PZU Group's Financial Results

in Q3 2018

Warsaw, 15 November 2018

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1. PZU Group’s main accomplishments

Business development

- PZU Group's record-breaking, year to date gross written premium
- Sound incremental premium growth in the mass segment (+3% y/y in Q3 2018) despite lower prices in motor business
- Stable premium level in group and individually continued insurance (1.7 bn PLN in Q3 2017)
- Stabilization in the motor insurance market share (37.3%)
- Number of contracts in PZU Zdrowie up 48% y/y

Financial results

- Improvement in the combined ratio to 84.3% in Q3 2018 (88.3% in Q2 2018)
- Operating margin in group and individually continued insurance above the level in the strategy (26.1% in Q3 2018)
- Very low loss ratios in both key segments
- Net profit attributable to the parent company's shareholders (1,007 m PLN in Q3 2018) up 47% y/y and 59% net of the banks

Capital allocation

- The return on equity generated is substantially above the level in the strategy (29.3% on a quarterly basis and 22.9% year to date)
- S&P rating upheld at A- (stable outlook) with a capital strength rating of AAA
- Solvency at a stable level; despite the expanding scale of business, the SII ratio remains at 227%
- Dividend per share of 2.5 PLN (Dividend Yield of 6.1%)

GWP	Group's net result	Operating margin[1]	Combined ratio[2]	ROE[3]	Solvency II[4]
17,258 m PLN	3,902 m PLN	22.1%	86.2%	22.9%	227%
(vs 16,933m PLN in 9M17)	(vs 2,899 m PLN in 9M17)	(versus 21.4% in 9M17)	(versus 90.3% in 9M17)	(versus 21.1% in 9M17)	(versus 208% in Dec17)

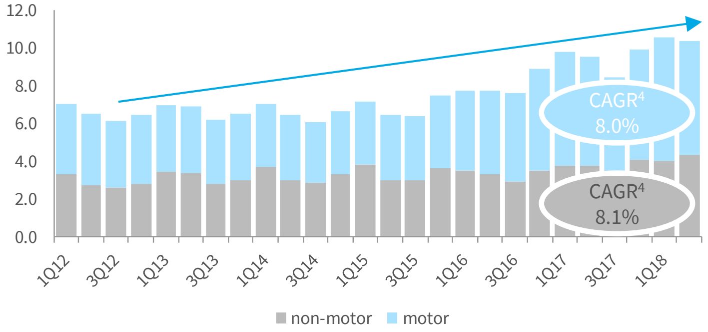
1) Margin for the group and individually continued insurance segment net of the conversion effect
2) Only for non-life insurance in the PZU Group
3) Ratio computed using equity at the beginning and end of the reporting period. Computed for the parent company
4) As of 30 June 2018

2. Business development


Client
Property & Casualty
Assistance
Life
Assistance
Finances
Assistance
Health
Assistance

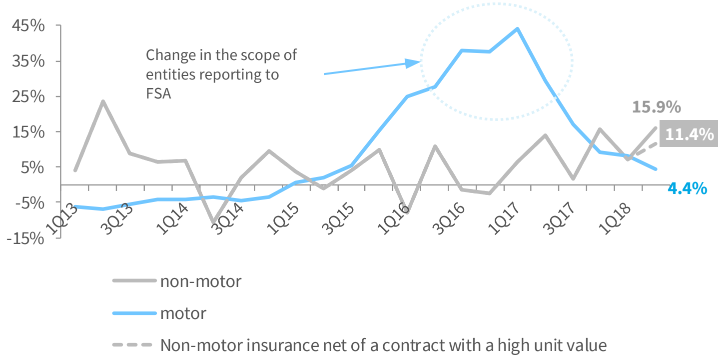
Non-life insurance (1): Non-life insurance market in Poland

Gross written premium (bn PLN)

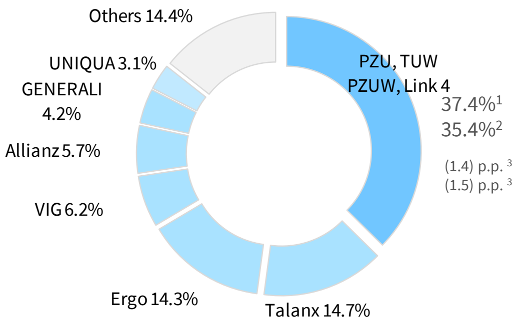


- PZU Group's market share in non-life insurance (direct business) at the end of Q2 2018 was 35.4% (up 0.6 p.p. over Q1)
- PZU's pricing activity in selected areas of the country and in selected segments: lower in the lease and dealer segments that offer limited opportunities to manage pricing in the medium term
- Strong market position in motor insurance with a market share of 37.3%[2]
- Maintaining the PZU Group's high percentage of the overall market's technical result at 57.2%

Growth rate of the gross written premium y/y



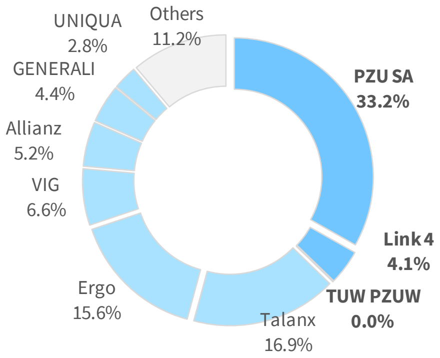
Market shares[1]



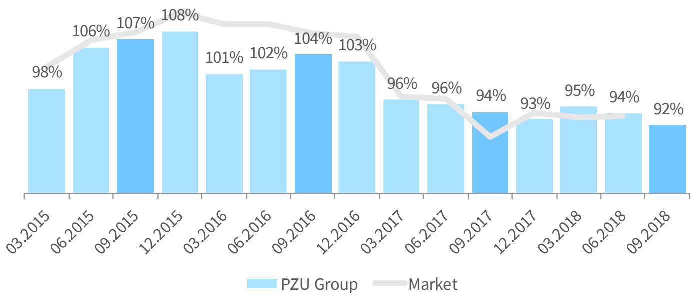
1) according to the Polish FSA's quarterly report for Q2 2018; the market and market shares including PZU's inward reinsurance from Link4 and TUW PZUW;
2) PZU Group's market share in non-life insurance on direct business at the end of Q2 2018
3) movement in market share y/y according to the Polish FSA's quarterly report for Q2 2018 including PZU's inward reinsurance from Link4 and TUW PZUW and direct activity, respectively.
4) Calculated for the period from Q2 2012 to Q2 2018

Non-life insurance (2): Motor insurance

PZU Group's motor insurance market share[1] (Poland)



PZU Group's combined ratio (COR)[2] in motor insurance and the market[3] (Poland)



- Stabilization of the PZU Group's market share despite continued fierce competition on the market
- Improvement in the PZU Group's combined ratio in motor insurance in Q3 2018 due to the following:
  - adequate tariff policy
  - meticulous selection of areas offering an attractive risk profile and less activity in the less profitable channels of distribution
  - strong brand and scale of operations
  - cost discipline
  - reduced acquisition expenses in the corporate segment
  - absence of large adverse events (provision for pain and suffering losses for vegetative state in Q1)
- Great emphasis on constantly refining the offer, investments in new technologies, including the deployment of innovative tariff solutions to match the offer to the client's risk to the greatest degree possible
- Further development of PZU's corporate insurance while selectively underwriting insurance risk, including introduction of risk management service in fleet segment, translating to better claims ratio in motor segment
- Higher sales in the SME segment coupled with maintaining the portfolio's high profitability

The continued competition on the insurance market ensues from the following factors:

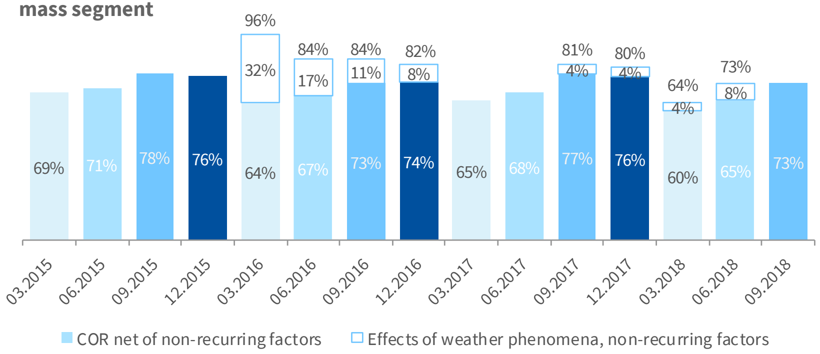
- Market consolidation and the emergence of new players
- High profitability of motor insurance in previous years enticing players to cut prices despite observed growth in the average claim value
- The justification to the Supreme Court judgment of 27 March 2018 that limits the catalogue of claims against insurers while expanding the space for price activity among competitors

Price adequacy and capital requirements limit the extent of price cuts.

