- Welcome to the meeting during which we will discuss PZU's financial results after Q1 2013. Today's meeting will be chaired by Przemysław Dąbrowski, Management Board Member responsible for financial matters. The meeting will last approx. 90 minutes. At the beginning we will discuss the presentation which you have in front of you and then you will have an opportunity to ask questions. As it is the case with every quarterly meeting, this meeting is broadcast live online. Those of you who participate in the meeting online may ask questions directly through the webcast or by sending an e-mail to pwisniewski@pzu.pl. And now I would like to give the floor to Mr. Dąbrowski.
- Welcome to the meeting dedicated to a discussion of quarterly results. Piotr has said that this is a meeting with the Management Board, but this time – since CEO Klesyk is abroad, about which you either have read or will be asking about – I will be the only management board member in attendance at today's meeting. As usual, firstly we will go through the main slides of the presentation and then we will answer any questions you may have.

  Financial results of the PZU Group. As every presentation, this presentation also contains a slide showing the structure of the Management Board – there are no changes here. I believe that there will be no changes to the structure of the Management Board before the end of the term, so let's move on. Next, we have a few slides about last year's non-life and life insurance market. Unfortunately, there are no official market data for this quarter as of yet. I would like to say a few words about the outlook for both the non-life and life insurance market for this year but I unfortunately I cannot give any precise figures. When it comes to last year's market, non-life insurance was growing. As we have already communicated to you, the growth of this market was much stronger in the 1st quarter and the 1st half of the year but in the 3rd and 4th quarter a slowdown began. After the first two quarters, the growth rate was more than 8%, but in the end it came down to less than 4%. Higher prices were the main growth driver. We did not experience a particular increase in the number of insureds, yet the prices were higher. We also had a one-off event which consisted of the launch of an ADD rider for hospitals. This rider appeared and disappeared – this year we no longer have it. It is supposed to reappear next year in a different legislative form, however it also had an impact on the growth of that market. Like I've already said, the growth rate in the first half of last year was quite good. In the second half of the year, the situation slightly worsened. The market grew at a slower pace, and in the 4th quarter the growth rate slowed down considerably. However, this was another year when the non-life insurance market recorded very good results when it comes to profitability. The profitability was increasing, and this can be seen in the right-hand part of the slide. Technical result increased from PLN 300 million in 2011 to PLN 700 million in 2012. This profitability resulted, on one hand, from historically high increases in prices after mediocre year 2010 and, on the other hand – and we have already talked about this – from a very good weather as well as certain macroeconomic factors such as smaller traffic resulting from higher gas prices which meant that drivers in Poland drove much less and, consequently, the loss ratio in non-life insurance decreased significantly.

  When it comes to the life insurance market – this market also grew last year at a rate of approx.

5%. We are slightly dissatisfied with this growth because it was mostly attributable to single-premium insurance products. From our perspective, this is not the best type of insurance. These insurance products have a very low profitability to insurers and they even carry with them certain perils for policyholders. Of course, the regular premium segment grew at a slightly lower rate. The growth rate of that segment was a little more than 2%, and this is the market on which the PZU Group focuses. Market profitability was also growing, however it was growing at a slower pace, also because – like I've already said – the premium structure is comprised mostly of single premium.
I have already told you about PZU's place on the market, and I would like to once more sum it up: we have been able to retain our market share in both of those main segments – it is still 43% in regular life insurance premium, and in non-life insurance premium we were able to stop a historic decline and we were able to remain at 32, a little more than 32%. And now I would like to move on to this year's results, however – like I've already said – unfortunately we do not yet have precise figures, so I'm unable to show you such slides but we already have our own estimates. We can see a significant slowdown, especially when it comes to the non-life market, and we expect a negative growth rate in the first quarter. We assume that the market may decrease by a few percent in nominal terms. This negative result is attributable primarily to motor insurance. When it comes to corporate insurance and mass insurance, this market is quite stable and there is no growth there. Of course, one should ask a question how will the market behave during the entire year, and here we are quite pessimistic after those first few months. I only would like to remind you that in 2009, which was the year which followed the crisis year of 2008 and Poland was not only a green isle when it comes to GDP but also when it comes to the non-life market, during that year that market recorded a 3% growth. At this moment, after the first quarter, we believe that with respect to the non-life market a moderately optimistic scenario is a scenario of growth of 0 to 1% during the year. When it comes to the life insurance market, we can see that everyone is waiting for regulatory changes. There are some sales carried out, however mostly in single premium products, and this really is the result of decreasing rates of return when the clients abandon simpler investment products and look for products which will guarantee them higher rates of return. So, there are a few sales of single premium products, however when it comes to premiums and the market in general, everyone is waiting for regulatory changes. Like we've already talked about during previous publications of results, there are two major streams of those changes. On one hand, there is a general trend or intention to reduce or regulate the exit fees, i.e. the fees for closing the unit-linked products. Today, those fees are so high that the clients who opt out from such a product before the elapse of 10 years can even lose part of the paid principal amount, in addition to not getting any returns. The second trend is the intention to introduce a better regulation – or I don't know if it's better but it's certainly different – of the bancassurance market. Both of those streams are instigated by governmental agencies, namely the Polish Financial Supervision Authority (KNF) and the Office for Competition and Consumer Protection (UOKiK). In my opinion, both of those processes cause that the main market players do not really know which direction they should go.

Taking into account the current stage of work, one thing is certain: KNF will expect greater transparency when concluding agreements. It is rather impossible that exit fees will be limited – this really is the economic account. However, there is a concept for settling commissions for banks over time – this is related both to exit fees as well as bancassurance, which would have such a result that banks would begin to show in a more normalized way their revenues on commissions which they get from the insurers – they would not show them during one year but they would actually spread them over the entire policy term. At this time, work is underway and it is difficult for me to make any comments. We assume that this year the regular premium market will be able to grow maybe 1 or between 1 and 2%. However, when it comes to the single premium market, I am unable to make any comments at this time.

