## PZU – Presentation of financial results for H1 2015 – 26 August 2015

**Przemysław Dąbrowski, Management Board Member, CFO of the PZU Group**

– A warm welcome to all of you at our meeting concerning the publication of our mid-year results, and as we do at each of these meetings, first we will go through the presentation and then we will be available to answer any questions you may have. To kick off, as usual, we begin with the market. Unfortunately, the data we have are delayed by a quarter, but it is a question of their availability, and we have both good and bad news in this slide. The good news is that the market for non-life insurance in Poland begins to grow, as you can see after the first quarter, the growth is more than 2 percentage points. This is very good news, because one of the key elements of our Strategy 3.0 is an increase in the volume of revenues on insurance, which is intended to bear fruit, bring about an increase in assets under management, thanks to which we will be able to at least partly offset the lower interest rates. The bad news is that this year the profitability of the market deteriorated significantly compared to last year. Even though our share in this profitability is very large, as you can see it is 88% – whereas usually it was roughly 66% – this situation only shows that the PZU Group decreased its prices at a much slower pace than the rest of the market. In the second quarter, the market profitability deteriorated much further, which is bad news. Incidentally, you have seen Liberty announce their decision on an exit. What we assume, at least what we see from our discussions with other insurance companies, is that, in principle, everyone is already against the wall and, as we said after the first quarter, the price war is already slowing down. We are getting indications that some companies already intend to raise their prices. Of course, these are unofficial pieces of information and we are not really 100% sure that this is going to happen as nobody wants to declare such an intention. As regards life insurance, we have growth here as well. The growth is mainly in the following areas: on the one hand, in our group insurance, which grew more than 2%, and on the other hand, in the individual insurance segment. For the first time since 2012, we have seen an increase in single-premium insurance. We also see growth in regular-premium products. The profitability of the market in this segment is also declining, but here it is primarily a result of lower income on investment activity in life insurance, as this component plays a much more significant role than in non-life insurance. As regards our market position, we maintain the leading position with a small growth in non-life insurance and a stable situation, basically all the time at the same level, in life insurance. Our performance, written premium and strong growth, although you need to be aware that to a large extent this was the result of acquisitions which we completed last year, but one of the objectives of those acquisitions was to boost revenues, so not only to achieve an increase in revenues through organic growth but also exactly through acquisitions. Another value, net profit of PLN 1.322 billion, significantly lower, 23% lower than last year, predominantly due to much worse income on investment activity in the second quarter. On the one hand, we saw growing bond yields but above all the situation on the Warsaw Stock Exchange. Equity remained at basically the same level which, unfortunately, given the same equity and lower profits resulted in a decrease in ROE from 27.5% to 21.1%. Let us now go through each segment of our business. Non-life insurance, the mass market – here we have significant growth. Of course, if we removed LINK4 from this growth, its magnitude would not be quite as significant, we are talking here about 1 percentage point. As regards the combined ratio, we have growth both in mass insurance and in the corporate segment, which was due to a decreasing profitability especially in motor third party liability insurance where the price war is the fiercest. As a consequence of the increasing combined ratio, operating profit in this segment declined. A little later on, we will decompose it into individual business lines. The corporate segment in the case of PZU, but I think that this is also the case for the whole market, I think that it has been hit the hardest by the price war. What we see here is a decrease in nominal premiums year on year, and in this case the acquisition of LINK4 basically had no effect, because LINK4's revenues in this segment are minor. Accordingly, we see a nominal decline in premiums, even though we had more policies sold year on year. And, unfortunately, the combined ratio, which is on the increase as you will see later, it is increasing significantly in motor third party liability insurance but is generally lower in non-motor insurance, which means that we have a better profitability here. Life insurance. The title reads "a drop in profitability" but perhaps it is not entirely appropriate. Like we said after the first quarter – you remember that after the first quarter we had a rather poor profitability in group insurance – we assumed that it would improve, and here you can see proof that our assumptions were correct: group insurance is growing at a rate more or less similar to the one it used to grow at every year, which