PZU – Presentation of financial results for Q1 2015 – 13 May 2015

Przemysław Dąbrowski, Management Board member, CFO of the PZU Group.

– Good afternoon, Ladies and gentlemen, we would like to get started, I understand that there are a lot of results being reported today. We have already started out webcast on the Internet, so we assume that there is a number of people waiting for us to get started, so we will start, as always, with the presentation, and then we will move on to your questions. Ladies and gentlemen, when it comes to insurance market, these slides perhaps are not very interesting because they show you the history and are based on the official data provided by the Polish Financial Supervision Authority (KNF). What's important in terms of non-life insurance is that last year unfortunately we had a nominal decline in gross written premium. The second very important thing is that the technical result has fallen, so if you look at the lower part of the slide, in 2009, when the market fell apart primarily as a result of depreciation of the zloty and as a result of change of the operational model of car dealers, then, in 2009, we had some losses in motor business, and then, in 2010, we primarily had floods and heavy snowfall, and in the subsequent years we saw the technical result rising, and the first decline we see is in 2014. As you can see, the years 2011-2013 were the years that witnessed (or at least the first two years, i.e. 2011-2012), on part of the market – and in 2011 – on the entire market and then on part of the market – rising prices in motor insurance, and, at the same time, in 2012-2013, we saw the claims start to considerably decline. Why am I addressing this issue? We will probably talk a little bit about non-life insurance market and what might happen. So to us, the fact that this profitability is falling plus some other factors we have seen happen in the first quarter and some other administrative measures about which we know that they occur, cause that we still hope that this year the price competition in motor insurance after the second quarter should basically subside and the prices should in fact become stable. Of course, if you look at the upper portion of this slide, last year the market contracted primarily as a result of the price war in motor TPL insurance. When it comes to life insurance, or perhaps I would like to make one more comment when it comes to market in the first quarter, of course we do not yet have the official data. We predominantly analyze our own data and we also conduct some external analyses. When it comes to the first quarter, it seems to us that the official data will show a nominal decline YoY. That is our working assumption. If this is confirmed, that it will mean in our case also a decline, and you will see it in just a few moments, however there will be a slight upward movement of market share in non-life insurance in Poland for PZU SA. So, like I have already said, and perhaps I am getting ahead of myself here a bit. First of all, last year the technical result fell, so we can say that the upward movement in the technical result has come to an end. Secondly, on 1 April, the KNF recommendations concerning motor claims handling went into effect. Thirdly, we are in the process of launching direct claims handling. These are the factors that will be increasing the claims handling and benefits costs, and so we assume that from the optimistic point of view, after the second quarter the prices will begin to stabilize as far as motor business is concerned. If we look at life insurance, last year we saw a slight growth of 3%, however this only applies to regular premium business; if we were to take a look at full insurance market, then we would see a major decline, however this is really attributable to discontinuation of sales of cover-cum-investment policies. Profitability has surged up quite a bit, and growth of profitability is basically only driven by PZU Życie. All the other companies, i.e. the rest of the sector, perhaps not all of the companies but the rest of the sector recorded a decline of technical result last year. When it comes to market share at the end of last year, PZU SA experienced slight growth, LINK4 also recorded a slight growth, and PZU Życie recorded of small depreciation of 0.5 pp. So this is basically consistent with the strategy we announced in winter of this year. If we look at the major factors or major phenomena we can observe in the Q1 result of the PZU Group, we will see that profitability remains high in non-life business, even though there is a lot of pressure on the motor business. For PZU net of LINK4 and international companies, the combined ratio is 85%. We saw significant decrease of profitability in group and individual insurance segment. In a moment, we will talk in greater detail primarily about large number of deaths in the first quarter, and we will talk about it during our discussion of the slide devoted to group insurance. We have a very good net investment result, achieved primarily on equities, and I believe this is the result of WIG index moving up but also the fact that in the fall of last year we rebuilt our equity management teams, and this, in our opinion, is one of the first effects: we simply have better teams and we expect better performance. If we look at operations, we are bringing to a conclusion our work on implementing our administration IT system for non-life business that we refer to as the mass client segment, i.e. the retail segment. We continue to focus on customers, and all the time we are building the Group with focus on the customer. Building that system has assisted us a lot in that area. And this will be seen because gross written premium increased in PZU SA, not even mentioning LINK4 because LINK4 is growing at a faster rate than PZU, so the gross written premium in PZU SA increased in the first quarter, and also in the mass client segment, even though our analyses show that the entire market rather contracted. If we look at international operations, we continue to integrate the newly acquired international businesses, and this process has basically been completed. And I hope that at the turn of June and July, we should be able to complete the sale of PZU's Lithuanian company to the Norwegian company Gjensidige Forsikring ASA. When it comes to top-line results, the gross written premium has grown by 7.5 pp YoY for the entire Group, net profit grew by nearly 24%, equity increased to PLN 14 billion, and ROE was exceptionally good at 27.6%. Let us move on to discussing the main segments of our business. The mass segment in Poland grew by 8.6%, although this is primarily growth achieved by LINK4. LINK4 is growing alone but we are dealing here with an effect of adding LINK4 to consolidation. However, like I have already said, even if we were to look only at PZU SA, we have some growth in the segment but it is not very big, i.e. it is less than 1 pp, however, what is important is that in our opinion the rest of the market is contracting. So, we can see that the actions we have taken in our agency distribution network as well as implementation of the new policy administration IT system are starting to produce results. Like I have already said, 2015 is the year in which basically most of our mass business is handled by the new policy administration IT system. Unfortunately, the combined ratio went up to about 87%, and I will show you a more detailed slide on that in a moment. That slide will show the split of that ratio into motor and non-motor business. Above all other things, this growth is driven by motor business. And we can really reference here to two factors. The first factor is that we also lowered prices last year, and this decline in prices affects the combined ratio. In this segment, we reduced prices by approx. 