Presentation of PZU's financial results for the 3rd quarter of 2017 - 15 November 2017

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

Welcome. I would like to start with – and I hope that you all have an invitation for January 9th, to what we call "New PZU". In fact, on January 9th we want to do three things at once and we would like to invite all of you to that event. On the one hand, we would like to update the Strategy that you are familiar with. This is what we have always talked about: that our Strategy should be extended on the one hand to include the banking segment, to show how we, as PZU, are also changing structurally because we have these banks and, in fact, write our Strategy not from the point of view of an insurer that has significant investments in the sector, but rather from the point of view of a diversified financial group that has presence in so many diverse segments, such as property insurance, life insurance, investments, health and the banking sector. The work is still in progress, but we have a very broad vision of what PZU's mission is, what the guiding line is in all the segments that we would like to present. The second thing that we would like to present to you is the operationalization of the strategy, plus an update of some of the KPIs that you already know, and also to show how we want to reach those that we have set for ourselves for 2020. Some of them will need to be updated, mainly because we have already achieved some of them. The third thing is that we would like to, and that's why the event will be more official, we would like to combine this with a sort of a "product show", that is, we would like this Strategy to be complemented by a demonstration of new products and technologies, to show you that we don't only talk about some of the things, but we actually implement them. That is why we assumed that it will be held on January 9th: new year, new Strategy. This is the right moment. I would also like to say that, in the context of the banking sector, we have devoted a great deal of work and we are still working to ensure that our Strategy for the banking sector shows where we want to work together with the banks, what benefits we can see for both us and the banks, what the cooperation opportunities are here on the revenue and at the cost side. These directions, however, will not be dependent on the form of cooperation between one another that the banks will choose. This is, of course, in the current context of the information we have received from the management boards of the banks about the discussions or studies that are taking place in the context of their cooperation. If there are any questions about this topic then I will be happy to answer them in the second part of this presentation. And now I would like to invite you once again for 9 January; it will be a pleasure to have you there. Let's move one now to the traditional part of the presentation of our results. We will do it quickly to leave time for your questions. Obviously, the market grew year on year, also because of the price increases in motor insurance. Our market share continues to be positive if we look at the entire non-life market as a whole, and marginally negative in motor insurance. From out standpoint, it shows that we largely succeeded in keeping the customers that we acquired in the recent quarters, that is more than 500,000 customers who were added by the PZU Group. Of course, not all of those new risks are optimal from our point of view, so the portfolio also undergoes certain optimization. Therefore, some of the risks are simply leaving us and this is the context that I can see for this slight downward correction. This is also how we take care of the profitability and manage the loss ratio of this portfolio. Roman, would you please say something about the life market.

Roman Pałac, President of PZU Życie:

For us, the periodic premium market is the most important part of the life insurance markets. If you see how the market behaved, compared to us, well, the remaining part of the market is in decline. Year on year, we are growing. What makes us particularly happy is that our profitability in comparison to our competitors is improving. So at this moment, after 6 months, because those are the periods in which we have the market data, we have more than 50% of the entire life market and more than 45% of the market share. So, year on year, also on the periodic premium market, we increased by almost one percentage point. This is a very strong result on the market on which we operate.

Paweł Surówka:

Moving on, the key factors that occurred in the third quarter. Obviously, the critical event from our point of view was the improvement of our outlook, of our A- rating, to stable. I don't think I need to explain why this is important to us. Nevertheless, I would like to remind you that this is a decision that really ends the period of almost two years of uncertainty for the PZU Group. It started with *Credit Watch*, which we managed to remove. But then the outlook was still negative. We had long talks, vivid exchanges with S&P in the context of the acquisition Bank Pekao S.A. shares. Today we feel that, after those discussions, they finally understand what benefits these banks offer us. We bought them and this also resulted in an improved outlook and we are very pleased about that. We are still positive on the revenue side, since sales are still 10% higher year on year. The third quarter was slightly lower in terms of sales, but the first two quarters were record-breaking. We do know that such growth cannot be maintained indefinitely. But we are still higher year on year. Stable profitability on property insurance. This makes us happy especially in the context of the storms, which had the potential to have a stronger impact on our performance. It is important to emphasize the state of our knowledge today - the result was reduced by PLN 120 million, but we are still not sure whether all claims have been reported to us. In motor insurance profitability continues to improve. This is a result of the activities that you know were well, and later we will tell you more about this subject. And, as President Pałac said, life insurance has better profitability. We are pleased about that in the context of the pressure of the increased number of deaths in the first quarter of the year. And the investment result is 30% better this quarter compared to the previous quarter, which was the best quarter last year. Overall, the investment result up to date is 60% better than last year. What contributed the most in this quarter was the equity portfolio.

