PZU – Financial results presentation for the three quarters of 2015

– 10 November 2015

Andrzej Klesyk, President of the Management Board and CEO of the PZU Group:

Good morning, Ladies and Gentlemen.

I would like to welcome you to the conference dedicated to PZU Group's financial results after Q3 2015. Today, we have the information which is similar to what we usually provide you with. We are also having an additional item on the agenda, namely we will provide you for the first time with information on new regulations, i.e. Solvency 2, and we will also show you the figures concerning Solvency 2. We believe that this will be a very interesting piece which will also affect how our company is perceived.

Ladies and Gentlemen, I would like to start as usual, with a discussion of the insurance market after the second quarter. Non-life insurance market after the second quarter is in quite peculiar situation. Namely, gross written premium slowed down, the number of risks increased; in other words, the average price went down, because this is how the math works. And one could say that the entire non-life insurance market "splendidly" loses the price war. All the insurers are waging the price war on one another and they are magnificently losing it. If you look at this part below where we have the technical result, after H1 2015, PZU had 94% of share in the technical profit of the entire sector. This pretty much means that no one else is making any money. So, this shows you how outrageously irrational the market is. We are still making money but our competitors do not. So, we wish them good luck and we once again appeal to them to turn back from that path, to paraphrase the words of a certain politician.