4 pp. The second factor is the issue that we have observed this year, i.e. increase of claims and costs of claims, i.e. external costs, and we believe that this is primarily attributable to changes that have been orchestrated in the PZU Group with a view of adjusting to KNF's recommendations on the organization of the claims handling processes. Consequently, the claims ratio is higher, and the operating profit is unfortunately lower in that segment. If we look at the corporate segment, the situation is slightly different here. The combined ratio is falling, the operating profitability is growing, and the nominal gross written premium is substantially lower, and, when it comes to gross written premium, we have a simple explanation here. Several large accounts in the corporate segment were renewed in December instead of January. So, basically, there is a shift between January and December. According to accounting regulations, we have to register this in the month in which we sign the policy, not in the month when PZU's liability commences. We assume that when it comes to corporate segment, even though there was a shift of several large-scale policies between December 2014 and January 2015, we assume that over the course of this year, the growth rate of this business will be negative; we are talking here about perhaps 2 pp. If we look at life insurance, the most important information here is the information about growth in group and individually-continued business; unfortunately, we have a large decline of profitability ratio of 14.7 pp. And, above all other things, this is driven by lower insurance margin, and we also have a large number of deaths. I don't know if you remember but in 2013 we had a similar situation. It is true that back then that ratio was lower, i.e. in the range of 17-18% but the situation was similar: from our point of view, there was a shift of deaths over the course of the year and accumulation of high number of deaths in the first quarter. We do not really know what the reason is for this. When we look at the incidence of deaths when we compare the number of deaths in 2012 to 2015, in 2012 and in 2014 the ratio of deaths was on the level of approx. 2.5%, in 2013 and now in 2015 it stood at approx. 2.8%, hence these 0.3 pp contribute to a major increase in loss ratio. However, we do not assume that the number of deaths in Poland has significantly increased – this is only attributable to some sort of a shift. We are unable to explain this phenomenon. There are a number of various hypotheses to explain it. One of the hypotheses is that there is a link between the number of deaths and the number of days-off work in the first quarter as opposed to the second quarter, and this really boils down to the shift between March and April. But we are unable to clarify what the source of this shift is. We can see that suddenly this year we have more deaths in the first quarter of the year than in other quarters. However, like in 2013, we do not assume that the incidence of deaths is Poland will be higher. I am sorry for my brutal honesty but we assume that once you have died, you are dead. In other words, we do not assume that this trend will continue in the upcoming quarters. We do not think that the number of deaths in Poland will be growing, and we do not expect a change in population. If you take a look at our full-year results for last year, i.e. 2013, in particular our embedded value reports where we show you in more detail the assumptions concerning mortality rates, the mortality rate in Poland is rather falling than growing. Hence we do not assume that this result is permanently broken; we just have a worse first quarter. Instead, we, as a management board, assume that we will be able to deliver at least 20% plus profitability of this business during the entire year. In individual insurance, we have a positive surprise because we did not expect a 4% growth. We have been achieving growth in insurance distributed through the bank channel, and these are the structured products; we have seen a larger sales figures for those products. We also have growth in products sold through our network, and this is very important to us because these are the regular premium products where we are selling much more protection business, i.e. fewer insurance policies with an investment component. And this immediately translates itself into profitability, and this profitability has been growing because these products have greater profitability (margin) than the investment contracts. If you look at our international operations, the premiums have surged greatly, however we have to remember that when we apply such accounting approach – because one year ago we did not consolidate Lietuvos Draudimas or Balta in Latvia or Codan in Estonia – we now have a significant growth of premium and, like I have already said, we have a certain incomparability. The combined ratio has edged downwards from 105% to 103%, and when it comes to profitability, including primarily the profitability of the entire non-life business outside of Poland, 2 companies have a negative impact, i.e. a Ukrainian company – there is pressure on profitability on Ukraine due to growth of losses, however it should be remembered that if you look at Ukrainian life and non-life business, and this is on the right-hand side of the slide, the major influence on the profitability results is exerted by the UAH/PLN FX rate. To put it simply – UAH is simply much weaker than it was a year ago. The second important element is the influence of profitability of PZU's Lithuanian company. PZU's Lithuanian company continuous to be unprofitable, therefore it also has an adverse impact on profitability of our international operations. Like I have said, we assume that closing of those transactions will take place at the end of June or perhaps at the end of July, and this will automatically improve the profitability of our foreign operations. When it comes to life business, the premium has fallen substantially. This is primarily attributable to the situation in Ukraine and the devaluation of UAH against PLN, but in general these are not significant operations. And there is something that we are not happy with, although it may be justified, namely I am talking about the increase of the Group's administrative expenses. We have to remember that many line items of the consolidated account have had additional administrative expenses, however this applies also to acquisition expenses, and there also occur – in case of premiums and loss ratio – the components of costs linked to acquired companies. Last year, we did not have PLN 35 million in administrative expenses of companies that we have acquired, and this year we have those costs, so this is one of the elements that have contributed to this growth, and this is something that is completely incomparable. The second important element that you can see is the increase of project expenses by PLN 37 million. We simply have accelerated the performance of certain projects, and we assumed that the expenses related to performance of projects would be on the similar level as last year, i.e. PLN 20-25 million, but we decided that since we can move projects forward more quickly, we wanted to accelerate their delivery, and this is the reason why this growth has taken place. What is important here is that we assume that we are capable of achieving the 5% growth of expenses, and for the time being this is our target. As you can remember, last year we had a higher increase of expenses of approx. 5% in the full year. Our target also is a 5% growth of recurring costs as well as project costs in total net of newly acquired companies. And this is our goal for the entire year. As you can see, the slide that we are presenting and that you are very well familiar with depicts our share price. The share price has been behaving quite well, and this morning we informed the market about the management board's recommendation to distribute the dividend for 2014. We recommend the payment of PLN 30 per share, i.e. PLN 2 billion 590 million, and this gives the pay-out ratio of eighty-some percent compared to the net result of the PZU Group.

