

## **Magdalena Komaracka**

I would like to welcome you warmly at the conference on the PZU Group's results for the first half of 2024 and the second quarter of 2024.

The presentation will be given by Mr. Artur Olech – CEO of PZU S.A., Mr. Jarosław Mastalerz – CEO of PZU Życie, and Mr. Tomasz Kulik – Management Board Member of PZU and PZU Życie, CFO of PZU Group. Mr. CEO, the floor is yours. Thank you.

## **Artur Olech**

Good morning! I have the pleasure of welcoming you to our regular meeting finalizing the completion of the second quarter. We will present quarterly results as well as results for the entire half-year. This is the second conference that we gather in this group, but the first where we are in fact already fully responsible for the insurance operations and for the PZUSA capital group, as we have obtained the KNF Board licenses, so it's natural to be getting some jitters, of course, but I think we will manage the challenge. Let me begin with presenting the main figures, meaning the main numbers that characterize the Group's performance. First of all, sales revenue in terms of insurance revenue is more than...PLN 14.3 billion. This gives a growth of about 10%, 1 billion 300 million above last year's figures, compared to the corresponding period. The company recorded a very good profitability of PLN 2.4 billion. This result proves that this return on capital is well above 17%. Banks very significantly contributed to this result. They also took advantage of the period of high interest rates, and facilitated operational activity. However, our banks had already achieved such results. The Group's capital position is very strong, as it at the consolidated level of almost 230%. And at the individual level, which is also the basis for dividend payments, it almost reached 240%. As you are well aware, this result significantly exceeds what is presented today by the European companies which we use for comparison, that is, this level of two hundred, two hundred and some percent. This serves as the best confirmation of the Group's strong capital position. You already know the amount of the dividend for the previous year which we are going to pay out in the coming weeks – 4.34, which gives a 9% dividend rate, thus ranking us quite high compared to our colleagues and competitors. As we move on to more detailed results, their components, advantages, or greater challenges, I have certainly already covered banks, and this will probably be briefly reported in a moment as well, but in fact the effect of a slightly lower result than in

a corresponding period last year is mainly due to the situation in the insurance industry and what happened in the second quarter, so basically the weather phenomena mainly affecting agricultural insurance and non-life insurance. However, these are the things that did not exert such an impact in the corresponding period of the previous year. The situation in the motor insurance industry also, in a way, contributed to this deterioration in the insurance business, but about two-thirds of this result is related to weather, and these weather phenomena. Motor insurance comprises about a third of the total. We will provide detailed information about this further on. It is important that we are also already observing a market trend here, in terms of communication security, which is not yet reflected in the results, because that is the nature of this business. This business, the result of the actions we are taking today – all this brings consequences later. It adds up at the end of the year, or rather the next year. So if we were to cut this effect out, this result would be very similar to the one in the corresponding period of the previous year. A very good result on the investment portfolio comprises PLN 1 billion 230 million compared to 1 billion, a little over 1 billion 200 in the previous period. The high operating margin of 22.1 is better than in the corresponding period of the previous year. The mixed ratio, which serves as a certain basis for calculating and evaluating the efficiency of the non-life business, is 92.5%, but, as we show here, more than 2.5% primarily results from these weather phenomena and the impact on insurance, and a little bit more from the issues related to motor insurance. The issues that you have certainly observed, and which happened after the presentation of our Q1 results, comprise the strong position of the Group, which was confirmed and even improved in terms of the rating, because here the outlook also went from a stable position to a positive level. And it is worth remembering that this happened in Q2. And that solvency ratio is indeed one of the highest for medium-term and European-related goals. As I said, this average, as far as I remember, is... roughly 213, so a little over 210%. Here, the Group is indeed well capitalized and has a very solid financial backing. Before we discuss the results in detail, I would like to say a few words about what we accomplished and the events of this quarter... There are certain solid results and growth in sales that primarily stem from the growing role of non-motor insurance, non-life insurance, and soon, frankly speaking, mainly certain corporate segments. Here we have indeed outperformed the market. Improvement, improvement and a very good margin on life insurance – Jarek will talk all about this in just a moment. We can also observe a dynamic growth of the health pillar. Although it may still be far from our aspirations, we will treat this area as a potential for growth. Nonetheless, these numbers make us really happy and instill confidence that we will be able to further strengthen or increase

our position in this area, and catch up with the companies and areas that are still a little ahead of us when it comes directly to health. Managerial and competency reinforcements. These three months, and a little longer, because it's been some time since April already, we have seen a lot of changes at the level of the companies. We have already discussed a little that after a few weeks we replaced a lot of people, there were and there still are some spectacular comebacks. I am also very pleased with the information, which you probably received yesterday, that Mr. Tomek Szatarkowski won the competition. He has unquestionable knowledge and skills in terms of the key insurance process, that is, the claims handling. This constitutes 70% of the balance sheet, and is a key area in terms of generating value in our core business. Tomek, sort of, grew in PZU, and developed here. However, he also had a chance to see a lot outside the Group. Now, he's returning to the place he left many years ago. He will be in charge of the claims handling process, as he had already been a Member of the Management Board, as you know. I think this conveys a positive message both about the market and the organization. It shows that the organization which educated its people also has the ability to attract best specialists from the market. The new operational model, which is of utmost importance within our organization, is another thing intended to improve certain issues and processes. The work was still ongoing, and now, when completed, we will begin its implementation. I think that next month the first areas will be arranged as pilot projects, following the formula of business units, that is, places where it is nothing new. It's more about their construction, that is, the way we will divide and concentrate them. In our case, we are referring to departments, but these may be business areas around Customers, products, service processes homogeneous for this area, so that the decision-making process is faster, people have more influence internally on what they do, and are actually responsible for PNL and margins they generate. Today it is really distracted ... so that's what we want to do. This will be the first few places, but by the end of the year we intend to introduce such a target model. The process will be an evolution.

This organization needs evolution to a certain degree, but it will come as a revolution of our approach and way of thinking, so we'd like to combine those things. One more relevant thing – a topic very important to us in terms of the processes of selecting people for banks. We supervise two banks. They are very important for the result of our Group, but also within the banking sector system in Poland, and for the Polish economy in general, so I think we managed... and there was some work to be done, but we attracted also people with very different experience, strong market experience with a certain, let me say, seniority, a mature outlook, and such managerial

confidence, through people with strong track record when it comes to digital processes. I'm thinking of both banks.

Ladies and gentlemen, I think the market also received it well, I hope it did as far as these personnel choices of ours are concerned, which we, here, certainly also impacted significantly. I, as I am in charge of the Supervisory Board and direct the work of the Supervisory Board of PKO S.A., and Jarek at Alior. For this reason, it was also a very important moment for us, because later it contributes to building relations and creating a certain ecosystem to work with banks. The next important point I wanted to mention, is where we are at, the intensive work on the strategy is ongoing, but certain components of this strategy, which are a must, meaning the operating model, cooperation with banks, they will be reflected, there will be all kinds of decisions made as part of this process, guiding us in our direction, but as all these things, of sorts, are already very advanced on our side today. I mentioned, to some extent, the strengthening of the foundation of the core business. This is yet to be seen in the results, but we are already noticing some market trends related, for example, to changing average premiums on motor insurance. I think this trend... we will strive to make good use of it. also in terms of our price position and market share.