Let's move on now to the PZU Group's results – our results are briefly described from the qualitative standpoint. As you know, at the Group level we have recorded net profit of more than PLN 800 million – this is slightly better than a year ago. The sources of that result, which we consider to be a very good result during such difficult times for the insurers as we have now, are on one hand the factors which are advantageous to us such as high profitability of non-life mass insurance and, above all other things, a very low loss ratio in agricultural insurance and the maintained a very low loss ratio in motor insurance. The second significant element includes continued very high profitability of group insurance and individually continued insurance, and basically even improvement of this profitability when making a quarter on quarter comparison, i.e. comparing the first quarter of the previous year to the first quarter of this year. As far as recurring factors are concerned, unfortunately we have negative factors which primarily include investment activity where we are significantly below last year's results. There are also two non-recurring factors. One of those factors includes signing a settlement with AXA – we closed a multi-year agreement with AXA for reinsurance of third party liability and Green Card insurance. As you remember from the presentation of 2011 results, we had a charge of PLN 70 million, then there were long negotiations which lasted for almost one year and, finally, at the turn of January and February, we signed a settlement with AXA for an amount of more than PLN 50 million. The second, greater non-recurring factor includes launching the process of consolidating the funds of the real property sector, which gives us more or less PLN 170 million.

I have briefly discussed the main items of the results, and now I would like to go through – as I usually do – the summary of what I was talking about: gross written premium increased by 2.4%; net profit – from PLN 822-3 million to 837 million, i.e. growth of approx. 2%; equity grew from 13.8 billion to 15 billion, of course when making a quarter-on-quarter comparison; and return on equity (ROE) was slightly lower – 22.9%, and it was lower because we paid the previous dividend in the amount of 75% of profits according to KNF's recommendation, so in a certain sense equity increased even despite the fact that profit is the same but the capital base is higher.

I will move on now to discussing the specific business lines – group life insurance and continued insurance. Like we always say in the case of this insurance, we are glad that it is so boring – the growth rate in this insurance is a little over than 2%, last year's profitability was 17.7, and this year's profitability is 19.05. It seems that – as you have already noticed – there is a certain seasonality of this ratio, however it seems that this profitability of at least 20% in the scale of the entire year, when it comes to this stream of our activity, was at risk.

Individual life insurance is the business line in which we recorded the highest growth rate when it comes to revenues. This is primarily attributable to sales of single premium insurance. I was previously asked by the journalists whether this is some sort of PZU Group's new strategy which we are emphasizing. This is not the case that we are emphasizing it. This simply depends to more extent on what the clients want and what the banks want – with lower rates of return, the banks were simply able to sell more PZU's single premium products than last year. This is important to us that the premiums are growing in this segment, however we have to be aware of the fact that the premium, which we are selling here, is the IFRS premium, and these are not the so-called policy-deposits. However, the profitability of this premium is quite low. We are talking here about profitabilities at a level of 7 – 8 – 5%, and this is visible later when it comes to profitability of this business.

Corporate non-life insurance. In this segment we unfortunately have a red arrow or rather a red dot. We have recorded quite a significant nominal decline in this insurance segment. As you can see, the decline is more than 20%. We are not sure why this is the case but we concentrate on maintaining profitability. At the moment when – as you already have seen on one of the previous slides – we recorded, or I should say the entire market recorded very high profitability last year, everyone improved their equity and some of our competitors began to slowly decrease prices, and because they were doing this at the moment when the market was not growing, this was the best way for them to acquire large accounts under the conditions of a declining market. In other words, according to our estimates, the strongest price war is in the sector of corporate insurance, namely in corporate motor insurance, because in that segment there are large accounts ranging from a few to more than a dozen million PLN and – when acquiring such an account by reducing the premium, one can try to quickly offset losses or decreases in other insurance segments. Like I've already said, PZU concentrates on the result and on profitability, therefore the result on revenues, as far as premium is concerned, is not the best, however we continue to maintain our profitability. When it comes to motor insurance, the ultimate profitability goal is at least 97%, in other words, the highest combined ratio is 97% or more. Therefore, at the present moment we assume that in the next quarters we will make up for this loss from the first quarter, however I would not make any promises that we will come even as far as the entire year is concerned and we will end up with a nominal premium – I'm sure that there will be a slight decline. And here we have the second segment from the standpoint of size, i.e. the first as far as premium is concerned and the second when it comes to profitability of business – non-life insurance for mass client. Here we have every reason to be proud because, as you can see, the premium is slightly increasing but, like I've already said, according to our estimates for the market, the market will decline in nominal terms. And, like

I've mentioned, of course we have here a very high profitability. This profitability grew very strongly. The growth in profitability is mainly driven by agricultural insurance, the continued low loss ratio in motor insurance and – what is really the case – the settlement with AXA. In other words – like I've already said – the settlement with AXA has an impact on this business line because this is primarily a settlement of agreements, and this has very little impact on the corporate segment because this is a settlement of mass market motor insurance agreements.

So this is what I wanted to say about our business lines, and now – according to our tradition – I would like to say a few words about expenses. Since we are in difficult times, we have to go back to cost discipline. I would like to emphasize this right at the beginning – this does not mean that in the coming years PZU intends to create its value through further mass layoffs to achieve further significant reduction of costs, however it's a fact that in difficult times PZU begins to pay attention to its expenses. As you can see, here we have a significant decrease in administrative expenses year-on-year, and the recurring expenses do not decline as sharply but we also have a drop. On the other hand, you can see that we really closed the tap – colloquially speaking – on certain project-related activity but not strategic activity, only on a slightly lower level activity. So we are moving certain projects for the next year and for subsequent years. Of course, major strategic projects such as replacement of the product system or ongoing reconstruction of units are still being executed. However, since we saw what was going on a long time ago, we've been always trying to match our expenses to our premiums. If we assume that premiums recorded this year by the Group may be positive but not significantly positive, then we also want the expenses not to increase at all or we even want them to decline.