We continue to follow our 3.0 strategy, although we have been doing it only for a few months. We are number 1 in Poland, number 1 in the Baltic States, and we have a significant growth of assets of external clients from outside of the PZU Group of 12.5% already in the first quarter. We continue to develop the PZU Health program, we acquired a small company called Rezo-Medica based in Płock which is well aligned to the business model of Orlen Medica companies which are operating in Płock on the medical market. When it comes to detailed financial data, if you take a look at this slide, I have already addressed some of those things, such as significant growth of premiums YoY, and when we compare the first quarter to the fourth quarter of last year, we also have substantial growth, and, what is important is that we have comparability when it comes to the composition of the Group. However, we should remember that we have seasonality of premiums in Poland, and this in particular applies to motor insurance where most of the premiums are collected in the first quarter. The investment result is also very good, and it shows very solid performance compared to the first quarter of last year as well as the previous quarter, and the operating profit was almost one billion one hundred million zloty. The net profit was PLN 941 million. Equity was PLN 14 billion, total assets PLN 71 billion. ROE, like I have already said, was 27.6% and combined ratio was 85.6%. Now, I would like to more on to this very detailed slide, and I think we should look at it in the presentation rather than on the screen because it is difficult to read. Ladies and gentlemen, as we have already seen, premium in mass insurance segment in Poland is up 8.6%, and it decomposes into growth basically in every line, in motor TPL, in MOD and in other products. This is not just a result of commencing the consolidation of LINK4 but it is also a matter of what we are doing in mass business. We have greater growth in MOD than in motor TPL. Of course, this growth is primarily driven by growth of the number of policies as opposed to average premium because the average premium value is down. Consequently, if we take a look at combined ratio, it is 98.5% as opposed to 91.2% in motor TPL, and 98.9% as opposed to 89.4% in MOD. In non-motor business, we have increase of 9% and basically similar level of combined ratio. In corporate business, we can see that the growth is much less pronounced because, when it comes to motor business, especially motor TPL, decrease of average premiums in corporate motor business was much greater last year and at the beginning of this year than in the mass client segment. We have a stable level of motor TPL, and MOD went up substantially. Unfortunately, here we can see the deterioration of profitability from 102% to 112% in TPL and from 81% to 85% in MOD. The profitability on other products is substantially better, however it should be asserted that this is also the result of positively closing a number of historical claims processes, in other words, it turned out that we were able to pay out significantly lower claims than we had historically posited, and this is the main factor that has improved the profitability of this insurance line. If we look at life insurance, like we have already discussed, we have the growth of almost 2 pp, and I believe that this is in line with everyone's expectations. One thing that neither you nor we have anticipated is the change in profitability but please remember that the first quarter always has lower profitability than the entire year. As you can see, the profitability in the first quarter of last year was 21.8%, and I would like to remind you that the profitability for the entire year was 26%. Secondly, like I have already said, this year it seems that we have a shift of a portion of the deaths between the quarters, i.e. from the second quarter to the first quarter, and, overall, this gives us the profitability of 14.7%. Like I have said, we assume that this will improve and it will spread

