Warsaw, 15 November 2018

Press Release

PZU Group: highest quarterly profit in 5 years and record high premium

The PZU Group posted the highest quarterly net profit in 5 years, both at the Group level (PLN 1.56 billion) and at the Parent Company level (PLN 1.01 billion). Gross written premium in Q3 2018 was PLN 5.38 billion yielding PLN 17.3 billion year-to-date in the first 9 months of the year.

Third quarter

- **The parent company's net profit improved 47.4%** to **PLN 1.01 billion** from PLN 683 million in Q3 2017.
- The **parent company's return on equity (ROE) improved** from 20.2% to **29.3%**. It was **9.1 p.p. higher** than in Q3 2017.
- **High profitability in non-life insurance** in the PZU Group – the combined ratio was **84.3%** in Q3 2018 despite considerable price pressures.
- **High profitability of life insurance** in group and individually continued insurance policies: the operating profit margin of **26.1%** is 6 p.p. above the target defined in the strategy.
- **Rigorous cost discipline**, the administrative expense ratio in PZU SA and PZU Życie SA was **6.0%**.
- **High capital safety ratio** – SII at 227%.
- **S&P Global Ratings** has confirmed the PZU Group's rating at A- with a stable outlook.

9 months

- **Gross written premium climbed** from PLN 16.93 billion **to PLN 17.26 billion**, or **1.9%** compared to the first 9 months of 2017.
- **Consolidated net profit increased** from PLN 2.90 billion **to PLN 3.90 billion**, or **34.6%** compared to the first 3 quarters of 2017.
- **Return on equity for the parent company rose** from 21.1% **to 22.9%**, or **1.8 p.p.** compared to the first 9 months of 2017.

Paweł Surówka, CEO of PZU SA

The excellent financial condition of the PZU Group in the first three quarters of this year is the result of its very good performance in the main insurance segment, supported by the banking segment's increasing contribution. Gross written premium hit the record amount of PLN 17.3 billion and the Group's net profit came in at PLN 3.9 billion. At the same time, in Q3 the parent company's net profit exceeded PLN 1 billion.

This is the best performance in the last 5 years. Additionally, this year's results are of high quality, which can be seen in the profitability ratios, with a limited effect being exerted by the investment result.

In parallel to the activities directed at profitable growth, we are consistently implementing our strategy based on innovation and new technologies. Since the beginning of the year, we increased considerably the number of interactions with clients, mainly in sales using remote channels. We have also enhanced the automation of service processes in claims handling and launched a contemporary, intuitive and user-friendly www.pzu.pl website.

In October, we launched inPZU.pl, an innovative web platform, which can be used to buy investment products in a quick and simple manner. Investing has never been so attractive in terms of fund management fees. On the inPZU platform, each fund has a low fixed fee of 0.5%.

Tomasz Kulik, the PZU Group's CFO

Our results demonstrate that this year we are consistently implementing our key strategic objectives. The return on equity (ROE) in the first 9 months was 22.9%. This return on equity is higher than the ROE earned by our local and international competitors.

In the third quarter of the year, the COR ratio for non-life insurance was 84.3%. In the long term, the main contributor to the good performance was having an adequate tariff policy implemented while pursuing strict cost discipline. Additionally, an important factor in Q3 was the low loss ratio and absence of non-recurring events in property insurance. In the corresponding periods of 2016 and 2017, adverse weather events took place.

The increasing profits recorded from the beginning of the year allowed the Group to maintain a high growth rate, while maintaining a high level of safety measured by the SII solvency ratio. At the end of Q2 it was 227%, i.e. 27 p.p. above the target facilitating a dividend payout according to the adopted Capital and Dividend Policy.

The excellent performance and consistent implementation of the PZU Group strategy were recognized by the S&P Global Ratings rating agency, which affirmed the PZU Group's rating at A- with a stable outlook. The agency's analysts drew attention to PZU's very strong position as the insurance market leader generating higher profitability than that of its Polish and international competitors and assessed PZU's solvency at the highest possible level of AAA.

