Warsaw, 31 August 2017

Press Release

PZU once again posts record-breaking gross written premium and doubles its profit in H1 2017. The PZU Group expands by acquiring the Pekao SA Group

- **Best 6 months in terms of sales in PZU's history.** Gross written premium climbed 17.7% y/y to **PLN 11.6 billion**. The second quarter was another record-breaking quarter in terms of sales.
- **Rising number of clients.** The growth in the number of clients totaling **500,000** in H1 2017 compared to H1 2016 and nearly 70 thousand in Q2 2017 compared to Q1 2017.
- **Market share expansion** in non-life insurance in Poland by 1.5 p.p. y/y to **37.1%** and in periodic premium life insurance by 0.8 p.p. y/y to **45.6%** (at the end of March 2017).
- **Extensive cost discipline.** The administrative expense ratio in the PZU Group's insurance companies in Poland fell 1.1 p.p. y/y to **6.9%**.
- **Higher profitability of non-life insurance** in Poland – the combined ratio improved 6.6 p.p. y/y to **86.5%.**
- **Higher profitability of life insurance** in group and individually continued insurance policies hitting **24.5%** in Q2 (compared to 13.8% in Q1 2017) with a 19.2% year-to-date.
- **Profit doubled.** Operating profit rose to **PLN 2.20 billion** compared to PLN 1.05 billion in H1 2016 while the parent company's net profit climbed to **PLN 1.45 billion** compared to PLN 0.66 billion in H1 2016.
- **ROE above 20%.** The annualized return on equity (ROE) was **22.1%** compared to 10.7% in H1 2016.

"PZU has broken more records. Interim gross written premium has exceeded PLN 11.6 billion, PZU's best 6-month performance in history. Additionally, the second quarter will be remembered not only because of finalizing the Pekao SA acquisition but also because of another instance of record-breaking sales performance that even outperformed Q1. We are growing, our clients trust us and we are steadfastly implementing our strategy of not only growing sales but also maintaining extensive cost discipline to enable us to continue improving the profitability of our Group", said Paweł Surówka, President of the PZU SA Management Board.

Non-life insurance

"During the first six months of the year, we improved the profitability of non-life insurance. All key business lines in all segments are profitable today. This is the outcome of the rapid pace of sales growth of motor and non-motor insurance products, the lower loss ratio in agricultural insurance and extensive cost discipline. The combined ratio improved 6.6 p.p. y/y to 86.5% while insurance portfolio administration expenses declined. As a result of these activities, the administrative expense ratio of the PZU Group's insurance companies in Poland improved by 1.1%, reaching 6.9% at the end of June 2017. This means that we are able to offer our products less expensively than our key competitors", said Tomasz Kulik, PZU's CFO.

Life insurance

"In the life business, we restored profitability in group insurance. After a challenging Q1, it hit 24.5% in Q2. This change was driven mainly by the reduced frequency of deaths and lower administration costs. This allowed us to improve profitability in this segment year-to-date to 19.2%. We also took measures to enable us to curtail the volatility of our results precipitated by the seasonal nature of various risks.

We place great emphasis on developing our services in health care, both in developing health products and enlarging the network of branches cooperating with us. This area is of strategic importance to us because it is one of the fastest growing market segments", stated Roman Pałac, CEO of PZU Życie.

Investments

"When we exclude the contribution of the banking business, the investment result in H1 2017 was three times higher y/y at PLN 1,087 million. Generating such high profitability on our own portfolio was especially difficult since we had to prepare to have the liquidity to close the deal with UniCredit to acquire the equity stake in Pekao. Robust investment performance stemmed mainly from the higher profitability on listed equity instruments due, among others, to improved market conditions – the WIG index was up 17.9% compared to the end of 2016, as opposed to a 3.7% decline in the corresponding period of the previous year. In addition, the portfolio's performance rose because of the better circumstances on the Polish debt market and the rising percentage of high-yielding corporate debt in our portfolio", said Tomasz Kulik, PZU's CFO.

On 7 June 2017, PZU finalized the transaction to acquire a 20% equity stake in Bank Pekao (a 32.8% stake jointly with the Polish Development Fund [PFR]). Following the transaction, PZU became the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with total assets of more than PLN 295 billion (assets of PZU SA, Pekao SA and Alior Bank).

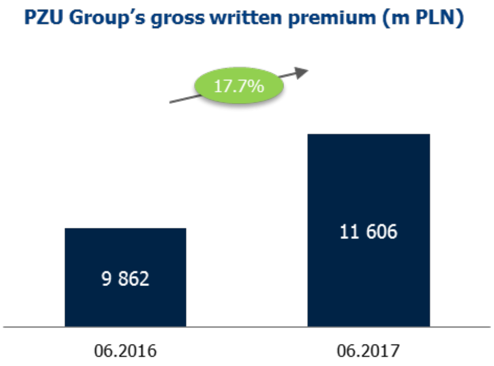
"Today PZU is a financial group that is striving to be our clients' partner of first choice in life and non-life insurance, savings, health care and banking products. The transformation that transpired in conjunction with the acquisition of the stake in Pekao allows us to follow a new approach to client relations, thereby releasing a host of potential synergies. Nevertheless, PZU's core insurance business will continue to be the focal point for our efforts to ensure that its solid foundations will form a platform for developing new strategic initiatives", said Paweł Surówka, CEO of PZU.

