



# PZU Group's Financial Results

in 3Q 2020

Warsaw, 19 November 2020





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# 1. PZU Group's main accomplishments



## Stable business model and strong market position augment its resilience to the pandemic



Resilient business model; improved profitability in life and non-life insurance, return on investments 3.9 p.p. above the risk-free rate. Solvency II 258%



Higher net profit y/y despite the turbulence related to the COVID-19 pandemic. **ROE at 20.4%**



Higher **life insurance market share**. Improved **renewals** in the **motor** insurance portfolio

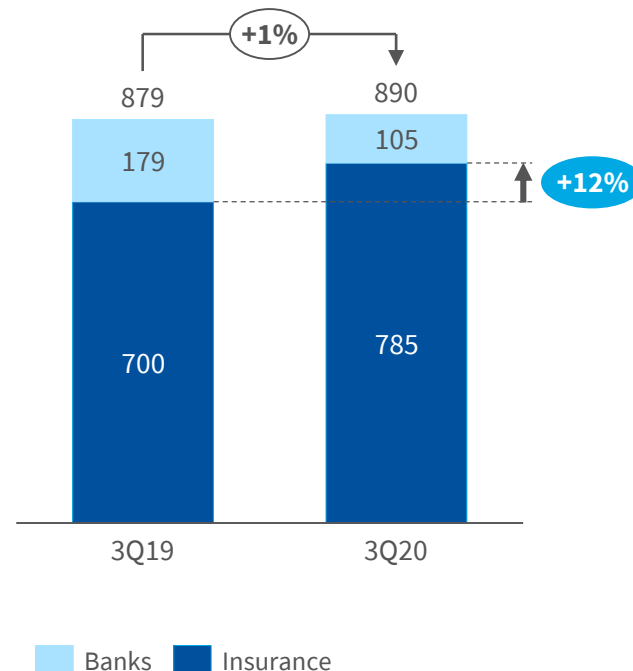


PZU Group's **lightning-quick and multifaceted** response to the COVID-19 pandemic; building value for all stakeholders



**Investments in digital transformation** support resilience to COVID - 19: greater significance of remote sales, myPZU and remote health care

PZU Group's net profit



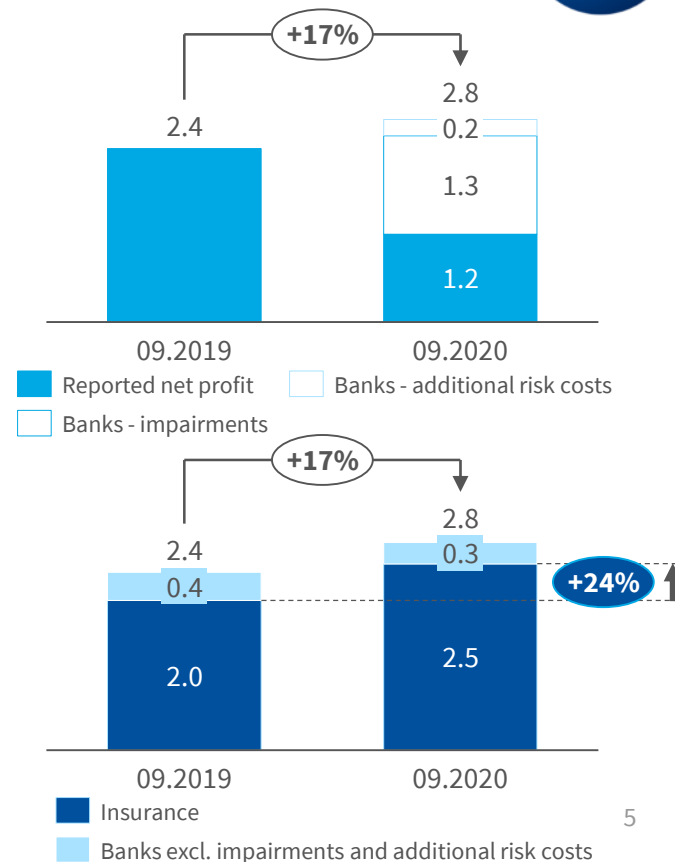
## High rate of growth of underwriting results

- Reported net result for the first three quarters of **1.2 bn**; below last year's levels due to impairment losses related to bank assets<sup>1</sup>
- After adjusting for the impairment losses related to bank assets<sup>1</sup>, **the result is up 17% y/y**
- ROE** net of the impairment losses related to bank assets<sup>1</sup> of **20.6%** (versus 20.8% one year ago)
- Result on **core business** (insurance and investments) up **24% y/y** driven by business development and improved profitability in the core business: **25.7%** margin generated by group and individual continuation and **88.7%** combined ratio in non-life insurance - **substantially better compared to last year and the targets defined in the strategy**

1. Impairment losses for banking assets: impairment loss for the goodwill of Alior Bank and Bank Pekao, impairment losses for some intangible assets identified during the acquisition of Alior Bank and additional provisions established by the banks in connection with COVID-19



PZU Group's net result (bn PLN)

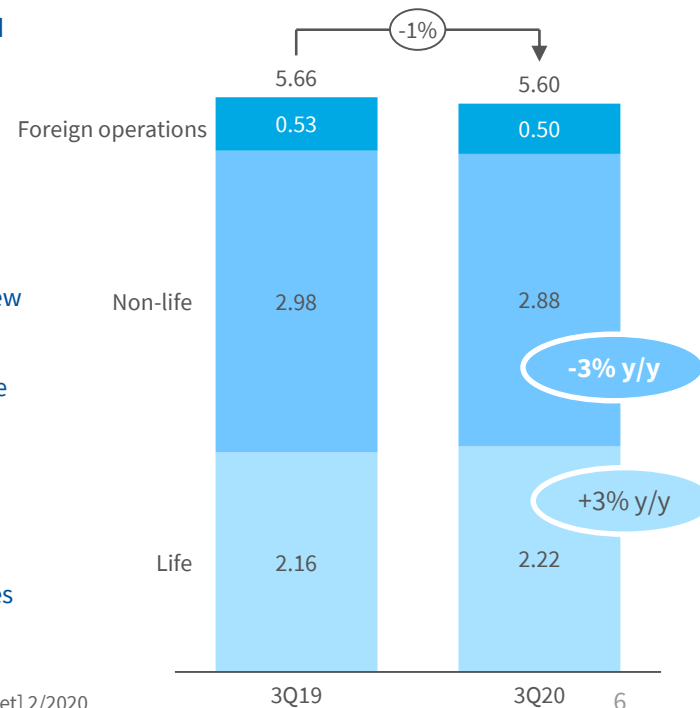




## Sales of 5.6 bn PLN, higher share of the life insurance market, limited demand for motor insurance

- Further improvement of market position in life insurance; **PZU Życie's record-breaking life insurance market share in Poland (42.4%, up 2.9 p.p. y/y<sup>1</sup>)**
- Stable premium in **group and individually continued life insurance in 3Q 2020 y/y** in Poland despite the limitation of employee benefits
- Retention of the **leadership position** in **periodic** premium life insurance (market share of 45.6%)<sup>1</sup>
- **Record-breaking gross written premium on individual insurance (476 m PLN), with life protection insurance as the driver (gross written premium up +33% y/y)**
- **Motor insurance** under pressure of slowing car sales on the market in Poland – suppressed new sales, higher client loyalty manifested by the **higher portfolio renewal rate**
- Continued dynamic growth in the demand for private medical services; PZU Zdrowie's revenue up **23%<sup>2</sup> y/y** in the first three quarters of 2020
- TFI PZU – **one of the leaders in the sales of funds** and growth of assets under management - nearly **0.6 bn PLN** obtained from clients, more than 9 bn PLN of withdrawals on the overall market in the first three quarters
- **Further strengthening of collaboration with banks** leading to significant growth of new sales of life protection insurance in bancassurance and the number of insureds

Amount and growth rate of GWP (bn PLN)



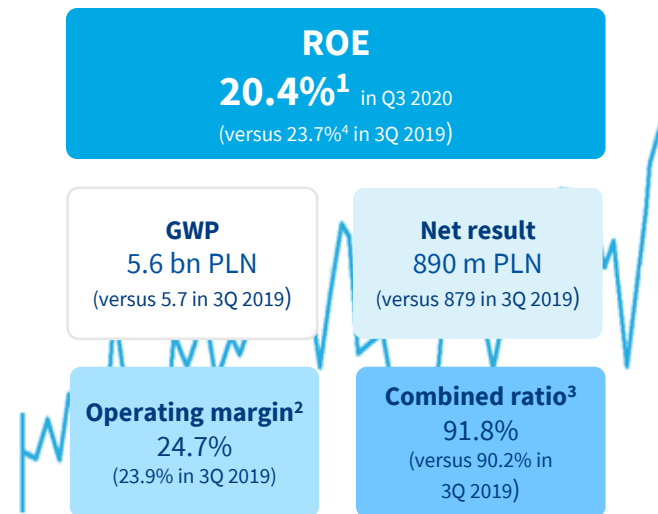
1. Data for 1-2Q 2020, source: own calculations based on KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 2/2020

2. Data presented for the centers for the period from the beginning of the year regardless of the time of acquisition



## Net profit growth despite the pandemic

- **Net profit** excluding banking activity in 3Q 2020 **up 12% y/y**
- Operating margin in group and individually continued insurance at **24.7%** in 3Q 2020 and **25.7% year-to-date** - above the strategic targets
- **Improved profitability in motor insurance** in Poland - combined ratio down **2.8% y/y after lifting lockdown**; despite the losses related to atmospheric phenomena in the non-motor segment, the total profitability in non-life insurance in Poland at levels better than the targets in the strategy
- High return on the main portfolio: **3.9 p.p. above the risk-free rate** in 3Q 2020 and **3.3 p.p.** year-to-date, outpacing strategic ambitions despite the more demanding situation on the financial markets
- **Costs under strict control**; despite pressure to raise wages and other costs related to the COVID-19 pandemic, the cost ratio was **6.3%** in 3Q 2020
- ROE of **20.4%**<sup>1</sup>; PZU among the insurers generating the highest ROE in Europe



