10 November 2016 – Presentation of PZU's financial results in 3 quarters of 2016

Piotr Wiśniewski, Manager of the PZU Group Investor Relations Team

I would like to welcome you to the meeting devoted to the discussion of PZU's performance after 3 quarters of this year. The meeting will be conducted by President Michał Krupiński, Roger Hodgkiss, member of the Management Board, and Tomek Kulik, the CFO.

Michał Krupiński, CEO and President of the PZU Group Management Board:

Good morning to you, ladies and gentlemen. You are familiar with our results. Nothing has changed since this morning and since the press conference. But seriously, regarding the plan of the presentation, we would like to walk through the key drivers of the Group's results. We have more positive news than negative ones for you today. We would like to tell you a little bit how this relates to our strategy and execution of the strategy, because we are continuously benchmarking our performance to the strategy. After that, I will ask Tomasz Kulik, our CFO, to discuss in more depth our financial results for this quarter and the year and the operating result and detailed data. We will also see how this compares to the assumed solvency level strategies. The most important highlight today, as you know, is that, having spent more than a year on the S&P watch list, we maintained our A-rating, which is the highest rating available to a Polish company. We are also happy that S&P expressed a positive opinion on the strategy, dividend policy and the management board. When it comes to business, we have achieved a significant increase in the market share in both life and non-life insurance, which is consistent with our assumed strategy and in this respect it is intentional on our part. This is all happening in the context of strict cost discipline: we are increasing our market share while reducing our administrative expenses. As you already know, we have made a commitment to reduce costs by PLN 400 million by 2018. We are on a good path to fulfill this commitment, while creating significant value for investors. We have an excellent, record high profitability in group and individually continued insurance. This portfolio is not growing very quickly; we want to reduce the loss ratio, but the performance is very good. There are probably few companies globally that post such high results in this sector. Moving on to the negative things or those that need improvement, as you all know we had issues with agricultural insurance in the first quarter of this year, where payouts amounted up to PLN 250 million. We have slides, which illustrate that it was a few million PLN in the previous years, so this is a significant one-off negative event this year. Additionally, in the motor insurance business, we continue to improve profitability, we have a better matching of prices to risks and we have increased our prices. We have not done that as much as the market has; we want to do it in a more balanced fashion. Roger will say more about the new methodology of IT and pricing solutions, but we still need some time for it to clearly generate profitability in this segment. We still have an issue with an exposure to a block of shares to a stake in particular in Azoty where the negative result has come to over PLN 400 million. I understand that you have already seen the recent results, so we would like to note those negative one-offs, which, together with some impairments that we posted after the second quarter, for example on Armatura shares, and also the impact of tax, those are the negative "one-offs" that amount to nearly 1 billion PLN. Moving on: you already know the market data, so I would not want to talk any more about the market, but rather about our position on this marketplace. We have grown our market share in the group together with Link4 we have managed to increase our combined market shares by almost 4 percentage points. This is in line with our strategy of retaining and sometimes also growing our market share in the segments in which we want to retain or grow the respective market shares. In particular, we are getting stronger in all the sales channels: not only in mass motor business but also in non-motor business, that is corporate insurance, where we recorded very significant premium income. You will hear more on this topic from

Roger. If we look at our life business, despite the record-breaking market share we've grown by 1.6% and additionally, as I've noted previously, we've posted a very high margin. In this segment, our margin is nearly double the margin posted by our competition. Roger, Tomasz, would you like to add anything to this slide depicting the market?

Roger Hodgkiss, Member of the PZU Management Board:

Good morning to you, ladies and gentlemen. From my perspective, for the last 4-5 years, the market has stagnated due to the price war that I think is well documented and well understood. As insurers, we've not been able to pass on the increases in claim costs to our customers. This year we've seen a correction and we see all insurers, including PZU, significantly increasing our prices in motor insurance, especially for TPL insurance. Our strategy is to increase the range of our distribution and we are seeing strong growth across all channels and especially in our developing multi-agents and dealers channels. We are delighted with the growth and we want to cement our position as the leaders of the market. The growth does present some challenges, which we will see later when we look at the profitability and the increasing share of new business in the portfolio gives us challenges from a claims perspective, as new business has a higher loss ratio, has a higher propensity to claims than the existing renewal portfolio. So this is an interesting dynamic, but we are delighted with the growth and we are delighted that finally we are able to increase our prices sensibly to our customers.

