Warsaw, 13 March 2019

Press Release

PZU Group: highest annual profit in 5 years and record high gross written premium

In 2018 the PZU Group posted its highest annual net profit in 5 years at the Group level (PLN 5.4 billion) and the Parent Company level (PLN 3.2 billion) alike. Gross written premium hit a new record in the PZU Group's history in full year 2018 (PLN 23.5 billion) and Q4 2018 (PLN 6.2 billion).

Key accomplishments in 2018:

- **Record-breaking gross written premium** (**PLN 23.5 billion**) outstripping the ambitious levels achieved last year by 2.7%.
- **Parent company's net profit surges to PLN 3.2 billion, its highest level in five years**, placing it 11% above last year. The Group reports earnings of **PLN 5.4 billion**, up 28.3% over last year.
- The parent company's **return on equity (ROE) improved** and came in at **22.1%**. This is its highest level in 4 years, and it is above the level stated in the newPZU strategy until 2020. ROE improved 1.1 p.p. in comparison with the high level generated last year.
- **Improved profitability** in the insurance segment in **non-life in Poland** in which the **combined ratio was 86.6% (improvement of 2.7 p.p.)** and in **life** in which the margin generated by the group and individually continued insurance segment rose to 22.1% (up 1.5 p.p.). The profitability in both segments is above the strategic ambitions and stands out against the backdrop of Polish and European insurers.
- **Sustained cost discipline, administrative expense ratio dipped to 6.6% (down 0.2 p.p.) versus 2017** to a level close to the one posited in the newPZU strategy 2020.
- Further rapid **growth in PZU Zdrowie's business size** – **revenue rose 26% while the number of contracts skyrocketed by 53%** year-on-year.
- **A very successful fourth quarter with gross written premium moving up to PLN 6.2 billion (5% year-on-year)** above the pace achieved in previous quarters and above the market) and **double-digit growth in the non-life segment in Poland** (+10.6% versus Q4 2017) and **abroad** (+13.5% versus Q4 2017).

Paweł Surówka, CEO of PZU SA

2018 was a spectacular year for PZU and a crucial milestone from the viewpoint of executing our strategy. We not only beat our own records in terms of net result and sales, but we also achieved all of the major objectives we set for ourselves in 2018. The value of insurance sold increased PLN 623 million to the record-breaking watermark of PLN 23.5 billion while the Group's net profit stepped up by PLN 1.2 billion to PLN 5.4 billion. The parent company's profit was PLN 3.2 billion, thereby implying an ROE of 22.1%, or a level above the strategic ambitions for 2020. This above average return on equity should predominantly be credited to our stable and loyal client base, high operating efficiency, attractive and competitive offer. Thanks to these factors, we are capable of maintaining a high and recurring level of profitability in our core underwriting business.

Another year of pursuing the ambitious strategic objectives laid down in the #newPZU strategy is now behind us. These objectives will aid us to enhance the quality and frequency of client interactions to an even greater extent. While relying on digital innovations we have forged a coherent and integrated approach to the products and services we offer. We have also completed projects such as the myPZU service platform supporting the purchase of insurance, health and investment products and the inPZU platform to sell investment products. We are deploying the PZU GO solution to augment safety on the road and help rescue human lives. We have elevated the efficiency of client service by harnessing robotics and mobile technology. We have created a friendly environment to cultivate innovation. In 2018, we executed 15 pilot projects in data use, digitization of processes and client interactions while testing telematic solutions. We are confident that this description of our offer will form the basis for our long-term competitive edge in an environment in which fintechs and startups are playing an ever more significant role.

These results and projects place us among the world's absolute best in our sector in terms of profitability, stability and innovativeness. We enter the new year of 2019 with the conviction that as Poland's largest financial group we are working on solutions that will play a leading role across the globe and we are thinking with greater confidence about our international position in the spirit of our motto, which we propagated in New York City and Davos, inter alia, in conjunction with the centennial of Poland regaining independence, #PolandCanDoNation.