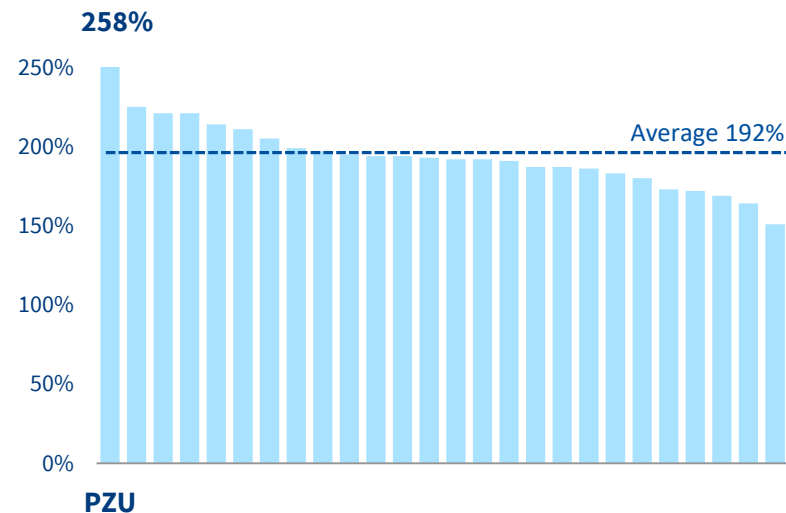
1. Annualized for 3Q 2020, attributable to equity holders of the parent company
2. Margin in 3Q 2020 for the group and individually continued insurance segment net of the conversion effect
3. Non-life insurance in the PZU Group (Poland)
4. Annualized for 3Q 2019, attributable to equity holders of the parent company

## Business stability: Solvency II at 258%; provisions in life insurance aligned to lower interest rates



- S&P rating of **A-** with a **stable** outlook with a capital strength rating of **AAA** Rating affirmed by S&P on 27 August 2020. The agency's analysts pointed out that **despite setting up impairments for its bank assets the PZU Group should generate comparable results in 2020 to international insurers, while also retaining a safe capital surplus above the requirements to hold a "AAA" capital strength rating under the S&P model**
- Retaining 2019 profit leads to the Solvency II ratio growing to levels unseen in Europe as at 30 June 2020: **258% at the Group level, 289% for PZU, 392% for PZU Życie**
- **Safe investment portfolio:** Diversification of the investment portfolio, especially by augmenting the share of portfolios securing a high level of profitability faced with the low level of market interest rates, including in particular corporate debt with an investment-grade rating coupled with the simultaneous **limitation of risk on listed equities due to gradual reduction of their weight in the portfolios**

Solvency II ratio for insurers in Europe (2Q20)







## PZU Ready for Start-ups



**Enterprise Forum**  
Central & Eastern  
Europe

### Spring edition of the partnership accelerator for startups - MIT Enterprise Forum CEE

PZU launched pilot programs with the 3 best startups (of 219 applicants) from the spring edition of the MIT Enterprise Forum CEE startup accelerator:

- **AIQA Technologies** – startup offering a solution to automate IT tests using artificial intelligence,
- **Web Totem** – a company specializing in cybersecurity services and cybersecurity reports for companies,
- **Viva Drive** – a telematic platform for fleets with a module to make recommendations concerning electric fleets.

**162 startups submitted applications to participate in the fall edition.**

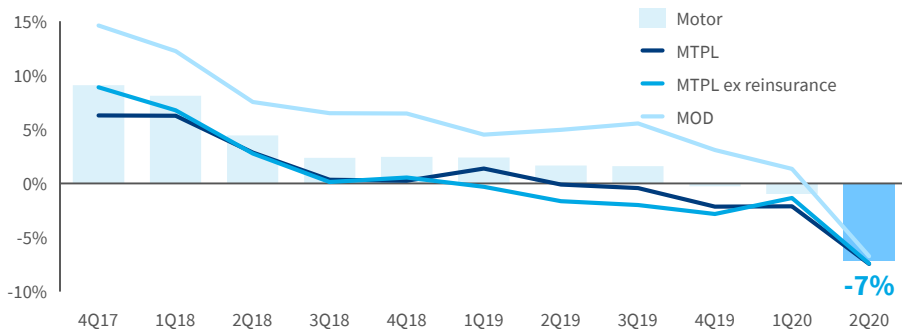


## **2. Business development**



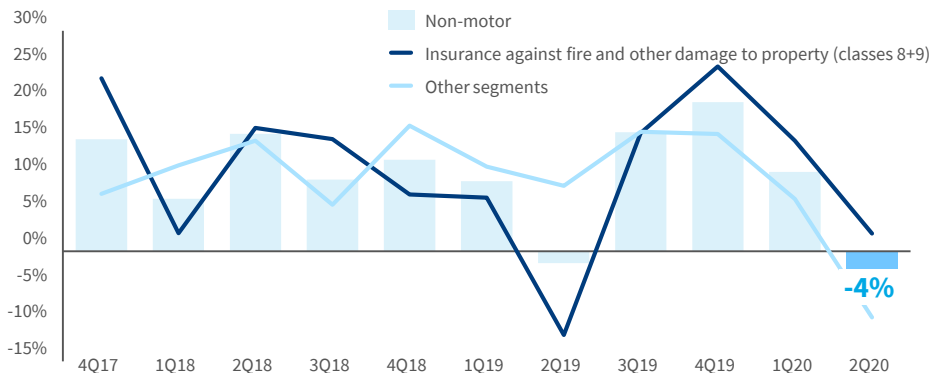
## Trends on the non-life insurance market in Poland

### Growth rate of the motor insurance market<sup>1</sup>, y/y

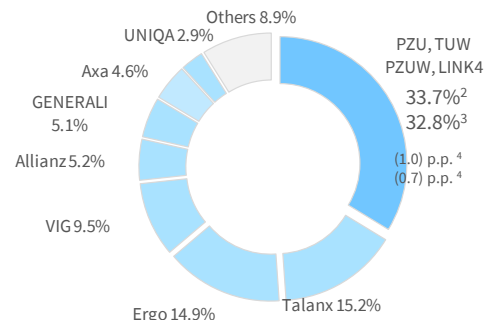


- **More profound sales slump in motor insurance (-7% y/y)**; change in trends versus previous quarters; similar rate of decline in the average price of motor TPL insurance (-4% y/y) and a significant drop in the number of policies concluded (-3% y/y)
- Decline on the **non-motor insurance market of 4% in 2Q 2020** as a consequence of the drop in the sales of accident insurance (including travel) and various financial risks while maintaining a positive growth rate in property insurance (classes 8 and 9) and other TPL
- **The PZU Group's market share in non-life insurance** (direct business) at the end of 2Q 2020 was **32.8%**
- PZU Group's high percentage of the overall market's technical result at **47%<sup>1</sup>**

### Growth rate of the non-motor insurance market<sup>1</sup>, y/y



### Market shares<sup>2</sup>

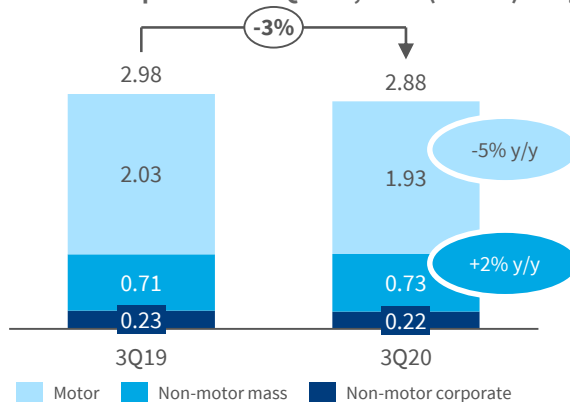


1. according to the Polish FSA's Q2 2020 report;
2. according to Polish FSA's report for 2Q 2020; the market and market shares including PZU's inward reinsurance from Link4 and TUV PZUW
3. PZU Group's market share in non-life insurance on direct business in 2Q 2020
4. movement in market share y/y on PZU's inward reinsurance from LINK4 and TUV PZUW and direct activity, respectively.
5. External gross written premium



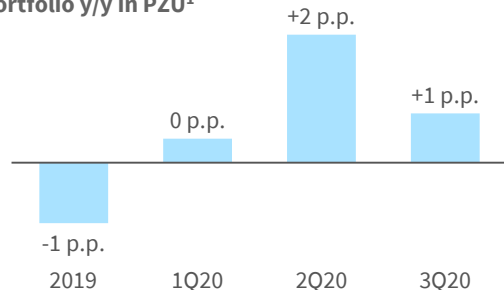
## Non-life insurance

Gross written premium in 3Q 2020, value (bn PLN) and growth rate

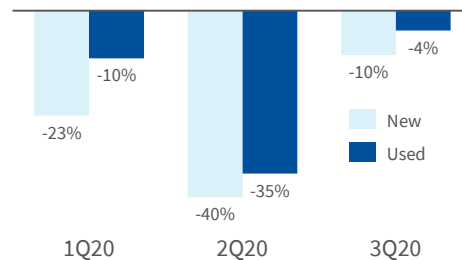


- In **mass non-motor insurance**: double-digit growth in the sales of **apartment insurance**, insurance for **SMEs** and **ADD insurance for physicians**, lower premium on travel and agricultural insurance
- **Corporate** insurance: growth in the sales of general TPL insurance, declines in the gross written premium on machine and financial insurance as a consequence of the slowdown in the economy and more restrictive criteria for providing funding
- Premium on motor insurance under pressure from the **suspended activity on the new car market due to the pandemic**. Lower new sales of cars in Poland particularly noticeable in the dealer and lease channel
- **Renewal rate** – lower client mobility, preservation of loyalty to PZU which enjoys a high level of trust in this period of uncertainty concerning the future
- **Facility to purchase and continue insurance on favorable terms and conditions** with the support of sales tools (premium payments in installments, deferral of the insurance cover term for a fleet and programs to activate and support the sales network using the mojePZU service)

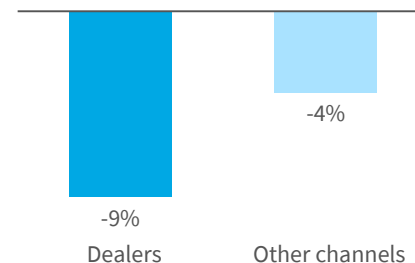
Movement in the renewal rate of the TPL portfolio y/y in PZU<sup>1</sup>



