Warsaw, 16 May 2018

Press Release

PZU Group: record-breaking sales, earnings top one billion

The PZU Group has started 2018 with record-breaking insurance sales. Gross written premium in Q1 was PLN 5.83 bn, the best result in the Group's history. The PZU Group's consolidated quarterly net profit has once again surpassed PLN 1 bn. The PZU Management Board is recommending a dividend payment for 2017 equal to PLN 2.5 per share.

- **Gross written premium climbed** 1.1% y/y to **PLN 5.83 billion**.
- **Market share expansion in Poland** in non-life insurance on direct activity by 0.3 percentage points y/y to **35.7%** and in periodic premium life insurance by 0.7 percentage points y/y to **45.8%** (data as at the end of December 2017).
- **Rigorous cost discipline.** The administrative expense ratio in the PZU Group's insurance companies in Poland fell 0.8 percentage points y/y to **6.3%**.
- **High profitability maintained in non-life insurance in Poland despite the remeasurement of provisions for claims for general damages.**
- The **profitability of life insurance** in group and individually continued insurance policies improved by 2.8 p.p. y/y to **16.6%**.
- **The PZU Group's consolidated net profit PZU rose** 3.6% y/y to **PLN 1.04 bn**.
- The parent company's return on equity „ROE" - **17.6%** (with the parent company posting a net profit of PLN 640 million).

Group's condition

Paweł Surówka, CEO of PZU SA:

Never before in the history of the PZU Group have we recorded such a high level of gross written premium in the first quarter. Furthermore, the PZU Group's net profit has once again surpassed PLN 1 bn and constitutes the highest consolidated result for a Q1 in our history. These results reflect the expanding role played by the banks in the Group's results, but above all they reflect the firm foundation of our core business – more than half of our net result is profit on underwriting activity. Such strong results form the basis for us sharing them with our shareholders. Under the #newPZU *strategy we have committed to investors that we will share the earnings we do not need to finance our rapid growth. Today we fulfill that promise and hereby recommend the payment of a dividend equal to PLN 2.5 per share. At the same time, we remember our strategic obligation for the Dividend Per Share (DPS) to grow from year to year in the long run.*

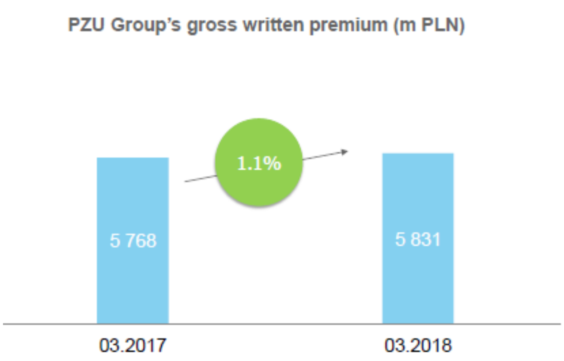
Tomasz Kulik, CFO of PZU:

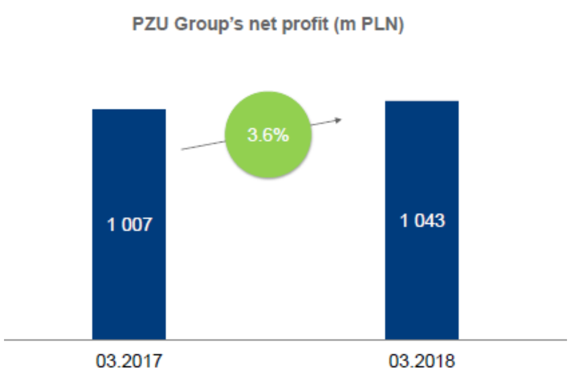
Sales growth transpired while maintaining tight cost discipline (the administrative expense ratio in the insurance segments in Poland fell 0.8 p.p. y/y to 6.3%). As a result, even despite the necessity for the remeasurement of the provisions for claims for general damages in connection with the Supreme Court's recent judgment, we maintained robust profitability in the major lines of business in life and non-life insurance.

Roman Pałac, CEO of PZU Życie:

The margin in group and individually continued insurance improved by 2.8 p.p. y/y to 16.6% in Q1 2018. Just as every year, Q1 features lower profitability ensuing from the higher number of deaths and illnesses in the winter period. Subsequent quarters should contribute to improving profitability and reaching the strategic level of 20% on an annual basis.

FINANCIAL HIGHLIGHTS - Q1 2018





Detailed recap of PZU's results in Q1 2018

The following factors in particular exerted a positive influence on the PZU Group's financial results in Q1 2018:

- higher gross written premium in motor insurance in the mass and corporate client segments and premium expansion in foreign companies, in particular in the motor insurance group;
- higher profitability in the mass and corporate non-motor insurance segment, mainly due to the improved profitability of the portfolio of natural catastrophe insurance and insurance for other physical claims.
- increased profitability in group and individually continued insurance compared to the previous year due to the lower frequency of claims;
- better performance in the banking segment at Alior Bank in connection with the high sales level of credit products supported by the good business climate and a low interest rate environment.

