Presentation of PZU's financial results for H1 2017 – 31 August 2017

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

Welcome. Traditionally, I would suggest that we begin with a brief presentation of our results. Together with Roman Pałac, President of PZU Życie and Tomasz Kulik, Member of the Management Board and CFO of the PZU SA Group, we will guide you through the main part of our presentation. Then, of course, we will be open to questions. In the beginning, I would like to mention and apologize that, unfortunately, I have certain commitments and I will have to leave you ten minutes to one. So if there are any questions specifically to me, I would prefer to answer them right away and please accept my apologies for that. I will also try to speed up the presentation part a little and save more time for your questions. So, going directly to the presentation, the market as a whole, the non-life market in Poland of course, is growing. Motor insurance was the primary contributor, as it rose by more than 40%, obviously also through premiums. Premiums increased by 6.9% in the non-motor segment, to a total of 27%. For us, it is very important and we are pleased that in this difficult market, with this big current debate about the price hike and the customers, who didn't always like what was happening, we have managed to grow by 4.2%, our total market share in motor insurance is up 1% to almost 40%, and 37% in overall non-life insurance. At the end of the day, the bottom line is that our premium growth, which, as you know, is probably the biggest in history, was not just market-driven. We have also managed to win that market share consistently and win additional clients. Roman will tell you more about the life market.

Roman Pałac, President of PZU Życie:

Our position on the life market shows a very positive trend. We have been improving our position on the periodic premium market. In the first quarter, for which the numbers for the entire market are already available, we increased our share in periodic premium to 45.6%, which in itself is an excellent result. Moving on to our core business, that is group insurance, we have a stable position here: close to 69%, almost 70%, we could say, and we are proud to be able to maintain our footprint on such a market. I would like to draw your attention to this graph at the top; it clearly shows that when we exclude periodic premiums and PZU from the market, the remaining part of the market was declining as we were growing. This is very clear. In the first quarter of the year, these data are interesting because unit-linked insurance performed very well; we had strong growth on the stock exchange and despite this, the market outside PZU was unable to make up for the decline, while we managed to grow in these core businesses and thanks to our cooperation with the banking sector we were able to grow much faster here.

Paweł Surówka:

Thank you very much. What the main factors affecting the first half of the year were: naturally, the second quarter was very important for us, in strategic terms, because it is the first quarter in which we were consolidating Pekao S.A. Group and reporting on the entire PZU Group. For us, this is a something we are proud of, for you it is additional work to explore what is where. I hope that Tomek Kulik will be of help to you in this respect later. Of course, we've had a successful bond issue, about which Tomasz Kulik will tell you about it in a moment, that represented first of all the implementation of what we have also communicated to you. Then, as we said at the very beginning, we've posted record written premiums, where the second quarter really beat the record from the first one and the whole first half of the year is the best in terms of premiums and revenue in the history of PZU. However, and this is another two very important points for us, is that we are not sacrificing profitability to gain the sales: the sales are profitable both in other non-life insurance and in motor insurance. We managed to improve our profitability in motor insurance significantly, maintain it in other insurance groups, while in life insurance profitability is actually returning to the figures we are accustomed to and we are making up for the difficult situation in the first quarter. Higher sales with positive profitability are one of the effects of the cost discipline that we adopted under the Strategy and that we continue to pursue. This 6-month period was also affected by the investment result, which was about 3 times as high as in the first half of 2016. Two words, but very briefly, because you all know this: we are now a Group that includes Bank Pekao, Alior and indirectly BPH, which is integrated into Alior, with total assets of PLN 300 billion. For us, this is not only a reason to be proud and to brag about our scale, but also, above all, it is a commitment to use this scale, these opportunities, to create appropriate synergies that will translate into an appropriate value for shareholders. I will say a few words, at the end of what we want to tell you, about what we are doing specifically with these assets. About the issue – Tomek, perhaps you could say a few words...

