Presentation of PZU Group's financial results in Q1 2017 – 17 May 2017

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

Ladies and Gentlemen, let me welcome you to the presentation of results reported by PZU for the 1st quarter of 2017. My name is Paweł Surówka and I am the President of the PZU SA Management Board. On my right is Roman Pałac – President of PZU Życie, on my left Tomasz Kulik – Management Board Member in PZU SA and PZU Życie, who is the CFO of the PZU Group. Today, we would like to present to you the Group's results for the first three months of this year. By now, you must have seen the results; we are really happy with them. We will show you how the results are, to a certain extent, the outcome of what we built in terms of the Group's strategic directions in Strategy 2020. And I would like to go back to the strategy very briefly, right at the beginning. Since some of you noted yesterday that it was the first meeting of this kind with Roman Pałac and me acting in our current capacity, we would like to use this opportunity to express our commitment to the Strategy as it is. I can assure you that all of us, as we sit here, participated in the development of this Strategy. To a large extent, or rather in its entirety, it is an expression of our convictions and we intend to continue in the direction that we have taken. As a side note, we were wondering what the common denominator was for all the activities included in Strategy 2020. It was about innovation, about banks, health, PZU's investment activity as the largest asset manager. We have condensed all of that into a single slide because we believe that the requirement for good management is that you set as few goals as possible, but stick to them and pursue them diligently to achieve this one special goal. So we were asking ourselves how we could summarize all those strategic activities; which KPI we would like to select, one single KPI for all those activities. And we finally said that what we really need to do is to expand our interaction with the client. This is actually something that can summarize all the growth elements of our strategy. This is what we would like to do, to say it in overly simplified terms: we would like to depart from the model of PZU as a motor insurer only, the PZU where you go to a branch to sign an agreement or perhaps have a claim handled. Instead, we want to become a true financial partner accompanying our customers in all the areas of our business. In this context, in our communication with customers and with the market, but also through our products, we will make efforts to emphasize our role as the largest financial group in this part of Europe, offering protection in four main areas: savings, health, life and property. We would like to expand our capacity for interactions with customers and improve the quality of those interactions. Through those 4 areas of reach that we have today, that is: branches, tied agents and brokers, we will expand our direct selling capacity through new technologies. And now, in this context, also through banks. We believe that we operate in the world where many products will switch to a direct model; anything that does not switch will revolve around such a comprehensive financial advice models. This is the right approach and this is the direction that we want to take. We also believe that the quarter that we will present today, to a certain extent is the proof that the actions that we started in the previous strategy are going in the right direction. And now I would like to move on to the official part, that is to our performance, with a traditional structure: first we will say something about the market, about the key drivers of our performance, implementation of the strategy, and a short summary of key results. Perhaps we will also have the opportunity to go through our detailed financial data. We will set aside enough time to answer any questions that you may have.

Short overview of the non-life market. The market as a whole grew by more than 16%, mainly in the motor segment, where we could observe premium increases. The non-motor market was virtually flat. PZU managed to grow in both those segments. However in the key motor segment, we managed not only to improve the profitability of the product, but primarily we increased our market share by more than 2%. This is the equivalent of about 800 thousand more customers in our portfolio. We are particularly proud of that because it shows that we managed to raise sales, improve profitability, but at the same time also attract customers. And this trend is still continuing. The number of customers is still growing as we speak.

Roman, could you speak briefly about the life market?

Roman Pałac, President of PZU Życie:

Last year, the life insurance market was difficult; the entire market, especially the one where we operate, that is the regular premium market, was in decline. Nevertheless, we managed to pull off quite a nice performance: we were growing, while the rest of the market was not. This increased our market share, mainly in our main product, which is group insurance. We even managed to raise that market share. You should note that, when we compare our profitability to that of the market, we managed to maintain the considerable distance that we always had, which is profitability more than 3 times higher than the market. We can see similar trends in the beginning of this year but we don't have all the figures yet. Nevertheless, we continue on the upward path, about which I will tell you more in a while, and we have the feeling that the remaining part of the market is shrinking at this slow pace.

