24 August 2016 - Presentation of PZU's H1 2016 financial results and PZU Group's strategy for 2016-2020

Michał Krupiński, CEO PZU Group:

Welcome to the results presentation conference. We would also like to tell you more about the strategy today. We will try to move on quickly through the key drivers of the Company's performance in the first half of this year. We also have slides with details, in the event that you have, and I suspect that you will have, additional questions. We can handle this, if it suits you, by going through the presentation first, in respect to both the results and strategy, and then we will have a Q&A.
Moving on to our results, let me go straight to the agenda of the presentation. The first slide is about the insurance market in Poland, in the Baltics and Ukraine, which are the countries with the Group's presence. The second one contains performance drivers, in our opinion, in this first half of the year. Three is the summary of results, with operating results and detailed financial data and also tentative PZU Group data in the context of the capital policy under Solvency II.
I have President Maciej Rapkiewicz, who is responsible for strategy, with me today. Mr. Paweł Surówka, President of the PZU Życie Management Board and Mr. Tomasz Kulik, acting President of the TFI Management Board.
As far as the insurance market in Poland is concerned, we have noted a positive trend on the property insurance market, in particular the 6% market growth. The price war is coming to an end, which in the perspective of a few quarters we believe it will have a positive effect on the growth of the company's profits in the motor insurance sector. PZU has already increased its market share in property insurance; for the first time in many years, the market share increased, and it did by 4.5%. On the other hand, the life insurance market was declining. These data are less comparable because we were dealing here with the downward movement associated with unit-linked insurance, that is investment policies. But in that declining life insurance market, we also managed to increase our market share in the first half of the year, for the first time in 6 years. This is also an important element of the strategy; later, we will talk about the strategy and our efforts to grow and to maintain market shares in individual market segments. PZU remains a leader of the insurance market in the Baltics; in particular we are happy with our position and the improving performance of the Latvian and Lithuanian companies. Regarding the key performance drivers this year, what is positive is a much greater share in the property and life markets This is what I was talking about a while ago and I will also be able to tell you more about this subject in a minute. Sales in health care insurance increased by 40% in H1. In particular, we passed the long-awaited 1 million clients threshold in health insurance. Our franchise is working very well, along with our ability to sell additional health riders to our insureds in the group insurance segment. We have been using this channel very strongly. Third, which may be very interesting from your point of view, from the point of view of investors, we have reduced the company's costs. We have an excellent cost discipline and we believe that this will increase reliability of the Company and of the management board in terms of the strategy-mandated goal to cut the company's operating costs by PLN 400 million by 2018. This year, I proposed and the Management Board accepted the flat costs budget, which proved to be even better than the FLAT BUDGET, that is we reduced our expenses at the fixed cost level by 7%, more or less.

Tomasz Kulik, Director of the Planning and Controlling Department, acting President of the TFI Management Board

This is more or less 7%; it differs depending on the segment in which we are. In particular, we really care for savings in the 2 large companies, that is PZU SA and PZU Życie, where the cost cuts, year over year, are more than 8%.

Michał Krupiński:
So, as you can see, we are spending less on unnecessary things, without letting this affect the sales, because sales have been growing. We want to make sure that none of these cost cuts reduce sales growth. We have also increased profitability in group insurance and individually continued insurance. This is a very good trend, since the profitability increases despite the declining yields on the investment part. But when we add up both parts, then we still have profitability which is much better than the market average. We are twice as profitable as our competition in this respect. The negative impact resulted from one-offs, that is the negative results of wintering in agricultural insurance, which we have no influence upon. On the subsequent slides I will show you how much more significant the negative impact was than in the previous years, and the still - we believe - low and unsatisfactory but improving profitability in the motor insurance portfolio. For a few months now, by using more advanced instruments and Everest software, we have been able to offer a better matching of prices to risks and this is beginning to work. However as you all know since you analyze the sector and our Company, we are dealing with a certain "lack-effect" here, which is a delay of 3-4 quarters. This translates into the bottom line with some delay. As far as the investment result is concerned, almost 100% of our failure to fulfill the plan resulted from our exposure to just one asset, that is the holding that we have in the Azoty Tarnów Group, plus let's say that you did very well with your consensus about the performance, but with one exception: we have an impairment loss on Armatura shares, which we also wanted to recognize – actually we had to recognize – in this quarter to ensure full transparency. Armatura is not our core business; I don't know of any insurance company that is involved in such a sector, but this is sort of a legacy of the past and we will have to deal with this problem. This is an impairment loss of more than PLN 50 million. And now about the increase in the property insurance market share. In non-life insurance we increased our market share by 4.5%, or percentage points. We are very happy with that and with the market share indicators. This will contribute to, or influence the technical result with some delay. In life insurance, this growth was slower but also noticeable: 2.1 percentage points, with higher profitability of the life insurance business. We do hope that this trend will persist. In recent years, we observed how the company was losing its market share, or failed to grow as fast as the market did. We hope this is a permanent reversal of the market trend, with no impact on our profitability. As I have said, the main person responsible for the mass client, motor insurance, together with a group of colleagues, who is working on better price-risk matching models, is Roger Hodgkiss. We are becoming more advanced in this respect.
When it comes to health, we are starting from a low base here, even though we are happy with the dynamics and we hope that, by keeping the effect of scale – and we already have more than 1 million clients – we will be able to increase our margins. In a moment, we will talk about our goal of achieving EBITDA margin of 12% by 2020. We have noted that the cross-sell between group life insurance and health insurance is working very well. In particular, we are using the group insurance sales channels to sell additional products, which is also in line with our strategic intent of increasing the number of products held by clients.
About the cost discipline: there is one one-off, what I mean is that we must post Alior's costs, but if we deducted that, the ratios would be good. As you can see, PZU has a much better cost position than international companies, which is naturally a result of the historical economies of scale but also of the measures undertaken by the Management Board. My problem however is that the market is generally becoming, it is very competitive; the products are becoming more uniform, distribution channels are becoming much more competitive and democratic – and I'm talking about multi-agencies here. And the overheads, that is fixed costs, are becoming ever more important. This is where our commitment came from to reduce overheads by PLN 400 million over 3 years in order to maintain our competitiveness, offer better and cheaper products and build significant value for shareholders. This is not an aspiration; this is the goal that we discussed internally and the exercise that we conducted under the leadership of Maciek Rapkiewicz, who is present here, starting in March of this year when we presented strategic directions, until today, when we are presenting the strategy, which has been internally thought out, consulted and I believe that it is also sound from

