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Press Release

Financial results of the PZU Group after Q3 2019: the best sales result in history despite the difficult market and a strategic acquisition in the health area

The first three quarters of 2019 will go down in PZU's history as record in terms of sales, which amounted to PLN 17.5 billion. At the same time, the net insurance result after the three quarters at PLN 1.99 billion is the best in five years. The return on equity of 23.7% was one of the best quarterly results in the company's history. This figure is almost twice as high as the average for European insurance companies.

In Q3 2019, PZU Zdrowie executed a strategic acquisition in the health area by taking over the nationwide chain of Tomma diagnostic centers. As a result of this acquisition, patients across Poland will have easier access to diagnostic tests and prevention.

– Results for the third quarter of 2019 showcase the excellent financial standing of the PZU Group and its dynamic growth in the key strategic areas. We are reaching our targets despite the difficult market conditions, price pressures or regulatory burdens. The amount of the premiums that we collected over the three quarters of this year – which is the highest in our history – shows that clients put their trust in us. On the other hand, the efficiency of our operations is demonstrated by the 23.7% return on equity. We want to continue to grow. Our ambition to provide health care to an increasing number of Poles resulted in the acquisition of the nationwide chain of Tomma diagnostic centers. This is how we improve accessibility of the patients to preventive medical testing, which is in line with our #10yearslonger social strategy – says Paweł Surówka, CEO of PZU.

According to Tomasz Kulik, PZU Management Board Member and CFO, “the Group has achieved high profitability by keeping the main business lines in a very good condition and maintaining strong cost discipline”.

– The Group's net result for the parent company amounted to PLN 2.36 billion after 9 months of 2019. This was possible due to a positive growth in net profit on insurance activity, despite the persisting price pressures in the motor insurance area – Tomasz Kulik emphasizes.

Compared to the first half of the current year, the growth of gross written premium and earned premium accelerated despite the adverse market conditions. Premiums in non-motor insurance grew by 21% on the year-on-year basis, while premiums on individual life insurance products – by 32%.

– The third quarter was very good for PZU's life business. We improved our market share by more than 2 p.p., while maintaining profitability at the level exceeding our strategic ambitions. We are particularly happy with the dynamic growth of individual protection insurance, where we are growing, year-on-year, by nearly 40%. We are also satisfied with continuing good figures of our health business, where we already serve more than two and a half million clients. By acquiring Tomma, PZU Zdrowie increased the number of its outlets by one-third, to over 130. This gives our clients access to modern diagnostic tests, which fits perfectly in our #10yearslonger strategy. After the acquisition of Falck, this is yet another success of the PZU Zdrowie team

– says Roman Pałac, CEO of PZU Życie. – We will give our patients even easier access to preventive medical testing using top class equipment. In this way, we want to contribute to the earlier detection of illnesses, setting the highest standards of health care in Poland – adds Paweł Surówka, CEO of PZU.



At the same time, the PZU Group is reaping increasing benefits from the development of its banking business and its synergies with the insurance activity. Contribution of the banking business to the quarterly consolidated results of the PZU Group was PLN 179 million.

Life insurance sales in the bancassurance channel increased 2.5-fold. The PZU Group has also become one of the leaders of the Employee Capital Schemes market. More than 1,000 of the largest employers in Poland, employing more than half a million people, signed Employee Capital Scheme (ECS) management contracts with the PZU Group.

CEO Paweł Surówka emphasizes that the appeal and potential of PZU was confirmed in October by the S&P Global Ratings agency, which affirmed its positive outlook on PZU, while keeping the financial strength rating at A-, which is the highest rating among all Polish companies.

The PZU Group is the largest financial institution in the Central and Eastern Europe. The value of its consolidated assets is nearly PLN 340 billion. It serves 22 million clients in five countries.