Tomasz Kulik, the PZU Group's CFO

These results affirm our unwavering strategy execution, not just in terms of the overarching objective of return on equity (ROE) but also in terms of various lines of business, efficiency and profitability parameters.

In 2018, the PZU Group attained a very robust combined ratio (COR) in non-life insurance – 86.6% in Poland. This ratio underwent substantial improvement (falling 2.7 p.p. versus 2017) that was particularly manifest in the retail client segment (improvement of 3.4 p.p.). The decline in claims frequency in motor and other insurance was among the contributing factors. We will continue to toil to match insurance prices to client profiles better in a competitive market environment by utilizing and constantly refining risk pricing algorithms.

The level of, and trends in, administrative expenses in PZU and PZU Życie also merit attention. The administration expense ratio in 2018 was 6.6%, a better result to the tune of 0.2 p.p. versus 2017 and it is very close to the level we have designated as being strategic. The Group's administrative expenses did in truth rise, but this was the outcome of consolidating Bank Pekao for a better part of the year than in 2017. Net of banking activity, the Group's costs edged down by nearly 1% year-on-year, a solid result, especially when juxtaposed with the expanding size of the business (gross written premium hit another record by surging forward by nearly 3% year-on-year) and the wage pressure noticeable across all the sectors of the economy.

A high level of safety measured by the SII solvency ratio accompanies improved profitability; at the end of Q3 it was 245%. This ratio does not include the subtraction of the anticipated dividend. The robust results generated in 2018 make it probable that the dividend will be distributed. We strive to deliver on the promise we extended to our shareholders of growing the dividend steadily.

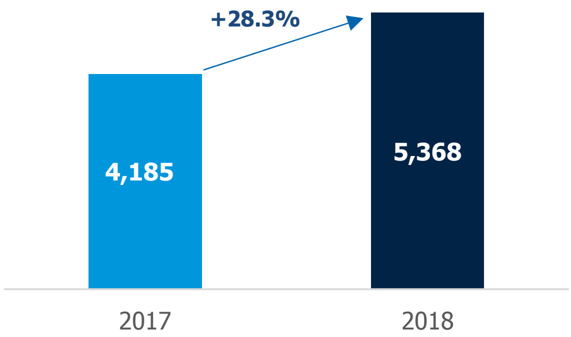
Roman Pałac, CEO of PZU Życie

2018 confirmed PZU Życie's strong position as the leader in the periodic premium segment. PZU Życie's share of the periodic premium insurance market at the end of Q3 2018 was at its highest since 2010 and was equal to 46%. Such a superb result was possible thanks to maintaining the very high attractiveness of the product offer, including an ever higher number of riders coupled with suitable risk pricing. The margin climbed 1.5 p.p. y/y to 22.1%. At the same time, this result was above the strategic objective for 2020 stated at the level of > 20%.

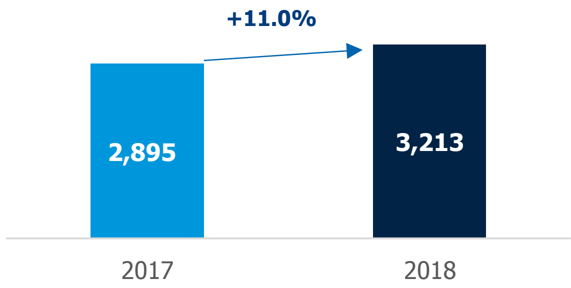
In 2018 we consistently developed our health business, which is one of the PZU Group's fastest growing segments. Among other things, we opened three medical centers and we finalized two acquisitions at the turn of 2018/2019. At the end of 2018, our own medical center network numbered more than 60 entities. We constantly did work to cultivate our partnership cooperation. At the end of 2018, PZU Zdrowie cooperated with more than 2,100 partner centers in more than 500 towns and cities in Poland. From a business point of view, we posted an upswing of 53% y/y of in force contracts that numbered 2.3 million at the end of 2018. This translated into 26% revenue growth y/y to PLN 575 million, coupled with the simultaneous growth of EBITDA by 0.6 p.p. to 8.8%.

