**Presentation of PZU's financial results for H1 2018 – 30 August 2018**

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

Ladies and gentlemen, let me welcome you to the presentation of PZU Group's financial results for the first half of 2018. CEO Kulik is here with me today and we will guide you together through our performance presentation. I'd like to begin by speaking about the factors that drove our results and then quickly sum up the results in the context of our strategy and then, obviously, we will answer your questions. Let's get into the key factors straight away. This time, they are ordered a bit differently, so the factors that affected business growth, profitability and investments of our capital. The first factor that we are most happy about is gross written premium. First of all, the second quarter was a record-breaking one – in all respects, the best quarter in sales in our history. On the other hand, gross written premium in motor insurance remains strong – in both segments. We are also gaining market shares in life insurance, and we should add that this is on quite a profitable portfolio. Plus, there is solid growth, which supports our expectations to reach our target in health of 27% year on year. When it comes to the profitability elements, the combined ratio is at a good, very satisfactory level, at a stable 80.6% for the whole Group. The operating margin in group insurance, individual continuation, is also consistent with our strategy. Profitability in motor insurance is high, despite the additional provisions that we had to recognize after the Supreme Court judgment in the context of general damages. Therefore, from our point of view, we generated a very satisfactory net result at the consolidated level (for the whole Group) of PLN 2,358 million, PLN 1,425 million at the parent company level in 6 months and PLN 782 million in the second quarter. You must have noticed the second quarter to second quarter growth of more than 50%! At the same time, ROE is at a safe level above 20% (20.8%). In the second quarter it even reached 22.3%, so we are on a good course to reach that 22%+ that we have set as a target. The Solvency II ratio was again well above 200%. We have already reported that the shareholder meeting gave its consent to pay out PLN 2.5 per share, with the current level of 6% dividend yield. So these are our highlights for this period. Now, speaking of the individual groups, or parts of our company, starting from non-life insurance. When we look at the whole non-life market, it is clearly growing. You can see it, the growth is over 7%. Our market share here is 35.9%, considering the fact that the first quarter is not fully comparable to the market quarter. We only have the market data for the first quarter, but our portfolio, some contracts, not many, but significant contracts were moved from the first to the second quarter. So when we account for this shift in the contracts that were already concluded, our adjusted market share is 35.9%, which is still a satisfactory level for us. It is slightly lower than last year, I do realize that. I should have to mention here that we are very careful and very selective about the areas where we want to grow. We can see that the market grew in particular in channels such as the leasing channel and the dealer channel. So these are channels that are structurally not interesting for us, given their profitability, so we did not make any significant efforts to participate in those volumes that we believe are not profitable for our competitors. This is why we focus on growth, as I said, on motor premiums that are satisfactory and that's how we grow profitably and we want to maintain this profitability. 37.5% in motor insurance, and 38.5% for the whole Group, when we add Link4 and mutual insurance. So, in motor insurance, on the one hand, the combined ratio remains satisfactory, even when we consider the fact that we recognized provisions last quarter for additional claims for general damages. At the same time, as I've mentioned, we did not participate in all the possible market growth, selectively and purposefully giving up certain growth areas that we believed were unprofitable. However, we seem to have the optimum balance between market share and profitability and we will continue in our efforts to maintain it, competing first with quality and loyalty of our clients. We can see, effectively, that there are clients for whom price is key and they assess their insurance in terms of price only. So last year, we gained some of these clients when prices started to grow last year. PZU was careful in increasing these prices and, in some instances, we might have offered the lowest price, which attracted some of those price-sensitive customers. Right now, it is possible that these clients left us and we can see that in our portfolio. However, on the one hand, these are not fluctuations that would worry us, and on the other hand, we as PZU do have the ambition not to be an insurer that offers the cheapest products in all price ranges. We want to offer the best products and we want clients to be accustomed to buying from PZU because of the high quality of services and the strength of the partner, also investing heavily in our pricing skills, to offer the best match between the price and risk. I will speak more on this topic in the strategic part. In other non-life insurance, despite some one-time events – even though we have to get used to having some of these events every year – this year we have some torrential rain and hail – but despite these events, we remain in this quite a stable profitability corridor, when it comes to non-life insurance, and we do not expect to have any surprises affecting our profitability further into the year. In life insurance, as I have already said, the best thing is the 45.9% market share; this is the best figure that we have ever been able to achieve. Also, please note