out over the year. Individual insurance has seen 4% growth and improved profitability. If we look at non-life insurance in Ukraine and in Lithuania, then when it comes to Ukraine, we have slight growth, and what is important here is the significant change in combined ratio from 109% to 115%. There are two major drivers: the first one is the PLN/UAH FX rate, and the second one is that in non-life business in Ukraine, the weak FX rate results in significant deterioration of this insurance. Like I have already said here, in case of Baltic States, we have a certain incomparability because, of course, we did not have organic growth from 68 million to 280 million – this is the result of consolidating the companies from the RSA Group. As you can see, in life insurance, these are small numbers, in Ukraine as well as in Lithuania. The profitability in Ukraine is quite low, and, for the time being, as far as Ukraine is concerned, we continue to wait for a clear message and for the unfolding of the situation there. For now, of course, we do not intend to withdraw from that market but if the situation were to deteriorate considerably, then we would take additional actions. At this moment, the only thing that we have done is withdrawing from cooperation with a few Ukrainian banks, and basically we are cooperating only with those banks that have parent companies outside of Ukraine, mostly in Western Europe, i.e. to the West from Ukraine. There is nothing really to talk about in terms of non-recurring events. Now we can move on to slides pertaining to the combined ratio. In the mass segment, we really have three elements: higher loss ratio, prices as well as partial increase in average claim value. When it comes to administrative expenses, like we have discussed, the premium grows much slower than costs, and it is our assumption that over the course of the year the level of growth is going to be much smaller than what we saw in Q1. And then we have the acquisition expense ratio. This is primarily the issue of integration with LINK4 because as far as PZU SA alone is concerned, we basically did not see any growth. If we look at corporate non-life business, the loss ratio is much lower. We closed a number of claim-handling cases, and we were able to close them better than we had originally posited. As you can also see, the lower acquisition costs ratio and that second factor resulted in significant improvement of the combined ratio. When it comes to group and individually continued insurance, we really have one major element, i.e. a 128 million decrease, and these are the net claims and benefits, i.e. what we paid out for deaths. The second important element is administrative expenses, and we assume that these two factors will improve, i.e. in terms of deaths. We assume that, to put it simply, some of the people died prematurely but once they died, that will not die again. We assume that mortality rates will be the same as in previous years, and, according to trends observed in Poland, the mortality rate is declining rather than growing. When it comes to administrative expenses, they are predominantly affected by the projects in question, however they should spread out over the course of the year. If you look at individual life insurance, we will benefit from investment income and gross written premium and, ultimately, we will have much better profitability. As far as foreign companies are concerned, I will not discuss them in greater detail because the numbers are in fact too small. When we take a look at investment income, in the first quarter we earned a lot on equity instruments. We are still discussing the Group, and here we can see the split between investment income on own portfolio and the portfolio of third parties. And, at the end, I would like to look at capitalization. The Group saw a very robust capitalization of almost PLN 14.1 billion at the end of the first quarter, and the coverage ratio of 315%.
Thank you very much for your attention during this presentation.

Now, we can move one to questions, so I think we will begin with questions from the people in the Conference Room.

Question: Jaromir Szortyka, PKO BP – I would like to ask about trends in assets acquired from RSA; I am specifically asking about changes in gross written premium of LINK4 and in the Baltic States.

Przemysław Dąbrowski – As far as Baltic States are concerned, these markets are coping with the same adversities as the Polish market, i.e. very strong competition in the motor business, however, in spite of all this, these markets are growing at this moment and, like I have said, our internal analyses of Poland show that there is no growth in the first quarter. Those markets see growth rates of several percentage points, and our companies are also experiencing the growth rates of several percentage points. If we look at profits, basically at this moment we assume that last-year's profits, without one-offs, were EUR 15 million, and we think that the profits will be basically regularly growing to approx. EUR 30 million over the next 4 years, so without one-offs that were linked to the merger, we basically continue to see growth in those companies. Since we are at the beginning of the year, we do not have a dedicated slide, however if you are interested in detailed purified data, then we can provide you with such information in subsequent quarters but for the time being this does not have a greater impact on the Group's result. Right now, we are talking about the profit of a dozen or so euro. So, like I have already mentioned, those markets are a little bit more rational than in Poland and they do not see such fierce price war as in Poland.

