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PR Release

## **PZU Group's record-breaking 2017**

**For the first time in history net profit surpasses EUR 1 billion (PLN 4.2 billion)**

**Gross written premium grows to a record-breaking level of PLN 22.8 billion**

- **Gross written premium climbed 13.0% y/y to PLN 22.8 billion.**
- **Market share expansion in Poland** in non-life insurance on direct activity by 0.5 percentage points y/y to **35.8%** and in periodic premium life insurance by 0.8 percentage points y/y to **45.8%** (data as at the end of September 2017).
- **Rigorous cost discipline.** The administrative expense ratio in the PZU Group's insurance companies in Poland fell 1.1 percentage points y/y to **7.0%**.
- **High profitability maintained in non-life insurance in Poland despite the occurrence of mass weather-related claims.** Combined ratio improvement of 5.7 p.p. y/y to **89.3%**.
- The **profitability of life insurance** in group and individually continued insurance policies **maintained above 20%**.
- **Net profit growth.** PZU Group's net profit skyrocketed **78.3%** y/y to **PLN 4.2 billion**.
- **ROE above 21%.** The parent company's return on equity (ROE) was **21.1%** versus 14.9% at the end of 2016.

### **Group's condition**

Paweł Surówka, CEO of PZU SA:

*„It was a superb year for PZU. 2017 sales surpassed the PLN 22.8 billion watermark, the highest level ever achieved by the PZU Group. Concurrently, we generated the highest net result in our history of PLN 4.2 billion. We thereby shattered all our previous records to date.*

*Banks, especially Pekao SA made a significant contribution to the Group's performance. As a result of its acquisition, our assets topped PLN 317 billion.*

*With its ROE above 21% and capital coverage materially above 200%, PZU is one of the most profitable and stable insurance companies in the world.*



*Such good results in 2017 form a rock-solid foundation for the ambitious goals the Group has set for itself under the #newPZU strategy. By executing this strategy, we are endeavoring to ensure that PZU will become the leader in new technology, including telematics, mobile solutions, artificial intelligence and big data.*

*PZU's financial strength, its constant drive to perfect its products, its consumer care and social commitment mean that our 22 million clients can rely on us."*

## **Insurance**

*"For the second year in a row the PZU Group has posted above average, double digit growth (+13.0%) in gross written premium. Simultaneously, the number of motor TPL policies in force has edged up by 0.2 million to 9.1 million. Our investment result made a positive contribution to the Group's result; it shot up 52.4%% to PLN 1,855 billion (net of banking activity), stemming from the significant improvement in equity portfolios and securing high margin corporate exposures.*

*In line with our strategic targets, the growth in gross written premium volume was achieved while applying rigorous cost discipline (the administrative expense ratio of insurance segments in Poland fell 1.1 p.p. yoy to 7.0%) and showing care about the quality of the risks acquired for the portfolio. The COR ratio declined 5.6 p.p. yoy to 89.3%. As a result, the Group's consolidated result shot up 78.3% yoy to PLN 4.2 billion. Such robust profitability on a sharply rising portfolio serves as confirmation of our high level of operational efficiency and the enhanced effectiveness of our management structures when it comes to leveraging the magnitude of our business. We are also pleased with the sustained profitability of life insurance in group and individually continued policies above 20%. The commencement of Bank Pekao's consolidation on 7 June 2017 also contributed to the comparability of data", says Tomasz Kulik, CFO of the PZU Group.*

## **Health**

At the end of 2017 the clients of PZU Zdrowie had the opportunity to utilize the medical services offered by more than 2,000 centers in 500 cities (physicians in 140 specializations). PZU Zdrowie also has more than 60 of its own centers that cooperate with 1,200 physicians (in 2017 Revimed sp. z o.o. and NZOZ Trzebinia were acquired).



*Health is one of the PZU Group's fastest growing lines of business. In just 2017 revenue climbed more than 25% to PLN 456 million, with our client numbers exceeding 1.5 million. Our EBITDA margin improved by 1 p.p. to 8.2%.*

*We take an optimistic view when it comes to generating PLN 1 billion in revenues in the health business during the execution of the #newPZU strategy by tapping into the full potential the PZU Group's client base offers, by developing health insurance products and by activating our sales network.*

*In the long-run we will build our competitive advantage by offering modern patient service processes while onboarding the best practices on the market, innovative technological and medical solutions and high standards of service quality, including VIP care. The rollout of our proprietary medical center network will also be continued by pursuing greenfield and M&A opportunities", adds Roman Pałac, CEO of PZU Życie.*

## Detailed recap of PZU's results in 2017

The following factors in particular exerted a positive influence on the PZU Group's financial results in 2017:

- higher gross written premium in motor insurance in the mass and corporate client segments, mainly following an increase in average premium and the number of insurance policies and in individual insurance, in particular unit-linked products in the bancassurance channel;
- high profitability of the motor insurance portfolio and growth in the results of the mass segment's property insurance, which is chiefly linked to the lower loss ratio in agricultural insurance (in the previous year there were numerous claims caused by calamities - the adverse consequences of ground frost);
- better performance in the banking segment following the high level of Alior Bank's sales of loan products supported by the favorable business climate;
- higher investment income, in particular due to better market conditions on the Warsaw Stock Exchange (including the higher valuation of the equity stake in Group Azoty).