And the issue, a very significant one, is all these synergies within our Group.

First of all, these are also related to certain cost synergies. I am mainly referring to the insurance part, but these are also business issues, cooperation between models, whether bancassurance or assure banking. I think that in this new arrangement, there will be another impetus to make even better use of these relations in the years to come. Before I give the floor to my colleagues, a few words on our business assets, that is, motor insurance, non-motor insurance. As you can see, if, considering premiums written, gross premiums written, the dynamics, this growth is almost 15%, especially the non-motor insurance, I think this is indeed above the market, because at 20% growth, we reckon that this is 1.6% better than the benchmark. It is also very important in all this that last year was most difficult in terms of technical and performance issues, because it is a matter of high inflation, flat prices, but there is already something to our benefit, a little independent of the market – the efficiency of sales of Autocasco products and other AC insurance drivers. We can see that in the case of MTPL insurance, the 10.4% increase applies mainly to average premiums rather than the number of risks, and in the case of Autocasco it is only a question of both premiums and the number of risks. This means that it is easier to convince our customers to buy our optional products in addition to this basic mandatory product, which I think

is very important. I'll give the floor to Jarek, so that he can brag a little about life. Our Life.

**Jarosław Mastalerz**

Yes, Ladies and Gentlemen, thank you very much. I thank the CEO for casting his vote.

Well, PZU Życie is a really stable part of our business, so, on the one hand, of course, there may not be such spectacular growth as in other areas, such as bancassurance or health that we'll talk about in a moment. To put it simply, with our market position, every percentage matters, and I personally believe that growth when you have such a large market position, especially in group insurance, is a big success, because very many players somewhere in the world with such market shares generally even have a problem defending what they have, especially with strong competition. As you can see, as of 2022, we are back to an upward trajectory after many years where this premium, to put it bluntly, as you can also see, was rather stagnant. We make no secret of the fact that this is the result of selling group insurance, specifically health insurance. This is the driver of our growth during these periods. As you can see, this is not a temporary increase, because after 23, 24, we can see that we are able to return to this growth trajectory with these additional products, clauses. The attribution of the PZU contribution to use is, of course, according to Polish standards...of course, the bearing on IFRS statements that you are looking at is different, because of investment products, especially one-time, short-term investment products, that contribution in general will be disappearing. Well, the format we use for reporting allows us to compare ourselves with the competition. If course, we will traditionally answer that this fluctuation is mainly due to investment products, one-offs. We are able to, in a relatively stable manner and slightly, but still, continue to grow in protection products, periodic investment products. Our individual insurance strategy, as you can see, has traditionally been very conservative. And the most important driver is that we are willing to sacrifice growth here if we are unable to deliver value to the customer. PZU has always taken the position that... especially, as confirmed after the crisis we had some years ago, that the most important elements of this segment are transparency and the value for the customer of the products we offer. With that in mind, in certain segments, I am not saying that someone else is offering products that are non-transparent and bad for customers, but we are ultra-conservative here. Take a look. The new strategy will also be announced soon, so I hope that we can count on your patience just a little. We have some ideas on how to grow these life positions, although given that, at least as I understand

our profile, we are a dividend company, not a growth company. Well, these won't be areas that generate dividends right away, either, but we have to grow in order to secure these dividends for you in the future. Yes, otherwise, we would have a dividend company, which, sort of, doesn't give you a perspective, only that these dividends will be stable and grow in a reasonable way, of course. Next slide, please. Because the CEO gave me the control... now PZU Zdrowie. This reporting rather focuses on KPIs, shows which factors allow us to boast about the increases. Revenue, of course, is provided in millions that come in group insurance, largely because the health premium is the driver. Revenue alone, as you can see, is already close to PLN 1 billion. At this rate, we are really catching up with the market leader. Of course, there is still some distance to go. We don't know exactly how far, because Luxmed reporting is obviously in a long delayed annual cycle. We can only compare ourselves to those companies that share this information on a regular basis, but with such forecasting and with a kind of extrapolation, it is clear that we are catching up. Still a very large portion of health revenues does not only come from insurance or subscriptions, which we also still sell some, but also from one-time services. You can see that there is also a kind of confirmation of the quality of these entities, because in addition to the fact that they, of course, eliminate the damage from insurance and health packages that we sold, they also attract people who are willing to come and pay for a visit. Such performance indicators make it clear that the number of telemedicine consultations, is nevertheless, declining after the COVID peak. We expected it to be more of a growing effect, and so everyone has already become a bit accustomed to this telemedicine, but you can see that we, as a society, need a bit more time to absorb such an innovation, because of which, after all, we don't always go to the same doctor, but the number of appointments online is growing. It is also clear that our service channels are also conducive to the fact that they no longer rely on and generate costs for traditional locations, such as infolines or on-site branches. Okay, the next one. Yes. And now, with the premium assigned from bank assurance, we are especially proud of two things. The first is what you see – a marked increase in non-life and other life insurance.

Of course, we depend on the loan volumes that our two partner banks sell. Well, this is because the insurance that is offered there is embedded insurance, that is, our success is still derived from the success of the entities we work with and their credit stock. There is no getting away from that. But we can clearly see, despite some fears about changing regulations and various things, that not only do we not have a decrease in revenue and premium, but also this premium is increasing. We are also proud to sell life insurance and investment insurance, right, that's the pale blue bar. These

are already more stand-alone products which show that we also manage to convince the employees of the centers, account managers, that this is a valuable product, worth buying, and it is also worth selling a product with systematic savings. This is very important, because after those big crises of previous decades this TFI has kind of grown into the place of investing, but never gained a foothold in regular savings, so this market is rebuilding a little. Particularly, as we said earlier, maybe not so much in our results in this line, as we report individual insurance sales, you see it more in the banking channel. A significant increase of 94 million more in premiums than in the previous quarter and year-on-year too – rounding up that 100 million more. Assets under management in PZU Group companies, there you can see a very large increase. With PTEs, of course, it's known that it's kind of more like flow and cash flow, but TFIs have very nice 33.5%, that part is also very nicely growing in PKO S.A. As you point out, of course, if we look at it together, both PZU TFI and TFI PKO S.A., it already strongly shows at least another contender for priority player with PKO BP. Well, Alior of course, well we are very proud in 100%. This is not a big operation, but it is functioning well, it immediately found its niche somewhere, at this stage this is quite a good result. PZU and PZU Życie are launching new product initiatives. I'll perhaps speak briefly only about life insurance and hand the control back to the CEO. That's PZU Perspektywa na Przyszłość. Again, we say whether we share information about these new product initiatives. It is ongoing systematic work to improve the functioning, customer friendliness, transparency, but also convenience of individual insurance products, group insurance. We are constantly looking to improve the joining process. Keep in mind that we are selling a P-product today, that is, paid for by the employee. So it's not only selling in some company, you still have to convince employees to join, and after they leave, you also have to convince employees to want to continue. So this is a multi-step sales process. It's not enough to convince companies, as opposed to programs paid for by the employer.