Marcin Jabłczyński, Deutsche Bank – I would like to ask a question about costs. Why should the costs grow by as much as 5% per annum net of the newly acquired companies when we have deflation in Poland?

Przemysław Dąbrowski – This is primarily the result of the performance of the Strategy. We want to accelerate the measures that we assumed would take more time. As a result, we assumed that growth of costs resulting from the performance of the strategy would be basically offset by headcount restructuring. As you know, we have announced some group layoffs this year, however, since we can accelerate certain measures, we simply assume that we will spend more money this year and this stack will be larger than the gap resulting from group layoffs. So next year, this should lead to lower costs. We thought that those costs would be pretty much the same, they were going to be growing at around 0+, 1, perhaps 2% but under current circumstances, probably next year we will see the decrease of costs. Next year, we are also planning various activities to reduce costs.

Marcin Jabłczyński – And if we look at recurring administrative expense ratio measured against premium, right now it stands at 7.5% but it used to be better. Where should we see this ratio in the medium term?

Przemysław Dąbrowski – Our goal is to see this ratio around 7%. However, the difficulty we face is that this ratio depends also on revenues, and, generally, we are growing in that area; this growth is slow but we are still growing, and I am talking about PZU SA here because LINK4 is growing much faster. And, by the way, as far as LINK4 is concerned, we are talking about the growth of premium of a dozen or so percent. So this is substantial growth. As regards this ratio, unfortunately it is highly dependent on whether the premiums are growing, so if the market is nominally contracting, it will be very difficult for PZU to show nominal growth because we are very large on this market.

Kamil Stolarski, BESI – so, continuing this question, once again you have revised the historic split of operating expenses into the expenses that are project expenses as opposed to the expenses that are recurring expenses. If I look at your presentation for 2014, in that presentation we had 48 million in project expenses, and now, if you look back, it is 21 million. And what we have here is some sort of a revision of project expenses, and, as far as I can recall, we have already talked about that with you. And my question is as follows: what level of expenses you historically considered to be project expenses suddenly turned out to be recurring expenses? This is one part of the questions regarding the expenses. And the second part is that PKO BP told us how much their integration with Nordea Bank would cost, and those expenses are in the order of 120 million – I am giving this example just for reference. On the other hand, you have 58 million of such project expenses only in one quarter. The second question is: could you tell us what sort of costs this 60 million is? Are those third party services, something else … ?

Przemysław Dąbrowski – we have changed our approach to some extent because under the new Strategy approved by the Supervisory Board at the onset of this year, we redefined – for the purpose of discussion with the Supervisory Board – the idea of those non-recurring expenses; we have used the term: costs of implementing the strategy. And this is why we have a sort of a revised approach. Last year, the non-recurring expenses applied not only to implementation of the Strategy. They also included certain expenses associated with marketing which sort of shifted across quarters. And now we have a common approach to understand how much is costing us to implement the Strategy 3.0. It is true that the Strategy was approved in January 2015, however it was in fact discussed with the Supervisory Board since the fall, and last year we were incurring the costs related to implementation of the Strategy. As far as the nature of the costs is concerned, in our case, the main nature of these costs includes primarily expenditures related to IT. It is not a matter of integration of companies that have been acquired. When it comes to LINK4, the costs of integration are virtually non-existent; the only cost of integration as far as LINK4 is concerned is the cost of re-branding but that cost is very small because the name and the colors stay the same, however certain things need to be done. As far as re-branding of companies in Baltic State is concerned, we have some non-recurring expenses linked to adapting or adjusting certain accounting standards; in other words, we want to be more prudent than their previous owner, however in this case we are talking about PLN 9-10 million – not only in the quarter but in total. So, like I am saying, most of the expenditures are related to IT, and majority of them are linked to implementation of the policy administration IT system for non-life insurance in PZU SA. And, like I have said, the bulk of this project will be basically completed this year. So, starting from next year, the costs will fall. As regards other costs that we do not yet have this year but they will probably appear next year, if we can do something more quickly, we will want to do it more quickly. We will certainly have the costs of purchasing an IT system for health products. For the time being, we do not yet have an IT system that would allow us to integrate all the companies we are acquiring or have acquired, and right now we are in the course of the tender. So, if we are able to do it more quickly, we will prefer to do it quicker because this is a business opportunity for us, and if not, this is something that will transpire next year. Of course, this growth is also accompanied by growth of headcount but it is offset by headcount reductions including those that we have announced this year. However, it should be remembered and it is quite understandable that we are letting go the people whose wages are relatively smaller and we are hiring the people who earn more. This stems from the fact that we continue to computerize the company. I do not know whether you have seen that but a few months ago, at the turn of the year, there was a billboard on Grzybowska street, reading: "Hiring: Google programmer, PLN 1000 per day". So, there was that billboard, and it basically froze the blood in our veins because this shows how high such salaries can really be. So we have this factor that includes external expenses, and these include mostly IT expenditures and costs.