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

Ladies and Gentlemen, as far as the bond issue is concerned, we have embarked on this adventure with some of you, for which we would like to express our deepest gratitude. As we remember, in terms of its timing, the transaction was perfect, in the last days of June, while from the point of view of the transaction itself, it was the first such a transaction, the largest of its kind. The first one carried out by an insurer, the first one under the Solvency II regime, which had been raising some concern for investors for some time. Today we know that, despite those concerns, we closed this transaction above our wildest expectations, which shows that PZU is perceived as an attractive partner as an issuer of capital instruments. What did the transaction allow us to achieve? It allowed us to implement and continue to implement our capital policy. In the policy, we talked about a solvency ratio of 200% and we spent a lot of time explaining why it is 200%, as much as 200%. I wouldn’t want to go back to that today, but because of the bond issue, after the transaction, we are able to continue to focus on profitable growth of our business. As we have said many times about this growth, the fact that today the PZU Group, from the point of view of market share, as Paweł and Roman said, is a slightly different Group than it was a year and a half ago: the capital has its cost and we must keep it to be able to meet our obligations towards customers in an extreme situations. What is quite important for us this year, in this half-year period, apart from the fact that we have been consistently implementing our assumptions and strategies in non-motor insurance, we have been achieving quite high margins both in the mass client and in the corporate client segments. At this time we are able to stand before you and say that we have followed through with our commitments from the previous year, and we do remember those long conversations: when will you, whether you will, how you will succeed, what if you don’t succeed, how the market will change, and so on. Today we are profitable in all insurance groups, in all customer segments and this is very important information, because it says that the foundation of the PZU Group, the insurance business, is very healthy. Both TPL and MOD, as well as TPL and MOD in the corporate segment, are profitable in the individual segment. Moreover, even though we are profitable, we are posting an increase in the customer base, we show an increase in the base of active policies. This would seem a very special situation, because we are building profitability and portfolio at the same time. One could say that this is running in two different directions. It is often said that the best strategy is to build a portfolio and then remove those clients, those risks that are suboptimal, in order to implement a certain cost strategy, a certain strategy of being in the market. However, we are able to show improvement in both these dimensions at the same time, which is really a significant achievement. As the gentlemen have just said, we are growing on the market and we are growing profitably. Why? Because we are able to take advantage of the scale and, given the declining cost of policy service, because of the cost efficiency, deliver products that are perceived by our customers as attractive, products with the guarantee of PZU. That's why we are growing in a very difficult segment, that is the SMI segment, which is a litmus test of what is happening in the organization; it is a segment which, since people cannot always afford above-standard solutions, it is very sensitive from the price standpoint. And it is today an indicator of what we are offering on the market today. And we would like to continue to saturate our offering in this segment.

Paweł Surówka:

We have said already: higher profitability in non-life and motor insurance, and we will emphasize it again: half a million more customers, compared to the first half of the year and the numbers continue to grow. However, we do hope and we are convinced that we have not acquired all those worse risks from the market, but that this growth is profitable and based on the figures that we are showing. Now Roman, could you speak briefly about our profitability in the life segment.

Roman Pałac:

A few words about our core segment in the life business, that is group insurance and individually continued insurance. There is one thing that I mentioned to you during the previous meeting that we are going to grow selectively, that is we will look above all at profitability and at keeping the ratios in respect to which we have made commitments to you. The growth on the 6M to 6M basis is 1.2%, much better than the market, but we are not getting crazy here. As I've said, this will be good quality growth. First of all, we are really pleased with the up-selling of our new business line, that is health insurance, to our current group customer portfolio. At this point, we have more than 1.4 million active health policies, which we managed to up-sell in that portfolio. We have been developing this business very successfully. What I am particularly proud of, looking at the half-yearly result, is the margin on group insurance that is continued individually. When we met with you previously, the margin was at the level of 13.8% after the first quarter, so you can see that we increased profitability of this business by almost 6 percentage points. Excellent results in the second quarter of the year: looking at the second quarter separately, the group insurance margin was 24.5%, which is a very strong performance. The trends we are now observing lead us to believe that the result we were talking about in the beginning, that is a 20% margin on this business, is realistic in the long term. We believe that we can achieve this result at the end of the year. In terms of profitability, there were two main trends at work. One is the macro trend that you can see here: you may remember our discussion after the first quarter about an exceptionally high mortality rate in the first quarter that we experienced all over Poland. Fortunately, this has stopped now – there was a great decline, which certainly helped us in our business. The second element, which was already a result of very hard work, however, is the work on the portfolio and I'd say a tedious modification of the portfolio towards better profitability, which is also yielding results. And cost discipline, of course, which translates to all the profitability ratios. I believe that Tomek will comment on what it looks like in a moment.