The following factors affected the results adversely in this period:

- lower profitability in the corporate non-life insurance segment, mainly in the non-motor insurance product group following the reporting of a few claims with high unit values;
- lower profitability in group and individually continued insurance (yoy) as a result of a higher loss ratio in protection products driven by the increase in the frequency of deaths in Q1 2017 (confirmed by the Central Statistical Office's data concerning mortality across the entire population) and as a result of the absence of the non-recurring factor from 2016 involving an update in the assumptions on future disbursements of benefits applied to the calculation of provisions.

The commencement of consolidating Pekao in June 2017 materially affected the comparability of the results and total assets and equity and liabilities y/y. This transaction transformed the PZU Group from being an insurance group into a financial group. The total balance sheet value surged mainly for this reason by more than PLN 192 billion compared to the corresponding period of the previous year (to PLN 317 billion), while non-controlling interests totaled PLN 23.0 billion (as at 31 December 2017). From the time of the commencement of its consolidation in June 2017, Pekao contributed PLN 1,502 million to the PZU Group's operating result and PLN 1,750 million to the banking segment's operating result.

### **Premiums**

In 2017 the PZU Group collected gross written premium of PLN 22,847 million, i.e. 13.0% more than in the corresponding period of the previous year. This is largely the result of higher motor insurance sales in both segments (PLN +1.6 billion). The premium in the individual insurance segment also rose by PLN 490 million, driven mainly by higher sales of unit-linked products in the bancassurance channel. In addition, the international companies posted premium growth of PLN 234 million.

After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 21,354 million and was 14.7% higher than in 2016.

### **Claims and benefits**

In 2017, net claims and benefits and the incremental growth in the PZU Group's provisions totaled PLN 14,941 million, i.e. 17.3% growth over the corresponding period of the previous year, which was linked to the growing magnitude of business. The increase pertained in particular to the class of



insurance for losses caused by the forces of nature, individual unit-linked products in the bancassurance channel and motor insurance.

### **Administrative and acquisition expenses**

The PZU Group's administrative expenses in 2017 were PLN 5,364 million compared to PLN 2,923 million in the corresponding period of 2016. This growth resulted largely from the commencement of Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations (on 4 November 2016). The banking segment's administrative expenses rose PLN 2,464 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 10 million lower compared to the previous year. Their movement ensued from the fall in project-related operating expenses partially offset by higher expenses in bancassurance as a result of the change in the rules for compensating policyholders under group agreements.

In 2017, acquisition expenses went up PLN 288 million compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass client and corporate client segments.

### **Investments**

In 2017, the PZU Group's net investment result<sup>1</sup> was PLN 8,502 million compared to PLN 3,511 million in the corresponding period of 2016 (up 142.2%). The higher result in 2017 is primarily the outcome of the higher investment income earned on banking activity following the commencement of consolidation of Pekao, but also the higher net result on listed equity instruments, especially due to the improvement in the market conditions on the Warsaw Stock Exchange (in particular the higher valuation of the equity stake in the Azoty Group in the long-term asset portfolio) and securing high-margin exposures for the corporate debt portfolio. Investment income, net of banking activity but after incorporating interest expenses, shot up 52.4% to PLN 1,855 million.

### **Profit**

In 2017, the PZU Group generated a result before tax of PLN 5,526 million compared with PLN 2,988 million in the previous year (up 84.9%). Net profit reached PLN 4,233 million, i.e. PLN 1,859 million more than the result in 2016. Net profit attributable to the parent company's shareholders was PLN

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<sup>1</sup> The net investment result consists of net investment income, net result on realization and impairment losses on investments and the net movement in the fair value of assets and liabilities measured at fair value.



2,910 million compared to PLN 1,935 million in 2016 (up 50.4%). The net result rose 97.5% compared to last year, net of non-recurring events.<sup>2</sup> **The operating profit in 2017 was PLN 5,510, up by PLN 2,519 million compared to the result in 2016.**

### **Equity**

In 2017, consolidated equity climbed to PLN 37,601 million, up from the end of 2016 (120.1% growth). The growth in consolidated equity is related to higher non-controlling interests totaling PLN 22,979 million, mostly in connection with the commencement of Pekao's consolidation in June 2017. Equity attributable to the parent company's shareholders rose by PLN 1,624 million compared to the end of the previous year – as an effect of the net result attributable to the parent company generated in 2017, partially offset by the distribution of profit for 2016, including the allocation of PLN 1,209 million as a dividend.