is 2.2 percentage points. And the half-year margin for the first half of the year on the product is already 20%. Let me remind you that after the first quarter it was around 14%, which means that in the second quarter we significantly improved this profitability, and this process actually is a phenomenon that is mainly the result of what may be called "seasonality of deaths" in quotation marks. Because this year we suddenly saw an uneven distribution in the number of deaths in Poland, which unfortunately we are unable to explain. So here the margin is improving, so of course, on a year-on-year basis, this profitability is weaker but it will keep improving in the coming quarters. As regards individual insurance, we are recording growth, and the fact that is for us a cause for satisfaction is that, according to our estimates, the individual insurance market in Poland grew at a rate of 4.5% but we grew faster while maintaining basically the same level of margins. A large chunk of products that we are selling at the moment are protective products. This means that, because they are not investment products, we as a group are not really exposed today to regulatory changes going on at the moment in respect of unit-linked products. As regards our foreign business, we have recorded gigantic growth, but this is the area where the incomparability is at its largest as one year ago we did not have Estonia, Latvia or Lietuvos Draudimas in our portfolio, which are strong contributors to this growth. What I think is important in this slide – I would advise you to take a look at the left-hand side above all – is life insurance outside Poland. This is a marginal business, which is important, as you can see on a year-on-year basis we have a better combined ratio but when finalize the sale of PZU Lithuania, then this ratio will improve even more, because PZU Lithuania, which we are currently in the process of selling, is a company which historically had a profitability of 0+, or in fact 0-, with a combined ratio at 100%+, so thanks to the fact that already this year we will consolidate Lietuvos Draudimas and Latvia, companies that have a combined ratio at 95-94%, this profitability is significantly better here. At this point, I must also say a few warm words about Ukraine. As you can see, especially on the left-hand slide where Ukraine is of significance, even after the conversion of the Ukrainian hryvnia into the Polish zloty, we have year-on-year growth. And growth in Ukrainian hryvnia is large. We can see that the market for financial services is somehow re-emerging in Ukraine and it looks like at the moment there is a chance that our company, unless any major political or economic developments happen in Ukraine, there is a chance that our company will be player number 3 or 4. So we are becoming a significant player in Ukraine. And what is important, the Ukrainian business is slowly regaining its profitability. We had a big slump in in profitability there due to the depreciation of the hryvnia and an increase in indemnification costs, but the situation is now beginning improve. The costs, like CEO Klesyk said, and I as the CFO am too happy about it, are unfortunately on the rise. Recurring expenses increased by 2 percentage points. These 17%, of course, also contain an important growth component associated with incomparability. The 77 million, that is more than 10%, is growth associated simply with the consolidation of costs of the acquired companies. We are also spending more on the implementation of our strategy, and the reason for this is, and we informed you about it, well, we assumed that these expenditures will be comparable to last year's expenditures, that is those 80 million, but we have been able to complete certain things faster, hence we assume that next year these strategy implementation costs will not grow any further and, in fact, they may be slightly smaller, because this year we will spend more. As for the whole year, we assume that these recurring administrative expenses should return to some 0+, the base should be at 0+. As regards the newly acquired companies, we will see growth, we are simply consolidating this in terms of strategy implementation costs, I'm talking about this medium-blue line band here, and we are estimating that this year we will spend, compared to last year, some 5 or 6 or 7% more in this line item. As regards our return on equity, it is still very high. As you know, the dividend is PLN 30 per share, the record date is 30 September, the payment date is 21 October. At the current price of our shares, this gives a dividend yield of more than 7%. We think it makes our shares very attractive. As regards the implementation of our strategy, we basically do not have any new information in this area. All the time we are the leader in Poland, we are growing, our TFI external clients' assets are growing as well, all the time we are also involved in acquisition activities in the medical area where we are conducting in a number of processes, but we are talking about rather small transactions, this is about consolidation of rather small entities and that is why we are not informing the market about it, because it is insignificant as we are talking about transactions at a level of less than PLN 20 million, so we do not have a large volume yet but something is going on and we are consistently developing our business in the healthcare area.