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

Talking about the performance in the property, other property insurance segment, we often say that we still have the ability to maintain high results and high margins in this segment, on the corporate and on the mass side. Yes, this quarter we felt the impact of mass phenomena taking place in Poland. You have received the figures, their contribution to the profitability of individual portfolios, individual segments: it is less than 4 percentage points in the mass segment and 7 percentage points in the corporate segment. Since we approach these events as one-offs, we do not expect them to have any significant impact on our profitability by the end of the year. However, I would like to emphasize one thing, because I've seen it somewhere in the questions from you, from the press: for the year 2017, we could extrapolate the figures, as you are doing. But I'd like to draw your attention to the fact that Poland today is an area where, even though we call them one-off events, they occur more and more frequently. In the third quarter, we were dealing with what we have talked about – with the impact of 120 million. In the fourth quarter, we have additional tornadoes, additional hurricanes – today they even have names. We know they will also impact the 2017 results, but I need to emphasize: the profitability is very high, despite the one-off events, we are still able to keep it in this recurring range of 75-80%.

In terms of segments and motor products, what draws our attention is a significant improvement in profitability, driven by the price hikes that we experienced. But our work is not limited to the prices of insurance products: we are also trying to actively manage prices at the claims side. We pay very much attention to our cost levels. We have been successful in improving profitability quite consistently. Year on year, if we look at motor products, it improved by more than 10% in the mass client segment. In the corporate client segment, despite one more major loss from previous years again, which disrupts the observation of what is happening in the corporate segment, in motor products, this is still a very significant improvement, by almost 6 percentage points.

Roman Pałac:

Moving on to the performance of the life business, some important information: If you look at our top line, you will see stable growth, which I've already said in our previous meeting; we focus on this growth and it is profitable, which is critical. We are particularly pleased with the increasing contribution of the health business to our overall life insurance results. There are more than 1.4 million active health policies today. We believe we are on the right track to achieve our strategic objectives in this area. Still very high up-sell to the individual continuation portfolio, good behavior of new individual continuations. Looking at profitability, you will remember that after the 1st quarter we started from the 13.8% margin; today this cumulated margin is already above 21%. The isolated margin on this individual continuation group segment is more than 25%, so this is an excellent performance. In fact, during the last two quarters of the year we built a very strong position, which was poor at the beginning of the year. I believe we are in a long-term trend of over 20% in the group business. This in fact complements what I have told you. The demographic situation, that is the decline or return to the regular mortality levels in Poland, helps a little. On the other hand, there are many profitability-improving operational activities: cost discipline on the one hand, but on the other hand, taking care of portfolio quality or limiting the number of modifications we make. There is a very strong emphasis on retaining customers in the portfolio, especially those that are the most profitable. This shows that this business is very stable at the moment. Also referring to what we've stated that we are in this trend to reach a margin above 20%, we have already achieved that.

Tomasz Kulik:

Two words on investments. Perhaps I won't even go through this slide. What I would like to draw your attention to is above all the profitability we get on this portfolio. Profitability on the main portfolio is 260 points above the risk-free rate. We are trying to be independent from market movements and we have been consistent in pursuing this policy. We must stress however that this significant difference between this and the previous year has been strongly influenced, among other things, by our exposure to Azoty. Last year, we met every quarter and informed you how strongly Azoty had degraded our results. This year, the situation is quite different, so we have a large delta on a single instrument. But considering what was happening on the capital markets, the PZU Group was obviously the largest beneficiary. As far as interest-rate instruments are concerned, what has not helped us this year is mainly the change in interest rates, especially on the European markets, but also in USD-denominated instruments.