Paweł Surówka:

Well, let me remind you that the cost discipline was one of the main pillars of our strategy from March 2016 and today it is bearing its first fruits. Tomek, would you please comment?

Tomasz Kulik:

I think that this slide does speak for itself. I will just remind you that our Strategy set out to achieve some very specific savings that we embedded in the horizon till 2020. Today, we operate differently than what the Strategy called for. On the revenue side in particular. What is this difference? The difference is that we consciously made a very specific investment in the market, in the non-life insurance market in particular, and today the market share our portfolio is 37%, which is more than 2 percentage points higher than the level we aimed for in the Strategy. So we have a situation today that the target of the Strategy has been exceeded quite significantly. And we are not talking about some small, aggressive player; it is the leading insurance company on that market. It is much more difficult for the leader to grow and expand. However, if we are to develop our portfolio, if we are to offer insurance, then even though we are doing it cheaper, we cannot cut costs in absolute terms by all means possible. What we want is to maintain cost efficiency. We want to make sure that, based on what we said in the Strategy, and please compare the assumptions concerning relative ratios, the average cost of policy service was no higher than the 2020 target: at 6.1-6.2. Today, we are approaching this level quite significantly and again, if we look at this situation and make a simple calculation: the 2016 portfolio, the 2017 portfolio, the portfolio growth alone at the 8% ratio, and a larger portfolio at the same ratio, we can say that we achieved savings by not growing above PLN 100 million by the mere fact that the portfolio size changed. So, these things are happening despite the fact that they are happening in a slightly different way than what we said in the Strategy. However, going a little bit ahead, I believe that Paweł will speak about this in just a moment, the new portion of ratios that will change because the PZU Group has expanded to include Bank Pekao S.A. Group companies – we will share this with you and tell you how this change affects our main ratios at the year-end.

As far as investments are concerned, what we would like to emphasize is above all a threefold increase in the investment result. How can we disaggregate it? Above all, this is growth through equity instruments. We know what was happening on the securities market. The stock exchange allowed us to make profit in the first half of this year. We also remember what happened in the corresponding period of the previous year. We still have some strategic exposures in our portfolio, which last year, since it was marked-to-market, was a burden on our result. Therefore, this year, because of the increases, there was fairly large growth. However, we should also remember that this item also includes the reaction of our customers, who come to us to buy new investment plans, to invest in term deposits packaged as insurance products, in unit-linked products, and it also includes our customers' expectations about how we can support their capital growth on investment products. Last year, our customers were not beneficiaries of what they are in this half of the year because of the current situation. The negative information in this half of the year is mainly about the interest-bearing instruments. And there is this story: as you know, we are trying to keep a fairly well-matched balance sheet in terms of currencies. Therefore, we have reserves expressed in currencies, while on the other hand on the asset side we invest them in debt instruments, sometimes in money market instruments. We know how Eurobonds performed in this period: their yields increased, which translated into a decline in their values that we are showing here. We were not blind to what was going on, so a part of our portfolios has been liquidated. On the one hand, we did it to close the acquisition transaction, but on the other hand, the part that balances our liability positions was converted into money market instruments. As a result, the FX loss in that period on those instruments, on instruments from outside of Poland, was unfortunately recognized in the first half of the year. However, again because of the good matching, we are able to show an off-setting position which, since it is all matched, since we have quite a large exposure after the EUR 850 million issue of our senior debt, it can cushion such a movement very well. The "others" item contains mainly the foreign exchange differences on cash positions in foreign currency, plus revaluation of the property portfolio, which let me remind you last year, year-on-year, allowed us again to realize very good returns because of the development margins on the warehouses that were delivered and commercialized.

Paweł Surówka:

Well, I have promised that we would make the presentation part a bit shorter, in order to have more time for questions, so I will just quickly go through the main figures. So once again, to sum it up: net profit more than doubled, 119% growth both for the parent company and the entire Group, more than 17% growth of gross written premium and compared to 10.7% ROE in the previous 6M period, this year we have 22.1% in H1, which is high above the strategic target that we adopted for 2020. In this context, this is very satisfactory. In the context of non-life insurance, our market share is higher than we assumed, the combined ratio on all property insurance groups is definitely below that target, but we have a longer period until 2020. We are on track regarding cost reduction vs. strategic assumptions, even though, as we've said, we will probably change the way in which we want to monitor it in the future. The number of clients is actually consistent with what we've assumed. Margins in group insurance continued individually are slightly below the target, but we are assuming, as Roman said, we want to remain optimistic that we would be able to defend this "two" at the front by the end of the year. The solvency ratio, as promised, is above 200%, among others thanks to the issue. When it comes to assets from external clients and the net result on the management of those assets, so far we have not realized the group synergies that we can see with the Pekao S.A. Group, which were included in the assumptions regarding the potential expansion of the assets. However we remain certain that we will achieve those levels. The interest rate margin surplus earned on the main portfolio over the risk-free rate, excluding the currency effect, is above the assumed level. As far as the health element is concerned, we are actually on the way and we uphold our target of PLN 1 billion in revenue and 12% EBITDA. In the current situation, the bank ratios have become outdated and this is why we will be approaching an update to the strategy. Such a strategic update will be made probably either at the end of October but more likely in the beginning of November. We would like to give you once again an overview of how we see the financial issues and the goal for this new banking segment, which already includes the Pekao S.A. Group. Or perhaps what synergies and added value we can see that cooperation with this group may offer. We will want to modify some financial elements slightly, but we will not compromise our ambitions for this results part. Additionally, we will also try to show you more of the innovation element and of PZU's transition to a new, more digital, more technology-driven era. This presentation will be actually combined with sort of a product presentation, in which we will show you the solutions we are working on now. How the PZU *customer experience* will change, what products, what projects we are currently implementing and what they will look like in the future. We would like to show the credibility of that Strategy by showing the specific solutions to prove those statements, on which we base our optimism about the future. So that would be it for the main part. We can get into segments now and I'd like to ask you whether we should start the segment presentation now or perhaps start with the questions and perhaps touch on the segments whenever a question leads to it? What are your preferences? Maybe, because I don't have as much time, perhaps we could open the Q&A session now and if there is still time, we could show you the segment slides then. So, are there any questions?

Łukasz Jańczak, Ipopema Securities:

I have three questions for you: the first one is about your expectations about the possibility of maintaining profitability in the motor insurance segment; the first quarter was very good in the mass segment, the second was slightly worse, while in the corporate segment, the first quarter was weak and the second one was good. So I'm asking about your views for the second half of the year and for 2018.

My second question, or request is for an update on the situation after the strong winds in Poland; what will be the cost for PZU and what does the reinsured portion look like. The third question is about the investment result. There is a large negative on real property, 160-170 million. What is the cause of this? Thank you.

Paweł Surówka:

About the maintenance of profitability in non-life insurance, we really are at the point, as Tomasz has said, where all our product lines and all the segments are profitable, which is at the one hand, something that you can brag about, while on the other hand, something that we consider to be a standard. And we will try to maintain this level. Today, the combined ratio in both non-motor and motor segments is such that it will allow us to never cross this profitability threshold and fall into an area, where we would have to subsidize the motor insurance line again. Non-property insurance – here, the profitability is maintained and I believe that we are quite optimistic when it comes to the second half of this year. Regarding the storms – yes, of course, we have communicated this loss. In a minute, I will ask Roman Pałac to address this topic, but as we've said in the beginning here, the amount that we announced, PLN 200 million, it will probably be confirmed in respect to the full amount of claims, however this is a "gross" amount that will not affect fully to our result, because it does not include all the factors that allow us to mitigate those risks. Roman, please expand on this topic, if you could.

Roman Pałac:

If you are looking at the storms as a one-off event then I would just want to say that every year in this period we have such events; they are distributed over a slightly longer period but we did have such events last year and two years ago. This year, there was quite a large event, accumulated, but I don't believe that it will be fully reflected in our result. Let's see how the entire quarter closes, but I think it will rather be distributed and I do not assume any significant growth here. What is important is that we have a very conservative reinsurance program; I don't know if I can provide those ratios, so I'd rather not... I will keep them to myself, but I would like to state that those catastrophic events are in our case heavily reinsured. So we will be using it in this case.

Paweł Surówka:

And actually, those events did have that specific characteristics and in the human dimension they were very recognizable, because they happened over a short period of time and in relatively small areas and they caused very big damage that hurt people, however taking the entire year into account, it was not something that we could say today that will reflect in any extraordinary way on PZU's results.

