Piotr Wiśniewski, Investor Relations Manager at PZU: – Good morning, Ladies and Gentlemen. I would like to welcome you to the meeting that will be devoted to the discussion of PZU's results after the first quarter of 2014. Our meeting will be hosted today by Mr. Przemysław Dąbrowski, Member of the Management Board responsible for finance, CFO of the PZU Group. My name is Piotr Wiśniewski and I manage investor relations. Our meeting, as is the case every quarter, is broadcast live on the internet and we provide a possibility of asking questions directly via the webcast page. The meeting will last up to 90 minutes. At the beginning Mr. Dąbrowski will briefly discuss the results and later will proceed to the Q&A. Now I would like to hand over the floor to Mr. Dąbrowski.

Przemysław Dąbrowski, Management Board Member, CFO of the PZU Group: – I would like to welcome you ladies and gentlemen to the quarterly presentation of results. We will start from walking you through the presentation. Its layout underwent a slight change, but all things change, and also our presentation was changed. Here briefly about the Group, maybe I will proceed here, this is a slight more devoted to general communication. A brief reminder. In the first quarter, at any rate we saw each other, we signed a purchase transaction with respect to the purchase of Lithuanian companies operating in Lithuania, Latvia and Estonia with RSA and we also made a decision to purchase Link4. At the moment I can say that we filed for consents with most authorities where we are required to seek consent in this respect, namely in Latvia, Lithuania and Poland, and we are in line with the schedule. We expect that perhaps the first transactions will be closing before the summer holidays and most transactions should be closing in the autumn of this year. And that's all by way of such update. Of course if you are going to have questions, ladies and gentlemen, we will answer them where we are able to. Coming now to the standard layout of the presentation. Briefly, some information about the market. Unfortunately, as always, such information arrives with a delay of a quarter. Here we are talking about the market after the fourth quarter of 2013 – that is about the whole 2013. The property market, 1.3% growth over the whole year against the previous years, which makes it a very poor growth. As you remember, ladies and gentlemen, the first six months witnessed a nominal decrease, the market was shrinking, the third and fourth quarters were better. On the right hand side we see the profitability, the profitability of the market was very high and hence this high profitability meant that when the situation started to improve in the third and fourth quarters that situation relating to rates of return was clarified (those rates I think in some ways inhibited intentions related to decreasing prices and then significant decreases of prices in the market started. The life insurance market. Here we present only the regular premium, also a mediocre increase, only 1.5%. Profitability stays at a similar level. All the time we are dealing with, as we discussed many times, with unclear future of investment products. On one hand we are witnessing changes in law and on the other we are seeing class actions against quite a few insurance companies. You also probably see, ladies and gentlemen, that every now and then we are receiving information that more and more companies lose their cases or even before losing the case they start reimbursing claimants with funds. For sure the market of individual life insurance in Poland is coming through a turning point and the future of this market, the way it is going to look like, is a very good question but the answer is very difficult, I will revisit this issue later when I am going to discuss our performance. The market position of PZU – speaking of PZU Życie [PZU Life}, well we are still maintaining very high market position mainly thanks to our group products and continued individual products. Speaking of PZU SA, here we are still above 30% but there is a drop of one percentage point. What is happening? Last year was the year in which motor products were selling very poorly. In nominal terms the insurance motor market shrunk, but as we assume this year a strong role was played by non-motor insurance in the segment of corporate customers. This is by the way the picture we assume for this year. Given that at the beginning of last year we first of all witnessed a weak internal demand and then price cuts started because everybody is very profitable and hence price cuts appear in the motor segment. For this year we assume that also the motor market will be very weak but the main thrust of growth is expected in non-motor insurance, especially in the corporate segment. What is very important then, all the time the PZU Group assumes that it will maintain at least a 30% market share. The objectives outlined for this year: move with the market, we assume that maybe we are a little more pessimistic than a few months ago and we assume that the market will be rather stable, maybe it will witness a growth of 1% and this is our objective for the Group when speaking of revenues. Operating performance after the first quarter, first a brief narrative and we will proceed to numbers in a moment. First of all, two transactions. One transaction which is meant to crown our presence outside Poland relates to the Baltic states. The second transaction relates to the beginning of the implementation of the strategy for two brands. We thought about it a long time, the ideas relating to two brands appeared between 2010 and 2011, at that time we made a decision that we would not create a direct company under the PZU brand. So, as you know ladies and gentlemen, theoretically one can buy a direct policy in PZU but we are not promoting it at all: this the distribution channel we are not promoting. After we made the decision that we are not creating "direct" under the PZU brand an idea of two brands was developed. But we decided that building of a second brand by the PZU Group would be very costly and come with a lot of risks hence when a possibility of buying Link4 cropped up PZU took advantage of it. Apart from those two issues connected with acquisitions there is third very important thing we did, namely we offered customers who have bare TPL motor insurance with us a possibility to relieve them of the burden to adjust the claim with a different company and we decided to do it on their behalf. We expect that this process should improve the situation when it comes to the competitiveness of motor TPL insurance. Not only the price should now decide when a choice is made about the selection of this insurance as there is certainly a difference in the quality of claims adjustment between PZU and other players.

