



# **PZU Group's Financial Results**

in 1Q19

Warsaw, 14 May 2019



# Table of contents

1. PZU Group's main accomplishments

3

2. Business development

5

3. Financial results

20

4. Group's strategy execution in 2017 – 2020

26

5. Attachments

29





# 1. PZU Group's main accomplishments



## Business development

- Best first quarter measured by gross written premium for the PZU Group (5.9 bn PLN)
- Periodic premium growth in PZU faster than the pace of growth of the overall life insurance market
- Stabilization in gross premium written in the overall life segment (2.1 bn PLN) due to the lower extent of decline y/y of premium on investment products
- Continued dynamic growth of premium on protection products in individual life insurance (+25.6% y/y in 1Q19)
- Market share uptake in motor insurance (to 38.9% in 4Q18, direct activity) in MTPL and MOD alike y/y and q/q. Highest MTPL market share in 4Q18 in 10 quarters (37.1%)
- Numbers of contracts in PZU Zdrowie up 46% y/y



## Financial results

- Combined ratio in the non-life segment at a low level of 87.0%<sup>2</sup> in 1Q19
- Excellent combined ratio in mass insurance (86.9% in 1Q19), despite the more challenging weather conditions
- Operating margin in group and individually continued insurance up y/y by 0.2 p.p. Considering the last 12 months, the operating margin is 22.2% - above the strategic level of 20%
- Substantial improvement in the investment result – the yield in the main portfolio is 2.7 p.p. above the risk-free rate – versus the 2.0 p.p. target in the strategy
- Net profit growth (to 747 m PLN, +19% y/y in 1Q19) despite higher costs for the Bank Guarantee Fund in banks



## Capital allocation

- Generated return on equity of 19.5%, an improvement of 2.1 p.p. y/y
- S&P rating of A- (stable outlook) with a capital strength rating of AAA
- Dividend recommended by the Management Board to the Shareholder Meeting of 2.80 PLN per share (75% of consolidated net profit, 89% of standalone profit, dividend yield of 6.8%)
- Solvency at a stable level; despite the expanding magnitude of business the SII ratio at the end of 4Q18 was 222%<sup>4</sup> after incorporating the recommended dividend payout



### GWP

5,901 m PLN  
(versus 5,831 in 1Q18)

### Net profit

747 m PLN  
(versus 627 in 1Q18)

### Operating margin<sup>1</sup>

16.8%  
(versus 16.6% in 1Q18)

### Combined ratio<sup>2</sup>

87.0%  
(versus 85.3% in 1Q18)

### ROE<sup>3</sup>

19.5%  
(versus 17.4% in 1Q18)

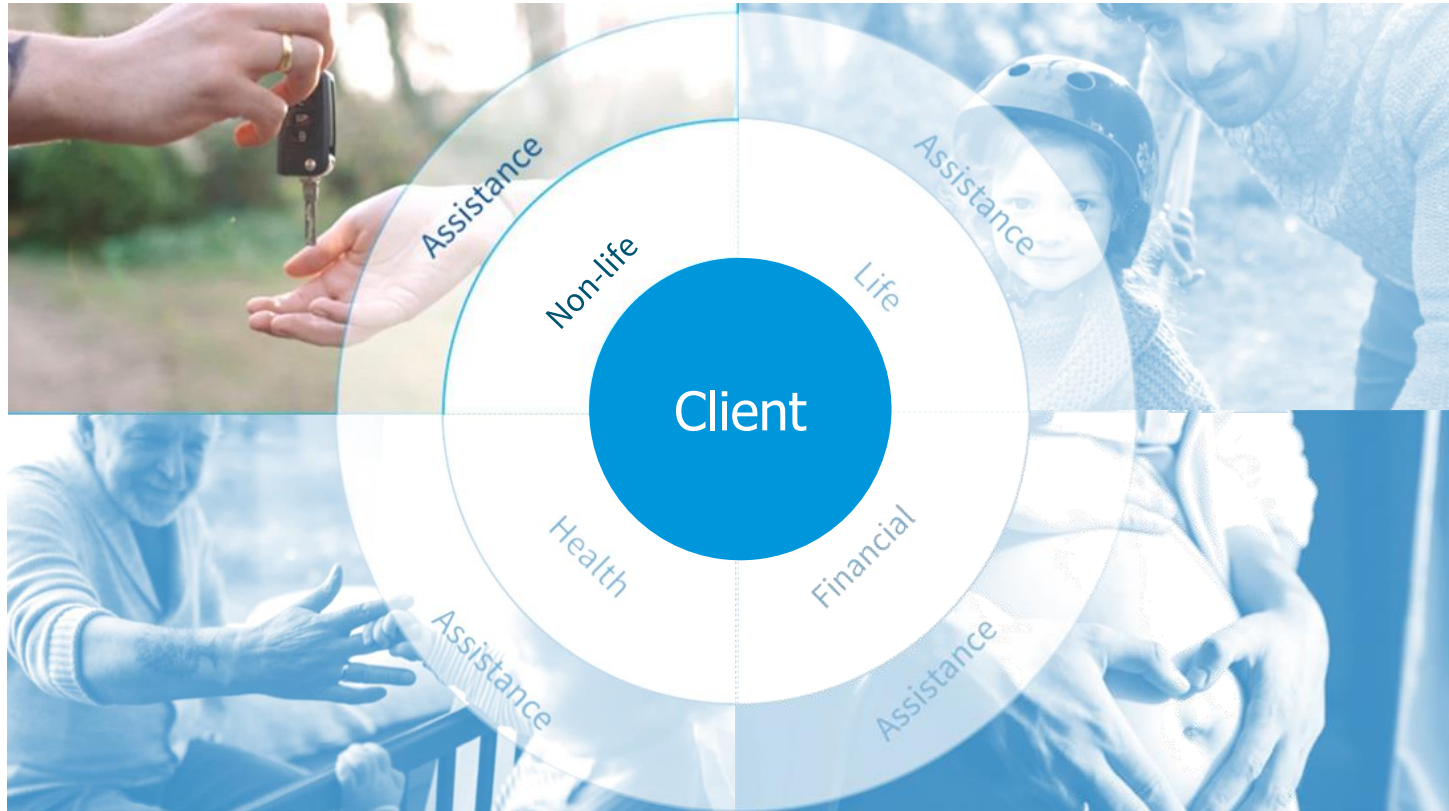
### Solvency II

222%<sup>4</sup> in 4Q18  
(versus 208% in 4Q17)

- 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 (Poland)
- 3) Ratio computed using equity at the beginning and end of the reporting period. Computed for the parent company
- 4) Unaudited data



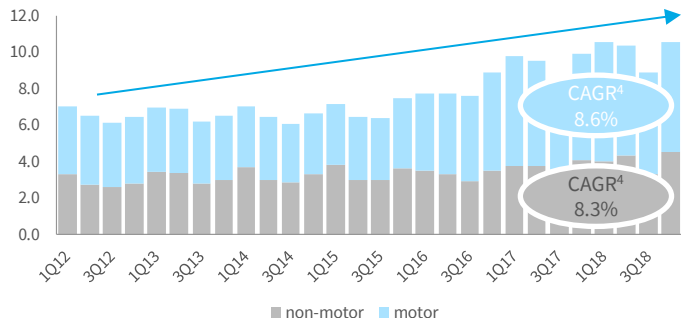
## **2. Business development**





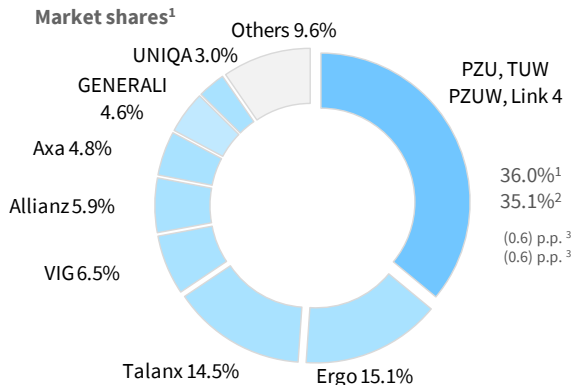
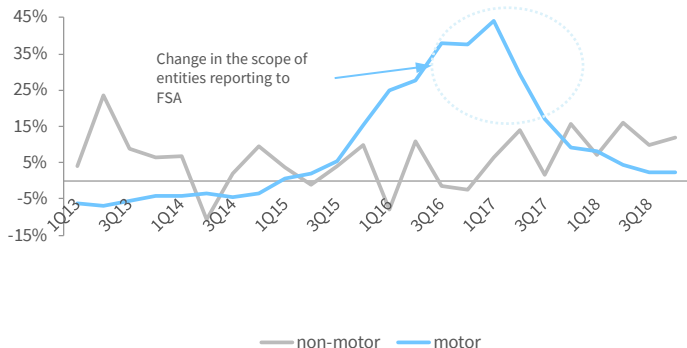
# Non-life insurance (1): Non-life insurance market in Poland

Gross written premium (bn PLN)



- Acceleration in the growth of the non-motor insurance market to 12.4% y/y in 4Q18 and 11.4% in 2018. Rate of growth of premium in motor insurance was 2.5% in 4Q18 (4.4% in full year 2018)
- PZU Group’s market share in non-life insurance (direct business) at the end of 4Q18 climbed to 35.1%
- Persistently strong market position in motor insurance with a market share of 37.7% in 2018 and 38.9% in 4Q18<sup>2</sup>
- PZU Group’s high percentage of the overall market’s technical result at 54.6%<sup>1</sup>