This was a more general part of the presentation, and now I would like to move on to a more detailed presentation of financial results. I would like to skip this slide because I don't think it's very important or contains any additional information. Maybe I will discuss one thing on it – as you can see, the Group's combined ratio after the 1st quarter is very low, i.e. 77%, and it is significantly lower than last year's, significantly lower than in the 4th quarter and for the entire last year. And I have already mentioned all the reasons for which this ratio is so low. Of course, it is also the case that some of those things are non-recurring, e.g. the fact that we have very good results on agricultural insurance and, above all other things, signing the settlement with AXA. We will not sign another settlement because by doing so we would simply terminate a multi-year reinsurance agreement. But it is also the case that this combined ratio and everything that's going on around – such as the situation on the motor insurance market – shows that deterioration of profitability will not be very dramatic. This is rather a good indicator for the PZU Group's combined ratio in non-life insurance for the entire year.

And here we have the major segments of activity, and I've discussed them a moment ago. And here we have a more detailed slide. This is the breakdown of four main streams by major product lines. When it comes to mass insurance, we basically have restored motor TPL insurance. We have almost a 0.3% growth here. Unfortunately we have a large decline in motor own damage as far as gross written premium is concerned, however, according to our estimates, such a decline affects the entire market. In other words, we don't have to worry about our market share, especially when it comes to motor own damage. As you can see, the combined ratio is very good basically in all the lines. Motor TPL is 76%. I would like to say it upfront that this 76% is the figure after normalization, and if you took away the AXA factor, it would be a little over 80%, however this is a very good result. The same applies to motor own damage. When it comes to other products, here we have 102% last year and now we have 64%. This is agricultural insurance. Generally, in mass insurance combined ratio is 74.5%. Like I've said, of course in the next quarters we will not see such good profitability results because there will be no more those two one-off events. We will not sign another agreement with AXA, and most action in agricultural insurance occurs in the first quarter and some of it also in the second quarter. That second one also does not look all that terrible. On the other hand, these profitability data show that profitability for the entire year may be better than this normalized ratio of 96% which we are talking about. When it comes to corporate insurance, like I've already mentioned, unfortunately we have a decline in premiums here, both in motor own damage and in motor TPL but also in other non-motor products. As far as other products are concerned, this decline is partly attributable to lack of hospital insurance. I would like to reiterate that in the 1st quarter of last year we sold PLN 70 million in premiums of extended hospital accident insurance. This year we no longer have this PLN 70 million, and towards the end of the year part of that PLN 70 million was canceled. In the end, during the entire year it was a little over PLN 50 million. So if we were to take that PLN 70 million away, non-motor premiums would be on a flat level. When it comes to profitability, we are able to maintain profitability for the entire time. We can seen a slight deterioration of profitability in motor own damage, however, in total, both of those lines, i.e. motor own damage and motor TPL have profitability at a level of 97% of the combined ratio for the whole time. This is the feature of those two products, especially in the non-mass segment, i.e. in the corporate segment, that they are sold together, and therefore we really analyze these two products together. The goal here is 97% when it comes to corporate motor products. Like I've already said, the most important thing in life insurance, group insurance and continued insurance is the growth of profitability. We have significant growth in individual insurance, however, like I've told you, unfortunately profitability is considerably lower. One year ago it was 22% and now it is only 8.7%. Single premium insurance has a significantly lower profitability than the insurance which we were traditionally selling. Some of them are the so-called protection insurance products, mostly endowment protection insurance, and these insurance products have a much higher profitability. Unfortunately, in recent years many of those insurance products reached maturity, and this is a general situation on the market, i.e. that these insurance products are not renewed. Mostly investment insurance products are sold, whose profitability is closer to profitability of non-insurance products such as TFI, rather than that of traditional insurance products.

What is important, our operations beyond Poland are generally profitable or are slightly below the profitability threshold, but overall we maintain profitability. We are seeing small increases. Of course, these are not the data and these are not the segments – and I'm talking about revenues as well as results – which would have a significant impact on the Group's results.

And now I would like to summarize the one-off events which I've talked about. Of course we should mention conversion, and conversion is smaller and smaller. As you can see, the level of conversion in the first quarter is less than PLN 50 million, the settlement with AXA is PLN 53 million, and – of course – there is the launch of consolidation of investment funds. Those funds were not consolidated. At the present moment they are included in consolidation – and this is described in the financial statements – which means that they were in the revaluation reserve capital and the profits on those funds were not available to the shareholders, however now they have been simply transferred to profits from the given year.

This slide shows breakdown, as far as change in profitability is concerned, for group and individually continued insurance. This operating profit is slightly lower, and this small decline results from lower result on investment activity which is attributable simply to lower rates of return. When it comes to business itself and its insurance side, this business is very profitable for the entire time and this profitability is maintained. It is higher than last year.

Individual life insurance. In this case, change in the portfolio affects only change of the structure of portfolio of sold insurance products. We've already talked about this: profitability of corporate insurance is basically on the same level. Mass and individual non-life insurance.