Paweł Surówka:

Thank you very much. When it comes to the key factors and events for us in this quarter, then you must all be aware that we managed to obtain KNF's clearance to finalize the acquisition of Pekao S.A. shares along with Polski Fundusz Rozwoju. Yesterday, we announced it in a current report. From that time, we will also be the owners of the shares and we will be able to exercise our voting right. We will talk more about this later, and also about receiving the Extraordinary Shareholder Meeting's clearance this quarter for the subordinated bond issue. It is also a proud moment for us, because this quarter we posted the highest quarterly premiums in the history of PZU. The highest sales ever. At the same time, as I've already mentioned, we managed to improve our performance in motor insurance. We managed to improve our results, among others through considerable discipline and improved cost efficiency. Naturally, the quarterly result was also heavily affected by the good investment result, which almost doubled, mainly on PZU's main portfolio. That happened despite the very strong challenge coming from the large number of deaths in Poland. We noticed this on virtually the entire market; despite the seasonality, it was exceptionally high. I'll talk more about that later.

When it comes to the bank acquisition transaction itself, you all know this slide. We managed to acquire it, to sign the agreement on December 8th on very attractive terms, we believe, at that time. Today, the valuation of our stake on the stock exchange would be more than one billion zloty higher. At the same time, the closure of the transaction on June 7th will give us the right to benefit from a dividend payment from Bank Pekao S.A. As I have said, in several scenarios, this transaction is beneficial for us from the purely investment standpoint, however, with full consideration of the fact that we are not the only shareholder of Pekao S.A., which is an independent listed company. Nevertheless, we are counting on the fact that our presence among Pekao S.A.'s shareholders will allow us to narrow down and launch closer cooperation with the second largest bank in Poland. It will also allow us, as we've shown on the first slide, to increase our capacity to reach the customer, mainly in the investments and bancassurance segment. Tomek, I would like you to add a few words here.

Tomasz Kulik, Financial Director, CFO:

In property insurance this quarter, contrary to what happened last year, we are able to share good news with you about profitability in motor insurance. Let me remind you that it was the main topic of our meetings for the entire year last year: we were talking about what was going on with profitability on the market. We talked about the technical result in 2015, 2016 in motor TPL insurance in particular. We told you that in the motor insurance segment, we will try to recover profitability as soon as possible and stop subsidizing that business. Today, we can say that the motor insurance segment is profitable for PZU, even though the cost of claims on the market experienced quite a steep rise last year. In that period, we managed to maintain the average claim amount at the same level. And even though the frequency of claims increased, through cost optimization, because a part of this improvement, and not such a small part, was a consequence of much lower expenses both administrative and distribution expenses; we flattened the management structure in the mass client area. All that caused quite a significant improvement of the combined ratio. So today, we are in a situation where we grow on the market. In motor insurance, we passed the 40% market share mark. Our customer base, measured by the number of TPL policies, is on the rise. This shows quite clearly that we are able to offer a really good value for the customers and, through optimization of our management structure, make this business profitable. So this makes us very happy and we will try to continue what we started when it comes to operating efficiency. Speaking about our strategy, when we presented it last year, we told you that we will change the cost efficiency of this organization in a responsible manner, by improving the processes and cutting costs. Today, we are showing this again, in the context of our 1st quarter results. Our costs, measured by the costs to premiums ratio, fell quarter to quarter, the first quarter of the previous year to the first quarter of this year, and we are leaner, cost-wise, by more than 1 percentage point. We are leaner – the companies operating in Poland and also our foreign companies, where this reduction was even more visible. Today, as we are sharing this information with you, we are an organization that really executes the cost optimization goal. Paweł has mentioned our investment income; it virtually doubled year on year, in terms of our income on the main portfolio. This growth was achieved mainly by equities. We all know very well what was happening on the stock market in the first quarter. WIG rose by almost 12%. This time last year it was less than 6%. At the same time, interest-bearing instruments performed worse. Here, unfortunately, the year on year performance on this asset class is slightly worse, but given that they were performing quite well in the first quarter last year due to lower yields and higher valuations of bonds marked to market, we closed the first quarter at 960 million, which was more than twice more than last year. Additionally, Alior Bank naturally contributes quite strongly this quarter to the consolidated result, both the "old Alior" and the separated part of Bank BPH, which allows us to close the consolidated investment result at almost PLN 1.5 billion.