Artur, if you can, or Tomek, when it comes to... Thank you.

### **Tomasz Kulik**

As for non-life products, this quarter it was primarily a platform for Cargo Corporate Customers. We have been for a long time gradually trying to involve customers in both the sales and service processes, as well as the claims handling process, so in this case, too, the self-issuance of a property in transit insurance policy and additional products with simplified risk assessment. The

product is therefore available 24/7. If you want to learn more: <https://mojafirma.pzu.pl>. Feel free to visit the website. As for the mass segment, it is primarily Gospodarstwo Rolne Plus. This is a voluntary additional insurance for agricultural buildings, plus compulsory insurance, several additional features, primarily failure of equipment, generators, additional compensation for damage caused by gross negligence. What is also important, and what we are more and more often talking about, is that we are beginning to supplement our core processes with elements related to artificial intelligence in order to implement certain things even better, faster, and more efficiently. It is important that today, thanks to this, our pricing processes, so the basis of insurance, built with some of the functions which rely on artificial intelligence, allow us to match the risk profile to the price even better, and therefore increase our competitive position. You know very well how important it is to have a good representation of risk through this price parameter. However, not on the prototype anymore, but on a large scale, there is quite a lot of weight when it comes to damage control. The 9 billion figure has already been processed in part just using these additional features. As in the case of Corporate Customers, we try to involve our customers in the processes, so that they feel a sense of agency. This is important for customers, we see it every day. Thanks to this, we see that it is not only attachment that grows, but also satisfaction with the processes, as the customers are able to practically liquidate the damage themselves or very quickly obtain coverages that interest them. On the other hand, continuously strong contacts and participation in acceleration programs, cooperation with startups based on technologies of external partners using PZU base and scale, we are able to build competitive advantages, which is super important for us from both revenue and cost point of view.

## **Artur Olech**

Before Tomek continues into the financial data and we go through the details and questions here, I would add the following. Here, this Q2, as this is a continuation of many projects, things that have already taken place in the company, and this just shows how much knowledge, how many very good solutions have been developed internally. The ones you saw, they mostly dealt with product issues, so encouraging the customer to buy insurance. There is a lot of work there and solutions prepared using AI and beyond to improve our speed processes, which will and already are affecting our cost ratio, as you can see. This quarter, we also began something which is not yet



here, because it couldn't be, but what we did, is that PZU has to be a market leader not based on market share, which today shows us in this natural way, but a leader who sets certain standards and trends, and also cares about the quality of this market. And we, for example, did such a thing, that is, we joined, because until now PZU was not in the UFG fraud database. It was closed to its own ecosystem. We have a very large market, but still only 30. Because of this, we don't share data, but also the market doesn't share this data with us. So, here, we are confident that we can work on them well, and I think we can and we want to change it, of course, we have changed such a decision in recent weeks, and we should, such elements that are standard or obvious, for example, in banking, so that they are in various insurance in our segment, because these are things that are absolutely not competitive, but common. And PZU here has a lot to present, but it also has a great deal to gain, which should also affect the quality of business we acquire. And that is one important thing. And another important thing is that there is a lot of internal innovation there, but also various startup projects, working with companies here that are more agile in many areas. And these things were happening in the company. What we want to do more boldly now will certainly be evident in our results, it's not a matter of practical use, but launching these solutions into our ecosystem, where they will actually work, well, what we happen to have is.... this is the customer base, these are the customers for whom these things should really be introduced in a reasonable way. And the other issue is also our capital position or ability to support and invest in such solutions a little more boldly. But this is a bit of a different topic, which will improve these initiatives, give us some revenue from the point of view of what the valuation or value of these startups will be someday, but also actually allow, with our capital support, to implement and sort of scale these solutions in our company and beyond. Here, I can see and we can see an element of change, which will be reflected in detail today only, which is signaled in our strategy, but also in concrete actions. The first such concrete fact is that we in this market today, what I said about joining the UFG fraud database, this is something that has happened in the last, let's say, weeks or days.

### **Tomasz Kulik**

Thank you very much.

So, a brief summary of the results, followed by segment-specific information. What I'm pleased about, which we've already discussed in part, is the growth in revenue dynamics measured not by

prescribed premiums, but by gross insurance revenues in this new standard, which are up more than 10% year-on-year, a result of both the strong opening of this year and the very high dynamics we saw in the second half of last year. Most noteworthy is the property business here, in the mass segment, double-digit growth rates of more than 10%, even higher in the corporate, non-life segment, with more than 17% year-on-year increases. Individual protection insurance of almost 14%, a little slower, but with a very large scale, group Q2 – 6%. All of this translates into double-digit increases when it comes to gross insurance revenues. Non-life and corporate non-life insurance contribute more and more to the increase, where assignment percentage, volume of risk is large, we share this risk with the reinsurer. The costs of reinsurance coverage are also growing, and as a result, revenues after the reinsurer's share are growing at a slightly lower rate than gross revenues, so, a growing portfolio that is reinsured on the one hand, and an increase in the real costs of that reinsurance on the other. If we look at the cost of insurance services, primarily two elements played out in the second quarter. The first is damage in both mass and corporate segments, non-motor insurance. We all remember June, April. These were the months with a fairly significant intensity of mass events related to weather, meaning heavy rain, hail or windstorms.

In the second quarter, they were responsible for more than 200 million in additional cost, which we saw in the form of compensation paid in these two segments just in the non-motor insurance. In motor insurance, we know, we have challenges. Motor insurance results for the second quarter are similar to the first. Not only do we no longer see a further deterioration of these results, while from the point of view of claims, especially on mass products, these claims in MTPL are 2 percentage points lower than in the first quarter of this year. As for acquisition costs, administrative costs, what is gratifying is that they have a lower growth rate in this period, lower than service revenues, and therefore they generally represent a smaller percentage of the blended ratio, and therefore contribute positively to margins in both segments, mass and corporate. Unfortunately, given the nature of the standard, we had to recognize an additional loss component in the period as well, as a consequence of these high benefit compensations, with a year-on-year increase of about PLN 150 million in both motor insurance and non-motor insurance products. Taking into account net financial income, so the reversal of the discount on the one hand, and income from investment activities on portfolios whose main purpose is to hedge insurance liabilities on the other hand, we end the first half of the year, or rather the second quarter, with a result of 714. This is a little worse than the Q1 result.

Well, and for those reasons I said worse than the corresponding period of the previous year, which was fairly good just in non-motor insurance, especially this year, under strong pressure. Add contributions from the banking segment, which are under quite a bit of pressure this year because of credit vacations, we end Q2 with net income attributable to owners of the parent company at just under 1 billion two hundred million. This is a similar level, minimally less than Q1 and, for the reasons we have already discussed, slightly less than Q2 of last year. What happened in each segment?