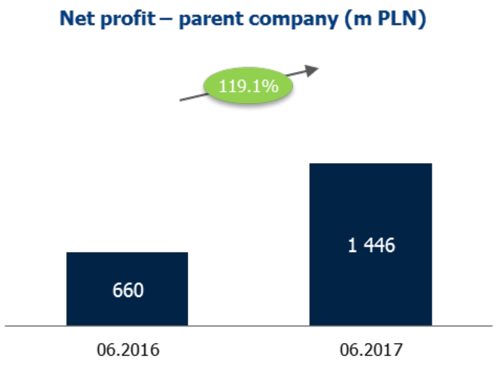
We delivered on our promise

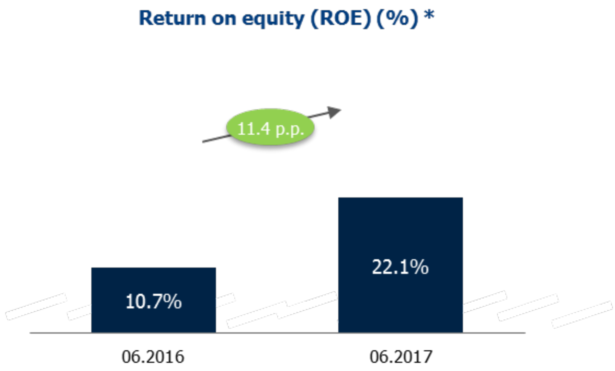
After finalizing the transaction to acquire the stake in Pekao, the PZU Group conducted a subordinated bond issue for PLN 2.25 billion to replenish its capital.

"As we declared, we have maintained a very high level of safety measured by the Solvency II solvency ratio. To maintain this ratio at a strategic level above 200%, we conducted the largest issue of subordinated bonds in the history of the Polish financial sector. At the same time, it was the first issue in Poland complying with Solvency II requirements. Proceeds from this issue are treated as PZU's own funds, thereby enabling us to maintain high safety ratios", adds Tomasz Kulik, PZU's CFO.

Financial highlights in H1 2017







* Ratio computed using equity at the beginning and end of the reporting period. Computed for the parent company

Detailed recap of PZU's results in H1 2017

The following factors, in particular, exerted a positive influence on the PZU Group's financial results in H1 2017:

- higher gross written premium in motor insurance in the mass and corporate client segments following an increase in average premium 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 occurred – adverse effects of ground frost) and, to a lesser extent, with the improved profitability in motor TPL insurance;
- better performance in the banking segment following the high level of Alior Bank's sales of loan products supported by the favorable business climate and the low interest rate environment;
- higher investment income, in particular due to better market conditions on the Warsaw Stock Exchange.

The following factors affected the results adversely in this period:

- lower profitability in the corporate insurance segment, mainly in the non-motor insurance group as a consequence of the notification of several losses with a high unit value;
- decrease in profitability in group and individually continued insurance as a result of the higher loss ratio of protection products associated with the rising frequency of death-related events in the first quarter of this year, confirmed by the Central Statistical Office's mortality data for the overall population. In Q2 the loss ratio returned to the levels observed in the corresponding period of the previous year.

The commencement of consolidating Pekao in June 2017 materially affected the comparability of the results and total assets and equity and liabilities year on year. The total balance sheet value jumped on this account by roughly PLN 182 billion compared to the previous year, while non-controlling interests totaled PLN 21.5 billion (as at 30 June 2017). In H1 2017, Pekao contributed PLN 227 million to the operating result of the PZU Group and the bank segment.

Premiums

In H1 2017 the PZU Group collected gross written premium of PLN 11,606 million, i.e. 17.7% more than in the corresponding period of the previous year. This is the result of sales being up PLN 940 million in the mass client segment, especially motor insurance (excluding inter-segment premium) and being up PLN 413 million in the corporate client segment, chiefly on motor insurance in connection with the higher average premium and the number of insurance policies. The premium in the individual insurance segment also rose by PLN 254 million, driven mainly by higher sales of unit-linked products in the bancassurance channel. The premium in the group and individually continued insurance segment increased by PLN 39 million primarily because of the higher sales of health insurance concluded as group insurance. PZU now has 1.4 million agreements of this type in its portfolio. International companies also posted premium growth of PLN 97 million.

