Presentation of PZU's financial results for Q1 2018 – 16 May 2018

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

Ladies and gentlemen, we would like to welcome you to the PZU results conference.

Thank you for coming in such large numbers. Today we will present information about our interim results, say a few words about the dividend and about the implementation of the strategy, and naturally, as usual, we are open to your questions after the presentation part.

Major events and factors this quarter: from the shareholders' point of view, one major event is the decision of the Management Board, as approved by the Supervisory Board, on the recommendation for distribution of the 2017 profit. As the Management Board, with the consent of the Supervisory Board, we recommend a dividend of PLN 2.50 per share. I will say a little more on this subject in a moment. If we look at insurance, on the one hand, we continue this very positive period for written premium. On the other hand, despite the increase in provisions for general damages, we maintained the high profitability of the motor insurance portfolio. We will tell you a little more about this in a moment. We also managed to improve our results in other non-life insurance, despite the reduced profitability in agricultural insurance. We have also increased profitability of the group and individually continued insurance segment compared to the previous year. We have also maintained a very high growth rate at PZU Zdrowie. We have extended our product offering with individually continued insurance, we continue to actively build our presence as a medical service provider. In the recent period of time, we managed to acquire the St. Luke Medical Centre in Częstochowa and we keep looking for other targets in this segment. In investments, as you all know, if you compare the period of the first three months with 2017 and 2018, there is a strong delta between the performance of the Polish stock market last year and this year. Here, the delta was felt in the equity part of our main portfolio, which was partly offset by lower yields, or an increase in the prices of Polish treasury bonds. In respect to the banks, we added Pekao SA this quarter, which has a significant influence on the comparability of this result. At the same time, we would like to remind you that, in terms of seasonality, the first quarter is relatively low when compared to other quarters in both banks. As far as PTE is concerned, as we've announced, we continue to build our cooperation with Pekao SA in the asset management area. We have already obtained KNF's consent for the merger of PTEs under the name of PZU and we are continuing and expanding this cooperation.

Now a few words about the dividend. The dividend that we proposed for the previous year is PLN 2.50 per share, or 74.2% of the total consolidated result. This dividend is almost 80% higher than last year (PLN 1.40). Referring to our dividend policy, some of you might ask how we calculate that 74%? I would like to remind you that as we were calculating the profit distribution, we showed that there were actually 3 parts. One of the parts (50%) is what we guarantee as a payout for our shareholders, then there is the 20% that we can keep to finance organic growth, and 30% for potential M&A projects. In 2017, we had one of the highest growth rates in terms of the premium growth. Last year, our gross written premium was the highest in history and if you look at the other areas where PZU is developing in accordance with the strategy, it seems that, at this rate of growth, keeping that 20% for organic growth is justified. When it comes to the slightly more than 5% that we allowed ourselves to keep from the M&A part, we should say here that, as you know, the PZU Group has announced as part of its strategy that there are several areas where we will actively look for transaction opportunities. One such area was health and the other – the asset management market. We have not just announced this as a hypothesis, but we are actually carefully analyzing the market. In the context of these analyses, we find that none of them are advanced enough to talk about any specific transaction. However, there is some probability that some of the analyses we are conducting will come to bear fruit. Therefore being aware of that, we would like to keep the positive DPS trend from year to year, that is to guarantee our shareholders that the dividend amount paid per share will increase. We decided it would be safe to keep this 5% security buffer on capital if the talks, the analyses we are now conducting, were to materialize. As you can see by the amount of money saved, we are not talking about very large transactions; it is certainly not comparable to our most recent M&A deal. These are the things that build us up strategically, however, on the one hand we are trying to have a capital reserve to maintain the 200% SCR coverage level, while on the other hand, even in the year in which such acquisition would take place, we try to be able to guarantee a higher DPS to our shareholders, year over year. In this respect, we have decided to maintain this security buffer should these transactions not materialize. We will try to compensate for this accordingly the next year. So this is it about the dividend. If you have any questions, we will be happy to answer them in the Q&A part.

I have already talked about the premiums. What is particularly pleasing is that virtually all the segments and products in the non-life part recorded positive sales growth. The situation was similar in the life insurance part; negative growth was recorded in individual insurance only, and specifically in unit-linked products. Overall, after a very strong, even a record-breaking first quarter of 2017, when we posted the highest gross written premiums in history, we have now managed to beat this record, even if just by 1 percent. This is a very positive sign. The market as a whole has grown and we have maintained a stable position on the market. Even if we include our subsidiaries Link4 and Towarzystwo Ubezpieczeń Wzajemnych, we have slightly improved our share in the non-life insurance market.