As far as the mass segment is concerned, we've had some pretty strong increases here, especially when it comes to non-motor insurance. The large impact of the sale of PZU Dom products as part of a refreshed solution, which promotes additional sums insured and coverage, quoting them in such a digressive model, also encouraging full insurance and not creating this insurance gap for customers interested in this solution. It is similar in the case of PZU Firma and MSP. All this gave us an increase of 16% year-on-year in this segment. The situation is also strong when it comes to MOD – dynamics at double-digit levels of 12% on the MTPL side, portfolio flat, increases mainly through price parameters. As we have already discussed, unfortunately, fairly solid increases in terms of revenues are also accompanied by fairly large increases in terms of the cost of services, insurance, where we are dealing with both a lower release of excess claims reserves from previous years and higher claims liabilities of the current year in motor insurance and non-motor insurance. In non-motor insurance, we estimate weather at close to 200 million in this segment. What is gratifying, as I mentioned, is the declining share of costs. Costs of both administration and distribution, which is good news, especially considering inflation, price increases, including increases and wage pressures. All of this contributes to a rather large year-on-year decline in operating profit in this segment. The next element is very important and we would like to say some words about. It is how we see changes in our biggest product in non-life insurance, that is, communication, what is happening with price, what is happening with frequencies. As you can see, the good news is that both in the MOD product for a long time, but also in the MTPL product, we have seen price increases. In the second quarter, MTPL is more than 7%. Unfortunately, these are not the increases today that are correlated with claims inflation, the main element of which is the continued increase in the frequency of claims, despite the fact that we are still working in hybrid solutions, which translates into precisely those additional costs we have been talking about. We are noticing more and more, in addition to the fact that traffic is coming back, is a fairly high correlation between changes in weather and in frequency, in the sense that not the worse the

weather, the higher the frequency, and the greater the weather fluctuations, the higher the frequency, which translates precisely into profitability in this segment. Perhaps this is a situation where, as is the case in non-motor insurance, in motor insurance we should also consider quoting for this weather element that affects profitability in these products.

### **Artur Olech**

I hope that this trend will continue there. We'll only know in the results, because the nature of this business is that it's really spread in time. So, I think that here, too, cooperation, including pricing on our side, to make proper use of this, but these conditions from this perspective at least seem to be quite better than just a few months ago, although not yet reflected in the results.

### **Tomasz Kulik**

Thank you very much. The corporate segment has very dynamic growth in insurance revenues, more than 17%, mainly in non-motor insurance. That's nearly 29% of the revenue growth measured by amortization of insurance liabilities under this new standard. The second such growth area is MOD. Here, the dynamics are slightly smaller, 7%. As for MTPL, as you can see, absolutely no growth.

Today is not the moment for very dynamic growth in this segment, in this product. As in the case of mass insurance, the mass segment, we are increasing the cost of insurance services with dynamics above those observed in terms of revenue, which translates into a decrease in operating profit of almost 22%. However, at this point, I would like to draw your attention to a certain incomparability between the two quarters, the second of this year and last year. Last year, in Q2, we had very, very low blended ratios in non-motor insurance – below 34%, a derivative of a certain one-time event, related to the release of a provision without payment from a contract guarantee, an impact on the result and on the profitability of the segment of more than 60 million. This quarter, there is no such event, which obviously affected the results. However, it can and should be said that these levels today in non-motor insurance are more representative and observed over a long time horizon than what we had last year. Group and individual continued insurance show growth of 6%, with a declining share of contractual margin release and revenue growth to cover expected compensations and benefits, especially in health risks, so these are the challenges we

are facing today in the life insurance in this segment. At the same time, we are seeing quite a big improvement in terms of profitability. We'll show it in detail in a moment. The improvement in profitability of protective risks, especially when it comes to this basic risk, that is, mortality risk as a consequence of very significantly falling statistics on the entire population, is not just an issue specific to the PZU portfolio. The cost of insurance services other than in non-life insurance is growing in a very moderate way. Year-on-year, that's 2.3%, which translates into an increase in operating profit and an increase in this segment's contribution, with margins on this particular core product at over 26% in Q2. Regarding the pandemic and claims in the individually continued group insurance segment. As you can see, we are in a rather peculiar situation, where another quarter shows the number of deaths at a lower level than in the last representative period, which was 2019, the year before COVID.

This is important because on the one hand it affects our performance here and now, but on the other hand it also affects how we should think about pricing this business as we are simply living longer. As you can see, in addition to levels lower than last year, lower than in this representative period, which affects profitability of this product, our challenge, as I mentioned earlier, still pertains to health products, whose high utilization has translated negatively into results in this segment, raising claims by 1.2 percentage points. In contrast, the area of death risks improved at the same time, offsetting this negative information from health products by 2.5 percentage points. As for individual protection insurance, we primarily note the rather large year-on-year increase in contract margin release. This is an increase of 15% in terms of CSM depreciation. This is directly the result of growth, improving profitability in the banking channel, and increasing premiums to cover claims and benefits and service costs. Similarly, in terms of trends, as in the case of Q2 group, lower dynamics in costs result in higher operating results and the contribution of this segment to the consolidated result increases. Information very relevant to life. Growing sales and re-sales to the existing portfolio translates into higher contractual margin to be recognized in future periods, in terms of group, individual continuing and individual protection insurance, which is very good news in this context, what kind of scale and portfolio we are facing – we know very well that it is a very mature portfolio, especially in the Q2 group insurance, and today we are working very hard to rejuvenate this portfolio so that we can not only maintain it, but also build value, which is visible in the report precisely through the prism of growing CSM. Now some relevant information on the result from investment activities. First of all, nothing changes practically in terms of the portfolio structure. It is still very safe, based on debt instruments, and

we believe that this is the moment in time when this structure corresponds quite well to the challenges we face.

Combining all strategies and asset types, the yield on this portfolio at 4.6 in the second quarter. Interest income is growing, better valuation of debt instruments year-on-year, improved result when it comes to equity, private equity strategies. This performed better year-on-year in Q2, especially when it came to technology funds. In contrast, what dragged us down a bit was the lower performance of our real estate portfolio against the backdrop of a discount in the office segment, the impact of 72 million on Q2 results in this strategy, and lower income from swap points on currency hedging instruments. This quarter, in the “Other” area, we also showed the effect of reversal of foreign exchange temporary differences, which we faced in the first quarter in the context of valuation based on appraisal reports. In terms of solvency, we are seeing very high levels all the time, while there is a noticeable increase in capital consumption relative to the end of the year in terms of this underlying capital ratio, largely due to higher exposure to catastrophe risks as a consequence of the portfolio change, as a consequence of building exposure increasingly based on non-motor insurance products in the corporate segment. A summary of where we are six months before the end of the horizon of the current 2021–2024 strategy, in terms of achieving its various KPIs. Gross insurance revenues 51% realization, with year-on-year growth after the first halfyear of almost 10%. Health pillar revenues of 54% of meeting this target in the last year of the strategy, with revenue growth of more than 21%. With high solvency with net profit, even though declining, realizing more than 50, almost 57% of the value of this target. Let me just remind you, when this strategy was published, it was later updated in the context of the new standard. This was a period of quite a lot of volatility and uncertainty that affected estimates. Today, it seems that by the end of the year we will be able to positively show these bonds this way.