Last year, the situation was different, so today, by the mere fact that we maintained foreign currency portfolios, we unfortunately recognized two negative effects: first the depreciation of the zloty, and second the effect of rates, which, year on year, caused these two elements. In the end, we have a difference of more than 130 million, positively offset by the positive impact of exchange rate differences on the portfolio of our outstanding bonds. We are trying to become independent of market cycles, but we generate high returns from the portfolio, in line with our strategic allocation. So this is probably the most important information in terms of our investment portfolio and investment activity.

Paweł Surówka:

Thank you very much Tomek. So, to summarize the whole quarter or the year to date: consolidated profit of the entire Group almost doubled compared to the previous year. This of course includes Pekao S.A., even though you include only the parent company in your analyses. We would like to draw your attention to the fact that the investments that we made in our main portfolio and that previously contributed to the investment result, have now been converted into shares in Pekao. On the one hand, the Bank gives us a very good dividend flow and also, within the Group as a whole, access to its net profit, which is PLN 3 billion today after three quarters. This is something that illustrates the strength and capacity of the entire PZU Group to generate further profits today, but also in the future. Net profit of the parent company is more than 60% higher. The written premium, again much higher – 15%. And of course ROE, incomparably higher than last year. Here, in addition to the excellent sales growth, we also had cost discipline, which continues to be our focus. On the other hand, as we have said in the previous quarters, we would like to convince you to look at our costs in the context of the combined ratio, taking into account the very strong sales growth that we are experiencing. We believe that this is a better reflection of our efficiency that we have on those costs. Today, in comparison to last year, compared to 7.7% on administrative expenses we have, with the exception of this *provision bank assurance* element, 6.6%, or 6% taking this effect into account. This is a strong improvement and we will try to continuously improve and keep these costs under control and further reduce them by measuring this KPI. In respect to our ambitions for 2020, I'm going back a little bit to what I said in the beginning: one of the reasons why we decided to update this Strategy is that it seems that some of our KPIs, which seemed very ambitious at the time, are already within our reach today and this is why we would like to update a few things here. ROE above 20% – our ambition for 2020 was 18%. Our market share – 37%, while our ambition was 35%. Combined ratio in non-life insurance is 90.1%, while the assumed one was 92% in 2020. As I've said, cost reduction, we are looking at this today at 6.6% of the relative ratio. 6% was assumed and this level seems to be achievable. In life insurance, as Roman said, one thing is the demography, but the other thing is a very strong sales growth which compensates for this portfolio ageing element. We still believe that we will achieve this figure of 11 million customers. But the margin in group insurance is 21%, in spite of these events and challenges that we had with the high loss ratio in the beginning of the year. Higher solvency ratio due to the successful issue of subordinated bonds.

In the investment sector, we have not yet reached our ambitions, that is 50 billion of third party assets under management and net result of 200 million, for the entire PZU Group, but having both PZU TFI and PZU PTE in our Group, and also Pioneer TFI and Pioneer PTE, and taking into account what we've said before and what has already been confirmed on the bank's side, we are conducting talks about cooperation, combination of those entities, these ratios seem quite achievable. As for the surplus, Tomek has already talked about that. Today, our spread over the risk-free rate is significantly higher than our long-term target of 2%. Here I will insist that we need to look at the figure of 2.6%, because it is this figure that actually reflects the actual performance of this portfolio without changes in exchange rates. Moving on to PZU Zdrowie, the assumed level remains very ambitious; it assumes one billion zloty in revenue in 2020 and 12% EBITDA. We are on the track, however, and we hope that both ratios will be achieved within that time limit. The assets of the banks, as we know, have exceeded their targets, so we need to change this level of ambition. As far as the financial performance of the banking business is concerned, we are still examining how much we want to maintain or improve this ratio; however the strategies that we received from both banks suggest that those ratios can be achieved by 2020. As we have said, the PZU Group is improving its foundations, generating its own profit opportunities, also for the future. So this is the bottom line after this first part of the presentation; we also have a more detailed part. We can go through it or rather move on to your questions. We can take your suggestions now. Very well then, let us move on to the questions.