our profitability, which is 17%, versus 9% on the market, so you can say that we have nearly half of the entire market, while our margin is twice as high. This goes to show that the PZU Życie's portfolio remains not only the main player on that market, but it is also the entity that continues to grow. This is largely and mainly because of our group insurance products, which showed slight growth, but on this portfolio we are focused on consistent cross-selling efforts in group and individually continued insurance. We have announced these activities in our strategy and they are the core factor to not only maintain this portfolio as it is, but to develop its profitability. In this respect, we would like to turn your attention to the PZU orthopedic injury product. This is a typical example how we want to build on our basic products, such as the individual continuation product, and we can see that with 1.6 million active health contracts, it is an excellent market response to riders of this kind. We believe that we will do more of that, also progressing further with technical solutions: we hope that adding a rider of this kind based on a group insurance product, will become more simple for our clients. Individual insurance – this is where we noted a slight decline in terms of single premium insurance distributed in the bancassurance channel. On the one hand, this was caused by the fact that the result of 2017 was so strong, that this year we had a drop. I also believe that this was caused simply by market conditions on the stock exchange: very strong growth last year and now, since the performance of shares fell, it was less of an inspiration for clients to purchase these products. At the same time, this decline was partially offset by the performance on periodic premiums, or protection products. We should mention here that we have slightly better margins on protection products in this segment; it even improved despite the declining written premium figures. Going forward, PZU Zdrowie: I can only say that we sustained the growth rate that we need to achieve the revenue of 1 billion zloty. 29.7 in terms of revenue, 27.2 in terms of contracts – these are the sales results. At the same time, we continue to build up our operating network, which consists of physicians, hospitals and also pharmacies, in order to be able to ensure the level of benefits that our clients expect of us, given the increasing client groups. Our approach is twofold: on the one hand, we make strong efforts to sell our health products through our life, non-life sales channels, but also on-line, which I will mention in a minute, we will be able to build this performance and expand our presence, not only as a health insurer but also as a health care operator, we will be able to improve our margins, which will be shown in the outcomes of our strategy. The financial area, starting from assets under management, we can say on the aggregated assets of TFI and OFE, we posted a slight decline, also caused by the valuation of these assets. Regarding the material events in this segment, we should say that we merged the Pension Fund Company (PTE) of Bank Pekao and our PTE. We hope we will be able to show the relevant cost synergies. Also, a greater scale of cost synergies should be expected following the merger of transfer agents, our own within PZU CO, which was carved out and merged with PFS, that is Bank Pekao SA's transfer agent. At the same time, we introduced the Sejf+ project on the market. We would like to highlight this fact, because it is an excellent example of how the PZU Group itself can add value to our TFI. This is a typical cash plus product, based on the money market, but also offered with a guarantee of capital extended by the PZU Group and this is a product distributed among others in our branches. We can see that this translates into very strong inflows to this product. The fund's assets under management increased three times since the beginning of this year, so we can see very strong growth here and we hope that by using our brand, PZU, we will be able to compete for this asset management market also in this cash plus area, in which clients are very interested, given the current market conditions on the stock exchange. Also, and this will be an unfinished sentence, we would like to announce a very important initiative that will be implemented in September: in less than three weeks we will present to you a new child of PZU and TFI PZU that we believe will cause a small revolution this year and we hope it will also translate into significant inflows of assets. But this is a very general statement. You will hear more when we announce this initiative, as I've said, at the end of September. The whole campaign will begin in October. Cooperation with banks. I will mention a few initiatives that are implemented very consistently. Right now, we are trying to have our products "on the shelves" of other companies in the Group. On the one hand, those are the products suchas our Voyager or PZU Dom, which are currently sold both in branches and on internet banking websites of Pekao SA and Alior. At the moment, Link4 insurance is also available in the Alior Bank. At the same time, we have introduced the sales of our Multi kapitał product to Alior Bank. We ourselves acquired 50,000 clients, who used non-life insurance through Pekao and Alior Bank. At the same time, we launched the sales project for Konto Przekorzystne accounts. In some of our branches, we also participate in the benefits that the clients obtain in those accounts. As of today, we are able to report 30 million cost savings resulting from this cooperation with our banks and we hope that, by the end of 2020, we will be able to show the 100 million that we announced in our strategy. That would be it in terms of our business review. I will now ask Tomek Kulik to guide us through the results in detail and then we will go back to a strategy review.