As far as life insurance market is concerned, it is a bit more stable, despite disruptions with unit-linked products and regulations related to lapses. It seems that the growth of gross written premium of slightly less than 2% stems primarily from the fact that continued and group insurance experience more or less such type of growth while individual insurance slowed down a bit. Technical result recorded a slight decline, and it is 23% for the entire sector. However, PZU still has a disproportionately greater share in the profit than share in the market, and this is what we have been always talking about and what we want to preserve. So, these are our results as far as the market share is concerned. One can say that it is practically unchanged, because a change of 0.5% is a very small one. In this case, only one large 30-year contract entered into by some large insurer can affect the entire market share. Therefore, in this case, we are very happy with our performance, which is 33% in the non-life market and more than 43% in the life insurance market. As you remember, this is a very stable result. And now let's move on to operating results for the third quarter. As usual, we will show them cumulatively. Namely, this is our premium, which recorded growth of 8.5%, and it is, of course, non-comparative year-on-year because we have additional companies which we acquired last year. Equity is practically on the same level of more than PLN 12 billion. Net profit recorded decline of 28%, attributable mostly to decrease of the result on investing activity due to the situation on our stock exchange and due to the fact that this year we did not have any interest rate cuts, and therefore there were no changes in the value of bonds or profitability of bonds. Return on equity was slightly less than 20%, but once again – like I always say – this places us among the top European insurers because such returns on equity are unattainable for large players on the insurance market. In property and other casualty insurance, the gross written premium recorded growth of 9% in the mass segment, and we are very happy with that. Link4 is contributing to this growth, however this is not the case that Link4 is responsible for all of this growth – in no case this is their contribution. Link4 is contributing slightly less than 4%. As far the combined ratio is concerned, we are seeing its deterioration. It stands at 94%, and we are practically approaching 95%. In our strategy we assumed that we would be somewhere around 93% to 96%, as far as the combined ratio is concerned. On the other hand, we also said that we would be 3-4 percentage points better than the market, and we actually are better than the market by as much as 6 percentage points. However, at this point I would like to once again send a message to the market – stop this rat race because we still have some reserves we could live off whilst you have run out of everything. Operating profit recorded a decline. If you take a look at the general information, you will see that for the first time in a longer period of time the result on motor insurance activity, i.e. TPL and MOD is negative. If we are recording a negative result, then how negative has to be the result of the entire sector? This is not very difficult to imagine. When it comes to corporate segment, it experienced a decline by as much as 10%, which is primarily attributable to two factors: decrease of prices – it was one of the largest price decreases we have seen in a long time, and our refusal to issue insurance policies in insurance programs which are known to be unprofitable. We are still below 100% when it comes to combined ratio, so we are making profit on that activity. It is smaller than last year, and we had approx. PLN 142 million, however, the greatest problem in that sector is the fact that in the mass segment, motor insurance is in the negative zone. With regard to life insurance and continued group insurance, the results are so stable that we can say that this is almost boring, and the performance can be easily predicted. I would like to share my opinion with you: I believe that Polish people have become a bit more optimistic because in the first quarter and the first half-year, there were more deaths among the Polish people than usual. And now it turns out that the death rates have gone down, and this is good news to all of us, also from the financial standpoint. The margin has returned to above 20%, and I would like to remind you that in our strategic activity we assumed that we wanted to keep that figure at 20%. Gross written premium in individual segment, i.e. in individual life insurance products was positive despite disruptions on the market. As you may remember, in the recent few months the so-called "publicity" around individual insurance was so-so, hence we are glad that we managed to at least preserve our gross written premium. When it comes to international operations, this year was somewhat unusual in the sense that this was the first year when we consolidated those companies. However, this is not entirely the case because we sold PZU Lithuania at the end of September, and therefore it will be difficult to make any comparisons. On the other hand, I would like to assert that insurance business in Lithuania and Latvia performs very well, and we are no. 1 in both countries. When it comes to profitability, the Lithuanian business was even more profitable than PZU, and we are very happy with that. Of course, they have smaller balance sheet, so the overall profitability is not as large as PZU's. As far as Balta is concerned, we are very happy with the fact that we regained the position of the leader. We had a situation that the third company was gaining very strongly on us, and now we are still no. 1 and we wish all the best of luck also to no. 2. When it comes to administrative expenses, the situation is that administrative expenses, as far as accounting is concerned, increased significantly, i.e. by 12.9%, however, we would like to tell you that, first of all, the ratio of recurring administrative expenses, i.e. what I and Vice-President Dąbrowski have been talking about for the last 4 or 5 years, remained on a very stable level. Recurring administrative expenses even slightly decreased, but we have experienced certain events. Of course, we have new companies, and the costs linked to those companies were incorporated into P&L. The second matter is the fact that we also have the strategy implementation expenses and project expenses, which to some extent are non-recurring expenses, and those expenses increased. I believe that this is a positive development to us because, for example in the health area, we are delivering faster than we assumed. When it comes to value to shareholders, and this is an item which we are always showing to you, in the last three years we recorded very decent returns. The only thing which you will probably have to change in your models is the quantity of shares. In one month from now, the value of PZU's shares will probably stand at PLN 30-40 because we will be splitting them. As we have already told you, the status was registered on 3 November, hence we may split the shares in the 1:10 ratio. This will most likely occur before the end of the year; we would like to do it in November. We do not yet know when this will be technically possible, and we will notify you about it in due time. This will not have any significance when it comes to corporate governance structure or economic structure. Each shareholder holding the shares on the split date will receive 10 shares of PZU SA on the following day. And they will be able to trade in them just like previously. When it comes to execution of strategy, we are still no. 1. Share in the insurance market is 33%, and in life insurance market – 43. We are no. 1 in Latvia and Lithuania. TFI's third party client assets increased by 10%, despite bear market on the stock exchange and much faster than predicted development on the health market. Moreover, our EBiTDA, because this is how we measure our "health" contribution to our P&L, is better than we predicted. This still isn't a significant business, however its value is greater, and we are very happy with that. At this point, we would like to show you one event. Namely, on 30 September we finalized the sale transaction of PZU Lithuania, and the result of that transaction of PLN 160 million affected our result in the third quarter. As you already know, we purchased shares in Alior Bank. This quarter will be the first time when we will be able to have influence in Alior. We requested that the Shareholder Meeting be convened, and on 30 November we will try to do two things. Namely, we will attempt to change the number of members of the Alior Bank Supervisory Board, i.e. set the number of Supervisory Board members, and introduce at least two members to the Alior Bank Supervisory Board because at this point we have approx. 10% of shares and we believe that we should have at least 2 out of 7 or 8 Supervisory Board members. Of course, at the closest Ordinary Shareholder Meeting, we will have a much larger quantity of shares, and we believe that we should easily be able to secure for ourselves a greater number of Supervisory Board members. I'm sure you already know that in October we issued senior Eurobonds worth 350 million on top of the already-existing "all in cost" program at 1.59. We believe that in the current market situation, and I would like to remind you that this was before the elections, we recorded a very decent result, even more so due to the fact that it turned out that most of our potential competitors to that pot of gold did not feel comfortable enough to enter the market. We entered within three hours, and our book was sold out. We established TUW [mutual insurance company], and one week ago we obtained the consent of the Polish Financial Supervision Authority to start the operations. The idea is that we will be providing insurance services through this TUW, i.e. sell insurance products to specified groups of clients, and the first such group which we want to establish is hospitals. This will enable us to meet the needs of our clients. Firstly, we will have a much more stable business, and secondly – our acquisition expenses will be lower.

Ladies and Gentlemen, before we move on to detailed financial data, I would like to say a few words about Solvency 2 because this will be the first time we will be able to show this to you.