1) According to the Polish FSA's Q2 2018 report; share of the total gross written premium (incorporates indirect activity)
2) Year to date
3) According to the Polish FSA's Q2 2018 report

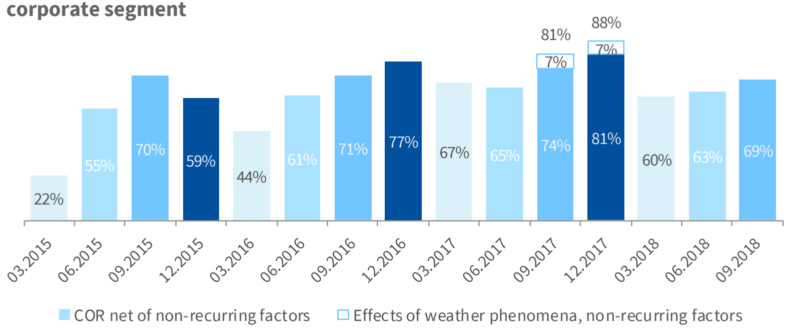
Non-life insurance (3) Other property insurance

Combined ratio (COR[1]) in PZU Group's non-motor insurance mass segment



- Mass segment: maintaining high profitability as a result of the robust performance in insurance of apartments and buildings and the low level of mass claims (numerous claims in Q3 2017 caused by rainfall and gusty wind)

Combined ratio (COR[1]) in PZU Group's non-motor insurance corporate segment



- Corporate segment: significant profitability improvement – in the corresponding period of last year higher level of losses with a high unit value and numerous claims caused by gusty wind

1) Year to date


Client
Property & Casualty
Life
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Finances
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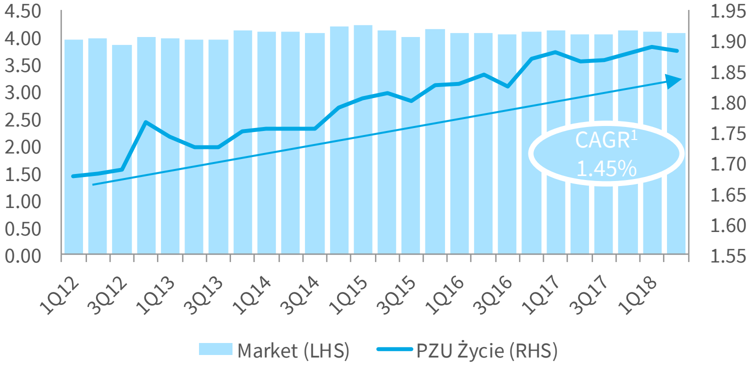
Assistance
Assistance
Assistance

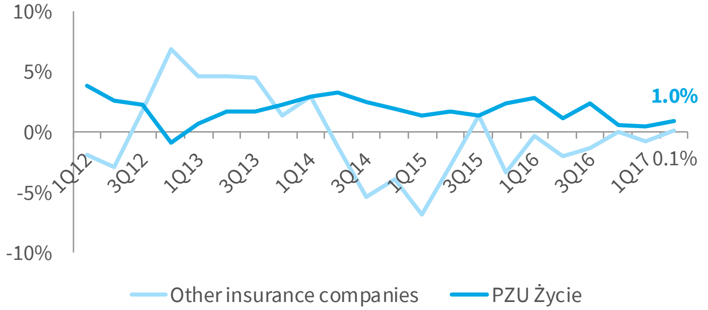
Life insurance (1): Life insurance market

Gross periodic premium (bn PLN)

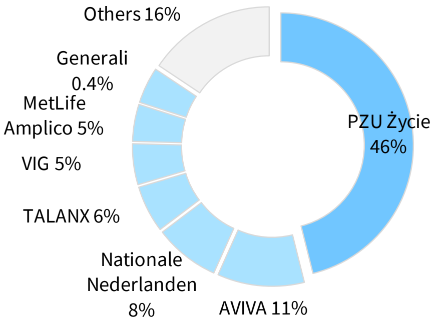


- PZU Życie maintained the upward trend in periodic premium while other market players did not experience such growth (taken together)
- Growth in the market share of periodic premium to 46.1% in Q2 and 46.0% in H1 2018, also for protection contracts (class I of life insurance); market share was 64.2%
- The market share held by PZU Życie measured by gross written premium was 37.3% in H1 2018 (up 2.5 p.p. y/y)
- The profitability of the technical result at PZU Życie in H1 is higher than average for the competition – 18.7% versus 10.4%, translating into a 50% share of the sector's profit pool (technical and net profit)

Growth rate of gross periodic premium (y/y, %)



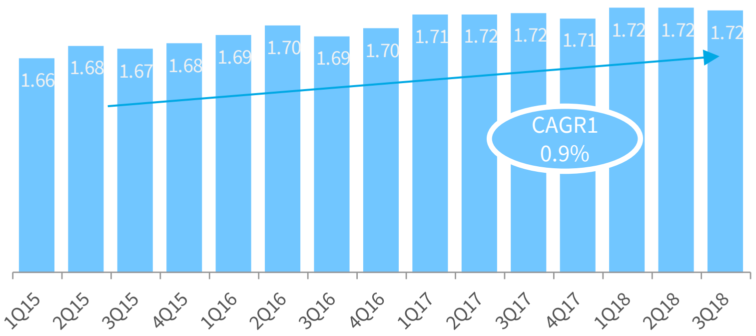
Market shares



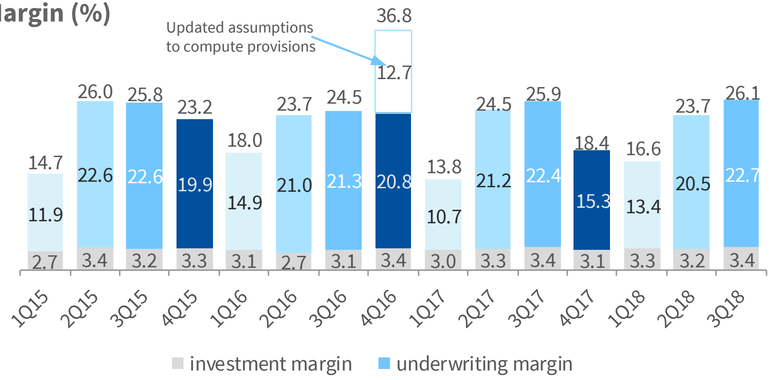
1) Q2 2018 to Q2 2012

Life (2): Group and individually continued insurance

Gross written premium (bn PLN)



Margin (%)

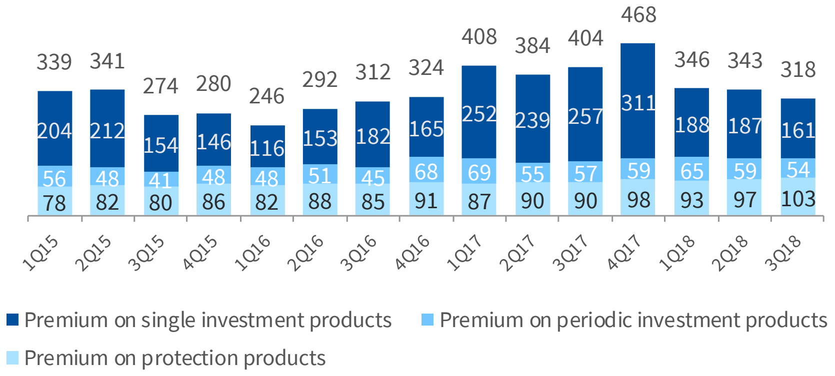


- Attenuating the pressure on the premium growth rate to control the loss ratio of protection products
- The higher number of people taking retirement exerts an adverse impact on the gross written premium
- The expanding health insurance portfolio, including a new rider to continued insurance launched under the name “PZU Uraz ortopedyczny [PZU orthopedic injury]” that has enjoyed a great reception from clients. At the end of September 2018, PZU Życie had more than 1.7 million health contracts in force in its portfolio
- Shift in the mix of “old” and “new” individual continuation making it possible to set up lower technical provisions
- The margin improvement in this quarter was due to the following:
  - Lower loss ratio in protection products related chiefly to seasonality
  - Lower operating expenses

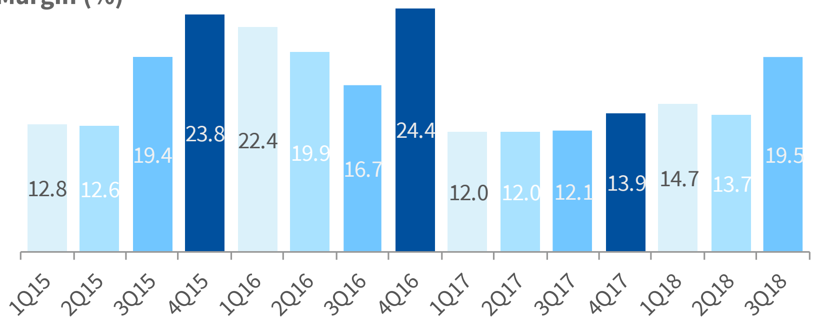
1) Q3 2018 to Q3 2015

Life (3): Individual insurance

Gross written premium (m PLN)