### **ROE**

In 2017 the return on equity attributable to the parent company was 21.1%. ROE was up 6.2 p.p. compared to the corresponding period of the previous year, chiefly because of the improved results on insurance and investing activity.

### **Solvency according to Solvency II**

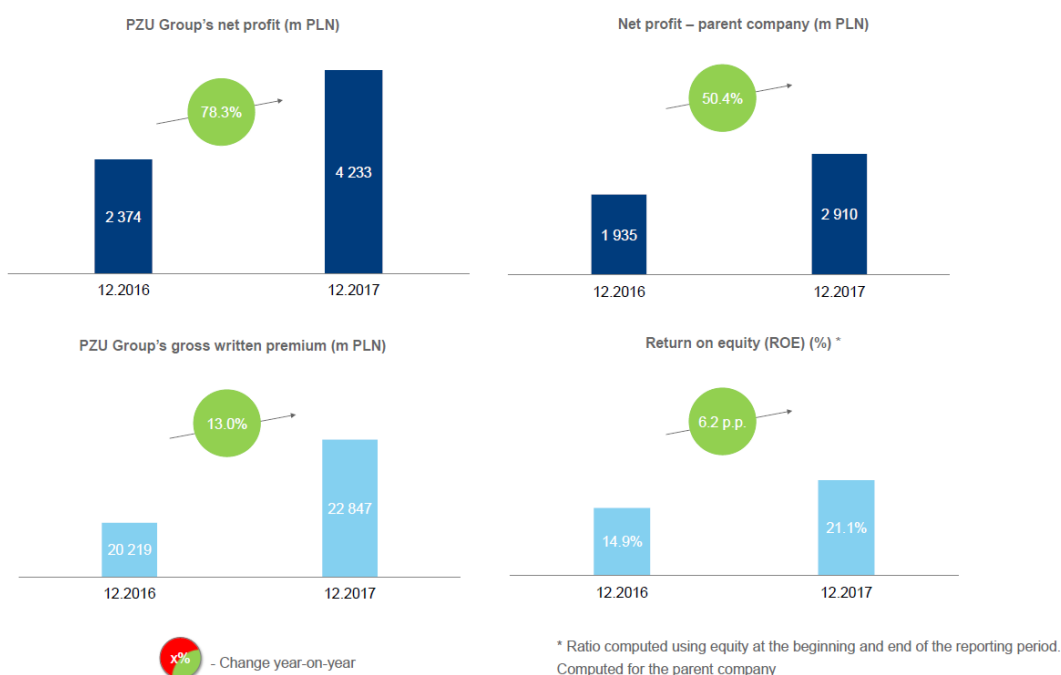
As at the end of Q3 2017, subsequent to finalizing the acquisition of an equity stake in Bank Pekao, the solvency ratio (calculated according to the standard Solvency II equation) was 237%, a level above the average solvency ratio reported by insurance groups in Europe.

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<sup>2</sup> Non-recurring events include the conversion effect caused by converting long-term policies into yearly renewable term agreements in type P group insurance, claims caused by weather conditions (storms), which were higher than the average of the last 3 years, claims in agricultural insurance, which were, in the comparable period, higher than the average of the last 3 years, updated assumptions as to future disbursements applied to the calculation of provisions, profit from the bargain purchase of a spun-off portion of BPH, cost of the restructuring provision in Alior Bank.



## Record-breaking net result of the PZU Group



### PZU Group's financial highlights:

| No. | Item<br>(PLN million)   | 12m period ended on |                  |
|-----|---|---------------------|------------------|
|     |   | 31 December 2017    | 31 December 2016 |
| 1.  | Gross written premiums  | 22,847              | 20,219           |
| 2.  | Net insurance claims and benefits and movement in technical provisions          | -14,941             | -12,732          |
| 3.  | Investment result, including:   | 8,502               | 3,511            |
| 3a. | Net investment income   | 9,051               | 4,111            |
| 3b. | Net result on realization and impairment losses on investments                  | -960                | -935             |
| 3c. | Net movement in the fair value of assets and liabilities measured at fair value | 411                 | 335              |
| 4.  | Interest expense  | -1,365              | -697             |
| 5.  | Net profit, including:  | 4,233               | 2,374            |
| 5a. | profit attributable to equity holders of the Parent Company                     | 2,910               | 1,935            |
| 5b. | profit attributable to holders of non-controlling interests                     | 1,323               | 439              |
| 6.  | Equity  | 37,601              | 17,084           |
| 7.  | Financial assets and investment properties                                      | 284,208             | 107,024          |
| 8.  | Total assets  | 317,405             | 125,296          |