I would like to ask Mr. Dąbrowski to go through individual segments. Ladies and Gentlemen, we would like to show you the new financial regime which will go into effect as of 1 January 2016. At the same time, we will be subject to both the Polish and international accounting regime. In other words, we will operate under three different regimes, and at a certain point in time it turns out that different regimes apply to different things. For example, in the coming 2 or 3 years, our ability to pay dividends will not constitute the capital position under Solvency 2 – it will be associated with accounting regulations, IAS and PAS. And, this is what it will unfortunately look like. On the other hand, we have some good news – I will not go through all the calculations, but here are our solvency results. This shows the situation as if we were to report Solvency 2 at the end of 2014, i.e. annual report at the end of last year. Last year, the solvency margin at the end of the year under Solvency 1 would be 3.5 billion, i.e. the amount of capital which would be necessary to only meet 100% of our regulator's requirements. To remind you, we always say that this is between 200 and 250% of regulatory capital requirements. And this is the result which we, as the Management Board, would like to have, but we have PLN 10.1 billion at the end of last year, so, in other words, we have capital surpluses for solvency margin of approx. PLN 6.5 billion. Solvency 2, i.e. the solvency margin which we need to meet the regulator's capital requirements, amounts to PLN 6.5 billion. According to the data audited by our auditor, our equity standing for Solvency 2 will be almost PLN 20 billion, i.e. this is what we would have at the end of last year. So, the difference amounts to approx. PLN 13 billion. On the other hand, we, as the Management Board, would like to maintain approx. 200% over and above the Solvency 2 requirement. In other words, we want to keep approx. PLN 13 billion in order to safely conduct insurance business. This will cause that, in nominal terms, the capital surplus will be greater. Another thing, which we mentioned some time ago, is that if we ever want to issue subordinated debt, we will have such an option under Solvency 2, i.e. as of 1 January, the Regulator will have the authority to permit us to gather capital through subordinated debt. For the time being, we don't think that this is necessary, however, should such a need arise, then by looking at those figures we would issue approx. PLN 6.5 billion in subordinated debt, i.e. our maximum capital position could reach somewhere around PLN 26-27 billion. As a result of this, in the coming 2-3 years we will have a very interesting situation because we will be a very strongly capitalized company under Solvency 2. On the other hand, under IAS, our situation will be completely different as far the ability to pay dividends is concerned. And this is all that I have to say with regard to Solvency 2. You still have some slides, but I will not go over them. The first two slides show you the concept of Solvency 2, i.e. what it more or less consists in. I have already discussed the previous slide, and this is the slide which explains the change of our capital position when we transition from Solvency 1 to Solvency 2. These are Vice-President Dąbrowski's favorite slides, i.e. those "waterfalls" which explain the reasons for growth and decline. He loves those things, so I'm handing over the "clicker" to him and he will go through a lot of the "waterfalls" discussing the profitability of our business. Thank you very much.