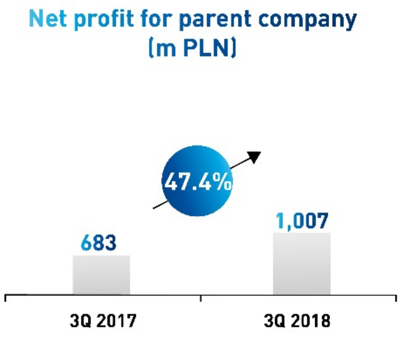
Roman Pałac, CEO of PZU Życie

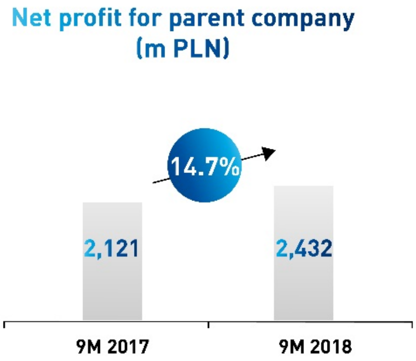
In the life insurance segment, which is the most important one to us, we have observed an increase in our market share and high profitability of our operations. At the end of the first half of this year, the life insurance market share held by PZU Życie in terms of periodic premium insurance products reached a record level of 46%.

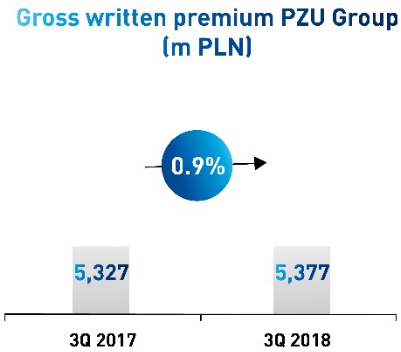
In Q3 we observed even further improvement of margins in group and individually continued insurance. After a difficult first quarter, when the margin was 16.6%, in Q2 and Q3 we returned to levels considerably higher than 20%, i.e. 23.7% and 26.1%, respectively. The increases were driven by changes introduced in the design of products as well as the lower loss ratio. We are gradually introducing new and attractive riders to group and continued insurance, allowing us to reach new clients on a larger scale.

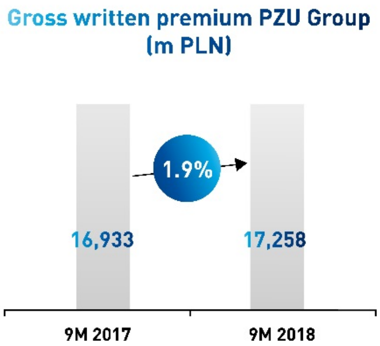
The PZU Group's health products are also very popular. At the end of September 2018, we had more than 2.2 million health contracts in force in our portfolio. That signifies 45% growth in comparison with Q3 2017.

Financial highlights – Q3 2018









Performance summary for main[1] operating segments

1) Non-life insurance – corporate insurance

In the first three quarters of 2018, in the corporate insurance segment gross written premium grew from PLN 1,894 million to PLN 2,054 million, i.e. by PLN 160 million (+8.4% y/y) as compared to the first 3 quarters of 2017. The PZU Group posted:

- higher premium on insurance against fire and other damage to property and other TPL following the execution of several contracts (including long-term contracts) with high unit values and development of the medical entity insurance portfolio in TUW PZUW;
- higher sales in motor insurance (+3.6% y/y) offered to leasing companies and in fleet insurance as a consequence of the higher average premium and the lower number of insurance products;
- development of the insurance portfolio following from the extension of cooperation between TUW PZUW and its strategic partners, partly offset by a lower level of premiums on loans and insurance guarantees.

In the first 3 quarters of 2018, the corporate insurance segment earned an insurance profit of PLN 325 million, which is 87.9% more than in the corresponding period last year. The increase in insurance profit was driven mainly by the improved profitability of the portfolio of insurance against catastrophic and other material losses (much lower claims with high unit values and damage caused by adverse weather conditions) and MOD insurance.