our point of view, arising from our internal models and forecasts. I have already told you about individually continued group insurance. When you look at gross written premium, we have higher written premium amounts on a declining market and we are maintaining the margins. In particular we are able to maintain a 17% margin in this insurance part. This resulted from a lower loss ratio in life insurance, but also from the cost discipline.
Concerning the consequences of wintering in agricultural insurance, I believe there may be people in this room who are more knowledgeable about this subject than I am. But I have assessed this and we have analyzed this subject in depth. I did handle let's say catastrophic risks, pooling and insurance not on my last job, but earlier in the World Bank, when we introduced certain pools and various systems for catastrophic risks in various countries. As you know, these time series with payouts can be interpreted ambiguously. As you can see, we had one one-off occurrence this year, namely 243 millions of payouts, which was much more than in the last 3 years when the payouts were much lower.; This involves mainly a situation in which, being blunt, we have winter without snow or a situation where we are dealing mainly with winter crops and mainly rapeseed. In the first quarter, we had a sort of a catastrophic situation in Poland, as you can see on this slide. We are analyzing whether this should make us change our reinsurance policy in this respect, but I don't think that there are reasons to do it. Perhaps, from our point of view, it would be more expensive to take out reinsurance below a certain floor, which is set in our reinsurance, than pay out such indemnities. On the other hand, this is a question about, and we have been talking to reinsurers, talking about the occurrence of time series in the last several years, whether they are growing exponentially or whether we have a certain pattern.
Regarding the motor insurance portfolio, we believe that profitability is still unsatisfactory from our point of view, but it is improving. As you know, the entire market reacted quite strongly in respect to prices. And we believe that we are dealing with the end of the price war. What we are doing is: a) waiting for it to show, and we have been noticing this better dynamics when it comes to profits in this area of business, and on the other hand we have introduced better, let's say more sophisticated instruments. In particular, based on the data from Everest software, we are able to match prices to risks better. In investing activity, as I've mentioned, this is mainly the single exposure to Azoty.
Paweł, do you want to add anything to that?

Paweł Surówka, President of the PZU Życie SA Management Board:
When we compare the first half of 2015 to the first half of 2016, the additional difficulty here is that in this half of the year we are also recognizing Alior's investment activity. We have tried to show this here, in order to be able to compare "apples to apples". But as you know very well, Azoty were not the only factor that affected our portfolio. We closed our books shortly after Brexit and that naturally had its effect. But this is the actual effect and this is what we wanted to show on the slide on the right-hand side, that is a gap of 182 million in the "other" item, including FX. This is largely the exposure that we have to Euro and the effect of depreciating zloty, considering our exposure to bonds issued in the Euro. The 180 million are investment products – we have a drop here, but here we have investment products that are recognized in investment activity, but they are clients' results, which do not affect PZU's net results. What we wanted to show was that the Azoty Group, which is our strategic long-term investment – and we still believe in its performance – but it is there and it is to some extent, a "legacy" that we recognize on a "mark-to-market" basis. And right now, considering the performance of Azoty Group shares, from 1 January to 30 June, we have a recognized but unrealized loss of over 200 million this year and, year over year, where Azoty appreciated quite significantly in the last comparative period. The difference is over 300 million; if we removed this from the investment activity, our result would be more ore less at the previous year's level, but with more challenging interest rate environment and especially with continuously declining HTM portfolio, which exposes us to a certain reinvestment risk.

Michał Krupiński:
When we look at the entire result, it was affected to the greatest extent by the lower valuation of equity instruments. Paweł Surówka has already talked about this.
When we summarize the results, we can see the falling profitability in property insurance, in parallel with positive trends in this respect. This has been caused mainly by the one-off payouts for farming crops. Moreover, we are still noticing loss ratio trends, not at the average loss level but rather at the average frequency, which may be related to the previous recommendations from KNF. We are maintaining profitability and growing in group insurance; we are happy with the sales performance in the companies, especially in the foreign companies. In the Baltic companies in particular; the Ukraine has also been growing but from a much lower base. When it comes to the banking sector. As you may know, this year Alior acquired Bank BPH shares, which was very well-received by the market. As far as I remember, the Alior stock price rose by a dozen or more percent after the transaction was announced. At the same time, the largest equity offering in Poland this year was effected, which we believe was very well received by the investors. Foreign investors, who had not been shareholders up to this point, because it was a rights issue, had not been Alior's shareholders, invested PLN 700 million of additional capital, which we believe confirms the strategic plan, or our investment in the banking sector and the ability to consolidate this banking sector using the Alior Bank's platform. I will speak some more about banks when we move on to the topic of strategy. Investment results were also affected by, let's say, one exposure plus one-off write-offs as well as generally the market situation caused by Brexit. As you know, the Brexit was on the 23rd-24th, which is right before the end of the reporting period; since then, as you may know, the market has recovered, in particular stock indices have noted strong growth. Especially with the anticipation, and we also shared this anticipation, of the draft franc act that was less strenuous on the market.
Do you have anything else?
So we may go through successive slides; alternatively, we can discuss these slides while handling the questions. What is the analysts' consensus in this respect and is there any? Should we talk about the strategy or develop the results part?

Voice from the room: Strategy.