Przemysław Dąbrowski – Management Board Member, CFO of the PZU Group

Good morning. I will try to go over them quickly so that we can move on to questions. As usual, we begin with quarterly results, and this topic has already been discussed. Unfortunately, in Q3 2015, the results on investing activity deteriorated. When comparing the results year on year and quarter on quarter, we can also see that the combined ratio in the third quarter was higher than last year. If we take a look at insurance activity, i.e. the key details concerning the insurance activity, we will see that non-life insurance activity in Poland recorded quite significant growth of 5% in terms of revenues. This breaks down into 9% of growth of revenues in mass client insurance and a decline in corporate insurance. This 9% growth in mass client insurance is partially attributable to Link; in other words, it is related to the consolidation of Link. But it is also attributable to PZU SA itself because PZU SA was responsible for approx. 2% growth of gross written premium in the mass client segment. When it comes to corporate insurance, we have a lower premium year on year, and we are really dealing here with three factors. However, we recorded lower revenues in motor insurance, and primarily in non-motor insurance. As you can see, the difference is 563 million vs. 720 million, but this is to certain extent attributable to seasonal changes of gross written premium which occurred at the turn of 2014 and 2015. We assumed that over the course of the year, these seasonal changes will smooth out across quarters, and we will not see such a drop of revenues from non-motor insurance in the corporate segment. When it comes to profitability, this could be seen already after the second quarter. Profitability of motor insurance, in particular TPL, deteriorated. Combined ratio was above 100% in mass insurance and significantly above 100% in TPL motor insurance. In MOD insurance, in mass client segment, the profit is basically zero, and in corporate insurance we are still able to make some profit. Like we said after the second quarter, we made a decision to increase prices. The effects of this decision will be more visible next year. Regardless of that decision, we also began work on optimizing the amounts of paid out claims – because deterioration of performance in this insurance segment is attributable not only to low prices but also the inflation of claims expenses. When it comes to life insurance, we managed to smooth out profitability quarter on quarter. As we may remember, we began the first quarter with very low figure, i.e. 14%, and at this moment it stands at 22.2%. Our strategic objective always is to maintain profitability of this insurance at the level of 20%+, and I'm sure that this year we will succeed. When it comes to individual insurance, the profitability is improving, and we could see it on the previous slide which showed the breakdown of this gross written premium in individual insurance. Simply speaking, we are selling more protection insurance and more insurance with regular premium, and, because of this, our profitability is improving. These insurance policies simply have greater profitability. When it comes to gross written premium from foreign policies, first and foremost we encounter a problem of non-comparability year on year. This year, we are consolidating the companies which we did not consolidate a year ago. I would like to remind you that we bought the largest of the three foreign companies, i.e. Lithuania. We did not finalize the transaction until the end of the year, i.e. the fourth quarter. And this is the reason for such non-comparability. The same was the case with Estonia. What is important is that on 30 September we sold PZU Lithuania, but that company was still included in the results for the third quarter. However, PZU Lithuania had a significantly lower profitability of insurance liability than other companies, hence the insurance profitability for the fourth quarter, i.e. the combined ratio for non-life insurance activity outside of Poland, will be significantly better. When it comes to non-recurring events, there is one significant transaction: we sold PZU Lithuania, we earned PLN 167 million, and this was incorporated into the results for the third quarter. With regard to specific segments and the breakdown, there were really two factors which caused changes in profitability of mass insurance: the most important factor was the loss ratio, and this really boils down to lower prices and higher costs of claims paid, as well as the acquisition cost ratio. We, as the Group, are making a transition from cheaper channels to more expensive channels, in this case especially the mass insurance segment. These include multiagency channels and the dealer channel which have higher commissions. As far as corporate insurance is concerned, unfortunately the combined ratio also increased, and the main factor is the loss ratio. In group and individually continued insurance, we recorded a decline of the operating result, however, as you could see, the margin is still above 20%+. The key factor which affected the result after those three quarters is investment income. Unfortunately, this technical result, this operating result also includes the investment income. Of course, this income is based on the rate which is free from risk, however, this rate is declining and this income is diminishing. Individual life insurance experienced improvement of the operating result. We are really making profit on that we sell more and more protection insurance in that segment, and this insurance simply has higher profitability. This is really the result of the following three bars: investment income, net claims benefits and movement in the balance of other net technical provisions. These three elements are the main drivers of profitability in that segment. When it comes to profitability of foreign insurance companies, like I've already said, the profitability for the third quarter is not good, however, after the sale of PZU Lithuania, we will see a significant improvement. This year, PZU Lithuania recorded a combined ratio of more than 100%, hence it disrupted the profitability of its operations. When it comes to investments, unfortunately, as we could see in the summary, we have a breakdown here. Investment activity did not significantly contribute to our results for the third quarter vis-a-vis the previous year. Basically, each of those groups of assets experienced declines year on year. This can be seen in the activity on equity instruments, interest activity as well as activity on derivative instruments. In all of those areas, we recorded lower results than in the previous year. When it comes to equities, we are primarily dealing with the situation on the WSE. When it comes to bonds and derivative instruments, lack of decrease in interest rates in large indexed portfolios caused that we lost some money on certain bets, mostly currencies and indices – the matter concerned mostly the euro and WIBOR. This is the breakdown of investment income into own portfolio and the portfolio on the insurance risk. Unfortunately, those results are also weak. Capitalization according to Solvency 1 continues to be very strong. However, as of today, we basically begin to report the margin coverage according to Solvency 2, and this will be significantly more important from now on. One more thing which will be important when it comes to Solvency 1 are the recommendations of the Polish Financial Supervision Authority concerning the dividend payment. From what we know, they will be based on Solvency 1, because it stipulates the required specific values of the solvency margin and coverage of technical provisions with assets as at 31 December, so this will be according to Solvency 1; however, everything which pertains to the future will be based on Solvency 2. These recommendations will be formulated at the beginning of December, and we are waiting for them. At that time, we will also be able to tell how we ultimately see the level of the PZU Group's capital under Solvency 2. So, as you may remember, under Solvency 1, we talked about 250% of solvency margin coverage, and at this time we assume that the ultimate coverage of solvency margin for the PZU Group will range from 175% to 200%.

And this was the last slide. Now, I would like to move on to questions.