First of all, we are better so customers should choose us even if we have more expensive TPL insurance. Secondly, which is also very important at least for some players we should increase, for some players, in actual fact increase the costs of claims adjustment and benefits as there are players who I should say not in line with the rules of the game, not even the rules but some good practices adjust those claims. At the moment when such a claim is adjusted by PZU in line with PZU standards there is no legal way of questioning of the amount of the adjusted claim. As I said, direct claims adjustment is also a very significant event which, first of all, can help us better function in the motor TPL insurance market where to date only the price was a decisive factor, secondly, at the end of the day, our move may increase costs of claims adjustment for some players, but for customers things will be better as they will receive better quality of claims adjustment. Coming back to the slide, we are always maintaining cost discipline and we are implementing the Everest project. At the moment the pilot implementation is underway in Lublin, at the moment subsequent parts of Poland are joining the project. Next year we should have all our sales function and all our operations in the area of the individual customer in the new IT system. Now coming to business. Very profitable, all the time very profitable property business. At the moment combined ratio for the mass customers stays at 81% and at 79% for corporate customers. Low frequency of claims in motor insurance. Low level of damage caused by forces of nature. So as you saw, ladies and gentlemen, what was happening: very good weather, mild winter, smooth transition from winter to spring, lack of widespread damage when it comes to agricultural insurance. And when speaking of life insurance, well, in our core area – namely group insurance and individual continued insurance – quite good 2% increase and very high profitability. With respect to individual insurance now we are going to witness a drop in revenues caused by two reasons, first of all slightly different behavior of banks which distribute those insurance products and slightly different behavior of PZU, this I will address in a moment. Investments. Year on year we have been better, to a certain extent because the first quarter of last year was also very weak and to a certain extent because we have slightly better situation when it comes to profitability of bonds. The slide that shows the numbers. One could say that slightly at the first glance it is stressful as it accommodates four graphs and we suffer a drop four times. But when we drill down to details: when it comes to the premium we have a premium that is lower than a year ago – by 1.6% – this is the result of a lower premium in two segments, that is the segment of individual property insurance and the segment of individual life insurance – then so to speak in two segments we have drops, when it comes to group insurance we have recorded an increase, when it comes to corporate property customers we have scored a small increase, in principle we are at the same level as the one recorded a year ago. Whilst walking through individual business lines I will be commenting revenues for each of the lines. When it comes to net profit – PLN 760 million versus PLN 837 million. But one needs to bear in mind that last year we had two large one-offs. We signed a settlement with AXA France which closed a multi-year reinsurance policy for TPL insurance and the green card and in the first quarter we started the consolidation of the real property funds, which rendered – in accounting terms – an effect that something from capital went through results and returned to capitals which gave PLN 167 million. If we had taken away the two main one-off items in reality this would have rendered an increase by 18-19% so when it comes to profit we are happy, we think that it is a good profit. Speaking of the first quarter, quite robust and promises good performance for the whole year. Shareholders equity, well it is lower but in November we paid out PLN 1.7 billion by way of interim dividend which came from profits – from retained capitals so it could not have been better. ROE down by 0.4 percentage points so in principle at the same level as a year ago.

Now coming through the main business lines. As I have already said, in group insurance individually continued, we are positively surprised by the increase in revenues and when it comes to profitability it was as we expected. A year ago, in the first quarter, one could say that the result was abnormally low also because we witnessed very many deaths and indeed, if we analyze the data, also the data from the Main Statistical Office I indeed cannot give the reason for this phenomenon. The Main Statistical Office also indicates that in the first quarter of last year there were more deaths in Poland than is normally the case in the first quarter and also in comparison to other quarters, so a year ago the first quarter was slightly weaker than it normally should have been. Secondly, we are still continuing efficiency measures, we are optimizing our processes with respect to benefit adjustment. We also had, as mentioned before, introduced slight changes to the individually continued product, we partly decreased the cost of reserves and as a result – as you can see ladies and gentlemen – we see a two per cent increase in revenues and well, very high profitability 21.8% in the first quarter from this segment. Individual life insurance. Here, unlike in the previous slide, we have two drops, revenues are dropping, APE is shrinking, and profit is also suffering a decrease. Ladies and gentlemen, what is the situation we are facing? In the first and second quarter of last year we witnessed very big interest from our partners from the banking sector in investment products, and in particular in structured products. We saw the explanation of this phenomenon in the fact that in the environment of very low interest rates banks channel the stream of customers from deposits and other products towards those insurance products that we offer. At the moment we are no longer observing this trend. And this is the first thing. Secondly, the PZU Group decided, at the turn of 2013/2014 to concentrate mainly on sales of coverage products, regular coverage products when it comes to all the channels apart from the banking channel.

