than we assumed, we have a lower lapse ratio – a lower loss ratio and a lower lapse ratio – we are selling more riders to continued agreements. These are the main factors which caused the life company's embedded value to remain, together with the payment of the dividend, at the same level, but as you can see, if we took out the payment of the dividend, we would have a significant increase. A detailed report on embedded value is included together with the opinion of the company reviewing it, Towers Watson, I encourage you to read it, because it presents a look at our life business in the long-term perspective and really shows how this business may develop in the next 8-10 years. This was the last slide of the presentation, so now we may move on to your questions.

Andrzej Klesyk – It seems that there are no questions either here or there. There is one, thank you.

Question: – Good morning, **Kamil Stolarski of Espirito Santo**. I have a question about technical provisions, probably also in the context of compensations, because looking at your report, I can see that provisions for third party liability in motor insurance increased by one billion two hundred million year on year. Technical provisions for outstanding claims and benefits increased by a very similar amount, so I assume that in these lines at the same time insurance premiums collected decreased, and I'm wondering what else, besides these compensations, may have caused these provisions in the balance sheet to increase by one billion two hundred million?

Przemysław Dąbrowski – Firstly, premiums are smaller, but not because we have fewer risks but because we are simply selling these policies at a lower price. So the number of events is similar – the number of events is similar – and the main growth factor is the establishment of additional provisions for expected future payments of compensations, and this is the main factor, there are no special additional factors there, we don't see at the moment that somehow the frequency of losses has changed significantly. There is a slight inflation of losses but we don't have a situation where any additional factor would be emerging.

Kamil Stolarski – Perhaps a more general question now, because when I analyze your financial statements and take a look or make a comparison between the profit and loss account and the cash flow statement, I can see that in your profit and loss account these indemnifications and insurance benefits are roughly 11-12 billion, while in the cash flow statement, which shows how much you are actually spending on these items, without counting this, but only how much you are putting aside, for the future, well, this amount is around 8-9 billion, which gives us a difference of PLN 3 billion. So my question is this: because at this point in time we are putting aside more than we are paying out, do you assume that in the future there will be years in which PZU will pay out more than it will put aside or should we assume that in the future this situation will continue and the level in the profit and loss account will be significantly higher than in the cash flow statement?

Andrzej Klesyk – Ladies and gentlemen, before Mr. Dąbrowski explains to you the technical details, let's think of provisions and the increase in provisions as if in two separate categories. One such separate category is what we have to pay due to, openly speaking, the decision of the Supreme Court that the law applies retroactively, because the compensations clearly constitute a retroactive application of the law. Here, assuming *ceteris paribus* that everything stays at the same level, we had to establish the additional provisions Mr. Dąbrowski told you about. For the whole market, Deloitte has estimated that this value is in the range of between PLN 800 million and PLN 1.200 billion in additional payments of indemnification from policies that were issued a long time ago. Now, the second issue, this increase you have mentioned results from actuarial calculations, because as Mr. Dąbrowski said, these calculations take into account our expectations of what's going to happen, and right now our expectations for the future of the TPL business are more or less that part of the claims, part of the payments associated with personal injuries will increase enormously. Currently in Poland, approximately 30% of indemnifications in car accidents are related to personal injuries or, God forbid, cases when someone moves to the other world. In the West, this part is already at almost 50%, in some countries even at 60%, precisely personal injuries. Being aware that we have a liability period of 10 years, we have to anticipate these kinds of amounts, therefore we have these potential increases. And once again I'd like to emphasize that we get paid for making sure that this company is a very stable institution able to withstand everything, even the law applied retroactively. Mr. Dąbrowski, I believe I explained it in plain words, please be so kind as to explain exactly how it works.

Przemysław Dąbrowski – Here's what I think. I suggest you take a look at the report, pages 82 and 83, where you can see the development of claims triangles. The negative run-offs mainly concern the years 2005, 2006, 2007, 2008, 2009 and 2010, right? Afterwards we have decreases, so these are mostly, like I said, when you look at it, compensation issues. Like CEO Klesyk mentioned, PZU's policy is that if we believe there's any risk, we establish provisions. The provisions are reviewed on an annual basis independently, not by our auditor but by an independent company, and we maintain these provisions of at least at the 'prudent' level, if not 'prudent prudent', so this is the approach of the PZU Group and strategically the idea is to have the balance sheet prepared for various kinds of surprises we may encounter in the future.