PZU Group's financial highlights – 2018

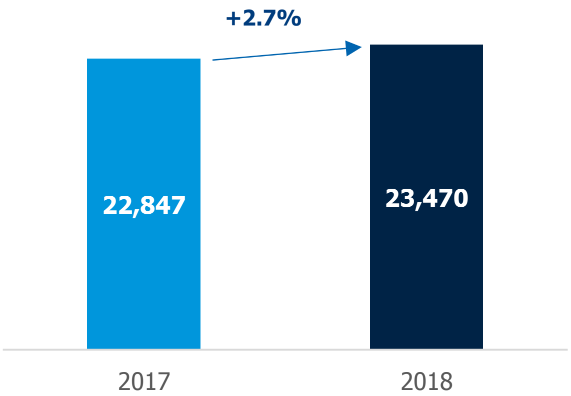
Consolidated net profit (PLN million)



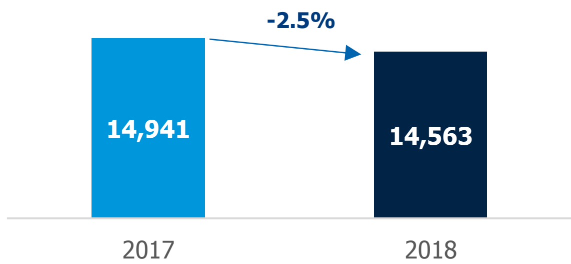
Net profit attributable to the equity holders of the parent company (PLN million)



Gross written premiums (PLN million)



Net insurance claims and benefits paid (PLN million)



Performance summary for main operating segments

1) Non-life insurance – corporate insurance

Gross written premium in the corporate insurance segment in 2018 was PLN 3,097 million, signifying growth of PLN 359 million, i.e. 13.1% year-on-year. The following factors made the largest contribution to the PZU Group's result in this segment:

- growth in the motor insurance gross written premium (+6.9% y/y) offered to leasing companies and in fleet insurance;
- higher sales of 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;
- development of the insurance portfolio containing financial risks, including the signing of several high-value contracts and the higher premium from the insurance of GAP financial losses.

In conjunction with the higher pace of growth in net claims and benefits paid (+20.3% y/y) versus the growth in net earned premiums (+16.0% y/y), the loss ratio deteriorated, which at the end of 2018 was 68.4% (+2.4 p.p. y/y). The underwriting result generated by the PZU Group's corporate insurance segment was PLN 268 million in 2018, some 40.3% above 2017.

2) Non-life insurance – mass insurance

The gross written premium in the mass insurance segment generated by the PZU Group in 2018 was PLN 10,401 million, up PLN 333 million, i.e. 3.3% year-on-year. The following factors exerted a special impact on the PZU Group's result in this segment:

- higher gross written premium in motor insurance;
- incremental growth in the premium for insurance against fire and other damage to property, chiefly in residential insurance and small and medium-sized enterprise insurance coupled with a similar level of sales of agricultural insurance despite the fierce competition on the market;
- higher gross written premium in other TPL insurance (+5.6% y/y) and ADD and other (11.5% y/y), mainly assistance and accident insurance.

In 2018 net claims and benefits paid in the mass insurance segment edged up 1.7% over last year to PLN 6,171 million. Net earned premium climbed 6.9% y/y, thereby contributing to an improved loss ratio, which at the end of 2018 came in at 60.7% (-3.1 p.p. y/y). The insurance result in the mass segment was PLN 1,725 million in 2018, up 30% over last year.

3) Life insurance – group and individually continued insurance

Gross written premium in the group and individually continued insurance segment in 2018 was PLN 6,891 million, up PLN 36 million, i.e. 0.5% year-on-year. The expansion of gross written premium in this segment was the outcome of the following drivers:

- attracting further 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 2018, PZU Życie had more than 1.8 million in force contracts of this type. In Q1 2018 PZU Życie introduced into its offering a new rider to continued insurance under the name "PZU Uraz ortopedyczny [PZU orthopedic injury]";
- 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.