Tomasz Kulik, CFO of the PZU Group

What I'd like to add about the market is the situation on the life insurance market. We are growing our market share quite significantly, but we are not growing just because we are growing but also because the market overall is not growing. We have an overweighted position in terms of the protection business, the market itself was highly involved in investment insurance, quasi-insurance, and other solutions that as of today are not perceived as attractive to customers or in some cases have been stigmatized by the customers as well as the regulator and the market. So today, the situation is as follows: our competitors are endeavoring to follow the direction that we have been going for some time now; this has been a challenge, because there new challenges are appearing in protection insurance, however our position today is unchallenged and this enables us to grow profitably, contrary to the rest of the market and if we look at life insurance, we've been able to show double-digit, steady returns. In terms of life insurance, what is important and we would like to draw your attention to the fact that despite the situation mentioned by Roger in the non-life, motor insurance segment, which remains challenging, not only for us but overall for the entire market, our share in the results is over 100% of the market results. So, we are growing and we are able to grow profitably, despite these challenges and we will be able to handle them in the near future.

Michał Krupiński:

When we look at our foreign operations, I think that we are quite pleased with all of the investments we've made. In particular, we have been growing our market share very strongly in Lithuania and in Latvia. These companies have slightly higher costs, however with the growing market share and profitability, these businesses are also growing and we can assume that their contribution to the Group will increase.

Tomasz Kulik:

I think that we will discuss this later in the presentation. What I'd like to note is as follows: in this period of 2016, contrary to what happened last year, PZU Lithuania is no longer contributing to this segment result, which was sold but last year it generated premiums of 163 million PLN once converted into PLN. The other companies are growing quite rapidly at double-digit rates. In the case

Lietuvas Draudimas it is over 11%, more than 20% in Balta and much above 20% in Estonia. This level of growth means that despite the divestiture last year, we've been able to show no decline in premium income in this insurance segment and the whole segment is scaling up its contribution to the Group's results. So this is very important information and we are really happy with that. This is the direction that we want to maintain.

Michał Krupiński:

We are also very pleased with the fact that we've been able to contain costs at a low level and even reduce them. This is important from the point of view of the commitment we've made to the market. This year, we've had a one-time increase related to the consolidation of Alior Bank, but if we look at our insurance activity, we can see that administrative expenses have fallen sharply from 8.4% to 7.7%, which is also a very good market benchmark, and we can see that international companies have smaller economies of scale. In terms of our strategy and strategic assumptions and in terms of our cost discipline, we would like to assure you that we are to make sure that we fulfill our promises that we've made. We are working hard on the programs to cut costs in the years 2017-2018 in order to deliver our promise by the end of 2018. When we look at our group and continued business, we have grown our market share and we have a very good, even better profitability. This has not just happened: we have taken a number of measures to reduce the loss ratio and we have been up-selling in this channel, also in terms of health. We have a growing contribution from health insurance and right now we are able to offer health insurance to a large portion of our customers in the group life insurance business and on top of that we have been also able to contain costs. When we look at some of the negative factors, the first one is our crop insurance. We have talked about this twice, but I would like to say that even if this is a "one-off", even if it's just a matter of chance is purely random, we spend a lot of time talking to global reinsurers about global losses arising from climate change and we are analyzing how we should adjust our reinsurance policy in this area. This is important to us, because this "one-off" is quite substantial in terms of its impact on the Group's result, compared to the previous years.
If you look at the motor business, one thing we've discussed and and Roger will expound on this, is better matching of prices to risk using the Everest to do that; we are becoming more and more advanced and sophisticated in terms of our pricing. Well this is a global trend. European insurers and global insurers are utilizing data to a greater extent to offer motor insurance; Roger's team is spending a lot of time, running consultations and holding talks on this subject. We are also taking advantage of the knowledge we have within the Group, mainly in Link4. On the other hand, in our opinion, the motor business is influenced by certain meta-trends, and after the price war we can see the profitability improving. If you compare us to the marketplace, we are positioned much better than the overall market, in terms of our technical result. On the other hand, what we have noted that even as the prices are better matched and increased, it takes some time for the price hikes to have a strong impact on the portfolio; there is a certain lag, which is a typical market phenomenon. On the other hand, we are optimistic about this part of the market, because:
a) the market situation is improving,
b) we match our prices to risks better and this is not just a matter of raising our prices,
c) because we are trying to monitor the frequency of losses very carefully.