Growth rate of the gross written premium y/y

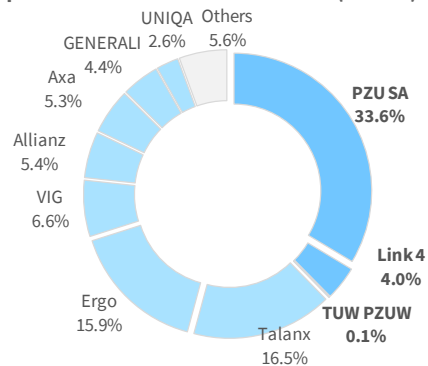


- 1) according to the Polish FSA’s quarterly report for 4Q18; the market and market shares including PZU’s inward reinsurance from Link4 and TUV PZUW
- 2) PZU Group’s market share in non-life insurance on direct business at the end of 4Q18
- 3) movement in market share y/y on PZU’s inward reinsurance from Link4 and TUV PZUW and direct activity, respectively.
- 4) calculated for the period from 4Q 12 to 4Q18

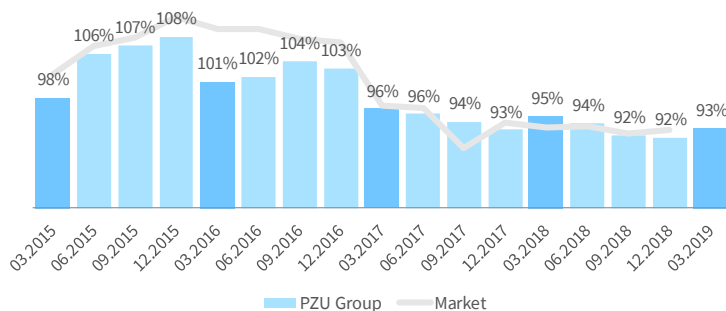


## Non-life insurance (2): Motor insurance

PZU Group's motor insurance market share<sup>1</sup> (Poland)



PZU Group's combined ratio (COR)<sup>2</sup> in motor insurance and the market<sup>3</sup> (Poland)



- Following a period of stabilization in the profitability of the portfolio, **the competitors' heightened activity in terms of changing the average price is still noticeable** (especially among **lease companies and fleet companies**) as is the more extensive **migration of clients as they look for the lowest price**
- Based on the market analysis, observed declined in profitability of motor business, showing low or no profitability in new motor business in the sector in 1Q19
- Necessity of maintaining **price adequacy** and meeting capital requirements resulting from the regulatory authority's (Polish FSA's) requirements
- **Polish FSA's first reaction** highlighting the necessity of aligning prices to market realities (in particular growing cost of claims) and observing premium-risk adequacy
- **PZU maintains a high level of insurance profitability** (including on motor insurance) while concurrently having a **high market share** despite the major shifts in the market's composition and the emergence of new players
- **Investments in new technologies**, deployment of innovative tariff solutions, including the start of submitting offers to leasing clients in quotation services to **match PZU's offering to the client's risk to the greatest degree possible**
- **Constant development of PZU's corporate insurance** coupled with selective underwriting (including the enhancement of the effectiveness of sales and service processes, new prevention solutions for fleet owners) translating into improved profitability in the motor insurance segment in the long run

1) According to the Polish FSA's 4Q18 report; share of the total gross written premium (direct business)

2) Year to date

3) According to the Polish FSA's 4Q18 report

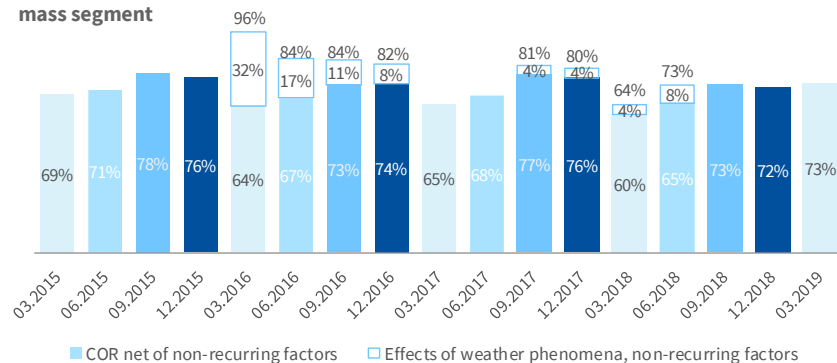




## Non-life insurance (3) Non-motor insurance

### Combined ratio (COR<sup>1</sup>) in PZU Group's non-motor insurance

#### mass segment

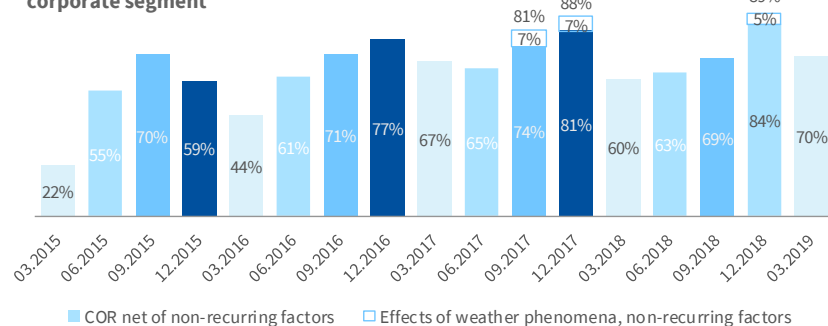


- **Mass segment:**

- maintaining high profitability at a level comparable to 2018
- higher COR in comparison with the corresponding quarter of 2018 as a result of the higher level of claims caused by gusty wind and fire in insurance of households and buildings and companies

### Combined ratio (COR<sup>1</sup>) in PZU Group's non-motor insurance

#### corporate segment



- **Corporate segment:**

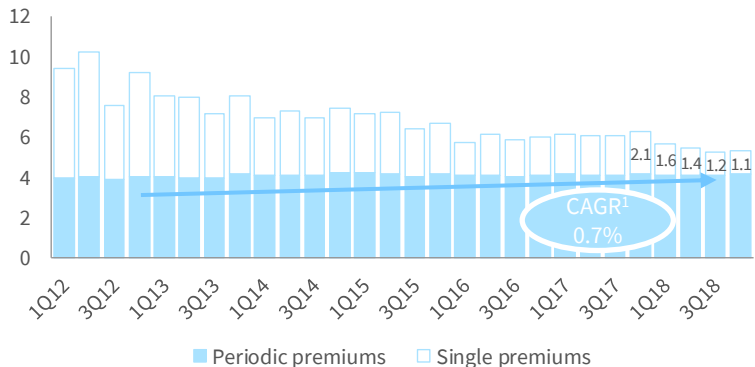
- low combined ratio consistent with the expectations and with average in the last quarters
- notification of several high value claims (also in TUW PZUW)



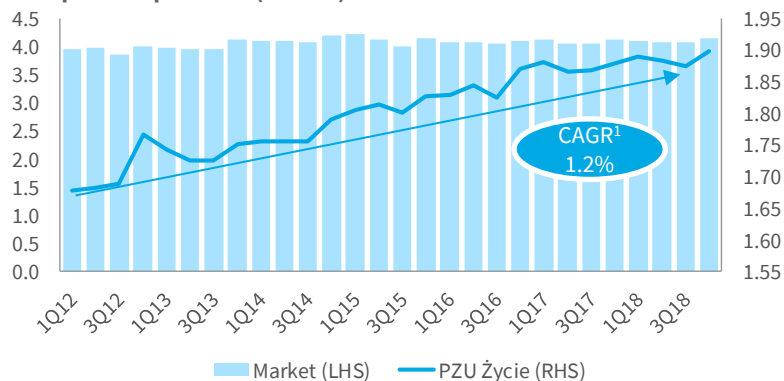


## Life insurance (1): Life insurance market

Life gross written premium (bn PLN)



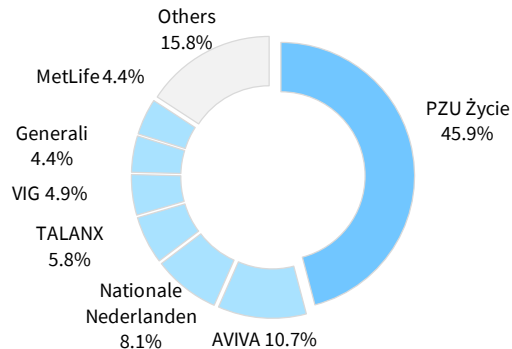
Gross periodic premium (bn PLN)



1) 4Q18 to 4Q12

- The market's periodic premium in life insurance steady **at a stable level y/y of 4.2 bn PLN quarterly**, but single premium down y/y by 1.0 bn PLN to 1.1 bn PLN quarterly
- PZU Życie's **periodic premium grew faster** (+1% y/y) than the overall market
- PZU Życie's **market share increase by 3.3 p.p. y/y to 38.1%** in 2018 life gross written premium
- PZU's key **market share of periodic premium stayed high at 45.7% in 4Q18** and 45.9% in 2018; also for protection contracts (class I of life insurance) its market share was 63.7%
- The profitability of the technical result at PZU Życie in 2018 is higher than the average for the competition – 20.8% versus 10.3%, translating into a share exceeding 55% of the sector's overall result (technical and net result)