Michał Krupiński
Strategy, very well. I was expecting a different answer, but apparently, the strategy is important.
We would like to present to you today the draft strategy, which was approved by the Supervisory Board yesterday and which builds upon the strategic directions that we presented to you in March. The strategy is an update to the current strategy and it will be in effect until 2020. It is a well thought-out strategy, aimed at maintaining the Company's high profitability and high level of dividend payouts in the long term. We decided that, in order to achieve these goals, we need to invest in pro-growth initiatives. PZU has an excellent franchise, especially in group life insurance, which has generated good profits historically. But as you know, the company has been in a negative performance trend and there is a need to invest more, especially the surplus capital, in pro-growth initiatives and to prepare for the changes that are coming in the banking sector and a bit later also in the insurance sector, which are driven by innovations. We have made an assumption that the insurance sector is undergoing a strong change. It is changing in particular because of the possibility of using data analysis to reach customers better, to prepare new products, such as products ranging from cyberthreats, insurance of catastrophic risk, offering a set of solutions in property insurance. The market is changing in the way how customers can be reached. The banks, naturally, in banks the frequency and intensity of contacts with customers is much higher. However the insurers, in the same fashion as banks, are also developing their customer relations management tools. The claims handling process is also undergoing a strong change. It becomes much more reliant on the digital domain, data analysis, fraud detection. We think that this train will hit us, or is hitting us already, so when you stand on the tracks and the train is coming, you can either get hit or get into the train. And when you are already on the train, you have two options:

either you are just a passenger watching what the competition does or you are take the engine driver's seat. So we decided we want to be the leader of technology changes and we believe that we have all the components to become such a leader. In particular, we have one of the most innovative banks in Europe within the Group, that is Alior Bank. Even if we look at our exposure to Alior as an investment then there is nothing that could prevent us from learning innovativeness from Alior, especially in terms of approach to customers. We have LINK 4, a very innovative insurer. The competences from LINK 4 have been transferred, especially in terms of the pricing policy, and we also have innovative Baltic companies, especially the Estonian company. So this is what we want to build upon and allocate specific resources to. I do hope that you also have this feeling that some of the strategic pillars are already being implemented in everything we do. When we are talking about savings, I can answer that yes, we are making them. If nothing changes in the second half of this year then we can say that we have got the Company's operating expenses under control, or even reduced them. This is one of the strategic pillars. When we are talking about market growth – yes, we are growing on the market. On the subject of the acquisitions of banks, which are an investment to us, on which we want to make profit, then yes this is happening as well. When we move on to innovation, we have already undertaken several initiatives; one of them – and we are no different from other insurers (AXA) and others – is establishment of VITELO funds that we want to use for the company. I mean we want the funds, the best funds, to invest in technology companies, which will change our industry in the future and which are changing our industry already. A few weeks ago, Management Board representatives visited Israel on invitation from the "Startup Nation" and had the chance of acquainting themselves with the most technologically advanced start-ups, which are already offering "disruptive" changes and models for our industry, for the insurance industry. So this is also the strategic element, about which we are not only talking about but we are also doing it. About the main value message, you already know it – there is no significant departure here; we believe that the Company should have in its mission the provision of peace of mind, feeling of security. PZU is Poland's most recognizable financial brand. Customers are coming to PZU because they trust us, because we are offering excellent products and because we are backed up by reliability and capital; nothing will change in this respect. About the key strategic decisions – we want to focus on the insurance business. This has been an insurance company for 200 years. However since we have certain market shares on the Polish market, we must invest in growth, in order to maintain our market position, but also results, profitability, also measured by dividends in the long term. We will cut costs and we want to reduce costs by PLN 400 million within 3 years, by the end of 2018. We want to effectively execute growth initiatives in terms of the health pillar and in terms of the investment pillar. We can see a great opportunity here for PZU associated with the consolidation of the TFI market in Poland, since this is a business of scale, where PZU may have certain economies associated with the scale of the business, if we are able to sell more products to our customers; we can also see an opportunity in the "Capital Building Plan" presented by Prime Minister Morawiecki. When it comes to growth – I have already said that we are implementing growth initiatives; I would also like to mention our TUW mutual insurance company again, which we believe is a great success. Ultimately, it will allow us to get a significant share, a greater share of premiums in property insurance. We want to continue developing TUW, not only for Treasury companies but in the future also for private companies, hospitals, municipalities. We believe that from the standpoint of our clients and us, it is a win-win situation. This is a business project, by all means, and according to our internal analyses it is already bringing numerous benefits; ultimately the benefits should be even greater. When it comes to banks, perhaps we have changed a focus here, in the sense that we are talking about building a banking group; but this is not our aspiration. We have not made it a point to have a 4th or 5th bank in Poland. Of course, in such activities, in all activities I don't have to convince you that ambition and ability to take risks is important in the investment part, but I'd like to reiterate that from our point of view this is an investment. When you look at your consensus, the consensus of analysts about Alior Bank, we believe that the market has shown a positive response to Alior's acquisition of BPH. I believe that the Polish banking sector, the situation in the Polish banking sector, in terms of profitability, will improve in a few years. We believe that Alior is a very good consolidation platform for any players below Top 5. We also believe that the Polish banking sector will consolidate around 5-6 players, so Alior should be among those 5-6 players, by showing synergies in individual acquisitions, like BPH, through organic growth and profitability; we are certain that ultimately we will be able to earn profit on this investment. We have a commitment to Alior Bank, naturally to KNF; this is a commitment for several years. But in the future we will perhaps make appropriate corporate governance decisions in this respect. We also believe that having an innovative bank in the Group gives us some cross-selling capacity; nevertheless our goal is not to build a bancassurance group but to make an investment, where certain benefits arising from mutual synergies – and we do have a special project working with the Alior Bank Management Board in this respect – are not the reason for making the investment. This is an additional gain that we can obtain from such investments. And the last thing is that, as I've already mentioned, we want to build one of the most innovative, perhaps the most innovative insurance group, financial group in Europe. So there will be, I will not say "a turn" but rather assurance for our customers that we want the organization to be strongly customer-focused, so we will change along with customers needs; we will strive to – I will show this to you in a moment in our matrix, the ratio that will measure the effect of the strategy – we will strive to increase the number of our products carried by customers, while ensuring appropriate safety level measured by Solvency II ratios and the level of trust of our customers. Insurance will remain our core business. This is what we will focus on and devote most of the time to it. At the same time, we also want to grow in other pillars, to be ready in case profitability in insurance proves to be unsustainable. We believe that by investing in pro-growth activities, we are able to maintain profitability at the Group level and this is our goal. This is where the strategy comes from, which is based on 3 pillars: profitability, also through savings and ultimately also through innovation. Naturally, there are more things that we could speak about in terms of what we are doing in the innovation domain, projects, mobile apps on which we are working, technology hubs. We will be announcing these things, one after another. By 2020, we want to introduce a digital operating module in customer service and this is something that we are working on and we also want to reach – and this is an important ratio – a higher number of products per customer of 1.64, through cross-selling, up-selling and this is what has been happening already. We believe that our great advantage over our competitors is the strength of our distribution; our approach is not just the traditional approach through our tied agents and other multiagencies but also through the direct approach and development of CRM tools. What we care about, in particular, is to become a reference insurer for the clients who enter the market. I am talking about younger clients but also about premium clients. I have spent a lot of time, let's say relatively a lot of time, because Roger Hodgkiss spends more time, visiting branches. We have the opportunity of talking to customers and knowing what they expect; we believe we should have a stronger focus on reaching mass clients, younger clients, who purchase products through different distribution channels; we have been working a lot on this. To be clear – we definitely don't want to lose this market, but we also want to have a dominating position on the market. This requires certain change in the company's image but also a change in its approach to individual insurance product distribution channels. When it comes to the corporate sector, we have also experienced solid growth this year – I'm talking about property insurance. But at the same time I have spoken about TUW; we are working on implementing advanced consulting methods; we have established the PZU LAB just to be able to talk to customers about the solutions. This is in line with the market trends, so we have used strategic partnership with engineering schools, institutes of technology. We are working on new products, which have never been proposed before, such as: products offering protection against cybernetic attacks or cyberthreats.