Iza Rokicka, IPOPEMA – OK, so maybe I will begin. We finished with a dividend, so I would like to start with a dividend. The President has said that the Company or the Group will now operate under three regimes as far as accounting is concerned, and he has also mentioned that the issue of the dividend will be completely different under the Solvency 2 regime than under IAS. My question is whether we will be subject to any restrictions under IAS as far as the dividend is concerned? Is this restriction still the level of standalone profit of PZU SA?

Andrzej Klesyk – I would like to answer this question in detail. Ladies and Gentlemen, at one point in time, when Vice-President Dąbrowski and I presented our capital position and the capital management methods, we said that there was a possibility and that we wanted to make a disbursement from the financial surplus when we obtained funding through subordinated debt. This capital surplus under Solvency 2 will be huge, however this capital surplus is unavailable to the shareholders under IAS. In other words, until changes are made to IAS, in the coming two or three years, this capital surplus will be only the regulatory surplus, and it will not constitute capital as such under IAS. So, in other words, it is impossible to make any payout from that surplus. And now, when it comes to the dividend policy, it does not change. Of course, the standalone profit is a restriction. Of course, the shareholders may decide to make the dividend payment from capital. However, honestly speaking, a few months ago I stumbled upon an opinion that from the point of view of the largest shareholder, i.e. the one which has the largest position in our shareholding structure, the dividend payment in excess of 100% from the company such as PZU is not counted towards revenue for the budget. To me – as the manager of the company – it is all the same how this is counted. However, for the Minister of Finance, the payment of dividend in excess of 100%, i.e. the surplus in excess of 100%, is considered to be privatization. In other words, it is, as they say, "below the line", i.e. below the revenues, and this is the only thing which restricts the country's lending needs which, for the time being, are not an issue to the Minister of Finance. I hope I have answered your question.

Iza Rokicka – But I understand that the Company still intends to pay out approx. PLN 15 per share of deferred dividend from capital; in other words, we can expect the standalone profit, the dividend below 100%, and, additionally, it will be supplemented to certain extent by that deferred dividend?

Przemysław Dąbrowski – For the time being, we have not changed our plans regarding capital. On the other hand, of course, the payment in excess of the standalone profit requires a positive opinion of the Polish Financial Supervision Authority. The plans are still there, and we have not changed them, but we should keep in mind that the condition for payment of those PLN 15 is the issue of subordinated debt.

Iza Rokicka – I would like to ask one more question regarding the standalone result of PZU SA for the 9 months. Honestly speaking, the result for the third quarter was very weak, i.e. approx. PLN 100 million, and I wonder whether the Management Board intends to pay the interim dividend from PZU Życie, like it was the case last year?

Andrzej Klesyk – The Management Board of PZU Życie and the Supervisory Board of PZU Życie are considering that possibility. As a company, we are preparing ourselves for such an option because we can confirm with the President that we are making the audit for the 9 months. However, no decision has been yet made. This will be the decision of PZU Życie and the Supervisory Board of PZU Życie.

Iza Rokicka – I would like to slowly move away from the subject of the standalone result and move to the operating results of the Group. I have said that PZU SA's result for the third quarter was weak, and profitability of motor insurance for the third quarter was even more negative than for the second quarter. Can you see the risk that the standalone result for the fourth quarter which, as we know, also closes certain things for the entire year, mostly in provisions area, can you see the risk that the standalone result of PZU SA for the fourth quarter can be somewhere around zero or even below zero?

Przemysław Dąbrowski – Like we have said before, we are now considering the possibility of making the dividend payment, therefore the result may also depend on that factor.

Iza Rokicka – Let's ignore the issue of the dividend.

Przemysław Dąbrowski – Whether it will be paid or not. When it comes to operating activity, at this moment we are doing everything in our power to improve the profitability of insurance activity. For the time being, we are assuming the combined ratio for the fourth quarter in non-life insurance at the level of below 100%. Therefore, we are not assuming that in the fourth quarter PZU SA will record loss.

Iza Rokicka – I'm sorry but I would like to ask one more question, this time regarding Alior Bank: a few days ago, we had an opportunity to speak with the Management Board of Alior Bank during their conference dedicated to discussion of the Bank's results. During that conference, we discussed a subject related to the Bank's capital base. Recently, the Bank's capital requirements were increased, and the increase will go into effect as of January 2016. Mr. Sobieraj mentioned that one of the elements which could increase the solvency ratios already in 2016 is the acquisition of one or several banks below their book value. Today, if I understood it correctly, the President has said that no negotiations regarding such acquisitions were conducted. What can we actually expect?