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

Thank you. A few words about sales, even though much has already been said. However the key news is that we have growth, both year on year, second quarter on second quarter, and compared to the first quarter. The market is growing and we are growing within the market and this is very good news. When we compare and refer the second quarter to the previous year, this is growth ranging from 3 to 6% in non-life insurance; it is almost 6% and was slightly adjusted by single premium products, the life products that the CEO has already discussed. But what is important for us is that we are growing in regular premium products. We are growing tin the segments that are strategically important for us and in those segments where we have high profitability. However, if we compare quarter to quarter, or the second quarter to the first one, then we cannot forget certain seasonality of sales, which is typical for several product groups. One of those product groups is obviously farm insurance, both the mandatory and individual products, where the differences between quarters reach several hundred millions. We can see a similar difference, albeit on a smaller scale, in household insurance; it is also seasonal throughout the year. In the second quarter, these smaller premiums are partially offset by crop insurance, however these volumes are not enough to achieve a flat trend or a trend that is growing quarter to quarter. So we must keep the seasonality in mind. When it comes to the second quarter then I'd like to reiterate what the CEO said: there were several corporate contracts that were longer than 12 months and that had a considerable impact on the figures, both year on year and quarter on quarter. I would also like to add, with respect to life, that we had nice growth in individual client; in the first quarter especially they were driven by additional payments to the existing or newly established registers in employee pension plans in IKE and IKZE individual retirement accounts. Therefore, this is something that fits perfectly in our strategy: we are growing in periodic premium, regular premium products. From the performance standpoint, there is one basic comment: the second quarter was really, really good. Its effect on the first half performance was more than 780 million, which is more than 55% growth year on year, over than 20% growth quarter on quarter. So let us look at the contribution of the individual business lines: Naturally, there was seasonality in life products after a weaker first quarter, which is associated with a higher mortality ratio, which is a phenomenon observed regularly in the entire population. The portfolio of PZU Życie is a good proxy for this phenomenon. The second quarter rebounded with profitability growth of more than 23% in this segment. In non-life business, profitability is high all the time; combined ratio at 88%, it is slightly excessive when it comes to the administrative expense ratio and I will address this in a minute. However the portfolio profitability remains very solid, which brings us closer to the achievement of our strategic objectives with ROE at 22% plus. In this particular quarter, despite certain negative trends on the stock market, even though the bond market was quite a challenge for us this quarter, polish bond yields increased. Year on year, we have a much smaller portfolio of bonds held to maturity. This HTM portfolio, in which 2.5 billion bonds matured last year, was not rolled over, because we don't want to renew it at today's rates. This raises many challenges for us on the investment side, but despite them, we managed to close this quarter at a very high level and we are very happy with that. Regarding costs that we have already talked about: what happened in the second quarter was the final closure of the incentive program for PZU staff, not just management. Moreover, the management staff is excluded from this scheme. The management has its own incentive package. But we wanted to create something resembling a profit-sharing scheme that will cover all employees. Accordingly, we created a scheme that will deliver a message: "if we achieve and beat the targets set in the strategy then our employees will participate in this success." Since the scheme was finally prepared in the second quarter but it does apply to the entire year 2018, the accrual accounting principle required us to recognize a provision for both the first and the second quarter; therefore, there is no comparability, quarter to quarter and year to year. If we adjust the costs for this one element related to personnel costs, you will see that we hold strong control over costs and we manage to limit expenditures, including IT costs. As you know, we have finished the implementation of Everest and we finally phased out the legacy Insurer system that supported this organization for nearly 20 years. That was a great achievement. As a result, today we do not have the double costs in the IT area. Also, we reduce the costs of supporting other systems, by abandoning external support and transferring support inside the organization by creating competence centers that support these systems. There is plenty of them – several hundred. Our organization is very complex. But because of these activities that we undertake, we are able to manage these costs well and control them. Also, digitization and automation of certain processes, which the CEO will certainly address later, within the framework of strategic elements, at the process side, at the claims handling side, or in operations. We are eliminating additional costs while at the same time being the beneficiary of these redundancies. We have already addressed investments, but I will add a few words. Quarter to quarter, that is 2018 to 2017, despite the more difficult market this year, we are better year on year on equity instruments. We are also better in terms of performance on our stake in Azoty. Last year, that performance was recognized in profit or loss, while this year they are recognized in equity. Because of the change in the account standard, we were able to reclassify that specific exposure that we consider to be a strategic exposure. Therefore, comparability is affected, among others, by this specific asset. In the context of debt instruments, we said that profitability increased in the second quarter and therefore we have slight declines on the instruments, on bonds, that are marked to market. Last year, this trend went the other way. When we add the effect of the due dates in the held to maturity portfolio, we are short two and a half billion in this portfolio, year on year. We have provided this liquidity for the purchase of the 20% stake in Pekao. Two words on solvency, which is also seasonal. There was a decline in 2017 because of the declared dividend. It was confirmed by the shareholder meeting. The CEO mentioned it. We made up for a large part of this dividend in the first quarter: on the one hand by reducing capital intensity, reducing our exposure to market risk, equity portfolio, while on the other hand by growing at the own funds side; this is not an accounting result – this is an economic result. What we are saying is that we generate more capital than we consume. On the other hand, we are the beneficiary of the changes in the yield curve, which affect the valuation of marked to market instruments, but its upward movement at the other end of the curve allows us to discount our long-term life provisions using a higher rate. So we are a beneficiary also in that regard.