We have already discussed the acquisition of Alior, so it probably would not make much sense to return to it at this point. Detailed financial data. Going from the top, we have, as has already been said, a significantly larger written premium, PLN 9 billion vs. PLN 8.5 billion. Well, unfortunately, the result on investing activity in the second quarter was much weaker than in the first quarter and also weaker than in the previous years. As a result, profit was PLN 1.322 billion vs. PLN 1.720 billion. Regarding the combined ratio, well, the combined ratio in non-life insurance was 90,7% vs. 86.1%, which is some 4 percentage points higher, exactly 4.5 percentage points. To a large extent, like I said, it is a matter of motor insurance, mainly motor third party liability insurance and we will see this in a moment. Here we have a breakdown into the operating segments, but maybe I will skip this. Well, Ladies and Gentlemen, here we have a breakdown into the main lines of business and the markets in which we do business. In mass insurance, like I showed you, we have 10%, almost 11% growth, but like I said, if we removed LINK out of this, then we would grow at a level of approximately 1 percentage point in motor insurance and at a slightly higher rate in non-motor insurance in PZU SA, that is at a level of 8.7%. We are very satisfied with this growth, but looking at the mass segment, as you can see, there was a significant increase in the combined ratio in motor insurance and in motor own damage insurance. There are several reasons for this. First of all, on the one hand, we also reduced our prices in line with the market, although our price reductions were much slower, and if you look at market data, they show that the divergence between PZU's profitability and that of the rest of the market is increasing. In practice, we currently have almost the entire profit generated by the market. The other very important thing is the issue of inflation of claims, which does not involve personal injury claims, for which all of us were prepared. The issue here concerns vehicle damage claims. Already in the fourth quarter of last year we started to notice an increase in the average claim by several percent. And during these first 2-3 quarters, that is the last quarter of the previous year and two quarters of this year, we are talking about increases by 7-8%, which unfortunately exerts a lot of pressure on the profitability of motor insurance. The reason behind it are predominantly replacement parts and costs of repairs. In our opinion, the explanation for this situation is the following: when the distributors of parts, of which there are only several, learned about KNF's recommendations, they started to raise their prices for parts much earlier. Due to some of these recommendations, we have to use original replacement parts much more frequently than before. So this in a way increases the power of the distributors. And it is not just a problem faced by PZU but it applies to the whole market. What we are looking at, however, are two companies: PZU and LINK4, the latter with an independent claims handling network. At the moment, we are also taking part in a survey run by Deloitte which is examining exactly the average claim in the market. This challenge is being faced by all companies in the market. And as we speak, the market is wondering what to do about it, because we currently do not have any influence on the prices of replacement parts. There are virtually only several distributors of replacement parts, there is no inflation, the exchange rate of the zloty to the euro is basically not changing significantly, but the increase is large. So we had two factors that caused the prices and the inflation of replacement parts translate into a deterioration in profitability. If you look at the corporate segment, we have a deterioration in profitability, because as far as the mass segment is concerned, then if you look at the overall combined ratio, well, we have 89.8%, a continuously high profitability of other insurance products, still an acceptable profitability of motor own damage insurance. As regards the corporate insurance segment, here, unfortunately, the price competition was very fierce. As a result, despite an increase in the number of risks sold, we recorded a decline in this segment, in motor third party liability insurance, a significant decline. Another important element of this is that we have a shift in the seasonality of non-motor products where our sales last year were greater in the first six months than this year. However, we hope that we can make up for it, in terms of non-motor insurance, during the rest of the year, and here we should have a small increase. I am talking about the item "Other products". Certainly, a serious issue to consider is the profitability of motor third party liability insurance and, basically, we have made a decision that in the coming quarters, actually in the current third quarter and in the fourth quarter, we will focus on improving the technical result in motor insurance. Especially in corporate motor insurance. As regards life insurance, we have the same situation as in the slide. We are catching up with the profitability, following the loss in profitability generated in the first quarter, and I would assume that we are able to end up at 20+, that is for sure, but I think it will be 20 and several more percent. I would not expect us to achieve the same good result as last year in terms of the profitability ratio, but it will certainly not be a bad level. As regards individual insurance, it is like I told you: we are growing a little faster than the market while basically maintaining profitability. Ukraine and the Baltic states: in Ukraine we have an increase in premiums and at the end of the year we should see positive results, in the Baltic states we have a significant increase and much better results. In principle, there are no significant one-off events. There is this event associated with last year's reform of open-end pension funds at a level of PLN 20 million. Let us now go through these waterfalls showing factors that affected the profitability of individual segments. In the mass insurance segment, as you can see, there were two main developments. One of them was a change in the loss ratio. I already told you that this was caused by the prices and the inflation of claims. And the other important development was an increase in the acquisition costs ratio. Here we have a situation, of which we have incidentally talked about a lot, that we will probably historically observe a change in the acquisition costs ratio, because currently we are primarily selling through our own agents, but when we expand our distribution channels, especially multi-agencies, it causes an increase in the acquisition costs ratio. What is also important is that as we consolidate LINK, then what LINK does is it sells actually more than half of its premium via multi-agencies, which also translates into an increase in the acquisition costs ratio. Corporate non-life insurance; the biggest factor here is actually the loss ratio. And here we primarily have those two elements. So on the one hand we have an increase in the costs of claims paid and on the other hand we also cut our prices and participated in this competitive fight, way behind the competition but still we were forced to cut our prices and this led to a deterioration in profitability. Group and continued insurance; well, this is compared on a six months to six months basis. Here we can see that the main factor is the volume of indemnifications and benefits, this is the result of a greater number of deaths in the first 4-5 months, but if you look at this slide, the second quarter, well, here we are definitely improving our profitability. Individual insurance; a little greater indemnifications and benefits, larger redemptions, but it is a matter associated with the maturity of products, reversals of other provisions, generally the same profitability. Foreign companies: worse loss ratios year on year, improvement in acquisition costs and administrative expenses. As regards investing activity, well, if you compare the first six months to the first six months, here indeed the first quarter mostly caused a much better result on a six months to six months basis in terms of equity instruments. As regards interest-bearing financial assets, the picture here is not as rosy: the interest rates are on the increase, we expected them to increase a little later, but all in all we are satisfied, because higher rates are better for us as you know. Equity position: as at the end of last year we had equity of PLN 13 billion, at the moment it is PLN 11.853 billion, but if you compare six months to six months, the level is the same. And we now achieved a consolidated solvency ratio of 251%, which is quite low for us. Well, this is the result of the fact that, on the one hand, we adopted a resolution on a dividend which decreased the available funds and, on the other hand, this year's profit is, after all, lower than last year's profit.