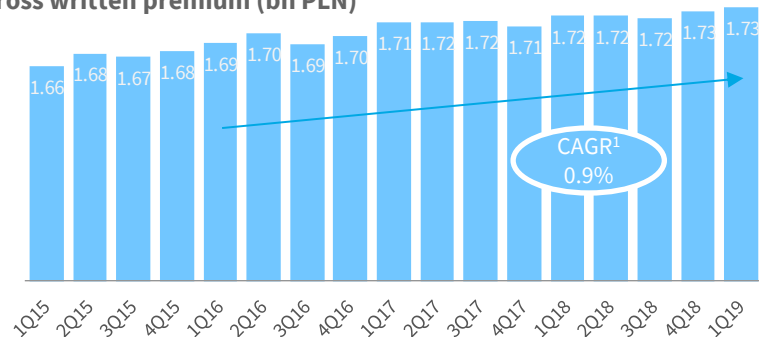
Market shares in periodic premium in 2018





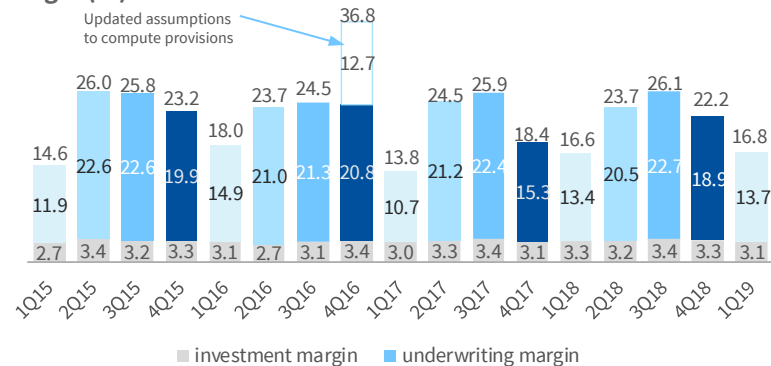
## Life (2): Group and individually continued insurance

### Gross written premium (bn PLN)



- 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 1Q19 PZU Życie had more than 1.9 million health contracts in force in its portfolio
- Lessening the pressure on the premium growth rate making it possible to control the loss ratio of protection products
- The higher number of people taking retirement in the last year and a half has exerted an adverse impact on the gross written premium in group protection products
- The margin improvement of 0.2 p.p. y/y in this quarter was due to the following:

### Margin (%)



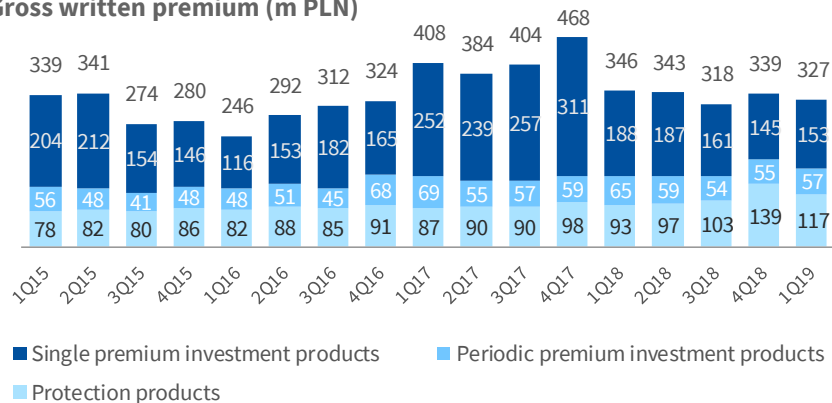
- lower growth in mathematical provisions in individual continuation (shift in the composition of “old” and “new” individual continuation making it possible to set up lower technical provisions and lower level of retirement age incomers)
- lower loss ratio in protection products for selected risks
- The margin decline of 5.4 p.p. q/q was associated with the seasonally higher loss ratio caused by death observed in the first quarter of the year

1) 1Q19 to 1Q16

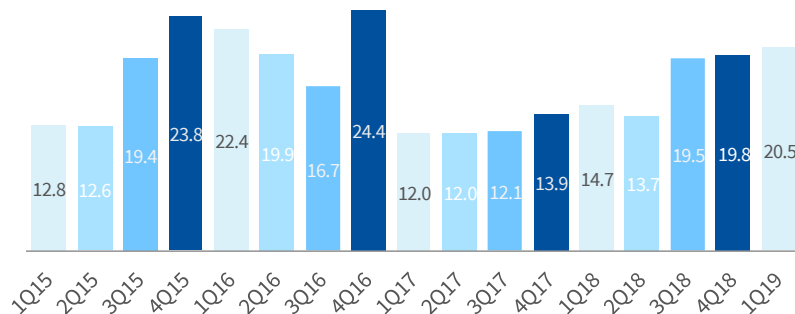


## Life (3): Individual insurance

Gross written premium (m PLN)



Margin (%)

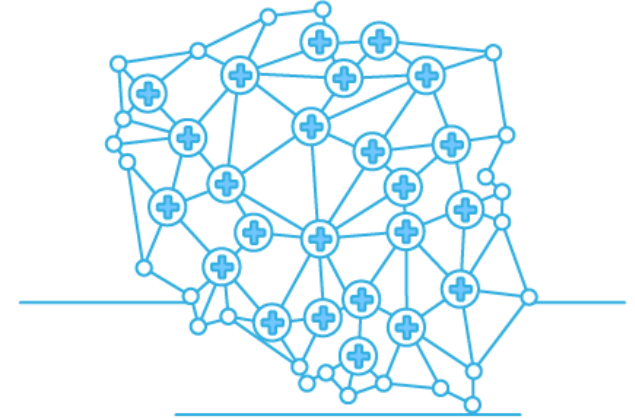
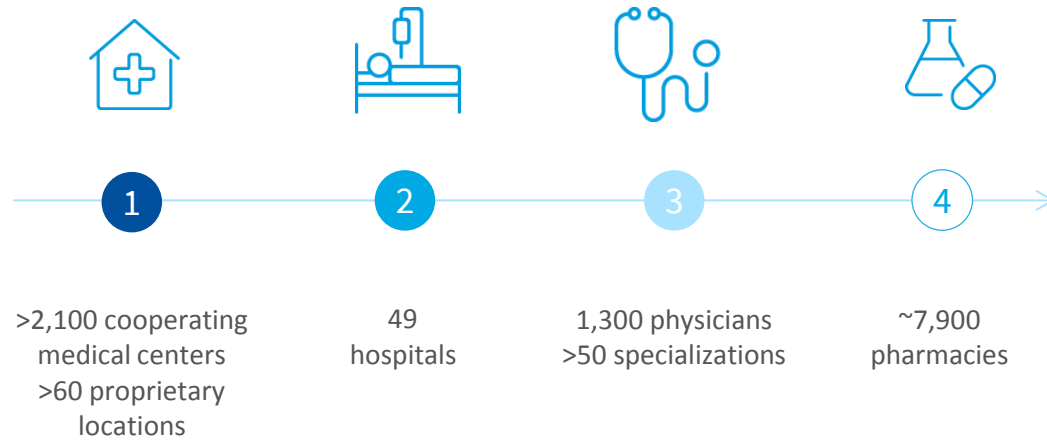


- Constantly rising periodic premium level in protection products, also thanks to implementing new generations of these products
- Ongoing development of cooperation launched in the latter half of 2018 with Alior Bank and Bank Pekao to offer individual life insurance to clients taking out cash loans
- Declining quarter on quarter non-recurring contributions to unit-linked funds offered jointly with banks in line with the prevailing trend on the market
- Margin improvement (5.8 p.p. y/y and 0.7 p.p. q/q) was due to the following:
  - the upward movement in the percentage of revenues accounted for by the protection products segment with a substantially higher margin versus the investment products segment;
  - lower acquisition expenses in unit-linked products in the bank channel (lower sales coupled with costs incurred upfront)
  - better performance on protection products, i.a. due to the intensive development of cooperation with the PZU Group's banks





# Health (1) Development of business size



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



**Service accessibility**, convenient contact channels, online service

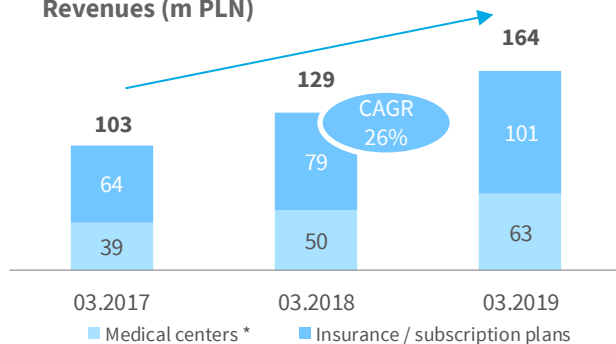


Excellent **location** and client convenience

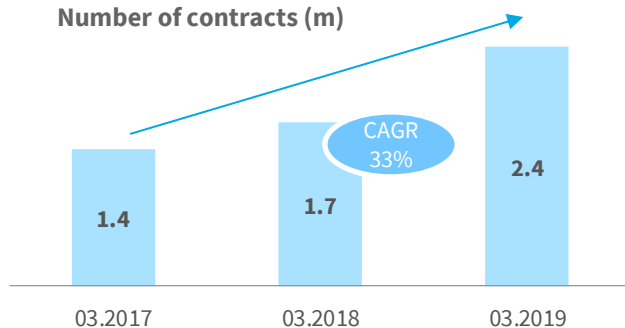


## Health (2) Development of business size

Revenues (m PLN)