Of course, when it comes to contributions from the banking segment, it is also significantly higher compared to what we had in mind for this strategy, and as a result, the banking segment is the one that more strongly influences achieving these basic KPIs.

Assets under management are already above this very high target, as it seemed to everyone at the time. 60 billion in assets under management, with a return on equity adjusted for what we have no control over, which is related to economics, namely rates that affect the valuation of insurance liabilities, and pass through OCI at 17.4 percentage points. And here, I would probably put a pause and give the floor to the CEO.

**Artur Olech**

Ladies and gentlemen, in conclusion, before we move on to the question session, there are a few things I would like to address here. First of all, this period, this second quarter... We were, indeed, affected by certain aspects related to weather, which were not the case last year. So, this is the main element why this result is lower than what was presented a year ago. But it is also worth noting that in areas where our influence is relatively important, that is, in terms of sales, also profitability, non-motor insurance, also the cost element, we can see a certain element of some symptoms, I would say of improvement. These are the things that I would actually pay attention to. Secondly, what is also a requirement, objectively a certain problem of the market when it comes to core business, that is, motor insurance. We also see this positive market trend, but our results in the form of growth in MTPL above 10% is, I think, something that can also give some optimism and show that against the background of the market, which we estimate growth in average premium of about 7%, this is a very good result. The important thing is that we are also building a solid foundation within the strategy to welcome the next year. That is the issue ahead of us. I think that these essential elements of change, including personnel, equipment, or a certain invitation to cooperate directly in insurance, as well as in banks, which are very important for our result, extended to very good managers. I think this topic will be a good basis here for building in a lot of synergies, a lot of good solutions for PZU S.A. shareholders.

Thank you very much.

**Magdalena Komaracka**

Feel free to ask questions. Perhaps, someone in the room would like to ask a question?

**Kamil Stolarski**

Good morning, I'm Kamil Stolarski from Santander Bank. I have three questions. I am most interested in what stage you are at in terms of considering the role of banks in PZU's strategy, or something similar... as I remember the previous conference, I understood the comment that this

PZU model with banks is very non-standard, and today we hear a lot about these synergies. So the question is, whether you had some comments in mind.

### **Artur Olech**

As I said, our final direction will be announced in the strategy. For various reasons, today I am not able to say in what direction we are headed. However, the time that we spent these last two and a half, three months. It allowed us to engage in a very strong dialog, the first internal one, to reflect and see different plans, ideas we have here. We have some experience and knowledge on how this process looked like, and we did our work carefully, but we did something else, that is, we talked very carefully, it was dozens of meetings. also with our shareholders, who are watching us, and we listened to different opinions, because our shareholders also have their opinions on this, different ideas, different opinions, so we will also present an element intended to allow us get to a point where we are able to optimize the value for the shareholders of PZU S.A. while preserving the value of our assets. This is, I think, the primary guideline, and we will rely here only on the economic and, I would say, business elements.

### **Jarosław Mastalerz**

I just wanted to add that it is important to remember that the strategy is more about showing you the directions in which our decisions will go strategically. But the strategy itself is *de facto* also the preparation of the foundation for implementation. So, I would like to point out something you might have already noticed that many things, in terms of the banking strategy, were happening at that time. Because, of course, to implement a strategy, you need to have someone to implement that strategy. So, without prejudging what our strategic decisions will be, the work that has been done in terms of building very competent management boards that are prepared for every scenario is also part of strategy implementation. So, I'd just like to show you that it's not like we're waiting for some strategy that we'll announce, or discuss somewhere in the final months of the year, and only then will we get to work. This work has been done. What is yet to be achieved is the way of communicating different kinds of strategic decisions, whether it will be variant A, B or C, well this is obvious, I think for obvious reasons for you, thinking, analyzing. Revenue and increased income and value of banking assets in the PZU Group is our strategic goal, so you can hopefully



see that this strategy is being implemented in these months. It's not that we are waiting or just doing anything when we announce something, and only then get to work, because that work is already done. I know that it may seem to you that these are the same management boards, this is just a recruitment process, but let me say frankly that in my life I have not had the opportunity to participate in a process where you replace the entire management board practically in a few months, and you have to build competent teams, well, because it is not enough then to come to you in two months to say we will do this and that and you will ask us and who will do it. So, I hope you see that this foundation of opportunities that we had at that time, various ones, and you are also aware of certain limitations. It is this foundation footing, let me put it colloquially, poured decently. Whether this house or another will be built on it, of course, we will be discussing some things in a few months, but we will not *de facto* start the search for a plot of land, frankly, already with such a construction analogy this April.

#### **Kamil Stolarlski**

I have two more questions about this second quarter. First, congratulations on the result of Życie, because it is phenomenal, those 509 million. As I looked at, well, this is certainly the best result since IFRS 17. ut also looking historically, it's like this, there was a similar result in 2016, that's when the provisions for this permanent impairment were released. Well, I don't quite understand this phenomenon. Even as I looked at this 2.5 percentage point lower mortality rate, as I would assume for myself that this translates into damages, that's some 40 million added potentially to the bottom line. And my question is, I kind of understand these problems in the property, but why are we now at this point in time for the second quarter in a row, because in the first quarter this negative seasonality was small, and now there is a super result, and the question is, what is the reason for such strong results in the grouping?

#### **Jarosław Mastalerz**

I very much encourage you to look at it through the prism of the new IFRS, because, in fact, the profit, the kind you see, the PNL one, which is very important from this perspective, of course, of looking at the PZU Group as a whole, and the profile a little bit like investment, dividend. I would

also like you to note that PZU Życie companies, in general, are very much priced through the prism of the value of this portfolio and the ability to generate new business. Yes, most of them...

### **Kamil Stolarski**

I was looking more from a dividend perspective, so I'm most interested in earnings.

### **Jarosław Mastalerz**

I understand. It's just that if we have the portfolio, the deviation on the life insurance result next year can only be due to the fact that we made the wrong assumptions. We have relatively conservative assumptions about mortality in particular, and, *de facto*, we even release higher returns than we can extrapolate. I just mean to say, with more or less accuracy, correct me Tomek, we can predict most of the profits next year, because it's like a financial instrument... life, that is we have a portfolio of contracts and they will release a certain amount of profits.

It will just simply happen. And, now the question is, how much of that profit will be there? Will it be exactly what we say? Well, it will be so, if we assumed the mortality correctly, it will be exactly what we say. If it turns out that this mortality is a little better, we will release more. But these parameters do not change. We monitor them, our actuaries have been monitoring them for decades. And if some kind of pandemic, I don't know what exactly, appears, today I can, in a way, anticipate the releases from the life portfolio in the form of profit and therefore 100% dividends to the assets. So, what you're looking at is whether I'm cutting that portfolio there, as you are...we can go back, Tomek, to that IFRS... We're going back, yes, the strategy...You'll be able to see it there.