The revenues in group protection products faced pressure from higher lapses in groups (work establishments) due to the retirement age being statutorily reduced in Q4 2017.

In 2018 versus the previous year insurance claims and benefits paid including the movement in other technical provisions dipped and totaled PLN 4,931 million (-4.1%). The decline in this figure was the outcome of drivers such as the decline in technical provisions under employee pension plans, the lower level of benefits in the group protection products portfolio and the lower increase in mathematical reserves in continued products.

The underwriting profit in the group and individually continued insurance segment totaled PLN 1,543 million in 2018 and was PLN 93 million (6.4%) higher than the result posted in 2017. After netting out the effect of converting long-term contracts into yearly-renewable term contracts in type P insurance, the underwriting result was PLN 1,526 million, up by 7.8% since last year. The operating margin in group and individual continuation insurance at the end of 2018 was 22.1%, signifying growth of 1.5 p.p. versus last year.

4) Life insurance – individual

The gross written premium in the individual insurance segment in 2018 was PLN 1,346 million, down PLN 318 million, i.e. -19.1% year-on-year. This slump was the outcome of lower contributions to unit-linked accounts in single-payment unit-linked products offered jointly with banks, which is in line with the trends prevailing across the life insurance market. 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 and premium indexation under the agreements in the portfolio exceeds the value of lapses,

- growth of the insured portfolio in protection products in the bancassurance channel, including particularly the introduction of new products together with Alior Bank and Bank Pekao in H2 2018.

The underwriting profit in the individual insurance segment in 2018 was PLN 227 million, meaning it was up by PLN 18 million, i.e. 8.6% year-on-year. The most important factors driving the result included lower acquisition expenses in unit-linked products and rising compensation generated by management fees in this product group. 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. In 2018, operating profit of PLN 4,036 million was posted (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase of PLN 1,597 million compared to 2017. Taking into consideration the commencement of consolidation of Pekao, one of the largest banks in Central and Eastern Europe, in 2017 all items of the statement of profit or loss and items of the statement of financial position for 2018 are significantly higher compared to the previous year.

In 2018, Pekao contributed PLN 3,047 million to operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 989 million.

Commentary on key reporting items according to IFRS

Premiums

The PZU Group's gross written premium in 2018 totaled PLN 23,470 million, up PLN 623 million, i.e. +2.7% year-on-year. The growth pertained chiefly to motor insurance in the mass and corporate client segments and ensued from the conclusion of several high-value contracts and higher sales in international companies. At the same time, this growth was partially offset by the lower premium in the individual life insurance segment, mainly driven by lower contributions to unit-linked products in the bancassurance channel.

After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 22,350 million, up PLN 996 million, i.e. 4.7% year-on-year.

Claims and benefits

Net claims and benefits paid (including the balance of technical provisions) in 2018 totaled PLN 14,563 million and fell by PLN 378 million, i.e. 2.5% versus last year.

The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, a lower investment result on most unit-linked product portfolios, compared with high, positive results achieved last year and lower client contributions to accounts in individual unit-linked products in the bancassurance channel;
- in insurance against fire and other damage to property, a lower level of weather-related claims (gusty wind, torrential rain).

The growth in this category of net claims and benefits was precipitated by the remeasurement of the provision (in Q1 2018) in the motor insurance group in the corporate and mass client segments for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident.

Acquisition expenses

The PZU Group's acquisition expenses totaled PLN 3,130 million in 2018, implying growth versus the previous year of PLN 229 million, i.e. 7.9%. The increase in this category was caused in particular by higher sales in the mass and corporate client segments in connection with the evolution of the sales channels.

Administrative expenses

The PZU Group's administrative expenses in 2018 were PLN 6,609 million compared to PLN 5,357 million in 2017 (+23.4%). The growth in this category resulted mainly from commencing Pekao's consolidation. Administrative expenses of the banking segment rose by PLN 1,246 million. At the same time, the administrative expenses of the insurance segments in Poland were a mere PLN 5 million higher compared to the previous year. This change largely resulted from higher payroll costs in response to clear signs of wage pressure on the market while maintaining persistent cost discipline in operating areas unrelated to wages – both current and project-related operations.