So, Ladies and Gentlemen, this is the whole presentation, we are now ready to answer your questions.

**Question: Jaromir Szortyka, PKO BP:** – I have a question about the result on investing activity. We understand its volatility, but would you be willing to share with us your expectations of a normalized level, so to speak, either at a portfolio profitability level or at a nominal level?

**Przemysław Dąbrowski:** – This year we assumed the portfolio profitability at a level of 4.5%. We are a little bit below this mark now and, to be honest with you, as regards our expectations, the situation is very hard but we are still assuming that the 4.5% mark is achievable, with the reservation of the developments that have been going on for the last 2 weeks and are related to the situation in China. Yesterday I had two conversations with representatives of global financial institutions. Those were two separate conversations rather than one joint conversation, although maybe they should have been held together. The two institutions represent different approaches. One of them has a vision of a further significant decrease in interest rates and says that it is a matter of a few months when we return to lower interest rates and generally deflation. The other one says that nothing special is going on, that there will be no big crisis and that in 3-4 weeks we will return to a path of slow growth and the resurgence of inflation. So I cannot really say. All the time we are assuming that we should end up reaching these 4.5% but I would not like to make any commitments at the moment.

**Kamil Stolarski, BESI:** – Following up on the question about your investment performance, let me ask you a question about the second quarter, because the result on equity instruments seems to me, its valuation was relatively weaker than might be expected, because the loss, that is the negative valuation there was roughly PLN 150 million, assuming that your portfolio is worth approximately PLN 4 billion...

**Przemysław Dąbrowski:** – Well, yes, but we are a little overexposed to the banking sector, so it seems to me that this is the main reason. We have a few large exposures, of course Alior is not one of them here yet, we have several large and focused exposures which seem to have unfavorably affected our performance.

**Kamil Stolarski, BESI:** – Administrative expenses *(IR: this is about acquisition costs)*; I noticed an unusually high amount of deferred acquisition costs, only this quarter they amounted to PLN 134 million and I am wondering if you changed your model of recognition of acquisition costs, because this quarter they were PLN 134 million compared to PLN 6 million a year ago.

**Przemysław Dąbrowski:** – Indeed, after the acquisition of RSA Group companies, with the full consolidation, these companies deferred certain costs and in part this amount is a consolidation of those deferrals but in part the reason is that we started to defer these costs as well, although not all of them, so it is fifty-fifty.

**Kamil Stolarski, BESI:** – This quarter your indemnification costs were comparable and were the highest since 2012. By comparison, collected premium is 20% lower. The question is: did you incur any non-recurring significant losses this quarter or is it indeed the influence of the market, or is it mostly the influence of the market and should we expect...

**Przemysław Dąbrowski:** – There were no significant one-off losses in the second quarter. As for the loss ratio, we do not see an increase in frequency. There is only a minimal increase in this frequency. Nor did we have any one-off major damage events. Also what happened this summer, speaking of the period a little further ahead, I mean these gale-force winds, will not have any significant impact on the loss ratio in the third quarter. This, unfortunately, is a matter of rising inflation of claims, mainly in motor insurance.

**Kamil Stolarski, BESI:** – Let me have a comment that you sold more policies generating lower revenues in the corporate sector.

**Przemysław Dąbrowski:** – In cars. We sold more risks but the average policy was lower by such a magnitude that nominally we have a decrease in motor third party liability insurance.

**Kamil Stolarski, BESI:** – I have one more question about your equity position and the lower ratio. We are after the payment of the dividend, so maybe... you always comment on your surplus capital, I am talking about the result which gets accumulated. Taking into account the PLN 1.6 billion on Alior, what is your current estimate of your capital surplus?

**Przemysław Dąbrowski:** – The difficulty here is that, basically, when we think about the Alior deal, which will be taking place in subsequent steps, we probably need a month or two to obtain all the necessary permits. So, basically, we already think about it in terms of Solvency 2. Because if we approached this issue from the current perspective, then we would be talking about surplus capital of maybe PLN 1 billion, but when we move to Solvency 2, we will be using other metrics. Then, just like we told you, this capital will be significantly higher. You will get the surplus capital figures under Solvency 2 or, I am not sure, around 15 November when we publish our data for the third quarter. We are even thinking about revealing them a little earlier. Yes, our plan is to show them earlier if we able to calculate them early enough.

**Kamil Stolarski, BESI:** – Solvency 2 by the standard method. I understand that you do not want to present it without individual models yet. Some of your competitors, for instance VIG, reports on their Solvency 2 position under the method...