Here, we don't have it aggregated, we have it separately. When you look at the grouping and the release of that CSM, which is 308 million there, well, let me be clear, what we had in the plan is that 308 million and the change of assumptions 41, that is, we were too conservative by 41 million. I can have such accuracy of 41 million, as you can see. And, as a rule, it is that we are too conservative. I can predict for you how much we will generate, how big dividends we will pay next year. Therefore, the biggest and most important element of life companies is our ability to rebuild

what we have released, that is, to maintain this dividend capacity in the following years, that is, the 220 million and 102 million is very important, because I can generate exactly the same for you without having this 220 million, only at some point this cash will start to run out, because the portrait will start to expire. That's why most valuations of life insurance companies, unlike non-life companies, through this conglomeration and sort of intermingling of balance sheets, we might not be the easiest, so to speak, animal for you to analyze this way, but in my old days it was just a life company,

Very simply, of course, it was priced at the portfolio value, the net asset value at W, because these are monetary assets, plus it was always considered that if the distribution had to be sold in pieces, three times the value of the new business. We can say it's theoretical, but in the UK that's how companies were separated and sold. And that's the value.

Today, from the perspective of what we have in the life company, the value of the portfolio, on W and so on, this company, of course we don't know exactly how much you value this component, right, in the valuation of PZU shares, but it seems so heavily undervalued, because as soon as we look over this dividend-generating capacity, a company that is not growing nor generating new business, in a 3-4 year perspective of course, normally will generate the same dividends as one that is growing. So, that growth and the ability to rebuild the portfolio, that's the difference on the valuation... for which I have, of course that's my perspective, a kind of perspective that it's not quite like that, we're able to convince you that that there is extra value in PZU shares.

### **Kamil Stolarlski**

One last question from me. This is the second consecutive quarter of losses in MTPL, and are these trends that you are seeing in the market enough to assume that we are just moments away from getting a green in MTPL?

### **Artur Olech**

It's hard for me to say how the market will behave, but we can see this good, positive trend. And I think knowing this, looking at the performance of the broad market and what we're hearing, various situations that have occurred recently, more or less spectacular, including smaller players who came in here and are just sort of already affected by some trouble, it shows that such pricing

strategies that result in aggressive entry, which of course have some indirect effect on what's happening in the broad market, they come to an end very quickly. It seems to me that here we can have certainty, and I think there is market awareness, at least I hope so. We observe this trend as a very competitive market. It is gradual. It seems to me that when customers also see the quality of service processes and benefits, which we as an industry should focus on very hard, a certain transparency. They will also, I think, accept this trend, because we should be honest with ourselves that these insurance prices in Poland are still far, far lower than the average, even in countries with a similar level of economic development. And, it is also important that our situation is as follows, that the cars we drive are the same as the average in Europe. So, here, this space is probably still very large. As I said, the market is obviously very competitive. What we saw today, in these prices, and what we see today in the average contribution, we will see in the results at the end of the year, the turn of the year, because this is the nature, this contribution is earned. Today, our results are a consequence of the sales situation of our portfolio last year. Speaking openly and about damage inflation, because simply the damage is reported, and we have already sold the business a year ago, because the premiums are annual.

#### **Male 1**

I'd like to continue a little bit here on the issue of motor insurance prices. Because you can see that, the claim itself here is at a similar level, whether it was not variable, but, yes, this cost of claim is much higher. Can you say a little bit about the flexibility of pricing in motor insurance policies now? Is there a problem of just raising prices strongly? How does flexibility, competition in this aspect, look here at all? And, how are you going to approach this now, too? Because this trend can be seen to be mild. In 2015, for example, there could have been much higher increases, and here you can see that the trend is mild. Can you say something more related to just that?

#### **Artur Olech**

It's hard to compare it with year fifteen, because there you saw, it was after an absolute disaster. There was probably a billion of market losses there, so it was just a rebound. It is fortunate that such a situation did not occur in Poland.

However, now we are also in a different place in terms of costs of claims, because of inflation of damages, spare parts, labor costs is what inflation was in previous years in the market, that is, double-digit. What saved us and the market here was the issue of lower frequency related to infrastructure, or penalty points and so on. So to answer your question directly, this is a very competitive market, and here it is necessary to reach these customers in the right way. What we see and what we would like to do, PZU is consolidating. The result is the sum of our businesses, but also Link4. Here, this result is much better, and our is much worse, as far as our company is concerned, a subsidiary, there is a certain program required, let's say, significant changes, and it is happening, but what is important here, significant, we also want to reach such segments of Customers, and we do, who naturally have a higher price, young customers, customers who are looking for different prices, but also value convenience, right, they are very price sensitive. But, for different reasons, because it's just a different price because of how actuaries or underwriters price that. I think we should recover what is on our side, which is, I would say, timing underwriting, pricing. The changes there are probably even higher. We should be in the segments that allow us to achieve higher premiums, but these customers also pay for a certain process, a certain convenience. So, then these customers, those more mobile ones, are able to pay a little for the convenience. Convenience in the buying process, then possibly service. They have to pay more.

#### **Male 1**

To put it simply, I understand that there is also a little bit of competition, this market is so competitive that such price increases can't be so aggressive now. This trend has to be preserved as mild.

#### **Artur Olech**

Meaning, we have to, we are, we also have to observe and watch how it behaves here.

We have our own, anticipated things, but here, from the point of view of the Group, or from the point of view of PZU itself, as it were, we really cannot ignore it.

We take these moves, especially in segments that are very unprofitable. I'm not just talking about individual customers, but also fleet customers, because, after all, these are also businesses that are done on a quote basis, but also on a B2B basis, right? That is, here we do such portfolio reviews

and then when we have certain situations, that's where we can go more aggressively. In the case of the customer in the broad market, individual customer, we compete very strongly, even on a daily basis, with what is happening in the market, and react. If there is room, we try to take advantage of this market momentum.

**Male 1**

Last questions. Because after the strategy you said that this fourth quarter, I think it was already at the last results conference, and probably here, seeing that the new management board was formed, do you anticipate after this time that it may be longer to publish this strategy, or rather everything is going according to plan and probably with the results of this third quarter you can show something, because it's already more certain than less.

**Artur Olech**

No, we stick to what we've said, and as we want to make it a standard here, we say what we do, and we say what we can say and do what we say.

Just as I was talking about issues related to, for example, organizational structure, closing certain things, we said we wanted to make professional management boards, professional financial boards, or invite different managers, and the competition was really present in these processes, we had phenomenal people to choose from and invite them to work with us. It concerns, I can say it like this without any special secrets, in the process of one bank and the other, we really had very good people who wanted to take on this challenge. Well, we had to choose a group of people there, because it's not possible to have them all, would be happy to allocate some of them too in a different way.

And the other thing is that we also do essential things here, in terms of insurance. Jarek talked about the banking part, but I can also confirm it. The work on the strategy is not a document that someone out there writes for us. We invite different people.

The work on the strategy is related to the fact that we are touching certain streams and are very advanced, whether in terms of, for example, the conversation about banks that you asked about, or... this is really very advanced work, analysis, various issues, or, for example, matters related to motor insurance. We got down to most important things that you all expect. First things first, to

say colloquially.

So, that's one thing, and that's something important. Also, work on the strategy includes selecting people who are already joining in, because the strategy itself, as a document, is empty if it is not done by people who will also share certain directions, whatever they may be.