Paweł Surówka:

I will only add that we are happy with that excellent performance, or as Tomek said, "quite good" performance on our main investment portfolio, but at the same time in the first quarter we continued and we still continue our efforts to recalibrate our investment portfolio to - as I said in the previous quarters - reduce its volatility and increase its predictability in the context of what we communicated to the market is our ambition in terms of long-term profitability of the portfolio, that is at least 200 bps above the risk-free rate (RFR). In this context, we will also try to optimize the profitability of our portfolio measured using the capital employed according to Solvency II. So, even if we are enjoying this surge in the first quarter, we will continue to make changes so that PZU's portfolio is more resilient to market volatility, both good and bad, and in the long run gives us the result that we require and that secures our insurance obligations.

Roman Pałac:

Looking at our life business, you may notice that we still have a positive growth rate. We grew by 1.5% quarter to quarter. This growth rate is a result of our business decision to grow selectively and focus on profitable growth. What is especially satisfactory, as we compare the change in the business structure year on year, we can see an increase in health insurance in our premium structure and we are successfully up-selling riders in individually continued insurance. Looking at the group insurance margins, it has fallen quite clearly in the first quarter, by almost 7 percentage points. This resulted from an exceptionally high mortality that we observed in the first quarter. I will now show you what it looks like for the entire market. We believe however that when we look at the entire year, we will manage to return to the levels that we assumed in the strategy, that is 20% plus. One more comment on this higher mortality rate: that was not unique for our portfolio; we are comparing this with data for GUS; there was just an exceptional growth that we observed on our entire population. We believe that this element will flatten out in the coming months.

Paweł Surówka:

To recapitulate, this quarter was the strongest opening of the year in PZU's history. It was the third time in the history that we managed to break the barrier of one billion zloty of the consolidated net quarterly result, with 940 million earned by the parent company, so it is 91% above the previous quarter. At the same time, sales are 20% higher than last year in the corresponding period and this amount of 5 billion 768 million constitutes the largest quarterly sales that we ever made in PZU, while keeping an excellent ROE, also because of the good investment performance. In the context of implementing our strategic objectives, ROE is exceptionally good, we hope that, in the long term, we are certainly on track to what we want to achieve by 2020. Our share in the property market is, as we've said, actually more than what we hoped for. The combined ratio in this context is also positive. We have been reducing our fixed costs in line with the assumptions. In this context, we are on track, even though I cannot rule out that, when we update the strategy we will consider converting this measure to a relative value. First and foremost, because of the sales growth that we are now experiencing. As Roman has said, life insurance we are still within the capacity to achieve our goal. Group insurance margin – it is actually a one-off effect of the number of deaths that we had. Solvency ratio under Solvency II is currently much above the 200% level that we assumed. As you know, this level will drop after the consolidation of Pekao SA, but we intend to have this ratio in the long term to above 200% through the issue of subordinated shares, which should take place in this half of the year. In the context of investments, we still are not at 55 billion of external client assets under management, but we hope that through cooperation and possible merger with Pekao SA investment companies, at least within the PZU Group, we will reach this level. In such situation, the net result should be at the right level. In this context, the profitability rate surplus, as I've said, is exceptionally good. We also need to add loss on the exchange rate that lowers this profitability, while in the long term we would like to keep that 2% above the risk-free rate (RFR). The revenues of the "health" segment are growing very well and we are still within reach of our goal of one billion dollars in revenue from this segment. We still struggle a bit for the EBITDA margin, but this is mainly because the strong growth rate and hope that, in the context of the loss ratio, we will be able to stabilize this result to also be profitable at that level. We will have an excess of banking assets realized after the acquisition of Pekao SA and it will be similar with financial results. Tomek, perhaps you would like to close?