Tomasz Kulik:

I would just like to add to what we talked about a few times at when we were thinking about a debt issue, how to amortize the capital outflow, or how to amortize the outflow of capital, for the transaction with UniCredit. At that time, we told you that we had a whole range of instruments that we could use - we talked about a potential issue in Euro, a PLN issue, we were talking about the use of different reinsurance solutions as an equivalent of capital. One of the cheaper solutions that allowed us to take advantage of this period (from the end of last year to the first half of this year) and will now have a positive impact on our claims situation is catastrophic reinsurance, where we lowered our limits, taking advantage of the really high efficiency of capital, and today this capital efficiency work for the second time, because it will become a shield in this particular case. However, going back to your question and to the real property result, the negative result of about 170 million - I would like to remind you that, in the real property segment, the properties are valued based on expert appraisals that we update twice a year, at the end of the year and mid-year. Therefore, each valuation between those periods is measured at the rate and the price of the balance sheet date. So, on 31 March, in accordance with IFRS, we keep the valuation and currency of 31 December. You must remember that. On 30 September, we stay with the 30 June figures in terms of valuation and FX rate for real properties. We know what happened to the currency in the first half of the year: the zloty appreciated and that was a large contribution to what you can see in that position. On the other hand, you may remember that we hedge our portfolio with derivatives, so the other leg of that transaction, the valuation, the economic effect of what happened, is described in note 8.5 and you will see it in the result on derivative instruments, where we have a large positive amount, also in the second quarter. So this is something that you need to read together to have a better understanding of the situation in the property sector in this period. *Hedge accounting?* - well, not at all; if there was *hedge accounting* then we would have recognized it together, in a single line item. At that time, we did not have hedge accounting and today, we are hedging our positions without hedge accounting, in regard to the real property portfolio, however the efficiency is really very, very good.

Marta Jeżewska - Wasilewska, Wood & Co:

I have two questions: the first one is about the trends in motor insurance prices; we can still see what happened last year, reflected in premium growth. Naturally, you have active premium growth, but the increase in prices had a very strong effect there. Can we receive any guidance from you about how the prices increased from the first to the second quarters, or what the dynamics of the most recent period is? My second question is about the investment result, but in the second quarter only, because I would like to find, perhaps, an inefficiency in hedge accounting in the Q2 result on equities; it is also in note 8.5, I believe: we had 200 million of negative valuation of equity instruments, 190 million at fair value and 23 million, so I'm assuming, given the stock exchange indices, that something might have happened where the "other leg" happened on different dates, or perhaps it was a matter of listed/unlisted instruments. I'd like to get more information about that. Thank you.

Tomasz Kulik:

First thing, when it comes to motor insurance, I may say a few words about the market and a few about us, because, in spite of what you may think, we are not a lone island on an ocean, without anyone around us. Today, the situation is as follows, and I'm quoting the first quarter data, the most recent data available that have been published by the regulator. So, the non-life insurance market posted a positive result of about 600 million; we had about 66% of that, so all others combined amounted to about PLN 200 million. That is a result of the first half of the year, that the market, outside of PZU, has not seen since 2008. This result has the following structure: about ¾ is generated in non-motor insurance – I'm talking about non-life insurance outside of PZU, because you already have all the PZU figures. So, ¾ of that amount is generated in non-motor insurance, and now, TPL motor insurance still remains in the red all the time. Where do our competitors make money in motor insurance? You can see the green graphs on the MOD side. However, even though there are green graphs at the MOD side, or perhaps the profitability is there because on the market we can see a significant decline in the saturation of MOD vs. TPL. So, we can say that the price increases that happened last year, worked as follows: if someone has a finite budget, and most of us do – we can spend the amount of X on insurance and the prices are rising, then we give up on the things that are not absolutely mandatory today. So, at some point, we give up ADD, we give up property insurance and we reach MOD – since it is not a mandatory insurance, its saturation in the portfolio is falling. It is different than what happened in the PZU's portfolio and we showed real awareness and good judgment here, because if we behaved like the market did then we would probably have shown much better results in MOD. Today, our profitability in MOD in absolute terms, since MOD covers certain specific costs, I'm talking about the costs related to the restructuring, and you will probably ask now what the provision is that is highlighted, yes, this is the restructuring in PZU. It is also something that we spoke openly about: in the beginning of the year, we started a restructuring program, we know how many people it has affected in one or another way and this program will last until the end of the year. At the end of the first half of the year, we recognized all the costs that we are expecting within that program. Accordingly, what we are seeing today, in which the market is profitable in MOD but is not profitable in TPL. So will it be willing to start a price war? I believe it won't. Why? 1: Because this is quite a recent story from two years ago. 2: KNF wagged its finger at several insurance companies. So far, KNF was saying "ladies and gentlemen, price adequacy, price adequacy", the insurers interpreted it differently and today a few of them got a yellow card, so we know that we will treat each other seriously. And even though these penalties are not very severe, they are a kind of a warning to the market. Accordingly, it is one more reason to believe that the prices will not fall. Yes. One or two more quarters must pass before we can see TPL in the black for our competitors. So far, we cannot see any price moves, so we can put forward two alternative hypotheses, each of them being equally likely – I don't want to speculate, I will leave that to you. The first one is that the price hikes that happened last year are absolutely sufficient and it is just a matter of time before the prices are worked in and our competitors also show MOD in the black. This is the first hypothesis. The other hypothesis is that the increases are not sufficient, perhaps they may lead to a situation in which the market outside of PZU is neutral in terms of its result, but no-one wants to push the price up too much anymore, because the previous pressure led to a situation, in which they allowed us to take over quite significant market shares. And it is very, very difficult to recover market share and very, very easy to lose it. We know something about that, because our experience from a few years ago, when we wanted to clean up the profitability in the corporate insurance portfolio, has taught us something in this area. So, there are two hypotheses, I believe both are equally probable: waiting or trying to regain strength to prevent any additional loss of the market share. I believe that the coming quarters will show which of these hypotheses is more likely. I also believe that, unlike in the past, this peace in the pricing area will last. And since the President is leaving, I will...

Paweł Surówka: no, no, I've managed it, please continue...

Tomasz Kulik:

OK., in some time we will be able to say which of those hypotheses is more probable. I'd like to believe that, unlike what happened after 2010, when the peace lasted about one and half year, about 18 months, today it will last longer, because today every insurer must measure all the risks in its business, not just premium risk and claims risks and close in a very simple Solvency 1 account. Today, every risk, including market risk, which is the largest risk for non-life insurers, from the point of view of relative value building SCR, is something that will make the casino-like gambling – and I believe that historically the insurers behaved just like that: they reduced the rates and kept their fingers crossed so that nothing happened – has not become a historic approach. I also believe it is quite important that the several recent weeks have shown that insurance is really no casino and you cannot compete with price only. The mass events that occurred on that market, which showed their very severe outcome, will also affect, I believe the very significant rationality in terms of price creation and price competition. Because what happened and what continues to happen on the motor market, is a signal that the product pricing must consider the really serious underwriting risk.

Paweł Surówka:

When it comes to TPL, you can see that KNF really wants to and is consistent in guiding the market to the level where no-one subsidizes those insurance products. We are assuming that some insurers will probably have to make up for it through premiums, given their cost structure. However we have cut costs and achieved a level that seems safe to us today and we are operating under the assumption that we will remain profitable, at least us.

Tomasz Kulik:

Yes, the operations were not always profitable. I believe it is also worth mentioning that the second quarter was especially difficult for us, from the standpoint of the need to exit certain items that are costly in terms of capital, and I'm talking about work on SCR here. I'd like you to see the slide... I don't know which one it is... one of the last ones... slide 32, which shows the effect of the optimization of the investment portfolio on the structure and value of SCR. We have achieved a situation, in which, because of the change in that structure, our capital intensity fell by 300 million zloty. It is... yes, the first quarter... it was beginning to happen at that time. We have no data available for the second quarter, as in the case of the previous quarters, that data is published with a one-quarter delay. The situation will probably stabilize next year, when the deadlines for reporting the capital standing will be reduced accordingly and they will be the same as for the financial statements. So that's one thing, with exiting, closing equity positions and achieving liquidity for the transactions. On the other hand, what also happened is the overweighting on small and medium companies in the second quarter that performed slightly worse and that closed as they did. That is the only comment that I have.