Andrzej Klesyk – Thank you very much for your question. I would like to clarify two things. First of all, we are separate entities, and we are regulated by the Polish Financial Supervision Authority, by the Inspector General for Personal Data Protection, by the National Labor Inspectorate, any institution you can imagine, and therefore we have to conduct our operations in compliance with the applicable provisions of law. Certain messages from PZU and from Alior Bank may seem to contradict each other, hence I would like to very clearly outline our roles. PZU does not have the right to block any negotiations between Alior Bank or the Management Board of Alior Bank and other entities which Alior Bank may want to acquire using Alior Bank's capital base. In other words, if Alior Bank wants to acquire Bank Spółdzielczy in some small town or wherever, if such a bank is up for sale below its book value and Alior Bank can afford to purchase it using its own capital base, then Alior Bank will be free to make the decision in that regard. I understand that Mr. Sobieraj said that there were two possibilities, i.e. that, as I understand it, he is conducting negotiations with such entities. On the other hand, I have said today that any decisions which are beyond Alior Bank's capital potential in terms of banks acquisition, will be always made and conducted by PZU. In other words, if we are talking about large entities, then those entities will be acquired by PZU, and Alior Bank will be very closely cooperating with them in terms of due diligence. So, for the time being, I can confirm that PZU does not conduct any negotiations with large entities. Of course, we are watching the situation, and our strategy as regards consolidation of the Polish banking sector does not change.

Marcin Jabłczyński, Deutsche Bank – I have two questions concerning the results after the three quarters. Mr. Dąbrowski has said that there were seasonal changes as far as other corporate products are concerned, where we actually have a 22% decline in premium, but we also have a significant increase in profitability and the combined ratio is a mere 70%. And my question is what these seasonal changes are and how they affect not only the premium but also the profitability which seems to be excellent after the three quarters. The second question concerns international business – we know that PZU Lithuania continued to contribute, and the President also said that it has a higher combined ratio, and if it had not been included in the result for the third quarter, the result would have been better. My question is as follows: what combined ratio can we expect from international assets without PZU Lithuania in the fourth quarter?

Przemysław Dąbrowski – When it comes to seasonality, we had a few large policies where the clients last year, i.e. in 2014, asked us to conclude the policies with us still in 2014, so in fact we concluded 2-year policies and now we have the acceleration of sort: now the policies which normally would have gross written premium assigned in January of this year, will have the gross written premium assigned in December of that year, and this is how seasonal changes in gross written premium occur. Profitability is not in any way related to this. When it comes to non-life business outside of Poland, we expect that at the end of the year we will have the combined ratio below 100%.

Kamil Stolarski, Haitong Bank – …but you do not see the need to do this. This concerns the fact that you do not see the need to issue sub-debt in the near future or you do not see the need to issue it at all, or this 6.5 billion should be made at any cost?

Andrzej Klesyk – No. If you look at those figures, and I also would like to answer a question asked online: if you look at Solvency 2, our regulatory requirement is PLN 6.6 billion, and now the Management Board, like Vice-President Dąbrowski has said – we are thinking about a possible reduction in our safety buffer from 250 under Solvency 1 to somewhere in the vicinity of 175-200%, which will still be above our peer group in Europe. However, in order to stay relatively safe, we will have to secure more than 6 billion in surplus capital under Solvency 2. Currently, we do not see the business rationale and we do not see the capital rationale to justify the need for capital in such an amount. And if we came up with an idea of e.g. making an acquisition in the banking sector, then we could finance it through issue of subordinated debt. On the other hand, when it comes to the payout of this capital surplus, the way I would see it is that next year, we will be able to issue subordinated debt in such a way that we will fulfill the promise which we made to the shareholders more than two or three years ago, because we do not see the reasons why we could not deliver on such a promise. So, to summarize, if we issue subordinated debt, then for dividend purposes it will certainly not be on the level of PLN 6.5 billion because this would be a little bit too much.

Marta Jeżewska-Wasilewska, Wood & Co – If we are back on the subject of capital, then I would like to ask a question in the context of acquisition of Alior Bank and also the future acquisitions in the banking sector, to achieve your goal of – like you have said – establishing a financial conglomerate. Are you conducting talks with the regulator on the subject of how investments in banks should be taken into account in your ratios under Solvency 2? I'm asking because this discussion has been going on for several months, so can you share with us some new conclusions?

Andrzej Klesyk – The only thing in which we agree in 100% with the Regulator is that the Regulator may in fact consider us as being a financial conglomerate, however, good news is that it will not do so effective as of 1 January 2016 but a little bit later, so we will still have some time, and this is the first matter. The second matter is that I think I can tell you that internal discussions are being conducted, also with the Supervisory Board, concerning possible transformation of PZU into a holding, however, right now we will have to wait for a decision of the new key decision-maker. This would tremendously simplify the entire structure, including also, among other things, the regulatory structure. And it would give us a greater transparency of business lines and your job would be much easier, wouldn't it? The only thing is that certain issues related to holding law and certain tax issues have to be resolved, and right now we have to wait until the new government is sworn in so that we can conduct talks with the key shareholder and the Minister of Finance.