Now we will move on to profitability, first to other non-life insurance. Here we maintain what we said in that quarter. After a very exceptional year 2016, which was affected by non-recurring effects of ground frost, despite these effects in the previous period, we have now returned to the profitability corridor to which we are accustomed together with our shareholders, where we feel comfortable. This 60-65% range is where this product should be and, from our point of view, this is how it should return to controlled profitability in both mass and corporate segments. When we look at motor insurance then, on the one hand, by responding to the effects of the price war and KNF's recommendations, as most of the market, or rather the entire market, we have returned to profitability. We are constantly analyzing the possible future pricing situation, but right now the situation is stable. The very small drop from 38.5% to 38.4% year on year resulted mainly from the fact that the KNF recommendations, that we should remain profitable in each product and in each segment line, we have consistently implemented in the insurance, leasing, fleet and dealers channels. In order to implement KNF's recommendations, we said goodbye to some unprofitable contracts, which accounts for the slight impact, the slight decrease in our market share.

However, our position is still very strong and we intend to maintain and even expand it. At the very beginning we must say that this quarter our profitability was most severely affected by the final ruling of the Supreme Court of 27 March on general damages for pain and suffering. We had to charge a provision to the quarter's result which, from our point of view, should reflect the scale of this phenomenon and how it will affect our portfolio. Of course, no-one has a crystal ball here and no-one can predict how the sales will actually develop, but that is our best knowledge and our best estimate of the impact the ruling will have on our profitability. What is important is that, due to a strict cost discipline, we managed to achieve such a position that despite this one-off event, we still maintained our market position on the one hand and profitability on the other hand; we also managed not to raise the price, which would reduce the product's marketability. We do hope that this is a position that we will be able to keep in the long term.

Now we move on to life insurance.

Roman Pałac, President of the PZU Życie Management Board

Thank you very much. A few words of my commentary about the life insurance market. I will focus on periodic premium product, because this is what is the most interesting for us, and for you too, I believe. For several years now we have seen the life insurance market standing still. It has not been developing too much. We observe a portion of the market outside PZU shrinking, while we are growing slightly and, as a result, increasing our market share. We closed the year 2017 with a nearly 1 percentage point market share growth, which is an excellent result, given our scale. I believe that this trend will continue. Moving on to the 1st quarter results, gross written premium went up as compared to Q1 2017. We are trying to develop this business in such a way as to maintain profitability. We think of 20% as the margin that we want to sustainably deliver and in a moment I will tell you where we are after the 1st quarter. Here, there were two elements that impacted premium growth: one positive and one negative. The effects of changes in the pension system in Poland on our portfolio are still quite noticeable. The lowering of the retirement age is affecting our portfolio. We are able to offset these losses with new sales. Our health business is very strong. Right now, we have more than 1.5 million health contracts in force and this part of the business provides a very strong contribution, compensating for the losses related to retirements. When we look at the profitability of group and individually continued insurance then we have a very positive trend here from Q1 2017 to Q1 2018, a boost to the profitability of the business by nearly 3 percentage points. This is a seasonal business, as you know perfectly, since you have been observing it for many years - the first quarter is always weaker than the subsequent ones. This is due to the winter season and the increased incidence of disease and mortality. This year, the frequency of these events was lower than last year and this shows in the profitability. I am certain that in the subsequent quarters we will reach the assumed profitability of over 20% in group insurance. In respect to our health business, I already said during the period that we are very happy with its growth and we maintain the growth rate of more than 30% year on year. The increase in this business is driven not only by our insurance products but also by other products, for example subscriptions are used by almost 1.7 million people. We are also developing the network. At the beginning, the President said that we closed one acquisition in this quarter, in

Częstochowa. This will be one of the components of growth that we are planning for this business: we will consolidate the market regionally and build up our presence. We will not do this on a huge scale, financially, but we will open our facilities or acquire existing facilities all over the country.

Paweł Surówka:

Thank you Roman, now I will ask Tomasz Kulik to lead us through investments and costs.