Number of contracts (m)



- Growing number of products per client – according to the strategic objectives, in addition to PZU Życie and PZU Zdrowie products, the products offered by PZU SA, Link4 and TUW are also being sold
- Steady increase in the number of health product agreements in 2019 driven by the intensification of sales of more health riders to protection products and non-life insurance (offering among others access to specialist physicians, ambulatory rehabilitation, selected tests and procedures)
- High top line growth – extending the health product portfolio
- Development of three proprietary centers in Warsaw, Poznań and Cracow, work is in progress to set up more branches
- Acquisition of a new company doing business as Alergo-med in January 2019 and further M&A plans (a preliminary agreement has been signed to acquire Falck and NZOZ Starówka)
- Top line growth in proprietary 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

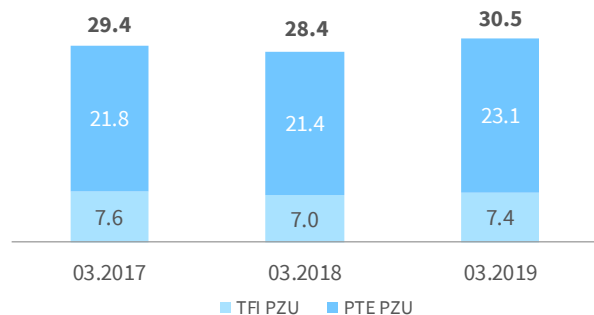






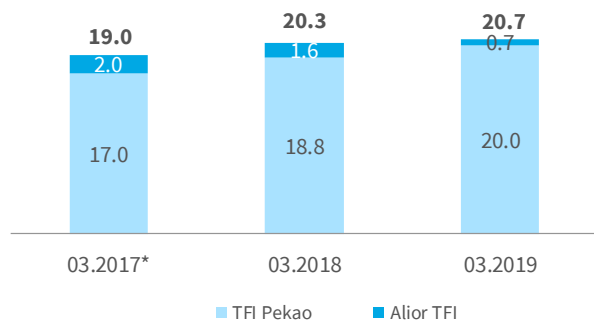
## Financial (1) Assets under management

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

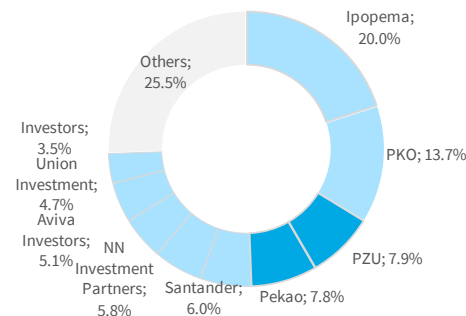


- The growth in PTE PZU's assets followed from the takeover of asset management from Pekao OFE in May 2018 and attractive returns on assets partially offset by net outflows from the open-end pension fund
- The growth in TFI PZU's assets was due to the following:
  - positive balance of incoming funds in the PZU Group's bank channel (mainly Alior Bank) and other third party distributors (mainly ING Bank and Millennium Bank)
  - continually high sales of new EPS (Employee Pension Schemes) programs as an attractive non-payroll benefit for employees of our partners
  - positive rates of return on assets under management (PZU's Polonez and Dłużny Aktywny at the head of TFI with the highest rates of return in their comparative groups)

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



### Share in investment funds market \*\* (%)



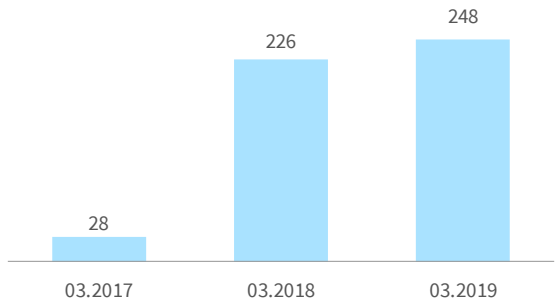
\* PZU acquired shares in Bank Pekao and TFI Pekao in June 2017, the amounts were presented in March 2017

\*\* total market value includes privately-held assets (managed account services for individual clients) and public assets (dedicated to third party clients)

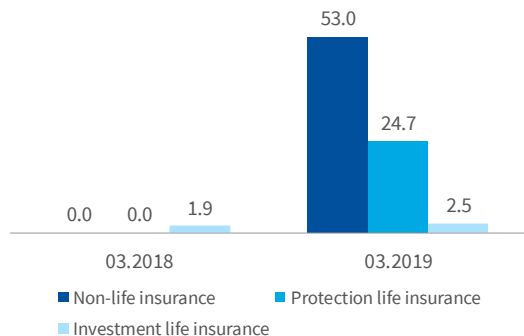


## Financial (2) Development of cooperation with banks

### Assets accumulated in UL distributed by banks (m PLN)



### Number of insurance clients acquired in cooperation with Bank Pekao and Alior Bank (thousands)



- Dynamic growth in client numbers in **PZU and PZU Życie** and gross written premium in protection insurance, investment insurance and non-life insurance attracted in cooperation with banks
  - Rollout of the option to buy **CPI PEX** insurance in Bank Pekao's offer (loan repayment insurance and life insurance for borrowers) offered when applying for a PEX loan in the branch channel (following earlier implementation of the product in online channel)
  - Adding real estate insurance to Alior Bank's offer for **mortgage loan SME borrowers**
  - Continued training for employees of both banks. At the end of March 7.4 thousand Pekao employees and 4.9 thousand Alior Bank employees obtained a **license from the Polish FSA to sell PZU's insurance**
- Continuing the incremental growth of assets accumulated in **Multikapitał** and **Świat Inwestycji Premium** (investment life insurance distributed by banks)
- In assurbanking: Pekao account sales support by the PZU contact center, option to pay benefits to PZU clients in Pekao branches
- Insurance programs for bank employees and special offers on bank products were launched for the employees of PZU Group companies,
- Continuation of cost saving initiatives – scale of cost reductions based on newly negotiated contracts exceeded PLN 40m
- The rate of growth in the market for investment products is limited by regulatory uncertainty
  - system overview of product construction available on the market in terms of management fees and distribution fees, incentives for intermediaries, customer benefits, customer transparency and sales process
  - flagged regulatory authority's recommendation / letter



### **3. Financial results**



## Gross written premium of the PZU Group

Insurance segments m PLN, local GAAP	1Q18	4Q18	1Q19	Change y/y	Change q/q
<b>External gross written premium</b>	<b>5,831</b>	<b>6,212</b>	<b>5,901</b>	1.2%	(5.0%)
Total non-life insurance – Poland	3,338	3,656	3,353	0.4%	(8.3%)
Mass insurance – Poland	2,711	2,649	2,683	(1.0%)	1.3%
Motor TPL	1,145	1,129	1,102	(3.8%)	(2.4%)
MOD	652	657	663	1.7%	0.9%
Other products	914	863	918	0.4%	6.4%
Corporate insurance – Poland	627	1,007	670	6.9%	(33.5%)
Motor TPL	193	273	205	6.2%	(24.9%)
MOD	209	262	214	2.4%	(18.3%)
Other products	225	472	251	11.6%	(46.8%)
Total life insurance – Poland	2,068	2,067	2,060	(0.4%)	(0.3%)
Group and individually continued insurance - Poland	1,722	1,728	1,733	0.6%	0.3%
Individual insurance – Poland	346	339	327	(5.5%)	(3.5%)
Premium on protection products	93	139	117	25.8%	(15.8%)
Premium on periodic investment products	65	55	57	(12.3%)	3.6%
Premium on single investment products	188	145	153	(18.6%)	5.5%
Total non-life insurance – Ukraine and Baltic States	400	456	454	13.5%	(0.4%)
Baltic States	360	397	399	10.8%	0.5%
Ukraine	40	59	55	37.5%	(6.8%)
Total life insurance – Ukraine and Baltic States	27	33	33	22.2%	x
Lithuania	15	18	17	13.3%	(5.6%)
Ukraine	12	15	16	33.3%	6.7%