Paweł Surówka:
About life insurance, this is naturally the strategy of the entire PZU Group, which is binding on PZU Życie as well as on any other Group company At the same time, PZU Życie has been working on how to tackle operationally the challenges posed by this strategy. We will devote this week and

several coming weeks, we will organize workshops and conduct intensive work with all the directors, to affort ourselves a very intensive time of reflection about the entire organization, about how it can benefit from the potential that PZU has in group life insurance. First of all, the number of customers that we already have – after this first analysis we have a sense that this constitutes a great potential that we can use in the future, that we must use, because we know that our current profitability is in some sense unique on the market and we need to defend it. Naturally, we are dealing with a trend that the portfolio must be made younger; first of all we want the group life insurance portfolio to become a cross-selling platform, a platform to get closer to our customers. This is exactly what we've said: we want the customers to have a holistic perception of PZU, which could provide insurance of both life and property and have the investment part as well. This is what we want to use our sales chain for, our good relations with companies in the State Treasury family; we want to focus very strongly on getting closer to those customers to make sure that they truly feel this relationship with PZU and are able, through an application, through direct access to PZU, to use more of the products that we are offering. Today, much in this respect is done in health insurance. We believe that this cooperation with other products should be extended strongly and this is what we have been working on.

Michał Krupiński:
We are considering stronger involvement in individual life insurance; we conduct make additional analyses. Group insurance is the dominating part of our business. We are wondering whether we could maintain the leading position in insurance without a stronger effort in the individual insurance area. Individual insurance products, because of the investment policies, sales issues, have not been very profitable recently, but looking at those broader trends, the society getting richer, economic growth – we believe that this is a market that we cannot let go of. 17 years ago, or 18 years ago, a decision was made to leave this business; we will analyze this issue; in a sense this has been included in the strategy.
When it comes to assets, as I've said, we are seeing high growth potential in investments in asset management. In particular, we want to gain more access to "third party money" and increase distribution of these sales products, also through our own sales channels. I believe that this sector will undergo a consolidation. Our goal is to become the largest asset manager in the Central and Eastern Europe, with assets above PLN 100 billion, by 2020. As I've said, the savings building plan is not included here but should constitute a much greater boost for this strategy.
In PZU Zdrowie [PZU Health] we have had very high growth from low bases. I believe that the goal is achievable, the goal of getting PLN 1 billion of revenues and premium in this sector and also, through economies of scale, achieving 12% EBITDA profitability in 2020. This sector is naturally contingent on regulatory risks. Nevertheless we have included continuation of the acquisition plan and use of JV contracts with individual players on that market. We think we have a great chance to become leaders of this market in Poland. We are not expecting any large acquisition in this respect, rather than organic growth by building a chain of our own outlets as well as agreements with other service providers. When it comes to banks, and I have spoken on this subject already, we wrote 140 billion. This amount is rather a rough estimate driven by our judgments that the sector will consolidate and, in order to be one of the consolidating entities, these are the assets that you need to have in 2020. As I've said, bancassurance, or synergy with Alior, is an additional factor in making these investments, but we believe that the situation measured by ROE in the Polish banking sector will improve. We think it will get better. We may earn excellent returns on this investment. We believe that one of the main pillars of the company's potential is its surplus capital. When the company's potential must be used and we are considering how it should be used, we could analyze possible acquisitions of other insurance groups outside of Poland, because we don't have much to buy in Poland. But when you look at the profitability of these companies, I believe that the Central and Eastern Europe in general – and I analyzed this region in my previous job – is very demanding; there are many small countries plus the market doesn't always notice your exposure in the CEE region. Even if a potential platform could be acquired then the situation in the West European

insurance sector is more difficult, because of the low interest rate environment but not only that. We think that the logical consequence of this thought process is a conclusion that investments should be made in neighboring sectors. Naturally, they need to be very opportunistic and pass the hurdle of the assumed profitability targets. In Poland, ROE and profitability ratios, such as dividend yield, in the banking sector, are very diverse, but there are banks that propose better dividend yields than average European insurers. There is also an issue of the availability of investment targets: I believe that companies should rather invest in neighboring sectors and on the markets that they know about. I believe that surplus capital, because of the solvency planning policy, should be used to be able to generate growth in the future. This is why the banking sector, where there is a buyer's market with relatively low valuations, assuming that we have the excellent platform of Alior Bank, remains potentially interesting.
When we're talking about the capital and dividend policy, our target is not to fall below 200% of Solvency II, which is still a safe level. As you all know, from the regulator's standpoint, this level is very safe. Right now we are one of the most capitalized European companies, but this is the target: we don't want to go under Solvency II at 200%. When necessary, we will allow a "sub-debt" issue when we decide, at a certain stage, that we would like to improve our SCR ratio. We will not use any more profit for growth than what is needed to ensure sustainable profitability of the company. We see no conflict here: we believe that growth initiatives will not automatically reduce the dividend levels. We believe that, so far, PZU was a strong dividend company, which was very generous in sharing its profits with the shareholders. We want it to stay this way. In particular, we don't want it to pay much less than our peers. I am talking about insurance companies in the Western Europe. You have different opinions about who our peers are. I can understand that, in the case of Polish or Czech listed banks, the ratios are very diverse, so it is difficult to adjust an average, but once again - in a few weeks' time we will present a dividend policy; we cannot talk about any details today, but we do not envisage a significant change in this respect. This is written here because this is capital management policy. However we have decided that a few more weeks of consultation are needed to show you the figures. Perhaps the 50-100% payout ratio guidance was too broad and I wonder if it gave you, the investors, the comfort that dividend payouts would be maintained. This is why we are currently analyzing this matter. But this is also consistent with the strategy, with the slide that we are presenting.
Gentlemen, do you have anything to add?
We want to be disciplined, perhaps more disciplined in respect to the strategic and tactical allocation of assets. We have started the new allocation project for the coming year and we don't want our allocation to be much different from the allocation policy of other major insurers, I mean greater diversification in terms of asset classes and ultimately also geographical exposures. These are the key measures in the strategy and they were also presented this morning. I believe that the most important thing is to maintain ROE and once again, this arises from our internal analyses, models and forecasts. So this is key, and also to grow market shares in individual segments. Maintaining the operating margin, the number of clients, the Solvency II ratio at 200%, investments providing a certain surplus over the reference rate even in a lower interest rate environment. But I think that the "customer ratios" are also very important, such as larger exposure or more products per retail customer. I hope that I have already talked to you about the remaining matters.

