Warsaw, 15 November 2017

Press Release

The PZU Group PZU doubles its net profit in the first 3 quarters of 2017 y/y

- **Gross written premium up** 15.1% y/y to **PLN 16.9 billion**.
- **Market share expansion** in non-life insurance on direct activity by 0.8 percentage points y/y to **36.9%** and in periodic premium life insurance by 0.7 percentage points y/y to **45.7%** (data as at the end of June 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 **6.6%**.
- **High profitability maintained in non-life insurance in Poland despite the occurrence of mass claims.** Combined ratio improvement of 5.4 p.p. y/y to **90.1%**.
- **Life insurance profitability up** in group and individually continued insurance policies in Q3 to **25.9%** (vs. 24.5% in Q2 2017) with year to date growth hitting 21.4%.
- **Profit doubles.** The PZU Group's net profit rises to **PLN 3 billion** versus PLN 1.5 billion in the first three quarters of 2016. In turn, the parent company's net profit climbs to **PLN 2.1 billion** versus PLN 1.3 billion in the first three quarters of 2016.
- **ROE above 21%.** The parent company's annualized return on equity (ROE) was **21.3%** versus 13.8% at the end of Q3 2016.

"The PZU Group has assets of PLN 300 billion at its disposal that have generated a net profit in excess of PLN 3 billion in the first three quarters of 2017, i.e. nearly double the level generated in the corresponding period of 2016. Such a high growth rate is due to the Group's greater presence in the banking sector and improved profitability in its core insurance activity. Importantly, despite the higher loss ratio posted in Q3 chiefly related to the strong storms and rainfall that pummeled Poland, we stayed profitable in all key lines of business. Steady investments in foundations to guarantee PZU's growth, taking care of its client base and maintaining cost discipline mean that even in challenging market circumstances we are capable of effectively managing our capital and generating a high level of earnings while offering the highest standards of service", says Paweł Surówka, CEO of PZU SA.

Non-life insurance

"Despite the losses caused by the sudden and severe storms and hurricanes that transpired in Q3 2017, we improved the combined ratio in the overall non-life insurance segment in Poland by 5.4 p.p. With it being at 90.1% in the first 9 months of the year, our combined ratio continues to stay above our strategic ambitions. The high volume of insurance sales and strong cost discipline underpin this robust result. The administrative expense ratio of the PZU Group's insurance companies in Poland improved by 1.1%, reaching 6.6% at the end of September 2017. This steady improvement is the outcome of changes in costs and the overall organization's growing cost culture making it possible to tap into economies of scale to optimize unit costs", says Tomasz Kulik, CFO of PZU.

Life insurance

"After a challenging first quarter when the margin in group and individually continued insurance dipped below 14%, we undertook a series of measures to curtail further decline in profitability. We generated a very robust result in Q2 2017 coupled with the falling incidence of mortality. Continuation of trends and our unwavering execution enabled us to enhance our results in Q3 and post a 25.9% profit margin. The outcome is that in the first 9 months our profitability in this highly important insurance segment has surpassed the strategic watermark of 20%", says Roman Pałac, CEO of PZU Życie.

Investments

"Net of the impact exerted by banking activity while incorporating interest expenses, the investment result in the first three quarters of 2017 surged upward 59% to PLN 1,615 million, chiefly due to better performance in equity portfolios. This was caused, among others, by improved market conditions on the Warsaw Stock Exchange – in the first three quarters of 2017 the WIG index is up 24.2% compared to its 1.3% increase in the corresponding period of the previous year. In addition, the results rose on high margin exposure we achieved on debt market instruments by construing a non-treasury debt portfolio", comments Tomasz Kulik, CFO of PZU.

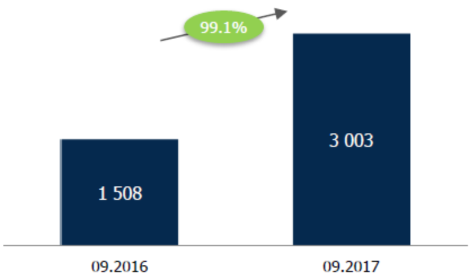
Rating

S&P Global Ratings, a US-based rating agency raised PZU's rating outlook from negative to stable on 27 October 2017. At the same time, PZU's financial strength and credit rating stayed at A-. This rating is one notch above Poland's long-term foreign currency rating. According to S&P's rules, this is one of the highest possible ratings for a Polish company to receive.

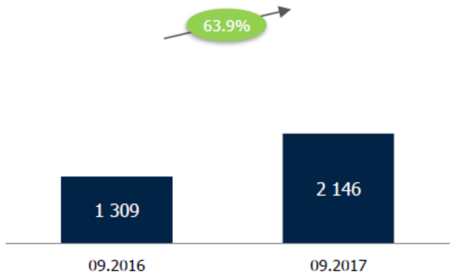
"Raising PZU's rating outlook was very important to us. This decision brings a two-year-long verification process to an end. The agency's analysts gave a positive evaluation to PZU's vision of growth and the management board's joint actions to pursue the PZU Group's strategy steadfastly", adds Paweł Surówka.