Margin (%)



- Lower contributions in Q3 2018 y/y to the unit-linked accounts in insurance offered jointly with banks and in proprietary channels
- Rising level of premiums in periodic premium products (especially protection products)
- Kickoff of cooperation with Alior Bank to offer individual life insurance to cash loans clients
- Margin improvement due to the following:
  - Increased weight of protection products, generating stable and higher margins (compared to investment products) in the revenue structure
  - lower operating expenses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Assistance

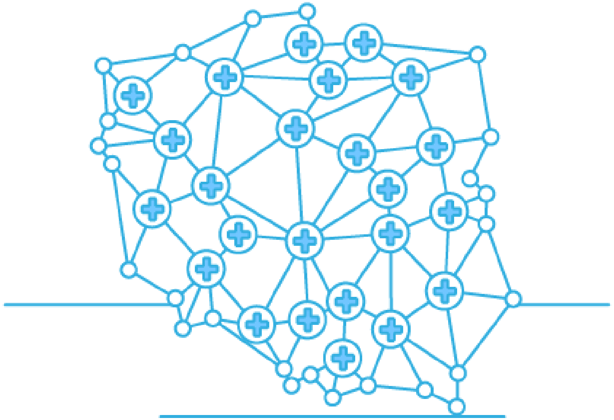
Health (1) Development of business size

1. 2,093 cooperating centers
63 own locations

2. 49 hospitals

3. 1,300 physicians
140 specializations

4. 7,668 pharmacies

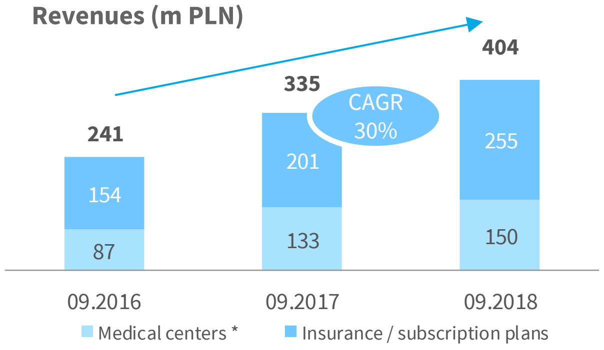


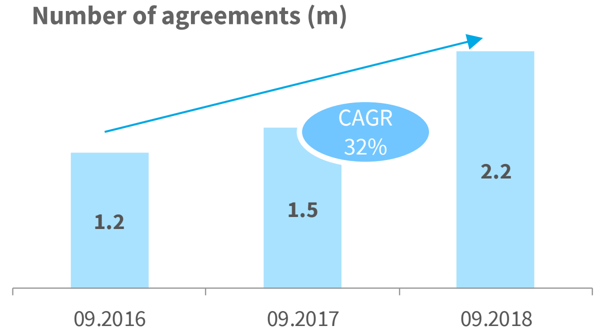
Flexible and comprehensive **offer** aligned to employee needs

Service accessibility, convenient contact channels, online service

Excellent **location** and client convenience

Health (2) Development of business size





- Growing number of products per client – one of the strategic objectives – not just PZU Życie and PZU Zdrowie products are being sold but also from PZU SA, Link4 and TUW
- Steady increase in the number of health product agreements in 2018 driven by the sales launch of more health riders to protection products and non-life insurance (offering among others access to specialist physicians, ambulatory rehabilitation, selected tests and procedures)
- Continuation of the high pace of top line growth thanks to the intensive work done on the pre-existing product portfolio and the work done to extend the health product portfolio in the PZU Group companies
- Opening of three proprietary centers
- Top line growth in all three groups of centers: own, newly acquired and newly opened centers

* Data presented for the period from the beginning of the year regardless of the time of acquisition; the revenues of Branches – presented in managerial accounting in a corresponding manner to the other proprietary centers, i.e. including revenues from PZU Zdrowie and the PZU Group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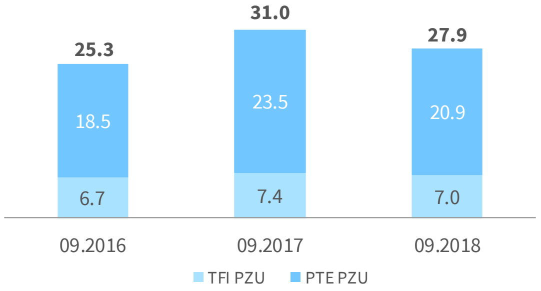
Assistance
Assistance

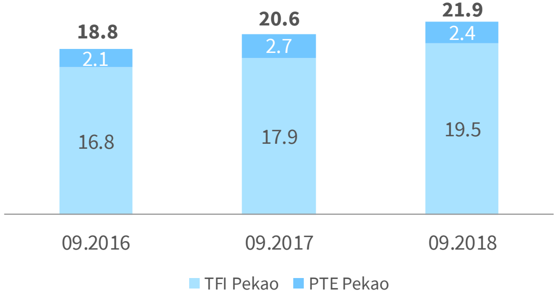
Finance (1) Assets under management

Assets of third party clients of TFI PZU and OFE PZU clients (bn PLN)

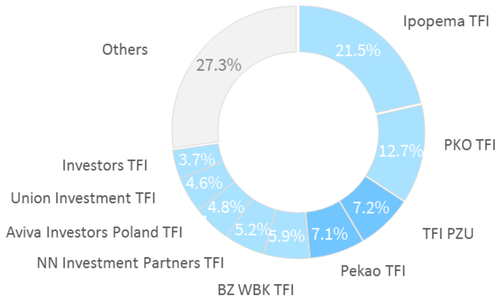


- The decline in assets under management chiefly as a result of the movement in asset prices, no significant outflows; 90% of PZU's external clients' assets are periodic premium assets (OFE and PPE)
- 1 October 2018 – platform launched in PZU
  - The platform supports investments in passive funds
  - Simple and intuitive tool to grow savings without having to set up a brokerage account
  - Path for beginning investors and a path for experts
  - 1-6 model portfolios, 6 index funds – from the safest to equity funds
- Sejf+: as an alternative to a term deposit in a bank – as of August offered jointly with PZU branches as a hybrid product containing insurance against the loss of capital

Assets of third party clients of TFI Pekao and OFE Pekao (bn PLN)

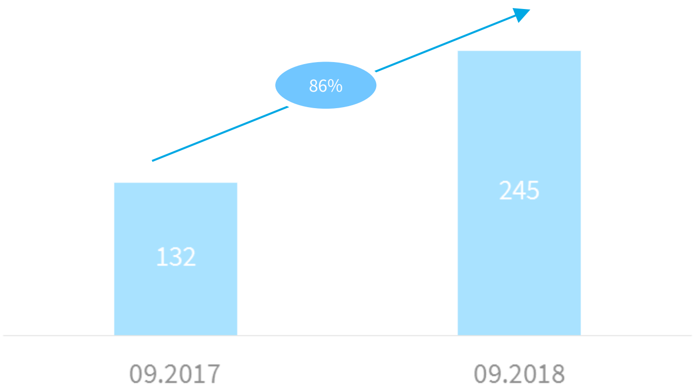


Share in investment funds market (%)



Finance (2) Development of cooperation with banks

Assets accumulated in Multikapitał (m PLN)



- Dynamic growth in the assets accumulated in **Multikapitał** (Investment life insurance) through Alior Bank
- Adding real estate insurance to the offer for mortgage loan borrowers in Alior Bank
- Bank Pekao's deployment of PZU's individual retirement security account (IKZE DFE PZU) managed by PTE PZU
- Adding voluntary unit-linked life insurance to Bank Pekao's offer - **World of Premium Investments** (product offered by PZU Życie)
- Bank Pekao's campaign for PZU's tourist insurance offered through the My PZU portal
- Giving Bank Pekao's clients access to the specialized investment plan called **Sejf+** z Ochroną Kapitału offered by TFI PZU and distributed by CDM.
- PZU Życie's September launch of the Unit-linked Investment Plan called **Multi-Allocation** for Bank Pekao's clients. The investment offer contains 83 funds of the offering of domestic and international mutual investment fund management companies and 3 model strategies managed by TFI PZU. The contribution may be paid in PLN, USD or EUR.
- Continued cost savings initiatives – realized cost synergies at the level of 34,2m PLN (above the annual plan)