2) Non-life insurance – mass insurance

In the first three quarters of 2018, gross written premium in the mass insurance segment grew from PLN 7,508 million to PLN 7,702 million, i.e. by PLN 194 million (+2.6% y/y) as compared to the corresponding period of 2017. This growth resulted primarily from:

- an increase in gross written premium in motor insurance (+2.0% y/y);
- incremental growth in the premium for insurance against fire and other damage to property (+2.1% y/y), chiefly in residential insurance and small and medium-sized enterprise insurance; this effect was partly offset by lower sales of crop insurance and agricultural insurance due to the fierce competition on the market;
- higher written premium in the other TPL insurance group (+5.2% y/y) and ADD and other (6.9% y/y), mainly illness insurance and assistance.

The increase in operating profit in the mass insurance segment by PLN 358 million (+37.6%) compared to the first three quarters of 2017 was chiefly attributable to the increase in profitability in non-motor insurance (a lower level of damage caused by adverse weather conditions) and MOD insurance slightly offset by a decrease in the result on motor TPL insurance (impact of remeasurement of the provision for claims for general damages).

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[1] A detailed commentary on the remaining segments is presented in the Condensed interim consolidated financial statements according to IFRS for the 9 months ended 30 September 2018

3) Life insurance – group and individually continued insurance

In the first three quarters of 2018, gross written premium in the group and individually continued insurance rose from PLN 5,145 million to PLN 5,163 million, i.e. by PLN 18 million (+0.3%) as compared to the corresponding period of last year. The improvement was driven mainly by:

- acquiring more contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of September 2018, PZU Życie had more than 1.7 million in force contracts of this type. A new rider to continued insurance was launched under the name "*PZU Uraz ortopedyczny* [PZU orthopedic injury]". In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland. The insurance garnered excellent response from the clients – three out of four clients enrolling in individual continuation selected this rider as well;
- active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements;

At the same time, revenues from group protection products remained under pressure of increased departures from groups (work establishments) due to the legal reduction of the retirement age in Q4 2017.

Operating profit in the group and individually continued insurance segment after Q3 2018 climbed from PLN 1,131 million to PLN 1,155 million, or up PLN 24 million (+2.1%) compared to the corresponding period of 2017. Operating profit after excluding the effect related to conversion of long-term contracts into renewable contracts in type P group insurance improved by PLN 41 million y/y (+3.7%). This was driven mainly by the continued growth of the insurance portfolio and the lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio and also by the lower level of benefits in the group protection products portfolio this year.

4) Life insurance – individual

The decline in gross written premium compared to the first 3 quarters of 2017 from PLN 1,196 million to PLN 1,007 million, or by PLN 189 million (+15.8%) resulted chiefly from lower contributions to unit-linked accounts in unit-linked products offered jointly with banks. At the same time, positive factors were also at play, such as:

- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales exceeds the value of write-offs in the existing portfolio;
- growth of the insured portfolio in protection products in the bancassurance channel.

The segment's operating result rose in comparison to last year from PLN 144 million to PLN 160 million, or PLN 16 million (+1.1%), mainly due to the increasing management fee and lower acquisition expenses in unit-linked products. Another factor contributing to the improvement in the profit margin was an increased share of protection products in revenues, since they generate much higher margins.

5) Banks

The banking activity segment consists of the following groups: Pekao, from June 2017 (effect of settling the transaction and start of consolidation) and Alior Bank.

After the first 3 quarters of 2018, the banking activity segment generated PLN 2,814 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 1,414 million compared to the first 3 quarters of 2017. Due to the consolidation of Pekao, one of the largest banks in the Central and Eastern Europe, all the items of the profit and loss account and of the statement of financial position in 2018 are much higher than they were in the previous year.

In 2018, Pekao contributed PLN 2,071 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao S.A. acquisition transaction) in the “Banking activity” segment, while Alior Bank’s contribution was PLN 743 million.

Commentary on key reporting items according to IFRS[2]

Premiums

In the first 9 months of 2018, the PZU Group collected gross written premium of PLN 17,258 million, i.e. PLN 325 million (+1.9%) more than in the corresponding period of the previous year. Growth materialized mainly in motor insurance in the mass and corporate client segments (+PLN 148 million y/y), insurance against fire and other damage to property in the corporate client segment (+PLN 118 million y/y) and in greater sales generated by foreign companies (+PLN 164 million y/y). The increases were partially offset by the lower premiums in the individual life insurance segment (-PLN 189 million), which was driven mainly by lower contributions to unit-linked products in the bancassurance channel.