Q&A

Kamil Stolarski, Haitong Bank - I have a very general question for you: in the introduction to the strategy, you wrote that the strategy assumes a fundamental change in the Group's profile from a dividend company to a company with a dividend and growth profile. When I think about the company's profile so far, it has been a company that distributed a high portion of its earnings as dividends and, at the same time, it acquired Alior and then added BPH; in the same period, assets were acquired in other countries. So my question is: what is this fundamental change and is it really a fundamental change? Should we expect the dividend policy and profit distribution to change significantly or will it remain as it is? Because in your presentation, you detailed the projects that some profit would be apportioned to, namely the bank project, acquisition of TFI and acquisitions in the region. So my question is whether this really represents a fundamental change or is it actually just general language.

Michał Krupiński:
Semantics is very important here. Our approach to this is serious and so are our intentions. Concerning our intentions, we were noticing during the months when we were analyzing the strategy, that the Company must make stronger investments in pro-growth activities and it has a significant potential for that; we can use our brand, we have strong distribution, surplus capital and the excellent financial standing. So we are dealing with a continuation of pro-growth initiatives and a stronger emphasis on pro-growth activity. Our key assumption is, after the implementation of the strategy, we would like the Company to generate the same or comparable profits through investments in pro-growth activities. From the investors' point of view, we are happy with the investors who appreciated the generous dividends that the Company paid out. We are committed to keeping the Company a dividend company, in particular to make sure that the dividend payout is no different from our peers. On the other hand, we really want our investors to notice other pro-growth activities. Because these activities are not coming from outside, from our main shareholder. We can see for ourselves that we must commit more to pro-growth activities, perhaps more than in the past, in order to achieve this profile of the Company, especially in terms of profitability. So my answer is: semantically are we dealing with a fundamental change? This is a matter of opinion, but considering our intentions, we also want to attract those investors who will appreciate the fact that, in the long term, after we implement this strategy, and we believe this is reliable, we have calculated this, we will be able to maintain our profitability, also in terms of a dividend.

Kamil Stolarski, Haitong Bank - Is my reasoning correct that the dividend may be lower in the short term, but we want to maintain the dividend at a certain level in the long term?

Michał Krupiński:
To be direct, this is not good thinking. We will spend as much on growth activities to be able to maintain a solid dividend both in the short term as well as in the long term. We believe that the investors got used to this and from our point of view, we don't want our dividend payout ratio to be much different from our European peers.

Tomasz Kulik:
I would like to turn your attention to one thing: when we were talking about the 2013/14/15 results, we were talking about solvency requirements. It is true that it was under a different regime, but we all saw a certain capital surplus in the company. As a result, our solvency ratios, whether converted to the S2 requirement or in the old regime, were 400, 300 and now we are at 200% and in order to maintain this level and to continue to share profits, we must invest faster; otherwise we will become a run-off company. As you have mentioned, yes, the company has made certain investments but their effects will be distributed over time. Right now, we cannot see the results in a way that would guarantee that we would be able to make distributions to shareholders in the form of a dividend. We need to wait for these effects to appear. And if we don't make the investments quite fast, if we don't make this leap into the future, as the President has said, we are exposing ourselves to the risk that the increased portfolio, increased risk exposure, increased insurance amounts will cause SCR to grow and therefore the surplus to shrink; we may even face the risk of dropping below 200% and this is not what we want. This proposed strategy is an attempt to make a leap into the future to guarantee relatively consistent and stable growth and the ability to share dividends with shareholders in a way similar to one you were accustomed to in the past.

DM BZWBK:
I have a question about the new insurance brands in Poland. I was wondering whether it was related solely and exclusively to cyber-security that you mentioned, or perhaps there are various other niches?

Michał Krupiński:
Generally, we are observing and we have many meetings on the Polish Insurance Association Audit Commission that the products per customer ratio is lower than in Germany, for example. When we dissect this, then we obviously have products that benefit from advanced data analysis, such as e.g. cyberthreats, catastrophic risks. We also have low product per customer ratios in agricultural insurance. We have low product per customer ratios in property insurance. In general, there is no market that we would like to give up, and from the standpoint of the Customer safety sector, we will focus on a few markets. Right now, we have about 4-5 initiatives to expand the market and also perhaps to boost our share in the individual markets rapidly when it comes to new products. We can sell new products. I myself had the opportunity to be part of a discussion, since American insurers not only introduce telematic solutions but are also considering how the Bitcoin "blockchain" technologies may be used in insurance. They haven't just been thinking about it, but there is also application. So I believe that there are no limitations in that respect. What is important? That products do change their nature. Especially in the insurance for significant assets and industry. We are departing from standard property insurance in the direction of "solutions" and this is what PZU Lab is for. We have a few engineers in there, we have strategic alliances with institutes of technology, to be able to offer such more advanced solutions to our customers. And naturally the last part is up-selling; for example, we have quite a good growth of sales in "white label" type products in some companies and the energy sector in Poland. Against the risk of electricity shutdowns, for example we have quite a good growth in up-selling legal protection insurance. This is in addition to other insurance products. So we must say that we have certain initiatives in this respect, also initiatives that are strategic in nature. I cannot talk to you about all of them, but we are not giving up on the market and, actually, we are also considering in the Polish Insurance Association that the market should not only offer revenues to individual insurance companies, but rather that this market could expand; we are making comparative analyses with Western European states in this respect. Does this answer your question or not?