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

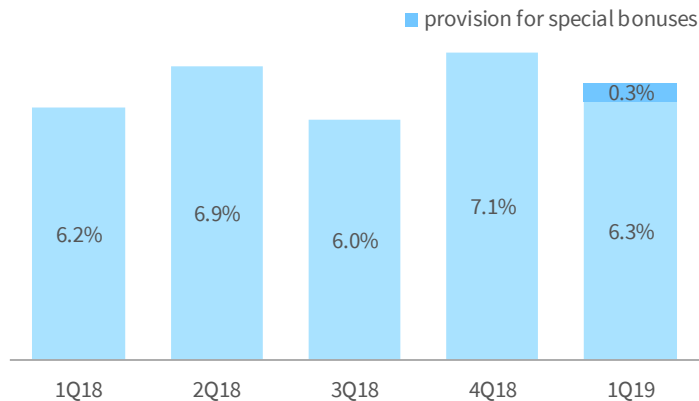
m PLN	1Q18	4Q18	1Q19	Change y/y	Change q/q
<b>PZU GROUP NET OF ALIOR BANK AND PEKAO</b>					
Gross written premium <sup>1</sup>	5,831	6,212	5,901	1.2%	(5.0%)
Net insurance claims and benefits paid	(3,626)	(3,579)	(3,958)	9.2%	10.6%
Net investment result in the main portfolio <sup>2</sup>	301	390	458	52.2%	17.6%
Net investment result - investment products	(72)	(119)	178	x	x
Net investment result - other	(79)	(206)	(9)	(88.3%)	(95.5%)
Administrative expenses <sup>1</sup>	(379)	(445)	(406)	7.1%	(8.7%)
Acquisition expenses <sup>1</sup>	(751)	(830)	(793)	5.6%	(4.5%)
Operating profit (loss)	646	764	869	34.5%	13.7%
Net profit (loss) attributable to equity holders of the parent company	513	582	666	29.6%	14.4%
<b>BANKS: ALIOR AND PEKAO</b>					
Net profit (loss) attributable to equity holders of the parent company	114	200	81	(28.3%)	(59.2%)
Banking Guarantee Fund charges	53	12	118	124.0%	x
Net profit of banks excluding BGF charges	167	212	199	19.1%	(6.3%)
<b>NET RESULT ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>627</b>	<b>781</b>	<b>747</b>	<b>19.1%</b>	<b>(4.4%)</b>
<b>MAIN FINANCIAL RATIOS</b>					
ROE <sup>3</sup>	17.4%	21.5%	19.5%	2.1p.p.	(2.0)p.p.
Combined ratio <sup>4</sup>	86.0%	89.7%	87.5%	1.5p.p.	(2.2)p.p.
Margin <sup>5</sup>	16.6%	22.2%	16.8%	0.2p.p.	(5.4)p.p.
Administrative expense ratio of PZU, PZU Życie	6.2%	7.1%	6.6%	0.4p.p.	(0.5)p.p.
Acquisition expense ratio of PZU, PZU Życie	13.9%	14.6%	14.1%	0.2p.p.	(0.5)p.p.

1. PZU Group excluding financial data of Pekao and Alior Bank
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



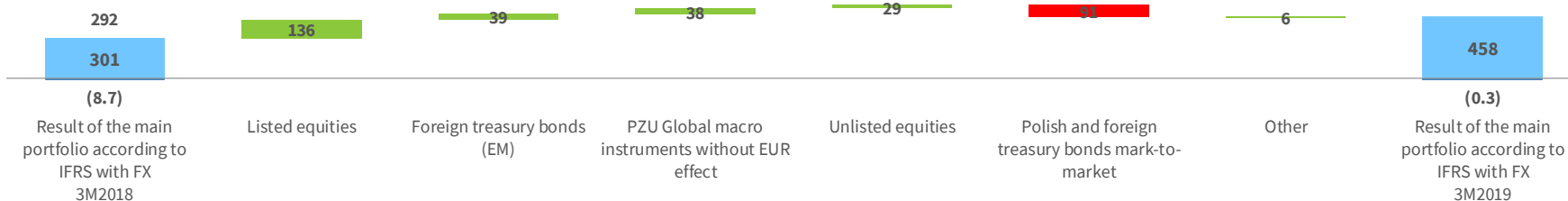
- The shift in the administrative expense ratio in **1Q19 versus 1Q18** was the outcome of the following:
  - higher personnel costs stemming from wage pressure and the establishment of a provision for special awards in 2019
  - higher depreciation and amortization stemming from bring the process of optimization to an end, including Robotic Process Automation
  - higher project-related expenses
  - optimization of service-related costs
- The improvement in the administrative expense ratio in **1Q19 versus 4Q18** transpired mostly on account of seasonal events, including:
  - higher provision for unused holidays in 1Q
  - lower expenditures for training activities in 1Q
  - lower sales support costs in 1Q, including meetings with clients and sales contests
  - decrease in marketing expenditures in 1Q, including the celebration of the centennial of regaining independence in 4Q
  - lower project-related expenses in 1Q than in 4Q

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

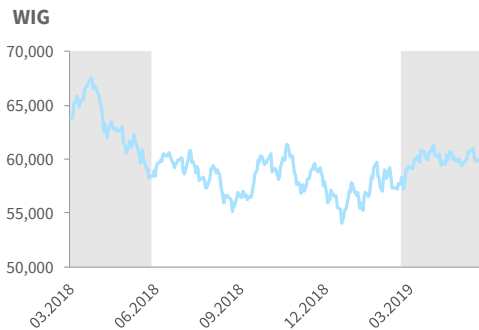


# Investment performance

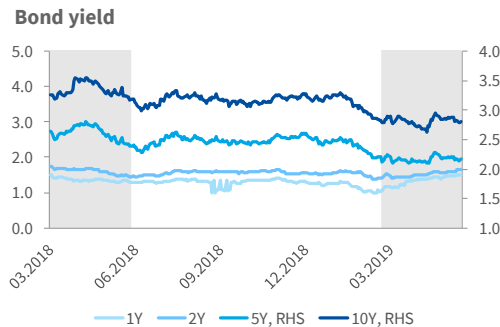
## Change in the investment result, m PLN



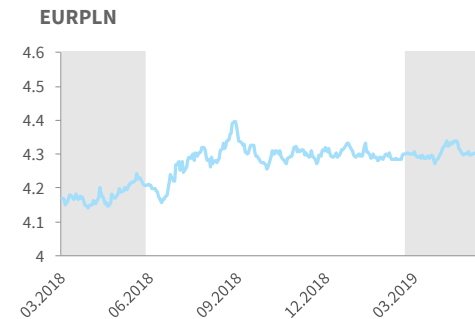
■ Main portfolio with FX on own debt ■ FX on insurance liabilities



1Q18: -8.4%  
1Q19: +3.4%



1Q18: -20.1 bps  
1Q19: +5.5 bps



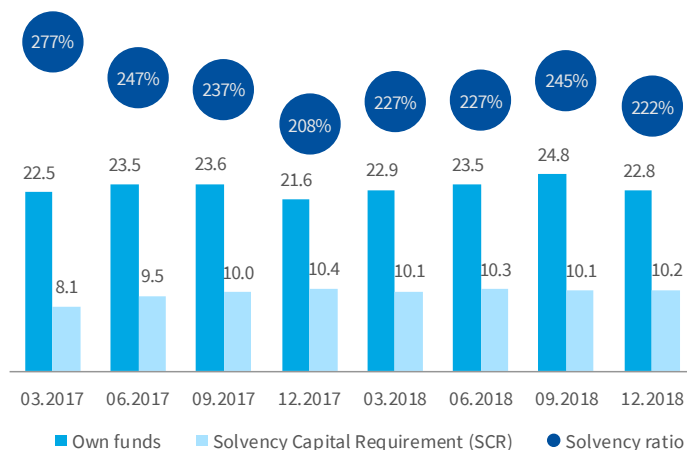
1Q18: +0.90%  
1Q19: +0.03%





## Group's high level of solvency

PZU Group's Solvency II data, 31 December 2018 (bn PLN)



- In 4Q18 decline in own funds of 2.0 bn PLN. Major reasons:
  - subtraction of 2.4 bn PLN as the anticipated dividend to be paid from 2018 profit (the similar adjustment at the end of 2017 was 2.2 bn PLN)
  - current flows in insurance business (+0.6 bn PLN) offset by an increase in BEL (excluding the effect of interest rate movement, -0.5 bn PLN)
  - increase in shares in credit institutions (0.2 bn PLN)
- SCR up in 4Q18 by 0.1 bn PLN due to more stringent requirements in non-life insurance and life insurance offset to a large degree by the decline in the counterparty default risk. Stable level of market risk.
- High quality of the PZU Group's own funds - share of Tier 1 capital is 86%.
- Standalone solvency ratio:
  - PZU - it was 240% (316% at the end of 3Q18)
  - PZU Życie - it was 449% (493% at the end of 3Q18)

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.



## 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 <sup>2,3</sup>		Number of clients in PZU <sup>5</sup> Życie		Assets under management for third party clients (bn PLN)		Revenues (m PLN) <sup>8,11</sup>		Assets (bn PLN)	
12.2018	2020	03.2019	2020	03.2019	2020	03.2019	2020	03.2019	2020
35.1%	38%	10.9	11.0	30.5 / 50.5 <sup>7</sup>	65	609.8	1.000	271	>300
Combined ratio <sup>3</sup>		Insurance margin in group and individual continuation		Net result on third party asset management (m PLN) <sup>11</sup>		EBITDA margin <sup>9</sup>		Net financial result attributed to the PZU Group (m PLN) <sup>11</sup>	
03.2019	2020	03.2019	2020	03.2019	2020	03.2019	2020	03.2019	2020
87.0%	92%	16.8%	>20%	89 / 189 <sup>7</sup>	200	10.6%	12%	621	>900
Administrative expense ratio <sup>4</sup>		Solvency II solvency ratio		Surplus yield on the main portfolio above the RFR <sup>10</sup>					
03.2019	2020	12.2018	2020	03.2019	2020				
6.6%	6.5%	222% <sup>6</sup>	>200% <sup>6</sup>	2.7 p.p.	2.0 p.p.				