Tomasz Kulik:

I have a question whether we want to go through the results in detail, or perhaps you would like to pause now and move on to questions and answers? Which formula should we use?

Tomasz Kulik:

So, to summarize the results of the individual segments: we have already talked about the operational results after the 1st quarter: first of all, improved profitability of motor insurance and a very profitable non-motor insurance portfolio. We are able to maintain a constant profitability on this portfolio, measured by the combined ratio of 65-68%, depending on whether it is mass insurance or corporate insurance. In terms of life insurance, we have already discussed what is going on in the group and individually continued insurance segment. On the other hand, sales have been growing quite well in individual insurance sales, mainly through contributions under investment products, UnitLink products distributed in the bancassurance channel, sales with Bank Millennium, sales with Alior Bank, but also sales in our own network. This refers in particular to IKE and IKZE savings products. In terms of our international business, this segment has been growing quite well. Unfortunately, small volumes and the declining share of this segment in both revenues and earnings, because of what has been going on in their parent companies, PZU Życie and PZU SA, however the year on year growth is persistent, in terms of sales as well as the result. In the banking segment, we are at a comparable level with the previous year. We are beginning to reap the benefits of what Alior Bank is doing, namely the acquisition of the separated portion of Bank BPH; we expect to see the synergies between those two elements, which should significantly affect Alior's results and indirectly our results.

We have already discussed the investments.

What happens in the individual segments in terms of gross written premium in property insurance? In the motor business we are growing in the mass segment and in the corporate segment. We should emphasize that this growth is not based on competitive prices only. Let me remind you that we approached the pricing strategy differently than in the previous year, especially if this strategy is presented on a 12-month axis. Last year, in the first quarter we had virtually no response to everything that was happening on the market, namely the hikes in rates and prices. We behaved in a very moderate fashion. In the 1st quarter of last year, the prices changed by a small fraction, such as 2-3 percentage points. The bulk of our portfolio was repriced in the second half of the year and now the portfolio that is renewing, the portfolio we wrote in the first quarter of 2016 is renewed today and those renewals are happening at the rates, assuming other things being relatively equal, I mean our costs and costs of claims, at the rates that are adequate to the risk that we accept in our portfolio. It is also confirmed by the number of our customers which is growing quite substantially year over year. I will honestly say that the situation we are facing in Q1 in motor insurance in both corporate and mass segment, is slightly better than we thought. We considered the possibility that the customers may leave us, but it appears that we are able to maintain a growing customer base and a growing market share in the motor insurance market. Today, our market share is above 40%. It all confirms all that PZU is not only able to earn profit but also create value for customers that the customers cherish and come to us and not to our competitors. For that reason, and because last year there were no mass claims , even if it was related to winter sports, we were able to show a big drop in the combined ratio after the 1st quarter in the mass segment and show a very solid insurance result. The insurance result was almost 400 million zloty. This posts a 480% year on year growth, so we are very pleased with how this segment is developing, how the products evolve both in the motor and non-motor segments. As far as non-motor products are concerned, we are growing very strongly in property insurance, residential insurance and corporate insurance. In our mutual TUW business, we were able to attract new customers and increase our sales significantly by over PLN 100 million in the 1st quarter, which translates directly to our financial results.

Paweł Surówka:

We have received first questions from our international audience. There is quite a lot of these slides and I am concerned that we may run out of time. Would you agree to move on to Q&A? You can view all the slides and we are at your disposal if you happen to have any questions. We could perhaps start with the questions from the room, if there are any.

Jaromir Szortyka, PKO BP:

Two questions. The first one is about the property segment - what is happening with the prices of motor policies. Is there still room for increases to improve this increased ratio? My second question is about the property but non-motor property market. The 1st quarter was good in terms of weather, but in the second one, the weather was quite erratic. So my question is whether we should expect any greater losses on this account.