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

Ladies and gentlemen, if I wanted do describe, briefly what we experienced on our own portfolio in the first quarter, the first thing I would say would be high volatility. What we observed on the markets were, first of all, declines on the Polish stock exchange, declines in bond yields and a slight increase in the currency. The situation was quite different from the same period last year. Flat yields on bonds, a fall in the Euro exchange rate and bull market on stock exchanges resulted in an exceptionally favorable environment for above-average returns. This quarter, when we look at the profitability on the main portfolio and how particular asset classes contributed to that profitability, our investment result was shaped mainly by equity instruments. The difference between Q1 2018 and Q1 2017 is PLN 280 million. And our exposure to Azoty, which was historically responsible for the significant volatility of our results, gave us more than 40 million of unrealized profits last year. This quarter, this asset does not perform; we do not show the changes in the measurement through profit or loss. The remeasurement is recognized in other income. Therefore, this exposure will not cause changes from 2018 on, which will enable us on the one hand to manage profitability and on the other it will allow you to anticipate what can happen to our results in the individual periods. The fact that such an asset, or a change in the measurement of such an asset, does not exist in our account does not mean that it does not exist at all. As I said, it is there, but this time the changes will be presented in the balance sheet. Two other important changes, year over year, are the performance of Polish bonds, where the yields fell by nearly 20 basis points last year. The market was flat for this class of assets. Concerning our Global Macro strategies, which are mainly debt-based, on the one hand we are shortening our portfolio, that is reducing this exposure because of its high volatility, in an effort to limit this volatility, in accordance with the strategic allocation of assets. On the other hand, yields increased on the underlying markets, especially the US dollar yield curve, which was responsible, quarter over quarter, for slightly worse results, and the currency situation caused a 40 million difference between the two quarters. When it comes to our cost position and what is happening in the PZU Group, we continue to implement our commitments from the strategy and what you are seeing is once again the effect of improved efficiency of our activities. As you might remember, last year in PZU was devoted to change, to restructuring, which lasted from the 1st to the 4th quarter. In the first quarter of this year, we released the last provision that was recognized for the restructuring in 2017. The program has been completed, we are leaner in terms of PZU's headcount, some processes have been automated and today these costs are not only not rising, but are lower quarter on quarter, which means that we are able to share a portion of these savings with our customers, offering attractive prices for our insurance products. The ratio of costs to premium fell by 0.8 percentage point, which is a very good achievement at these levels.

Paweł Surówka:

To recapitulate, the consolidated net result of the PZU Group is higher than in the previous year. We broke a billion again, this time it was 1,043 compared to 1,007 last year. We should note however that this time the result includes the Pekao SA result. When we look at the parent company, we will see that its result is lower than in the 1st quarter of 2017. The first quarter of last year was exceptional. The performance of the Polish stock market drove our investment results to unusually high levels. This factor was absent this quarter. Another element that was very important was the recognition of provisions for general damages and another element, already mentioned by Tomasz Kulik, was slightly more than 40 million. All in all, the result was not even comparable. Last year, Azoty also made a contribution, which is also nowhere to be seen in today's net result. This also affects ROE to a proportionate extent. As we said at the previous conference, that is the level of ROE that we expected, considering the seasonality in life insurance and in banks. We still believe that we are on track to meet our strategic commitment to investors and beat 22%.As I mentioned at the beginning, the gross written premium of 5831 million is higher than it was last year.

Tomek, would you please guide us through the different components.

Tomasz Kulik:

Of course. We will begin with sales. As the President has already said, it was one more top quarter in the history of PZU, which is pleasing, especially that in previous quarters, there was price pressure arising from good results. You were concerned that it could drive a decline. When we are talking about PZU's capacity to grow, of the market to grow, we are showing the first quarter, we are growing and that's what we're happy about, growing across virtually all product groups. In terms of claims, they declined even though the portfolio increased, which deserves a strong emphasis. This was driven, on the one hand, by very good loss profile in life insurance, often lower mortality rates, for both main insureds and co-insureds. On the other hand, there were lower dismemberment payments, lower payments due to childbirth. These are, let me remind you, the risks we are paying for. The conversion of long-term policies into annual policies was lower year-on-year, which had a negative effect on results, with i.e. the delta of about 15 million. This was partially overshadowed by the necessity to recognize the provision for general damages, as mentioned by the President. Despite this so far non-recurring event, our total costs of claims paid were lower year on year despite the portfolio growth. We have already discussed revenues from investment activities in the main portfolio, but I am now moving to investment activities in insurance companies. These are also revenues of our insureds earned on their investment strategies. While last year these revenues were driven by the market conditions that we mentioned on the investment slides, the situation this year was different, which resulted in the overall change in income earned by our insured persons on their investment strategies by PLN 300 million. Please remember that this position has a neutral effect on the net result. This investment activity section has two other important items: the first is the impairment loss for receivables and the costs of financing own bonds, at a more or less comparable level year on year. The other very technical element is the effect of measurement of our investment properties. In every first and third quarters, the exchange rates are referred to the opening balance of the exchange rates at which the properties are measured. This is a temporary position which is closed at the end of each year, at the end of every half-year period, negative year on year. It is really satisfying to continue to generate these results while restricting our costs. We are even more cost-effective, we can create our remuneration schemes for intermediaries in a way so as to support growth of particularly profitable products and to ensure that the PZU Group is not as a motor insurance provider only, but also as a provider of other property insurance in this non-life segment. We are growing in that segment as well and we want to reward our partners and agents better for better quality. This translates into a slight increase in our acquisition expenses and their share in the gross written premium, especially in corporate insurance. From the profitability point of view, this is without a doubt valuable turnover, as it builds the profitability of this segment and contributes positively to the total result. This year, the profit was strongly affected by the consolidation of Pekao SA, which influenced the comparability of the Q1 result. Please remember that we acquired this bank in the 4th quarter last year, so when making quarter to quarter comparisons, our 20% holding in the assets of this bank slightly distorts the comparability. I will only remind you that the banking segment contributed an additional PLN 127 million this quarter, compared to less than PLN 30 million last year. As a result, the Group closed the period with a net result attributable to the parent company, to the shareholders, at PLN 640 million, which means a 17.6% return on equity, with a very high profitability of the insurance business, which my colleagues have already mentioned before me.