As far as investments are concerned, their structure has slightly changed, and it is the derivative of the PZU Group's strategy which assumes shift from treasury assets towards corporate debt, and also – and this is very important – we can still see here a very significant change when it comes to reverse repo transactions and deposits. This is the feature of our activity – and I've already mentioned this – which consists of arbitration between various financial institutions. PZU, which holds a great number of safe assets such as bonds, is able to borrow cash at a very low interest under those bonds, and this cash may be later loaned to other institutions. PZU earns profit on arbitration as far as these transactions are concerned. Unfortunately, when it comes to investment revenues, as you already know, this result is much worse than last year, and the result is worse on the indexed bond portfolios as well as stock portfolios. This slide shows the breakdown of investment revenues on own portfolio and portfolio at policyholder's risk.

Capital position. Of course, we can see a very strong capital position for the entire time. Equity increased, and solvency margin coverage ratio was more than 400%.

I believe that this is the end of our presentation, and we would like to take any questions you may have. Piotr, the floor is yours.

– And now I would like to encourage everyone to ask questions. I would like to propose to begin with questions asked online. Let's give a chance to our colleagues who asked questions over the Internet; we have two analysts from JPMorgan and from Morgan Stanley. These will be short questions, and then we will move on to questions from the room.

– So, as I understand, I can see two short questions here. Mr. Michael Huttner from JPMorgan. I will be reading it directly in Polish, OK?

- Yes.
- If this is the case, then it is OK. How much this very good combined ratio of 77% is attributable to good weather, and what it would be if we had a normal winter? I translated the phrase 'normal winter' as 'normal, typical winter'; perhaps this is not the best translation. I am unable to deliver a precise calculation, however the weather factor, which is included in that combined ratio, is linked to agricultural crops. In other words, the technical result is PLN 170 million better as compared to the last two years, and in particular the previous year. We are better when it comes to the loss ratio. On the other hand, our normalized level is not that PLN 170 million but it is approx. PLN 80 million, i.e. in reality, should there be a normal winter, we estimate that the loss ratio will be approx. PLN 80 million worse than what we have now, in other words, we treat PLN 80-90 million as a one-off event. This amount of PLN 80-90 million will translate itself into more or less 3 points of the combined ratio, i.e. 3 p.p. of the combined ratio.

  What is a good figure which we should use as the basis for forecasting investment revenues minus one-off events? There was only one one-off event and there were no other one-off events. I've already mentioned it and this is consolidation of real property funds. It's hard for me to tell, but I would rather not forecast our investment revenues during the entire year by taking into account the results for the first quarter, removing one-off events and multiplying them by 4 because those results are to large extent dependent on the changes in rates of return, and right now, already in April we can see that the profitability of bonds continues to decline and these results begin to improve very quickly, so I cannot tell what would be a good figure which should be used to prepare a forecast for the entire year on the basis of the 1st quarter. I can reiterate that we estimated that investment performance would be 30% worse during the entire year as compared to the previous year, which consequently had to translate itself into the average rate of return for the entire year of approx. 4%.

  Maciej Wasilewicz, Morgan Stanley. What is the influence of crop insurance on the results of the first quarter?

  I've already said this – PLN 170 million better than a year ago, and in my opinion the normalized result is PLN 80 million because the last two years, i.e. 2012 and 2011 were very bad for us.

  Is the Management Board closer to making a decision what to do with the surplus capital, in particular when it comes to returning it to the shareholders?

  Like we've already told you, we have a certain concept which consists of leveraging the balance sheet. At this time, the Management Board is working on this concept, which on one hand will consist of giving some of the capital back to the shareholders and, on the other hand, incurring debt. We are working on this concept, however I cannot tell what the outcome will be because this does not only depend on the Management Board's involvement but it also requires the consents of the regulators such as KNF. We are working on it but I am unable to tell what the progress of our work is. I cannot make any comments on this.

Besides Croatia, are there any material M&A options for PZU?

Nothing has changed in that matter as of yet. We are considering options in Croatia and Slovenia. At the present moment, we do not see any options. We are watching the situation in ING, however there are very strong indications that ING is consistently going towards the IPO. I don't want this to be treated as a spiteful remark on my part but KBC also bet its chances on the IPO but it didn't come through. They tried, they didn't succeed and in the end they sold Warta. We will see how it will turn out for us. But at the present time, besides the potential options in Croatia and Slovenia, we do not see other companies which would announce their willingness to enter the process, and the Croatian and Slovenian companies have not yet even entered the sale process. They are in the process of announcing their sale.

- And now I would like to take questions from you.
- I wanted to ask a question about the dividend but Mr. Dąbrowski has already discussed that topic, so I will not ask any further questions, but you have said or at least PAP has quoted you as saying that this year the net result will decrease by 15 to 30% and this seems quite a lot when looking at perspectives for the investment result in the second quarter. There is a certain unknown in the second half of the year but this would suggest a significant deterioration of the combined ratio or some other thing about which we do not know.
- Prior to entering this room, I was warned that that statement had really caused some sort of disruption. This actually is not what my statement was about. I was talking about the result on investment, however my statement was understood is if I had said something else. Neither one of us nor myself would like to say what this result would be. On the other hand, despite the fact that the first quarter shows that the situation is difficult, we are aiming at the net result for the entire year at the level slightly better than normalized result from previous years. I do not refer to the previous year. I'm sure that this result will be good, however I cannot say anything for certain because anything can happen – if the rates begin to fall and they reach the level of, I don't know, 2%, then we will probably be able to achieve a very good result but we are not assuming such scenarios. We rather assumed stabilization of rates and their increase in the second quarter, and, with such an assumption, we predicted lower result and, like I've already said, investment revenues of approx. 30% or less, and this of course had an impact on the entire result, so one may presume that when it comes to the range for the net result, perhaps it is not 15 – 30, in other words, I don't know, 15 –, but I don't want to say a precise figure because I can see it gives rise to significant perturbations. However, the result will be smaller. When I'm talking about normalization, I mean years without 2012, and we continue to hope that we will maintain it. Of course, with the assumptions which I have mentioned. In response to a previous question about forecast for the net result, if the rates continue to decrease further, then this result may of course significantly improve, however at this moment we do not assume such a scenario because this can be a problem to our shareholders in the long term because it automatically deteriorates results in the next years.
- If I may ask one more question about the dividend, is KNF's stance such that any payment of the

dividend will have to be replenished with sub-debt capital or will the total capital position not change. Can one think about it in such terms?