Key data and facts illustrating growth of the PZU Group after Q3 2019

- Three best quarters in PZU's history in terms of insurance sales: **PLN 17.5 billion**
- **The highest result on core business in 5 years**
- **High return on equity: 23.7% in Q3 2019** and 20.8% year to date
- **Acceleration of the pace of growth of gross written premium** and earned premium in Q3 2019 in comparison to the first half of the year
- **Growth of gross written premium on non-motor insurance** reflecting PZU's strong competitive position: 21% y/y in Q3 2019
- **Incremental growth of gross written premium in life insurance** despite market conditions that are not conducive to unit-linked business
- **Growth of gross written premium in individual life insurance in Poland: 32% y/y in Q3 2019** – substantially stronger in comparison to the first half of the year
- **Further growth of the PZU Zdrowie medical center network:** closing of the transaction to acquire the nationwide chain of Tomma diagnostic centers (effect to be seen in Q4)
- **New life insurance sales in the bancassurance channel have shot up 2.5 times** and **highest contribution of banking activity** to the quarterly consolidated results this year (179 m PLN)
- **Affirmation of the high rating outlook** for PZU by S&P Global Rating.

Commentary by PZU SA Management Board Members

Paweł Surówka, CEO of PZU SA:

Results for the third quarter of 2019 showcase the excellent financial standing of the PZU Group and its dynamic growth in the key strategic areas. In many areas, the performance has exceeded the assumed targets.

The record return on equity last quarter, which was nearly double the market average for European insurance companies, presents PZU as promising and attractive for investors. This is supported by the rigorous cost discipline.

The results for the last and previous quarters prove that the success of the PZU Group is based on solid and permanent foundation that makes continuing growth possible. The appeal and potential of PZU was confirmed in October by the S&P Global Ratings agency, which affirmed its positive outlook on PZU, while keeping the financial strength rating at A-, which is the highest rating among all Polish companies.



At the same time, the importance of the banking business as one of the pillars that we base our growth as the PZU Group, is increasing. The impressive 2.5-fold growth of life insurance sales in the bancassurance channel is yet another success. It confirms that we have adopted the correct strategy and promises further growth through the skillful capture of synergies between banking and insurance services.

We think ahead, so we also focus on modernity and innovation. After introducing such innovative solutions as the inPZU web investment platform or PZU GO, a service requesting assistance automatically in case of an accident, now we have launched another advanced technology project named “Band of Life”. It is an electronic wrist device, which monitors the basic vital parameters of patients and alerts medical personnel of any emergencies.

The pilot of the project is carried out in cooperation with the Ministry of Health and in the future it may revolutionize medical rescue services and also offer real support in public health care. It is an element of the broader project that we have undertaken, named #10yearslonger, which consists of a number of initiatives promoting health and safety of Polish people. This is how we want to implement not only business but also social goals, thus creating added value in the PZU Group.

The number of PZU Zdrowie’s own medical centers will increase by more than one third following the planned acquisition of Tomma and its outpatient clinics offering professional diagnostic tests. Through them, we will offer our patients even easier access to preventive medical testing using top class equipment. In this way, we want to contribute to the earlier detection of illnesses, setting the highest standards of health care in Poland.

Roman Pałac, CEO of PZU Życie:

The third quarter of 2019 was a good quarter for PZU in the life insurance area. With a nearly 40% share in this market, we generated more than 50% of its technical result. Individual insurance sales increased by more than 32%. We also grew in the group insurance segment.

Health insurance is growing in the PZU Group at an immense rate and currently more than two and half million clients are using our health services. In the first half of the year, PZU contributed nearly three fourths to the overall growth of the private health insurance market in Poland. We are expecting the results to improve in connection with the very fast expansion of the PZU Zdrowie network, which as of today it is one of the three largest private medical health care providers in Poland. By acquiring Tomma, PZU Zdrowie increased the number of its outlets by one-third, to over 130. This gives our clients broad access to modern diagnostic tests, which fits perfectly in our #10yearslonger strategy.

After the acquisition of Falck, this is yet another success of the PZU Zdrowie team.