We simply – as the Group – since we didn't know what the resolutions would be with respect to class actions I mentioned already and we also didn't know what the situation in the market would be after the introduction of the product card we decided to temporarily suspend the sales of unit-linked products in channels other than the banking channel. That is why it is purposeful and it is the assumption of the PZU Group, those are not products on which we made a lot of money. As you know ladies and gentlemen, partly in those products there always appears a question whether customers make money on those products. We came to the conclusion that in reputational terms it is too big risk for us and until the situation in the market is clarified we abstained from offering those products in new sales. Property insurance, the corporate segment. Here we are – when it comes to the premium – at the same level as one recorded a year ago but we are happy as profit from the operating activity is growing. This profit, here we have a similar level when speaking of non-motor insurance, we are growing in motor insurance, which is a consequence of historical measures relating to the optimization of the portfolio. Now I'm coming to the mass segment. Here we have a slightly different situation. First of all we have lower premium written and this is a consequence of certain price cuts we introduced at the turn of 2013/2014. As we have already discussed with you, ladies and gentlemen, in general the PZU Group itself is not the leader in price cuts but if we are forced to reduce prices by a decreasing demand for our products we of course introduce price cuts. We introduced certain price cuts, as I have already said at the turn of 2013/2014 and this drop is mainly the pass-through effect of those price reductions. Simply, in the first quarter of last year we had premiums which we were a few percentage points higher. At any rate when we look at the internal breakdown of the premium with a breakdown into motor and non-motor products we can see that here the drop affects motor products. Now, when looking at this slide, I will reiterate once again: our thinking about the market this year is that we assume that if it is going to grow, we say 0%-1%, if this market is going to grow it will be primarily growing in non-motor products, this is the main consideration, when it comes to the corporate segment, and not in the individual segment, in the mass segment, because the mass segment is not so sensitive to the improving business climate when it comes to non-motor insurance. Speaking of profitability, here this segment of our activity – in inverted commas – is affected by this incomparability as the settlement with AXA Franc was in accounting terms posted just here. The settlement with AXA France, the fifty three million we posted as offset of acquisition costs, since this is reinsurance commission it is also an acquisition cost, but in this case we are an intermediary, hence this settlement went through this segment. But even if we take away this element, when it comes to settlement with the reinsurer, we still have here, when it comes to operating profit, a drop of 14% and this is the outcome of two things. Firstly, we have lower revenues and when we have lower revenues than we unfortunately – given then same level of profitability –have a lower profit and a second thing, well, as I said, we decreased our prices slightly and this also has a slight bearing on profitability. And here if we look at the breakdown, we see that there is a drop of this profitability in motor insurance from PLN 177 million to PLN 120 million. Here some narrative, so I tend to think that there is no sense to discuss it as it is generally what I have already said. We may look at it. We are – at all times – very strictly controlling our costs. Indeed in our report administrative costs, which are shown, are growing by 2.4% but if we look at their normalization then normalized costs are still dropping. The increase is mainly attributed to one item, we simply incur higher fees to the guarantee fund in the National Depositary of Securities at PLN 20 million, this item simply did not exist before, this is a change of regulations which appeared in Open Pension Funds. And this is something that we simply did not have, that's one thing, secondly – the additional PLN 24 million is attributable to the implementation of strategic projects, which so to speak are not a repeatable cost. When speaking of repeatable costs, as you can see ladies and gentlemen, they are down by 5.5%. So we are – at all times – very tightly controlling our costs. This is something I have already touched upon as the presentation is distributed both among you ladies and gentlemen and is also made available to journalists and also has more narrative elements. Here we see the information about direct claims adjustment. I think that I have already said a lot about this subject at the beginning so I will not walk through those slides now but if some of you, ladies and gentlemen, have questions relating to the way it generally operates then you are all welcome, what we can say, when it comes to the process itself, as to the principle we assume that today direct claims adjustment is offered by PZU and partly by Warta. We assume that the whole market will upgrade to this practice, but it is not the question of one or two months. Already now we have received a commitment from Uniqa, we also have a resolution of the general meeting of the Polish Chamber of Insurance which accepts the migration to this system. Going forward, this model – if joined by all participants – operates in such way that there is a certain flat flee, which is calculated every year when it comes to adjustment of motor damage between insurance companies. Now the picture is that PZU indeed legally has a possibility to charge costs of claims adjustment to another insurance company if our customer who suffered in an accident had given us a power of attorney and we have a full right to charge another insurance company. I can say that at present we have already 2800 claims filed within the stream of direct claims adjustment and already we received money I think for for two claims, bear in mind we started in April, so no we are speaking about a month. As to the principle, we do not expect problems going forward when it comes to collectability of those moneys from other insurance companies because – as I said – they are legally bound to transfer those funds to us. And – as I said – the purpose of this measure is first to change the way of thinking about the motor TPL products since when having our TPL with PZU we rest comfortable that God forbid someone does something to our car PZU will have it repaired and