Change in the number of first registrations of vehicles in Poland y/y<sup>2</sup>



Movement in new sales of TPL in PZU<sup>1</sup> (3Q 2020, y/y)



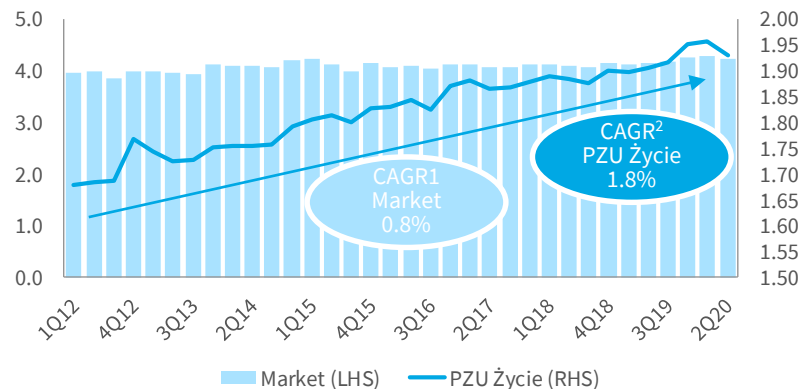
1) According to the date of commencement of liability, retail client, only PZU (net of Link4 and TUW PZUW)

2) Source: SAMAR, total including the category of trucks, special vehicles and tractors

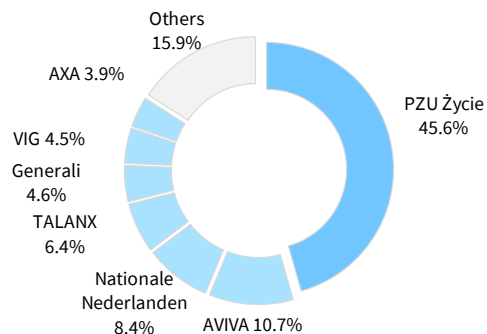


## Trends on the life insurance market

### Periodic gross written premium, quarterly (bn PLN)



### Market shares in periodic premium in 2Q 2020



### Life insurance market in 1-2Q 2020

- **Sales in PZU Życie up 2.6% y/y** versus the **overall negative dynamics in gross written premium (-9.1% y/y)**
- **Increase in the market share held by PZU Życie by 2.9 p.p. y/y to 42.4%** in total gross written premium in 1-2Q 2020

### Insurance with a periodic premium:

- **PZU's key market share of periodic premium at a high level of 45.6% in 2Q 2020**, also for protection contracts (class I of life insurance); its market share was **60%**

### Single premium insurance:

- Higher single premium insurance sales (+25 m PLN y/y), translating into market share expansion in single premium life products – **market share up 9 p.p. y/y**
- Advancing to the leadership position measured by the **absolute amount** of gross written premium (402 m PLN) **and the increase in written premium** (+25 m PLN y/y)

### Group insurance:

- PZU Życie's premium in **group insurance up 29 m PLN y/y** in 1-2Q 2020 representing the highest incremental growth in sales in this category among all insurance classes

### Individual insurance:

- **Individual** insurance continues to see PZU taking up market share in a shrinking market (**30.8% in 1-2Q 2020, improvement of 3.9 p.p. y/y**)

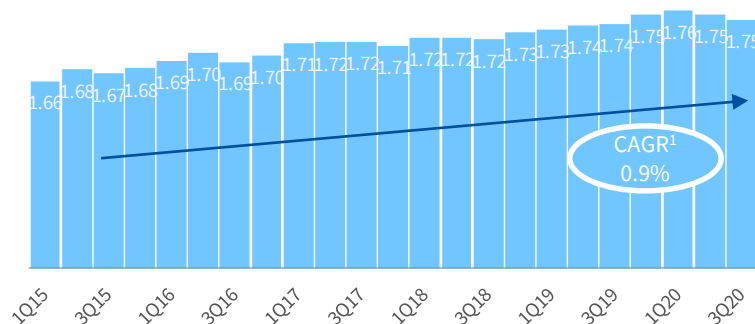
**Profitability measured by the technical result** at PZU Życie at the end of 2Q 2020 is higher than the average for the competition – 23.9% versus 14.5%; the share held by PZU Życie of the sector's overall result is above 55%

1) For the market, periodic premium in 2Q 2020 to 2Q 2012  
 2) For PZU Życie, periodic premium in 2Q 2020 to 2Q 2012

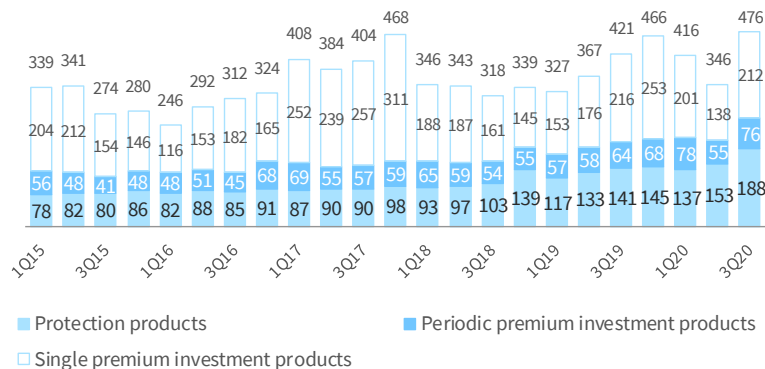


## Life insurance

PZU Życie's gross written premium on group and individually continued insurance (bn PLN)



PZU Życie's gross written premium on individual insurance (m PLN)

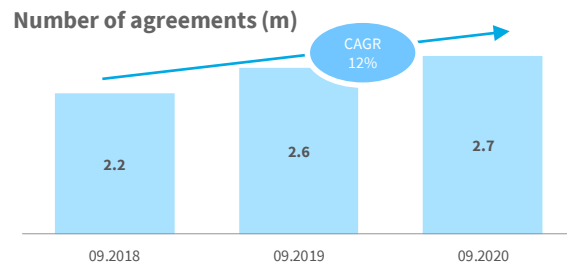
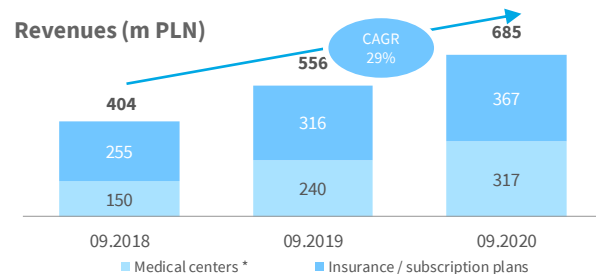


- PZU Group's stable premium in **group and individually continued life insurance in 3Q 2020 y/y** in Poland despite the limitation of employee benefits
- Expanding portfolio of health insurance**, which despite lower new sales in the second quarter due to the pandemic has posted record-breaking results measured by collected premium, especially for ambulatory contracts. At the end of September 2020, PZU Życie had **nearly 2.2 million health insurance contracts in force** in its portfolio
- Steadily rising revenue generated by the new accident **riders („In case of the accident”)** in individual continuation launched last year and new products and riders in group protection insurance

- High level of sales of individual protection products** (188 m PLN) driven by the development of **cooperation with Alior Bank and Bank Pekao** to offer single premium individual life insurance to clients taking out cash loans and mortgage loans
- Higher level in 3Q 2020 of single contributions to **unit-linked** accounts in insurance offered jointly with banks



## Development of the scale of operations in health



1

~2,200 cooperating  
medical partners  
~130 proprietary locations



2

48 hospitals



3

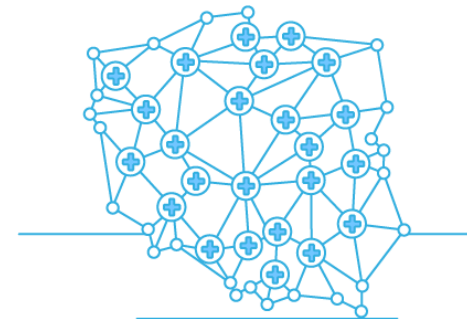
2,200 physicians  
>50 specializations



4

~8,700 pharmacies

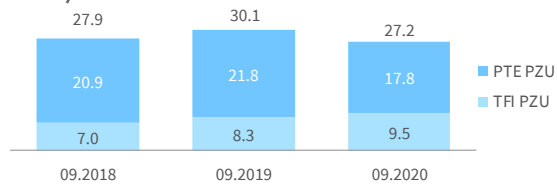
- High revenue growth rate (mainly on **ambulatory** contracts and **riders to continued insurance**) despite the slowdown triggered by the pandemic in new sales in 2Q 2020
- **Steady increase in the number of health product agreements in 2020** driven by the sales of more health riders to protection products (offering among others access to specialist physicians, ambulatory rehabilitation, selected tests and procedures)
- **Dynamic build-up of the subscription portfolio through PZU Zdrowie's own sales network**
- Further **development of own centers** in Warsaw, Poznań, Cracow and Wrocław and a second branch in Warsaw opened in March 2020



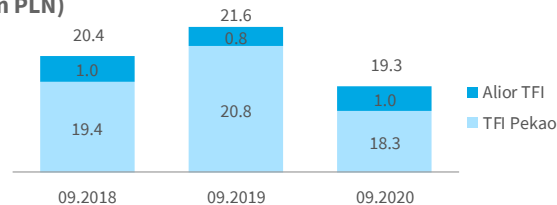


## Assets under management and development of cooperation with banks

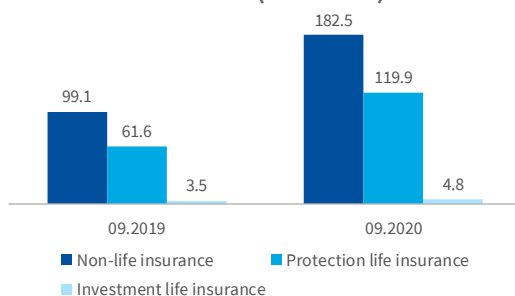
### Assets of third party clients of TFI and OFE PZU clients (bn PLN)