Paweł Surówka:

Congratulations PKO BP, you have exactly the same questions as J.P. Morgan. (laughs)

Tomasz Kulik:

As far as motor insurance is concerned, we communicated it last year, especially in the fourth quarter, that today we are at a level that, as I've mentioned, guarantees that, from the pricing standpoint, the risks that we have in our portfolio are covered. As a result, we do not expect further significant insurance price hikes, especially in TPL insurance. However when it comes to non-motor insurance, especially agricultural insurance, so in the 1st quarter we had no situations that we struggled with last year; to be honest, we have not yet recorded any very significant increases in losses, especially when it comes to fruit trees, orchards or similar. Because the insurance of those crops is exposed to 2nd quarter frost the most: the "cold gardeners": Horacy, Pankracy, whatever their names are. Our exposure here, if we have any in this area, we have not felt any significant growth in claims in agricultural insurance.

Roman Pałac:

Let me add something to this statement. We have a much deeper reinsurance program this year, so even if an agricultural disaster happened again, the final results should not be affected as much.

Jaromir Szortyka:

One more question, this one is more strategic. Soon you will take over another bank, so the Group is growing, and my question is whether you have had any signals from Regulator, because you will have two bank licenses in the Group. Are there any signals or does the Regulator expect you to tidy up the Group in some way, perhaps by merging the banks or by selling one of them?

Paweł Surówka:

If it's strategic then I will answer. Let me say this: I don't think that we would get a clearance for the acquisition of PKO BP. But at the moment we continue to communicate as we did before. So, on the one hand, we are not planning to merge the two banks. We respect our current situation. Even if we are a reference shareholder, we still are one of the shareholders. We respect the fact that one bank and the other bank are listed, independent companies. At the same time, as we have already said, we will want to benefit a little from the differences between those banks in our strategy. We can see those differences in the context of this strategic update that we saw in Alior, where Alior, with its strong emphasis, positions itself definitely more as a fin-tech company rather than a purely financial company. We believe that those are complementary approaches that will help us increase the number of ways that we can reach different customers. This is why we believe that our cooperation with both entities is definitely justified and I have a feeling that, since we've already had discussions, that this approach is also acceptable to the regulator, provided naturally that we preserve full competitiveness and independence of both banks.

Jaromir Szortyka:

Maybe a third question, if I could. Or actually a request for an update concerning the subordinated debt issue. Is anything happening?

Paweł Surówka:

That sounds like a question to the CFO

Tomasz Kulik:

Yes, something is happening. But it is happening a little more slowly than we expected. I uphold what we told you multiple times, that is that we want to issue that debt and we would like to do it in the first half of this year, before the summer holidays. Today we are talking to the regulator, which takes a little longer than we thought. The dialogue takes so long because we wanted to propose to you an instrument which will be a truly benchmark instrument. What I mean is that there will be no non-standard solutions that could cause discomfort to one party or another or that would require valuation as additional risk. As a result, this discussion has become a bit longer, unfortunately. We believe that we will be able to go to the market and place this issue successfully in June.

Paweł Surówka:

Please remember that we do not need this issue because we need liquidity. And actually we don't need it because of solvency, since the levels that we would have without the issue still remain very conservative and much above those set by KNF. However we want to fulfill our strategic commitment to keep solvency above 200% and that is why we uphold this issue. But because of that, we want to do it on the best terms possible and it will require whatever it will require.

Kamil Stolarski, Haitong Bank:

I'd like to congratulate you on the results and the progress with Pekao SA. I would also like to ask you a technical question: how exactly will PZU finance that acquisition of Pekao SA. Because I know that it is quite a big effort to free up that 6.5 billion. Is it going to be an exchange of some assets to other assets? There was some information yesterday that BGK wants to buy a real estate fund, and which assets spent for Pekao will replace that amount?

Paweł Surówka:

Please forgive me, but we will not provide exact numbers. We are large enough that we don't want to affect the market, but, as I said earlier in similar situations is that first we want to optimize this portfolio from the point of view of capital exposure to certain assets, their volatility, profitability, so we would also like to use this transaction for our whole portfolio to put a slightly different emphasis. We would like to reduce our exposure to equities slightly and also slightly reduce our exposure to real estate since it has recently been treated badly in the context of Solvency II; at the same time, we want to grow our exposure to assets such as for example infrastructure investments. From our point of view, that is for long-term investment with relatively low Solvency II capital outlays, they seem to be more profitable than those earlier assets. So when the portfolio is reduced, it really is an effort, which will affect our main portfolio and which we will feel in our investment result in subsequent quarters, because that part of the portfolio will be missing in the future. But we did this also because we wanted to make the adjustments assumed in the investment strategy anyway; this is where the transactions that you can see come from.