PZU will later bother about collecting associated costs from another insurer. And there is a second very important thing – it should raise a little claims adjustment standards across the entire market. The dividend. As you know, ladies and gentlemen, today not only did we announce our results but yesterday the Management Board adopted a resolution whereby it proposed to distribute profit among shareholders. We are proposing the highest dividend we have paid to date – counting since our floatation on the WSE – PLN 54 per share. Although from PLN 54, as you know, PLN 20 was already disbursed in November last year. So we are proposing the disbursement of another PLN 34. A certain novelty we applied is that we are dividing the PLN 34 into two tranches. We propose to split the payment into halves. One tranche will be disbursed in a routine manner so we as a rule pay on the last possible date namely 3 months since the General Meeting plus roughly 15 days. The dividend day: 3 months since the General Meeting plus approximately 15 days, the General Meeting is scheduled for 17 June, 17 September is the dividend day and thereafter around 2 weeks – this is the first tranche, the second tranche would be disbursed on January 15, 2015. What's the origin of this idea? Ladies and gentlemen, this is an attempt to combine our strategic assumption that we are a dividend focused company and that – if nothing serious happens – be it a good thing like big ticked acquisition or bad thing like a catastrophe we pay high dividends, with transactions we completed this year and the discussion about subordinated debt. Hence we assume that as I said that perhaps some transactions from the RSA ones will be closed before the summer holidays but most transactions will be closing in the autumn and this will mean that at the end of the year the PZU Group could end up with a pretty low ratio of coverage of reserves by assets given our standards. Our standards stipulate 110%, but it could be, I don't know, 1 or 2 percentage points less. And – when it comes to capitals – here we are not having an issue but instead there is something which I refer to – the second coverage ratio – assets versus reserves. In case of capitals the disbursement of the dividend, and in general a resolution about the dividend automatically changes the capital situation. So at the moment when I have the resolution of the General Meeting I, in reality, take away two billion nine hundred million something from capitals and this has a bearing on liabilities. In case of ratios that relate to the coverage of assets and liabilities we have a cash-flow oriented thinking. From that standpoint for PZU the rescheduling of the payment of half of the dividend until January means that we – as a Group – are able maintain a higher ratio of coverage of reserves by assets as at 31 December 2014. Why is this is so significant? Because if you take into account the recommendations of the Financial Supervisory Authority (KNF) then those recommendations which permit the disbursement of dividends exceeding 75% of profit define the criteria that relate to the coverage of capitals, coverage of the margin but also coverage of reserves by assets. The purpose of this exercise is the possibility, even let's say even if this possibility probably exists, to minimize the risk that we would be bound by the 75% cap next year. So by disbursing the second tranche on January 15 we will minimize such risk and the Management Board will have free rein to recommend a higher payout ratio next year. And this is so to speak the entire reasoning: that is why we proposed such dividend payout. Now let me come to a more financial part when speaking about our performance. As I have already said year on year we have been witnessing drops when it comes to premium written. When we make a comparison against the fourth quarter of last year this is of course more. But it is more primarily because such is the seasonality of premium written in property insurance. Premium earned. Here one may ask a question why there is a difference between premium earned and premium written. Ladies and gentlemen, now we are bound by accounting principles whereby we are obliged to report as revenue everything, every insurance contract we have concluded even if coverage of this insurance is starting in 2 or 3 months' time. Actually, in the first quarter we had more of such instances so this premium earned is slightly lower than premium written. The result on investment activity better is 24% better than a year ago, well unfortunately weaker than in the last quarter. We are all the time waiting for WIG (Warsaw Stock Exchange main index) to recover and reach the levels forecast by all analysts last year. Net profit PLN 760 million, PLN 837 million a year ago, PLN 528 million in last quarter. This is also a certain seasonality, one should bear in mind however that the fourth quarter in case of an insurance company is the period which so to speak, owing to the nature of insurance business, which is very frequently annual, closes technical reserves in full. When speaking of shareholders' equity, as we have already said, ROE 22.5%, the combined ratio slightly up against last year but bear in mind the settlement with AXA France. This is a bit detailed slide but it presents a breakdown, let me know refer to the printed version. The breakdown of our insurance activity into the main business lines. Mass insurance, here the premium dropped by 2%, when we look at it this is it is so to speak a confirmation of what I have already discussed. Motor TPL premium lower, by 8%, than a year ago. This is, as I said, the result of slightly lower demand and of slightly lower tariffs that PZU applied. The combined ratio, higher than a year ago but one needs to bear in mind that from the 91%, when it comes to mass motor TPL, a significant portion is owed to the impact of the settlement with AXA France. Motor all risks insurance (autocasco) at a similar level. Well and a small increase in non-motor insurance but still we have it for mass customers for premiums, in principle a similar profitability. When speaking of corporate clients, here – as was the case with individual customers – premiums are also dropping but we are having a big increase in non-motor products which we distribute among larger companies and this so to speak something which I already mentioned we assume that this year the market will witness a strong growth in this very segment. At any rate for the first time last year i.e. since we have monitored the market, so let's say for some dozen or so years the mass and corporate segments were at par in our terminology