**Przemysław Dąbrowski:** – Actually, there are three areas of risk: operational, financial and insurance-related. The PZU Group will use its own model only in respect of financial risks. In insurance-related risks we will apply the standard formula, but, Ladies and Gentlemen, let me tell you this: we approached the Solvency 2 issue a bit opportunistically, and as long as it was not clear when the new framework will come into force, as long as not all arrangements were known, we refrained from implementing them, hence we did not see the need to spend very large amounts of money, like our competitors did, on advisors, because we were not yet reporting to KNF. KNF knows these numbers, because we reported them in May for the first time. What we will show you now is our Solvency 2 position at the end of the year. Today there are no rules yet that would say if these figures should be audited or not. So because there are no regulations yet, we are wondering how to report the figures to the market, whether we should have them reviewed or not. The information in question is quite significant, we are doing it the first time and, on top of this, the Solvency 2 balance sheet will differ significantly from the Solvency 1 balance sheet. So we are wondering, I know these figures, they have been computed, have been to KNF and will not be changed, but I would like to be sure, especially in the context of information which I assume is important and price-setting, which will show the new regime, I would like to be sure and so we are discussing it. In the executive regulation that is being prepared somewhere out there, the figures are supposed to be obligatorily audited, but the act which will introduce the regime is also delayed, it has not been adopted yet, and so at this point, well, this is the reason for the delay, and we are wondering how to accelerate this date so as not to wait until November but do it earlier. But, like I said, it is going to take us a bit of time.

**Kamil Stolarski, BESI:** – Thank you, my last question concerns the results of your foreign subsidiaries: PLN 15 million this quarter. The question is: is this the level that may be assumed more or less to be maintained or did any significant events happen?

**Przemysław Dąbrowski:** – No, there were no one-off events. We are assuming that this level will grow. Which means that in the next few years, well, this level would be even higher had it not been for PZU Lithuania, because PZU Lithuania is decreasing our results. PZU Lithuania should be sold either in August or September.

**Piotr Palenik, ING:** – I would like to have one more question regarding your investment result. Interest income alone in the second quarter was significantly higher than in the first quarter, so the question is: what did it result from and to what extent can it be repeated? The second question concerns the drought. Bloomberg has already reported that the figures will not be significant, but it would be nice if you managed to at least explain a bit more precisely what you mean by 'insignificant', because we remember that the costs of spring frost went into tens of millions of Polish zloty, so the question is: how comparable are these two situations? And my third question concerns information that you assume flat administrative expenses throughout the year. Do they include recurring costs, with acquisitions, without acquisitions, with these projects, without these projects? I would appreciate it if you could explain this, thank you.

**Przemysław Dąbrowski:** – As regards interest income, there really is no one-off factor. It actually is the result of, I would say, absolute return on our portfolio activity, so I am assuming that we will perform better in the following quarters. Besides, this, I understand, was the reason for your question about our assumption for the result of investments and whether we can deliver the 4.5%, so we are assuming that we will be able to perform better in this area. As for the drought, there is a difference between crop insurance covering those spring frosts and insurance associated with the drought, and I would estimate this exposure at low tens of millions of Polish zloty. By "low tens" I mean between PLN 10 and 20 million, and this is probably what may emerge additionally. As for the third question, I would assume, and it is what you can see in this slide, that recurring costs will be zero, and as regards the newly acquired companies, these will be their claims, some will be there, others won't. As regards the costs associated with the implementation of our strategy, I am assuming an increase by between 5 and 8%.

**Jaromir Szortyka, PKO BP:** – On the issue of investments, if I may. Has anything changed in the company's approach to investments in the coal sector since the last meeting?

**Przemysław Dąbrowski:** – No.

**Jaromir Szortyka, PKO BP:** – Thank you.

**Marcin Jabłczyński, Deutsche Bank:** – I would like to ask you a question regarding the profitability of distinct asset segments, because here we have a situation where this non-motor segment, both in mass and corporate insurance, rescued the results a bit. The combined ratio after the six months is much lower, in the mass segment by 5 percentage points and in the corporate segment it looks very strange indeed, the combined ratio is only 55%, so it is going to normalize in the coming quarters, right? So my question is: in this motor insurance segment, actually in all these segments, we see a significant deterioration in the first six months of this year to the first six months of last year. Is this the bottom and will the situation improve in the coming quarters?