After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 16,721 million and was PLN 872 million (+5.5%) higher than in the corresponding period of last year.

In Q3 alone, gross premium increased from PLN 5,327 million to PLN 5,377 million, i.e. by PLN 50 million (+0.9%) y/y, while net earned premium improved from PLN 5,502 million to PLN 5,667 million, i.e. by PLN 165 million (+3.0%) y/y.

Claims and benefits

Net claims and benefits in the first 9 months of 2018 (including the movement in technical provisions) declined from PLN 11,252 million to PLN 10,984 million, i.e. by PLN 268 million (-2.4%), compared to the corresponding period of the previous year.

The decline in net claims and benefits was caused predominantly by the decrease in life insurance (a negative investment result on most unit-linked product portfolios, compared with high positive results achieved last year and lower client deposits to accounts in individual unit-linked products in the bancassurance channel) and in insurance against fire and other damage to property (a lower level of damage caused by adverse weather conditions).

On the other hand, an increase in the net claims and benefits category was recorded in the motor insurance group in the corporate and mass client segments in connection with remeasurement of the provision (in Q1

2 Based on information presented in the condensed interim consolidated financial statements according to IFRS for the 9 months ended 30 September 2018

2018) for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident.

In Q3 2018 alone, net claims and benefits declined from PLN 4,038 million to PLN 3,639 million, i.e. by PLN 399 million (-9.9%), compared to the corresponding period of the previous year.

Acquisition expenses

Acquisition expenses in the first 9 months of 2018 increased from PLN 2,142 million to PLN 2,300 million, i.e. by PLN 158 million (+7.4%), compared to the corresponding period of the previous year. This increase was driven in particular by an increase in direct acquisition expenses in the mass and corporate client segments that ensued from the burgeoning portfolio and the changes in the product mix and sales channels. In Q3 2018 alone, acquisition expenses went up from PLN 730 million to PLN 781 million, i.e. by PLN 51 million (+7.0%), compared to the corresponding period of the previous year.

Administrative expenses

Administrative expenses of the insurance segments in Poland remained at a level similar to that of the corresponding period of the previous year (+PLN 25 million y/y). This was driven largely by higher payroll costs in response to clear signs of wage pressure on the market while maintaining the persistent cost discipline in operating areas unrelated to wages – both current and project-related operations. At the same time, in Q3 2018 alone, administrative expenses totaled PLN 1,593 million compared to PLN 1,592 million in the corresponding period of 2017.

In the first 9 months of 2018, the PZU Group's administrative expenses, including those generated by banks, totaled PLN 4,935 million compared to PLN 3,628 million in the corresponding period of 2017. This upward movement stemmed mainly from commencing the consolidation of Pekao (administrative expenses of the banking segment rose PLN 1,295 million).

Investment activity

In the first 9 months of 2018, the net investment result[3] including interest expenses shot up from PLN 4,958 million to PLN 6,486 million, i.e. by PLN 1,528 million (+30.8%), compared to the corresponding period of 2017. This higher result was driven largely by commencing the consolidation of Pekao in June 2017.

[3] The net investment result includes net investment income, net result on realization of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value.

In Q3 2018, the net investment result including interest expenses declined from PLN 2,351 million to PLN 2,222 million, i.e. by PLN 129 million (-5.5%), compared to the corresponding period of 2017.

After netting out the impact exerted by banking operations, the net investment result including interest expenses in Q3 2018 decreased from PLN 528 million to PLN 372 million, i.e. by PLN 156 million (-29.5%) y/y.

Profit

The PZU Group's consolidated net profit in the first 9 months of 2018 improved from PLN 2,899 million to PLN 3,902 million, i.e. by PLN 1,003 million (+34.6%), compared to the net result in the corresponding period of the previous year. In Q3 2018, net profit increased from PLN 1,194 million to PLN 1,544 million, i.e. by PLN 350 million (+29.3%), compared to the corresponding period of 2017.