### Assets of third party clients of TFI of the PZU Group's banks (bn PLN)



### Number of insurance clients attracted in collaboration with Bank Pekao and Alior Bank (thousands)



#### Asset management:

- TFI PZU **one of the leaders in the sales of funds and growth of assets under management** - nearly **0.6 bn PLN** obtained from clients versus **nearly 9 bn PLN of withdrawals on the overall market in the first three quarters of 2020**
- **deployment of new IKE/IKZE products** on the inPZU platform
- continued sales of **new EPS programs as an attractive non-salary benefit** for our partners' employees; sometimes employers choose them as the most favorable solution for their employees
- **favorable mix of assets under management** – percentage of assets linked to the third pension pillar (EPS and ECS) prevalent
- **dip in the assets of PTE PZU** due to the unfavorable market conditions on the stock exchange and as an effect of the operation of the slide (retirement of participation units held by persons 10 years prior to reaching the age of retirement)

#### Bancassurance:

- in 3Q 2020 the bancassurance market share edged up another 0.4 p.p.
- presence of the PZU Group's products in all of the major product lines of the PZU Group's banks
- work on developing standalone products in the banks' offer
- implementing multichannel access for the Banks' clients

#### Assurbanking:

##### Bank Pekao:

- PZU is one of the largest external partners of Bank Pekao S.A. in the sales of transaction accounts (ROR) via the bank's Pekao360 app
- The process of deploying the **joint insurance and banking offer in the Auto Plus Promotion** in PZU's own branches was completed in 1H 2020, the pilot was launched in 6 PZU partner branches in November
- sum total of loans and client deposits secured by PZU for the Bank exceeded **594 m PLN at the end of 3Q 2020**

##### Alior Bank:

- **Development of the Cash Portal** – implementation of the program outside the PZU Group and work on extending the offer of products available on the Cash Portal

- Continuation of cost savings initiatives; total annualized synergies have topped 181 m PLN (more than 100 m PLN in savings planned up to 2020)
- Growth rate of insurance-based investment products curtailed by regulatory uncertainty, the negative sentiment on capital markets and lower client activity during the COVID-19 pandemic





### **3. Financial results**



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

m PLN	3Q19	2Q20	3Q20	change y/y	change q/q
<b>PZU GROUP EXCL. ALIOR BANK AND BANK PEKAO</b>					
Gross written premium <sup>1</sup>	5,662	5,594	5,600	(1.1%)	0.1%
Net insurance claims and benefits paid	(3,991)	(4,010)	(4,061)	1.8%	1.3%
Net investment result (ex banking activities)	404	1,106	484	19.8%	(56.2%)
Administrative expenses <sup>1</sup>	(406)	(457)	(411)	1.1%	(10.1%)
Acquisition expenses <sup>1</sup>	(864)	(812)	(819)	(5.2%)	0.9%
Operating profit (loss)	917	1,438	935	1.9%	(35.0%)
<b>Net profit (loss) attributable to equity holders of the parent company</b>	<b>700</b>	<b>1,111</b>	<b>785</b>	<b>12.1%</b>	<b>(29.4%)</b>
<b>Impairment of goodwill and intangibles</b>	<b>-</b>	<b>(827)</b>	<b>-</b>	<b>x</b>	<b>x</b>
<b>BANKS: ALIOR AND PEKAO</b>					
<b>Net profit (loss) attributable to equity holders of the parent company</b>	<b>179</b>	<b>(99)</b>	<b>105</b>	<b>(41.3%)</b>	<b>x</b>
<b>NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	<b>879</b>	<b>185</b>	<b>890</b>	<b>1.3%</b>	<b>667.2%</b>
<b>NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY excluding impairment of goodwill and intangibles</b>	<b>879</b>	<b>943</b>	<b>890</b>	<b>1.3%</b>	<b>(5.6%)</b>
<b>MAIN FINANCIAL RATIOS</b>					
ROE <sup>2</sup>	23.7%	4.5%	20.4%	(3.3)p.p.	15.9p.p.
ROE excluding impairment of goodwill and intangibles	n.a.	23.1%	n.a.	x	x
Combined ratio <sup>3</sup>	90.2%	86.8%	91.8%	1.6p.p.	5.0p.p.
Margin <sup>4</sup>	23.9%	29.8%	24.7%	0.8p.p.	(5.1)p.p.
Administrative expense ratio of PZU, PZU Życie	6.2%	7.2%	6.3%	0.1p.p.	(0.9)p.p.
Acquisition expense ratio of PZU, PZU Życie	14.2%	14.2%	14.0%	(0.2)p.p.	(0.2)p.p.

1. PZU Group net of the data for Bank Pekao and Alior Bank
2. Annualized ratio, attributable to equity holders of the parent company
3. Only for non-life insurance in the PZU Group in Poland
4. Margin for the group and individually continued insurance segment net of the conversion effect



## Profitability by operating segments (3Q 2020)

### Insurance segments

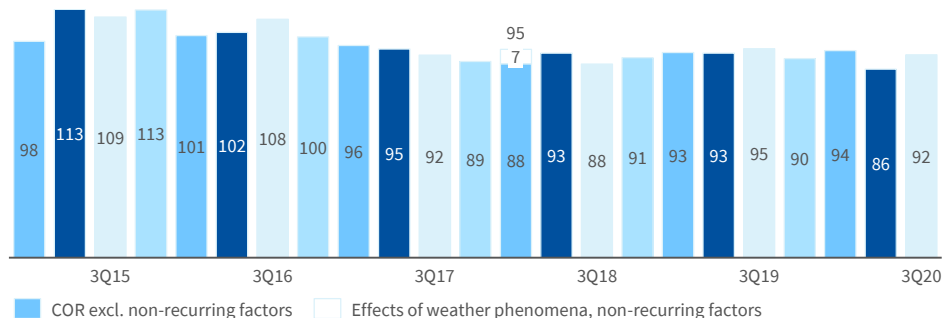
	Gross written premium			Insurance result / operating result			Combined ratio / Margin	
	3Q19	3Q20	Change y/y	3Q19	3Q20	Change y/y	3Q19	3Q20
<b>m PLN, local GAAP</b>								
Total non-life insurance – Poland	2,981	2,891	(3.0%)	471	411	(12.7%)	90.2%	91.8%
Mass insurance – Poland	2,392	2,370	(0.9%)	423	366	(13.5%)	88.4%	89.9%
Motor TPL	1,072	1,039	(3.1%)	86	79	(7.3%)	94.8%	92.5%
MOD	603	599	(0.7%)	53	57	7.6%	92.1%	91.3%
Other products	717	732	2.1%	198	125	(37.0%)	77.6%	85.9%
Impact of allocation to the investment segment	x	x	x	86	105	21.4%	x	x
Corporate insurance – Poland	589	521	(11.5%)	48	45	(6.3%)	97.7%	99.8%
Motor TPL	179	147	(17.9%)	(9)	15	x	105.5%	95.6%
MOD	180	148	(17.8%)	13	22	63.6%	94.6%	90.4%
Other products	230	226	(1.7%)	19	(15)	x	92.5%	111.2%
Impact of allocation to the investment segment	x	x	x	25	24	(3.1%)	x	x
Total life insurance – Poland	2,162	2,222	2.8%	487	501	2.9%	22.5%	22.5%
Group and individually continued insurance - Poland*	1,741	1,746	0.3%	416	432	3.8%	23.9%	24.7%
Individual insurance – Poland	421	476	13.1%	68	66	(2.9%)	16.2%	13.9%
Conversion effect	x	x	x	3	3	x	x	x
Total non-life insurance – Ukraine and Baltic States	483	455	(5.8%)	50	47	(6.0%)	90.2%	90.6%
Baltic States	409	397	(2.9%)	38	41	7.9%	91.1%	90.5%
Ukraine	74	58	(21.6%)	12	6	(50.0%)	81.0%	92.6%
Total life insurance – Ukraine and Baltic States	42	40	(4.8%)	4	5	25.0%	9.5%	12.5%
Lithuania	18	20	11.1%	0	2	x	0.0%	10.0%
Ukraine	24	20	(16.7%)	4	3	(25.0%)	16.7%	15.0%
Banks	x	x	x	1,059	666	(37.1%)	x	x

\* Net of the conversion effect

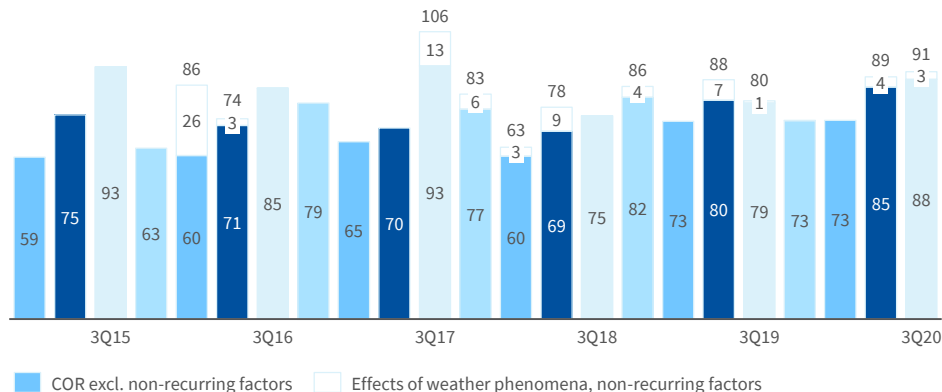


## Non-life insurance

### PZU Group's combined ratio (COR) in motor insurance (%)



### PZU Group's combined ratio (COR) in non-motor insurance (%)



#### Key trends

- **deceleration in the sales of new vehicles** (new registrations down in the first half of the year by more than 35% y/y) and the **collapse of the lease market** (according to the Polish Leasing Association financing was down 24% y/y in 1H) translating into a lower growth rate in gross written premium
- visible significant **decline in claims frequency** translating into **improved profitability** in the **motor insurance** portfolio due to reduced levels of domestic and international traffic
- **higher cost of claims and benefits paid due to the PLN's depreciation against the EUR** (consequence of concern on the market evinced by the COVID-19 pandemic) – especially noticeable in FX claims
- **maintaining high profitability in the non-motor insurance portfolio** despite the higher number of claims caused by atmospheric phenomena, including spring ground frost and torrential rain and hail