**Przemysław Dąbrowski:** – As regards the results of the non-motor segments, the improvement in the mass segment is not a one-off phenomenon. As regards the corporate segment, it did not record any significant one-off events, because otherwise we would have told you that. This improvement will indeed be hard to maintain, these percentage points, in the coming quarters this will get normalized but will also be much better. In general, PZU's advantage over other players is that PZU has a large non-motor portfolio which is not so exposed to a price war. The way we see the situation today is that the most significant source of price war are not even companies or entities registered in Poland but branches. Branches are the most aggressive in pricing. The advantage of a branch over a company listed in Poland is that the branch does not report here but gets consolidated somewhere abroad. Of course, the question is how it all looks at the owner's level. A partial answer to this is probably Liberty's decision to leave, but due to the mere fact that the branch is reporting out there somewhere, it probably, but I am not suggesting anything, it probably does not have to be as conservative in the establishment of provisions as Polish companies. So taking into account this fierce price war, we will first of all try to maintain high profitability in non-motor insurance and somehow subsidize this motor insurance segment. Certainly, like I told you, we made a decision at the end of the second quarter that starting in the third quarter we will focus on improving our results in motor insurance. By applying various methods: we are thinking about the prices, we are thinking about optimizing claims handling costs, because, like I told you, a big challenge for the market is the inflation of claims in motor insurance, which nobody expected, everyone assumed that personal injuries will increase and it will be a trend which cannot be conquered, because these kinds of claims are higher also in Western Europe, and we are heading towards those markets where larger amounts are paid out. But damage to a vehicle, an increase of 7-8%, with virtually no inflation and no significant movements in the exchange rate of the euro to the zloty, there is virtually no explanation. So in this context PZU and the whole industry are wondering how to approach it and how to counteract it. And like I said, I am not assuming, I mean we as the Management Board would like at least not to see the profitability deteriorate this year and we would like to see the profitability in motor insurance improve next year. We have done it before, so you know that we can do it, because we used to have much worse results on this insurance, we are not back there quite yet and now we made this decision in the second quarter. So I am assuming that as regards the profitability in motor third party liability insurance, this year it should only get better, that is motor third party liability insurance.

**Marcin Jabłczyński, Deutsche Bank:** – I have one more question about the banks, because...

**Przemysław Dąbrowski:** – I would only add that all the time we are aiming at the maximum combined ratio which we had for the whole of last year, the maximum, I think it was 94.5%.

**Marcin Jabłczyński, Deutsche Bank:** – My question is about the acquisitions of banks. You have been quoted by agencies as saying that by the end of the year we can expect something else. A quarter ago, on the occasion of the acquisition of Alior, we talked about new risks in the sector that are emerging: taxes, a higher Bank Guarantee Fund, now these Swiss francs. I understand that the francs do not apply to you, because you will acquire banks without a historical portfolio of franc-denominated loans, but there are these other things. So will they not delay the deal? Do you not need greater clarity on the issue of tax and the Bank Guarantee Fund?

**Przemysław Dąbrowski:** – Like I said, we are assuming the possibility of signing at least one agreement later this year. Because, as you have already been informed, we are trying to execute large projects during this term of office. Yes, this term of office started more than three years ago, so if we are to close this project, we cannot wait, so we are actively pursuing this deal. In my opinion, I still think this is feasible. I think that a new element that has emerged between Alior and today is a new version of the Act on 'franc borrowers', because all the rest has basically somewhere been known, I mean in the valuations. The francs are probably a new element, so I can only presume that the sellers may be wondering what to do now. You are also reading the press and you know that many banks are going to come up with some claims, but like I said, I am still assuming that by the end of the year we should be able to signing an agreement, and it is indeed our intention.

**Iza Rokicka, IPOPEMA:** – I would like to go back for a moment to motor third party liability insurance, both in the mass segment and in the corporate segment, because when you actually break down these figures in the slide into the first quarter and the second quarter, this second quarter looks very miserable. And when I look at the previous two years, then I see that the seasonality is such that in the third quarter motor third party liability insurance in both the mass segment and the corporate segment looks even worse than in the second quarter, which itself is seasonally weaker than the first quarter. So my question is: is it possible that this will go down even further in the third quarter, when broken down quarterly, and as you mentioned the decision, the focus on profit, then how much time will it in fact take? When are we actually able to affect the current results? Because the decision itself – end of the second quarter – will it translate into the results for the fourth quarter of this year or are we rather thinking about the results for 2015?

**Przemysław Dąbrowski:** – certainly the difference between the previous years and this year is, like I said, our current strong focus on profitability, which in practice means, for instance, a significant decrease in our discounted sales, because it is not even a matter of any tariffs but a question of capacity, or actually granting the right to sell at a discount. We have already made this decision and have significantly limited this possibility, which in practice means a stop to further price decreases, and perhaps even their growth, especially in the corporate segment. Of course, this will have no immediate impact, we made this decision in the second quarter, so I guess in the third quarter it will be hard to see any significant impact, but it will probably show in the 4th quarter. So, Ladies and Gentlemen, as we look at this situation, it is definitely hard to predict, but at the moment, as regards these other non-price factors and the inflation, which is the other element which will have an immediate impact, we have taken a number of steps to curb the inflation of claims, but here the prices will not move right away, because we are changing the prices, we have sold this policy at a price that was too low, which in the case of the inflation of claims has an immediate effect, yes, and basically we have now reoriented ourselves to control this level of inflation of claims, and like I already told you, this is not only our problem, we are talking to our competitors, we know that no one expected this increase in damage to vehicles, because everyone said, ok, personal injuries, compensations, yes, but damage to vehicles, as I said, is hard to explain by any business factors other than a monopolistic position, and we have taken appropriate actions. And these actions started, I am not sure, two months ago, and they have an automatic effect, because we are trying to pay lower costs of damage. And like I told you, if something surprised us, it was the inflation of claims, we did not expect it, the market did not expect it, because it was known that claims will increase in the second quarter, and we expected that due to changing KNF's recommendations. But an increase in the first quarter, the fact that it started so early, no one expected it, but we have taken a lot of steps that will have an immediate effect on our results.