3. Financial results

Gross written premium of the PZU Group

Insurance segments **m PLN, local GAAP**	**3Q17**	**2Q18**	**3Q18**	**Change y/y**	**Change q/q**
External gross written premium	**5,327**	**6,050**	**5,377**	*0.9%*	*(11.1%)*
Total non-life insurance – Poland	2,801	3,509	2,881	*2.9%*	*(17.9%)*
Mass insurance – Poland	2,289	2,616	2,349	*2.6%*	*(10.2%)*
Motor TPL	1,118	1,207	1,129	*1.0%*	*(6.5%)*
Motor MOD	549	626	589	*7.3%*	*(5.9%)*
Other products	622	783	631	*1.4%*	*(19.4%)*
Corporate insurance – Poland	512	893	532	*3.9%*	*(40.4%)*
Motor TPL	175	192	187	*6.9%*	*(2.6%)*
Motor MOD	212	213	194	*(8.5%)*	*(8.9%)*
Other products	125	488	151	*20.8%*	*(69.1%)*
Total life insurance – Poland	2,120	2,065	2,037	*(3.9%)*	*(1.4%)*
Group and individually continued insurance - Poland	1,716	1,722	1,719	*0.2%*	*(0.2%)*
Individual insurance – Poland	404	343	318	*(21.3%)*	*(7.3%)*
Premium on protection products	90	97	103	*14.4%*	*6.2%*
Premium on periodic investment products	57	59	54	*(5.3%)*	*(8.5%)*
Premium on single investment products	257	187	161	*(37.4%)*	*(13.9%)*
Total non-life insurance – Ukraine and Baltic States	383	444	429	*12.0%*	*(3.4%)*
Baltic States	341	396	374	*9.7%*	*(5.6%)*
Ukraine	42	48	55	*31.0%*	*14.6%*
Total life insurance – Ukraine and Baltic States	25	30	30	*20.0%*	*x*
Lithuania	14	16	16	*14.3%*	*x*
Ukraine	11	14	14	*27.3%*	*x*

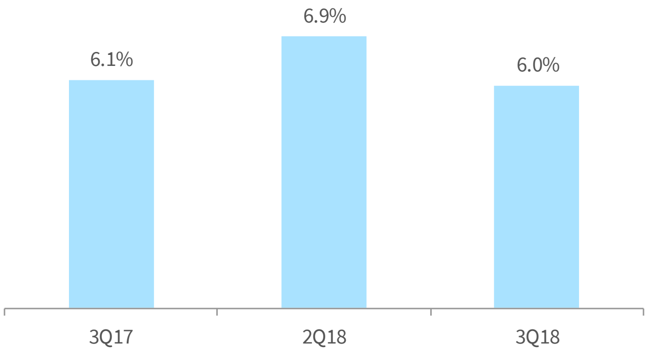
PZU Group's results – contribution of activity to date and banking activity

m PLN	3Q17	2Q18	3Q18	Change y/y	Change q/q
PZU GROUP NET OF ALIOR BANK AND PEKAO					
Gross written premium[1]	5,327	6,050	5,377	*0.9%*	*(11.1%)*
Net insurance claims and benefits paid	(4,038)	(3,719)	(3,639)	*(9.9%)*	*(2.2%)*
Net investment result in the main portfolio[2]	499	260	371	*(25.8%)*	*42.7%*
Net investment result - investment products	103	5	(3)	*x*	*x*
Net investment result - other	(72)	53	3	*x*	*(93.6%)*
Administrative expenses[1]	(380)	(433)	(380)	*(0.1%)*	*(12.2%)*
Acquisition expenses[1]	(730)	(768)	(781)	*7.0%*	*1.7%*
Operating profit (loss)	725	811	1,076	*48.4%*	*32.7%*
Net profit (loss) attributable to equity holders of the parent company	530	620	845	*59.5%*	*36.3%*
BANKS: ALIOR AND PEKAO					
Net profit (loss) attributable to equity holders of the parent company	153	162	162	*5.8%*	*(0.0%)*
NET RESULT ATTRIBUTABLE TO THE PARENT COMPANY	683	782	1,007	*47.4%*	*28.8%*
MAIN FINANCIAL RATIOS					
ROE[3]	20.2%	22.3%	29.3%	*9.1p.p.*	*7.0p.p.*
Combined ratio[4]	95.9%	88.3%	84.3%	*(11.6)p.p.*	*(4.0)p.p.*
Margin[5]	25.9%	23.7%	26.1%	*0.2p.p.*	*2.4p.p.*
Administrative expense ratio of PZU, PZU Życie	6.1%	6.9%	6.0%	*(0.0)p.p.*	*(0.8)p.p.*
Acquisition expense ratio of PZU, PZU Życie	13.0%	13.3%	13.6%	*0.5p.p.*	*0.2p.p.*

1. Net of the elimination of consolidation adjustments
2. FX on the issue of own bonds
3. Ratio computed using equity at the beginning and end of the reporting period, calculated for the parent company
4. Only for non-life insurance in the PZU Group
5. Margin for the group and individually continued insurance segment net of the conversion effect

Cost effectiveness

Administrative expense ratio

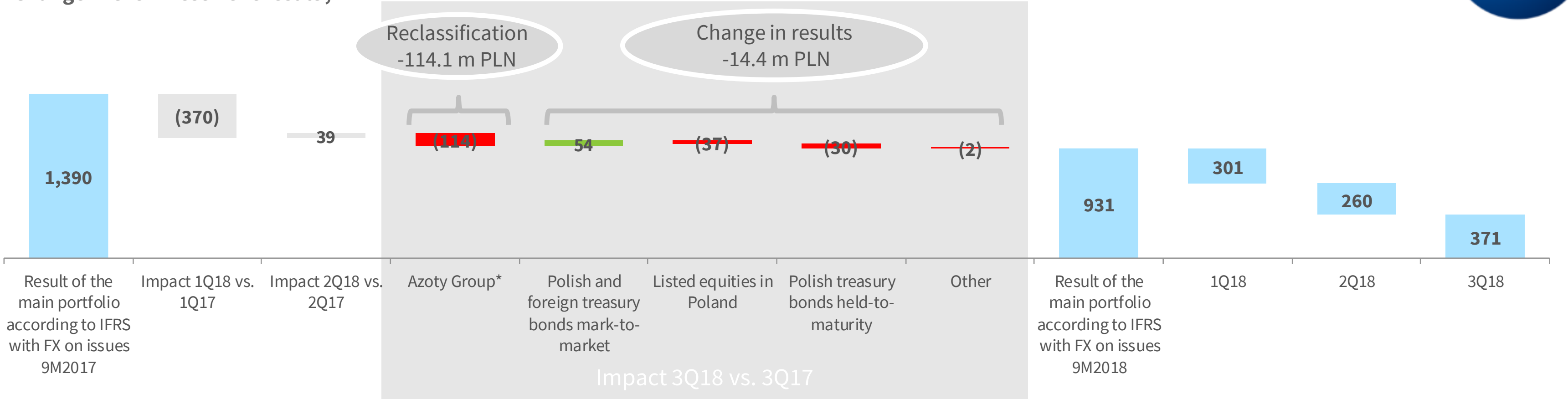


Administrative expense ratio calculated using the equation:
administrative expenses in PZU and PZU Życie in the quarter / net earned premium in PZU and PZU Życie in the quarter

- Change in the incentive system to promote strategy execution and rewarding above-average accomplishments
- Improvement in the administrative expense ratio **in Q3 2018 versus Q3 2017** posted despite the inclusion of the employee bonus provision in 2018 expenses was possible thanks to the following:
  - replacing the old Insurer policy administration system with the modern Everest system leading to lower IT costs
  - automating and digitalizing many business processes translating among others into lower costs of postal services document archiving and access to external data bases
  - lowering marketing expenditures linked to optimizing and enhancing the effectiveness of promotional efforts
  - lower advisory expenses
- Improvement in the administrative expense ratio **in Q3 2018 versus Q2 2018** due to:
  - automating and digitalizing many business processes
  - lower personnel expenses on the back of flattening bonus reserves and release of reserves for unused vacation days
  - lower expenses for support and training

Investment performance

Change in the investment result , m PLN



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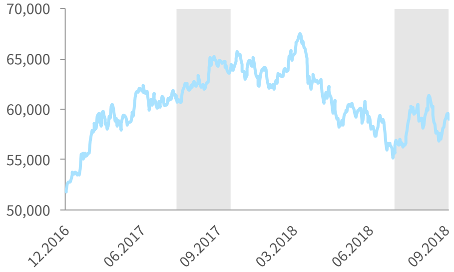
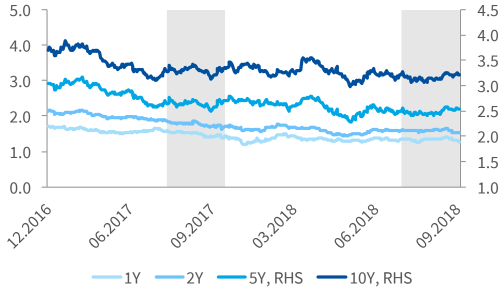