Question – Looking at the securities portfolio, we have PLN 60 billion worth of all investment securities, of which 35 are bonds, very little of which will mature in 2015 – it's a small amount, not counting those 3 billion which will mature in HTM investments. So in HTM investments, 3 out of 20 will mature. The question is: you could tell us more about which point in time during the year they will mature and what is the magnitude of the interest rate there? Because I understand that the average return on the HTMs is 4.8 at this point and only 1/7 will be rolled over at lower yields, and next year the amount will be practically completely insignificant: some 300 million.

Przemysław Dąbrowski – We can't say exactly when but these maturities will take place in the second half of the year.

Kamil Stolarski – The last question from me: has a new incentive system been established for the Management Board and, if so, is it linked to the share price or mostly to financial indicators?

Andrzej Klesyk – At this point, the situation is as follows. Yesterday I talked to the Appointments and Remunerations Committee, because we have such a committee in our company. What we agreed on was that when the new Management Board is appointed, KPIs will be prepared or, rather, will be accepted and will be linked primarily with the indicators included in our strategy. Unfortunately, there is no incentive system based on the creation of shareholder value, meaning that there are no options or phantom shares or any algorithm which would provide rewards or penalties to the Management Board for delivering shareholder value or failing to deliver shareholder value, respectively.

I can see that we've received more questions, of which I'm glad, so as usual I will read them aloud in the original language and then we'll answer them in Polish, OK?

Question:

Wood and Company – There is a clear downward trend in claims paid, which is visible both on a quarterly basis, in the 4th quarter of 2014, and on an annual basis, in the whole of 2014. What's the reason behind this trend and, in particular, doesn't the 4th quarter include any one-off events?

Przemysław Dąbrowski – Well, like I explained earlier, this is due to the transfer of our PPE from the group policy to the product, to the TFI programs. At the moment, it is no longer a policy, and this factor has a strong impact on the behavior of indemnifications and claims paid.

Andrzej Klesyk – OK. Next question from Mr. Piotr Palenik of ING.

Piotr Palenik, fist question – How recurring is the significant, approximately PLN 80 million in the 4th quarter of 2014, income from exchange rate differences in investment income? What's the cause of this income?

Andrzej Klesyk – Ladies and gentlemen, we have always said we want to have possibly the best matched exchange rate-related items on both sides of our balance sheet. In this context, let me remind you that last year we issued bonds worth half a billion euros, and also on the other side of our balance sheet we have a lot of assets linked to the euro and those assets keep growing. For instance,

our real properties or things that are attached to our real properties are by definition priced in the euro and then converted into the Polish zloty. Would you like to add anything?

Przemysław Dąbrowski – This is predominantly related to the exposure we opened by issuing bonds. The thing is that on the other side we have the valuation of RSA companies, which are also valued in euros, so I wouldn't treat these 80 million as a recurring component of our investment income.

Andrzej Klesyk – Next question from the same gentleman.

Piotr Palenik – How many points may be added to the acquisition ratio due to changes in the structure of your distribution channels and how long will this process take?

Andrzej Klesyk – We've talked on a number of occasions that PZU by definition will perform much better than the market, so what I would assume for modeling purposes is I would take a look at the existing market trend and I would subtract a bit from this market trend, because to a certain extent we are not operating in a vacuum and have to react to what is happening in the market, so I'm unable to tell, even though I would very much like to tell you that the increase will be 0.5%, 2%, 8%, or 4% – but I'm unable to tell you this. Please take a look at market trends and subtract a bit from them.

Przemysław Dąbrowski – We are certainly not assuming an increase of 8%, so I'd like to be very clear about it. We are talking here about really small increases. Just like in the most recent several years. This year, it's not only a matter of market trends, like CEO Klesyk said, but also the philosophy associated with automatic renewals. Because all in all we believe that it makes much more sense for us to give leads to our agents who carry out or support the renewals process and we don't lose clients.

Andrzej Klesyk – Ladies and gentlemen, let me draw your attention to two things that I would take a look at if I were in your shoes. First, the situation in the non-life insurance market, namely the price war. We keep seeing crazy people who are digging their own grave. When you see the results of the whole market after the 4th quarter, it seems to me that we'll have a gigantic drop, much larger than in the 3rd quarter, that's my premonition. This trend, despite the bombastic announcements by our colleagues about increasing the prices etc., etc., continued much into January and February. So I would say this: first, see what's going to happen in the market in terms of prices. And here there may be one good thing: on 1 April, KNF's recommendations will enter into force regarding claims handling, which for many insurance companies – but not for us – for many insurance companies will hugely increase the cost base when it comes to the payment of indemnifications. So that was the first thing I would take a look at if I were you. Of course, one-off events, like, God forbid, flood, overwintering, I don't know, wind, well, I mean events not of the type they like to show in the media where a bus collided with something, I'm talking about mass-scale events that would not be reinsurable – because we have a very good reinsurance program, so our biggest problem would be the occurrence of several small to medium-sized uninsurable events. I'm sorry to say this, but from the business point of view

one gigantic flood is better than five tiny floods. It seems absurd, but that's the way it works. And the second thing which I would strongly point out is I would look at investment results, or how the stock market will behave, and, to some extent, at whether quantitative easing is going to be reflected in more interest rate movements, yes, in the interest rates and decisions of the Monetary Policy Council. But maybe you know more in this area than I do.