- I believe that first and foremost a question regarding KNF's stance should be addressed to KNF. I believe that there are two aspects which should be discussed with the regulator. One aspect is such that there is a clear recommendation for the method of dividend payment and its amount, and it says that this is 100% and KNF said many times that this recommendation should be complied with. The second aspect pertains of course to the issue of PZU's capital position, and this is not the case that KNF says: if you give away then you must take, because the Management Board may also believe that if we are to seriously think about any acquisitions, then we should not give up some significant part of surplus capital in the current times, and therefore I think that this is how I would outline this work. On the other hand, I believe – i.e. this is not the case that I'm presenting KNF's stance – but it seems to me that from the regulator's point of view, the scenario in which capital is given away and the capitals are in fact leveraged is a better scenario than simply giving away the surplus capital because, and this is my opinion, the Polish insurance system is structured in such a way that we do not make any large payments for potential bankruptcy of a certain insurer – there is no such thing. There were works on something like this as part of Insurance Guarantee Fund (UFG) but it was never put in place. UFG really protects the market primarily from the persons who do not purchase insurance. It does not protect the market from bankruptcy and I hope – knock on wood – that something like this will not happen. The last time something like this happened was in the 1990s. In the case of bankruptcy, colloquially speaking, all the insurers pass the hat around to cover those liabilities, including potentially also PZU, therefore I believe that this is a better scenario from KNF's standpoint. On the other hand, the idea of leveraging the balance sheet – instead of giving away – is the idea with which the Management Board fully agrees. We believe that it is too early to opt out from potential acquisition opportunities, especially due to the fact that – like we frequently told you – it is one of the pillars of our strategy and one of the sources of growth.

  There were also two questions which have been asked over the Internet in the meantime.
- Yes, we still have questions submitted online.
- Then I will go online for a moment and then we will come back to the real world.

  Michael Christelis from UBS: can you give us some sort of guidance for the expense ratio as far as the entire year is concerned?

  I assume, like I've said before, that we should think that these expenses will either come to zero or they will slightly decrease, which should practically lead to a situation that the expense ratio should also decrease from 50 basis points – this is what I think and this is what I would expect, if not a little more. On the other hand, ladies and gentlemen, I also would like to say this because the journalists have asked about this – this year we will certainly apply cost discipline because we have difficult times, however at the present moment I would not assume that further significant reduction of costs would be the driver of creating the value for the shareholders in the next years, therefore, as you can see, we went down from headcount of 16 thousand to less than 11 thousand

and now there is the strategy to increase it a little bit. Now we would like to retain the costs and increase the revenue side because, as it is often said, the low hanging fruits have been picked and the only really significant driver or factor which would allow for reducing the headcount – besides those reductions which already are in progress – is the implementation of the IT system. This is possible, however we are yet to make a decision whether we will go ahead with this, but this is not a mass factor – we are not talking about thousands of people here, so this year, and also next year, if the situation continues to be difficult, we will be certainly using cost discipline. As we've already told you, we are optimizing expenses in different areas. These include HR expenses through various elements related to the payroll system, and there is also the issue of selling the real properties – at the present moment we are trying to sell a lot of real properties but this is not easy because the market is quite difficult. I am talking about real properties for operational purposes, not for investment purposes. We are trying to optimize the chain of deliveries, however in our case this is not very important because our business consists of providing services and we are not a manufacturing plant; so we do not build value on e.g. the fact that we are able to deliver 100 – 200 million per annum while continuing to save. On the other hand, I'm sure that this year and perhaps the next – if the situation does not improve – will be the years during which PZU should not see a significant increase in expenses.

Second question – Valentina Stoykova from Merrill Lynch. This is the question which was already asked, i.e. what will be the result.

So I will repeat it once more. Calculate the average for most recent years, last year excluded, and I think that we will be happy if the result is a little bit better than the average for those years. On the other hand, like I'm saying, it is very difficult for us to make such forecasts because the markets are very volatile and if there is a significant decrease in interest rates then investment revenues – like last year – will be quite high. And when it comes to insurance activity – because I was asked about the combined ratio – it is an important factor. As far as revenues are concerned, at the level of the entire Group we would like to have revenues between 0 and 2% – i.e. the breakdown of 2% or perhaps a little over than 2% on the side of life insurance and something between 0 and 1% on the side of non-life insurance. Like I've already said before, we have very high profitability in insurance and this profitability will be deteriorating as the year goes by, however, in the scale of the year, it should not be significantly lower than profitability which we recorded in 2012. We previously predicted that we did not see any significant problems when it comes to this year's insurance profitability, and this normalized level of 96-97% is the level which – knock on wood – we will not see this year, and we should be slightly below or rather closer to last year's results – I'm talking here about non-life as well as life insurance, and therefore we should have really good results when it comes to profitability. They will not be better than last year but they will be really good taking into account the insurance segment.

– I have a couple of questions, the first one of them pertaining to premiums. Practically every quarter the Management Board appeals to the insurance market not to go the path of a price war. Taking into account the fact that we are experiencing economic slowdown which affects the amounts of premiums, is there also an additional pressure from other players when it comes to prices in the non-life segment, motor non-life segment or non-motor non-life segment? And the second question is more specific and it concerns the premium. PKO BP has recently announced its intent to enter into an exclusive bancassurance contract with a big player. Is PZU considering participation in that process? And if it turns out that it is excluded from making sales in cooperation with PKO BP, will this have a significant impact on the amount of premium?