**Iza Rokicka, IPOPEMA:** – So in this context, in the context of the profitability of motor third party liability insurance, when you look the standalone result of PZU SA and if you remove the dividend from PZU Życie from the second quarter result, because it is like a seasonal factor rather than a recurring one, then, well, PZU SA on a standalone basis without the dividend earned some PLN 93 million profit, because as I understand that not all the losses on investing activity are reflected in PZU's standalone financial statements. So do you see any risk that PZU SA's standalone result will continue to decrease temporarily in the third quarter or is this PLN 93 million in the second quarter some kind of a bottom and should the situation now get better?

**Przemysław Dąbrowski:** – Rather, we are assuming all the time, and I understand what your questions are getting at, all the time we are assuming and conducting various activities to maintain the ability to pay a dividend that would be consistent with our dividend policy, that is at these higher levels, between 50% and 100%. Which of course means PZU SA's standalone result must be in line with the Group's result to enable the payment of a dividend. That would be my comment.

**Iza Rokicka, IPOPEMA:** – So is it too early to speculate what possible additional actions may be taken in the second half of the year to improve the standalone result, for instance in the same manner as last year, or are we again talking about an interim dividend from PZU Życie?

**Przemysław Dąbrowski:** – Ladies and Gentlemen, for the time being, there is nothing to speculate about, there are a number of things that can be done and, as it stands now, the Management Board's intention is to pay a dividend in the coming year. This is our approach. I do not want to declare how much we will pay, but for now the Management Board's philosophy is that PZU is a dividend company and maintains, despite the acquisitions of banks, will maintain its philosophy of paying dividends at a high level. Well, this continues to be the Management Board's intention and the Management Board is of the opinion that it has the funds to be able to do it. Of course, it is important to us, I will be open about it, the transition to Solvency 2 is important, because it improves our capital position. As far as PZU SA's standalone profit is concerned, then of course we have a certain range of measures that can be taken to enable the payment of the profit. And so far this is the intention of the Management Board. It would be hard for me to comment any further on this issue.

**Piotr Palenik, ING:** – I have a question concerning the non-life insurance segment. Here one of the reasons for the deterioration of the combined ratio is an increase in commissions in inward reinsurance. May I ask you to comment on the reasons behind it?

**Przemysław Dąbrowski:** – This resulted from the fact that we consolidated reinsurance for all the companies that we have acquired in one place, because we believe that it makes sense in the long term. Previously, the RSA companies and our company also, in principle, reinsured themselves. RSA companies were reinsured by RSA, and this is the main factor, I mean one reinsurance program for the entire PZU Group.

Maybe I will read a question from the Internet. We have two questions:

**Michael Huttner, JP Morgan:** – What are your plans for the payment of an interim dividend? Has anything changed as a result of your banking investments?

**Przemysław Dąbrowski:** – We paid an interim dividend once, and it was back in 2013. At the moment, there are no plans for an interim dividend. The plan is like a year ago, that is we are maintaining our approach to dividends, so if nothing wrong happens in the company, or if there are no really large development-related capital needs, the Management Board's objective is to share the dividend to a large extent with our shareholders. As we discussed, several things still need to be done before this is possible, so nothing has changed in this respect. But there is no plan to pay an interim dividend and our banking investments really have no special impact on our way of thinking.

**Michael Huttner:** – When will the tranches for Alior be paid and when will their share in investment results will be recognized?

**Przemysław Dąbrowski:** – Between one and two months, that is when I think the full consolidation will begin. We are discussing this issue, but the cash flow, or the transfers, should be completed by the end of the first quarter of next year. As regards consolidation, we are wondering at what point it should start. I do not think it will start in the third quarter. Potentially, we are talking about the first quarter, that is when consolidation may take place, because I understand 'potential investment income contribution', it will not be 'investment income', it will be consolidated. So it may be the first quarter when consolidation will begin or it may be the fourth quarter of this year. And even so, probably only the balance sheet will be consolidated initially, and until the profit and loss account is consolidated, this will probably go through investment income. And the last question concerns Alior:

**Michael Huttner:** – What is the potential area of synergy with Alior?

**Przemysław Dąbrowski:** – We are not yet in control of the company. Probably when we begin to consolidate, we will discuss this issue on one way or another, but let me remind you once again that, first of all, the objective behind the acquisition of Alior was not to build synergies between Alior and PZU, but of course we are working on it and there is a certain number of areas where these synergies are possible. For sure, there will be no strong integration like, for instance, I do not know, between PZU SA and PZU Życie where a number of key managers are employed in both companies at the same time. Something like this will definitely not happen. But there is a whole list of synergies that we are working on and probably when we start to consolidate, we will share this information, to a certain extent, with the market.