Jaromir Szortyka, PKO BP:

Good morning. I have three questions. The first one is about the banking segment: do I understand correctly that, since the Strategy will be relatively independent of the model of cooperation between banks controlled by you then you don't expect any decisions about the possible merger, or, or the model of cooperation, to be made by 9 January, or is the potential date not yet specified?

Paweł Surówka:

As far as this date is concerned, it is true that we have chosen January 9th disregarding to some extent what is happening. I have also pointed out that the Strategy will be universal meaning that we are addressing the banking segment as such; the things that we want to achieve are important no matter what the final outcome of the current talks will be. Today I have no knowledge that I could or was able to share with you about when this process will end. It seems to me that the banks have announced the launch of this work in a very transparent way, at the very beginning, when they actually started the talks. They actually listed the entire range of possibilities that the talks cover. To my knowledge, none of the scenarios that are possible in the context of work, is certain and there are genuine analyses in progress. And, quite frankly, I believe that the banks themselves would not be able to tell us today when they will be able to present those results to us. That is why I've drawn your attention to this fact. For us, January 9th is the date when we will be ready with our Strategy for the whole segment, it will also take into account the information that we have.

Nevertheless, it is also a Strategy in which we wanted to strongly feature the entire PZU Group and draw your attention to the fact that in addition to, I would say "headline stories" entitled "Merger: yes or no", which generated many news feeds around our actions, for us the foundation of PZU is still based on the strength of our brand, on the relationship we have with our customers. So our message to you is that amidst what is happening, we are not forgetting about PZU's foundations, mainly in the context of what is of utmost importance for this management board, that is threats and opportunities that new technologies are bringing with them. Threats such as those from the *Insure-tech* sector, but also opportunities that we have to improve our position in Poland with the use of these technologies. We can also expect that the bulk of the presentation will revolve around how PZU will change as an insurance group with all the things I've just told you about, while the banking sector will be addressed in the context of its role in the PZU Group as a whole. You should not interpret this date as an indication of anything.

Jaromir Szortyka:

Perhaps continuing the subject of the banking sector, the second major shareholder of Pekao S.A. presented an opinion that the dividend stream is an important element of its investment. Could you give your opinion on how you look at the dividends from your investment in Pekao S.A.?

Paweł Surówka:

PFR, which is our co-shareholder and partner at Pekao S.A., with whom we are also bound by other relationships and other cooperation, decided to publicly express its opinion on this subject. We will probably try first to see what the banks will come up with and then analyze, instead of drawing our *"red lines"* anywhere, or at least speaking about them publicly. What I can say is that so far, the PZU Group's model for these banks has been two independent companies, two independent brands, which compound their strengths by addressing different customers, having different cultures and different employees. For me, it is quite understandable that the banks wanted to explore the possible synergies, which are not only with us, PZU, as the parent, or the main shareholder, but also between one another. However, we must admit that any discussion about how being in the Group could be used is extremely difficult for them, because those are two banks that compete with each other on most markets. So I understand that they while observing the regulations and restrictions applicable to both management boards, they had to find a formula to somehow govern their cooperation, if they want to seek the synergies that, as far as I understand, will only be exploited if they benefit the first, the second and actually also the third shareholder. This is why I said in this context that the banks are trying to find a model that will allow them to address some of the existing synergies. I can imagine that such areas may exist for example in IT, but I don't know, it is still undecided, how they will want to do it. We will certainly examine any proposal that we receive from the banks' management boards. And frankly speaking, when it comes to assessing these scenarios, our perspective does not differ from what PFR communicated. I mean, it is important for us that, on the one hand, the bank's strategy addresses the fundamental challenges that both banks have, addresses the ability to generate dividends from one company and the other, and maximizes the shareholder value of these companies as investments.

The question is: what is the scale of the synergy and what are the costs. This is what I hope to receive from the banks and this is what we will examine. We will examine them in the context that I've told you about: that the previous model that we were looking at was that the banks should operate as two separate banks with two separate brands. We will review them in such a spirit of openness, and also in the belief that both management boards are composed of very professional and responsible people and I believe they will not present to us anything that a PZU shareholder would not agree to, and the majority of the shareholders. Please remember that we are the leading voice here, but not the only one. If the PZU Group and PFR agree to any movements between these banks and the remaining shareholders disagree then there will be no such movements. I am assuming that the scenarios will either convince a large majority of shareholders or fail to convince anyone.