Przemysław Dąbrowski – From what we found out in the Polish Financial Supervision Authority, the earliest date when we could become a conglomerate is the fall of next year. When it comes to capital requirement, I believe that no one really knows for sure, but in my opinion it is most likely that the capital requirement for PZU will be calculated on the basis of requirements stipulated by Solvency 2 and that we will be burdened by capital invested in the banks. The ratio will be 1:1.

Kamil Stolarski – I have a question about the time perspective. Polish standards will be most important for the next 2-3 years, and then we will have another regime. What will trigger the abolition of the Polish standards and the principles of the Polish Financial Supervision Authority, and…

Przemysław Dąbrowski – Work is underway on the new IFRS standard for insurers, and the concept is at least that it would be consistent with Solvency 2. So, these new IFRS-based accounting principles for the insurers will be similar to those based on solvency. I mean, this work has been going on for very long time now, just like the work on Solvency 2, and at this time we expect that this will go into effect in 2018. I believe that the largest obstacle is the fact that Solvency 2 applies only in Europe while IFRS is an international, intercontinental standard. However, the work is now underway to ensure that the new IFRS will operate more or less like Solvency 2.

Kamil Stolarski – I would like to ask one last question about the dividend for 2015: how comfortable do you feel with that ratio of coverage of technical provisions with liquid assets. Is it the case that if the Polish Financial Supervision Authority upholds the requirements,…

Przemysław Dąbrowski – One of the objectives of the bonds issue was to maintain the ratio at an adequate level.

Kamil Stolarski – And I would like to ask one more question with regard to results: when it comes to non-life segment, it seems to me that at least the corporate segment has experienced improvement, however in the mass segment, when it comes to prices and competition, it seems that things are not moving forward when you look at it from the outside. When do you expect to hit the bottom in non-life insurance cycle in the mass and corporate segments? The thing is that we continue to see deterioration and no one knows when we will hit the bottom. Can we determine on the basis of prices that the bottom will be, for instance, in the third quarter or the second quarter of next year?

Andrzej Klesyk – Ladies and Gentlemen, I have said it many times to my colleagues from the insurance industry to turn back from that path. I believe that even the Polish Financial Supervision Authority was making such appeals, and they sent us a notification in which they stated that what the insurers were doing in motor business was not legal. In the mass segment, I can see a slight upward movement in prices, and I'm happy with that. However, this movement is not large enough to ensure profitability for all insurers. I will put it this way: in the corporate segment, my colleagues from corporations received a very clear message that we will not tolerate such an intense, as they are saying, investment in market share. So, under such circumstances, we, PZU, will be the trendsetter when it comes to raising prices. I can say that we already are the trendsetter in increasing prices.

I would like to move on now to questions asked online, however I would like to assert that you will still have the opportunity to ask questions.

PTE Allianz: Does PZU, as the shareholder of Alior Bank, accept the parameters of the incentive program proposed by the Management Board of Alior Bank?

Andrzej Klesyk – For the record, I would like to assert that for the time being, PZU owns only 10% of shares, we do not have anyone in the Supervisory Board, and we have access to the same information as any other shareholder. On the other hand, from my personal perspective, I believe that the Management Board should be very strongly motivated to create value, and I will also suggest it to my colleagues from the PZU SA Management Board that each and every solution which yields profit to PZU will also result in profit being recorded by the managers of Alior Bank. It can't be… And, of course, the other way around, if PZU does not make profit, then the incentive program for the managers of Alior Bank also will not generate any profits for them. So, at this moment we are conducting analyses, and we will most likely support such an incentive program. We don't know yet what form it will take because the discussions are still underway.

Now let's move on to questions asked online. According to our tradition, I will read a question in the language in which it was asked and respond to it in Polish.

Dhruv Gahlaut, HSBC – HSPC: What is the minimum indicator under Solvency 2 and what will be the return to shareholders?

Andrzej Klesyk – I have already answered that question. As far as our ratio is concerned, for the time being it is 175-200%. However, this will depend on suggestions of the Polish Financial Supervision Authority, and we do not yet know what they may suggest. We would like to maintain the ratio on the level allowing us to pay dividend. The second part of the question concerns additional capital. Like Vice-President Dąbrowski has said, in the coming two or three years it will not be possible to pay dividends from additional capital under Solvency 2. So, the way I see it, if there is an interesting opportunity to invest this capital in a way that will make shareholders happy, then we will do so, but if not, we will keep it and disburse it in the form of a dividend when this becomes possible.