Financial highlights in the first three quarters of 2017

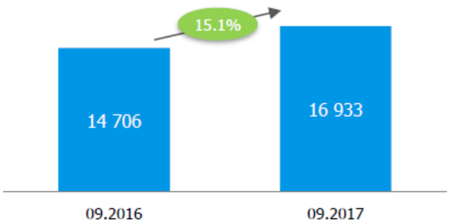
PZU Group's net profit (m PLN)



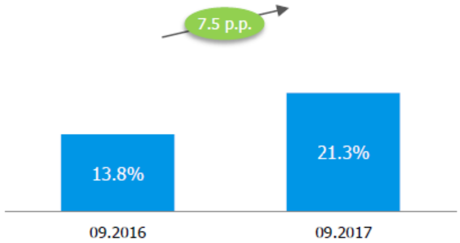
Net profit – parent company (m PLN)



PZU Group's gross written premium (m PLN)



Return on equity (ROE) (%) *



* 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 the first three quarters of 2017

The following factors exerted in particular a positive influence on the PZU Group's financial results in the first three quarters of 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;
- 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 – the 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;
- 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 non-life insurance segment, mainly in the non-motor insurance product group following the reporting of a few claims with high unit values;
- falling profitability in group and individually continued insurance (y/y) as a result of the higher loss ratio in protection products driven by the rising frequency of death-related events in Q1 of this year as confirmed by the mortality data for the overall population reported by the GUS Central Statistical Office. In Q2 and Q3, the loss ratios returned to the levels observed in the corresponding period of last year.

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 upward, mainly for this reason, by more than PLN 187 billion compared to corresponding period of the previous year (to PLN 300 billion), while non-controlling interests totaled PLN 22.0 billion (as at 30 September 2017). Since the consolidation of Pekao commenced in June 2017, it contributed PLN 918 million to the operating result of the PZU Group and the bank segment.

Premiums

In the first three quarters of 2017 the PZU Group collected gross written premium of PLN 16,933 million, i.e. 15.1% more than in the corresponding period of the previous year. This is largely the offshoot of higher motor insurance sales in the mass client segment (PLN +1,087 million) and the corporate client segment (PLN +300 million) due to the higher average premium and the higher number of insurance policies. The premium in the individual insurance segment also rose by PLN 346 million, driven mainly by higher sales of unit-linked products in the bancassurance channel. In addition, the international companies posted premium growth of PLN 173 million.

Claims and benefits

In the first three quarters of 2017, net claims and benefits and the incremental growth in the PZU Group's provisions totaled PLN 11,252 million, i.e. up 15.2% from the corresponding period of the previous year, which was linked to the growing magnitude of business. 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 client segment, higher level of claims and benefits in insurance for losses caused by calamities, higher claims in general liability insurance and fire insurance as a result of the reporting of several high unit value claims, increases in 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 PZU's own network (mostly Employee Pension Plans and Individual Retirement Accounts [IKE]); in protection insurance the increase in Q1 2017 in the incidence of deaths was confirmed by statistics published by the Central Statistical Office [GUS] for the overall population (in Q2 and Q3 the loss ratios returned to the levels observed in the corresponding period of the previous year).

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 there were many losses caused by the forces of nature.

Administrative and acquisition expenses

PZU Group's administrative expenses in the first three quarters of 2017 were PLN 3,644 million compared to PLN 1,927 million in the corresponding period of 2016, i.e. they were up 89.1% over the previous year. 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 1,661 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 9 million lower compared to the corresponding period of the previous year. The change resulted from the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements, offset by lower expenses in project-related activity.

In the first three quarters of 2017, acquisition expenses rose PLN 227 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 the first three quarters of 2017, the PZU Group's net investment result[1] was PLN 5,833 million compared to PLN 2,635 million in the corresponding period of 2016 (up 121.4%). The higher result generated in the first three quarters is primarily the outcome of the higher investment income earned on banking activity following the commencement of consolidation of Pekao SA, but also the higher net result on investing activity net of banking activity.

Investment income, net of banking activity but after incorporating interest expenses, shot up 58.5% to PLN 1,615 million. This is chiefly due to the higher result on listed equity instruments, in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index went up 24.2% in the first 3 quarters of 2017 compared to 1.3% in the corresponding period of the previous year.

Profit

In the first three quarters of 2017 the PZU Group generated an operating result of PLN 3,896 million compared with PLN 1,960 million in the previous year (up 98.8%). Net profit grew by PLN 1,495 million (+99.1%) to PLN 3,003 million. Net profit attributable to the parent company's shareholders was PLN 2,146 million compared to PLN 1,309 million in the corresponding period of 2016 (up 63.9%).

Equity

As at 30 September 2017, consolidated equity stood at PLN 35,930 million as opposed to PLN 16,268 million at 30 September 2016. The growth in consolidated equity is related to higher non-controlling interests totaling PLN 22,025 million, mostly in connection with the commencement of Pekao's consolidation in H1 2017. Equity attributable to the parent company's shareholders rose by PLN 907 million compared to the end of the previous year – as an effect of the distribution of profit for 2016, including the allocation of PLN 1,209 million as a dividend, offset by the net result attributable to the parent company generated in the first three quarters of 2017.

ROE

In the first three quarters of 2017, the return on equity attributable to the parent company was 21.3% (annualized ratio). ROE was up 7.5 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 Q2 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 247%, a level above the average solvency ratio reported by insurance groups in Europe.

[1] **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.**

PZU Group's financial highlights:

No.	Item (PLN million)		9 month period ended on 30.09.2017	9 month period ended on 30.09.2016
1.	Gross written premiums		16,933	14,706
2.	Net insurance claims and benefits and movement in technical provisions		(11,252)	(9,771)
3.	Investment result, including:		5,833	2,635
	3a.	Net investment income	6,150	3,024
	3b.	Net result on the realization of investments and impairment losses	(663)	(444)
	3c.	Net movement in the fair value of assets and liabilities measured at fair value	346	55
4.	Interest expenses		(884)	(506)
5.	Net profit, including:		3,003	1,508
	5a.	profit attributable to equity holders of the Parent Company	2,146	1,309
	5b.	profit attributable to holders of non-controlling interests	857	199
6.	Equity		35,930	16,268
7.	Financial assets and investment properties		266,804	93,863
8.	Total assets		300,245	112,914

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