Jaromir Szortyka:

Thank you. Thank you. Changing the topic, I would also like to ask you about gross written premium in life insurance. The rate of growth remains stable, while at the same time the economy is experiencing an increase in inflation, with a very strong payroll fund. I would like to ask you if you can see any link between these macroeconomic aggregates and the gross written premium in the life segment. In other words, is there any chance that this dynamics will somehow accelerate in the coming periods?

Roman Pałac:

There are two elements here. One such basic macro element that affects this group insurance market is the employee base. And this is indeed a very positive contributing factor, which stabilizes the market. For us, the main area where the premiums are written are corporations, that is strategic customers in our opinion. We hope that we will be able to strengthen our position in the SME segment. This comment concerns the macro aspect only and the impact of the number of people employed on the market. In reply to your second question, whether the level of salaries in itself has a significant impact on the premium – these insurance policies are independent of the remuneration system; those payments are expressed in PLN and not as a percentage of the salary.

Tomasz Kulik:

Perhaps I will add a few words. I would like you not to focus on group products in your questions, because the situation is exactly as it has just been described. The relationship with good macro environment, with a declining unemployment rate and rising salaries can be seen in the individual sector, where we have large increases. They are driven by two factors: on the one hand, what is happening on the capital market and large contributions in investment products, products related to regular savings, or even retirement products. There is a significant increase and appeal of our products in banking channels, such as Alior, and soon we will begin with Pekao. I believe that this growth is somewhat not representative in terms of interest in classic protection products. Why is it not representative? Because today it is suppressed in the individual segment by the situation, which unfortunately persists in the motor segment. Because of the price increases, with limited household budgets that can be spent on insurance, they must have an impact on what Poles are spending their money on. So, where these services were not absolutely necessary, they were reduced. Today, we can see the market is beginning to come to life and please note the premium growth for individual clients – it is a two-digit growth.

Jaromir Szortyka:

My last question, about the motor market that you've mentioned: are there any first signs that any of the competitors is slowly starting to reduce prices, trying to win the market, or does the market remain stable?

Tomasz Kulik:

Today, the situation is such that, as I understand and observe, the market has reached the optimum price balance, which was not yet visible in the results at the end of last year. There were still small upward changes in the first quarter, in April of this year, but that was fine tuning, searching for one's position on the market. I cannot see any significant reductions, but a new player appeared on the map. A new player who is not supervised by KNF. It is a branch, on which several multiagents try to build their market track record. And those multiagencies are successful to some extent, because the least loyal customers, who don't see any value in motor products except that that they are a form of tax and the risks that are TPL risks only try to flow from insurers. Attempts have been made to stop these movements, but we are not observing these movements in our portfolios. As the President said, if we lost those 0.2 percentage points of our market share, we did it consciously in the dealer channel. However I am deeply convinced that despite the significant activity of this player, the lesson with Proama and the subsequent acquisition of this portfolio by Generali has been learned on the Polish market and it will not repeat. Today, as you know, because we have talked many times about that, our customers and possible small downwards price movements make us the real beneficiaries, because our portfolio is not a portfolio of big cities; the customers are not very sensitive to price changes. Therefore, what we show you today is the ability to renew this portfolio year-on-year.

Paweł Surówka:

I would also like to add, while responding indirectly to another question about pricing behavior, from Autonomous Research, that on our side, and this will be expounded on in the Strategy, at this point we are focused more on our tariffication skills in terms of speed, ability to introduce changes quickly and the precision of these changes, from client to client and, above all, the factors that we take into account when pressing. This is a project led by president Roger Hodgkiss and we can see that this development should rather go in a direction where most of the changes will not be sudden movements of the entire rate, but rather individual, precise *smart pricing* that focuses rather on making sure that the customers with the best loss ratio, the best loss ratio history will have lower premium prices.