Second question from HSBC – are there any price increases in the third quarter, and what is the outlook for the motor market for 2016?

Andrzej Klesyk – The bottom in terms of profitability is now. I sincerely hope that the bottom of profitability in motor business is right now. There are three reasons for this: first of all, the notification from the Polish Financial Supervision Authority; secondly, not everyone is making money in that business, and the technical result of the entire sector besides PZU is negative, so I can't imagine that other shareholders will allow other entities to conduct such activity; and thirdly, at this moment, claims handling expenses, in particular in motor insurance, which were the reason for the decision of the Polish Financial Supervision Authority, are under control in the entire sector, and we know what those expenses may be. As far as outlook for 2016 is concerned, we are not making any forecasts.

JP Morgan – What is the capital position of solvency after acquisition of shares in Alior Bank?

Przemysław Dąbrowski – … nothing changes because under Solvency 1, for as long as we are not a conglomerate, acquisitions in banks do not burden our capital, so for the time being nothing is happening. When it comes to Solvency 2, like we've already said, the decisions are yet to be made because our capital adequacy, the capital adequacy of the financial conglomerate is yet to be calculated, however, at this moment we can simplify matters in the way that we subtract what we spent on Alior Bank from our own funds. I see that there are no more online questions. Are there any other questions you may have?

Piotr Palenik, ING – I would like to ask a question concerning the insurance sales structure. The President has mentioned that we are seeing the continuation of the trend of increasing sales through multiagency brokers, resulting in increase of the acquisition ratio. I would like to ask you to provide us with some figures, for example the share of sales through most expensive channels a year ago as compared to what it is now, and what are the target levels.

Przemysław Dąbrowski – We could find such data for one year ago as well as for the three quarters of this year, however I do not believe that this is relevant. What is important is that we assume that in the coming two years, up to 25% of our revenues in non-life insurance in the individual, i.e. non-corporate segment may be transferred to multiagency or dealer, not broker segments. And the question concerned dealers, not brokers, right?

Andrzej Klesyk – I would like to say one more thing here. I know that you are not journalists publishing press articles, however, we would like to send a very important message that own channel, i.e. the channel of our own agents will be and will remain the most important distribution channel. Any movement to multiagencies or any other change in distribution cannot result in a situation where our own agents will no longer have an incentive to sell. So, this movement to multiagencies has to be very careful because – and I'd like to re-emphasize this – to us the channel of own agents is the most important sales channel.

Question – Hello, I would like to ask a question regarding those multiagencies: if Alior Bank makes a sale, will it be treated as a sale done through the multiagency or as own sale?

Przemysław Dąbrowski – No, this is an external channel.

Kamil Stolarski –… how it would look like according to…?

Andrzej Klesyk – No, in such a situation, if this type of tax is imposed on financial institutions and if the insurers are included in it, then 39 bps on our assets, assuming that these will be all the assets, not interest-bearing-assets; we are talking about PLN 200-250 million, i.e. not a large sum of money. On the other hand, when it comes to transferring, the difference between us and the bank is that most of banking assets are theoretically assigned to the client, in other words, if you borrow money in Swiss Francs for a new house, then I can assign 39 bps to your loan, however our assets only serve the purpose of covering our technical provisions. Of course, in certain life insurance products, but only in certain life insurance products in which we are allowed to do this, because I can't imagine a situation where we could directly transfer it onto the client in some other way, just like the banks do.

Kamil Stolarski – But if the banks sold a mortgage loan as an asset, then they will be talking with the client in some 25 years from now. On the other hand, you sign a contract if you have some objectives, i.e. ROE or some other objective in terms of the return on the contract with the client, and you sign a contract on annual average terms. My question is, will you accept this as a fixed cost and this ROE on production will not decrease, or will you want to preserve profitability, and it should be transferred just like, e.g. increase of claims expenses?

Przemysław Dąbrowski – I mean, in case of part of technical provisions, I'm sure we will be considering the increase of prices, and we will see how large such an increase will be. Because in case of the assets which are working – as you can see the margin in group insurance where the margin includes risk-free-rate – at this time it is declining, hence we will probably take it into account. This is not that simple, however we will have to take that into account.

Andrzej Klesyk – As there are no more questions, I would like to thank you very much for your attention. I would like to once again say that our Investor Relations Team is at your service. This presentation is posted on our website in Polish and English language versions.

Thank you very much and have a Merry Christmas.