– When it comes to price pressure – we do have price pressure because, in my opinion, last year surprised the entire market with its return on assets, companies improved their equity and slowly began to reduce prices. When you take a look at market statistics, and unfortunately we do not have these data yet and the work is still being done on them, not only in PZU, but we are doing our best to get those statistics to you as soon as possible and I hope that in a few days some data will be published and later we will have tentative data from KNF, you can see that these average premiums on motor insurance – because this is the main segment in which there is competition at this moment – are decreasing. This is not a significant decrease. We are able to see this pressure but this is not a very strong pressure and we hope that this pressure will be decreasing because the declining rates of return are a problem to everyone in the longer term. So, to answer the question whether this pressure will have impact on premiums on the market – I'm sure there will be some impact. Will it have impact on PZU's premiums? In general, PZU, when it comes to movements in prices, is trying to be the leader not the follower, in other words, when the market began to increase prices, we waited and then we began to raise the prices, however we did not increase them as much as the market. Is it possible that PZU will reduce prices at some point in time? This is possible. There is no such intention at the present moment. Of course, it is possible because we are very profitable at this time. On the other hand, if PZU reduces prices, such a price reduction will not result in increase in premium on such a difficult market, therefore we are very careful when it comes to such operations. If the market were robustly growing, if we had very good economic situation, the number of insureds would be increasing and the reduction of prices would be reasonable for every significant player, not just PZU, because such a player is able to gather more risks when prices are lower. At the present moment we see that the market is somewhat idle, and it doesn't matter whether we would take some risks away from some other player because we would take them at significantly lower prices, therefore at this moment this would not have any impact on PZU's premium in the short term – and by "short term" I mean this year, and we will see what comes next. Interest rates are a very big unknown. If we were in Japan, doing business at the combined ratio of 105 – 110% would simply amount to eating one's own tail because on that market it is not possible to offset something with the assets, so this is the first question.

Responding to the second question – yes, PKO BP has launched such a process. Of course, all the important players are involved in that process, and we are also participating in that tender. And what if PKO BP selects other player than PZU? I believe that at the present moment this is the question which is difficult to answer because it pertains to development of distribution channels in Poland, i.e. how important bancassurance channels will be. When it comes to non-life insurance, at the present moment we do not see a particular increase, however it may be the case with respect to life insurance. This is the case with life insurance, however there is a very big question mark when it comes to the future development of life insurance, in particular individual insurance, so if PZU is not selected, then I believe in the short term this will not have a significant impact on PZU's gross written premium. It may be important for other reasons, for example from the standpoint of PR, and it would be a certain problem as far as PR is concerned, however this certainly is not an issue of a significant decline of premium. PKO BP is not our main bancassurance partner and I believe that if other players are not selected, they will have a bigger problem than we would have. For PZU this is a short-term issue. In the longer term, if the Polish market goes towards the bancassurance channel and this channel gains a significant share, then of course an alliance with the largest Polish bank will be very important. So, like I'm saying, this is a very complex issue and we have a certain shared database of clients, and in the past we even shared the same locations, so we are definitely participating in that process and we are interested in cooperation. It is very hard to say what will happen – and, of course, if we are participating, then we are not interested in a defeat – but it is also hard to say what will happen if we are not selected.

- I have one more question concerning investment performance – it concerns slide 25.
- OK, I'm going there.
- When looking at the structure of PZU's investments, the main question is about the risk appetite in the segment of corporate bonds or broadly understood corporate debt. To what level do you intend to go down with the share of government bonds in the entire portfolio? And I also have a question about profitability: what is the current relationship between profitability of corporate debt held by you, including repo, and the Polish government bonds?
- I would avoid including profitability of repo because such profitability of repo is not very high since this is arbitration on lending money and we are talking here about very small profitabilities. We have not set the goal to go down with treasury bonds. We have the goal to build exposure to corporate debt, and this goal, which we have set for ourselves, is quite ambitious – it is a little more than PLN 10 billion, i.e. practically 20% of assets, maybe little less, perhaps between 15 and 20%, this is the kind of ballpark we are talking about. We are achieving that objective very slowly – because neither the market is big enough to give us good opportunities nor we are very eager to do this. This is a very good question because this year is very difficult as far as the execution of this strategy is concerned. On one hand, as you can see, these margins on the corpo debt – and I unfortunately cannot state what those margins are so I will not say it – but these margins are getting smaller and smaller, especially for the clients whom we generally want to finance. And obviously we are looking for large clients, not only safe but also large ones, because we are not building our structures on the level of exposures of, I don't know, PLN 10-20 million, because this is quite expensive from administrative standpoint. We are trying to look for larger exposures, but

there are not as many such clients and those clients are also credible enough to the banks so that those banks provide them with financing below 100%, I'm sorry, 100 basis points, i.e. above BPOR, and sometimes even significantly lower than that, i.e. even 90 basis points. So right now we have a discussion concerning the extent to which we should execute this strategy this year, or whether we should put it on hold and resume it when the situation begins to return to normal and when the spreads go a little upwards. On the other hand, if there are safe accounts, then we carry out the investment. This is some sort of alternative to the decreasing profitability of treasury debt because, as you know, everything there has its maturity and this part of the market overvalues itself on an ongoing basis, but this HTM portfolio is worth PLN 20 billion and certain parts of this HTM portfolio begin to slowly reach maturity, and this is a very big question mark as to what to do. Like I've said, in the short term, a decrease in rates to a very small level, like the 10-year bonds which decreased to less 3%, looks very good in our indexed portfolios, however in the long term, the profitability of this HTM portfolio, which stabilized the result, is decreasing.

