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Press Release

For the first time in the history PZU tops PLN 20 billion in gross written premium

- **PZU Group's gross written premium climbs 10.1% y/y to a record-breaking PLN 20,219 million**
- **Administrative expense ratio for its Polish insurance companies edges down by 0.7 p.p. y/y to 8.1%**
- **Consolidated operating profit rises to PLN 3,034 million compared to PLN 2,940 million in 2015 (up 3.2%)**

The PZU Group generated record-breaking growth in gross written premium while simultaneously improving operating profit year on year, expanding its insurance market share and strengthening its position in the banking sector.

"Last year abounded in challenges, ambitious projects and significant successes. We are filled with the passion of a startup and the strength of a financial giant. PZU Group's robust financial results in 2016 flow from unwavering strategy execution. In line with our strategy, we focused on building our position in our core insurance business. By tapping into improving labor market conditions and our effective structures, we sold in excess of 700 thousand more motor insurance policies than in the previous year. As a result, our non-life market share rose by 3.0 p.p. y/y while gross written premium surged up by 20.4% y/y, thereby achieving a growth rate that has not been seen in PZU for years. We bolstered our foundations and we mapped out directions of activity so that in the next few years the PZU Group will become not only the largest financial group in Central and Eastern Europe but also the most innovative, stable and profitable group offering products in insurance, health, asset management and banking", says Michał Krupiński, CEO of PZU.

In 2016 PZU generated gross written premium of PLN 20,219 million, signifying 10.1% y/y growth in gross written premium. The largest sales growth rate was recorded in motor insurance, which reported 34.4% y/y growth to PLN 7,050 million. At the same time, the administrative expense ratio (for the Group's Polish insurance companies) edged down by 0.7 p.p. y/y to 8.1%.

Paweł Surówka, CEO of PZU Życie SA says *"Our leading position in life insurance also testifies to PZU's strength. We do not intend to slow our pace. In the course of this year we will extend our footprint on the life insurance market among small and medium enterprises. We are constantly tweaking our health offering. Our client base has grown by 300 thousand. We distribute our products through 1,800 branches to more than 1.3 million clients",* adds Paweł Surówka.

In 2016 the PZU Group's consolidated operating profit was PLN 3,034 million compared to PLN 2,940 million in 2015. Net profit attributable to the parent company's shareholders was PLN 1,947 million with ROE at 15.0%, compared to PLN 2,343 million and 18% in 2015.

"*In 2016 we experienced growth in the Group's gross written premium of PLN 1,860 million y/y,* *while simultaneously maintaining rigorous cost discipline, which translated into cutting fixed costs by almost PLN 80 million. The net profit generated of PLN 1,947 million was under the influence of higher damages in agricultural insurance in the first half of the year and the revaluation of the equity stake in Azoty Group, which was fully recognized in the financial result. In parallel, it would be worth pointing out that the implementation of the levy on financial institutions' assets in February 2016 affected the comparability of financial data"* - says Tomasz Kulik, CFO of PZU.

On 8 December 2016, PZU, in a consortium with PFR, signed a share purchase agreement (SPA) with UniCredit S.p.A. to acquire a 32.8% equity stake in Bank Pekao S.A. for a total amount of PLN 10.6 billion. This transaction will probably be finalized in Q2 2017.

"*Pekao is a high quality investment-grade asset characterized by high profits and a stable dividend payout ratio. Considering the recommendation formulated by the Pekao Management Board regarding the planned dividend payment for 2016 and the price paid for PZU's stake, the estimated dividend yield will surpass 7%",* says Michał Krupiński, CEO of PZU SA.

From the time of signing the SPA, Pekao's capitalization has also surged. In February 2017, its share price topped PLN 142, implying that the equity stake acquired by PZU has grown by more than PLN 1 billion. Incorporating Pekao in the PZU Group also substantially expands its distribution potential for insurance and investment products. Pekao and Alior Bank's sales potential corresponds to roughly 9.5 million clients and 2,700 branches. By adding its cross-selling capacity in the insurance, investment, savings and banking businesses into the mix, PZU may obtain a number of capabilities that may generate added value at the overall Group level.

Detailed recap of PZU's 2016 results

The following factors exerted a positive influence on the PZU Group's financial results in 2016:

- higher gross written premium in motor insurance in the mass and corporate client segments;
- rising profitability of group and individually continued insurance;
- market share expansion in life insurance with a periodic premium and non-life insurance;
- sales growth in health care;
- declining administrative expenses in Poland's insurance segments thanks to maintaining cost discipline.

The following factors exerted an adverse impact on the results in this period:

- lower profitability in the corporate insurance segment due to the higher loss ratio;
- adverse consequences of ground frost in crop insurance;
- the investment result was down substantially, mainly due to the revaluation of the equity stake in the Azoty SA Group;
- implementation of the levy on financial institutions in 2016.