**ROE<sup>1</sup>**

	03.2019	2020
	19.5%	>22%

1. ROE attributable to the parent company Direct business  
 2. PZU jointly with TUW PZUW and Link4  
 3. Administrative expenses in PZU and PZU Życie  
 4. Including the clients acquired in cooperation with banks  
 5. Own funds after subtracting anticipated dividends and asset taxes

6. Including assets under management of banks' TFIs / including result on asset management generated by banks' TFIs  
 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. Difference between the annual rate of return computed using the IFRS result on the main portfolio including FX and the annual average level of WIBOR6M  
 10. Last 12 months

## Execution of the 2020 Strategy – key initiatives and activities in 1Q19



**PZU GO available for clients** – the next stage of tests has been completed and preparation has been made to roll out the PZU GO product in the permanent product offering (from the outset of April 2019).

On 10 February PZU GO detected its first very grave road accident. It transpired in Silesia. PZU’s clients who were injured in the accident were hospitalized and their vehicle was safely towed to a workshop.

**Artificial intelligence in claims handling** - completion of the pilot phase of an innovative project employing artificial intelligence. Machine learning and computer vision were tested in real time in the motor claims handling process.



The pilot was completed with a positive outcome and the implementation of this innovation will make it possible to streamline the process of checking technical documentation by 10 times and it will reduce the time needed to handle a notification.



**Letter of Intent with Goldman Sachs** - signing of a letter of intent with Goldman Sachs Asset Management (GSAM) concerning asset management and funds distribution.

This cooperation will make it possible to offer PZU’s financial products globally and extend PZU’s offer to include funds managed (or co-managed) by GSAM.



**moje.pzu.pl** – implementing more #myPZU functionalities, including among others facilities to enroll in group insurance, expand information regarding the status of claims and benefits and add options to buy other products (including PZU Education – School ADD)



**Cash – innovative loan platform** - preparation jointly with Alior Bank of a platform enabling employers to introduce a new benefit in the form of fast and low-interest loans offered to their employees. This solution will make it possible to obtain an inexpensive loan for three years. The loan application and award process will be fully remote. Loan amortization will take place automatically using payroll deductions.



**Development of the PZU Zdrowie network** - signing of a preliminary agreement to acquire a 100 percent stake in Falck Centra Medyczne and NZOZ Starówka.

After the transaction is finalized the number of centers in PZU Zdrowie will jump up from 65 to 97.



**inPZU is opening up to institutional clients** - facilitating institutional clients access to the inPZU internet platform. On the inPZU platform, each fund has a low fixed management fee of 0.5 percent per annum.

Cash platform loans will be more favorable than other types of products available on the market.





## PZU Group Standard - Green PZU



- Adoption of “PZU Group Standard - Green PZU” by PZU and PZU Zycie
- Appointing the Management Board Representative for Environment Protection
- PZU direct environmental footprint:

✓ water consumption

✓ energy consumption

✓ paper consumption

✓ waste generation

✓ air pollution emissions



PZU ecological plan for 2018-2020:

- curtailing the consumption of utilities
- limiting the production of documents
- conducting pro-ecological activities in the car fleet management policy
- rational waste management
- installing air conditioning with an ecological cooling agent
- preference to environmental and social aspects when choosing space for rent
- running educational campaigns among employees in the area of pro-environmental behaviors



## 5. Attachments



## Profitability by operating segments

Insurance segments	Gross written premium			Insurance result / operating result			Combined ratio / Margin	
	1Q18	1Q19	Change y/y	1Q18	1Q19	Change y/y	1Q18	1Q19
<b>m PLN, local GAAP</b>								
Total non-life insurance – Poland	3,355	3,358	0.1%	525	475	(9.5%)	85.3%	87.0%
Mass insurance – Poland	2,729	2,687	(1.5%)	385	390	1.3%	86.5%	86.9%
Motor TPL	1,156	1,104	(4.5%)	25	95	280.5%	98.2%	93.0%
MOD	652	663	1.7%	44	50	13.0%	92.1%	91.8%
Other products	921	920	(0.1%)	240	180	(24.8%)	64.0%	73.4%
Impact of allocation to the investment segment	0	0	x	76	65	(14.8%)	x	x
Corporate insurance – Poland	626	671	7.1%	140	85	(39.3%)	80.1%	87.7%
Motor TPL	194	205	5.5%	7	(2)	x	92.9%	99.4%
MOD	211	215	1.9%	21	15	(30.6%)	89.3%	92.7%
Other products	221	251	13.6%	89	53	(39.9%)	60.0%	69.8%
Impact of allocation to the investment segment	0	0	x	23	19	(18.9%)	x	x
Total life insurance – Poland	2,068	2,060	(0.4%)	341	363	6.5%	16.5%	17.6%
Group and individually continued insurance - Poland*	1,722	1,733	0.6%	286	291	1.7%	16.6%	16.8%
Individual insurance – Poland	346	327	(5.5%)	51	67	31.4%	14.7%	20.5%
Conversion effect	x	x	x	4	5	25.0%	x	x
Total non-life insurance – Ukraine and Baltic States	400	454	13.5%	31	44	41.9%	92.5%	91.2%
Baltic States	360	399	10.8%	29	41	41.4%	92.3%	90.2%
Ukraine	40	55	37.5%	2	3	50.0%	95.2%	103.6%
Total life insurance – Ukraine and Baltic States	27	33	22.2%	1	3	200.0%	3.7%	9.1%
Lithuania	15	17	13.3%	0	1	x	0.0%	5.9%
Ukraine	12	16	33.3%	1	2	100.0%	8.3%	12.5%
Banks	x	x	x	777	621	(20.1%)	x	x

\* Excluding conversion effect

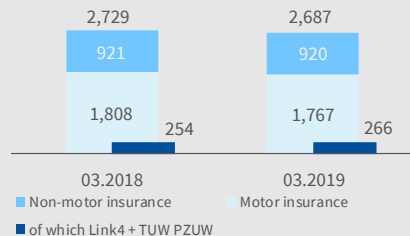


## Non-life insurance

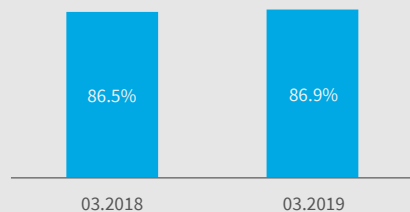
Higher sales in the corporate segment, stable profitability in the mass segment

### Mass segment

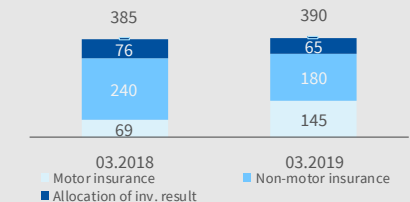
Gross written premium (m PLN)



Combined ratio (%)

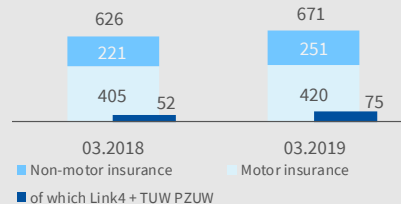


Insurance result (m PLN)

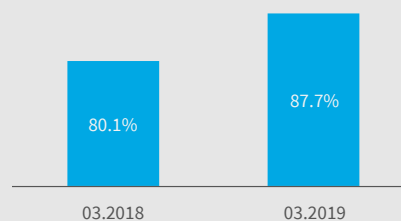


### Corporate segment

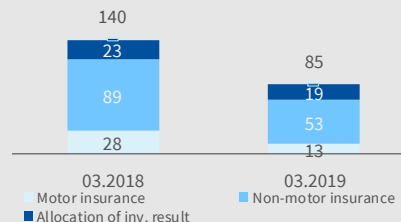
Gross written premium (m PLN)



Combined ratio (%)



Insurance result (m PLN)







## Recap – non-life insurance

### Mass segment

#### Lower gross written premium y/y due to the following:

- lower gross written premium in motor insurance (-2.3% y/y) as the outcome of the 4.5% y/y decline in motor TPL sales (lower number of insurance contracts coupled with slight growth in the average premium) and increase in gross written premium in motor own damage (+1.7% y/y);
- decline in the premium for insurance against fire and other damage to property (-0.7% y/y), including agricultural insurance - the effect of lower sales of farm buildings insurance.

#### Insurance result up as the outcome of the following:

- incremental growth in net earned premium (+2.4% y/y)
- movement in the loss ratio, including:
  - higher loss ratio in non-motor insurance, mostly in the class of insurance for claims caused by forces of nature, due to the occurrence of numerous claims caused by fires and gusty wind;
  - improvement in the loss ratio in motor insurance, in motor own damage and motor TPL alike - in the corresponding period of last year the remeasurement of the provision for pain and suffering caused by the vegetative state
- change in insurance activity expenses, including:
  - higher acquisition expense ratio as a result of the shift in the mix of products and sales channels and the growth in indirect costs driven by higher payroll expenses and higher expenses related to sales contests.
  - growth in the administrative expense ratio as the outcome of higher personnel, IT and project-related costs while observing cost discipline in other areas of current business activity



## Recap – non-life insurance

### Corporate segment

#### Higher gross written premium y/y resulted from the following:

- growth in the sales of motor insurance (+3.7% y/y) offered to leasing companies and in fleet insurance (chiefly MTPL insurance) as a consequence of the higher number of insurance and the dip in the average premium;
- upswing in the premium for accident and other insurance, mainly as a result of developing the GAP financial loss insurance portfolio;
- development of the general third party liability insurance portfolio (+6.2% y/y) as a result of signing several high-value contracts and the expanding insurance portfolio for medical entities and cyber risks in TUW PZUW.