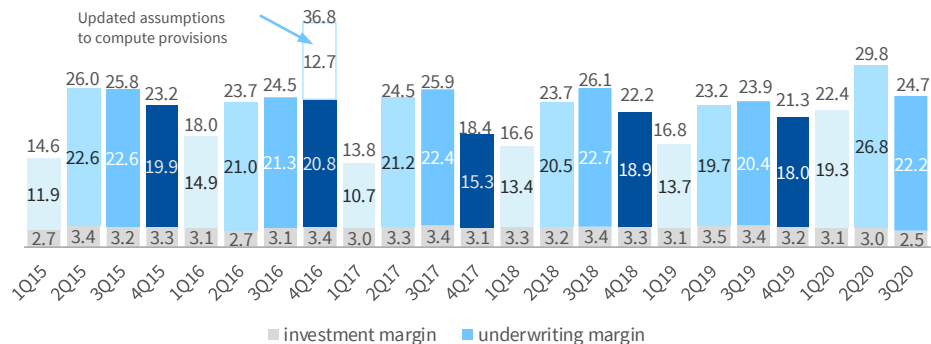
#### Activities

- investments in new technologies (simplifying processes related to claims handling and buying insurance through the **mojePZU** service)
- Further **improvement of the offer including the client's long-term value (CLTV)** using the support offered by sales tools to expand and align the offer on a constant basis to the client's expectations and risk
- implementation of additional initiatives in the mass segment in **tariff setting and sales tools (Tariff setting 3.0)** translating into price being better aligned to risk and price elasticity, thereby enhancing portfolio profitability

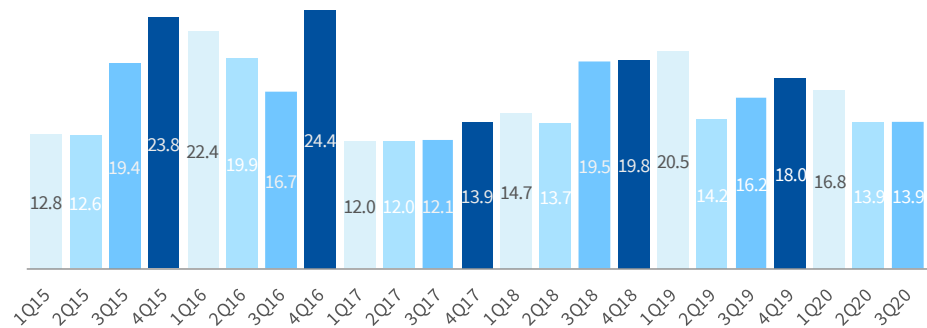
## Life insurance



### Margin in group and individually continued insurance (%)



### Margin in individual insurance (%)

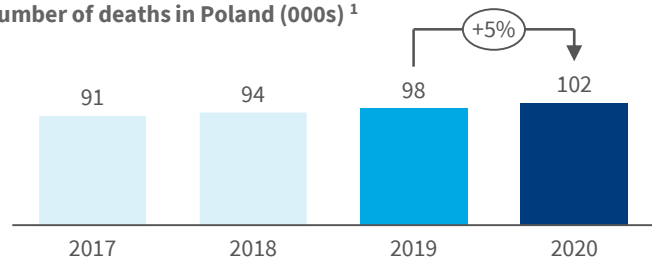


- The **margin in 3Q up 0.8 p.p. y/y** to 24.7%, chiefly due to lower provisions in continuation products and the segment's lower loss ratio
- The **lower loss ratio of paramedical risks** (mainly hospital treatment, surgical operations, critical illnesses) and permanent dismemberment contributed to the trend concerning changes in the loss ratio of protection products in the group and individually continued segment on account of the lower number of reported benefits
- The **loss ratio of death risks up y/y** but it continues to follow the frequency of deaths in Poland and similarly to previous years, the growth in the frequency of deaths is visible in 3Q
- The higher sales of lower margin products with a single premium in cooperation with banks contributed to the **margin falling by 2.3 p.p. y/y**
- **Segmental result down y/y by 2 m PLN to 66 m PLN (-2.9%)** as the outcome of lower income on allocated investments and higher operating expenses

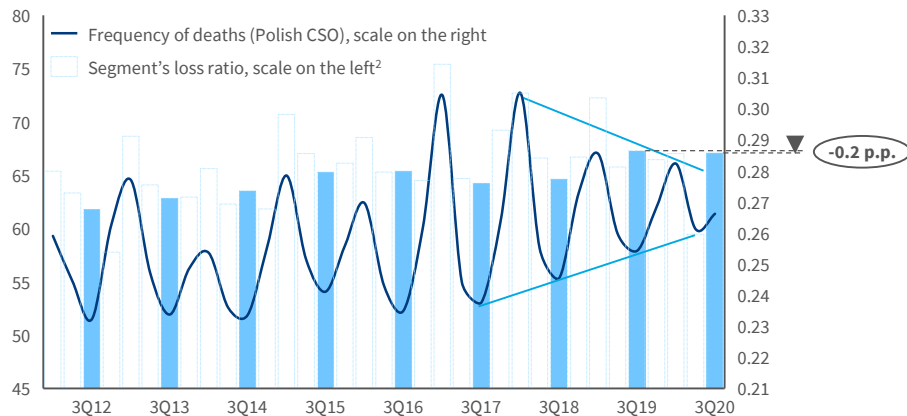


## Pandemic and the loss ratio in the group and IC segment in 3Q 2020

Number of deaths in Poland (000s)<sup>1</sup>

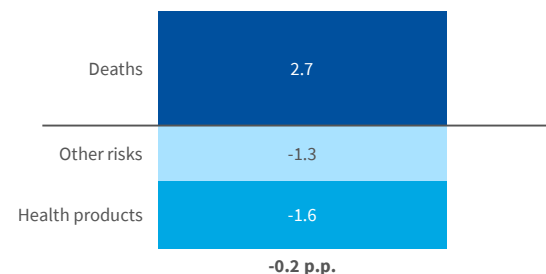


The frequency of deaths in Poland and the loss ratio of the group and individually continued insurance segment



- Number of deaths in Poland in 3Q 2020 at a higher level y/y
- Loss ratio in the group and individually continued insurance segment<sup>2</sup> at a comparable level y/y: 67%
- The dip in the loss ratio in the segment in 3Q 2020 y/y was precipitated by the **lower loss ratio on health products** and **other risks included in group and individually continued insurance** offset to a degree by a higher loss ratio related to deaths

Impact exerted by the various risks on the change to the segment's loss ratio y/y



1) Third quarter of every year, in thousands, according to the Central Statistical Office's data (GUS)

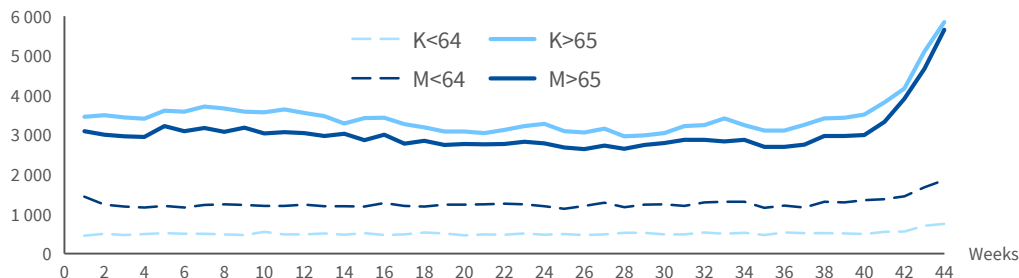
2) Incorporates only protection products, benefits paid, the utilization of health products and the change in claims provisions



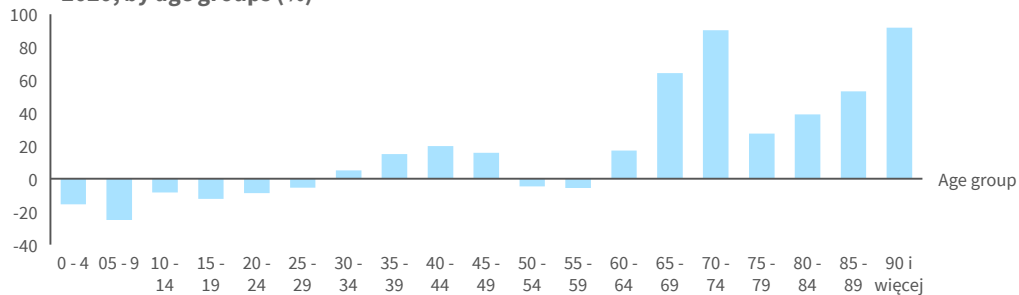
## Impact of COVID-19 pandemic on life business results

The increase in mortality in the population was uneven in different age groups; 86% of the increase in deaths occurred in people over 65 years of age; deviations from long-term averages are also the most pronounced in people over 65 years of age

Number of deaths by sex and age groups



Deviation from 10-year averages of the number of deaths in weeks 40-44 of 2020, by age groups (%)



- Until the end of 3Q, **we did not observe any significant negative impact of COVID-19 on life insurance results**
- Currently, we have been observing an increase in benefits paid out on account of an insured's death for about 3-4 weeks.
- **Our preliminary estimates** based on the observed benefit growth assume that the potential **impact on the PZU Group's 2020 results will be between 50 and 150 million PLN**
- **The ultimate level of the 2020 result** will be affected by the following **factors**:
  - further course of the pandemic (+/-)
  - death-related benefits (-)
  - hospitalization benefits (-)
  - effects of the lockdown (+)
  - reversal of a portion of mathematical provisions (+)
- The specified range is based on:
  - A very short period, in which elevated mortality has been observed
  - Momentum of changes in the observed course of the pandemic
  - Analysis of population mortality vs. the PZU portfolio – analysis in terms of age groups and benefit amounts paid out

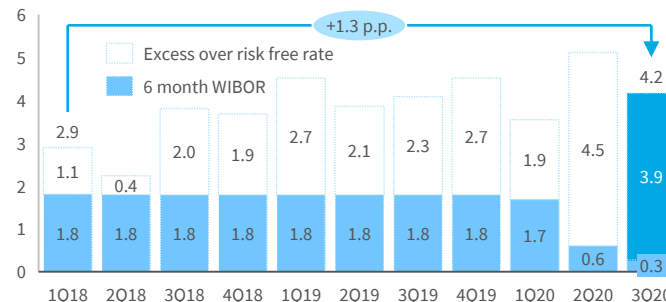
# Investment activity – stable return on the main portfolio during the pandemic