The following factors affected the results adversely in this period:

- lower profitability in the mass insurance segment as a result of remeasurement of provisions in non-life insurance for claims for general damages;
- lower result on listed equities, in particular due to softer conditions on the Warsaw Stock Exchange.

The inclusion of Pekao in the PZU Group's structures in June 2017 materially affected the comparability of the results and the total balance sheet value. The total balance sheet value jumped on this account by roughly PLN 191 billion compared to the previous year, while non-controlling interests totaled PLN 22.8 billion (as at 31 March 2018). In Q1 2018, Pekao contributed PLN 563 million to the banking segment's operating result.

Premiums

In Q1 2018 the PZU Group collected gross written premium of PLN 5,831 million, i.e. 1.1% more than in the corresponding period of the previous year, including premium growth of PLN 60 million in the international companies, chiefly on motor insurance in the Baltic States. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 5,458 million and was 7.6% higher than in the corresponding period of last year.

Claims and benefits

In Q1 2018 net claims and benefits (including the movement in technical provisions) were PLN 3,626 million, or 2.3% below the corresponding period of the previous year. The lower level of benefits in protection insurance followed from the decline in the frequency of claims.

In turn, the increase in net claims and benefits (mainly in the class of motor insurance in the corporate client segment and the mass segment) was affected by the remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident.

Administrative and acquisition expenses

The Group's administrative expenses in Q1 2018 were PLN 1,615 million compared to PLN 865 million in the corresponding period of 2017. The increase resulted mainly from commencing the consolidation of Pekao in June 2017. Administrative expenses of the banking activity segment increased by PLN 769 million y/y. At the same time, administrative expenses in the insurance activity segments in Poland were PLN 17 million lower than in the corresponding period of the previous year. The change resulted from lower costs of project-related and ongoing activities.

In Q1 2018 acquisition expenses rose by PLN 57 million compared to the corresponding period of the previous year, driven mainly by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from the growing portfolio and the change in the product mix.

Interest expenses

Interest expenses in Q1 2018 were PLN 499 million, making them higher by PLN 327 million compared to the corresponding period of the previous year. The increase pertained mainly to interest earned on term deposits and current on banking activity and interest on own debt securities issued, primarily in connection with the issue of subordinated bonds by PZU in the amount of PLN 2,250 million in June 2017.

Investments

Investment income (including investment contracts i.e. contracts that involve no considerable insurance risk) in Q1 2018 and Q1 2017 was PLN 2,474 million and PLN 1,679 million, respectively. The result achieved is the effect of the growth in the investment income from deposits in the banking business due to commencing the consolidation of Pekao and the drop in the investment result net of banking activity.

Profit

Consolidated net profit was PLN 1,043 million and was 3.6% higher than the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 640 million compared to PLN 940 million in Q1 2017. This difference was caused by the declines on the WSE in Q1 2018. The WIG index fell 8.4% compared to 11.9% growth in the corresponding period of the previous year. The other cause was the remeasurement of provisions in non-life insurance for claims for general damages due to being in a vegetative state in connection with the Supreme Court's recent judgment.

Equity

As at 31 March 2018, consolidated equity was PLN 37,630 million and was 107.8% higher compared to the corresponding period of 2017. The increase in consolidated equity pertained to non-controlling interests, which amounted to PLN 22,753 million in H1 2017, mainly due to the consolidation of Pekao. In comparison with consolidated equity as at 31 December 2017, equity increased by PLN 29 million. Its change was caused by the net result generated in Q1 2018 and by recognizing the effects of implementing IFRS 9 in equity. Equity attributable to parent company shareholders rose by PLN 255 million compared to the end of the previous year, which resulted from the net result attributed to the parent company in Q1 2018, partially offset by recognizing the effects of implementing IFRS 9 in equity.

ROE

In Q1 2018 the return on equity attributable to the parent company was 17.6%. ROE was 10.3 p.p. lower than in the corresponding period of the previous year.

Solvency according to Solvency II

As at the end of December 2017, the solvency ratio (calculated according to the standard Solvency II equation) was 211%, a level above the average solvency ratio reported by insurance groups in Europe.

PZU Group's financial highlights:

No.	Item (in PLN m)		3m period ended on 31 March 2018	3m period ended on 31 March 2017
1.	Gross written premiums		5,831	5,768
2.	Net insurance claims and benefits and movement in technical provisions		-3,626	-3,710
3.	Investment result, including:		2,474	1,679
3a.		Net investment income	2,893	1,366
3b.		Net result on realization of financial instruments and investments	65	10
3c.		Movement in allowances for expected credit losses and impairment losses on financial instruments	-421	-223
3d.		Net movement in fair value of assets and liabilities measured at fair value	-63	526
4.	Interest expenses		-499	-172
5.	Net profit, including:		1,043	1,007
5a.		profit attributable to equity holders of the Parent Company	640	940
5b.		profit attributable to holders of non-controlling interests	403	67
6.	Equity		37,630	18,114
7.	Investment financial assets and investment property		110,805	59,659
8.	Total assets		318,199	126,684

<u>Additional information:</u>

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