#### Insurance result down as the outcome of the following:

- incremental growth in net earned premium (+4.0% y/y) – impact exerted by the development of the insurance portfolio
- higher loss ratio in the insurance portfolio:
  - motor TPL as a consequence of rising annuity benefits, the observed increase in the average payout and the higher level of international claims; a slight decline of profitability in the MOD insurance class accompanied this effect
  - non-motor insurance, chiefly against fire and other damage to property as a result of reporting more high unit value claims partially offset by the level of claims and benefits in general third party liability insurance
- changes to the level of insurance activity expenses, including the rising acquisition expense ratio as the effect of portfolio expansion and a change in the sales channel mix (higher percentage of premiums originating from insurance offered by leasing companies in the portfolio)

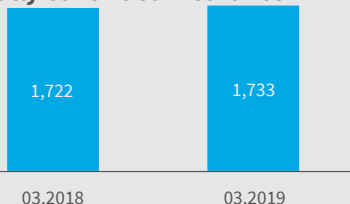


## Life insurance

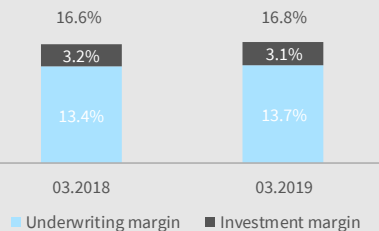
Higher profitability of segments

### Group and individually continued insurance

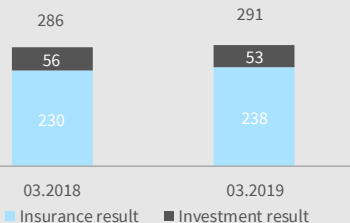
Gross written premium (m PLN)



Margin (%)\*

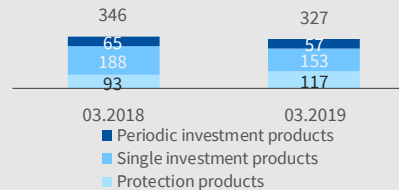


Insurance result (m PLN)\*

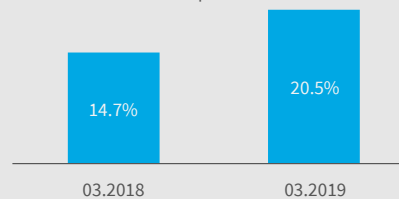


### Individual insurance

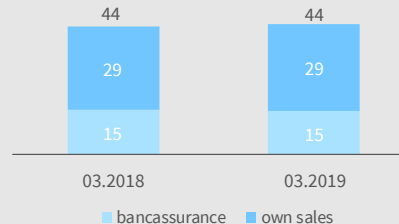
Gross written premium (m PLN)



Margin (%)



Annual premium equivalent (m PLN)



\* Segment margin and insurance results net of 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 1.9 million health insurance contracts in force
- sustaining the policy of upselling riders while simultaneously indexing premiums on the underlying contracts in individually continued products; in addition to the aforementioned rider, at the end of 2018 PZU Życie introduced another insurance product for a myocardial infarction or a stroke; in the latter half of the year another type of a rider will be launched
- at the same time, the revenues in group protection products faced pressure during the last year and a half from higher lapses in groups (work establishments) due to the retirement age being statutorily reduced in 4Q 2017

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

- constantly expanding insurance portfolio
- new individual continuation’s positive contribution to the segment’s results by setting up lower mathematical reserves per insured
- loss ratio in group protection products down from last year



## Recap – life insurance

### Individual insurance segment

#### **Lower gross written premium y/y was the result of the following:**

- 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, the constantly-rising level of premium in protection products in own channels and bancassurance has produced a positive effect. PZU Życie continued the cooperation with Alior Bank and Bank Pekao launched in 2018 to offer individual life insurance to clients taking out cash loans.

#### **Segment's margin growth was the result of the following:**

- higher percentage of revenues accounted for by the protection products segment commanding a substantially higher margin
- lower acquisition expenses in the bank channel for unit-linked products after the dip in sales volumes
- better performance among protection products, i.a. due to the intensive development of cooperation with the PZU Group's banks

#### **Sales channels:**

- maintenance of a high level of sales in proprietary channels. The more than 10% growth rate year on year in the sales of protection products offset by lower contributions to the IKE and IKZE voluntary retirement savings programs deserves special emphasis
- the rising sales of protection products in the bancassurance channel, especially in cooperation with Alior Bank and Bank Pekao were offset, just like in proprietary channels, by the lower level of contributions to new accounts in unit-linked products

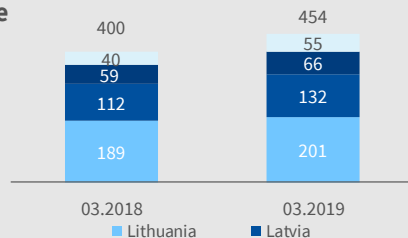


## International business

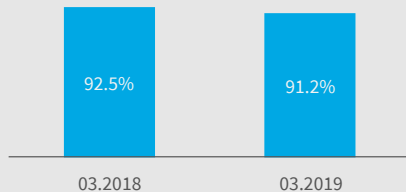
Improved profitability

### Non-life insurance

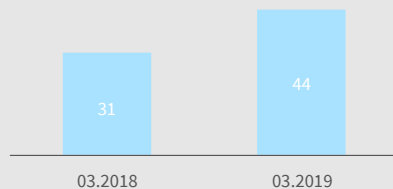
Gross written premium (m PLN)



Combined ratio (%)

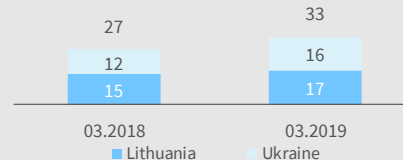


Insurance result (m PLN)

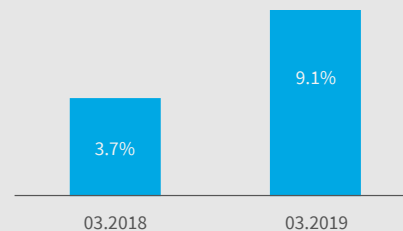


### Life insurance

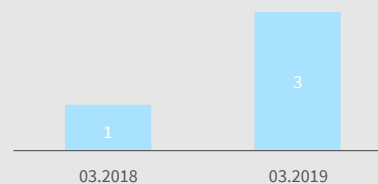
Gross written premium (m PLN)



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 in 1Q the upward trend of rates in motor insurance premiums in the region and thanks to higher sales of property insurance, and health insurance, too in Latvia and Lithuania alike:
  - Lithuanian market leader Lietuvos Draudimas: 201 m PLN (last year: 189 m PLN)
  - AAS Balta in Latvia: 132 m PLN (last year: 112 m PLN)
  - Estonian branch of PZU Insurance: 66 m PLN (last year: 59 m PLN)
- Sales growth in Ukraine of 15 m PLN (55 m PLN, last year 40 m PLN).

#### Life insurance:

- Gross written premium in Lithuania up (2 m PLN) on endowment insurance sales to retail clients
- Gross written premium in Ukraine up 4 m PLN (16 m PLN, last year 12 m PLN)



## Recap – international business

### Insurance results

#### Non-life insurance:

- Combined ratio decline as a result of the following:
  - maintaining the loss ratio at the level of 1Q of last year – decline in the Baltic States due to the lower frequency of claims in motor insurance offset by the growth in Ukraine of large claims
  - reducing the acquisition expense ratio due to dropping the commission rate in the Baltic States segment, in the Ukraine segment the ratio is up versus the corresponding period of the previous year
  - 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 13 m PLN) in non-life insurance propelled by higher sales and due to the positive results generated by companies in both segments

#### Life insurance:

- Improved result in the Ukrainian segment (up 1 m PLN), chiefly due to higher sales coupled with simultaneous growth in the Baltic States segment (also up 1 m PLN)



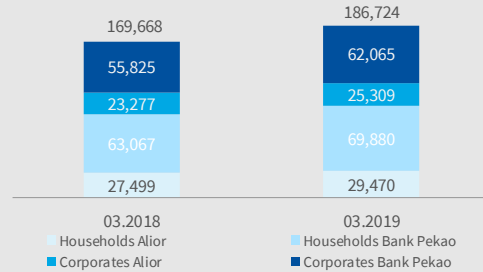


## Banking activity

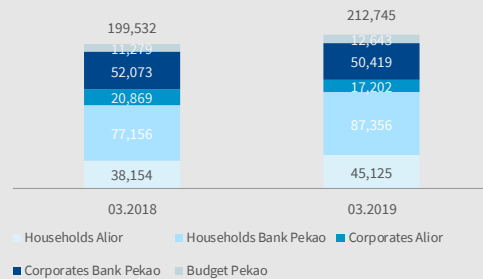
Double-digit loan expansion

### Volumes

Loans  
(m PLN)

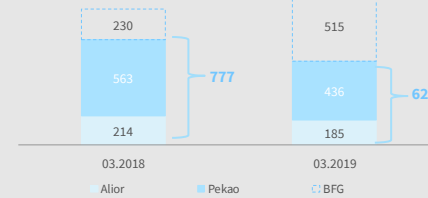


Liabilities  
(m PLN)<sup>3</sup>



### Profitability and ratios

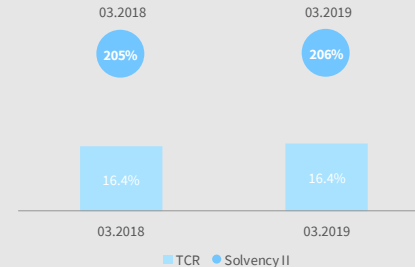
Operating profit<sup>1</sup>  
(m PLN)