I sometimes say “individual” I generally mean the mass segment – this refers to individual insurance – natural persons plus small companies. It seems that the segment of small companies is growing very fast but the pace is not fast enough to cover for the growth we have in larger companies. I am saying that we for the first time have witnessed something like that – those segments were at par although historically due to motor insurance the mass segment had always been larger. Profitability levels in corporate insurance are improving. This is all the time the outcome, particularly in motor TPL, of measures taken in previous years when it comes to cleaning of the portfolio. Life insurance, group insurance and continued coverage are growing by 2% nt and profitability is very high. Individual insurance, well unfortunately, a large drop and profitability a bit better because the structure of this portfolio is changing slightly. When it comes to our operations outside Poland it is interesting, in property insurance we are witnessing a drop. This drop is mainly caused by the Ukraine, but, Ladies and Gentlemen, if this was not expressed in hryvna we would have an increase, our premiums in hryvnas are growing in the Ukraine, I am not sure, 9%, 10% year on year but there is a problem with the exchange rate. Life insurance premiums are growing so fast that despite the fact that the exchange rate dropped by twenty something percent the life insurance is growing in nominal terms, here we have an increase by roughly 7.5%. What is interesting is the fact that in the Ukraine, that apart from problems with the exchange rate and growing costs of claims in property insurance we are not observing any large slowdown of our business. By way of referring to a curious titbit I will say that in this presentation there is a map which shows where PZU is present and I was asked by journalists, because Crimea is also marked on it, indeed we are no longer present in Crimea because the Ukraine adopted a special Act on Occupied Territories and this Act prohibits financial institutions from conducting their activity in such territories which slipped away from Ukraine’s control so PZU had two branches in Crimea but we have already closed them. But in summary I am saying, when looking at the revenues of our companies in the Ukraine that we do not see a significant slowdown. The loss – with respect to the result, I suspect that this also the issue of exchange differences and revaluation, I cannot substantiate it exactly we are speaking in the region of PLN 11 million. I am more saying, apart from the fact this market is mentioned more like a titbit, because ladies and gentlemen when looking both at revenues and profits this market is still not a significant part of our business. This quarter is much less abundant with one-off events. In practice one thing that we report is the result of a conversion. We did not have any significant negative or positive events. Last year was abundant with them. Walking through those main segments and breaking down the profit into components. Group insurance and individually continued insurance. We have a better premium, we have slightly better result on investment activity which is also of significance. Lower claims and benefits paid. We have higher changes in technical and insurance reserves because we are changing slightly, in some products we are reducing the rate further, a measure connected with being very conservative, a small increase in acquisition costs, a drop in administrative costs, as a result the operating profit is growing by 9%, almost 10%. Individual life insurance, here we are at the same level as historically recorded. Much worse premium written. It's better when it comes to investment activity, we have a better situation when it comes to the change of the level of other technical and insurance reserves, but this is also corresponds to those lower revenues. The acquisition costs – slightly higher, also an uptick in administrative costs, as a result in principle almost the same level. Combined ratio in corporate insurance and property insurance. As you can see, Ladies and Gentlemen, the main improvement: loss ratio, as I have said it is still the result of historical measures, improvement of the portfolio, all the time it is yielding positive results for us. Property mass insurance. The biggest impact on the increased combined ratio is exerted by the acquisition costs ratio as I have told you, ladies and gentlemen, this is marked here, almost 5 percentage points are owed to the settlement with AXA France. We have slightly growing loss ratio but, as I have said, we simply have lower tariffs which we have been reducing at the turn of the years. The result, better than a year ago, slightly changing structure, all the time we are seeing a decrease in the level of debt securities. We slightly increased our exposure to the Stock Exchange. Of course all the time robust capitalization, very strong, very high coverage ratio for solvency margins. High level of capitals.

And that's I guess all when referring to the presentation. Now I am inviting you, Ladies and Gentlemen, to the Q&A session.

Marta Jeżewska-Wasilewska of Wood&Company: – Good Morning Marta Wasilewska speaking. In principle one short question related to the further development of the situation in the market for insurance prices. You effected a price cut at the turn of 2013 and 2014. Now we are in the middle of May, half of the second quarter, we have already walked through the first quarter, are you seeing further pressure or was it somewhere generated, adjusted…

Przemysław Dąbrowski: – We are now observing a pressure in the market. For the time being PZU is not planning any downward moves because it seems to us that the adjustment we effected is sufficient so we do not see any large erosion of risks. But for the whole time the pressure exists because results and profitability of property insurance companies were very high last year so – so to speak – all the time so to speak there is room for those cuts. On the other hand we are of the opinion, and also count on it, that part of large insurance companies will be conservatively approaching this subject, because we have, indeed, somewhere approaching the subject of compensations for the period 2004-2008, where this is a serious subject and indeed nobody knows what its scale is going to be. Small players or players that have existed for a short time can afford to skip thinking about it. But large players may face a problem with it. New additional regulatory changes are coming in, there is an expected KNF recommendation relating to the quality of claims adjustment and there is direct claims adjustment so I hope that no big changes, no large price cuts will appear this year because there a few things that are happening and they will certainly influence this market. But the pressure is still around.

Marta Jeżewska-Wasilewska: – Maybe yet another question by way of clarifying the details. You said, in your interviews with journalists and also repeated it at this conference that you are expecting an increase of gross premium written up to 1%, but do you mean the entire premium of the Group or did you refer to property segment?

Przemysław Dąbrowski: – Namely without Life, so it pertains to property insurance

Marta Jeżewska-Wasilewska: – So the property segment.

Przemysław Dąbrowski: – Yes, yes, property insurance.

Iza Rokicka, IPOPEMA: – Could I ask for an update when it comes to regulatory issues and the amendment to the act on insurance relating to subordinated debt when possibly one can expect those changes to happen?

Przemysław Dąbrowski: – So, so to speak, one can say that we remain in constant exchange of communications with the Financial Supervision Authority (KNF). Because as you know, ladies and gentlemen, PZU still wants to issue subordinated debt. At any rate in order to implement a) the dividend policy which has been defined, it was changed but was actually changed in the section related to the payout of that PLN 1.7 billion, b) to potentially carry out further big ticket acquisitions, here we are not talking about any small acquisitions – well PZU needs to issue subordinated debt, we have remained in constant discussions and at the moment the situation is that KNF filed with the Ministry of Finance a motion to change those regulations, we have been informed about it and we were even authorized to make communications about it. So at the moment we are also exchanging communications with the KNF and the Ministry of Finance. A pessimistic timing is one year, in my opinion an optimistic one is by the end of this year. The optimistic timing assumes that it would need to happen on the occasion of some other change so if some other changes crop up then this change can also be introduced. There is for sure only one change, only this one, its deadline is the end, first quarter of this year, I am referring to Solvency II because the law has to change for Poland to be prepared for Solvency II as a country, and not as companies, yes. So this is the picture at present. We, ladies and gentlemen, are also wondering because we at any rate told the journalists that we are considering a situation, in which owing to the fact that we made an acquisition or are effecting an acquisition we will be needing PLN 1.5

billion in Euros, we are thinking whether we should issue senior debt at that moment, instead of subordinated debt, in which case instead of buying Euros we would simply have Euros to fund, actually not quite to fund, but to pay RSA. And later, in actual fact after this Euro issue, we would issue subordinated debt in the autumn or in the spring next year.