Roger Hodgkiss:

At the risk of repeating what Michał said, despite the very significant price increases this year, we are still seeing difficulties with profitability that you can see especially in our motor TPL portfolio. It is true that there is a lag between raising prices and when they start to generate revenues and profits over the following quarters. We are still seeing the increase in claims frequency, as the whole market does;

we see increases in bodily injury claims. We have also implemented the KNF claims recommendation, which also increases our claims cost. As I've mentioned before, the increase in our new business can also impact our loss ratio. Nevertheless, the very significant price increases that we have put through will earn through and will significantly improve the portfolio profitability and quality. I think it is worth mentioning that we have significantly improved our pricing capability and technology this year. Everest facilitates our ability to make monthly price increases; historically I think we had an annual price change mechanism. Now we are constantly monitoring and optimizing our prices to match them better to our portfolio risks. We are now making changes very regularly, at least once monthly. So, focus on optimization, improved technology and capability and significant price increases will see this portfolio improving. Of course, I recognize very clearly that we still have some challenges or difficulties that we are handling in this portfolio.

Michał Krupiński:

Are there any questions at this point or should we continue with our presentation?

Kamil Stolarski, Haitong Bank:

I have a question: the premiums that you collect in TPL motor insurance are up in this quarter by 37% year-on-year, but they are down 2% quarter-on-quarter. So it seems that you have been increasing prices but this quarter the premiums actually went down. So my question would be what are your expectations for the end of the year, in terms of the optimum price level in motor TPL.

Roger Hodgkiss:

In terms of TPL I still believe and I still see – we are coming to the end of the cycle, but I still believe that we must make some further increases in motor TPL insurance. We can see a slow-down in MOD, in comprehensive insurance - we can see that as the prices increase on the market, the customers are moving away from MOD towards TPL - this is a fact in the 3rd quarter. At the same time, there is some seasonality in the 3rd quarter – we can see a lower volume than in the past. But our October results, our sales results, are sill very strong, despite all the price increases we are putting through. I think we've grown about 18-20% this year in this segment. I don't want to sit in front of you and say we will be able to continue the 18-20% growth every year and my expectations are lower going forward, because this year has been a very specific year, but I still believe that there is still pressure on further price increases, especially in the TPL portfolio.

Michał Krupiński:

The last negative issue we have is our investment performance, in particular our exposure to Azoty. As you know from your own business, the 3rd quarter was better. We have been looking carefully at the global markets situation and we believe that there will be certain volatility until the end of the year, but we are optimistic about delivering our assumed plan. Also, what we were assuming in the strategy, we will be finalizing work on a strategic project in terms of a global allocation of assets and we have talked about that for this project to be implemented next year; this should improve profitability in the long run if we look at the asset management function that we perform. So that would be it in terms of our investing activity, unless you have any questions later. I will ask Tomasz to walk through our results in detail. But before we do so, I've mentioned that we benchmark ourselves against our strategy are here are the ratios that we presented along with the strategy; when we look at the non-life business, our market share is above the target level defined in the strategy; secondly, we have the cost reduction target of 400 million and we are at 62 million now, so we are delivering on our promise. If we look at the life insurance, in particular surplus operating margin, we are well on track in the number of customers, even though the demographics are not the best for us. If we look

at the return above the risk free rate, we are assuming 2% for the entire term of the strategy and we need some improvements here. We also have positive trends in terms of health insurance – we now have 1.2 million customers, 240 million on the revenue side. Probably by obtaining economies of scale will be able to improve our margins measured by EBITDA margin and we are working hard on some strategic changes in life and health products, that we may be able to share with you in a few months; we are thinking especially about a better blending of the life and health business to respond to the market trends and also adapt to what the competition is doing in the Western Europe. Tomasz, would you like to speak about the KPIs of our strategy?