Paweł Surówka:

Thank you, Tomek. Before we ask you for your questions, I'd like to make a brief report about the strategy and about where we are in its implementation. In terms of ROE, due to seasonality, the effect of the provision and worse investment results, this quarter is currently at 17.6%. Both the net result and ROE are in line with our projections for this quarter. We still believe we are on track to achieving the ROE of above 22% in 2020. We can see that this objective will be achieved. In terms of our market share: 35.7% in non-life insurance, we have maintained our strong position and we continue to build it on. We believe that the target will be met within the deadline. We have already achieved the combined ratio target. Obviously, we cannot expect profitability to remain at this level all the time, but as you can see, we have a buffer in case anything happens, such as rulings like the current one. Nevertheless, we have already achieved the objective and we hope we can maintain that level. As Tomasz has already said, we have also met the administrative expense ratio objective and now we are trying to keep it under control, despite the strong growth figures. In respect to life insurance, as we have said, the number of customers will decline slightly before it begins to rise again. On the negative side, we have demographic forces at play and retirements. On the positive side, we have active sales and we can see that there is inflow every month and we are trying to rebuild this portfolio as quickly as possible. Roman has already explained that profitability is not quite comparable at this moment. We assume that the 20% profitability level is safe, both this year and in 2020. We have maintained our solvency ratio above 200% and we will not change it. As far as the asset management segment is concerned, we have set an ambitious goal of 65 billion. Today, together with the Pekao, we have 47.1 billion. As we have said, this is one of the areas where we are actively seeking consolidation opportunities and we believe that is the right way to achieving the objective, as well as the net result objective. We have the same comment about the profitability of the entire portfolio: that this quarter was marked by strong declines in the equity portion; its weight will decrease over the year because of the rest of the portfolio, especially the corporate debt part, which is working and which we have remodelled to contribute to the result sustainably. We can see that this year and for the entire strategy, we will be able to achieve that 200 bps over the risk-free rate. In the health business, as President Pałac has already said, we have already achieved half of our objective. We are experiencing such a growth rate that we believe that during the 2 years that we have left, we will achieve 1 billion in revenues and recover the margin as well. Currently, we are in the process of a very strong expansion of the outlet network. First, we need to generate higher revenues, then we will focus on profitability as planned for this segment. As far as banking is concerned, out of the 300 billion of assets we have assumed, our banks have 254. As far as this portion of assets and net results is concerned, it is in line, or even more conservative than the goals adopted by the banks, so we hope that both banks will deliver on their strategies.

This way we have exhausted the presentation part and are ready to answer questions from you.

Maciej Marcinowski, Trigon:

Good morning, I have a question about the additional provision for general damages. You said that, as at today, the best estimate is that the provision is sufficient. My question is: What will be the moment to verify this assumption? Which quarter this year or next year would you have to revise this estimate up or down?

Roman Pałac:

The basis for our estimation of the provision is first of all, the wording of the Supreme Court's ruling and, second, the knowledge of our portfolio. We are waiting for a detailed justification of the Supreme Court ruling, which will allow us to give a detailed response. To the best of our knowledge today, this is the most appropriate provision, but we are waiting for the details, the specifics that will result from this ruling.

Paweł Surówka:

The situation is developing and we know about the various legislative processes that could clarify the situation even further in this respect. The process is very dynamic and we obviously monitor the damages that are reported to us. It is difficult to specify at which point we could say yes, this provision is either sufficient or insufficient. As at today, we can say that it incorporates all our knowledge of this process and we hope that it is conservative.