Investment activity

In 2018, the net investment result including interest expenses was PLN 8,584 million, implying growth of PLN 1,463 million, i.e. 20.5% year-on-year.

This higher result was caused predominantly by the commencement of Pekao's consolidation in June of 2017.

The following factors affected the income:

- softer performance on listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 9.5% in 2018 compared to 23.2% growth in the corresponding period of the previous year;

- better performance of the portfolio of treasury bonds marked to market in connection with the more favorable situation on the debt market;
- negative impact exerted by the foreign exchange differences on own debt securities in conjunction with the depreciation of the PLN versus EUR following appreciation in the comparable period, partially offset by stronger performance of investments denominated in EUR.

In 2018, the value of the PZU Group's investment portfolio, excluding the impact of banking activity, was PLN

50,270 million compared to PLN 46,164 million as at the end of 2017 (+8.9%). The overall growth of the investment portfolio was related to the higher receipts from premiums due to business growth and the rising value of the investments.

Profit

The PZU Group's consolidated net profit in 2018 totaled PLN 5,368 million, up PLN 1,183 million, i.e. 28.3% above last year. T**he net profit attributable to the equity holders of the parent company was PLN 3,213 million compared to PLN 2,895 million in 2017**, signifying **growth of 11.0%**. The earnings per share in 2018 rose PLN 0.37, or 11% to PLN 3.72.

Equity

At the end of 2018, consolidated equity hit PLN 37,407 million, down from the end of 2017 by PLN 153 million, or 0.4% The value of non-controlling interests fell by PLN 479 million, or 2.1% to PLN 22,482 million versus last year, among others, in connection with Pekao earmarking PLN 2,074 million to be paid as a dividend, with PLN 1,659 million of that being the dividend attributable to non-controlling interests, and the effect of applying IFRS 9. The declines were partially offset by the result generated by Alior Bank and Bank Pekao attributed to non-controlling shareholders totaling PLN 2,155 million. Equity attributable to the parent company's shareholders rose by PLN 326 million compared to the end of the previous year – as an effect of the net result attributable to the parent company generated in 2018 totaling PLN 3,213 million, partially offset by of the distribution of profit for 2017, including the allocation of PLN 2,159 million as a dividend and the impact exerted by applying IFRS9.

ROE

In 2018 the return on equity (ROE) attributable to equity holders of the parent company was 22.1%, up 1.1

p.p. from the end of 2017. The reported ratio was higher than assumed in the PZU Group Strategy for 2020 (minimum of 22%).

Solvency according to Solvency II

The solvency ratio calculated according to the standard Solvency II equation was 245% at the end of Q3 2018, (+37.2 p.p. versus 2017) and was above the average solvency ratio reported by insurance groups in Europe.

PZU Group's financial highlights

	Data for the financial year (PLN million)	**2018**	**2017**	**Change y/y**
1.	Gross written premiums	23,470	22,847	2.7%
2.	Net insurance claims and benefits and movement in technical provisions	14,563	14,941	-2.5%
3.	Net investment result (after including interest expenses)	8,584	7,121	20.5%
3a.	Net investment income	11,679	9,051	29.0%
3b.	Net result on realization of financial instruments and investments	-15	247	x
3c.	Movement in allowances for expected credit losses and impairment losses on financial instruments	-1,804	-1,207	x
3d.	Net movement in fair value of assets and liabilities measured at fair value	770	380	102.6%
3e.	Interest expenses	2,046	1,350	51.6%
5.	Net profit, including:	5,368	4,185	28.3%
5a.	profit attributable to equity holders of the Parent Company	3,213	2,895	11.0%
5b.	profit attributable to holders of non-controlling interests	2,155	1,290	67.0%

Additional information:
PZU Press Office
tel. (022) 582 58 07
e-mail: rzecznik@pzu.pl