Kamil Stolarski, Haitong Bank:

I would like to confirm that Pekao SA will be consolidated by the full method and that it will probably have no one-off effect on PZU's result when Pekao SA is acquired, also because Pekao SA's valuation has increased by more than a billion higher so far.

Tomasz Kulik:

Yes, we can confirm that, because we are buying the shares in the Bank together with the Polish Development Fund; we have signed an agreement under which we will have joint control over the Bank and everything seems to indicate that we will be able to prove that 33% gives us full control. We will consolidate the Bank fully right after the acquisition, which will be before the end of the 2nd quarter.

Kamil Stolarski, Haitong Bank:

Last question, if I may. The question is about the strategy for the investment segment. Do you have a plan in place for Pioneer and PZU? Is it most likely that a single large player is developed, or would you prefer not to comment on that?

Paweł Surówka:

All those are decisions that require dialogue with the Regulator. Because of that, I would prefer not to give you any explicit comments. But we do believe that the Group will have the largest, taking all together, the largest asset manager. Considering the market trends that we can observe today, for example in the context of the pension reform, where OFEs are transformed into TFIs, while also taking into account the very significant cost synergies coming from the asset management sector - I can see a very strong case for merging these entities, but I believe it is too early to give any specific comments and schedules for that.

Maciej Marcinkowski, Trigon:

I have a question about slide 27, about motor insurance. Because while the combined ratio fell nicely in TPL and we can see an improvement in profitability, the profitability of MOD, year on year, has even fallen. Perhaps one more, 28. Why is the profitability of MOD worse year on year? Do the prices grow somewhat slower or is the loss ratio getting worse?

Tomasz Kulik:

There are several things that we have now but they weren't present in the comparative period of the previous year, and several things that happened at that time, which made the ratios as they are now in the first quarter of 2016. We should start by saying that the base that we are comparing our current performance, well, it is not very representative. Last year we expected, or actually at the end of 2015, we expected a much faster increase in the frequency of losses, faster than they actually were. That allowed us to reverse a portion of the IBNR provision in the first quarter of 2016, which depressed the combined ratio a little in that period. However, even if our predictions did not materialize in the first quarter of 2012, where the scale was lower, it doesn't mean that they don't materialize at all – they do. Today we are seeing much growth, both in frequency and in average loss, for mass and corporate clients alike. In our pricing policy, in terms of MOD insurance, we were even more restrained than in TPL insurance. It means that growth was really very modest there. We didn't want to lose any MOD risks at this difficult period on the market, because in the long term they are much more profitable; we wanted to keep the MOD to TPL saturation at levels similar to 2015 and 2016. We wanted to keep this ratio. Consequently, despite some negative occurrences, we were, you could say, a bit more optimistic about how the MOD market will develop and we certainly wanted to keep those customers and keep those risks in the portfolio. Today we are in a situation where the combined ratio for both the mass client and the corporate client in MOD is slightly above 100%. When we look at those losses in absolute terms, they are not high. In the mass segment, this is 5 million, and in the corporate segment this is 0 minus. This means that, even though the combined ratio does not look well, we don't really subsidize this business very much. Yes, we have and we will continue to work on improving this performance. But today we are profitable on the motor insurance business as a whole and that is the key thing for us. We already said this during the publication of Q4 results, this year we will want to stop subsidizing any motor products or product groups and start earning money on them. But we want to make each product profitable separately, and most certainly to improve their profitability in the difficult distribution channels, such as the dealership channel and the multi-agency channel.

Maciej Marcinowski:

I have one more question about margins in individual life insurance, because as much as you can explain this by an increase in mortality in group insurance, then what happened to individual products? Are the high sales effected on much lower margins, or is it distributed over time and the profitability will eventually increase?