Paweł Surówka:

So, to recapitulate, there are actually three sides to that. One is that in fact, I don't know if we have actually stated it anywhere, but in the second quarter we had to provide liquidity for the acquisition of shares; we had to free up more than 6 billion zloty in the portfolio. So according to what we communicated today in this room, we decided to reduce those assets that are more capital intensive, additionally considering the very strong first quarter that built a large part of our investment result. We really wanted to reduce the risk on the portfolio a little, because as you know, as an insurer we don't only want to present spectacular investment results, but prove what we communicated to you in the Strategy and we want the results to be recurring; we don't want to brag about a positive result in a bull market and then tell you about a loss in a bear market. So, when we reduced that portfolio, first of all we reduced its equity part. And in this case, on some of the sales, we realized a loss. That however optimized our portfolio in respect of the capital but also reduced our risk and we remain very hopeful that we will achieve the investment result in accordance with the Strategy at the year-end.

Andrzej Powierża, DM CITI Handlowy:

Excuse me, but I thought the question was more about note 8.5, or the valuation.

Tomasz Kulik:

Once again, yes, ladies and gentlemen, because of the overweighting in the second quarter in terms of small and medium companies, the situation was as it was. On the other hand, in the second quarter only, there was an unrealized loss, in the same quarter, depreciation of Azoty shares by about 40 million.

Kamil Stolarski, Haitong Bank:

Perhaps one more question about reinsurance. I remember that in 2010, when the flood waves hit, PZU commented that reinsurance kicks in when losses exceed 400 million zloty. So my question is whether the reinsurance has kicked in, which means that the impact of catastrophic losses in the third quarter is close to neutral, or...

Roman Pałac:

I will comment, if I may. In the meantime, we have been changing our reinsurance treaties and they no longer operate on the same basis as they did in the period you mentioned. However the very definition of catastrophic losses is, as I can remember, after 72 hours of claims coming in.

Paweł Surówka: That amount is no longer valid.

Roman Pałac:

In this specific treaty, and we have several, we will use the one that offers us a better opportunity to benefit from this situation.

Kamil Stolarski:

I also wanted to thank you for the data on page 9, because, as I can see, you provided the number of active TPL policies, so perhaps... when the price changes for you, your price makes the analysis easier. And I have a question about slide 21, about the life business. We can see that the premium doubled and the margin halved... Is there a different thinking than in those other...

Roman Pałac:

Two segments are divided here in such a way, I'd say, that a large portion of individual insurance is unit-linked products. You will see two programs that developed strongly in the first half of the year, that is a program with Bank Millennium and with Alior, where in fact most of this growth comes from those two programs and margin on those insurance products is much lower than it is in protection insurance that I could say dominated in the previous corresponding half of the year. It will not be as significant for the profit, but it will for the margin, because the product mix changed significantly.

Paweł Surówka:

Do we have any more questions?

We have questions from the Internet: *What is your outlook for price increases and volume growth? What are your ambitions in Motor? Improve profitability further or gain more market share? You reported a combined ratio of 86.5% in H1 2017, so your 2020 target of 92% looks too conservative. Would you consider updating this target or are there reasons to believe that the current 86.5% level should trend upwards in the next 12-18 months?)*

We will focus on the strategic ratios and if they change at all, they will change to more ambitious ones. However as at today, we cannot yet communicate what they will be. Please come in November.

Tomasz Kulik:

I would like to say one thing in regard to this question. Expecting that 86% is a representative value for non-life insurance seems seriously unjustified; it means that either something is wrong with the clients or an appropriate number of clients is not addressed, which means that the market is running away. So we will certainly have no ambition to maintain the level of 86%. If we want to treat ourselves seriously and grow profitably then the ratio expressed in the current strategy, 92%, is closer to such a long-term strategy; in the long term it is certainly something that we consider at all times to be a compass, a reference point. Not the 86% profitability, because today such a profitability means the ability to benefit from the very special situation that we have on the market today. But in the long term, it is a profitability figure that no insurer should be able to maintain, because it would mean that it loses customers.

Paweł Surówka:

Another question: *(Cost target: You mentioned replacing the PLN400m cost savings target with a measure linked to premiums. Is there an update on this?)*

Again, this update will be in November, as we have just said. Also considering the sales growth by more than 17%, we thought that specifying the cost reduction in an absolute number is just inadequate. We will want to translate that into an absolute number, however as I've just said, we will maintain this level of ambition in terms of cost control, regardless of our growth.

Do we have any more questions? Then thank you very much.