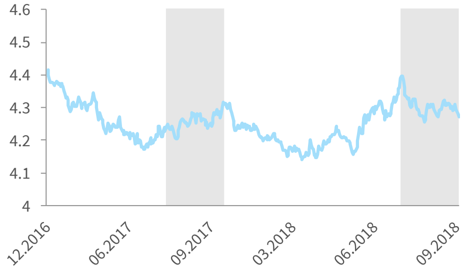
Q3 2017: +5.36%
Q3 2018: +5.40%

Bond yield



Q3 2017: -4 basis points
Q3 2018: -3 basis points

EURPLN

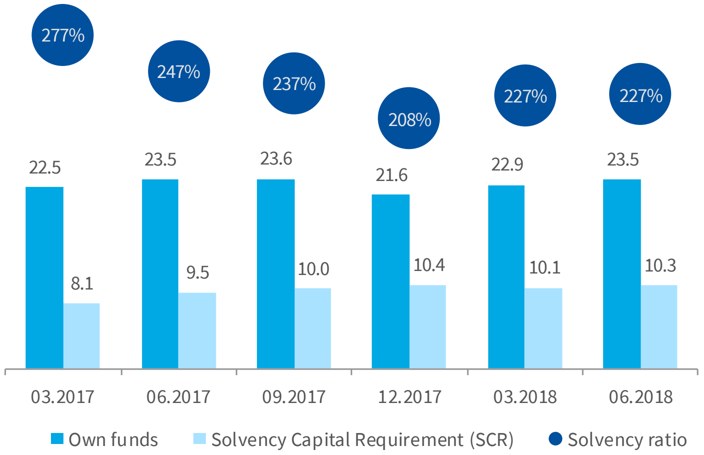


Q3 2017: +1.95%
Q3 2018: -2.07%

* Impact in 3Q17, as of 2018 the results of Grupa Azoty are presented in other comprehensive income

Group's high level of solvency

Solvency II Group PZU data, 30 June 2018 (PLN bn)



Solvency ratio calculated using the equation:
Own funds / solvency requirement.

Annual data based on the audited Solvency and financial condition reports (SFCR) available on the following website https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Other unaudited data.

- In Q2 2018 own funds climbed 0.6 bn PLN as a result of the following:
  - quarterly operating cash flow and investment results (0.6 bn PLN);
  - recognition of dividend receivables from Bank Pekao (0.4 bn PLN);
  - adverse impact exerted by the flattening of the yield curve for Polish government bonds (risk free rates) on the measurement of financial assets and insurance provisions (-0.4 bn PLN).
- Dividend declaration from 2017 earnings (2.2 bn PLN) did not affect own funds in Q2 2018, as it was included by reducing own funds by subtracting the anticipated dividend in prior periods.
- SCR in Q2 2018 climbed 0.3 bn PLN as a result of the higher counterparty default risk (0.2 bn PLN) and the flattening of the yield curve versus the previous quarter (0.1 bn PLN). In June 2018 the direction of the shock generating interest rate risk changed compared to March 2018. The current quarter is a reversal of the effect observed in Q1.
- High quality of the PZU Group's own funds - share of Tier 1 capital is 87%.
- Standalone solvency ratio:
  - PZU – at the level of 299% (295% at the end of Q1 2018),
  - PZU Życie – at the level of 467% (unchanged).

4. Strategy execution

Execution of the key metrics of the strategy for 2017-2020

Non-life insurance		Life insurance		Investments		Health		Banks	
PZU Group's market share [2,3]		Number of clients in PZU Życie		Assets under management for third party clients (bn PLN)		Revenues (m PLN)[7,9]		Assets (bn PLN)	
06.2018	2020	09.2018	2020	09.2018	2020	09.2018	2020	09.2018	2020
35.4%	38%	10.8	11.0	30 (50 with PIM)	65	525.4	1,000	255	>300
Combined ratio[3]		Insurance margin in group and individual continuation		Net result on third party asset management (m PLN)[6,9]		EBITDA margin[8]		Net financial result attributed to the PZU Group (m PLN)[9]	
09.2018	2020	09.2018	2020	09.2018	2020	09.2018	2020	09.2018	2020
85.7%	92%	22.1%	>20%	102 (184 with PIM)	200	9.6%	12%	606	>900
Administrative expense ratio[4]		Solvency II solvency ratio[5]		Surplus yield on the main portfolio above the RFR [10]					
09.2018	2020	09.2018	2020	09.2018	2020				
6.5%	6.5%	227%	>200%	1.2 p.p.	2.0 p.p.				

ROE[1]	09.2018	2020
	22.9%	**>22%**

1. ROE attributable to the parent company
2. Direct business
3. PZU jointly with TUW PZUW and Link4
4. Administrative expenses in PZU and PZU Życie
5. Own funds after subtracting anticipated dividends and asset taxes
6. PZU Investments' net consolidated result / PZU Investments' net result plus 100% of Pekao Investment Management's net result
7. Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie and the PZU Group
8. Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
9. 12 month moving average
10. Difference between the annual rate of return computed using the IFRS result on the main portfolio including the FX rate on proprietary bond issues and the annual average level of WIBOR6M
11. Incorporating the long-term contract renewed in June 2018

Executing a strategy of innovation

TEST DRIVERS ON THE MOVE

PZU GO is a revolutionary solution in safety that will most assuredly be amenable to our clients. It will support them the fastest possible support when they are on the road. Two rounds of the pilot program for this service were launched in August with the participation of several hundred PZU Group employees.


360° OF SUCCESS

Tenacious, innovative and with the client in mind. After many works of that kind of work on **#mojePZU** the time has come to succeed and face new challenges. "PZU's single world" has been created for the client today

- The portal has been launched for two large corporate clients with 30 thousand employees (Q3)
- Main features
  - ✓ all products in one place
  - ✓ scheduling appointments online
  - ✓ distribution of insurance products
- December 2018 Go Life

REVOLUTION IN INVESTMENTS

Save by investing.
Pay in and pay out whenever you like.

Check

inPZU The internet sales platform for PZU's investment products was launched in September. This platform provides quick and easy way to invest in innovative on the Polish market passive funds.

Easy to start
as little as 100 PLN
pay in and pay out whenever you like

Earn more
0 PLN per transaction
management fee only 0.5%

PORTAL OF NEW POSSIBILITIES

The new unveiling of **PZU.PL** means
above all **convenience**,
modern design,
straight forward communication,
550 icons,
300 illustrations and animation
2 thousand pages of texts.

5. Attachments

Profitability by operating segments

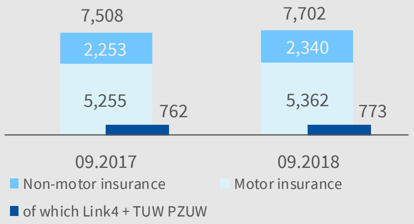
Insurance segments	Gross written premium			Insurance result / operating result			Combined ratio Margin	
m PLN, local GAAP	**9M2017**	**9M2018**	**Change y/y**	**9M2017**	**9M2018**	**Change y/y**	**9M2017**	**9M2018**
Total non-life insurance – Poland	9,402	9,756	*3.8%*	1,124	1,634	*45.4%*	90.1%	85.7%
Mass insurance – Poland	7,508	7,702	*2.6%*	951	1,309	*37.6%*	89.6%	85.5%
Motor TPL	3,467	3,495	*0.8%*	265	254	*(4.3%)*	92.6%	93.3%
Motor MOD	1,788	1,867	*4.4%*	79	223	*181.9%*	95.4%	87.2%
Other products	2,253	2,340	*3.9%*	413	611	*48.0%*	81.2%	72.9%
Impact of allocation to the investment segment	0	0	*x*	194	221	*13.9%*	x	x
Corporate insurance – Poland	1,894	2,054	*8.5%*	173	325	*87.9%*	92.1%	86.5%
Motor TPL	518	573	*10.7%*	(12)	(20)	*x*	100.6%	102.5%
Motor MOD	632	618	*(2.3%)*	30	61	*105.0%*	95.4%	89.6%
Other products	744	863	*16.0%*	101	215	*111.9%*	81.1%	68.6%
Impact of allocation to the investment segment	0	0	*x*	54	69	*28.1%*	x	x
Total life insurance – Poland	6,341	6,170	*(2.7%)*	1,275	1,315	*3.1%*	20.1%	21.3%
Group and individually continued insurance - Poland	5,145	5,163	*0.3%*	1,101	1,142	*3.7%*	21.4%	22.1%
Individual insurance – Poland	1,196	1,007	*(15.8%)*	144	160	*11.1%*	12.0%	15.9%
Conversion effect	0	0	*x*	30	13	*(56.7%)*	x	x
Total non-life insurance – Ukraine and Baltic States	1,124	1,273	*13.3%*	82	126	*53.7%*	92.7%	90.0%
Baltic States	986	1,130	*14.6%*	74	109	*47.3%*	92.4%	90.3%
Ukraine	138	143	*3.6%*	8	17	*112.5%*	96.8%	84.7%
Total life insurance – Ukraine and Baltic States	72	87	*20.8%*	5	3	*(40.0%)*	6.9%	3.4%
Lithuania	42	47	*11.9%*	2	0	*(100.0%)*	4.8%	0.0%
Ukraine	30	40	*33.3%*	3	3	*0.0%*	10.0%	7.5%
Banks	x	x	*x*	1,400	2,814	*101.0%*	x	x