Tomasz Kulik:

No. I believe the key ones have already been addressed. As you can see, we are on a good trajectory and we try to speak about the strategy on an ongoing basis. We believe even though the strategy has a very aspirational set of targets, we believe that we will be able to deliver it.

Michał Krupiński:

I believe S&P has recently confirmed our observations and we are very happy about it. Could you walk the results in detail now?

Tomasz Kulik:

Perhaps we will say a few words about the key parameters. When we look at gross written premium year on year growth is almost 10%, a huge hike in property insurance, life insurance, in virtually every segment. We are pleased but we will try to continue optimizing this parameter, that is do not pursue grow at all costs, but to grow profitably – this is our ambition. Net profit unfortunately has fallen for the reasons the CEO enumerated earlier, that is the one-offs that affected us this year and also in the previous year. One thing that I will mention is the divestiture in Lithuania, which, up until last year, contributed more than 160 million to our sales result; we should remember this. With no change in equity, our ROE went in the same direction: we are 5 percentage points below the level we recorded in same period of the previous year. This slide contains mainly the recap of what we have already said, so I will just jump pass that and delve into the narration about the individual segments. The corporate customer segment and the mass customer segment in non-life insurance: today we have talked a lot about our motor business, which is one of the main drivers of premium growth in both corporate and mass customer segment. However we've been able to grow not just because of our motor business; we are also growing in a non-motor business. This is quite important because the non-motor business is quite profitable and it allows us to produce rather decent results, despite the one-offs that we have mentioned. If we look about the mass customer, the combined ratio is slightly above the ratio that we had last year, but we do realize the impact exerted by our crop insurance. This is not just ground frost, but also hail that we had in the summer, which has impacted us to a much smaller extent, but these events during the summer produced losses of additional 70 million PLN. This is something that we have already incorporated in our results and despite that we have been able to maintain pretty decent results. If we look at the corporate segment, I would like to note that we have had a significant improvement year on year. The combined ratio fell by 5 percentage points and we have achieved this mainly in the motor business. If you look at the segment note, the combined ratio in the motor business, in particular in the corporate TPL segment was more than 130% last year; we have improved it a lot this year, because of our efforts in terms of pricing but also in terms of the losses. We have been trying to manage losses in such a way as to limit their growth in terms of bodily injury and damage to vehicles; we have been able to accomplish that successfully. There is a challenge that Roger has mentioned in both mass and corporate segment: frequency of losses, and on account of the measures we are taking, our combined ratio in the corporate segment