- May I? I have two quick questions about non-motor insurance. As I understand, in the mass segment there was the issue of agricultural insurance and improvement in operating profit from -40 to +70, and this PLN 170 million is largely comprised of this agricultural insurance, but there is also an improvement by PLN 40 million. The question is: what is it comprised of? And the second question concerns the issue of hospital accident insurance last year. Was a significant operating result recorded there? Since it was a new segment, how that business was assigned and what was the assumed combined ratio? Has the absence of this business this year changed the year-on-year result to some extent, because it is flat, is that correct?
- When it comes to agricultural insurance, I would like to say, I'm sorry, could you repeat your question because I understood that in general, agricultural insurance improved as a result of barley crops, and we are simply better on barley, is that the question? Or does the question pertain to all non-life?
- And this is in the mass segment?
- In the mass segment, yes.
- OK.
- And there we are PLN 170 million better.
- And what is the reason for improvement by the remaining forty-some million? Is it just a rough estimate? Is it attributable to other agricultural insurance?
- No, no, no. Generally, this is simply increase in profitability on other business lines. I do not have detailed data for this business and I am unable to show them to you, but in general there is also quite positive growth there when it comes to market volume of that business; this is mostly in the non-motor mass insurance segment other than agricultural insurance. And when it comes to hospitals, we did not assume significant profitability on hospitals, and the fact that we no longer have hospital accident insurance should not have a significant impact on the profitability of business but it only affects revenues. We rather assumed that profitability would be close to zero. On the

other hand, we do not yet know what really was going on with that product because it was a product which was introduced and discontinued. There were losses, and it wasn't the case that there were no losses, but we were very prudent with that. You have to be very careful with such products, so this is not the case that if the premium and the reserves were set in a very prudent manner, this would not have any significant impact on year-on-year profitability.

– Is an increase in competition visible in the non-motor non-life segment or not?
– Excuse me?
– Can we also see an increase in competition in the non-motor non-life segment?
– Competition is growing, however with respect to that segment I would like to give an indirect answer but I believe it will reflect what I think and what should be discussed here. A journalist asked me a question at the previous meeting what should be done so that there would be no price wars on the Polish market. And in my opinion, a general answer is that it would be very helpful if the market structure changed, in other words, that market stopped being dominated by mandatory motor TPL insurance. And, of course, there is competition on the market of this voluntary insurance but this competition does not have such a significant impact on the prices because prices are not the only thing that's important there. There are important distribution channels there and the brand is very important there, so this is not the case that we are doing very well on that market which is generally comprised of the non-motor market and it is growing primarily in the SME segment. We do not distinguish between the SME segment and the mass segment; in our company, SMEs are part of the mass segment. So there is competition there, but this is not the case that we are significantly suffering there when it comes to prices.

In the meantime we had two questions from Mark MacRae from WOOD & Company. First question: can you give us some sort of guidance or outlook on an increase in administrative expenses?

I would like to stress it out one more time that total expenses will either not change or they will fall. Of course, the recurring expenses will probably fall slightly less and they will most likely be the ones which will not change. On the other hand, with regard to one-off expenses, we are slightly closing the tap for certain project activity which is not strategic from the point of view of the PZU Group.

Can I make a few comments about acquisition expenses?

With regard to acquisition expenses, there is a certain one-off event in the acquisition cost ratio. The settlement with AXA, which I've talked about, also has an impact on the settlement of acquisition expenses, and therefore if you take a look at the acquisition cost ratio after the first quarter, you will see that it is slightly perturbed by that one-off event. Generally, we assume that this year the acquisition expenses ratio may increase without this one-off event for no more than approx. 50 basis points.

And second question asked by Mark MacRae. OK, the question is as follows: can a further decrease in profitability of 10-year bonds be the cause of a further decline of technical rates? And the second question related to the subject: is that trigger also 3%?

As you have already seen, towards the end of the year the Management Board made a decision to decrease technical rates. Perhaps this is not as much the case with you, but we had a very strong discussion with the people from all over the world whether this was really necessary and whether this really should have been done all at once because the amount was significant and it also could have been spread over time. We made such a decision, of course while taking utmost prudent measures, and at this moment we are quite safe, of course "safe" with the quotation marks, when it comes to further decreases in technical rates. It's hard for me to tell which profitability of 10-year bonds will cause that we will once again consider it, it's hard for me to state a precise number, but I know for certain that this number is so low that I cannot imagine that this can happen within the next year or two. And this is what I would like to say on this subject.

- Yes?
- I'm sorry, I've just said that after the annual conference you suggested that if profitability decreased by approx. 100 basis points, such a decision would once again be possibly considered.
- It would be.
- It already decreased by 50.
- I know that.
- So I have a question: does this 100 basis points still apply or have we moved lower?
- Of course, yes, these 100 basis points of course are an important element. We assumed, and I've already talked about it, but I will say it one more time. A real problem for us is the profitability of Polish bonds staying at a level of less than 3% for a few years, however this does not have to be a non-recurring event and it immediately becomes a big problem. If bonds decrease to 2.50 next year, which I hope will not happen, then if they stay on such a level for the next year and the year after that, we will somehow be able to manage it because the foregoing reduction takes that into account. Of course, I would not expect, or rather we did not assume that in the next 2 – 3 years, because this is our assumption and this is the pessimistic scenario for exiting the crisis in our models, that it would be necessary to make contributions, because we assumed that those rates would later return to the previous level. General question is at what level the rates will be, say, in 2020, and we assumed the level of 3.10, 3.11, 3.15 – and this is completely a black scenario. So, at the present moment we do not have this kind of problem that we would have to once again make a decision to reduce. Of course, I agree that there was that 100 basis points because we calculated for 3.50, and it was the level of 2.50 at which we had a problem. On the other hand, these rates will really have impact – but we will not see it this year – on profitability of other products which we sell and which the entire market sells, because this is very clearly visible in the short term. And the new products which we are selling – and you will not see this through the move which we made or through the balance sheet – that these new products already have lower rates. But this is also the case that we – and I will get into details – on the other side of those obligations we have bonds in the HTM portfolio which are significantly higher. So, like I'm saying, we do not make any estimates as to what would happen, I would not like to just throw out random numbers, but these are the levels which are unimaginable now, if this debt is at 150 basis points, which is something