DM BZWBK - I think it does. I have one more question about innovation and use of big data sets. This subject is obviously the talk of the town and everybody wants to be in, but what is characteristic for Poland is that we don't have too many specialists in this respect. So I've been wondering whether you you have any expect staff and if you don't then who do you want to cooperate with.

Michał Krupiński:
I think that the Vitelo fund, on which President Surówka has been working for some time now, can serve as a good example here. In this fund, we want to have the most advanced investments in funds of funds. We don't want to limit ourselves to the Polish market. Naturally, we want the fund to invest in companies together with NCBiR, which has the intention of awarding grants to these companies to, let's say, limit risk in the first years of operation of an ideal company. We admitted that we had no expertise to invest in start-ups directly. We have a few of those in our portfolio, relics from a distant past, but in such an innovation and technology company, we would rather invest in funds of funds and we have an offering for all global funds, which in turn will invest in innovative companies in Poland and elsewhere. We believe that there are several "hubs" in the world where innovative solutions are offered for the insurance sector and, as it is the case for several other West-European insurers – I don't want to make publicity for our competitors – it will be part of our innovation strategy. However I'm not sure that I can agree that there are no specialists in Poland. Once, when I worked for the World Bank, we were thinking that every country

in the world wants its Silicon Valley, naturally, but not everyone succeeds. But when I look at the solutions that Wojtek Sobieraj uses in its innovation lab at Alior Bank, I believe that those are some of the most innovative solutions in Europe, mainly in respect to CRM. We also have an elevated level of cooperation with companies in our capital group in this respect – to ensure that these synergies occur but also to develop the culture of innovation, because this is not something to talk about but rather do, implement and apply. So, if we make a breakthrough and I believe that we are close to that, in terms of the company's internal perception as a business that wants to be innovative, then we will succeed in this respect. Given our advantages, the company is obviously large in Poland but globally there are larger ones and perhaps, for a company like ours, with our number of customer records, customers who trust us, it is easier to implement certain innovative projects than in companies having for example 100, 200 million customers; this is something that we are counting on. From the top of my head, I cannot list other initiatives that we are working on, but they include some mobile apps and reaching customers through other sales channels, new products. We already have quite an advanced Fraud Detection project; this area has been changing quite significantly. Ultimately, we will want the claims handling process to occur in a more automatic manner, to rely more on computers; this is becoming a standard course of action in the Western Europe and the USA. As a customer of one of American insurance companies, I had the opportunity of using such solutions in the past. What is important is that we will commit at some level to ensure a certain pool for innovation projects and investments. We hold talks with global consulting companies, we talk to global funds about the creation of innovation hubs based on PZU, here in Warsaw, because you need to establish a certain "network". But, as I've said, at the end it is not about the skill set as much as the mindset. This is a good illustration why the Silicon Valley worked best in the United States and that "mindset" had to change. We need ideas from scientists, entrepreneurs with good ideas, and on the other hand we need to have other parties to provide capital; this cannot be just any capital, but rather a "smart" capital that knows how to develop a company into a billion-dollar business. Third, we also need the people who are able to supervise and manage those companies when they become relatively larger. This is the important role that we can see for ourselves. Please note that there are many companies speaking about innovation now; many State Treasury companies in Poland are speaking about innovation. We believe that this is like the Vitelo project with NCBiR. Our advantage is that we were able to prepare this project together with NCBiR, but that this is also a potential breakthrough for our operations and may have a very significant and positive effect on our business. We are doing this for the company and also for the world outside – this will certainly help entrepreneurship, thinking about innovation in the countries of our operation, but we believe that this is one of the options, in which we must invest to become an innovative company in the long term. It is our goal and aspiration for the company to become one of the most innovative companies in Europe.
Do you have any opinion regarding this?

Paweł Surówka:
About Vitelo: on the one hand, we believe that Vitelo may become a fund that will strengthen the Polish market and even strengthen this ecosystem here and in the longer term contribute to innovation here. Yes, we are also considering acquisition of some of the portfolio companies – just to buy the knowledge that could be developed; but at the minimum Vitelo would be a first-row ticket for us. As a result, even now, we are one of few LPs in Private Equity from this part of Europe. Right now we are one of the few LPs involved in Venture Capital. We hold talks and we conduct due diligence of the best VC funds in the world, which at the same time, show us their largest start-ups. Every time when we come back from those meetings, as Mr. President has mentioned, recently from Israel, we are coming back and we say: "We must do something. Because we know what is going on and we can see what the future will be like. We can see the things that will shape the market in a few years. I think that the strategy, which is presented today, is a strong reflection of the fact that we were exposed to the things that will drive our sector in the future. We have the awareness that we need to do something. We cannot do things as we have done them so

far, because otherwise PZU's future will not be secure. Personally, as an investor, I would be concerned if I knew that the company's management was not dealing with this issue and was trying to pretend that everything would be "business as usual". This is why we are certain this is the step forward, which lends reliability to the PZU business model. We are thinking about what will happen with the sector in the future. We want to take part in it and we want to have our eyes and ears in whatever will change both globally and in Poland.

DM BZWBK - If I could ask just one last question, shorter this time. In the key strategic measures, the number of PZU Życie's customers is declining. Why is that?
In life insurance, the number of customers drops from 11.4 million to 11 million. Why is that? This is on page 16.

Paweł Surówka:
We still want to keep our market position, but naturally we can see that the group insurance that we have now change all the time. On the one hand, we can see that this form of group life insurance, which is somewhat unique to Poland, will change. We can also see a migration towards individual protection insurance; the market will partially develop in that direction. On the other hand, we certainly also have a very high level of profitability and we intend to keep it. So we can see that the market will develop. We believe that will continue to defend our market position and our market share, but we will not do it at all cost. Naturally, we can also see that other companies are interested in this market and we are entering that market. As I've said, in the future, assuming 2020 as the time horizon, we want to focus more on how we can forge a deeper bond with our customers. How we can introduce other products, including individual products, rather than how we could get more customers. In our current situation, this would certainly be a challenge and would compromise our profitability.

