Warsaw, 17 May 2017

Press Release

Best beginning of the year in history

Gross written premium of PLN 5.768 billion - for the first time in its history the PZU Group has generated such a high level of gross written premium in a single quarter. The PZU Group's consolidated net profit topped PLN 1 billion in this period with a record-breaking topline.

- Gross written premium climbed 20.1% y/y to a record-breaking level of PLN 5.768 billion.
- The Group's consolidated net profit shot up 80.1% to PLN 1.007 billion while the parent company's net profit rose 91.1% y/y to PLN 940 million.
- The administrative expense ratio fell 1.1 p.p. y/y to 7.1% in the PZU Group's insurance companies in Poland.
- The profitability of non-life insurance in Poland grew by 9.0 p.p. y/y to 86.1% (measured by the combined ratio - COR).
- Investment performance climbed 58.4% y/y to PLN 1.674 billion.

Consolidated net profit in Q1 2017 was PLN 1.007 billion as opposed to PLN 559 million in Q1 2016, meaning that it nearly doubled year on year. The parent company's net profit was PLN 940 million, while the annualized return on equity (ROE) was 27.9%. At the same time, the administrative expense ratio (for its Polish insurance companies) edged down by 1.1 p.p. y/y to 7.1%. The PZU Group companies expanded their market share to 36.2% in non-life insurance and 45.1% in regular premium life insurance at yearend 2016.

"In the first three months of 2017 we generated the highest quarterly insurance sales result in the PZU Group's history, totaling PLN 5.8 billion. Also, when examining our performance from a P&L point of view, we have never opened a year so robustly – the PZU Group's net profit topped PLN 1 billion. We are the proudest of the steady growth in our customer numbers. At the end of Q1, we had more than 800 thousand more policies in force y/y in motor TPL insurance. The investment performance in our main portfolio also elicits extensive satisfaction; these results are double last

year's level. The PZU Group is constantly honing the attractiveness of its products and generating greater value for its customers in a competitive environment", says Paweł Surówka, CEO of PZU.

„With the pace of gross written premium growth outstripping 20%, it was a major challenge to maintain cost discipline. That is why the 1.1 p.p. y/y decline in the administrative expense ratio to 7.1% recorded by our insurance companies in Poland gives us all the more satisfaction. For this reason, among others, despite the observable repercussions of fierce price competition, we have enhanced our operating efficiency measured by the combined ratio (COR), which diminished by 4.5 p.p. y/y in motor insurance. In addition, profitability in other non-life insurance improved on account of the decline in the loss ratio in agricultural insurance", adds Tomasz Kulik, CFO of PZU.

Q1 2017 was another period of rapid growth in health care. The topline growth rate in health is 36.8% y/y, with the number of insureds in PZU Życie's health products being up 22.5% y/y to 1.35 million.

"In health insurance, especially in group health, we can tout our stable customer base that has chosen PZU Życie as its long-term insurance partner. Moreover, we are growing faster than the market and we are taking over more customer groups. Our results set us apart from others in a very positive fashion, especially in terms of sales in the regular premium insurance segment.
A higher loss ratio is visible in the Q1 2017 results. This is the outcome of the higher number of deaths compared to last year and the number of claims paid for that reason. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office confirm. Historically, we have observed similar seasonality (higher mortality in winter months and a dip in summer months); however, the beginning of this year was exceptionally taxing in this respect. To mitigate the adverse impact exerted by market drivers, we are currently taking measures to counteract the rising loss ratio in the portfolio of protection products such as by limiting the modification of insurance agreements leading to a deterioration in their profitability, introducing new individual continuation and modifying riders. I assume that by the end of 2017 this margin will return to the objective we defined in PZU's 2020 Strategy", says Roman Pałac, CEO of PZU Życie.

On 4 May 2017 the Polish Financial Supervision Authority unanimously made the decision to assert that there are no grounds to lodge an objection against PZU and PFR acquiring a 32.8% equity stake in Bank Pekao S.A. from the Unicredit Group. Under this deal, PZU will acquire roughly a 20% stake and PFR will acquire roughly a 12.8% stake.

"The Polish FSA's decision opens the path to closing the transaction of acquiring the equity stake in Pekao SA on 7 June 2017. The acquisition of this institution confirms our unwavering determination in pursuing the PZU 2020 strategy calling for a strong footprint in Poland's banking sector. In addition, this transaction will make it possible to utilize PZU's excess capital effectively, it will generate added value for shareholders and it will benefit the clients of both institutions by tapping into synergies and collaboration opportunities. From a technical point of view, this asset will generate a stable stream of dividends for the PZU Group over the long term. This year we anticipate to derive dividend proceeds exceeding PLN 450 million", says Paweł Surówka, CEO of PZU.

Detailed recap of PZU's results in Q1 2017

The following factors exerted, in particular, a positive influence on the PZU Group's financial results in Q1 2017:

- higher gross written premium in motor insurance in the mass and corporate client segments and in individual insurance (in particular unit-linked products in the bancassurance channel);
- higher profitability in the mass insurance segment is associated mainly with the lower loss ratio in agricultural insurance – in the corresponding period of the previous year numerous losses caused by the forces of nature (adverse effects of ground frost) occurred and the profitability of the motor TPL insurance portfolio in the mass and corporate client segments improved despite the observable repercussions of fierce price competition in recent years;
- ongoing improvement in cost effectiveness - the administrative expense ratio in Poland edged down by 1.1 p.p.;
- higher investment income, in particular due to better market conditions on the Warsaw Stock Exchange.