So, this is also important, and in that sense the work is advanced. And the creation of the document, or presenting it to you, I am, sort of, not worried here. We will do it, although there is obviously little time, but by the end of the year we'll make an announcement.

### **Jarosław Mastalerz**

And, I also hope that you see that we also listen, well at least we listen to what you write, right?

And, we listen to investors as well, sort of not just in Poland, but not just analysts, but investors directly.

Well, PZU today is... I'll take the liberty of saying, because this is my personal opinion, we see everything as a dividend company. Of course, this growth is needed, but the most important thing is the dividend stability. And, now maybe you kind of don't see it directly, but today CEO Arthur said that we are doing business unity.

And, so it may have slipped by. Generally, today you have an organization in which Management Board Members are divided by function, some are responsible for sales, products, IT, and in the end the CEOs are responsible for what generates that dividend, that is, the profit that we bring there. As business units come in, the biggest change is that we no longer have these managers assigned to a function, which has to be managed too, of course, you have to sell, you have to make products, but we will divide this already very complicated conglomerate into a number of coherent areas, where each Management Board Member, who has a particular business unit, assumes PNL responsibility, right? That is to say, on the one hand, it has a very big influence, because it includes both products and sales, and it impacts the costs that are there, but instead of having two people who at the end add that profit for you and are supposed to give you comfort as to the payment of dividends, the whole Management Board, of course not for the whole thing, but for very important, large, consistent components, each of them will also be responsible for proving their part of the profit and giving you the capacity to do the dividend.

The same goes for our assets, including banks. If we are dividend-oriented, we also expect our assets to be dividend-oriented. There will be no mixes, like here something and there something.

As we are dividend-oriented, this is your expectation. There's no denying that the State Treasury is also a dividend investor in its structure. Well, we also need to do streamlining and organization set up for profits and dividends internally in an organizational way, and give clear guidance to all our Management Boards in which we have invested in these companies, that we too expect a significant contribution to what we have to contribute. And that doesn't mean that we won't finance growth or show you that growth, we'll even emphasize that new business value, well, we'll just pay that dividend, but at some point in time, so that our value should be a little higher since we're generating, so we'll show those moments of growth, because of course they're also important in my opinion, but that profit and dividend, also through the cycle, so regardless of rates and so on, that will be the core of our organization within this strategy. And not just on the side, let me put it this way, something here or there, but just building the Management Board, selecting people, organizing these people specifically for this task.

### **Magdalena Komaracka**

Are there more questions? I don't see any. Let me read some questions from the Internet.

I took the liberty of grouping them. The first two questions are about motor insurance.

And here is a request from IPOPEMA to elaborate on the CEO's statement about improvements in the motor insurance segment. Will it be more visible in the results at the end of 24, or more so in 25?

### **Artur Olech**

It depends on the trend going forward. I think that both, but this time and if this trend continues, which is what we hope for, what we see, it seems to me that here we should see it. The nature of this business is such that it is, of course, spread in time, and the policy sold today is *prorata*, let's say, half of it will contribute to us next year. But what we sell already in, let's say, a month's time, it will already mostly, because it will be  $/12$ , will contribute the next year, that is, if we sell certain things in this slightly better market, they will contribute all the more to future results.

That's the way it should be, at least mathematically. What will actually come? There are still many variables. Also, the issue of motor insurance, it is not only a matter of price, I think it is tens of



millions of zlotys, here you can see, also touched the issue of weather events, right? Related to CASCO, floods, hail and so on. So here are some moments. But overall, technically it should be much better next year.

**Magdalena Komaracka**

A second question from HSBC concerning communication and our expectations for price increases in CASCO and OC in the next 12 months.

**Artur Olech**

Well, I can't a straightforward answer. We have some expectations.

I assume that, just as in our case, there is a certain cost advantage related to risk dispersion. We see it as a business under some pressure. That's my answer, that's how I think companies that have much smaller balance sheets, much smaller opportunities, see it even more, and I just assume that managers in those companies watching what's going on show no less rationality, so that's my expectation in terms of price development in the market.

**Magdalena Komaracka**

Let's move beyond communication still. Here are two very similar questions from IPOPEMA and TRIGON. To what extent are weather events in the second quarter one-off events? Were there also similar weather events in July and August that could potentially affect the third quarter results of the non-motor segment?

**Artur Olech**

You observe some events which are taking place, but these are also some positive elements.

Today, it is still difficult for me to make a statement. We already have some data for July, and not yet for August. So this is definitely premature. And, besides, the quarter is not over yet. It's difficult for me to talk about the next quarter's results as it is still unfolding. That's certainly something I

can't comment yet, but we are absolutely carefully monitoring this situation, also from the point of view of generating value this year, this quarter, the quarter that is still ahead of us.

If my calculations are correct, this quarter still includes August and September.

### **Jarosław Mastalerz**

I would just like to add something else to what the CEO said, because there was a lot of emphasis on profit, but also on dividends, that is, certain events, such as floods and so on, they of course affect the yearly profit, but that's what the capital base of an organization like ours is for. Of course, all this so that we are safely capitalized, but also to maintain a defined dividend policy. This capital base is also being prepared.

Sometimes, we wonder why we keep such surpluses and such.

Well, sometimes too...I don't want to say that this is exactly what's here, I won't make any declarations, well, but that's why sometimes these buffers are maintained. If there's a slightly worse year, well, PNL-wise, this dividend policy remains stable, because it's important for you or for very many investors, of course, even if there is a kind of volatility, as it is bound to be in insurance, it's kind of characteristic that there are better years and worse years, and this buffered part also safeguards the certainty of maintaining a certain cash flow from dividends.

### **Artur Olech**

I'm still going to talk about these weather events, because of course we see weather changing, and we have, first of all, factored that into our models, our reinsurance programs. What is more difficult to predict, almost impossible, is their instantaneous amplitude, but also simply the location. I'm not saying you have to be a little lucky, but it's a different outcome of a weather event if it affects, say, I don't know, non-urban areas, compared to the same weather affecting urban areas. Well, that's the scale of the impact on the damage. They can be observed in the results, last year, at that time, well they were not there. That doesn't mean they weren't there two years ago as well, because, probably, if we check, maybe in another month, they were there. So it's kind of spread over time. They probably are there and they're priced, but that moment, those momentary elements can be impactful, and so we're also affected at, say, tens, hundreds of millions in a given quarter. Hence, this impacts the result.

**Magdalena Komaracka**

I have two more questions about life. One, from HSBC, refers to a statement made earlier by the CEO. The question is that if the business follows our plans, can we expect the margin in group and individual continuing insurance to remain above 20% in the long term?

**Jarosław Mastalerz**

As I mentioned, it's most of the profits that you see, if you take a look at this PNL form, then yes, we look at the premium, the damage, and we look at that margin. Well, that margin is, to put it bluntly, already sewn in, and I can say that, model-wise, of course, it's to be expected. And now, what can happen? It might change. Well, the assumptions would have to be shaken to their foundations.