has improved considerably; even though we cannot say that the motor business is super-profitable, this improved insurance can not you say hurray are super profitable, this improved profitability has a significant impact on our consolidated results. If we look at our life business, we've talked about this a couple of times: we are not looking for growth at all costs; we want it to grow profitably. This is what is happening in the life business: we want to increase the number of policies, the number of risks; we are up-selling by adding riders. But, as I indicated, we are not doing that at all cost. We've checked and found out that if we put too much pressure on additional sales, this reduces profitability and has an adverse impact on our loss ratio, no matter what our structure is and what our portfolio looks like. Our portfolio consists of large corporate accounts, where each attempt to raise premiums launches a long discussion about further reductions or increasing coverage at the same price, which inevitably leads to lower profitability, at least in the medium term, and that's not something that we are keen on. We want to grow here moderately, profitably and up-sell by adding riders to the main agreements, up-sell medical and health risks, which we are doing successfully. In this respect we have fairly good growth rates of nearly 40%, but of course this is on a small base; nevertheless these are small but profitable numbers. This is what we care about and what we want to continue. If you look at our insurance margin, it's at the same or even slightly above last year's, so if we have in mind the falling interest rates, this is a highly desirable situation; we've been able to sustain profitability in excess of 20%, which is a long-term benchmark for us; we have 22.1% after 9 months of this year. We've posted a slight increase in operating profit, which is 1,120 billion, with low sales and similar profitability levels as last year. If we look at individual life insurance, then there are two things that we can talk about. On the one hand, investment insurance, quasi investment, or unit-linked products are often sold in the bancassurance channel where profitability is not high – for us as well as for the market; this is the area that caused a decline in this segment year over year. As you know, we have signed contracts with our banking partners. The main contract is with Bank Millennium. In a while, we hope to sign contracts with additional partners. Today, because of the slight delay in the preparation of this product, we have not been able to show sales at the same level as last year. On the other hand, you will see that despite this slight lag in sales, profitability of this segment, the margin in this segment is considerably higher year-on-year due to costs, saturation and higher sales of protection products, which are more profitable.

If we look at our international business, you can see on this slide that we reported our sales by business units and you can see that we are growing our sales across the board, in the life and non-life business. This small decline on the whole is caused by the lack of PZU Lithuania in this period, which was on our books last year and contributed more than 160 million in sales. Despite the fact that we don't have this business unit any more, we've been able to sustain our sales at the same level in non-life, while improving our profitability; this has improved our operating result. These numbers are not very high. We want to grow these numbers and I hope that we will share such information with you quite regularly. We have growth of more than 80% year on year and so this is the direction that we will certainly take. On the life side, we have a very similar narration, but the numbers are still insufficient and unsatisfactory.

If we look at health area, which is not just insurance: this quarter we've been able to reach a high number of customers, currently more than 1.2 million, so growth is almost 30% year on year. In terms of our revenues, they are up by more than 30%. I would like to point out one thing and I hope that we've all noticed this: on the slide where we showed the main KPIs for the strategy, we have this high but not unrealistic level of 1 billion in sales in 2020 for health, and we compare it to 240 million we have generated in the first three quarters of this year, so if we want to compare things here, we would have to annualize these 240 million. So our health business is profitable, and despite the extensive expenditures we've incurred here, the funds we have invested, we are able to show