Cost / Income<sup>1</sup>  
(%)



Capital adequacy<sup>2</sup>



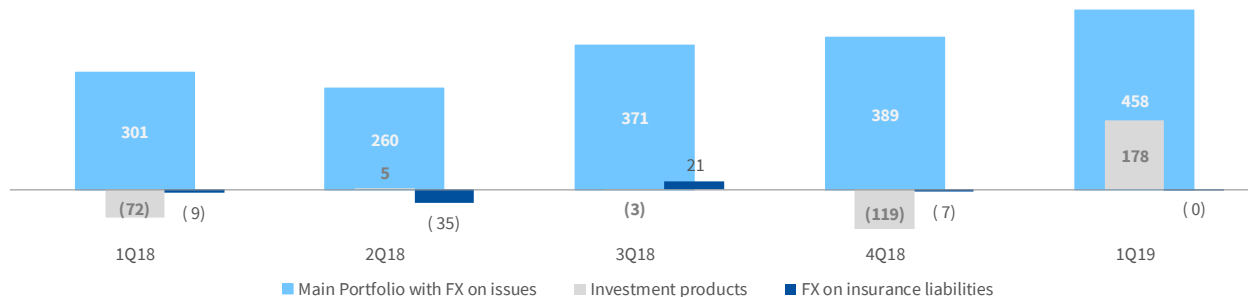
- 1) Data in accordance with PZU's financial statements
- 2) Data jointly for Pekao and Alior Bank pro rata to the equity stakes held
- 3) Data in accordance with Pekao and Alior Bank's financial statements



## Investments

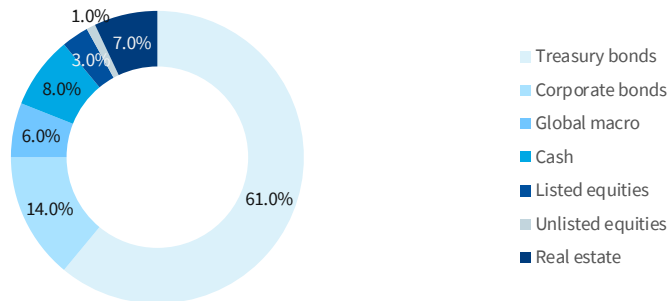
Improvement in the performance of equity portfolios

Net investment result (m PLN)



December 2018 main portfolio investment composition

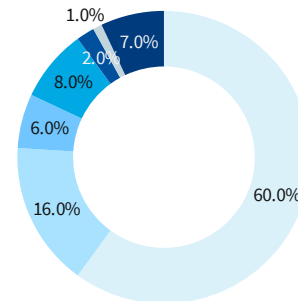
41.9 bn PLN



investment products 5.9 bn PLN

March 2019 main portfolio investment composition

43.1 bn PLN



investment products 6.0 bn PLN



## Recap – investments

The improvement in the main portfolio's investment result under IFRS while giving consideration to the FX impact on liabilities versus 1Q18 is principally the effect of the following:

- better performance of equity portfolios, including in particular listed equities in Poland ensuing from the more buoyant Warsaw Stock Exchange (the WIG index is up 3.8% in 2019 versus the 3.2% decline in the comparable period of last year) and the growth in the valuation of the unlisted equity portfolio, as well as the higher than posited yield on the foreign equity portfolio due to the robust performance posted by the inPZU Akcji Rynków Rozwiniętych fund; the foregoing impact was partially offset by the reduction in equity portfolio assets to curtail the volatility of portfolio results
- stabilization of income in the foreign treasury bonds portfolios (EM), chiefly by altering the management strategy from being short-term to long-term and setting up a FVOCI portfolio
- limitation of volatility in the results of the PZU Global Macro EUR instrument portfolio in connection with the purchase of bonds aligned to the portfolio's investment horizon, mostly to cover the liabilities on own bonds denominated in EUR that will mature in the middle of this year

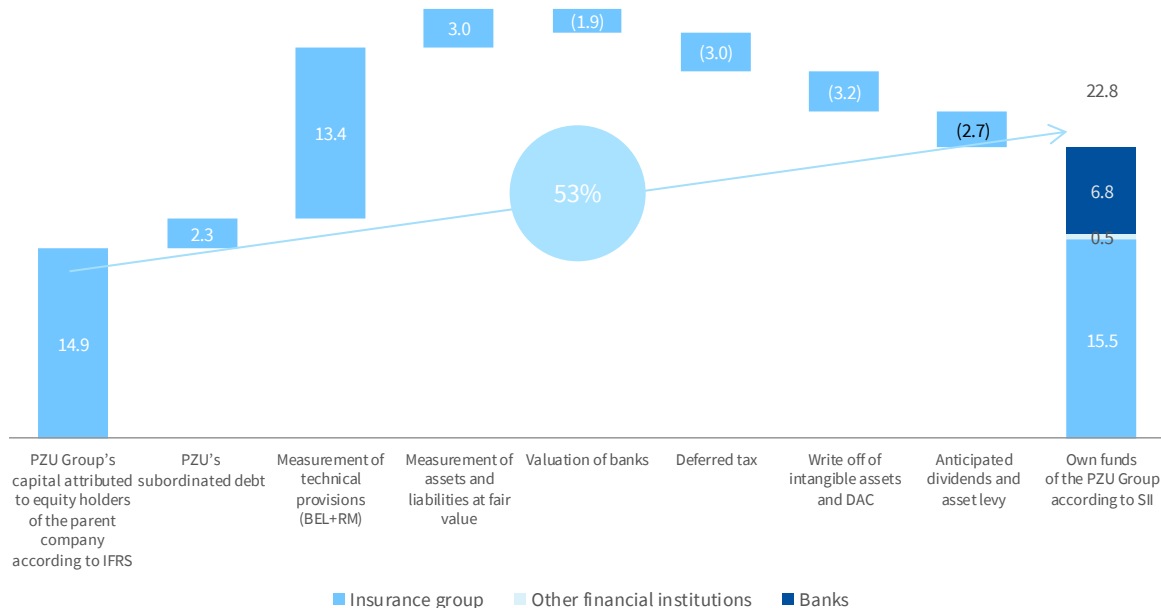
The foregoing growth was partially offset by the lower result on the PL MTM treasury bonds portfolio due to the softer debt market.



## Group's own funds

PZU Group's data under Solvency II / 31 December 2018 (bn PLN)

### Comparison of own funds and consolidated own funds 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 asset levy to be paid by insurance undertakings in the 12 months after the balance sheet date (according to the letter from the Polish FSA)

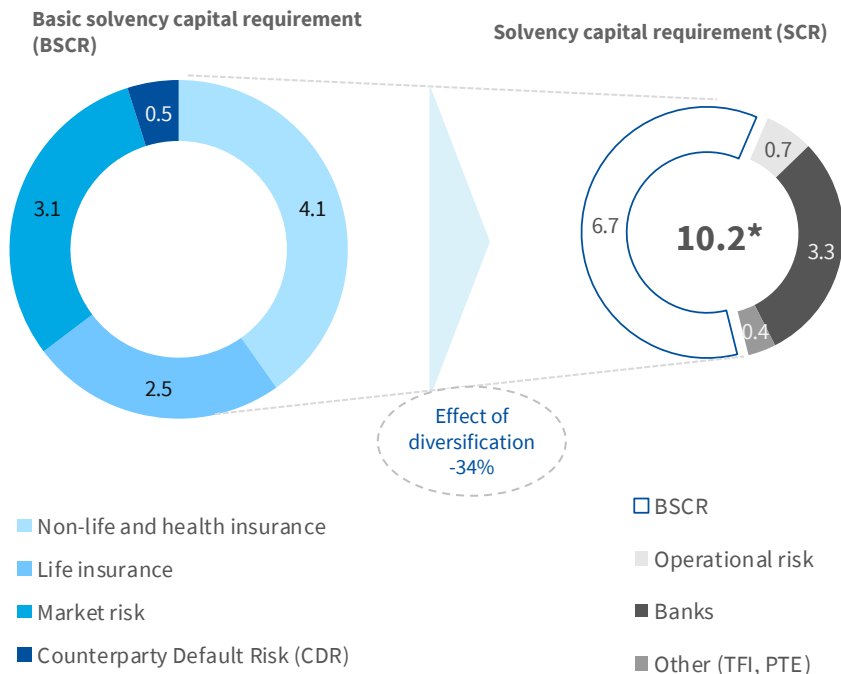
\* Intangible assets and deferred acquisition costs whose value for the purposes of SII is zero are an exception.

\*\* 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 / 2018 (bn PLN, unaudited data)



Solvency requirement edged up in 4Q18 by 0.1 bn PLN

The main reasons for the movement in SCR:

- decline in the requirement for a counterparty's default risk by 0.2 bn PLN\*\* in connection with the decline in the balance of settlements for transactions concerning financial instruments
- stabilization in the market risk requirement as the combined impact of a lower equity price requirement (down 0.1 bn PLN\*\*) and the slightly higher interest rate risk and foreign exchange risk
- uptick in non-life insurance risk by 0.1 bn PLN\*\* and in life insurance risk by 0.1 bn PLN\*\* due to higher estimates of premiums and provisions

\* 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

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# Thank you

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