Michał Krupiński:
I would like to add that this is also a result of demographic trends and let's say the average age of our portfolio. As a large financial, insurance company, we can influence many things, but demographic trends are not one of them. Even though we are still thinking and we have had some talks to consider, for some drivers to consider, using the insurance and bank channel to pay out the 500+ benefits. However, we have no headline news for you in this regard.

Jaromir Szortyka, PKO BP - I would like to go back to the capital policy, if I may. You have adjusted the ratios to Solvency II, which, as far as I understand, is partially because of the dividends but also partially because of the new interpretations. First of all, I would like to ask you whether these are the final interpretations or whether a risk exists that there may still be some changes? Secondly, what is included at the end of Q1? I am assuming that the 2015 dividend, Alior's 3rd tranche, but there has been no capital increase in Alior, so my question is about the possible impact of that on Solvency II. And the third question is whether you have any knowledge about the regulator's view on this 200% Solvency II level in the context of dividend distributions. Do you have any indication whether this level would allow you to pay out a significant portion of your profits?

Tomasz Kulik:
I don't know if I understood correctly, especially the last part of this question, but today, as we've mentioned and displayed for a moment as part of key strategic measures, we are planning to keep this level above 200% over the entire period. This is often much more than our insurance peers have. It is certainly much higher than the minimum stated in KNF's recommendations. So we do not perceive this level, or the 200+ level, as contradictory with dividend payouts. We do not expect any negative recommendations from the regulator, according to our knowledge as at today, naturally. Regarding the solvency ratio and the adjustments that you mentioned at the year-end. No, we do

not expect any more adjustments. They arise mainly from the fact that, when we showed these amounts for the last time, the dividend amount had not yet been finally declared. Therefore, it was not included. The main difference at the capital side is the anticipated dividends and taxes on assets; nothing more changed here.

Jaromir Szortyka, PKO BP - The impact of the capital increase in Alior Bank – how can it potentially affect Solvency II?

Tomasz Kulik:
When we are talking about all the non-insurance companies, to calculate the Solvency level we use the regulations that apply to those entities, namely a bank when we are talking about a bank, or TFI when we are dealing with TFIs, etc. During the implementation of the strategy that we are discussing today, we can see no risk of material impact and – if we are talking in the context of the dividend – no actual risk that S2 ratio could drop below 200% and pose any risk to shareholders that the dividend policy could be endangered. As you know, we are also able to convert our debt to subordinated debt when needed and if any of the necessary pre-conditions arise from the capital point of view then this will be considered. Meaning either conversion or the capability to make issues above today's exposure level. We don't want our "equity to debt" structure to change so much that our debt exposure exceeds 35%. This is why there are such degrees of freedom under which we want to move, speaking about the capital policy and the directly related dividend policy.

Jaromir Szortyka, PKO BP - Another question, if I may, about TUW. You are saying that you can see an opportunity for increasing your market share significantly. In turn, I have a question if you can see the risk that when you get a large portion of the market, then the market will assess the risk incorrectly and mispricing may occur; in such a situation, profitability on this project could be much different from what we are currently assuming.

Michał Krupiński:
We can see no such risk. We have been properly analyzing the potential changes in TUW in respect to its reinsurance policy. We have an assumption, which is in fact consistent with the valuation with KNF's valuation, because we are not fighting for the market by allowing for negative margins. Everything is priced very well. And it is not true that in TUW we are not cooperating with other reinsurers or even insurers providing us with reinsurance coverage; risk sharing has its place in the TUW [mutual insurance] concept, especially in reinsurance. I must admit that I don't understand this sort of a concept.

Jaromir Szortyka, PKO BP - I am assuming, since we are dealing with a *win-win* situation, that PZU collects the premium, the policyholder has cheaper insurance, but the margin disappears, doesn't it?

Michał Krupiński:
We do have the calculations. Let me repeat this, because we don't want to understand this incorrectly. Our intention is not to fight with brokers. However the market average, and we do have such calculation, that a broker's average market margin is 15% to 20%. Besides, if there is no intermediary and we are able to offer these products – and I have seen the contracts from the past; we have analyzed what we have been signing so far. We are able to prepare certain solutions in a better way, for example custom-made solutions, but the example with PGE, with that portion of the power plant, has shown that this is better for us and also better for them. They got a better price and we are able to make money on that. So perhaps the fact that there is no broker in this case, or the broker takes a different role, such as an advisor to the entity that wants to join TUW. Then it is a win-win situation. However, I would like to repeat this again: we are putting much

thought into this; it is not a "non-business" project; this project is strongly linked to business and I can see no reason why we shouldn't use it.

Jaromir Szortyka, PKO BP - Thank you. I do understand. One more question, perhaps a more detailed one, about the Q2 results; about the other operating expenses line item. It seems to be quite high. The "Others" category in particular; the question is what was there, exactly; was it any one-off, or perhaps...?

Tomasz Kulik:
No. When it comes to other costs, as you probably already know, the year 2016 is quite different from the previous year. For the first time this year, the tax on other financial institutions was introduced. Therefore, the impact of this change on our results has been reflected in this position exactly.

Jaromir Szortyka, PKO BP - There is still the "others" category, because the tax is separate, there is the "others " category and I believe there is quite a significant growth compared to the earlier quarters.

Tomasz Kulik:
In this case, I would like to respond to this after the meeting, if that's all right.

Question:
I would like to ask you, because I have been observing the achievements of PZU for years and generally speaking, I am interested in data, I mean physical, monetary, and as far as I can remember, speaking about the technical activity, the Company has achieved on average up to a billion, more or less. This is the scale. Other investment activity is 2 billion, 3 billion, depending on the period. And now we have your plans. In this low interest rate environment, with the portfolio, once historically but it has not changed much, but let's say 40 billion in treasury bonds. What will the balance sheet look like according to your plans, excuse me, the profit and loss account; that portion of the technical profit and investment profit in this declining interest rate environment. How will the structure of investments change? Because so far, treasury bonds made up about 80%, where yield is currently, optimistically speaking, 2%. What do you want to make money on above that 2%? We are hearing about banks, which are in a similar mess, aren't they? Just as insurers are, in the same environment. Where will you make money above and beyond that 2-3%? In 5 or 10 years? What is the outlook?