Tomasz Kulik – PZU SA Management Board Member:

The performance that we achieved during the three quarters of 2019 in the non-banking segment is the best result in five years. Despite the significant price pressures on the property insurance market, we maintained the high technical profitability in our main business lines, supported by the strong cost discipline. The Combined ratio in non-life insurance in Poland was 89.6%, the margin in group insurance amounted to 23.9%, while the return on investment in Q3 was as high as 230 basis points above the risk-free rate.

As a result, our performance in those areas was at levels much above our strategic ambitions.

The Group’s net result for the parent company amounted to PLN 2.36 billion after 9 months of 2019. This was comparable to the excellent year 2018, despite the increased regulatory burdens, such as the additional charge for the Bank Guarantee Fund and provisions recognized as a result of the CJEU judgment regarding the potential commission refunds. The cost associated with the additional charges attributable to the parent company was PLN 164 million, up PLN 89 million compared to the corresponding period of the previous year. Accordingly, we can say that, on the normalized basis, net of the increased regulatory burdens in banks, this is the Group’s best performance in five years.



Gross written premium of over PLN 17 billion for the first three quarters of 2019 – stable business growth despite the demanding market and additional burdens

- **Acceleration of the pace of growth of gross written premium** and earned premium in Q3 2019 in comparison to the first half of the year
- **Growth of gross written premium on non-motor insurance** reflecting PZU's strong competitive position: 21% y/y in Q3 2019
- Incremental growth of gross written premium in **life insurance** in Poland – the **fastest rate since the outset of 2018** despite market conditions that are not conducive to unit-linked business
- **Growth of gross written premium in individual life insurance in Poland: 32% y/y in Q3 2019** – substantially stronger in comparison to the first half of the year
- **Employee Capital Scheme (ECS)** management contracts signed with more than 1,000 of the largest employers in Poland employing more than **half a million people**
- **Premium under contracts in PZU Zdrowie** up 38% compared to the three quarters of last year.
- **New life insurance sales in the bancassurance channel have shot up 2.5 times** and **highest contribution of banking activity** to the quarterly consolidated results this year (PLN 179 million)

Parent company posts net profit of PLN 2.4 billion after three quarters of 2019

- **YTD result PLN 2.4 billion** – at a similar level y/y despite incomparable conditions versus last year (growing price pressure, costs of the Bank Guarantee Fund, legislative changes, substantially worse weather)
- **Combined ratio in the non-life segment in Poland at a low level of 89.6% YTD and 90.2% in Q3 2019** – in both cases it is at a better level than posited in the strategy despite the higher loss ratio.
- **Operating margin in group and individually continued insurance at 21.3% in 2019 and 23.9% in Q3 2019 – above strategic levels**
- **Very robust investment performance surpassing our strategic ambitions: the yield on the main portfolio 2.3 p.p. above the risk-free rate year to date and 2.3 p.p. in Q3 2019** while maintaining the portfolio's safe composition
- **Costs under strict control**; despite pressure to raise wages the cost ratio was 6.2% in Q3 2019.
- **High return on equity: 23.7% in Q3 2019 and 20.8% year to date**

Solvency II ratio of 222% – stability and safety of business

- **Affirmation of S&P Global Ratings' rating of A- and positive outlook**, with a capital strength rating of AAA
- **Dividend paid of 2.80 PLN per share**
(75% of consolidated net profit, 89% of standalone profit, dividend yield of 7.0%)
- **Solvency at a stable level**; despite the expanding magnitude of business the SII ratio at the end of Q2 2019 was **222%**

¹ Closing balance as at the record date, i.e. 12 August 2019.



- **Debt stated as a percentage of the funding mix trended downward** - redemption of bonds with a nominal value of EUR 850 million during Q3 2019
- **Change in investment portfolio management strategy from short-term to long-term**; more conservative portfolio composition; higher percentage of treasury bonds, greater diversification in corporate exposures, smaller percentage of MTM instruments.

The PZU Group's report for the period of 9 months ended 30 September 2019 is available on PZU's corporate website in the Investor Relations tab, Periodic Reports section: <https://www.pzu.pl/relacje-inwestorskie/raporty>

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