Paweł Surówka: Thank you very much. Let us move on quickly to the main KPIs that we want to use to measure our progress in the fulfillment of our strategy. Starting with our main measure, which is ROE. In the first half of the year we had 20.8% and then, as I've said, above 22% last quarter and we believe that with all those development elements that we mentioned, the 22% level, above 22%, is within our reach and we du uphold this goal in the context of 2020. With regard to non-life insurance, or mainly the market share, the most current value is 35.9%. It is slightly below the 38% that we assumed for 2020. It is still within our reach, however at the same time we should clearly state that if the market develops in the direction that we have to make a certain trade-off between profitability and market share then we will certainly choose the ROE and the combined ratio before focusing on getting further percentage points of the market share. However we still believe that this goal remains within our reach. The combined ratio is well below the level that we assumed in the strategy; today it is at 86.8%. This is the administrative expense ratio, adjusted for what Tomek said. Regarding the provision for salaries, the additional salaries resulting from the fulfillment of the 6.5 strategy, we believe that this level will be maintained. The number of PZU Życie clients in life insurance is slightly less than 11 million that we assumed. However, there are several parallel activities in effect that should dynamize our new sales. First, there is a complete change of the structure and mainly the method of remunerating our life agents. Here at PZU Życie we are working on increasing the dynamics of our life agents sales channel and we can see measurable effects of these efforts. A stronger agency channel should bring about a larger presence among small and medium-sized companies. We are counting here on strong cash flows and, as I've already explained we are trying, through appropriate investments in user interface technologies, refresh our products and make them more attractive for the young people. So we expect that, with all these assumptions, new sales will make up for the natural erosion of our portfolio caused by demography and we will be able to rebuild that 11 million by 2020. On the other hand, margin in group insurance is at a safe level above 20% and we are just working on maintaining this margin. The Solvency II solvency ratio is a similar case. We are also comfortable here, above 200%, with a slight buffer if we need capital. At the same time, assets under management from external clients: here we do see the space, the effort that we need to make to achieve the 65 billion that was assumed. On the one hand, we are hoping that the initiatives, such as Sejf+ that I've mentioned, but mainly the initiative that we will announce next month, will help us in our efforts to ensure organic growth within the Group. At the same time, we cannot rule out that we will want to conclude appropriate transactions in order to get closer to that goal and the same applies to the net result in those segments. However we can see that those 200 million is not that far at all. When it comes to the profitability of the main portfolio, so far our margin over the risk free rate is below what we assumed in the strategy. As Tomek has explained, the conditions on the stock exchange do not help, but we also want to be quite selective here. I believe that taking the actual market conditions into account and the level of our investment in the Polish stock exchange, our result is still quite solid and we have been diversifying selectively in order to achieve recurrence of this result, but profitable recurrence. In Health, as I've mentioned already, we are very close and we actually broke through half a billion in revenue and we are showing the dynamics that should allow us to achieve the billion by 2020 by building our own health service establishment; we should be able to manage costs and profitability to suffiient extent to ensure that the EBITDA margin increases to 12%. On the other hand, in the banking segment we are still counting on our banks to achieve their strategies that we hope will translate to us achieving our strategic objectives, both in terms of assets under management and in terms of financial results of the combined banks. At this point, I'd like to say a few words about the banks. As you all know and you have already written about that, the banks announced the completion of the discussions they held between them regarding the analysis of potential cooperation scenarios, including a merger. I'd like to raise two points in this context. The first point is that, as you already knew and see, our strategy has always assumed, even in January 2018, htat we would have two banks in the Group and that was what we focused on. This is why this information does not force our hand to update the strategy. To the contrary – this is our basic scenario and we will continue to implement it. On the other hand, I wanted to say in the context of those talks that the time was quite long. In the meantime you often asked me questions, in this forum and also individually, sometimes investors asked this questions what the extent of those talks was, or whether they would be conducted on an arm's length basis, making sure that shareholders' interests we respected. I was also asked whether those negotiations were sort of a forgone conclusion, whether certain prestige aspects prevailed, some aspects of the greater good of the PZU Group. And every single time we responded, I did, that the talks were conducted strictly on market terms and that we would not agree to any option other than the base scenario, unless, and only if we were certain that they would get us closer to achieving our ambitions regarding the achievement of the banks' results. But also I emphasized that the PZU Group by itself was not able to make such decisions. All the shareholders, mainly the minority shareholders, of both banks, would have to be convinced. And, as you can see, we kept our promise. The talks were conducted strictly on market terms. The banks made a pragmatic decision, I believe, by comparing the benefits and synergies that could result from a merger to the potential risks that always arise with undertakings conducted on such a scale. And they also set them against an alternative, in which both banks implement their own strategies. And I believe that they reached a conclusion that the benefits do not outweigh the risks enough to convince all the shareholders of both banks. I believe that the shareholder structure of both banks played a role. We can see that Pekao's shareholders are strongly focused on dividends, while Alior's care the most about growth. The markets accepted this information as pragmatic and both Bank Pekao's and our own stock price reacted positively. As I've said, for us this means only that at this moment we are fully focused on the implementation of our strategy and we will encourage and require our banks to do so, to deliver their strategies and we will focus on helping them do that, while at the same time focusing on what in some conversations with you we call vertical synergies, namely those synergies that we are able to generate between us and our banks, for example in the area of bancassurance. The last slide: a few words about the actions, let's say not financial, but rather strategic, related to the implementation of our strategy. We have talked about the four pillars on which we are based. One of them is the digitization of processes, and here I would like to say that it is precisely in the area of things like artificial intelligence, used for example in the claims handling process, which greatly increases our capabilities, both in terms of faster customer service or even fraud detection. So we can see great opportunities for using artificial intelligence. So we decided not to wait and build these skills in-house, but instead we enter into strategic cooperation with selected startups, which supply us with the best solutions and we can see measurable success in selected projects and we think that, in particular in terms of claims handling, claims adjustment, we will be able to digitize and robotize our processes to a significant extent. Video inspection is an additional concept in this campaign. Also, interactions with clients. At the end of this year we will launch the mojePZU portal. At the moment we are carrying out the testing of the project, which was undertaken some time ago. It will be a portal that consolidates all our products, both life, property, investment and ultimately also banking products. We hope that it will become a true financial dashboard, helping our clients move around our universum, but at the same time it will be very strongly oriented towards cross-selling. You can already see the front-end, the open part of this portal, because it is the pzu.pl website, which has been launched in the meantime. You can all see it on your mobile devices. I think that it is a good indication of the directions these changes are going. This site is, I believe, much more intuitive, much leaner and also very strongly sales-oriented, compared to the old site, and I'd invite each of you to see it for yourself. The increase in cross-selling, in addition to those activities that are supposed to help the client access our products. We are constantly developing new products that are to address the needs of our clients. The most recent example are the new health products: Ja+ [Me+] and PZU Plan na zdrowie [PZU Plan for Health]. For the first time, we are also including health insurance in the direct channel and we are hoping that this will also boost our productivity. We've launched the Data Lab project, which is about creating a Big Data analytical ecosystem. We are joining some Accelerator projects, for example together with the MIT, Massachusetts Institute of Technology, trying to acquire the best startups in the field of insure tech. And, last but not least, we uphold our claim that this year we will have a mass roll-out of the PZU GO project for all our clients. Let me remind you that this should serve on the one hand as a device that will actually reduce the number of accidents on Polish roads, but at the same time it will also be a preventive tool giving feedback to the driver on his driving style in real time and – if the client so wishes – it will offer actual discounts on insurance, if his or her driving style allows it. Right now we are working on improving our skills in algorithms that are adapted to those various situations that we experience in daily life. Our employees are using these devices daily and we have the first data: we collect the data that will allow us to fine-tune the algorithms. I'm not afraid to say that these solutions that we will introduce on the Polish market at the end of the year, will be the first of their kind in the world. And I believe that it shows, just a little bit, how PZU is gradually changing from an insurance company to something more of a technology company. If you allow it, we even wanted to share a short film with you here, showing the results of our most recent tests that we conducted with the latest PZU GO models. We know that the life of an investor is difficult. You have to read tables, analyze trends, and so on, so we decided to let you have some fun with this short film that we will show you for a moment.