Kamil Stolarski, BESI – I have a follow up question. I would like to congratulate you on the investment result recorded in the first quarter, and I would like to ask about the second one. I would like to split it into two elements. You have the portfolio of trading bonds of PLN 13 billion, and if you look at duration from the end of the year, it is 3.3. Now, if that portfolio were to be a simple long portfolio, then you would probably lose PLN 250 million on it already in this quarter. And my question is as follows: is this assumption erroneous, and how advance are you in transitioning in that portfolio from trading bonds into the portfolio based on absolute return? Should we assume that there will be a loss?

Przemysław Dąbrowski – Basically speaking, this year we have transferred a significant portion of the portfolio from the portfolio with index-approach strategies to absolute return portfolio because we were concerned with deterioration of performance, and at present it is roughly 2/3 of the portfolio that is managed according to absolute return approach.

Kamil Stolarski, BESI – The second question concerns the second part of that trading portfolio, i.e. equities. In the first quarter, that performance was much better, and I do not know whether you share this type of information but I assume that this was the result of making the investments on stock exchanges outside of Poland, is that true? Because the WIG return was around 5%, and, according to my calculations, you earned more than 12% on that portfolio.

Przemysław Dąbrowski – We do not yet have a major exposure to stock exchanges outside of Poland. As regards the assets from outside of Poland, we have a substantial but not significant exposure to sovereign debt, and in that regard we are pretty good outside of Poland as well as in Poland. So, if you look at the performance of our funds, including also third party funds, for many years we have shown good results, and that is why we made a decision to move to absolute return format with respect to bonds, and as far as equities are concerned, we do not have today significant exposure to foreign equity markets. On the other hand, in the fall of last year, in October and November, we made significant changes to the composition of our management teams.

Kamil Stolarski, BESI – I would like to ask one more question: This year, Mr. Klesyk said to the press that you have PLN 5 billion which you could potentially spend on acquisitions. And my question is as follows: in recent years, you have accustomed the market to dividend payout ratios in the vicinity of 100% of the standalone result, and that 5 billion, does it show how much you are able to distribute at this moment to the shareholders assuming that you continue to have the payout ratio of approx. 100%, or are we coming closer to 50% when it comes to dividend policy or will we go even below that figure?

Przemysław Dąbrowski – I also was asked that question by the journalists and I would like to reiterate: we assume that we have PLN 3 to 5 billion for acquisitions. So, if we look at the balance of funds: equity is PLN 14 billion, and, of course, provided that the Shareholder Meeting accepts the Management Board's proposal, that PLN 2.6 billion, containing at least 98% of the standalone profit and 87% of the Group's profit, this PLN 2.6 billion will be dissipated from the equity as of the date of the Shareholder Meeting's decision, however, first of all it should be remembered that every quarter in the PZU Group means additional equity, therefore it will grow. So, like I am saying, we assume that we can earmark PLN 3 to 5 billion for acquisitions. And, for the time being, our intention is for those figures not to change as far as acquisition is concerned unless we have some kind of an extraordinary situation, and we want to sustain such dividend policy in the subsequent years. I think we have already said that in the results for the third quarter, we will publish for the first time the balance sheet according to Solvency 2 and, of course, this will be a major change because this balance sheet will show a higher equity than what we have in the IFRS balance sheet, and the only difference will be that higher capital will not be available for dividend purposes for the next two years until the IFRS change. I think that this will be the case, although we still will have to confirm this with the KNF but we will certainly be able to use this capital a): for acquisitions and b): for calculations of measurements of prudence. So, in terms of how much we can pay in dividends, those parameters will be based on new ratios. So, like I am saying, we assume that we will be able to designate such amounts, and, at the same time, we will be able to maintain the policy of paying out high dividends provided that nothing extraordinary happens, whether in minus or in plus.

Kamil Stolarski, BESI – My last question concerns an assertion that the company expects improvement on non-life market from the second quarter …

Przemysław Dąbrowski – After the second quarter, I'm sorry.

Kamil Stolarski, BESI – I understand that on 1 April, the KNF's recommendation will come into force concerning …

Przemysław Dąbrowski – the motor claims handling process.

Kamil Stolarski, BESI – Shouldn't the insurers have incorporated that into their pricing policies previously?

Przemysław Dąbrowski – I do not believe so.

Kamil Stolarski, BESI – So only on the onset they will begin to pay out higher dividends, I'm sorry, higher claims, and later that will start to adapt to that new policy …

Przemysław Dąbrowski – I do not want to talk about specific companies but I think that the industry in general is prudent enough to anticipate what is going to happen in the near future. What in my opinion the industry sees after the first quarter is higher costs on account of KNF's recommendation, and I think even without this there will be a 2-3% growth of claims paid out. This is referred to as claims inflation, and it will be 2-3% and it will add to that.