Non-life insurance

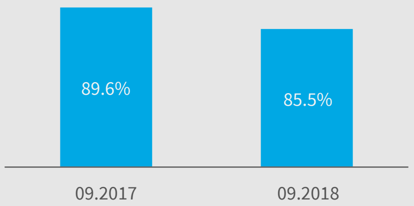
Higher growth in non-motor insurance sales

Mass segment

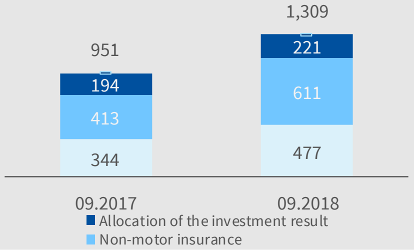
Gross written premium (m PLN)



Combined ratio (%)

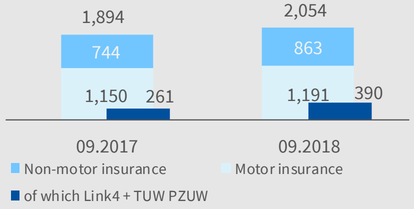


Insurance result (m PLN)

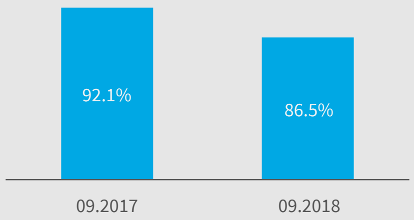


Corporate segment

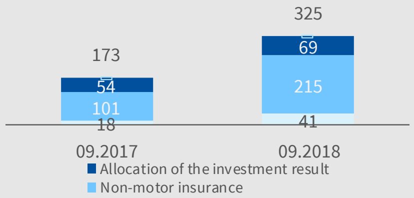
Gross written premium (m PLN)



Combined ratio (%)



Insurance result (m PLN)



Recap – non-life insurance

Mass segment

Higher gross written premium y/y due to the following:

- upswing in gross written premium in motor insurance caused by the higher average premium accompanied by a simultaneous decline in the number of insurance policies
- higher premium on insurance against fire and other damage to property, including PZU DOM household insurance coupled with a simultaneous decline in the sales of crop and agricultural insurance - effect of fierce market competition
- higher sales in the group of other TPL insurance, accident and other insurance, in particular illness and assistance insurance.

Insurance result up as the outcome of the following:

- incremental growth in net earned premium (+8.3%) – impact exerted by the development of the insurance portfolio;
- improvement in the loss ratio in the following insurance groups:
  - non-motor insurance - decline in the loss ratio, chiefly as a consequence of the rising profitability of the portfolio of insurance against fire and other damage to property – due to the lower number of mass claims in agricultural insurance (in the corresponding period, claims caused by gusty wind and torrential rain)
  - lower loss ratio of motor insurance due to significant improvement of the loss ratio in Motor Own Damage insurance and slight change in MTPL insurance – as a result of remeasurement of the provision for claims for pain and suffering caused by the vegetative state of a relative injured in an accident (Supreme Court ruling).
- change in insurance activity expenses, including:
  - lower acquisition expense ratio due to the shift in the mix of products and sales channels and
  - improvement in the administrative expense ratio as the outcome of the persistent cost discipline in operating areas unrelated to wages (current and project-related operations) and higher payroll costs in response to clear signs of wage pressure on the market.

Recap – non-life insurance

Corporate segment

Higher gross written premium y/y due to the following:

- 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 of motor insurance in the form of fleet insurance and insurance offered to lease companies as a consequence of the higher average premium coupled with the lower number of insurance policies
- development of the accident insurance portfolio following from the extension of cooperation between TUW PZUW and its strategic partners offsetting the lower level of premiums on loans and insurance guarantees.

Insurance result up as the outcome of the following:

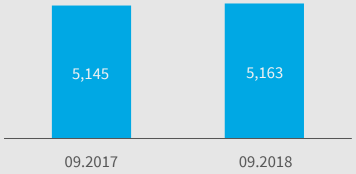
- incremental growth in net earned premium (+17.5%) – result of development in the insurance portfolio;
- evolution of the loss ratio in the insurance portfolio:
  - insurance against fire and other damage to property as a result of a smaller number of claims with a high unit value and a lower level of weather-related claims (gusty wind and torrential rain)
  - Motor own damage insurance as a result of the net earned premium growth being much higher than the growth in claims and benefits, despite the observed increase in the average payout; partially offsetting lower profitability in the motor TPL group (impact exerted by raising the provision for claims for pain and suffering damages)
- change in the level of insurance activity expenses, including the decline in the administrative expense ratio due to maintaining cost discipline in current and project-related operations.

Life insurance

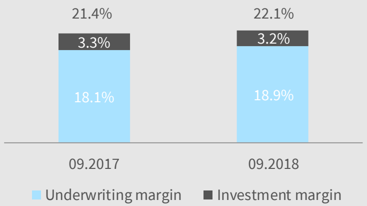
Higher profitability of segments

Group and individually continued insurance

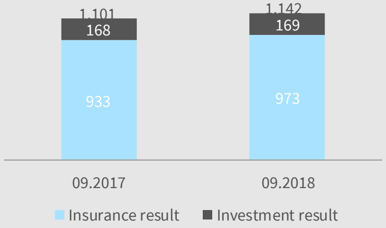
Gross written premium (m PLN)



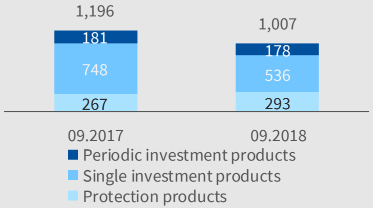
Margin (%)[1]



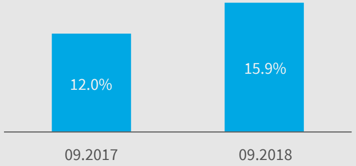
Insurance result[1] (m PLN)



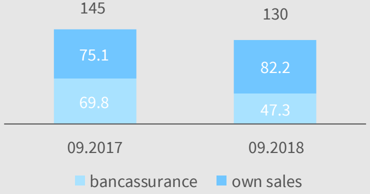
Individual insurance



Gross written premium (m PLN)



Margin (%)



Annual premium equivalent (m PLN)

1) Segment margin and insurance result net of the conversion effect

Recap – life insurance

Group and individually continued insurance

Drivers of higher gross written premium y/y:

- acquiring more health insurance contracts, including a new rider to continued insurance launched under the name “PZU Uraz ortopedyczny [PZU orthopedic injury]” that has enjoyed a great reception from clients; PZU Życie already has more than 1.7 million health insurance contracts in force
- maintaining the policy of up-selling riders while concurrently indexing premiums in the underlying main contracts in individually continued products
- at the same time, alleviating the pressure on the premium growth rate in group protection products making it possible to control the loss ratio in this line of products

Drivers of the growth y/y in the insurance result:

- new individual continuation’s positive contribution to the segment’s results by setting up lower mathematical reserves at the start of liability of these agreements
- loss ratio in group protection products down from last year
- at the same time, higher operating expenses adversely affected results - rising personnel costs ensuing from wage pressure on the market and additional expenditures related to acquisition of contracts, especially health contracts, and organizational changes in sales divisions.

Recap – life insurance

Individual insurance segment

Lower gross written premium y/y as the result of the following:

- lower contributions to the unit-linked accounts in the unit-linked products offered jointly with banks.

At the same time, the constantly-rising level of premium in protection products in own channels and bancassurance has produced a positive effect. PZU Życie launched cooperation with Alior Bank to offer individual life insurance to clients taking out cash loans.

Growth in the segment's margin is the result of the following:

- the upward movement in the percentage of revenues accounted for by the protection products segment with a substantially higher generated margin
- stable profitability of the protection part
- climbing management fees charged on assets accumulated in unit-linked products;
- lower acquisition expenses in the bank channel.