Today we are on the track in Poznań, where we are testing a solution that will automatically detect a collision or an accident. The PZU GO is a beacon device connected to a mobile application running on a smartphone. It is an innovative solution, small and easy to install in every car. The average age of a vehicle of PZU's clients is about 10 years. In the event of an accident, PZU will send help and support to the injured party. The first simulation is a car crossing a transverse obstacle. These were tests. Thank you very much. Please watch on. The next simulation is a typical parking accident. The third one is a collision with a solid obstacle. The fourth simulation is the most common road collision in Poland, where another vehicle cuts in front of the car. We detected several collisions automatically and the consultant called the driver to check if everything was OK, so the solution works and soon PZU will be the first company in the world to roll out this product to mass clients.

Paweł Surówka: Thank you very much. I understand that there are no questions. So, we didn't show this to you just to entertain you, but also to show you a little bit of what the real challenge of this project is. It is about creating an algorithm and fine-tuning the sensitivity of the device so that it does not raise an alarm in situations such as going down from a curb, which leads to some kind of acceleration, but is not pose a threat to the lives of passengers. On the other hand, we don't want it to be a device that calls customers constantly and disturbs them. It should be sensitive enough to detect not only those obvious crashes, such as, for example, when a vehicle hits a tree, but also those most frequent accident like the one that was shown, when one car drives into another one. The challenge is for GO to show that the other car was also in an accident, the one that was hit, where there is no such frontal acceleration. What we need to achieve is to finetune the lateral shake so that the system recognizes that something happened that can pose a threat to passengers. So, when all these tests and our conclusions from all the devices that are already in use in Poland today are ready, it will be our "secret sauce" that we hope to be able to offer value to our clients – give them real value in the form of protection at the moment when they would have an accident. But we have the first question already.