The commencement of consolidating Alior Bank in December 2015 and Alior Bank's acquisition of the spun-off portion of Bank BPH involving its core business materially affected the comparability of the results and total assets and liabilities year on year. The bank segment contributed PLN 691 million to the PZU Group's operating result in 2016. The PZU Group's total assets and liabilities rose by approximately PLN 20 billion and non-controlling interests rose by nearly PLN 2 billion (as at 31 December 2016), chiefly driven by Alior Bank's merger with the spun-off portion of Bank BPH that transpired on 4 November 2016.

Gross written premium

In 2016, the PZU Group collected gross written premium totaling PLN 20,219 million, i.e. 10.1%

more than in 2015. This is the result of sales in the mass client segment being up by PLN 1,433 million (net of intersegment gross written premium). The premium income in the corporate client segment also rose (by PLN 371 million), chiefly including motor insurance. The group and individually continued insurance segment (in conjunction, among others, with the development of group protection insurance) also contributed to growing premium income. International companies also reported higher gross written premium y/y.

Investments

In 2016, the PZU Group's net investment result was PLN 3,587 million compared to PLN 1,739 million in 2015 (up 106.3%). The higher result is above all the effect of incorporating the activity conducted by the banking sector (among others, interest income, also including loans and the trading result) as a consequence of commencing Alior Bank's consolidation. After factoring in interest expenses and precluding the impact exerted by Alior Bank and the equity stake in the Azoty Group, its net investment result in 2016 was PLN 1,454 million. It was higher than last year's result by PLN 74 million.

Better performance of equity instruments due in particular to improved market conditions on the Warsaw Stock Exchange was recorded in 2016 – the WIG index was up 11.4% compared to its 9.6% decline in the corresponding period of last year. In part, positive developments were offset by the fall in the result on taxable financial assets measured at fair value following the downturn in the prices of Polish treasuries.

Claims and benefits

In 2016, net claims and benefits and the incremental growth in the PZU Group's provisions totaled PLN 12,732 million, i.e. they were up 7.4% over the corresponding period of last year. The growth in claims and benefits in the group of insurance for other physical losses in the mass client segment, chiefly including subsidized crop insurance and the growth in claims and benefits in motor TPL insurance in the mass client segment, primarily due to the expanding portfolio of insurance contributed to the movement in net claims and benefits.

Administrative and acquisition expenses

In 2016, the Group's administrative expenses were PLN 2,843 million compared to PLN 1,658 in 2015, i.e. they were up 71.5% over the previous year. The PZU Group's expenses rose by PLN 1,199 million upon commencing the consolidation of Alior Bank. At the same time, a positive effect was recorded in comparison to last year in the insurance activity segments in Poland due to maintaining high cost discipline.

In 2016 acquisition expenses rose by PLN 237 million compared to the corresponding period of the previous year and came in at PLN 2,613 million. This increase was driven in particular by higher sales in the mass client and corporate client segments.

Profit

In 2016, the PZU Group generated a gross result of PLN 3,031 million compared to PLN 2,944 million in the prior year (up 3.0%). Net profit attributable to the parent company's shareholders was PLN 1,947 million compared to PLN 2,343 million in 2015 (down 16.9%).

Equity

At yearend 2016, consolidated equity hit PLN 17,127 million, up from yearend 2015 (13.3% growth). The growth in consolidated equity pertained to non-controlling interests that, in connection with Alior Bank's rights offering in H1 2016 and the merger with the spun-off portion of Bank BPH, among others, totaled PLN 4,117 million, up 87.6% compared to yearend 2015. The equity attributable to the equity holders of the parent company remained steady at a level similar to the previous year, coming in at PLN 13,010 million.

ROE

In 2016, the return on equity attributable to the parent company (PZU) was 15.0%. ROE was down by 3.0 p.p. compared to the previous year, chiefly due to the revaluation of the equity stake in the Azoty SA Group offset in part by the positive contribution made by Alior Bank's profit to the result attributable to the parent company's shareholders.

Solvency II

On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced new capital requirements known as Solvency II into the Polish legal system. As at the end of Q3 2016, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 252.6%. Such a high solvency ratio places the PZU Group among insurance groups with the greatest capital strength.

Solvency II figures at yearend 2016 (according to art. 412 section 1 and art. 489 section 3 subsection 1 of the Insurance Activity Act) will be available in the Group's annual solvency and financial condition report drafted in accordance with the principles of Solvency II to be published no later than by 1 July 2017.

PZU Group financial highlights:

No.	Item (000s PLN)		12m period ended on 31 Dec. 2016	12m period ended on 31 Dec. 2015
1.	Gross written premium		20,219	18,359
2.	Net insurance claims and benefits and movement in technical provisions		-12,732	-11,857
3.	Investment result, including:		3,587	1,739
3a.		Net investment income	4,165	1,571
3b.		Net realized result and impairment losses	-935	-223
3c.		Net movement in the fair value of assets and liabilities measured at fair value	357	391
4.	Interest expenses		-773	-117
5.	Net profit, including:		2,417	2,343
5a.		profit attributable to equity holders of the Parent Company	1,947	2,343
5b.		profit attributable to holders of non-controlling interests	470	-
6.	Equity		17,127	15,118
7.	Financial assets and investment properties		107,038	90,401
8.	Total assets		125,345	105,397

Additional information:

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