Warsaw, 10 November 2016

Press Release

PZU improves its Q3 net result by 27%

In Q3 2016 the PZU Group posted consolidated net profit (attributable to the parent company) of PLN 649 million compared to PLN 511 million in the corresponding period of 2015 (up 27%). This has made it possible to post a cumulative profit of PLN 1,309 million during the first 9 months of 2016. Gross written premium in the first three quarters has climbed 9.2% y/y to PLN 14,706 million, coupled with a dip in administrative expenses of 5.7% to PLN 1,126 million (net of Alior Bank's administrative expenses). Life insurance market share measured by regular premium has reached a record-breaking 45%.

"*Following a challenging H1 during which we faced pressure on investment performance and high claim payments for agricultural insurance, in Q3 2016 we have returned to a considerably higher level of net profitability measured by net profit. We earned PLN 649 million - that is nearly as much as we earned in the entire first half of the year. If the financial markets become more predictable then in subsequent periods we should feel the effect of rising premiums and cost cutting in our insurance activity to a greater extent, which will make it possible to look more optimistically at the current year on an overall basis*", says Michał Krupiński, CEO of PZU. He adds: "*At the beginning of October of this year we announced our dividend policy to provide funds to pursue PZU's strategic growth objectives and afford attractive returns to shareholders in the form of dividends. This strategy, the management board's decisions and organizational changes have been assessed positively by analysts at the Standard & Poor's Rating Agency that upheld PZU's A- rating, the highest rating for a Polish company, after it passed the stress test.*"

Tomasz Kulik, PZU's CFO emphasizes: "*We are successfully growing our market share.*" *We have reached a record-breaking 45% market share in life insurance measured by regular premium. The profitability of group and individually continued insurance continues to remain at a very high level. In Q3 we enhanced our operating profit margin in this segment to 24.4%. In motor insurance, despite higher premiums, we will still have to wait a bit for results to improve. In this regard, strong cost discipline may be the key to offering our clients in Poland attractively priced solutions despite considerable price hikes on the market. That is why the steady improvement in the administrative expense ratio is so positive. At the end of Q3 2016 the administrative expense ratio[1] for the Polish insurance companies edged down by 0.7 p.p. y/y to 7.7%*" .

Recap of PZU's results during the first three quarters of 2016

The following events affected the PZU Group's operations in Q3 2016 (compared to the corresponding period of the previous year):

- higher gross written premium in the motor insurance group in the mass and corporate client segments on the coattails of the rising average premium and the number of insurance policies and in group and individually continued insurance, in particular in health;
- higher profitability in the corporate insurance segment as a result of the dip in net claims and benefits with higher net premium earned;
- the decline in profitability in the mass insurance segment associated mainly with an increase in the loss ratio in agricultural insurance as a result of the occurrence of numerous losses caused by forces of nature (adverse effects of ground frost);

[1]Administrative expense ratio calculated using the equation: *administrative expenses / net earned premium*

- softer investment performance (net of banking activity), in particular as a result of the revaluation of the equity stake in the Azoty Group in the long-term equity portfolio;
- maintenance of cost discipline.

The commencement of consolidating Alior Bank in December 2015 materially affected the comparability of the results and total assets and equity and liabilities year on year. As a result of this transaction, the total balance sheet value jumped by roughly PLN 45 billion, while non-controlling interests reached PLN 3.9 billion (as at 30 September 2016).

Gross written premium

In the first three quarters of 2016 the PZU Group collected gross written premiums of PLN 14,706.3 million, up 9.2% from the corresponding period in 2015. This is the result of sales in the mass client segment being up by PLN 946.1 million. The premium income in the corporate client segment also rose (by PLN 245.8 million), chiefly in motor insurance. Sales growth in the group and individually continued insurance segment (up PLN 68.1 million) also contributed to the higher gross written premium as a result of expanding group protection insurance and higher premiums in health insurance sold in group form.