profitability of nearly 10% in this segment and this is something that we consider to be very good information and I do hope that you do too.
If we look at the Alior Bank the key information here is: the portfolio has grown in terms of loans and deposits, while administrative expenses linked to additional acquisitions and consolidation efforts have increased as well. The profit is more or less at the same level as last year. This gray box for 2015 is of course purely theoretical information, reference information; Alior Bank was first consolidated this year, so the results generated in this segment are not comparable year to year, in terms of the consolidate results of the PZU Group. If we look at the detailed results, I think we have addressed most of them already. What we need to note is certainly the growth of earned premium, both year to date, but also in the current quarter. Investment performance improved this quarter and it is more than 150% of what we had last quarter. On the one hand, of course, there is the Bank, which was consolidated in both those quarters. However the second quarter was a very difficult one for us; you may remember the slides describing the impact that Azoty had on our quarterly performance; that affected our results significantly, especially in the second quarter. In this quarter, the effect is much smaller and has been additionally affected by profitability of our equity portfolios and our debt portfolios. When we look at ROE, our combined ratio, we have addressed them already. We have provided the debt ratio because it is a pretty important ratio in terms of our capital policy. You may remember we don't want this ratio to exceed a cap of 35% and so we will manage our capital policy to stay within this range.
We have addressed many of these things. We could note that we can see some challenges in terms of motor TPL. Combined ratio continues at the level of 109%. What is important here is that we have a pretty good improvement in the corporate segment, where we went from almost 140% to 115%; this business is still not profitable, but year on year we have improved this business and we have noted quite a significant impact of the improvement on our profit and loss account. But in both mass and corporate segment, MOD insurance is profitable and is making quite a nice contribution to the overall consolidated result. If we look at our other non-motor products, we have talked about crop insurance, which means that the combined ratio is up by 5-6 percentage points year on year. In corporate products, we have very good profitability, which persists at low 70%. If we look at the profitability of our life business, both group and individually continued insurance products, we have talked about good, improving profitability of our international operations in both the newly acquired companies and the companies that have been on board with us for some time. This trend is very positive and we want to sustain it. We have prepared the next slide to illustrate the comparability of results looks like; it is not always obvious when you look at our results year on year. Our operating profit this year is 1.960 billion, and last year it was slightly less than 2.3 billion. Someone might ask: if you are saying that things are going so well then why is this so bad. So if we look at the events that we've discussed last year: the sale of PZU Lithuania had the impact of 165 million which was part of the 2,280 billion PLN last year. The second important factor in 2015 is the opposite of what happened this year, was quite a significant impact of the result generated by Azoty and Armatura, of almost 170 million, while this trend has reversed this year and we have an almost 300 million impairment loss, which gives a year-on-year difference of almost 460 million PLN, which is a major swing. We have three additional factors affecting the comparability. These are of course: crop insurance, the revenues generated by Alior Bank that was not in our results last year; we also have the bank tax, the levy on other financial institutions; the impact on this year's results is almost 300 million PLN that we did not have in the previous years. And I would like to turn your attention to the fact that this is 300 million PLN that we must finance by our results. If we were to cleanse our results by these one-offs then the situation would be comparable: last year we would have 1.9 billion and this year we would have 2.4 billion. So that would alter the picture quite significantly and that shows you the efforts that we've made in the insurance business.

So now the question is whether we want to go through the waterfalls describing the various segments in terms of how the claims handling portion, the cost portion and the distribution portion contributed to the result. Not necessarily perhaps? In this case, I will just click through that. We've already addressed the investments to some extent. This slide, to a large extent, repeats what our CEO Mr. Krupiński has said: the consolidation of Alior has had a considerable effect, Azoty will probably be the "power play" for the PZU Group in 2016 in terms of the discussion of results; if we are talking about the remaining portfolios, the results on debt and equity portfolios in the third quarter were pretty good. Other items in our investment portfolio include the result to the risk of our customers, which was negative last year at -19 million and this year we have more that 100 million in revenues, however this does not affect the Group's results. A few words about the Group's solvency: as we've discussed while presenting the strategy and our capital policy, we want to make sure that our Group has secured capital, which means that we have a Solvency 2 in excess of 200%. As of June 30, since we share this information with you with a one-quarter lag, this ratio decreased to 256% from 276% at the beginning of the year. The entire difference is caused by the solvency margin growth; it means that the solvency margin, the capital that we need to cover all the risks has increased by 500 million. If we look at the equity in the consolidated financial statements according to IFRS and the statements compliant with S2, I understand that here there is nothing here that would cause questions. So formally we start from less than 12 billion PLN, and then we show a surplus between the best estimates and the statutory provisions in life and non-life business, in terms of provisions. Then we have the fair value measurement of assets and liabilities, which is reduced by a certain risk margin that we maintain, because our best estimates is not the level of safety that we want to maintain at the Group. Deferred tax, that is the assets that are non-monetary assets, intangible assets and deferred acquisition cost in the amount of 2.6 billion, which are all deducted, and the tax on assets; after these items we move from the amount of 11.8 billion to 19.6 billion; so having in mind the growth of capital requirement by 500 million PLN, the solvency ratio falls from 276% to 256%.
So that would be it about what I have to say about the results. Thank you and I believe we can move now to our Q&A session.