And now I would like to reply to a few questions asked over the Internet.

I will read the question in English and then respond to it in Polish.

Question asked over the Internet – Michael Huttner, JPMorgan, I have three questions, firstly is the reason for this rise in mortality in Q1 2015 given the winter was relatively mild?

Przemysław Dąbrowski – In our opinion, we do not really know what the cause of this phenomenon is. Historically, the weather was never a factor that would result in shift in mortality across quarters. To be honest, one of the theories we have had was the number of days off work at the turn of March and April, and also something that could be considered a conspiracy theory of sort that this is not as much the number of deaths itself but the way they are registered. So there might be shifts by a few days in registration of deaths because of holidays, and the deaths are not registered immediately; they are registered after they actually take place. And that might be the main factor. We have not found the relationship between the number of deaths and the weather.

Michael Huttner – The second question concerns Solvency 2 and how does it look like in your case. Can you talk a little bit about the level of excess capital under Solvency 2? Is this similar to the PLN 3 billion we had under Solvency 1 and will there a subordinated debt issue?

Przemysław Dąbrowski – We will certainly publish information about economic capital and margin coverage according to Solvency 2 along with the results for the third quarter because we will have firm data then. What we can say today is that coverage ratio in terms of the required capital, i.e. SCR divided by equity under Solvency 2 should stay on the similar level as we have today, i.e. approx. 300%, perhaps 290%. In practice that means that the required capital will be higher. It will grow because the required capital under Solvency 1 did not include some of the risks that will be calculated under Solvency 2. So, in practice that means that the nominally available capital, the surplus capital will be higher, and we can even say that it will be substantially higher. We are not talking about an additional billion here, and we are not even talking about the 12 billion. We are talking about the range that will be a large number rather than a small number.

Michael Huttner – Third question: when we are talking about private equity investments in the banking sector in Poland, what minimum values you are looking at in terms of rate of return?

Przemysław Dąbrowski – We do not have any goals that would be defined in such way. There is a lot of information about PZU Group’s potential exposure to transactions on the banking market. When we are talking about the reasons for this, the Group is trying to exploit its greatest strengths, and they include, besides a strong brand and operational efficiency in distribution, also the Group’s strong position on the Polish financial market as well as its capital standing. As all of you know, on the regulated market not every entity may be engaged in acquisition because it is not only the price that is important, and that is true for both insurers as well as banks. When it comes to banks, we would not rule out our exposure to transactions where we will treat these transactions as investments, not strategic transactions. We will not call for any type of strong integration, however we would not rule out some light integration of sort. But we do not assume a strong operational integration of banks with insurance plans offered by the PZU Group. At the moment, an example of the fact that we do not integrate the entities, of course on much smaller scale, is LINK4 which is poorly integrated with the Group, and I believe that this is a good situation. The same is the case with medical entities that practically are not linked to us operationally and we really only control them strategically. The medical entities will be integrated with one another very strongly but they will not be integrated very strongly with us, and even the company PZU Health and its managers are not located in this building. We have a similar concept with respect to banks, and we assume that as we lend support to the investment process in the banks, we hope that ROE in such banks will reach the level of 15-16% from some low level. So this is our idea for such investment project. I hope that I have responded to your question.

Question: Dom Maklerski BZWBK – Do your results show the impact exerted by the claim-pursuing companies? Do you assume any greater reserves on that account? Have the recent months seen any greater activity in that regard?

Przemysław Dąbrowski – What we have been seeing is primarily greater PR activity of companies that are trying to lodge claims against PZU. However, if we look at the results themselves, they have not been significantly affected by the activities of companies that are trying to litigate for compensation because our reserves are sufficient to cover the costs attributable to activities of such companies, especially concerning claims from 2008, and these figures are lower than we assumed. So, these are all the questions that we have from the Internet, and I can now return to the questions you may have from the room.

Marcin Jabłczyński, Deutsche Bank – I have a question concerning the investment activity in the context of that success we had in the first quarter where the result on the main portfolio was almost 760 million and this gives us a very good yield for a 50 billion portfolio, and now I would like to ask the following question: we had a very good quarter on the equity market, as it has been said here, and this was a very good result, and the question is whether we should not employ more of a strategy related to absolute rate of return, or should we simply anticipate such large level of volatility during good and bad quarters on the equity market – and this is my question number one. And my second question is about that unfortunate Bloomberg report that overestimated the company’s value by 2-3 billion, and the matter concerned the coal, and then you commented that there would be no exposure in equity under the new campaign, however I have a more detailed question not only about that coal but about those banks: what is the origin of such intense news when it comes to your investment ideas? Is there some sort of an idea on the part of the company to acquire partners for those types of transactions, and could you please be more specific about it because later we had a transaction with Integer which was in equity, and it was also publicized, and I do not know whether I understand it correctly but I got an impression that your strategy was to invest in certain collateralized debt papers with higher yields than treasury papers and with small volatility of that contribution. Has anything changed here? Thank you.