The following factors adversely affected the results in this period:

- lower profitability in the corporate insurance segment;
- lower profitability in group and individually continued insurance as a result of the higher loss ratio in protection products associated with the higher number of deaths (confirmed by the Central Statistical Office's data).

Alior Bank's merger with the spunoff portion of Bank BPH that transpired on 4 November 2016 materially affected the comparability of the overall balance sheet y/y. Largely as a result of this transaction, the total balance sheet value jumped by roughly PLN 18.5 billion compared to the corresponding period of the previous year, while non-controlling interests totaled PLN 4.2 billion (as at 31 March 2017).

Gross written premium

In Q1 2017 the PZU Group collected gross written premium of PLN 5,768 million, i.e. 20.1% more than in the corresponding period of the previous year. This is the result of selling more motor insurance in the mass client segment for an additional amount of PLN 488 million and writing motor insurance premium in the corporate client segment for an additional PLN 113 million in connection with the higher average premium and number of insurance policies. The premium in the individual insurance segment also rose by PLN 162 million, driven mainly by higher sales of unit-linked products in the bancassurance channel. All the companies in the Baltic States also posted sales growth. In total, they climbed +14.4% in non-life insurance and +27.3% in life insurance.

Investments

W Q1 2017 the PZU Group's net investment result was PLN 1,674 million compared to PLN 1,057 million in the corresponding period of the previous year (58.4% growth). This result is higher chiefly because of the better performance of listed equity instruments, in particular due to the improved market conditions on the Warsaw Stock Exchange. A positive change was also recorded in comparison to the corresponding period of the previous year due to the improved valuation of the equity stake in Azoty Group in the long-term asset portfolio. These outcomes were partially offset by the lower valuation of interest-bearing financial instruments. Higher interest income on bank loans was posted in banking activity.

Claims and benefits

In Q1 2017, net claims and benefits and the incremental growth in the PZU Group's provisions totaled PLN 3,710 million, i.e. 21.0% growth over the corresponding period of last year. The following factors contributed to the movement in net claims and benefits: the growth in claims and benefits in corporate insurance, the upswing in provisions, mostly for individual unit-linked products in the bancassurance channel and to a lesser extent the employee pension schemes (PPE) and the individual retirement accounts (IKE) offered in our own network, the higher number of deaths in protection insurance compared to last year and the lower level of claims in insurance for other physical losses in the mass client segment, chiefly including subsidized crop insurance (multiple claims caused by the forces of nature occurred in the corresponding period of 2016).

Administrative and acquisition expenses

PZU Group's administrative expenses in Q1 2017 were PLN 861 million compared to PLN 630 million in the corresponding period of the previous year. This growth was chiefly driven by the Alior Bank merger with the spunoff part of Bank BPH; the PZU Group's expenses rose by PLN 211 million as a result. At the same time, slight upward movement was recorded in administrative expenses in the insurance segments in Poland compared to the previous year. The main driver are the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements; this effect was partially offset by lower expenses of project activity.

Acquisition expenses in Q1 2017 edged up PLN 77 million to PLN 694 million (+12.5%) 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.

Profit

In Q1 2017 the PZU Group generated an operating result of PLN 1,259 million compared with PLN 716 million in the prior year (up 75.8%). Net profit grew in comparison to Q1 2016 by PLN 448 million (+80.1%) to PLN 1,007 million. Net profit attributable to the parent company's shareholders was PLN 940 million compared to PLN 492 million in 2016 (up 91.1%).

Equity

At the end of Q1 2017 consolidated equity hit PLN 18,157 million compared to PLN 15,667 million at the end of Q1 2016 (15.9% growth). The growth in consolidated equity pertained to non-controlling interests that in connection with Alior Bank's rights issue in H1 2016, among others, totaled PLN 4,216 million.

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 13,941 million (+4.0% y/y).

ROE

In Q1 2017 the return on equity attributable to the parent company was 27.9% (annualized ratio). ROE was up 12.9 p.p. compared to the previous year, chiefly because of the improved results on insurance and investing activity.

Solvency II

As at the end of 2016 the estimated solvency ratio (calculated according to the standard Solvency II equation) was 245%. Such a high solvency ratio places the PZU Group among the insurance groups with the greatest capital strength. After the acquisition of the equity stake in Bank Pekao is finalized, this ratio will diminish; however, we are keen on maintaining it ultimately at a level close to the strategic threshold of 200%. Capital intensity is also on the rise as the PZU Group's business size expands, necessitating funds not just for large-scale M&A projects but above all for organic growth.

PZU Group's financial highlights

No.		Item (PLN million)	3 month period ended on	
			31 Mar. 2017	**31 Mar. 2016**
1.		Gross written premium	5,768	4,801
2.		Net insurance claims and benefits and movement in technical provisions	-3,710	-3,066
3.		Investment result, including:	1,674	1,057
	3a.	Net investment income	1,303	994
	3b.	Net realized result and impairment losses on investments	-213	-91
	3c.	Net movement in the fair value of assets and liabilities measured at fair value	584	154
4.		Interest expenses	-187	-274
5.		Net profit, including:	1,007	559
	5a.	profit attributable to equity holders of the Parent Company	940	492
	5b.	profit attributable to holders of non-controlling interests	67	67
6.		Equity	18,157	15,667
7.		Financial assets and investment properties	107,554	90,558
8.		Total assets	126,733	108,283

Additional information:

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