Q&A:

Marcin Jabłczyński, Deutsche Bank:

Thank you very much for the presentation, which is a better way of showing the key drivers. I would add one more, which was not presented on the slides, namely the exchange rates. It seems to me that the Company has a positive exposure to the appreciation of the PLN and a negative exposure to the depreciation, which could be observed between the 2nd and the 3rd quarters. This is due to the open position partly on the partial hedging of the FX debt that PZU has and due to the hedging instrument themselves; is it good to have such volatility to FX rates? My second question is after the repricing of motor TPL products, what is the magnitude of potential improvement in the loss ratio? Are we talking of about ten percentage points or more? I think we are seeing some of it already in corporate motor TPL; half of it was "eaten" by the loss but we can see significant improvement from 140 to 115 at the end of the year. Is it possible that we will see profitability at the end of the year?

Tomasz Kulik:

We are not perfectly matched in terms of currencies, but I believe that this difference is not major and is not a source of discomfort for us. I would like to draw your attention to a few things here: some of our companies are denominated in Euros, and we have to have adequate protection, and on the other hand we must keep the currencies because of our insurance liabilities, which are

denominated in foreign currencies and this will not change significantly in the upcoming period. Yes, one of the areas affected by the asset allocation project we've mentioned is a subject related to the slightly different approach to the management of foreign exchange risk, and may increase our exposure to other currencies, so we do not rule out such a direction. Today, we are slightly more overweighted than we would like, given our investment portfolio, to zloty. One more thought about what we devised and what we succeeded or not succeeded to do in the second and third quarter. As you've noted on this solvency slide, the capital requirement grew also because of our position that we had opened for foreign currencies, for purely commercial reasons. This increased our capital requirement by 500 million PLN, however this was an attempt to seek additional benefits on the PLN market, which was getting weaker in that period. It seems to us that this is a good direction and I'm not sure whether we will increase our exposure in the near future, but we will certainly continue to move in this direction.

Roger Hodgkiss:

In response to the second question, I have to obviously be very careful making predictions, especially in this environment. It is quite a complex situation. Yes, we are increasing prices on new business in MTPL, we are also increasing prices on renewals, but at a lesser dynamic. And also we are still seeing quite a turbulent situation in claims. We are seeing increases in frequency, which is rising across the market, we see increasing bodily injury claims and we also see some old pain and suffering claims still coming through, but the prices are increasing. Our goal for motor TPL is to be profitable; I don't want to write any business that is not profitable. We hope and I expect that the motor TPL business will be profitable. Naturally, the combined ratio even high 90s is still acceptable for me. The actions that we are taking now should see it through. I can't tell you which quarter exactly, because it is still quite dynamic, but I expect and we hope to see it come through in a more immediate term, so that's our intention, but it is a dynamic situation. On this specific point, I think that there is the current situation that we see here, secondly, there is a trend, which is positive for the market and for us, and third there are the actions we are taking, which is better pricing, which is making sure that we don't have a problem with an increasing frequency of claims. I think that in general we are optimistic about the situation related to car insurance. If you look at the numbers, you can see that in non-motor profitability, if you strip out the crop insurance, the big one-off, then non-motor insurance is very profitable. We are showing a big improvement year on year. These are home insurance products, SME products, etc.; we are seeing a big improvement in profitability elsewhere in the portfolio.

Jaromir Szortyka, PKO BP:

In terms of our solvency ratios, I have two more questions. 1. Just to make sure that I understood that the strengthening of the Polish zloty would have a positive impact on you or reduce your capital requirements and 2. how do you feel about this level of 250%, your original Solvency 2 assumptions were around 300%; there were no large acquisitions in the meantime, yet we are still at 250%. From what I understand, there will also be the negative impact of acquiring BPH assets on Alior's balance sheet and my question is whether this is a comfortable level for the Company in the current situation?