Maciej Marcinowski, Trigon:

I have a question about the solvency ratio and, in this context, about the dividend, because, as far as I remember, before you acquired Pekao you estimated that after the takeover and after the issue, this ratio will be slightly higher than 200%, while today it is almost 250, which results in a surplus of 4 billion; in the dividend policy you assumed that up to 20% would be spent on internal investments, up to 30% on acquisitions and a minimum of 50%, plus what is left from the previous items, would be used for dividend distributions. In this context, you also said that in this first stage, the solvency ratio surplus would be used for the acquisitions. So now my question is whether you can confirm such a scenario that, if some large acquisition occurs, you will first want to reduce the solvency ratio closer to the 200%, or will this 30% element be used first out of the dividend?

Paweł Surówka:

I can speak generally about the dividend and I will ask Tomek to address the ratio. In respect to the dividend, what we can confirm, as you have also pointed out, is that we cannot see any events in the run-up to the end of the year that could be classified to this M&A register, thereby reducing our potential distributions. In terms of further growth, you must note that this ratio is consciously handled in such a way that further growth dynamics, which we are planning, also costs capital.

Tomasz Kulik:

I would like to add two words about this large ratio: we have said that after issue, this ratio will return from below 200% to plus 200%. Today, it is at a very unrepresentative level. Why? Because we didn't know whether we would be able to carry out the issue within the second quarter. We really wanted to maintain this position, so we made certain movements on the balance sheet to eliminate any capital inefficiencies that, unfortunately, sometimes affect the result. This is not the case today, so we will ease it and I would like us not to get used to such a high value. As I have said, it is not representative. What we aim for is to maintain 200% plus. Therefore, in every case where we are able to implement our plans resulting from the dividend and not to decline significantly without a correction plan – because you must note how the dividend policy is written: we are assuming short-term movements under 200% as long as there is a plan to recovery above this threshold, that is as long as it is within a certain specific corridor. So today I believe that there is no risk here from the point of view of capital management.

Paweł Surówka: Are there any other questions? Over there.

Michał Konarski, DM mBank:

Good day, I'd like to go back to the questions about the banking sector, the banking segment. I have a question about let's say a dialogue with the regulator, because the strategies of both companies, Pekao and Alior, have been just published and it seems that both banks want to develop in exactly the same segments, that is SMEs, small businesses and cash loans. So my question is whether the Polish Financial Supervision Authority has any questions to you as an owner, that you have two banks that operate, or want to operate their business in the same areas. Is that causing any issues? Will the regulator ask you to tidy up your act?

Paweł Surówka:

Let me say it this way: given that the SME sector is the most promising and profitable part of the banking activity, both banks are right to notice that. It is not rocket science. Each of the banks sees this sector as a growth area. Please note that we, too, as PZU, consider this sector very promising, for example in the context of life insurance or health insurance, where the market has to be developed because many small and medium-sized companies have not used these products. By the way, we believe this to be one of the elements where we can expand our cooperation with the banks, because, as I have already said in the past, in the SME segment we can see that the people managing these companies don't really want to have several financial partners, so there is great advantage in bundling some solutions that offer benefits by addressing several needs of a company at once, and for us they of course expand our relationship. We can see the possibility of cooperating with banks in order to be able to offer such very comprehensive cooperation. Now, about this KNF element, I wouldn't want to speak for the KNF. The only thing that I can say is that so far, our investor approvals and our declarations have been based on what I've said: that the banks will operate as separate entities and on this basis we have received all the approvals. So if any moves, forms of cooperation between the banks are considered, they will be based on an agreement between the banks, which recognize that in some areas, or in all the areas, it is easier for them to work together than separately. On the other hand, since such a cooperation must be approved not only by us as PZU but also by the majority of shareholders, I cannot imagine that such movements could be dictated by the regulator's wishes only. We will see what the banks present to us as benefits, we will assess them in view of what value they bring to us as shareholders, and to our shareholders.

Michał Konarski:

Yes, but the question is whether two banks can make an arrangement to cooperate in a sector, such as Cash-Alones, will that not raise any controversy from the antitrust point of view, will the KNF not tell you at some point: listen, tidy up your group, either merge the banks or get rid of one of them.