Przemysław Dąbrowski – please forgive me if I forgot one or more questions. When it comes to investing activity: Generally, if you look at liquid instruments, also in equities we are moving to absolute return approach, so the goal is clearly to minimize volatility, and one of the major changes that have occurred, in addition to WIG moving up, is that we significantly rebuilt our management team in equities. So, in general, our philosophy is that we want to curtail volatility also on the equity portfolio. When it comes to the news flow, the Bloomberg report did not come from the company. We were surprised by it and we refuted it immediately because, for the time being, we do not consider any type of investments in mining assets. In terms of any type of equity exposure in general, we have announced, and that happened, that we assume that we will invest in private equity but we do that very slowly because, first of all, the Polish market is still not very big, secondly, we do not have a lot of experience, thirdly, such investments are long-term business, and in the short-term over the next few years they will not generate profits or yield returns. At this time, we made a commitment, and this was long before the Integer, to a couple of fund of funds, and that was the beginning of our adventure and it happened some time ago. In terms of Integer, we have an exposure but our exposure will be very small there and it will be also passive. We will not have any representatives on the Supervisory Board, that is our philosophy. It is more or less a sort of a test or trial. So, although we are thinking about private equity, this will still not be a major class of assets for a long time. Naturally, we are looking for fixed income, and I can imagine, and this is something that we have considered a few times, to have transactions where from the accounting point of view the class of assets is equity. However, given the appropriate subordination of our equity and proper structure, such equity could be economically converted into debt, and we are at equity. But with our investment partner, we have a put option in the number of years with a specific price, and we are able to balance our accounts. Generally speaking, in the next few years we will be trying to develop our business around the economically broadly understood debt instruments. We certainly do consider entering the equity markets outside of Poland, and we are talking about liquid equity markets. We have not yet made a decision but, like I have already said, we certainly are thinking about private equity fund of funds. We have to go beyond Poland because in Poland there is no fund of funds, and Integer was just a small attempt and this is a very small exposure and it will not have any impact on the Group's investment results. So, ladies and gentlemen, we certainly have to look for various opportunities because the insurance market is highly competitive, the rates are falling, and, for obvious reasons, we are trying to find a solution. In case of banks, we have a very simple idea: firstly, we are talking about leveraging the capital strength, and secondly, we have to take into account who we are on the Polish market because we are …, and, of course, I do not know this, but please do not think that we have obtained a confirmation from the Regulator but I assume that we are an acceptable institution. There are institutions from outside of the financial market and from within the financial market that are not acceptable for certain types of transactions, but we are acceptable. We are a large and stable investor and we will continue to be so for the upcoming years. And we want to leverage that provided that it is possible. Especially at the time when we had the rates of 5-6% and we did not have to work too hard and the situation was much easier. However, now the rates are much lower and we have to look for that business somewhere.

Question: Piotr Palenik, ING Securities – I have two questions, both of them also pertaining to investments. There is one issue that is a bit puzzling to me, namely that you keep on emphasizing that you do not consider capital investment in Kompania Węglowa. In that case, I have a question: do you consider any debt exposure and up to what amount, and the second question is about the interest result which has substantially fallen in the first quarter as opposed to the fourth quarter; of course that quarter was two days shorter, however this still does not explain such significant decline. I want to ask for the reason for such substantial decline of interest result. As I understand, the bonds are rolling at lower yields, but these are long-term changes on portfolios rather than short-term ones. Thank you.

Przemysław Dąbrowski – We have exposures to a number of debt financing. Some of them are more risky, some is less risky. Therefore, we do not rule out long-term investing in the broadly understood mining sector, although we are always much more prudent as opposed to being more aggressive. So, we do not rule it out, however, generally speaking, there is the issue that we have to have security, collateral, etc. And the question is whether or not such collateral can be provided. Like I am saying, at the present moment the company is not ruling it out and there is no such information. In terms of the interest result, the changes resulted primarily from transfers between index portfolios and trading portfolios, and we simply carried those changes through the market, and that meant that that result was slightly disrupted. The result was disrupted by the transfers because we transferred a lot from the index portfolios to trading portfolios and we are still doing it in PZU SA and in PZU Życie. And the transfer from the index portfolio to the trading portfolio means that something disappears from the P&L statement and shows up in equity.

Question: Iza Rokicka, Ipopema – But this does not have a greater impact on consolidated results?

Przemysław Dąbrowski – Those transfers also do affect the consolidated results. In any case, when you make transfers between portfolios, this results in realization of at least some of the transactions.

Ladies and gentlemen, are there any other questions you would like to ask?

I also do not see any other questions on the Internet, so I would like to thank you very much for your attendance and I would like to invite you to enjoy some refreshments with us.