**Michael Huttner:** – What is the outlook for Solvency 2?

**Przemysław Dąbrowski:** – Like I said, that as regards our capital position in Solvency 2, we should be at a level, I am not sure, some 300% of coverage of the Solvency 2 margin, this SCR in the new world, this margin is, let us say, at least two times greater than the one which is required currently. And as I said, we are considering the disclosure of these data earlier than mid-November. Perhaps we will do it at the beginning of October, we will simply hold an extra event and announce these data, because we can see that there are a lot of questions on this matter as everyone wants to know what our capital position is.

**Michael Huttner:** – What is your potential uplift in terms of capital surplus?

**Przemysław Dąbrowski:** – As regards this uplift, well, like I said, this is about Solvency 2. Specific numbers will be published within one and a half months at the earliest and by 15 November at the latest.

**Michael Huttner:** – Perhaps you will have revenues rather than cash dividends. What would it mean for PZU's obligations in terms of the payment of the dividend?

**Przemysław Dąbrowski:** – This is obviously a legitimate question. We are working on how to manage the payment of dividends from the Group, and in the case of Alior this is a relevant issue, because after the consolidation Alior will contribute to the Group's profit and loss account but will not contribute, at least in this first phase, to dividends. In the case of the other banks that are considering to acquire, well, actually, they will initially worsen the Group's result, because they perform rather poorly, although in terms of capital, I am not sure, we may be talking about a negative goodwill. So this may improve the situation, but it is not for sure that as the banks will merge, as the first results will be achieved, it is not quite certain that there will be no dividends between the new bank, Alior and PZU. And that is all I can comment on at the moment.

**Sobiesław Kozłowski, Raiffeisen Brokers:** – Is the PZU Group considering participation in market consolidation, for instance, in the context of Liberty?

**Przemysław Dąbrowski:** – Of course, we are considering certain acquisitions in the insurance industry, both in Poland and abroad, but they must make sense. You mentioned Liberty. From the Group's perspective, this is merely the acquisition of a portfolio, because there is actually neither the brand there, and besides, there will be no brand, because Liberty will take it away, and we do not need any infrastructure, so it is a question of the portfolio, and today, I would say, this portfolio, from our perspective, is of average attractiveness. So, potentially, we could be interested, but it is not a strong interest, because it is a 'direct' portfolio, probably unprofitable, so for now I would say we have an average interest at most.

**Kamil Stolarski:** – In the context of what you said about the plan to consolidate the balance sheet at the beginning and the profit and loss account later, do we already know how PZU will report following the acquisition of these banks? Will its financial statements look like those of banks? And am I correct that all the time the capital requirement under Solvency 2 will be of key importance for this merged entity?

**Przemysław Dąbrowski:** – Unfortunately, this is not yet known, because today the only provisions of law are those pertaining to financial conglomerates, and these provisions contain three or four methods for calculating the capital requirement, and the decision is KNF's. Incidentally, these laws were created when Solvency 2 was not there, so under Solvency 2 we will calculate as an insurer. We will simply take off the risks associated with banks vs. their equity. I am not sure, but honestly the PZU Group and PZU SA will play the dominant role. So this requirement will be the most important one but I cannot tell you exactly how will be calculated. I am now able to say because there are several methods.

**Kamil Stolarski:** – So of key importance seems to be KNF's interpretation?

**Przemysław Dąbrowski:** – Yes, I mean, I think there are two important things, that is KNF's interpretation of how PZU should calculate the requirement and the other important piece of information, which we will find out about, I think, around 5 or 6 December, although I do not know if we do find out, it would be valuable if KNF also expressed its expectations as to the dividend possibilities of insurance companies in the Solvency 2 regime. Because today, as you know, there are three criteria: the criterion of solvency margin coverage according to Solvency 1, the criterion of the coverage of technical provisions by assets and the BION criterion where BION needs to be high. And there are three criteria, actually two numeric criteria and the third one is a little discretionary, and they decide whether or not a company may pay over 75%, and this is it. And now, from 1 January 2016, in principle, Solvency 1 will not apply, and KNF's criteria for the payment of dividends they were not precise in the meaning that, for instance, as at 31 December the parameters are such and such, but they were based not only on the parameters as at 31 December but also on the future perspective. For instance, in our calculations we took the first or the second quarter, so this was also taken into account, so it stepped outside the Solvency 1 regime. So in my opinion, KNF must now reconsider its recommendation for the payment of a dividend for this year, because the regime which will be in force starting 1 January will be Solvency 2. And this, in my opinion, is the other very important piece of information.

If you have are no more questions, thank you very much and let us have some refreshments.