In the first 9 months of 2018, net profit attributable to the equity holders of the parent company increased from PLN 2,121 million to PLN 2,432 million, i.e. by PLN 311 million (+14.7%), compared to the corresponding period of 2017. In Q3 2018, net profit attributable to the equity holders of the parent company rose from PLN 683 million to PLN 1,007 million, i.e. by PLN 324 million (+47.4%), compared to the corresponding period of 2017.

Equity

As at 30 September 2018, consolidated equity declined from PLN 36,344 million to PLN 36,012 million, i.e. by PLN 332 million (-0.9%), compared to the end of September 2017. In comparison with the consolidated equity as at 31 December 2017, equity decreased by PLN 1,548 million. The decline affected in particular non-controlling interests, which fell from PLN 22,961 million to PLN 21,843 million, i.e. by PLN 1,118 million (-4.9%). Equity attributable to the parent company's shareholders fell by PLN 430 million compared to the end of the previous year – as an effect of the distribution of the 2017 profit by PZU, including the allocation of PLN 2,159 million as a dividend and the effect of the application of IFRS 9. These factors were partially offset by the net result attributed to the parent company earned in the first 3 quarters of 2018.

Total equity and liabilities as at 30 September 2018 increased from PLN 317,458 million to PLN 320,117 million, i.e. by PLN 2,659 million (+0.8%), compared to 31 December 2017. The increase pertained mainly to the balance of other liabilities (+PLN 1,775 million) and financial liabilities (+PLN 1,741 million).

ROE

In the first 9 months of 2018, return on equity (ROE) attributable to equity holders of the parent company rose from 21.1% to 22.9%, or 1.8 p.p., compared to the corresponding period of the previous year.

In Q3 2018 alone, return on equity attributable to equity holders of the parent company improved from 20.2% to 29.3%, or 9.1 p.p., compared to the corresponding period of the previous year.

Solvency according to Solvency II

As at the end of Q2 2018, the solvency ratio (calculated according to the standard Solvency II equation) was 227%, a level above the average solvency ratio reported by insurance groups in Europe.

PZU Group's financial highlights

	Data for 3 quarters (in PLN million)		9 months of 2018	9 months of 2017	Change y/y
1.	Gross written premiums		17,258	16,933	1.9%
2.	Net insurance claims and benefits and movement in technical provisions		(10,984)	(11,252)	-2.4%
3.	Net investment result (after including interest expenses)		6,486	4,958	30.8%
3a.		Net investment income	8,620	6,192	39.2%
3b.		Net result on realization of financial instruments and investments	42	219	-80.8%
3c.		Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,270)	(893)	42.2%
3d.		Net movement in fair value of assets and liabilities measured at fair value	602	310	94.2%
3e.		Interest expenses	(1,508)	(870)	73.3%
5.	Net profit, including:		3,902	2,899	34.6%
5a.		profit attributable to equity holders of the Parent Company	2,432	2,121	14.7%
5b.		profit attributable to holders of non-controlling interests	1,470	778	88.9%

	Quarterly data (in PLN m)		Q3 2018	Q3 2017	Change y/y
1.	Gross written premiums		5,377	5,327	0.9%
2.	Net insurance claims and benefits and movement in technical provisions		(3,639)	(4,038)	-9.9%
3.	Net investment result (after including interest expenses)		2,222	2,351	-5.5%
3a.		Net investment income	3,026	2,910	4.0%
3b.		Net result on realization of financial instruments and investments	(57)	(19)	200.0%
3c.		Movement in allowances for expected credit losses and impairment losses on financial instruments	(432)	(354)	22.0%
3d.		Net movement in fair value of assets and liabilities measured at fair value	201	264	-23.9%
3e.		Interest expenses	(516)	(450)	14.7%
5.	Net profit, including:		1,544	1,194	29.3%
5a.		profit attributable to equity holders of the Parent Company	1,007	683	47.4%
5b.		profit attributable to holders of non-controlling interests	537	511	5.1%

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