Maciej Marcinowski:

Could I still ask for an update on the motor insurance market? What has been going on with the prices in recent months? Has the aggressive foreign player calmed down a little or not?

Paweł Surówka:

Actually, we must say that it is a very mixed picture at this point. On the one hand, we did the swimback after the price war, the prices rose, and today the whole market is profitable. So, one could say it should be expected that some players, like the one you mentioned, would be willing to test the market and fight for the more price-sensitive customers who are more prone to switch based on price and in a way to pressure these customers and the average prices. This is one of the factors that can affect the average price, but on the other hand we have factors such as this ruling, which will affect the whole sector, instead of just us. I dare say we are well prepared for that and we have the profitability to use it in a sense, also with the cost savings that we have. I don't know how other insurers will handle this, especially the smaller ones. You need to ask them this question. I can imagine it will be one of the effects that can compensate for the trend that we are seeing. At this time it is difficult for us to state a clear trend. We are certainly looking very closely at the market and we will definitely not be the ones to pull the market one way or the other. On the other hand, as I said at the recent meetings, we are trying to make this product less and less susceptible to large price movements on the entire market, but to behave more in terms of individual pricing. We are assuming that we must prove our strategy from quarter to quarter and also show that in initiatives such as telematics, better claims handling, higher customer engagement resulting from more annex-based services that allow us to emphasize relationships more than products, we will be able to keep these customers while maintaining good profitability, irrespective of the attacks on potential customers. These attacks are often directed at price-sensitive customers – those that we don't always want to fight for.

Maciej Marcinowski:

One more question about your M&A strategy. Do you focus on the medical and asset management segments only, or do you think about any foreign insurance acquisitions?

Paweł Surówka:

As I've said, we are looking closely at our market and at this moment we don't see any target that would be interesting for us on the Polish insurance market. We are looking at foreign markets. There are countries where the situation is dynamic, but at this point, there is no specific discussion that we are having. There are things that we are looking at, but we are currently focusing mainly on our strategy, which is the asset management component and the health component. Expansion of PZU in respect of some of the services that are auxiliary to insurance, is more important to us. We are not satisfied with just a strategic declaration and a passive approach – we want to look for this development as well. This is why we have built a capital buffer for ourselves. As far as foreign countries are concerned, right now there is no specific target that we would consider.

Łukasz Jańczak, IPOPEMA Securities:

I would like to go back to life insurance – do you expect the general damages to result more from notifications submitted by individual clients or rather from the activity of "insurance claims firms"? In motor insurance, naturally.

Roman Pałac:

I can only respond to what we have seen historically. The most recent wave of claims pertained to deaths and was caused by the activity of insurance claims firms. But this is history and as at today we still don't know exactly which client group will be affected. We are assuming a scenario that we believe is the most likely. We are able to identify the customers that we are thinking about. When we receive a detailed interpretation from the court, it will give us some guidance for how to reach this group.

Łukasz Jańczak:

One more question: the value of donations increased quite strongly in the 1st quarter. What were they?

Tomasz Kulik:

Yes, that is true. If we compare the 1st quarter to the 1st quarter, nothing changed in the way that we cooperate with the foundation, because this is what we are talking about. Last year the Foundation was given a donation in the second quarter and if we look at the data after the first half of the year, we will see full comparability in this particular line.

Jaromir Szortyka, PKO BP:

I have a question about the slide on the topic of cooperation between PZU and the banks. You wrote about realized cost synergies of 27 million – what where the areas where you managed to cut those costs?

Tomasz Kulik:

I will try to click through to that slide so that everyone can see. The areas where we conduct work that translates into measurable effects include mainly procurement, in areas such as the IT, media purchases, marketing costs. Having 3 large entities in the group and having a competitive advantage resulting from the scale, we are able to achieve it. Another group of topics that are being implemented at the same time are those related to real properties, rental of office space and how we are able to leave the premises and properties that we do not occupy or the properties that , due to the grid and the distance between the outlets, are currently too dense and do not add value. We simply need to share space in those that we keep. So these are 2 main groups: procurement and real property.

Paweł Surówka:

Real property seems to be a very promising element. We have launched this model in Warsaw, in which we can offer, for example, PZU insurance products at a Pekao branch.

Both companies have this opportunity to optimize their footprint in Poland through possible cooperation in such locations where the presence of one or the other is raising questions.

Now we have probably already answered all the questions. I will take one more glance at the Web... The questions from abroad were the same as those already asked.

Thank you very much. I am now closing this conference – please buy the shares.