Paweł Surówka:

They cannot and they do not make any arrangement. My understanding is that it is one of the reasons why they have announced that they want to explore the possible cooperation, including cooperation that progresses towards a merger, to see where these boundaries are, what is possible and in what form. I have pointed out an element, for example IT, where it could happen, theoretically even between two banks without a common shareholder. As far as sales segments are concerned, it is obvious to me that if they are independent entities, they must compete in these segments.

Tomasz Kulik:

I would like to draw your attention to a certain similarity between the situation of PZU-Link4 and Alior-Pekao. We could also tell you, or you could ask some time ago whether KNF could order us to tidy up the group, since Link4 is mainly motor and mass motor, and you have a large mass motor insurance portfolio and you will compete for the same customers and so on. As you can see, this model works well, and in the mass client segment, for relevant segments and for relevant customer characteristics, where some are closer to Pekao, some are closer to Link4 or to Alior – to address these customers properly. In this sense, there is no doubt that there is value in fighting or cooperating in the same field; it is something that can create value.

Michał Konarski:

Well, but in the case of Link4 it was a direct activity, that was not well-developed in PZU, but here we are talking about similar products.

Tomasz Kulik:

But it is now. We are also talking about similar products, please do not confuse a distribution channel with a product. Please do not confuse individual segments just because they are in the same, very large bag, which is called SME – these are not the same subjects.

Michał Konarski:

I also have a technical question, because the market has not reacted very well to information about a merger of the two banks. If there was a vote at the shareholder meeting now and PZU was in favor, but ultimately it did not come through, meaning you lost the vote, would that automatically mean for the auditor that you need to deconsolidate your business?

Paweł Surówka:

Well, this is the fourth level of "what-ifs". First of all, you need to establish a relationship; this was not an announcement of a merger. I'd like to reiterate this, because right now we all live in the reality of MAR, but I have the impression that some of us fail to notice how listed companies must communicate. Please look at this in the context of some recent decisions issued by KNF regarding, for example, the information policy of listed companies. I once said in one of the interviews that a few months or years ago such analyses could be carried out without informing the markets; we would just learn about a selected scenario and could respond by liking or disliking it. Currently, the banks chose to announce the launch of their analytical work and that they wanted to investigate this topic. I understand that this is precisely why they are doing it, because they would like to see what the possibilities are, or whether they are any at all, since they are competing banks, to explore the possible synergies including, and they stated it transparently, a possible merger. For me, all the scenarios are now being examined and none has been selected yet. I wouldn't want to go through each and every scenario and tell you whether I would vote yes or no. We are looking at both banks as a shareholder, with the same point of view as others, that is, maximizing the shareholder value of these companies. So either the management boards of the banks convince a significant majority of their shareholders, including us, that their plans are beneficial, or they will fail to convince anyone. I cannot imagine any "enforced action" scenario.

Marta Czajkowska, Haitong Bank:

Good morning. I have a technical question about the decline in gross written premium in the non-life segment. I understand that there were two effects at work there: one is the third quarter seasonality and the other is your conscious decision to give away the market share because of the higher loss ratio. Would you be willing to quantify this effect?

Tomasz Kulik:

In order to answer this question, we need to look at the distribution of premium between quarters. It is not equal and this is part of the answer. So it's not something that suddenly happens to our portfolio and it's negative. Please note that we disclose this information openly, that is the number of clients we have in our portfolio today. And this is a number that is growing from quarter to quarter. And it is not that we suddenly cannot control what is happening. As for what you've said, it is a very precise under, in the car dealer channel, related to what we can currently expect from this channel at these price levels and how these prices affect us. What does it mean? We don't want these customers. We don't want these customers if they continue with the same loss ratio. Either we can bring this price closer to neutral levels, slightly positive, given the expected historical loss profile, or these customers will have to find a better coverage on the market, more attractive in terms of price; in this case, we will certainly not fight for these customers at all costs. That is also what we said to you last year, when we grew our market share very strongly: we said we were doing it, but not at all costs. And this is a confirmation: not at all costs. And it seems to me that today we can afford losing 20 bps of market share if that portion of the market has an above average impact on profitability. It mirrors what we have on the life side, not growth at any cost, not the market at any price, but profitable and very consistent growth of that portfolio.