We have some of these assumptions under control, such as departure rates, cost levels and so on, so this is what we will manage. Certainly, with our approach to management, we rather expect a positive effect, and certainly not a negative one. What we are unable to guarantee to you in the long term is, of course, the mortality rate. Only, as you can see, in addition to the COVID situation, so the reason of our reporting, the assumptions of our actuaries are conservative, and, usually, except for these few years, we can conclude that these assumptions are realized with a positive deviation. This we can check going back 20 years. So, if some event doesn't occur, which.... as one famous general said, "I'm not afraid of known unknowns, I'm afraid of unknown unknowns." Then, if an unknown doesn't happen, and now we are saying that a pandemic is an unknown, because it happened in our lifetime, but just a few years back we would think that such a scenario is impossible, and if something like that doesn't happen, then yes, we can assume that such a PNL margin will be maintained, because we set new business on such margins, and what we already have in the portfolio and release is also on such margins, right? So, there would have to be some really very big disruption, adventurousness on our basic component, which is mortality. And thanks to health care, various other things, our mortality rate, thanks God, is sort of.... mortality is improving. And this is exactly the moment to be happy, and customers are also happy that they do not suffer these damages.

**Magdalena Komaracka**

And the second question. What other potential is there for repricing life insurance portfolios and tariffs?

**Jarosław Mastalerz**

Ladies and gentlemen, when it comes to changing insurance tariff, the potential depends on the specific portion of the insurance. If we are talking about insurances that we have already sold, then what we are fighting for is the so-called indexation electivity. Well, if you take out life insurance, we assume that you are insuring for something, but we index with the word insurance, therefore we index the premium. So to speak, there is no repricing, it is simply following a certain indexation model. Of course, indexation is voluntary, not mandatory, so when we strive to convince people, it's based on the fact that if someone has insurance for 100 thousand, and in the meantime there was 20% inflation, to be able to have the same thing, they need to insure for 120 thousand. Of course, the premium increases of 20% and other things, especially with a lot of different needs that are fighting for this money, in an environment of inflation, it's kind of working to say that if someone has secured a family for a certain set of eventualities that cost 100 thousand, now we encourage them, it's our contractual structure, not to give up that as now they are going to be insured for 120 thousand, well, because what that family needed now costs 120 thousand. Therefore, there is no such thing as straightforward repricing. Repricing is done on health insurance. In our case, health insurance is realized in the life insurance company, for example here I do not know, HSBC analysts may not be used to this, because in very many organizations it is non-life insurance, they have non-life insurance characteristics, that is, if we insure for a year and costs grow, because the doctor takes more money and so on, then it resembles non-life insurance more, we have to go back and say, the same way we say it costs more to repair a car, the same way it costs more to see doctors, I don't know, an ultrasound costs more. And these are repriced contracts that we reprice every year. I know that this has been successful to make up for this medical cost inflation. And now what further, further repricing looks like. This will not follow medical inflation.

As it also depends on inflation, because the biggest component of course is people. If the doctor has to pay more money for energy, they will also have to earn more. This repricing always takes

place and succeeds, so it does not affect the results in the long term. What you sometimes observe are such disorders that it is not always... it appears in many different businesses. It is always possible to pass on the cost of manufacturing a product directly in the price to the customer under such competitive conditions, so to speak. But in the long term, no one has cheaper doctors, no one has cheaper ultrasounds, so the market comes to a consensus.

And this is much faster, I must tell you, than I observe with motor insurance. Well, because here the rationality of, to put it bluntly, four entities that share the market, it seems to me priced much more rationally, at least as I have been observing it over these few months. For example, in some of our competitors in the field of motor insurance, especially those small ones. Here, however, there are four entities of a certain scale that need to make money. It's not someone who comes in and says that now it's all about growth, growth, growth, growth, and I'll start worrying about profitability later, right? And for now, I want to buy from investors a couple of years, because even now I will rely on growth. There is no new entrance in the medical market, but it is still a competitive market. But I wouldn't be afraid of anything more than such short-term spreads between the speed at which we can convince our customers that it's more expensive.

### **Magdalena Komaracka**

Investment portfolio question from TIRGON. What portion of the real estate portfolio comprise departments?

### **Tomasz Kulik**

The investment portfolio, in terms of its general structure, is quite heavily weighted toward logistics. This is more than 60-65%. The remainder is split roughly 50/50 between retail and departments.

### **Magdalena Komaracka**

As for costs, here's a question from IPOPEMA. Are the one-time cost dynamics in administrative insurance sustainable and was there a salary review in the first half of 2024?

**Artur Olech**

Should I answer about salaries or do you want to say more?

**Tomasz Kulik**

Please.

**Artur Olech**

The review is done, I think, in a formal manner after the end of the year, because it is completed earlier. In Q2 we made allocations of certain funds, which were made available to managers to reward individuals who contributed better to the result and, reward less those who contributed less.

I'll put it this way.

**Magdalena Komaracka**

And a question about acquisition. What is our appetite for growth outside of Poland, organically and through acquisition?

**Artur Olech**

We are observing and are open to all sorts of options that may arise, and we will certainly try to participate, but the manner in which we plan to grow outside Poland is not only the classic, M&A model, meaning buying companies. It is also about solutions, light models, where we use our balance sheet and freedom of service, seizing various opportunities to enter foreign markets with a competitive, digital offer, because that is the process in Poland. Large companies similar to us, smaller ones, larger ones in different operating models do so. The second ongoing topic, for which

we are attracting talent from Poland and abroad perhaps, is also using our balance sheet and being active in the reinsurance market. This also goes beyond Poland, in a way. Sometimes it's worth to already be abroad in a model that doesn't absorb so much capital and so many resources. It is only on the basis of this experience that you understand this market a little bit, gain expertise, see if you can make money, only then to buy the brewery, to paraphrase that famous statement that only after tasting beer it's worth buying the brewery.

### **Jarosław Mastalerz**

Please keep in mind that we really carefully listen to the voice of the state, but also directly to voice of our investors. Well, and we've been to the States and so on, and we've talked to various shareholder groups. And as we understand it, a dividend company can of course consider acquisitions, provided that there is a scale and speed of bringing a particular business to profitability in such a way that it does not weigh on the order and regularity of our dividends. If you change the model at some point and say, ok, you are unable to pay dividends for a while, we will go shopping here, well maybe that could change, but we are really listening to what you are saying, so such acquisitions are possible if we see facilities that will generally be able to start contributing to that cash flow very quickly, including dividends, so that this dividend will simply always be stable and not threatened.

### **Magdalena Komaracka**

Yes, thank you very much.

### **Artur Olech**

Thank you very much for this meeting and one more thing I would like to add, because this is a very important dialog, our availability, talking to you in this format, in various other formats. What we do here, I would like you to take these things into account, consider, and take with you to sort of evaluate. The second very important thing is that we don't make some declarations, some overpromise, but those things that we have made in this short time, accomplished, that if you look, those things that were supposed to happen, they are indeed being realized today. We talked

about human resources, we talked about changing the model, introducing and dealing immediately with topics that are important, big, that catch the attention of our investors, whose opinion, credibility, evaluation we seek.

Thank you very much for your time. Have a good day. Thank you.