Sales channels:

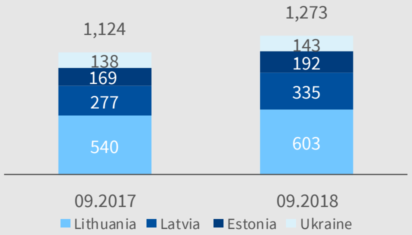
- maintenance of a high level of sales in proprietary channels. The nearly 10% growth rate year on year in the sales of protection products deserves special emphasis
- decrease in the bancassurance channel precipitated by the lower level of payments to new accounts in unit-linked products only partially offset by the rising sales of the protection products offered in this channel, including the new product launched with Alior Bank

International business

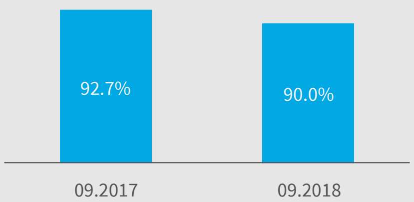
Higher sales in the Baltic States segment

Non-life insurance

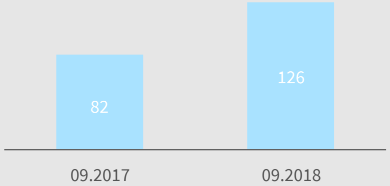
Gross written premium (m PLN)



Combined ratio (%)

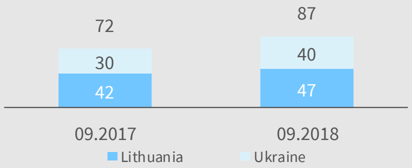


Insurance result (m PLN)

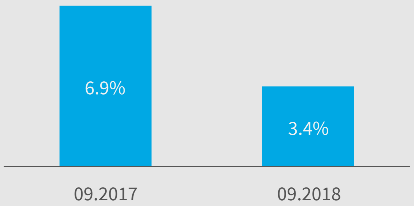


Life insurance

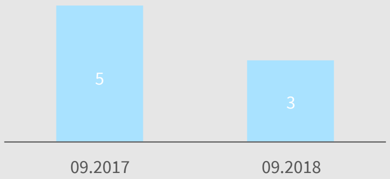
Gross written premium (m PLN)



Margin (%)



Insurance result (m PLN)



Recap – international business

Gross written premium

Non-life insurance:

- The growth in gross written premium in the Baltic companies was possible chiefly by maintaining the upward trend of rates in motor insurance premiums in the region, higher sales of property insurance, mainly in Lithuania following the intensification of sales efforts, and a significant increase in gross written premium in health insurance in Latvia and Lithuania alike:
  - Lithuanian market leader Lietuvos Draudimas: 603 m PLN (last year: 540 m PLN);
  - AAS Balta in Latvia: 335 m PLN (last year: 277 m PLN);
  - Estonian branch of PZU Insurance: 192 m PLN (last year: 169 m PLN).
- Sales in Ukraine up 5 m PLN (4.2% growth was posted in its functional currency).

Life insurance:

- Gross written premium in Lithuania up on endowment insurance sales to retail clients.
- Gross written premium in Ukraine rose 10 m PLN (up 32.1% in the functional currency).

Recap – international business

Insurance results

Non-life insurance:

- Combined ratio decline as a result of the following:
  - lower loss ratio - in the Baltic States thanks to the falling frequency of mass claims, in Ukraine as a result of reviewing and reversing technical provisions;
  - dip in the acquisition expense ratio as the portfolio mix evolves in the Baltic States and Ukraine – rising percentage of motor insurance with lower costs;
  - cutting the administrative expense ratio was possible chiefly due to maintaining cost discipline coupled with the growth in the magnitude of business.
- Growth in the insurance result (up 44 m PLN) in non-life insurance propelled by higher sales and due to the positive results generated by the companies in the Baltic States segment.

Life insurance:

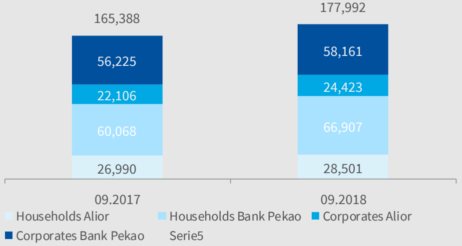
- Deterioration in the result (down 2 m PLN) in the Baltic States segment, chiefly due to softer investment result coupled with simultaneously maintaining the result of 3 m PLN in Ukraine.

Banking activity

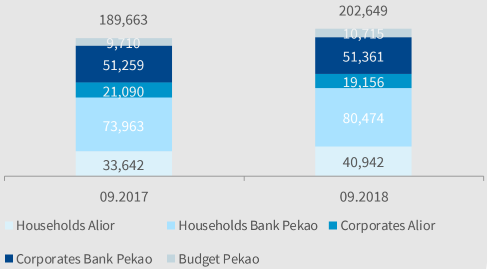
Positive growth rate in loan receivables

Volumes

Loans
(m PLN)

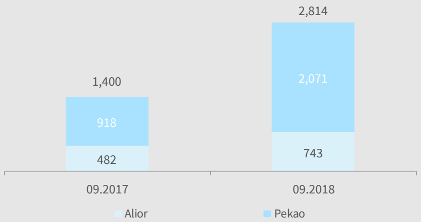


Liabilities
(m PLN)[3]

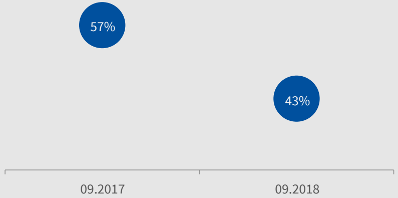


Ratios

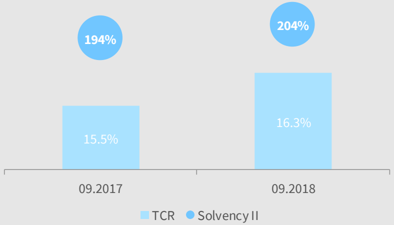
EBIT[1]
(m PLN)



Cost / Income[1]
(%)



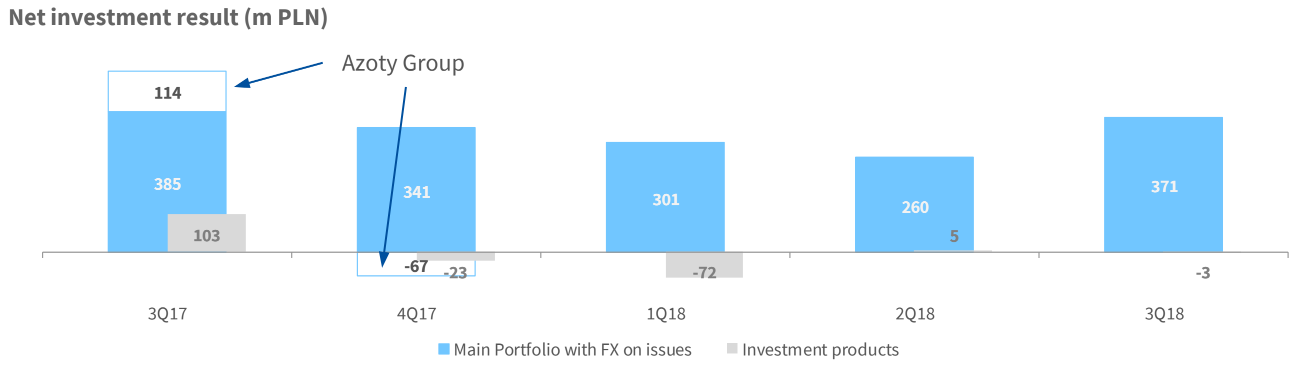
Capital adequacy[2]

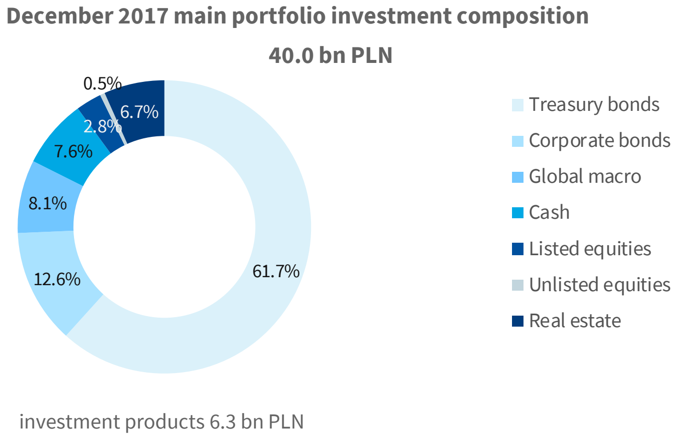


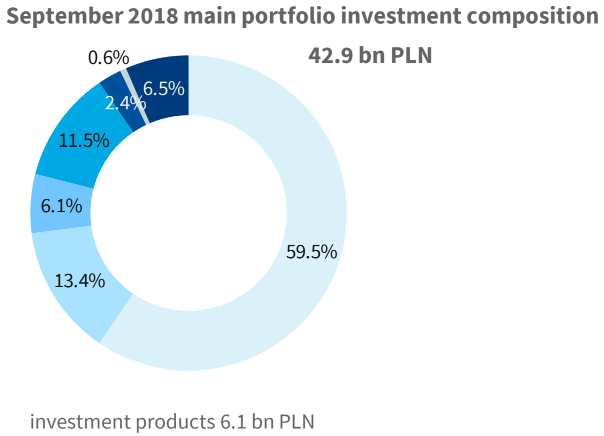
1) Data in accordance with PZU’s financial statements
2) Data jointly for Pekao and Alior Bank pro rata to the equity stakes held
3) Data in accordance with Pekao and Alior Bank’s financial statements