Iza Rokicka: – If the issue of this subordinated debt would happen as late as next year so in the spring would one be able to count on part of this dividend from prepaid capital payable during the fifteenth year.

Przemysław Dąbrowski: – Such is the assumption, meaning such is the assumption that we do it in the spring so before the resolution about profit distribution.

Marcin Jabłczyński, Deutsche Bank: – I have three questions. The first one relates to compensations (redress). Is PZU prepared from the reserves' standpoint and did it create any reserves for compensations and whether – I don't know – how it feels about this subject. The second question pertains to reserves and the 110% ratio you mentioned – is this some safe own ratio that PZU imposed on itself because it seems that 100% is the ratio that has to be complied with, isn't it so? I am asking this question in the context that it will have an impact on possible dividend yield in upcoming years and also on possible split of the dividend into tranches, if you wanted to maintain this 110% ratio. And the third question relates to Orlen Medica and the purchase of those medical assets, maybe some comment here, what would be possible next steps and whether you are planning so to speak to spend a lot of money on the medical infrastructure later?

Przemysław Dąbrowski: – When it comes to compensations (redress), Ladies and Gentlemen, at this moment in our opinion PZU is prepared for the potential size of historical compensation, we are speaking of compensations that result from claims that happened between 2004 and 2008. We are not speaking about those compensations, because they appeared in 2008, such a loss appeared in the market and, Ladies and Gentlemen and since that moment insurance companies, this not the best type of compensation because in legal terms it has been described badly as there are no algorithms, there are no limits and insurance companies across the entire market are somewhat prepared, better or worse, here the problem pertains to the four years since there appeared such a possibility, a window, where the Supreme Court ruled that there can be no difference in the disbursement of this compensation owing to this date, namely 2008. Since TPL insurance is effective 10 years retroactively we are speaking about 2014, I am sorry, 2004-2008. Ladies and gentlemen, I will say the following thing, of course we do not exactly disclose such information as to our reserves, for obvious reasons we do not boast it. At present I do not feel largely uncomfortable when it comes to PZU just for one reason, that we are talking about redress and the loss ratio is by all measures low so I should say that we are prepared for it. I think that other companies are not. Meaning they may be not prepared because PZU had a slightly different policy with respect to its reserves. PZU simply maintained quite high reserves, enjoyed high profits and was also able to increase reserves by funding them from profits. Well, our other colleagues, well, they did not have such a comfortable situation. So this is by way of the first question. The second question was, mhm, 110%. Meaning, 110% is in general the ratio which is defined by PZU but it is not so that it is detached from other ratios. It is also defined by BION namely the measure used by the KNF to assess insurance companies, at any rate not only insurance companies but financial institutions in general. In there they have two ratios: you have 110% of reserves and 200% margin coverage and if you meet those conditions there is no big risk that BION will above two, the lower the BION is the better. The condition one has to meet to be able to pay above 75% is to have the BION below two, two and less. So this is the first thing, yes. So this 110% is not solely an internal requirement of PZU. Secondly, there is yet another test, one that KNF carries out and this is the test which KNF carries out, this is the test that is based on measuring safety ratios at year end, and the second test is a stress test which says that we take year end and take away potential dividend recommended by the Management Board from item, one recommended by the Management Board and after the dividend payout this maintenance, coverage ratio of reserves should be 100%. I am saying that it is not so that we have come up with that, it is calculated in our conditions, the 110% enables us to so to speak pass the two tests, namely BION and the stress test connected with the dividend payout. Because at the moment when we pay out the dividend I don't know in capital terms, we are saying that in normally happens in June, it may also be May, in cash-flow terms we are talking about October, or now even about January, so our income statement and the balance sheet look totally differently because we are growing but it is defined in such a way that the base date is December 31 – simply year end. And the last question. As announced today PZU, although I don't know whether you, ladies and gentlemen, saw the press reports about statements made by trade unionists from Orlen about this transaction, I will say why, because so to speak trade unions are fighting for certain extension of some benefits which they have in connection with it, PZU indeed bought Orlen Medica, in reality it stands for two companies: one is Orlen Medica and the other is called Provmed. One of the services Orlen the other services Włocławek, I am sorry, Anvil, the Anvil factory. Apart from that Orlen Medica also includes a convalescent home called Krystynka located in Ciechocinek, it is true this is the case. We in principle acquired 100% of those companies. The whole transaction is worth close to PLN 50 million. The revenues of those companies, I cannot authoritatively say, now we are talking about, I don't know, PLN 30 million from medical activity. Well, ladies and gentlemen, this is the beginning of the implementation of PZU's health strategy based on acquisitions, but this strategy, well it does not assume any large acquisitions. Meaning it does not assume acquisitions at the level of say, we now will buy LUXMED from BUPA. The philosophy is that on the basis of some small network of branches one could build a large network of outlets based on franchising agreements, because for PZU possession of large medical assets is not an aim in itself. So for us the biggest value, when speaking of health, lies in in two things: this is distribution and management in general, traffic management, I would phrase it in such a way meaning a high level of detail, and in order to do it really we do not have to have this infrastructure and it is of course the case that by having a certain number of outlets one is first of all able to create a network based on franchising agreements and to acquire relevant knowledge. But it is not so that we are at this moment taking a decision about some very large health acquisitions. And also, ladies and gentlemen, this also not a particular secret, you have probably already read about it, because already last year there was a plan that companies with the State Treasury as a leading shareholder were expected to dispose of certain assets which were not part of their core activity, and it just so happens that Orlen is selling and PZU can buy, yes, consequently it is not an investment asset, it will be consolidated, if there were next assets to be acquired they would also be consolidated and in this presentation a small such line may appear – the Ukraine and Lithuania. But as I am saying, currently there is no assumption that we are having a large medical acquisition programme which is somewhere in the pipeline. We want to build a certain core base and around it want to build a franchising network because it for sure will give us possibilities to sell to our customers, but that's it what we are after, various subscriptions or medical insurance, today, which is a certain problem for us, we are selling a lot of medical insurance which is based on LUXMED. Hence, ladies and gentlemen, what is important and not visible in the balance sheet because we are talking about very small numbers but today PZU has a few own outpatients clinics and I do not know perhaps a thousand outlets based on franchising, maybe not fully franchised because there are such outlets which have collaboration contacts with us. This is somehow happening and is in a sense an optimization of what exists there.