Investments

In the first three quarters of 2016 the PZU Group's net investment result[2] was PLN 2,702.9 million compared to PLN 1,410.1 million in the corresponding period of 2015 (up 91,7%). The higher result in the first three quarters of 2016 is above all the effect of incorporating the activity conducted by the banking sector (among others, interest income, including income on loans and the trading result) in connection with commencing the consolidation of Alior Bank. Net of banking activity, the level of investment income was lower than in the corresponding period of the previous year, mainly as a consequence of the lower valuation of the stake in the Azoty Group in the long-term assets portfolio. This effect was partially offset by the higher valuation of interest-bearing financial instruments (the improved situation on the debt market and a higher level of assets in the portfolio).
However, significant improvement in the PZU Group's investment performance is visible in Q3 alone in which it was PLN 673.6 million (net of banking activity). That is nearly double the result in H1 2016 and considerably better than the PLN 135.2 million in the corresponding period of the previous year (net of one non-recurring event, namely the sale of the shares in PZU Lithuania that exerted a positive impact of PLN 165.5 million on investment performance). The material improvement in this performance is linked in particular to higher valuation in equity portfolios.

Claims and benefits

In the first three quarters of 2016 the net value of claims and benefits and of the incremental growth in the PZU Group's provisions was PLN 9,771.3 million. This represents an increase of 7.6% compared to the corresponding period of the previous 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 the value of claims and benefits in motor TPL insurance in the mass client segment contributed to the movement in net claims and benefits.

Administrative and acquisition expenses

The Group's administrative expenses in the first three quarters of 2016 were PLN 1,884.1 million compared to PLN 1,194.0 thousand in the corresponding period of 2015; in other words, they were up 57.8% from the previous year.
This growth was chiefly driven by commencing the consolidation of Alior Bank. The PZU Group's expenses rose by PLN 757.7 million as a result. At the same time, a positive effect was recorded in comparison to

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

last year in the insurance activity segments in Poland in connection with maintaining high cost discipline.

In the first three quarters of 2016 acquisition expenses rose by PLN 176.3 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.

Profit

In the first three quarters of 2016 the PZU Group generated a gross profit of PLN 1,957.9 million compared to PLN 2,279.8 million in the previous year (down 14.1%). Net profit fell 17.7% to PLN 1,508.0 million compared to the result in the corresponding period of 2015. Net profit attributable to the parent company's shareholders was PLN 1,308.5 million compared to PLN 1,832.5 million in 2015 (down 28.6%). If two key non-recurring events are disregarded (claims in agricultural insurance and the result on the sale of PZU Lithuania) the net result is comparable to the level in 2015.

ROE

As at 30 September 2016 consolidated equity stood at PLN 16,267.8 million, up from the end of 2015 (7.6% growth). The growth in consolidated equity pertained to non-controlling interests that in connection with Alior Bank's rights issue in H1 2015, among others, totaled PLN 3,891.1 million, up 77.3% compared to the end of 2015. Equity attributable to the parent company's shareholders fell PLN 764.7 million compared to the year before – as an effect of the distribution of profit for 2015, including the allocation of PLN 1,796.1 million in dividends, partially offset by the result generated in the first three quarters of 2016.

In the first three quarters of 2016 the PZU Group generated a return on equity of 13.8%. ROE (annualized) was down by 5.3 p.p. compared to the previous year.

Solvency according to Solvency II

On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced the new Solvency II capital requirements into the Polish legal system. As at the end of H1 2016 the estimated solvency ratio (calculated according to the standard Solvency II equation) was 256.3%. This high solvency ratio places the PZU Group among the insurance groups with the greatest capital strength.

	Item (000s of PLN)	For 9 months period ended	
		30.09.2016	**30.09.2015**
1.	Gross written premium	14 706,3	13 461,3
2.	Net claims paid and movement of technical provisions	(9 771,3)	(9 079,7)
3.	Investment income, including:	2 702,9	1 410,1
3a.	Net investment revenues	3 051,6	1 233,3
3b.	Net realized result and impairments	(444,4)	237,4
3c.	Net movement of fair value of assets and liabilities measured at fair value	95,7	(60,5)
4	Interest expenses	(574,9)	(85,3)
5.	Net profit	1 508,0	1 832,4
5a.	Net profit attributable to shareholders of the parent company	1 308,5	1 832,5
5b.	Net profitattributable to non-controlling interests	199,5	(0,1)
6.	Equity	16 267,8	12 369,7
7.	Financial assets and investment properties	93 863,2	58 013,6
8.	Total assets	112 913,9	67 500,9

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