Investments

Improvement in the result on bonds measured mark-to-market







Recap – investments

The better performance of the Main Portfolio on investment activity (including FX on the issue of own bonds) in Q3 2018 compared to Q2 2018 is chiefly due to the following:

- the higher result on the Polish treasury bonds portfolio and the foreign bonds measured mark-to-market as circumstances on the debt market improved
- the lower result on the listed equities portfolio

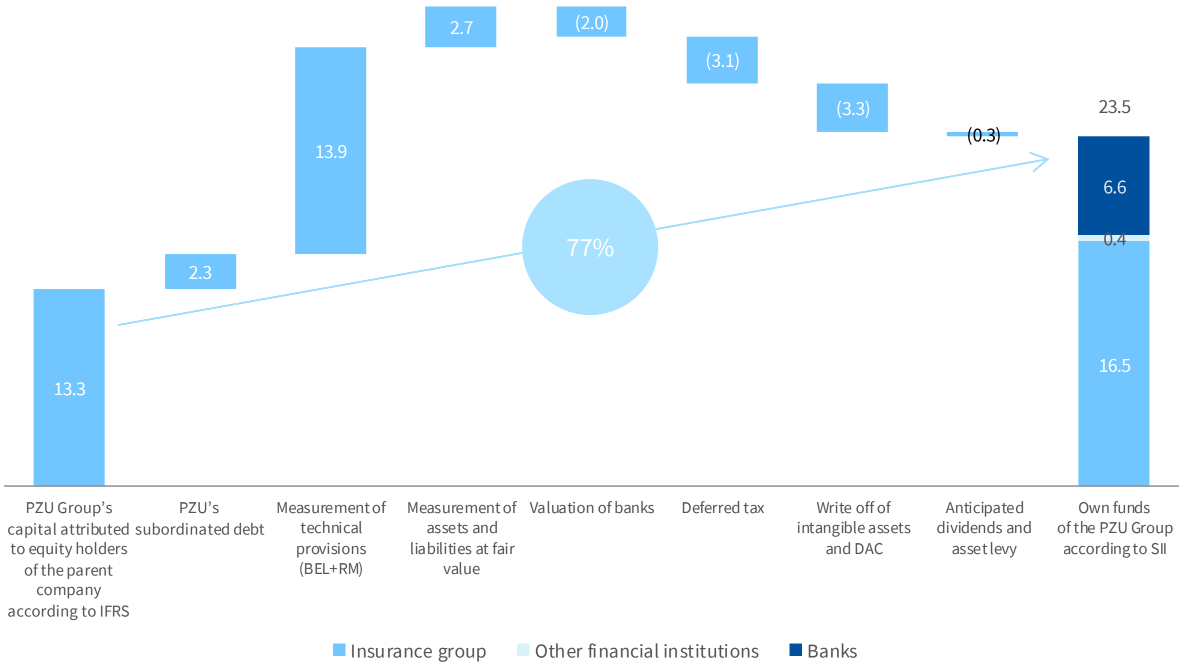
The lower performance of the Main Portfolio in Q3 2018 compared to the corresponding quarter of last year is chiefly due to the following:

- the lower result on the listed equities portfolio
- the lower result on the held-to-maturity bonds (bonds matured with higher yields than are presently available on the market)
- the higher result on the Polish treasury bonds portfolio and the foreign bonds measured mark-to-market as circumstances on the debt market improved

Group’s own funds

PZU Group’s data under Solvency II / 30 June 2018 (bn PLN, unaudited data)

Comparison of own funds and consolidated equity according to IFRS



Own funds according to SII calculated using the net assets carried in the Group’s economic balance sheet.
For the purpose of SII, the consolidated data of the insurance entities and entities rendering auxiliary activity such as mutual funds, PZU Zdrowie, PZU Pomoc and Centrum Operacji.

No consolidation of given credit institutions (Pekao, Alior Bank) and financial institutions (TFI, PTE).

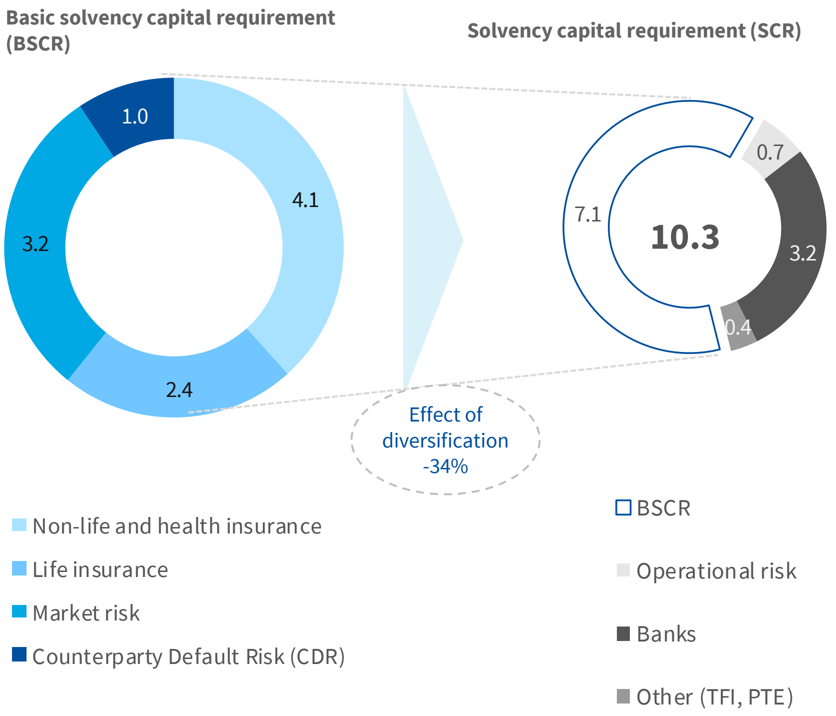
According to SII regulations:

- technical provisions measured using the expected discounted cash flow (best estimate liability, BEL) adjusted for the risk margin;
- shares in entities belonging to other financial sectors (Pekao, Alior Bank, TFI, PTE) measured using the group’s percentage of the regulatory capital of these entities prescribed according to a given sector’s regulations;
- other assets and liabilities measured at fair value*;
- deferred tax is calculated on the temporary differences between the valuation of assets and liabilities according to SII and IFRS. Similarly to IAS 12, absence of deferred tax on differences pertaining to related parties (e.g. banks).
- own funds according to SII minus:
  - the amount of anticipated dividends**;
  - the forecasts of the amount of tax on assets expected to be paid by insurance undertakings over the 12 months after the balance sheet date (according to the letter from the Polish FSA).

* Intangible assets and deferred acquisition costs whose value for the purposes of SII is zero are an exception.
** The adjustment for anticipated dividends determined based on the Management Board’s recommendation regarding the distribution of the result.

SCR up following the acquisition of Pekao

PZU Group's data under Solvency II / 30 June 2018 (bn PLN, unaudited data)



Solvency requirement up in Q2 2018 by 0.3 bn PLN. The main reasons for the movement in SCR:

- higher requirement for a counterparty's default risk by 0.3 bn PLN** in connection with the higher balance of settlements for transactions concerning financial instruments;
- SCR market risk up 0.2 bn PLN** on account of the following:
  - lower impact exerted by market risk diversification as a result of applying the risk correlation matrix contemplated for the interest rate decline scenario (the current quarter is a reversal of the effect observed in Q1);
  - lower exposure to equity price risk and the slightly higher exposure to other market risks;
- no material change in the risk requirement for non-life insurance ensuing from a higher risk charge on premiums and provisions, the lapse rate risk (business development) and the more pronounced impact of limiting risk related to more profound reinsurance of catastrophic risks.

* Difference between SCR and the total of the following: BSCR, operational risk, the requirement of the banking sector and other financial institutions ensues from a tax adjustment (LAC DT).
** Prior to the effects of diversification.

Disclaimer

This Presentation has been prepared by PZU SA ("PZU") and is purely informational in nature. Its purpose is to present selected data concerning the PZU Group ("PZU Group"), including its growth prospects.

PZU does not undertake to publish any updates, changes or adjustments to information, data or statements set forth in this PZU Presentation in the event of modifying PZU's strategy or intentions or the occurrence of facts or events that will exert an impact on PZU's strategy or intentions unless such a reporting duty stems from the prevailing legal regulations.

The PZU Group is not liable for the consequences of decisions made after reading this Presentation.

At the same time, this Presentation cannot be treated as part of an invitation or an offer to acquire securities or to make an investment. Nor does it constitute an offer or an invitation to execute other securities-related transactions.

As the presentation of amounts in the consolidated financial statements has been modified to state millions of PLN instead of thousands of PLN, which has been the case to date, some amounts and ratios in this presentation may differ from the figures stated in the presentation of the PZU Group's financial results last year on account of the necessity to round them.

Thank you

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