Paweł Surówka:

There is another question on the Internet: When we look at the inflation of claims, what is it like?

Roman Pałac:

We should look at the issue of claims from two dimensions, because this question is about the average claim on the motor market. There are two effects: one - the frequency drops and it drops in this segment of smaller claims, so we are automatically left with bigger claims. On average this translates into growth. On the other hand, the value of the cars we insure is increasing, they are newer, better equipped and this is reflected in claim amounts. When we look at these effects in practice, that is how much the claims increased in percentage terms vs. premium growth, then the increases in premiums fully compensated for the results in this segment.

Paweł Surówka:

Just one more question from Michael Christelis: please explain why the effective tax rate is about 25%, or exceedingly high; what is the assumed tax rate?

Tomasz Kulik:

We should note that we are in a very interesting situation, if you can use such words, because on the one hand, the effective tax rate is affected by business events, which occurred among others in the third quarter, this is inward reinsurance settlements, but let's say that those are temporary differences. However I'd like to draw your attention to the situation related to the quite a significant cost item in our statements, which is the tax on other financial institutions. This cost item is linked to the total balance sheet amount. And since our portfolio is growing and we want to develop and so on, the sum of assets increases, the tax will grow also if the rate does not change. It is not a tax-deductible expense and consequently increases the effective rate. Today this is a situation that is relatively difficult to handle and hard to counteract. We simply have to acknowledge that as we grow our business, we will have to live with it and handle it – temporarily for the things I've mentioned, such as reinsurance, and permanently for the tax on other institutions.

Kamil Stolarski, Pekao IB:

Technical question, if I may, concerning the storms: you have said that the net effect is 120 million, but this refers to a certain base and assumes reinsurance; so the question is: what the actual losses were and what was their impact?

Roman Pałac:

Let me begin by saying what the 120 million is about. We are looking at these mass damage in a certain period of time, that is we search for the highest intensity of losses. And this is a more or less issue; I don't want to get into details. As at September 30th, the figure that we arrived at was 120 million. They may also appear in subsequent quarters, because people may still report additional losses. As far as reinsurance is concerned, the reinsurance applies above certain thresholds, from 150 million up; that is when it becomes active; this level has not been reached yet. Unless in the coming months the level of those specific events reaches 150 million, but as of today we believe that is slowly leveling out. In other words, it is the net result, the direct impact on the result.

Kamil Stolarski:

One more question about the combined ratio in car insurance, in the long term it cannot be maintained at this level of 93-94%, but I understand that in the short term it may even improve and there is no need to be afraid, because prices have gone up and this ratio will be at this level in the coming quarters, probably.

Tomasz Kulik:

There is nothing to fear, we are not afraid. We are not afraid, because we have shown it quite regularly and consistently that we are managing this profitability. So we have already discussed what is happening at the claims side. But let us remember that this is always an equation, with revenue and costs. A moment ago, Roman described the claims situation. What is happening in the economy today? Unemployment is falling, there is inflationary pressure, which will immediately translate into labor costs and then, perhaps with some delay, into parts prices and so on. This is very interesting because our situation is slightly different from that of our competitors. Our competitors, as you will remember, have restated their prices significantly in the beginning of 2016, where the claims handling expenses were relatively flat year-on-year, so in 2016 our competitors were able to make up for losses quite quickly. This year, there is inflation in claims; it is clearly visible, sometimes in a double-digit area, with one in front. So the margin is flattening out for our competitors. In our case, since the cycle and phase of price increases was totally different, we now benefit from the fact that the distribution and receipt of those large price raises from last year, from the end of last year, correlates with the growth and price inflation. This is our history vs. the history of our competitors, so we are quite optimistic that the next year, the end of this year, is not yet the time for price cuts. We discussed the one special player – I am quite sure that the history from a few years ago will not happen and will not be repeated. If, on the other hand, we and our competitors find ourselves at 95-98% then we will again start to adapt and look for our place. So, in my opinion, maintaining the profitability that is there today in the long-term, is unjustified. I hope I'm wrong.

Paweł Surówka:

In this case, we would like to thank you very much and I hope I will see you on January 9th.

Thank you very much.