Tomasz Kulik:

Solvency level above 200% is comfortable for the Company and this is our point of reference. To respond to your question about the PLN and how a change in the exchange rates affected the capital requirement during this period or how it changed the capital requirement in this period. Has the appreciation of zloty improved anything? No, it has not. Openly speaking, the growth was caused by not closing certain forward transactions in that period on that currency and this led to the additional capital requirement. Let me draw your attention to the following: in our strategy we talked about a

slightly different development of our solvency ratios over time, which is linked, among others, to the fact that, to be frank, that we did not assume that we would grow in non-life insurance by almost 4 percentage points, that we take over such a market share – we have not planned for this. Today, when we are talking about capital requirements, we know that this insurance part must also have capital support and to grow we need additional capital, which is increasing suddenly at this pace of growth. Will we continue to grow this way in terms of the capital requirement? Probably not. As Roger has mentioned, we are going to concentrate on improving profitability, which in turn will allow us to free up some capital, naturally depending on what will happen in the remaining product or business lines.
Is it smaller? This depends on how the individual companies became involved or exposed to respective risks between those periods. This is the only reason for that and also how the risks interact and partially offset or eliminate one another.

Kamil Stolarski, Haitong Bank:

In the context of Alior we can already see the impact of BPH on Alior's ratios, so I am assuming that this could also affect you.

Tomasz Kulik:

In the second quarter we did not have that. I understand that you are referring to Alior's presentation with the results for the first 3 quarters. Yes, that's true. In the second quarter, we did not capture this in our figures, so we will show this whole situation including the additional part after Q3, which we will publish together with the results for the entire year 2016.

Kamil Stolarski:
Can we determine with any level of precision what the maximum level of dividend is ... is that something that is comfortable for you?

Tomasz Kulik:

If we are talking about the mechanism that you've mentioned, yes it's true that the payee is the non-life company, but the situation that we have today in terms of the company's standalone result, may change by the end of the year. So I wouldn't really attach such great importance to this amount as the sole factor affecting our behavior concerning the dividend next year. As we said when we announced the capital and dividend policy, we will certainly want it and it is nearly guaranteed that we can pay at least 50% of the consolidated result in the form of a dividend, depending on what will happen with the excess capital. As you know, there are two further limits: 20 and 30% and only the situation linked to the Group further non-organic growth would affect how we behave in this area.

Michał Konarski, mBank:

In case of a major acquisition, would you be willing to go below the 200% solvency ratio threshold for a short period of time?

Tomasz Kulik:

Once again I will refer to our policy. We did say that in the long run, we want to keep the ratio at 200+ but we also did say that if there is a temporary situation we could dip below 200% for an interim period. To answer your question – yes, we allow for such a situation, but if something like that would occur we would like to quite quickly return above that threshold.

Kamil Stolarski:

If I could go back to property insurance once again: I would like to congratulate you on a very good result in the life business and the recovery in the investment performance, however the standalone result in this quarter is 9 million PLN only and well, it was never negative ever since you were listed on the stock exchange; if we look in the context of the combined ratio, this is the third worst quarter in your history on the stock exchange, and there were quarters in which you recognized high technical provisions, but in this quarter it was mainly the outcome of provisions paid out in the amount of 1.4 billion. My question is whether we will wait for improvement in any quarter in the next year, or do you expect the 4th quarter to be better already, and will it impact your revenues or perhaps the cost of your claims?

Tomasz Kulik:

I think that if I was to answer you to this question, I would say a little too much. So I will try to answer as much as I can. If we look at the Q3 results, this was caused by a lot of caution. I was not able to convince all of my colleagues concerning our provisioning policy. Once again – we have grown quite quickly in these three quarters by acquiring, inviting new customers from the market; the new customers that we don't know may generate more claims than our current portfolio. In this situation, reversing provisions and announcing great results in communication in my opinion would be tactically incorrect behavior. So unless we are certain of what is going to happen in terms of our loss profile in the current policy year, our behavior will be quite cautious. When will this segment be profitable? We hope that it will be as soon as possible. Whether this will transpire in Q4 or perhaps in Q1 or Q2 2017, everything depends on what is going to happen at the loss side and whether or not this market will take a standardized approach to losses associated with pain and suffering, not just death but also permanent dismemberment; what is happening today is reminiscent of the "wild west" approach and I can say the following: today we have a good fit in terms of the ratio of revenues to costs in the current environment. If if changes significantly then we will react, but if it changes materially, this could have an impact on the period in which we recognize the improvement in result in the upcoming quarters.

Thank you very much.