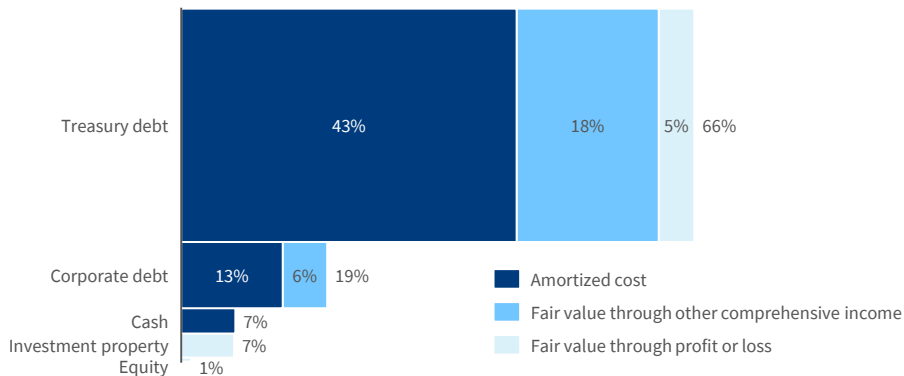
## Gradual reconstruction of the portfolio prior to the COVID-19 crisis

- Evolution in the philosophy of portfolio management to a more long-term approach and opening OCI portfolios to curtail the volatility of the result
- Safe portfolio composition: debt instruments account for **85% of the portfolio**, **treasury bonds account for 66% of the portfolio**; significant **curtailment of equity exposure and reduction of the riskiest foreign exposures** in treasury bonds and corporate bonds alike
- Open FX position in the portfolio **capped by the technical provisions**
- Expansion of the **portfolio of Polish treasury bonds** to match the asset portfolio to insurance liabilities better

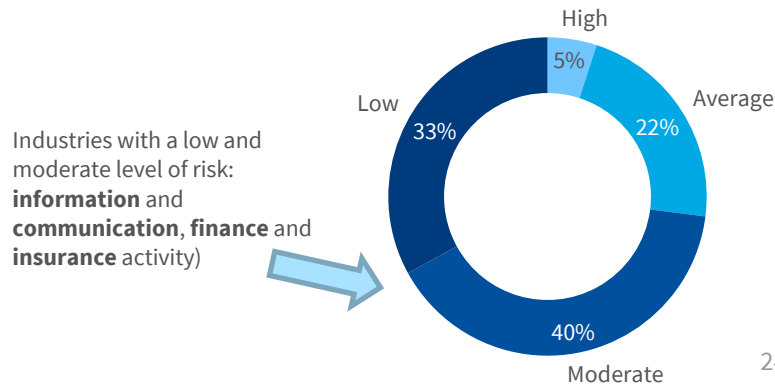
## Return on the main portfolio



## Main portfolio composition by asset classes and the methods of their measurement



## Corporate portfolio split by risk categories





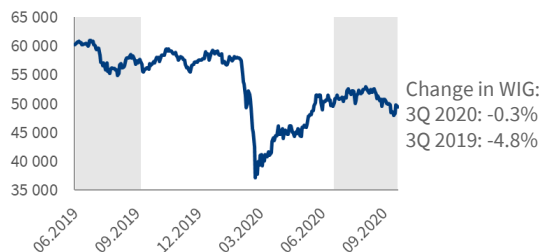


## Investment performance

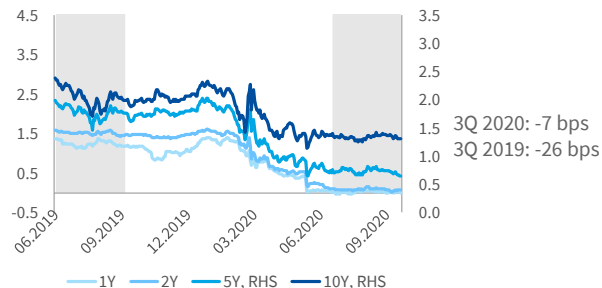
MSSF, m PLN	3Q19	2Q20	3Q20	change y/y	change q/q
<b>Net investment result</b>	<b>2,214</b>	<b>1,972</b>	<b>1,926</b>	(13.0%)	(2.3%)
Insurance and other activities	404	1,106	484	19.8%	(56.2%)
Main portfolio	<b>446</b>	<b>484</b>	<b>434</b>	(2.7%)	(10.4%)
Debt instruments - interest	360	318	314	(12.8%)	(1.3%)
Debt instruments - revaluation and execution	43	46	31	(28.5%)	(32.6%)
Equity instruments	20	11	57	190.1%	418.2%
Real estate	22	109	32	48.1%	(70.6%)
FX on debt net of hedging	1	-	-	(100.0%)	x
-	-	-	-	x	x
Investment products	<b>46</b>	<b>493</b>	<b>112</b>	144.0%	(77.4%)
Other	<b>(87)</b>	<b>128</b>	<b>(61)</b>	x	x
Banking activities	1,810	866	1,442	(20.3%)	66.5%

- **3.9 p.p. surplus profitability** in the main portfolio on FX on liabilities above the risk-free rate in 3Q 2020
- **Robust net interest income** – reduction in income in the part of the portfolio linked to floating corporate bonds
- **Increase in the measurement of debt instruments, in particular measured in EUR** offset at the level of the PZU Group's total result by the contribution of the negative foreign exchange differences on insurance obligations covered by the FX portfolios
- **Higher measurement of the portfolio of equity instruments**, chiefly in the logistics and medical sector

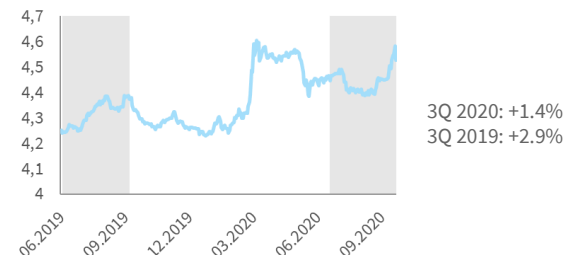
### WIG



### Bond yields



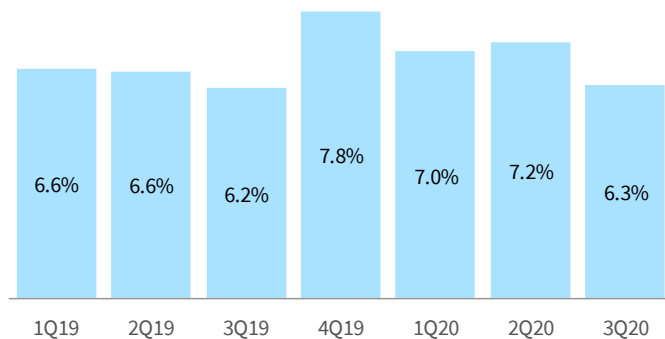
### EURPLN





## Cost effectiveness

### Administrative expense ratio



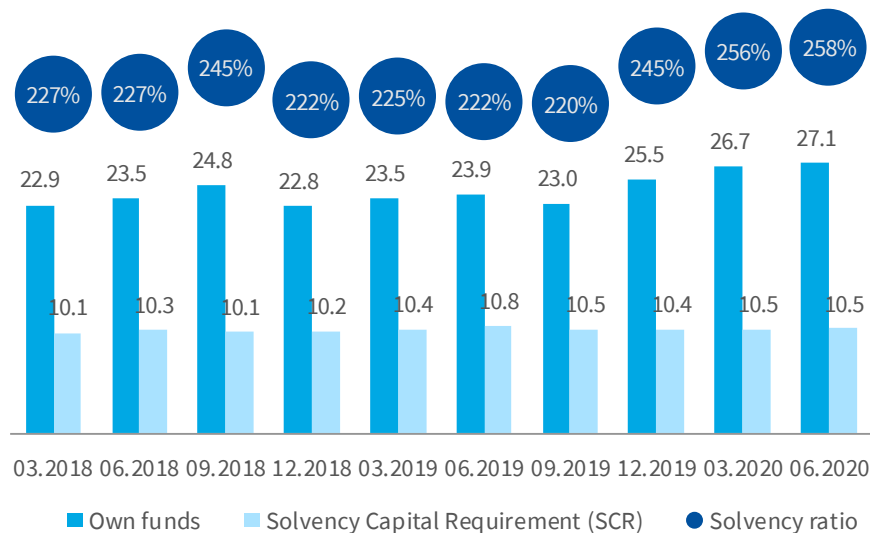
Administrative expense ratio calculated using the equation:  
 administrative expenses in PZU and PZU Życie in the quarter / net earned premium in PZU and PZU Życie in the quarter

- The change in the administrative expense ratio in **3Q 2020 versus 3Q 2019** was the outcome of the following:
  - rising personnel costs as a result of wage pressure and the establishment of higher employee holiday provisions due to the COVID-19 pandemic
  - aid package for the sales area due to the COVID-19 pandemic
  - project-related work in information systems – higher costs of depreciation, technical assistance and higher costs of license fees
  - higher costs related to the service of life products
  - maintenance of cost discipline in other areas
- The change in the level of the administrative expense ratio in **3Q 2020 versus 2Q 2020** was the outcome of the following:
  - decline in provisions related to employees taking holiday leave
  - lower costs related to the aid package for the sales area due to the COVID-19 pandemic
  - higher costs of renovation work, cleaning and supervision of property due to the partial return of the economic situation and employees returning to the situation from prior to the lockdown

## Group's high level of solvency



Solvency II ratio, 30 June 2020



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

Annual data based on the audited standalone and consolidated solvency and financial condition reports (SFCR) available on the following website <https://www.pzu.pl/relacje-inwestorskie>. Other unaudited data.