Asker: Good morning. Congratulations on your performance. That was a good six months. However, I wanted to ask you about something else than performance. In one of the slides in your presentation you wrote about the Supreme Court Judgment and that a justification was issued. So, can we get a broader commentary from you about how you currently assess the level of losses for the market, given that you have definitely more information than after the first quarter of the year? Thank you.

Paweł Surówka: I can say a few words about this, but I will also ask Tomek to address this issue. So, on the one hand, we have the justification and we do have the first figures from the actual claims that were reported to us. As of today, we cannot see any dynamics that would force us to revise the provisions recognized in the first quarter one way or another. I think that we will monitor this situation and analyze how it will affect the actual behaviors of clients. Also, I'd like to ask you to show understanding; we will not make too precise efforts to forecast the dynamics, because to some extent we have no influence on that.

Tomasz Kulik: Let me remind you that there are several important matters when it comes to the provision itself. The major element in estimating the potential impact on performance or on the market, or on PZU, is the element related to disability after a claim and as a result loss of relationship with the person who suffered considerable damage as a result of the event. The verdict says, no more and no less, that in each event there is an injured person and the relationship between that person and the household members was weakened significantly, because the judgment also specified the kind of relationship we are talking about. We are talking about the closest degree of kinship only, such as parents, children and that's about it. The justification also stated that there would be no payments for a deterioration of quality following such an event. We are talking about instances, in which that relationship is virtually gone, when the person survives but is in a vegetative state – these situations are very similar to death as far as its consequences are concerned. It's not about worse quality of relationships but loss of such relationship as a result of an event. Considering how we approached this provision, as of today we can see no need to restate it up or down. We are looking how the notifications covered by the provision are developing. We are still analyzing that and today it would be difficult to say anything with certainty on how these claims are developing based on the notifications, whether they are sufficiently representative in one direction or another. So we will maintain this level for the time being. If nothing significant happens till the end of the year, we will keep this provision. And we will continue to monitor the situation and react accordingly.

Asker: One more question, regarding the life segment. In the first half of the year, slaims paid were very low in relation to the collected premiums. This is a question that we asked already after the first quarter, sort of, but we have a second quarter now and the claims remain low, which would indicate a lower mortality in the first half of the year? Or was it a change in products? What is behind this good performance? Is it permanent or simply a statistical effect?

Tomasz Kulik: This is not a statistical effect. Let me remind you that when it comes to our product, our life products in general, death is not the only risk we insure. We have a whole range of riders and products. Yes, death is the key risk, which has the most significant impact on our result. But on the other hand, we have, for example, hospitalization, permanent impairments, surgical operation, and so on. The CEO talked about a new orthopaedic supplement, which has been implemented and is very popular. We are working constantly on reducing the loss ratio and its impact on our results. Accordingly, with regard to mortality, we are not able to go against natural processes effectively. We are trying to be innovative and we have shown this innovativeness here. But with respect to the structure of the product, we are not just trying to attract clients by giving up margins, but rather to offer something that is profitable both for us and for the client and today these solutions enjoy great interest. Today we are able to effectively upsell additional riders to the main policies, usually in our branches. Therefore, these are permanent trends.

Paweł Surówka: Absolutely, and you can see it clearly, even in the first quarter last year. Sometimes, mortality is high enough to make a big effect on our profitability and it often is at the end of a year and in the beginning of another. However, other than those really large macro trends, the basic activities of our life team have an important effect, where on the one hand we have new sales, we are adding riders to that main product, we are selling more to small and medium-sized companies, but we are also working on the profitability of group products in life insurance, where for some time now we are working on the groups that we consider structurally unprofitable and where we talk to clients to achieve profitability that we consider stable. Therefore, it is also the work of our employees in the corporate branch, who do not just renew it automatically but also continue to work on its profitability and we are trying to provide them with appropriate incentives.

Andrzej Powierża, Dom Maklerski Banku Handlowego: I would like to ask one detailed question, per usual. There is a part of your results that is mysterious after the combination with the banks – the investment result, but I mean one detailed position, i.e. the net investment income. We have foreign exchange differences there, which are negative 176,000,000 in this quarter. If I understand correctly, this position contains the consolidation of the FX result of the banks (...)