I have a question here from **JP Morgan**.

Michael Huttner, JP Morgan – Is the disbursement going to change in consideration of a higher solvency capital? Any comment on that?

Andrzej Klesyk – In our new strategy, we are not assuming any changes in our dividend policy. It also reads that we will have to have some type of an adjustment when it comes to Solvency 2. We have to think long-term. In other words, we have to look at what's going to happen in 2016. Theoretically, we know but from a practical point of view we don't know how it will work when it comes to Polish regulations. So I would return to this question about the additional disbursement of capital at a time when specific Solvency 2 solutions are known and so when a new Insurance Act is known, which is supposed to enable us to issue subordinated debt, probably, so they say. And the second thing, I would look very closely at the final solutions on the possibility to classify certain items in our balance sheet as capital or not capital under Solvency 2, because here we may see potentially quite large, large movements in the balance sheet, especially in the life company – we may have either a better capital position or a worse capital position, right? Are there no more questions? Listen, what a tragedy, we are becoming a boring company.

Kamil Stolarski – You are probably fresh out of discussions on the technical rates. Since they were changed, say a 10-year is 1.5 percentage points lower, and in March we had another cut, the question is: do you feel comfortable now with the current technical rate or is there a risk that it will be changed?

Andrzej Klesyk – In a moment, I will ask Mr. Dąbrowski to answer your question, but once again let me tell you that at this point in time we feel very comfortable when it comes to the technical rate. Please remember that this is not a decision for one year – in other words, we have to think about what's going to happen during the next 10 years, because the technical rate can't be changed every quarter, because we'd go crazy and you would go completely crazy. For now, we feel comfortable and we remain within the terms imposed by the regulator, and will keep watching the market very closely. Would you like to add anything?

Przemysław Dąbrowski – Ladies and gentlemen, like CEO Klesyk said, when the previous decision was made on decreasing the technical rates – this took place primarily in the life company – we modeled the behavior of the curve in the perspective of more or less until 2025, and so far we don't think we have a situation where... we expected the longer tail of the curve to be at the level of 3.8 and we are not assuming for now that in 5 years it will be different from 3.8, OK? For now our

forecasts assume that we may continue to live for the next 2-3 years in an environment of lower rates, but at the turn of 2016/2017 we will have a higher inflation and also the rates will go up, in which case there's no need today to touch the rates. Of course, we already apply lower rates to any new business we sell. The thing is that this business, the existing portfolio, is still largely covered by HTMs and is not completely matched but is largely matched with HTMs which are performing at almost 5%. So we don't see such a need at the moment and I don't think we'll need to touch the technical rates in the next 2-3 years. And let me remind you that when it comes to the technical rates, the movements are, in principle, in one direction only. International Financial Reporting Standards do not permit increases in rates that have been decreased before.

Iza Rokicka, IPOPEMA Securities – I'd like to have a question of a rather technical nature about the prospects of a dividend from PZU Życie to PZU SA during 2015. We know there was an interim dividend, but are there any contraindications to the disbursement of a lower dividend during the next Shareholder Meeting of PZU Życie than 100% as was the case last year?

Andrzej Klesyk – There are no such contraindications at the moment. We meet... we have probably the best BION in the market. I can't tell you how much, but it's a very nice BION. On top of this, we meet all the indicators that were once, in the previous regulations, recommended to us by KNF. But the regulator moves in a mysterious way. Actually, they prefer to call themselves the supervisor rather than the regulator. So if one day they send us all a 'pastoral letter' to be applied by all of us, I think we will have to try to adapt to it, but at the moment we don't see any obstacles. Let me also remind you that when we received such a 'pastoral letter' some time ago, it turned out that we were meeting all the conditions and requirements.

Andrzej Klesyk – Ladies and gentlemen, thank you very much for your cooperation to date and I hope to see you during the presentation of our next quarterly results. I have to tell you straight away that I will not be able to attend the next presentation of our quarterly results, but it won't be because of any disrespect but because I'll be away from Poland, so I won't be able to attend unless I manage to dial in.

Thank you very much and goodbye.