Przemysław Dąbrowski: – OK

Piotr Palenik, ING: – May I? Maybe one, two questions.

Przemysław Dąbrowski: – Of course.

Piotr Palenik: – Can I ask you to quantify the average level of price reduction for those motor insurance products at the turn of 2013 and 2014?

Przemysław Dąbrowski: – That is what we did, yes?

Piotr Palenik: – Yes.

Przemysław Dąbrowski: – This was three-four percent..

Piotr Palenik: – OK. And the second question about the interest result. The interest result, in the investment result, it quite heavily was falling quarter on quarter, my question is what is the downward potential from the bond portfolio connected with the fact that yields now are now much lower than the historical yields. Thank you.

Przemysław Dąbrowski: – Interest result, and the first question was? Yes, I am sorry. Meaning, ladies and gentlemen, well I think that this year will be pretty heavy for you to model our result from investment activity because now we have a few things, yes. In the autumn we disbursed PLN 1.7 billion of extra dividend so these assets are simply smaller. Secondly, we have the following problem that the active rate from htm is dropping because last year we had maturing htm, we partly rolled it but not everything was successful but the rate at which we rolled is much lower. Well, unfortunately we had working htm 7-8% and this cannot be repeated at this moment plus, this already this is not directly the interest result but the questions, to name but a few, of valuations, movements on the rates. I should say the following: I am not able to say what this potential is going forward, I cannot quote an exact figure because we did not get into such detail but we estimate that rate of return on our assets this year, as to the principle, should be similar to what we had last year, yes. This is our assumption for the whole year. And this is so, so to speak, such a guidance.

I should say on all. No. Totally. No, on the interest portfolio it will be lower. So now I will maybe read questions asked online.

Michael Huttner, JP Morgan: – What are the prospects of subordinated debt issuance? **Przemysław Dąbrowski**: – If Michael Huttner had not registered I have a request to repeat the question.

Michael Huttner: – What are the prospects for price setting taking into account high margins.

Przemysław Dąbrowski: – We said what could happen, well certainly the price pressure is here to stay but there are a number of measures which should stop large players, well we are talking about compensations (redress), there are certain recommendations from the KNF. And on the other hand small players should directly feel claims adjustment.

Michael Huttner: – What are the normal factors, when it comes to weather conditions in the first quarter? Does one take into account 4% in the first quarter owing to hoarfrost?

Przemysław Dąbrowski: – I understand that you mean how much we estimate for weather conditions in the loss ratio. We don't have such estimates as to how good weather can impact our performance, yes? One thing which we once estimated. Meaning two things that we can talk about. In 2010 there was heavy snowfall but this was a loss at a catastrophic level so spoke there about PLN 170 million, well here we are talking, I don't know, over the year about at least four-five percentage points. And I what is also important. As we mentioned during the discussion: 2 years ago, 3 years we had large agricultural losses and then such a loss, such agricultural losses which crop up in the first or second quarter, we are talking about such large losses, then we are talking about extra amounts of claims disbursed at the level of, I don't know, PLN 70-80 million. This simply relates to overwintering of crops. Next question.

Michael Huttner: – 21,8 % of the margin on group insurance is a better margin than in the first quarter of 2013. Can we treat it as the margin for the whole year or are the margins still going to improve?

Przemysław Dąbrowski: – Certainly in this better margin there something of permanent improvement but – as I said – one needs to bear in mind that the first quarter was worse because simply there were more deaths in Poland, we also had slightly worse income from investments. Now those two things are indeed absent in the first quarter so I think that for sure one can forecast the whole year in group insurance in the way it ended last year, maybe there is going to be some uplift, but I wouldn't like to quantify it, for sure it won't be big.

Michael Christelis, UBS: – The English translation was inaudible during the dividend section can you please repeat the subject of subordinated debt issue?