Tomasz Kulik: No, it does not. Let me explain. Because of the method of presentation, what you are talking about and what you named it is an element related to the negative differences in our debt position. That is something that we tried to talk about many times. We are not speculating on currency today. We are far from that. Speculation on currency costs a lot, first: when someone makes a mistake, second: even if a mistake is not made, it still costs a lot of capital. So this is not something we would do at PZU. We are naturally trying to balance our position expressed in the currency by investing the exposures that we have on the liabilities side, by making active decisions in the correct currency, investing in the Euro, investing in dollars, if we are talking about technical provisions, that is, we are almost equal. When it comes to the presentation method, we are talking about it this way. We are looking at the performance on individual instruments, including the FX effect. For example, when we talk about bond strategies in the Euro, they consist of two elements, the currency exchange element, the yield itself and the result on the whole strategy. However, since we do not speculate on the currency, the additional element that absorbs, cleans the impact of appreciation or depreciation of the base currency, is our exposure to the bonds that we have issued, and which are a natural offset for us for all these changes on the exchange rate side.

Paweł Surówka: It is a natural hedge, where the item you mentioned is one of the legs.

Andrzej Powierża: I do understand that. However, when we look at the banks' FX result – where is it in your statements?

Tomasz Kulik: And would you please tell me what the banks' FX result is?

Andrzej Powierża: Mainly their result on relations with customers, simply the spread. It was around 190,000,000 this quarter, from both banks.

Tomasz Kulik: This is in investment income, but we show it separately as income. We are talking, as I understand, about interest income, aren't we?

Andrzej Powierża: No, this is not interest income. Revenue from the currency exchange business for the banks' customers.

Tomasz Kulik: So if we talk about the margin, it is simply an integral part of the margin that the bank earns on those transactions.

Andrzej Powierża: Yes, but the question is where is it presented in your report, because I was convinced it was in that line item, more or less where the commissions are, because it is definitely not in fees and commissions.

Tomasz Kulik: Then I would have to understand it better. I am not able to answer this question.

Andrzej Powierża: So, my second question is about the synergies. The 30 million that you have achieved with the banks, cost synergies, as I understand it. But in the presentation there were more, I would say, revenu, sales benefits in your presentation. So where did these cost savings come from? Where were you able to achieve them?

Paweł Surówka: Well on the one hand, we have procurement synergies. Something that we can achieve without affecting the responsibility of the individual groups, meaning that each of us has to conduct its procurement policy responsibly. Those are the elements where we are able to optimize our cost position within the Group; servers can be a good example here. On the other hand, there are IT elements. And here I would say that we are able to achieve these synergies due to a better harmonisation of our procurement offices. The merger of these two transfer agents was also a good example, where we believe that by separating our operations center we will be able to remove so much of the redundant costs that as a whole we will have better services at a lower price.

Asker: I have two questions. About the investment result that has been mentioned. There was also quite a significant contribution of the valuation of properties. The question is to what extent it was affected by currencies and to what extent by a change in valuation parameters of these properties?

Tomasz Kulik: If we are talking about real estate, let me remind you that in our balance sheet investment properties are measured twice a year, that is at the end of six months, at the end of the year. Therefore, we are dealing with an effect resulting only from the process, which must be properly reflected based on the requirements of the standards. What is it about? When we measure our portfolio at 31 March and 30 September, that is at the end of the quarters, in which there is no appraisal report, we are dealing with a situation, in which, at the liabilities side, we have a position that was marked to market at the rate from the end of the quarter. On the assets side, we have a position that, according to the standards, must be measured at the rate from teh most recent valuation date, or from the end of the year, from the end of the 6-month period. The difference between the currency within that period, or within the quarter, creates a temporary FX difference on properties that, depending on whether the FX rate is growing or falling, recognizes a purely accounting entry, which is an unrealized positive or negative result, which then rebounds in the following quarter. And again, depending on the quarter, on how much the exchange rate is moving, it can generate a temporary difference of over 100 million on our portfolio, which, you should remember, is about 2.6 billion zloty today.

Asker: I have one more question about your measures, the strategic measure here in the investment division. When you are talking about the 65 billion of assets under management from external clients, should be understand it to be the PZU TFI assets or perhaps together with Pekao Investment Management? And a question if there are any processes, acquisitions or mergers, happening within this segment. What is your plan currently?

Paweł Surówka: We have announced it as PZU assets and we report it as such; this is why we are showing both figures here. It is true that within the Group, if our assets increased by the Pekao TFI, which is in our group... But we will consider this goal fulfilled only if these assets are within PZU TFI, whether through a merger with another TFI or through our own activities. I believe that the plan of merging the TFIs remains, certainly, on the table. It is obviously reasonable. I think we can say that it slowed down a little, by one percent, because the banks were quite significantly involved in the project we mentioned. It absorbed their resources and above all absorbed the team, which deals with these things. I hope that, after we have completed the project, the analysis of the banks, we will now be able to come back to this topic. However, we do not rule out potential acquisitions in this sector in general.

Andrzej Powierża: Excuse me, referring to what you've said, the banks also calculated before that a merger would be beneficial but later they just could not agree how to split the benefits from the merger. Can't you see any risk that the same will apply here? I mean you can see the benefits of a merger, but the problem is how to split the benefits from the transaction between PZU and Pekao?