Paweł Surówka:
Yes, when it comes to structure.... First the investments and then we will talk about the balance sheet part. As I have said, as we have said in the strategic part on the topic of investment policy, we naturally must tackle these low interest rates, just as most of the other insurers.
We have a certain lag to European institutions, which have been affected by this phenomenon before us, especially in the Euro zone. In each case, their reaction was similar, which was a very strong remodeling of their asset management divisions. And some of them made a decision to just outsource their asset management and try to focus on their core business. We believe that this investment is still not only... this is our core market and this is our asset, and we don't only want to operate for ourselves, but we can see a sort of a synergy with the business, as asset managers and we will continue to focus on managing our funds ourselves. But yes, diversification will be the main motto. I have already mentioned that our treasury bond portfolio, especially the one kept as HTM, has certain inherent profitability that is difficult to achieve by simply reinvesting the funds in treasury bonds; this is classic "reinvestment risk". At the same time, when you compare us to any benchmark, we are much above average, in terms of exposure to local market and treasury bonds. So we must focus on diversification. Wherever we can, we are doing it by ourselves, because we

believe this builds our investment competence; today I can see no reason why you shouldn't have a Polish team investing on global markets in different asset classes. I have already mentioned today that following the Brexit, more and more really good portfolio managers are considering returning to Poland. So we can see a great opportunity to purchase this competence.
We have also been talking...
Yes, naturally. Were such competence can be obtained from outside managers, we are doing that already. As I've mentioned, we are one of the LPs, one of few LPs from this part of Europe involved in private equity; we are expanding both the asset class and the geography. Everything in the spirit of diversifying the sources of our risks and diversify the factors that influence our portfolio. In the long term, we are anticipating that our premium above the risk free rate will remain at more or less 200 bps and this is how we want to achieve it. Diversification and reorganization of the division – this is something that as I've said we want to achieve by the end of this year. We are changing completely just the investment strategy just to make sure that it fulfills the purposes specified in the group strategy, but we will also change the organizational scheme of the PZU investment division to make it a better match to the environment where you need to react quickly to some market events, which today...; people talk about high correlation and in some elements macroeconomics influences everything and we need to be more responsive.
There is also a third element; it is a niche. With all the diversification and all the responsiveness, we also want to know our niche. Corporate debt is a good example. We are expecting to develop more in the direction of the corporate debt asset class. But we want to be very picky about the opportunity and first of all, do not enter the market area dominated by banks, where margin is difficult to earn. On the other hand, we can see that PZU can have a very important role, and it already has, in the corporate debt domain on the market such as Poland. Everything that goes beyond standard transactions, which is not "bread and butter" for players such as PKO BP, PZU already is a major player in respect to categories such as LBO, MBO, ML. We believe that we will continue to go in these aspects where we can benefit from the fact that we are a long-term investor and a large investor, that we are an investor with a quick response time and we believe that we have an advantage, especially in this category, that we could exploit.
Tomek, what about the balance sheet?

Tomasz Kulik:
I believe that your question referred more to the structure of assets, didn't it? If I understand it correctly then there is perhaps one thing that I should add to what President Surówka said. When making the selection, the risk aspect will be quite important and the need for us to have higher coverage, or prepare capital to cover the possible liquidity and volatility and other risks. So the work currently conducted in Paweł's area, which are associated with the strategic allocation of assets, building the target model and the asset structure, will most certainly take this factor into account.

Maciej Marcinowski, Trigon - … Pomorskie Koleje Metropolitalne - there was an extensive loss, almost 1/5th; an escarpment slid down and that was a very large investment; do you have any estimates if the indemnity is significant or perhaps some provisions were recognized in the second quarter?

Michał Krupiński:
... that it was very significant, especially that we are talking about the situation from the 2nd half of the year, so we cannot really talk about this at this stage. I do know the case, but it was not flagged internally, or highlighted as a major problem.

Maciej Marcinowski, Trigon - Ok, I haven't found any estimates, so I just wanted to ask. Thank you.

Michał Krupiński:
We have questions from **Jason Kalamboussis at Societe Generale** and the question is as follows:

1. "Could you please define what do you mean about your targeted PLN140bn of assets by 2020 in the banking sector i.e. do you mean the share of assets in proportion to your stakes in the banks you seek to have a participations in? Or the total assets since you will have effectively control?
2. The combined Ratio seemed to be markedly better in 2Q, certainly without the one off agri losses we saw in 1Q 16. How do you see H2 and do you expect any improvement in pricing?

Michał Krupiński:
Perhaps one question after another. When we are talking about assets of PLN 140 billion, we mean that the banks in which we have exposures will have such assets. So this is not calculated pro rata to our holdings. About the combined ratio, can we talk about the second half in terms of, as far as I understand, non-life and the possible improvement in pricing? We cannot talk about the current combined ratio when we see the combined ratio in this half, but we can see positive trends, especially in terms of motor insurance prices. I believe this answers Societe Generale's question.

3. "Given your banking ambitions is it fair to say that you will not reinstate and complete the 2 years left on the special dividend strategy you had announced but suspended after a year?"

There is also a question about management changes:
4. There are press articles on management changes. Anything you can comment there would be very helpful".
We have no authority to say anything about management changes. This is a question for the Supervisory Board.
About the special dividend, Tomasz, how can we respond?

Tomasz Kulik:
I believe that we should not go into details too much about the special dividend. I understand that this question refers, to some extent, to the policy from 2013-2015 where the company indicated the possibility of paying out a dividend of PLN 3 billion out of which 1.7 billion has already been paid out and 1.3 billion remains. Let me remind you that in this policy we were also talking about capital optimization and the possible conversion of a portion of capital to subordinated debt. This has not happened, naturally, but I think that we will return to questions such as this one when we discuss the dividend policy in the context of the strategy.

Michał Krupiński:
We have one more question, **Raiffeisen, Mr. Sobiesław Kozłowski**: "Speaking of the possible acquisition of asset management companies, are you interested in Polish or international entities?"
First of all - Polish entities. But as Mr. Surówka has said, we care about obtaining competence. Brexit and the FX ratio are helpful in this respect for the portfolio of managers from London. We believe it is easier to acquire talent directly for management than to buy asset managers, for example in London, Switzerland or elsewhere, so we will focus on building these competencies in Warsaw.

Thank you.