completely unimaginable, and the Management Board would really have to take that into consideration then. Because this is also the case that, first of all, the long-term profitability is the most important, not the short-term profitability, and in addition to that, the more it sinks below the ratio to those historic profitabilities and it may came back, the smaller this hole may be. So at this moment we do not assume, even if it drops below 3% and the recovery is to take place next year and this would not have to be recovery to 4.5%, the Management Board does not plan any movements in technical rates.

- If I may, I would like to once again return to that question about managing the surplus capital or leveraging the balance sheet. If I understand the process, talks with the regulator and internal arrangements made within the Company are the subjects for this year or are we talking about longer perspective?
- We are conducting talks at the present time, however it is difficult to say. There is a certain calendar of such operations which may be performed. And it is also the case that there are several mechanisms of dividend payment, and one of them is simply the dividend. As you probably know, the shareholder meeting will be on the 23rd, i.e. in 8 days from now, and at that shareholder meeting no such decision will be made. To the best of my knowledge, the agenda has not changed and it simply does not contain such a decision. So there is a certain corporate cycle in place which leads to payment of dividend. Of course, it is theoretically possible to pay some sort of dividend this year. I am unable to tell because we assumed earlier that this would still be possible this year and now it is moving somewhat – but it is still possible, however it may just as well be the case that it will be next year.
- OK, but since we are getting into so much detail, I understand that if any of the shareholders, colloquially speaking, has the need to receive such a dividend, then we can convene the extraordinary shareholder meeting and such decisions may be made during such a meeting – is that possible?
- Unfortunately, such decisions cannot be made by the extraordinary shareholder meeting, only the ordinary shareholder meeting. There is only one mechanism of such a dividend payment, namely it is the advance payment towards the dividend, and this is something which PZU did 2009, i.e. it made advance payment towards the dividend because the situation at that time was quite unusual – the negotiations were being conducted with Eureko and it was not possible to finalize all the matters during the ordinary shareholder meeting. And we would carry out such an operation through advance payment towards the dividend and the dividend would be additionally paid as part of advance payment.
- In other words, advance payment towards the dividend plus potentially dividend from equity as part of a single process?
- Without getting into details, this is possible.
- And I would like to return for one moment to the topic of foreign acquisitions. Mr. Dąbrowski has said that those Slovenian and Croatian companies have not yet even entered the sale process.

- Yes, that process has not started.
- And I would like to ask a similar question. Is there a chance that this process will be finalized before the end of this year?
- You mean the sale process?
- Yes.
- You know what, this question really should be addressed to the Finance Ministry because they are the ones who conduct negotiations in Croatia and Slovenia. In Slovenia, the situation is difficult because they have government crisis, so I don't know whether there is a finance minister in office at the present moment who could make such a decision. This question should be primarily addressed to them. Honestly speaking, I do not believe that it would be possible to carry out such a process that quickly if it has not even formally started yet. Because those Croatian and Slovenian processes were supposed to begin several times, and the Croatian process I think is more advanced, but I don't know. I estimate that this is not a simple process because these are the state-owned companies and the state has the decision-making powers. You can imagine that even if the state decides to begin the process, there will be several scenarios. We are interested in e.g. the controlling stake, and therefore there is a question whether those states are convinced that controlling stake is something that they could give away. I think that there will be plenty of discussions. We assumed that this process would end this year if it were to begin in the fall of last year. Then if the process began in the fall of last year, it would probably be finalized this year, but I don't think so. However, I would like to reiterate that this is the question which should be addressed to the sellers because the sellers are the bottleneck at this moment.
- And I only would like to confirm what you said previously. I understand that PZU is interested in purchasing only the controlling stake, or is it also interested in minority shareholding?
- I mean, because a statement was made on the subject of minority shareholding, and this is perhaps the issue of PZU's interaction with journalists – this is like the situation when we talked about the result, i.e. whether it will be the net result or the investment result which will drop by 30%, so I will say it one more time. PZU wants to have a controlling stake. I am able to imagine, strictly hypothetically but I can imagine the structure in which PZU gets a controlling stake, i.e. full control, and it purchases this stake in subsequent tranches, but I don't know how to restructure this. No, no, ladies and gentlemen, everyone knows that there is an obvious similarity. So we want to have a controlling stake, and Eureko did not have that controlling stake. Yes?
- [voice from the room – no microphone]
- Yes, but this was not the controlling stake. So, in other words, we want to have a controlling stake, which in practice means majority shareholding. And restructuring of the transaction, i.e. that we have the control but we do not have the share – is of course possible, and this is how we want to be interpreted by you. It is possible to build some sort of a structure, i.e. that there is control but it is maintained through minority shareholding, but like I'm saying, PZU is interested only in the controlling stake, and, as you are asking, it will depend to large extent on the seller whether this

will happen.

Do you have any other questions? Because I don't see any questions online.

Then thank you very much and I'm looking forward to seeing you at the next conference.

– Thank you very much.