Paweł Surówka: Well, from my point of view a merger, if it made sense then I believe it would make sense for one entity and the other. But I do not present it as a done deal. In addition to the fact that we are talking about the PZU Group and about the parent company, which is PZU, we are still taking about independent, stock exchange-listed entities, with management boards that have the responsibility under the Commercial Company Code to enter only in transactions that increase their value for shareholders, all shareholders. That is why this is not a transaction that we can do just by meeting one afternoon and saying "let's just combine our TFIs". We need to have a real valuation and it all must come under some structure that is satisfactory to all. It is true that in the context of MIFID 2, the presence of the TFI for banks becomes ever more important – at least that's what we can see as a trend on the market; this is why I certainly see this need for a bank. The question to us is whether we will be able to find a solution that will be satisfactory to both us and our banks. At the same time, you need to say that we've managed to show this subject that we are able to enter into deals that are satisfactory to all, I believe, with respect to PTE and the transfer agent, so I can't see any objective reasons why should it be impossible for TFIs. But I do agree: it is not enough to just want it.

Asker: I would like to go back to slide 31, with the segment breakdown. I can see that currently the only unprofitable segment is motor TPL in corporate insurance. The question is whether it can be reversed in the future, because, as far as I understand, our margins in motor insurance are quite high. Looking at the core strategy, you have core 92, so do you think it will be possible to take this segment into the positive?

Tomasz Kulik: This segment suffered excessively in the second quarter. Please remember that in the first quarter, the ratios there were at 95-96. However the second quarter was difficult for corporate TPL. There was one technical thing, resulting from the cleaning of claims cases, which was necessary because of the phase-out of the insurer system. So in this process, certain things that were allocated to the mass segment were artificially reclassified, which contributed more than ten million if we have to quantify it. The second thing that, we could say, was a regular event, even though unusually high, was several annuities that were submitted in this segment in the second quarter. As a result, we also recognized IBNR annuity provision. So you could say those were non-recurring events; we cannot see anything that would require a reflection on the pricing side. Our price is well calculated and this segment should return to its natural profitability in the third quarter.

Asker: And how could we quantify that second effect as well?

Tomasz Kulik: That was another ten or more million zloty.

Paweł Surówka: If you'd allow me, we still have several questions asked online. The first one is from Raiffeisen: Congratulations on your investment result. At the moment, is the value of drought compensation claims a significant value, compared to the scale of PZU's business? Can you give a few details on the terms of reinsurance on account of drought?

Tomasz Kulik: Concerning drought – yes, it was a big event. However, it does not affect our results in any way above average. The third quarter results are connected to what is happening in Poland in general, when it comes to the clash of various types of atmospheric fronts. This year we all could feel it: a drought, then violent rain, storms, hail, winds that affect how Poland is doing and what damages PZU is facing in this respect. However, these are not the values that are comparable, for example, to the ground frost in 2015 or 2016. As far as reinsurance is concerned, it is catastrophic reinsurance, so after a certain limit is exceeded, reinsurance engages automatically and takes one hundred percent of the costs off of us.

Paweł Surówka: Next question, J.P. Morgan. Two questions. The first one: there is a worrying decline in the motor insurance market share in Q1 2018. Can you see more intensive market competition on the market and potentially pressure on margins in the following quarters? I think you have largely responded to the second point. It was the impact of the Euro on real properties – I believe we can consider this point covered. In terms of the market share in the first quarter. I can understand the question, but I must say: we are somewhat less worried about the market share. If we wanted to, we could easily expand our market share this quarter. However, it was our conscious decision, given that we want to maintain our profitability at the level that we set for ourselves in the strategy. This is why, we consciously did two things: we did not participate in the strong growth that occurred in the leasing channel and the dealership channel. As of today, they seem structurally unattractive to us, at least on the terms that we have seen. We had the impression that the competition was chasing volumes, but these risks will not be profitable for them for a longer period of time. So we decided not to chase these volumes with them. We will work on these channels, but on our terms, hoping that we will be able to do so at our expected profitability levels. At the same time, as I said at the beginning, there is a certain pendulum, there is a certain fraction of customers on the market who choose insurance based on the lowest price only and they are not attached to any specific brand. There was a fraction of those customers who flowed to us at that time, when the market ran up the prices quite significantly and we were more restrained and hence had the lowest price. Since then, some of these customers have left us, but that is not worrying, because it’s not the segment that we want to fight for. Going forward, I believe that the market share and the profitability are two things that we will want to balance. However, we do see the market’s efforts to boost volumes. We can also see that they do have profitability margins to work on the price a little more. But we are trying to maintain a healthy balance between market share and profitability. I think that the premium, the written premium and our technical result, have shown that we are capable of managing this balance quite well. We are well over time, so if you allow us – we are at your disposal, as usual, when it comes to questions asked by e-mail and I would also like to thank you very much for coming. Thank you very much.”