Tomasz Kulik:

It will be distributed over time. This result, the lower result in the first quarter of this year was caused by the very high increase in sales through the bancassurance channel, which charges quite a high commission in the beginning. But since it is distributed over time, we do realize that this result is not representative and accordingly, assuming that the business mix and sales within channels will not change materially later during the year, we should improve our profitability in this segment.

Paweł Surówka:

If you allow us, we will take a few questions from the internet. We have already mentioned JPMorgan and we have answered the question about the loss ratio in agricultural insurance, a question about motor rates, I believe that we have already answered that, too. We have answered about the issue. Is the plan to maintain margin in group insurance above 20% still valid this year? Roman, would you like to comment on this?

Roman Pałac:

I believe we have already talked about this topic. We aim to maintain profitability throughout the year as specified in the strategy, that is at about 20%.

Paweł Surówka:

We have a few more questions in English "fixed costs have fallen by 94 million since the beginning of 2016, so the Group has PLN 5 million of savings left to reach its target by the end of 2018; is that realistic? If so, then where those savings will be achieved?" - as I've said at the beginning, we as the Management Board will keep this direction and the cost cutting ambitions. PZU must save costs and we want to continue to identify this as our strategic goal. We can see the need for savings not only through group redundancies, but also through a simplification of our structure and hierarchy, also through savings in the IT sector, area, and in project expenses. On the other hand, we cannot rule out that, in the context of the strategy update that we are planning in the second part of this year, we will want to move this target from an absolute to a relative value. This seems more reasonable for us, in the context of quite a strong growth that we are currently seeing; on the other hand, also in the context of the Pekao S.A. group that does require some expenditures for supervising those investments. So please be patient while waiting for a precise confirmation, communication of those reduction ambitions.

Tomasz Kulik:

I believe that what you said has exhausted this topic. As we have shown you, on the one hand we are growing, while on the other hand we are shrinking our cost base, which can be compared to scissors opening. As a result, we are able to report better, above-average profitability, however the task of growing with declining costs is quite difficult, some of the costs are not really fixed; they are semi-fixed and they do change along with the portfolio size, with such a significant growth of that portfolio. This is certainly one of the things that we need to address in our work to refresh the strategy; and please note that the strategy, as the CEO showed us through the key ratios, did not at all address the acquisition of shares in Bank Pekao. Accordingly, today in a strategy refresh, we will talk about a slightly different Group, about a Group which, in terms of total assets, is or will be within two months, a completely different Group, much larger and which may require, perhaps even from the regulatory standpoint, a slightly different approach to the management of two entities, banking entities, operating on the same market.

Paweł Surówka:

Second question: "could you give us an update on mass redundancies? will the process be completed by the end of the year?"

Tomasz Kulik:

We stick to what we announced some time ago; the process is still happening as we are speak and will be happening until the end of the year. Let me remind you that this is a long-term process and, from the very beginning, we planned it to end around December 18th. In this period it will be linked to our investments, especially those made in the past years, among others investments in the Everest system, which allowed us to automate many processes in this organization; they require less workload; that work was digitized, if I may use such a nice word. Today we are revising these processes and we will try to streamline these areas in terms of our cost base. So yes, we definitely uphold that goal and that commitment for this year.

Paweł Surówka:

At the same time, we want to make sure that group redundancies are not the only element of savings. As I've said, we will conduct in-depth analyses, on the one hand a process audit where we will try to detect inefficiencies in our processes, in business and in administration, plus a review of our project portfolio and IT expenditures to meet this savings target somehow.

Are there any more questions from the room? We got an additional question, but to be honest, I can't see anything new here...

Tomasz Kulik:

There is one more question about our senior debt. This is a question from HSBC. HSBC notes that this debt has no "capital treatment" and is asking whether we will be considering early redemption? No, our capital plans assume that we keep this debt until maturity. Let me remind you that it is June 2019.

Paweł Surówka:

Ok, I believe our time has run out; if you have any questions then naturally each of us is at your disposal, but as for now thank you very much.