- In 2Q 2020 **own funds climbed 0.3 bn PLN**. Major reasons:
  - current flow on insurance and investment activity (+0.8 bn PLN)
  - increase in BEL of 2.3 bn PLN as a result of the decline in interest rates and the change in estimates concerning payments to co-insureds in PZU Życie (+0.4 bn PLN), offset to a large extent by the higher measurement of Polish bonds (+1.3 bn PLN)
  - growth in banks' funds (+0.4 bn PLN) after the suspension of Bank Pekao's dividend and due to the change to temporary regulations pertaining to IFRS9
  - recognition of the provisional dividend (0.2 bn PLN).
- SCR stabilization** in 2Q 2020 (+0.03 bn PLN). Slight increase in market risk following the upward movement in the measurement of assets and non-life insurance risk. Change in the banking sector's requirements following regulatory changes.
- High quality of the PZU Group's own funds** - share of **Tier 1** capital is **88%**
- Standalone solvency ratio:
  - PZU: 289% (283% at the end of 1Q 2020)
  - PZU Życie: 392% (414% at the end of 1Q 2020)



## 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 Życie <sup>5</sup>		Assets under management for third party clients (bn PLN)		Revenues (m PLN) <sup>8</sup>		Assets (bn PLN)	
06.2020	2020	09.2020	2020	09.2020	2020	09.2020	2020	09.2020	2020
32.8%	38%	10.4	11.0	27.5/ 46.8 <sup>7</sup>	65	973	1,000	310	>300
Combined ratio <sup>3</sup>		Insurance margin in group and individual continuation		Net result on third party asset management (m PLN)		EBITDA margin <sup>9</sup>		Net financial result attributed to the PZU Group (m PLN)	
09.2020	2020	09.2020	2020	09.2020	2020	09.2020	2020	09.2020	2020
88.7%	92%	25.7%	>20%	88.1/ 199 <sup>7,11</sup>	200	14%	12%	204 <sup>11</sup>	>900
Administrative expense ratio <sup>4</sup>		Solvency II solvency ratio		Surplus yield on the main portfolio above the RFR <sup>10</sup>					
09.2020	2020	06.2020	2020	09.2020	2020				
6.8%	6.5%	258% <sup>12</sup>	>200% <sup>6</sup>	3.3 p.p.	2.0 p.p.				

ROE<sup>1</sup>

**09.2020      2020**

**9.3% / 20.6%    >22%**

1. ROE attributable to the parent company reported / net of the impairment for goodwill and intangible assets and additional provisions for pandemic-related risk

2. Direct business

3. PZU jointly with TUW PZUW and LINK4

4. Administrative expenses in PZU and PZU Życie

5. Including clients acquired through cooperation with banks

6. Own funds after subtracting anticipated dividends and asset taxes

7. Including assets under management / performance of fund management companies owned by the PZU Group's banks

8. Annualized revenues of proprietary centers and branches (except for FCM – in operation since 02/2019) including revenues from PZU Zdrowie and the PZU Group

9. Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium

10. Difference between the annual rate of return computed using the IFRS result on the main portfolio including the FX rate and the annual average level of WIBOR6M

11. 12 month moving average, net of the impairment for goodwill and intangible assets

12. Preliminary data, not subject to audit or review by the statutory auditor



## COVID-19 – monitoring factors that may potentially affect the Group’s business

### Insurance

#### Revenue / business development

- Demand down for **new and imported cars**, deceleration of new sales of property insurance, especially motor business
- Higher levels of **renewals in the current portfolio**
- The higher **unemployment level** was not noticeable in 3Q 2020 but its increase may limit gross written premium in group insurance
- The occurrence of the pandemic may contribute to **greater insurance awareness**

#### Insurance activity expenses

- Limitations on movement reduce the **frequency of motor claims**
- **The higher EUR exchange rate may exacerbate claims inflation**
- The freezing of the economy and economic slowdown may contribute to a higher loss ratio in **contractual guarantees and financial insurance**
- **Risk involving business interruption** linked solely to specific non-life losses (e.g. fire); relatively low exposure to tourist insurance
- The rising number of hospitalizations due to the pandemic may translate into higher claims under **hospitals’ TPL insurance**
- **Increased mortality rate** could impact the results of life business
- Additional costs of suspending / **modifying business processes**
- **Compensatory actions** for employees and agents

#### Investments

- In 3Q 2020 **robust investment result** in the main portfolio
- Tumult on the financial markets (equities, bonds) and stabilization of interest rates at low levels may be **unfavorable for the investment result**
- Higher impairments for receivables due to the deteriorating financial condition of clients

### Banks

#### Revenue / business development

- Limited demand for loans, decline in the sales of mutual funds, fewer transactions executed by clients
- Adverse impact exerted by the reduction in interest rates on banks’ net interest income (recognized in the PZU Group’s investment result)
- Enhancing the level of cross sell of insurance with credit products

#### Operating expenses and risks

- Additional provisions for unpaid loans due to COVID-19 estimated by Bank Pekao and Alior Bank
- Branch optimization due to changing client behavior and more intense usage of digital channels

#### Investments

- Goodwill impairment on the acquisition of Alior Bank and Bank Pekao in 1 and 2Q 2020
- Impairment of intangible assets identified during the acquisition of Alior Bank in 2Q 2020



## 5. Attachments



## Gross written premium of the PZU Group

Insurance segments m PLN, local GAAP	3Q19	2Q20	3Q20	Change y/y	Change q/q
<b>External gross written premium</b>	<b>5,662</b>	<b>5,594</b>	<b>5,600</b>	(1.1%)	0.1%
Total non-life insurance – Poland	2,975	3,015	2,883	(3.1%)	(4.4%)
Mass insurance – Poland	2,385	2,465	2,367	(0.8%)	(4.0%)
Motor TPL	1,071	1,026	1,039	(3.0%)	1.3%
MOD	602	578	599	(0.5%)	3.6%
Other products	712	861	729	2.4%	(15.3%)
Corporate insurance – Poland	590	550	516	(12.5%)	(6.2%)
Motor TPL	178	152	147	(17.4%)	(3.3%)
MOD	180	147	148	(17.8%)	0.7%
Other products	232	251	221	(4.7%)	(12.0%)
Total life insurance – Poland	2,162	2,100	2,222	2.8%	5.8%
Group and individually continued insurance - Poland	1,741	1,754	1,746	0.3%	(0.5%)
Individual insurance – Poland	421	346	476	13.1%	37.6%
Premium on protection products	141	153	188	33.3%	22.9%
Premium on periodic investment products	64	55	76	18.8%	38.2%
Premium on single investment products	216	138	212	(1.9%)	53.6%
Total non-life insurance – Ukraine and Baltic States	483	442	455	(5.8%)	2.9%
Baltic States	409	392	397	(2.9%)	1.3%
Ukraine	74	50	58	(21.6%)	16.0%
Total life insurance – Ukraine and Baltic States	42	35	40	(4.8%)	14.3%
Lithuania	18	20	20	11.1%	0.0%
Ukraine	24	15	20	(16.7%)	33.3%





## Profitability by operating segments

(1-3Q 2020)

Insurance segments	Gross written premium			Insurance result / operating result			Combined ratio / Margin	
	09.2019	09.2020	Change y/y	09.2019	09.2020	Change y/y	09.2019	09.2020
<b>m PLN, local GAAP</b>								
Total non-life insurance – Poland	9,665	9,349	(3.3%)	1,303	1,414	8.5%	89.6%	88.7%
Mass insurance – Poland	7,665	7,602	(0.8%)	1,069	1,195	11.8%	89.2%	87.6%
Motor TPL	3,294	3,153	(4.3%)	257	298	15.9%	93.9%	91.2%
MOD	1,901	1,842	(3.1%)	139	208	49.2%	92.5%	88.7%
Other products	2,470	2,607	5.5%	466	420	(9.8%)	80.1%	82.3%
Impact of allocation to the investment segment	x	x	x	207	269	30.1%	x	x
Corporate insurance – Poland	2,000	1,747	(12.7%)	234	219	(6.4%)	91.2%	93.4%
Motor TPL	585	481	(17.8%)	19	47	153.7%	97.0%	94.4%
MOD	605	474	(21.7%)	40	58	43.2%	93.7%	91.1%
Other products	810	792	(2.2%)	113	47	(58.5%)	82.1%	94.6%
Impact of allocation to the investment segment	x	x	x	62	67	8.5%	x	x
Total life insurance – Poland	6,327	6,497	2.7%	1,309	1,542	17.8%	20.7%	23.7%
Group and individually continued insurance - Poland*	5,212	5,259	0.9%	1,110	1,349	21.5%	21.3%	25.7%
Individual insurance – Poland	1,115	1,238	11.0%	187	184	(1.6%)	16.8%	14.9%
Conversion effect	x	x	x	12	9	(25.0%)	x	x
Total non-life insurance – Ukraine and Baltic States	1,422	1,357	(4.6%)	161	181	12.4%	89.2%	87.5%
Baltic States	1,230	1,193	(3.0%)	133	144	8.3%	89.7%	88.3%
Ukraine	192	164	(14.6%)	28	37	32.1%	82.7%	76.3%
Total life insurance – Ukraine and Baltic States	108	117	8.3%	8	13	62.5%	7.4%	11.1%
Lithuania	53	59	11.3%	0	1	x	-	1.7%
Ukraine	55	58	5.5%	8	12	50.0%	14.5%	20.7%
Banks	x	x	x	2,510	(341)	x	x	x

\* Net of the conversion effect

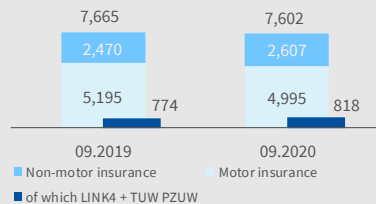


## Non-life insurance

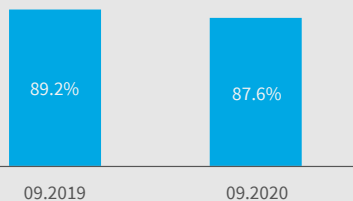
Motor insurance is being affected by softer market conditions on the car market in Poland

### Mass segment

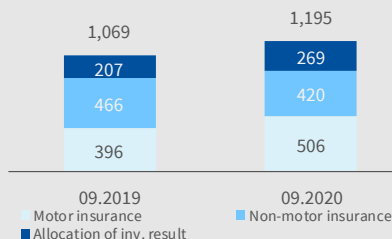
Gross written premium (m PLN)