Claims and benefits

In H1 2017, net claims and benefits and the incremental growth in the PZU Group's provisions totaled

PLN 7,214 million, i.e. 17.0% growth over the corresponding period of last year. The following factors contributed to the movement in net claims and benefits: the growth in motor insurance claims and benefits in the corporate and mass segments, higher level of claims and benefits in insurance for losses caused by calamities and general liability insurance in the corporate segment, higher provisions for individual unit-linked products in the bancassurance channel and, to a lesser extent, the same type of group and individual products offered in its own network (mostly Employee Pension Plans and individual retirement accounts [IKE]). In the last two cases, this resulted from higher client contributions to their accounts and significantly better investment performance in the period under analysis. In addition, in protection life insurance, the uptick in Q1 2017 in the incidence of deaths compared to Q1 2016 confirmed by statistics published by the Central Statistical Office for the entire population.

The decline in net claims and benefits was caused by the lower level of claims in the group of insurance for other losses to property in the mass client segment, mostly for subsidized crop insurance – in the corresponding period of 2016 the forces of nature caused many losses.

Administrative and acquisition expenses

The Group's administrative expenses in H1 2017 were PLN 2,025 million compared to PLN 1,278 million in H1 2016, i.e. they were up 58.5% over the previous year. This increase resulted mainly from the commencement of Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations on 4 November 2016. Administrative expenses in the banking segment rose PLN 700 million. At the same time, the administrative expenses in the insurance segments in Poland held steady at a level similar to last year's figures. The change resulted from the higher expenses incurred in bancassurance products following a change in the rules of making settlements with banks under bancassurance agreements, offset by lower expenses of project activity.

In H1 2017 acquisition expenses rose by PLN 160 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 H1 2017, the PZU Group's net investment result[1] was PLN 3,032 million compared to PLN 1,405 million in the corresponding period of 2016 (up 115.8%). The higher result in H1 is above all the effect of the higher performance generated by the banking sector (among others, interest income, also on loans and the trading result) as a consequence of commencing bank Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations on 4 November 2016.

After factoring in interest expenses and precluding the impact exerted by banking operations, the result in H1 2017 was higher than the result in the corresponding period of 2016 by 742 m PLN, which was due to the higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange, improved performance on Polish treasuries and taking high-yielding exposures in the non-treasury debt portfolio. The positive impact exerted by the foreign exchange differences on own debt securities in conjunction with the appreciation of the PLN versus

[1] The net investment result consists of net investment income, the net realized result and impairment losses and the net movement in the fair value of assets and liabilities measured at fair value.

EUR also contributed to this outcome. It was partially offset by the lower result on the international bond portfolio held mainly to hedge the financial liabilities arising from the issue.

Profit

In H1 2017 the PZU Group generated an operating result of PLN 2,199 million compared with PLN 1,050 million in the previous year (up 109.4%). Net profit grew in comparison to H1 2016 by PLN 943 million (+119.4%) to PLN 1,733 million. Net profit attributable to the parent company's shareholders was PLN 1,446 million compared to PLN 660 million in 2016 (up 119.1%).

Equity

At the end of H1 2017 consolidated equity hit PLN 34,628 million, up from the end of 2016 (102.2% growth). The growth in consolidated equity pertained mainly to non-controlling interests that in connection with commencement of Pekao SA's consolidation in June 2017, among others, reached PLN 21,474 million, increasing more than five-fold from the end of 2016. Equity attributable to the parent company's shareholders rose slightly compared to the year before – as an effect of the distribution of profit for 2016, including allocation of PLN 1,209 million as a dividend, offset by the net result attributable to the parent company generated in H1 2017.

ROE

In H1 2017 the return on equity attributable to the parent company was 22.1% (annualized ratio). ROE was up 11.4 p.p. compared to the previous year, chiefly because of the improved results on insurance and investing activity.

Solvency according to Solvency II

As at the end of Q1 2017, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 277%, coming in at a level above the average solvency ratio enjoyed by insurance groups in Europe. In order to maintain this ratio above 200%, after the transaction to acquire the stake in Bank Pekao was finalized (executed on 7 June 2017), on 30 June 2017, PZU issued subordinated bonds (in a private offering with a nominal value of PLN 2.25 billion). The bond redemption date is 29 July 2027 with an early repayment option on 29 July 2022.

PZU Group's financial highlights:

No.	Item (PLN million)	6m period ended on 30.06.2017	6m period ended on 30.06.2016
1.	Gross written premium	11,606	9,862
2.	Net insurance claims and benefits and movement in technical provisions	(7,214)	(6,165)
3.	Investment result, including:	3,032	1,405
3a.	Net investment income	3,267	1,879
3b.	Net result on the realization of investments and impairment losses	(301)	(470)
3c.	Net movement in the fair value of assets and liabilities measured at fair value	66	(4)
4.	Interest expenses	(426)	(346)
5.	Net profit, including:	1,733	790
5a.	profit attributable to equity holders of the Parent Company	1,446	660
5b.	profit attributable to holders of non-controlling interests	287	130
6.	Equity	34,628	15,601
7.	Financial assets and investment properties	258,828	95,254
8.	Total assets	295,262	112,945

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