Przemysław Dąbrowski: – Well, is interpretation working now? It is, fine, so I will repeat things once again. When it comes to the dividend itself I understand that it was understandable, we are disbursing it, there is a concept of two tranches, this concept is to ensure that we are able next year to disburse the dividend up to 100% of profit for PZU standalone owing to the maintenance of the ratio of coverage of reserves by assets, when it comes to debt capital, as I said, we are in exchange of communications with the KNF. KNF authorized us to inform everybody that it applied to the Ministry of Finance seeking an amendment of law. The KNF will support us and we will support the KNF. We are also exchanging communications with the Ministry of Finance. Perhaps it will be possible already this year to change this law. If this is not the case, well then a bleak scenario, that is more or less a year. In order to disburse the extra PLN 1.3 billion which we defined in our capital policy we need to increase debt, we need to issue this subordinated debt and we require a situation in which the KNF treats it as capital and, well, for the time being we assume that this will happen. The deadline for this operation is, say, April – May next year. Because then, more or less in April or May, the Management Board should adopt a resolution recommending the distribution of profits to the General Meeting. Next person please.

Vinit Malhotra Goldman Sachs: – PZU pays out the dividend of PLN 34, is this a clear message from the legal regulator that it will treat subordinated debt as capital?

Przemysław Dąbrowski: – We have not issued subordinated debt yet, in connection with it the KNF has not spoken about it formally, namely whether this debt, the formal situation is that we formally exchanged communications with the KNF in a working manner and until we issue the KNF will not formally say whether subdebt can be capital, but, by way of repeating of what I have just said the KNF declared that it conveyed the information to the Ministry of Finance that they are supporting us in this process and that, so to speak, they will not have a problem when the law changes – with PZU issuing subordinated debt and then they will treat this debt as capital.

The second question.

Vinit Malhotra: – Can you clarify to us what the level of one-offs is in 2013, in the first quarter, because there we had PLN 81 million, which is less than we had thought.

Przemysław Dąbrowski: – When it comes to the first quarter of 2014, but of course if someone asked me whether we think that it is so that 81%, 82% for combined ratio is a normalised level we think that for sure it is not the case. And now there three things which may happen in subsequent years which may cause the combined ratio to increase. First of all, the weather. As I have already said when speaking of the weather we cannot quantify it right now that when there is snow in the streets then you simply have more accidents – this we are not able to quantify. Speaking of agricultural insurance, as I said here we are ahead of plans, comparing maybe not the last year but two, three years ago. PLN 50-70 million up comparing to such weak years when it comes to crop insurance. There were no significant reserves, we did not release any reserves nor did we change prudency so that’s it. But of course next year may bring worse weather, yes and secondly, we don’t know what will happen to prices. As I said many times – this year from my perspective the biggest threat to our insurance profitability comes from the level of prices. For our competitors apart from prices threats include compensations, other changes in law and BLS. But different prices may be in operation. We are seeing a small inflation of the average loss but for the time being it is offset by very low level and frequency of losses. It is the frequency of losses which is really low and we are beginning to wonder because we are seeing, everybody knows, that an economic upturn has begun – and whether there some sustainable factors when it comes to the frequency of losses in the Polish market or that we are simply driving more safely, that it is safer because really we have a low frequency of losses. And although we have a small increase of the average loss, we have some inflation, 1-2 percentage points, it is offset by very low frequency. OK this we had, I will refresh it, is it refreshing? No, well this I guess would cover all questions from online participants. Yes, you are welcome:

Paweł Kozub, Uni Credit: – I have yet another question relating to potential reserves for the future and to releasing reserves for losses from previous years connected with low inflation, well in the current period which could move maybe to the next year, whether such low inflation may mean that from reserves established for the future period on different assumptions you can release those reserves now? Possible assumptions, as to future reserves, will be more optimistic?

Przemysław Dąbrowski: – First of all, the PZU Group pursues a very conservative policy with respect to reserves. So I suspect that if we were bought by a large multinational player then one of the things they would do they would decrease somehow, it is not so simple because in accounting terms one cannot just decrease the level of conservatism with respect to reserves, but of course one can change the assumptions. So we are pursuing a very conservative policy with respect to reserves and for the time being we do not see the need to depart from it, this is the first thing. Secondly, of course, when we are talking about such situations as compensations (redress) which crop up then our asset lies in the fact that we are very conservative with respect to reserves when compared to other players. Because once we could afford it, namely to implement it, we are still pursuing such policy, which you saw, ladies and gentlemen, well I don't know in the fourth quarter of 2013, in the fourth quarter of 2012. So of course this balance sheet is a strong one. But I can imagine that certain assumptions that we adopted historically will change to the better and then, of course, in certain areas of reserves you will able to say that somewhere a reduction of those reserves may appear. On the other hand one has to have a whole picture, yes one should look at everything. Here something is improving and somewhere else things may worsen. And I said PZU's balance sheet is a strong one. I think that it would be an interesting exercise, indeed an interesting exercise, I suspect that we will have in two years' time I hope that in this group of people and maybe even in this room although by that time we will have moved somewhere else because in two years we will probably be publishing, together with the results for the first quarter first results for Solvency 2. And then you will see, ladies and gentlemen, a slightly differently structured balance sheet. And such a look will be interesting, because indeed it is so that the balance sheet structured for Solvency II is more transparent than one for Solvency I and there you can see various risk margins which somewhere the company assumes. Well, that's it. I am repeating once again, I think that our balance sheet is very strong.

It seems to me that we have addressed all the questions. Thank you very much and as always I am inviting you to the more pleasant part of the meeting.