Combined ratio (%)

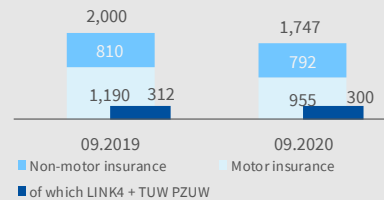


Insurance result (m PLN)

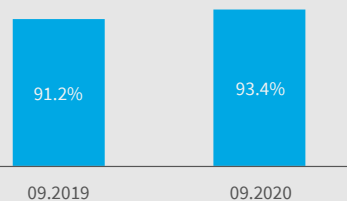


### Corporate segment

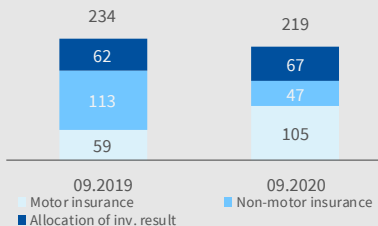
Gross written premium (m PLN)



Combined ratio (%)



Insurance result (m PLN)



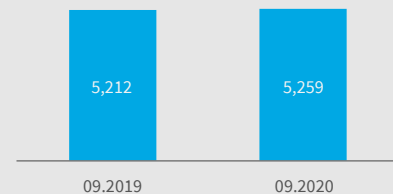


## Life insurance

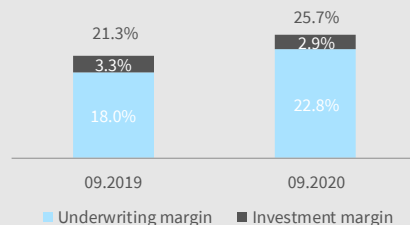
High rate of premium growth on protection products. Profitability in the group and individually continued insurance segment at a very high level

### Group and individually continued insurance

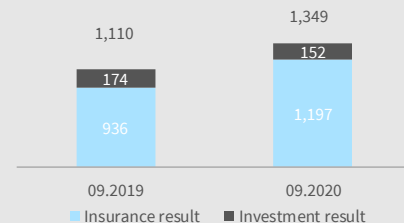
Gross written premium (m PLN)



Margin (%)\*

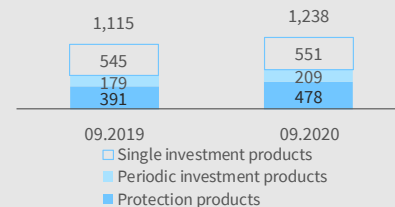


Insurance result (m PLN)\*

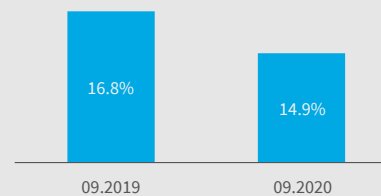


### Individual insurance

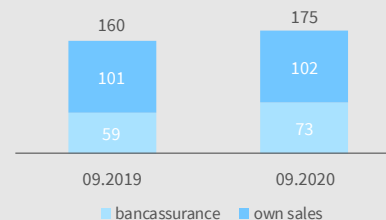
Gross written premium (m PLN)



Margin (%)



Annual premium equivalent (m PLN)



\* Segment margin and insurance result net of the conversion effect

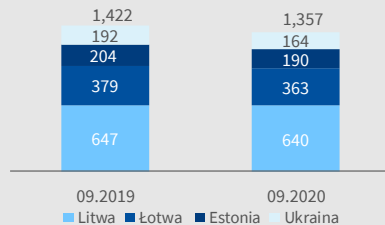


## International operations

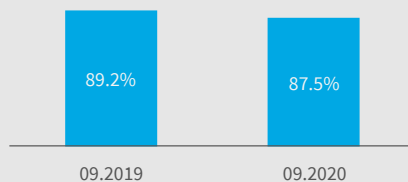
Enhanced profitability in the life and non-life segments

### Non-life insurance

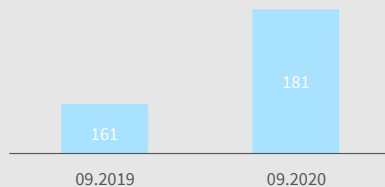
Gross written premium (m PLN)



Combined ratio (%)

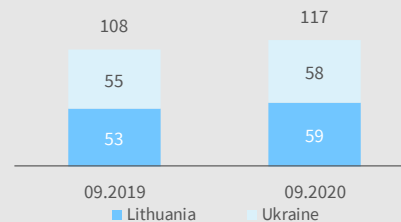


Insurance result (m PLN)

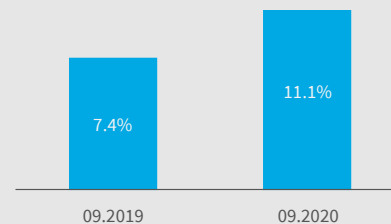


### Life insurance

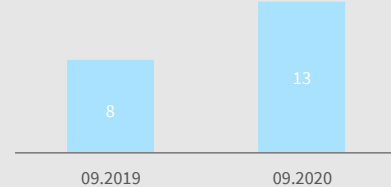
Gross written premium (m PLN)



Margin (%)



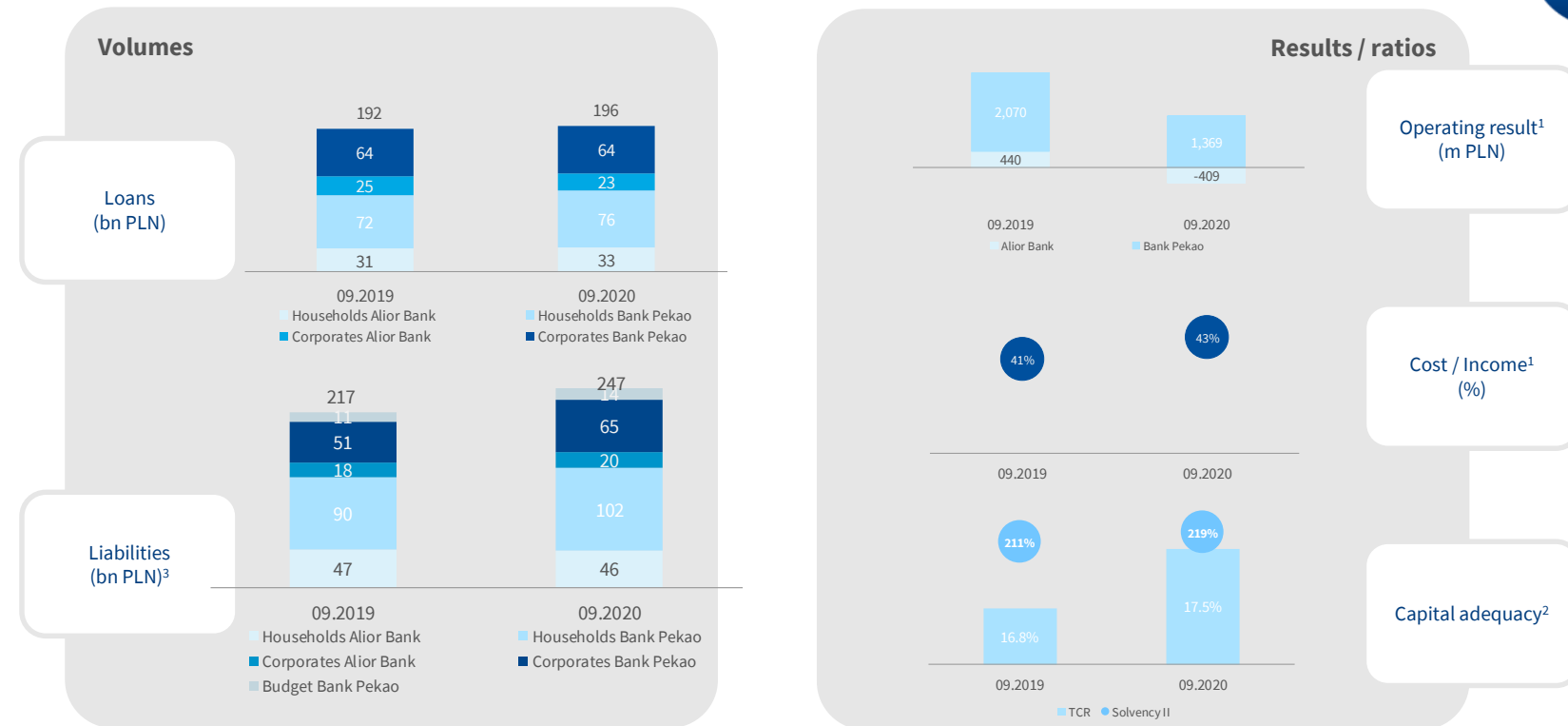
Insurance result (m PLN)





## Banking activity

Result on banking activity is down due to the occurrence of the COVID-19 pandemic



1) Data in accordance with PZU's financial statements, net of the impairment for goodwill and intangible assets

2) Data jointly for Bank Pekao and Alior Bank pro rata to the equity stakes held

3) Data in accordance with Bank Pekao and Alior Bank's financial statements



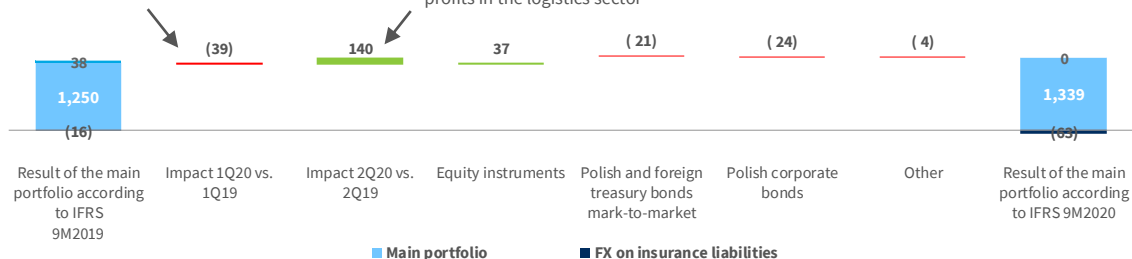
# Investments

## Quarterly results and portfolio composition

The lower measurement of equities, in particular due to the deteriorated market conditions caused by the COVID-19 pandemic

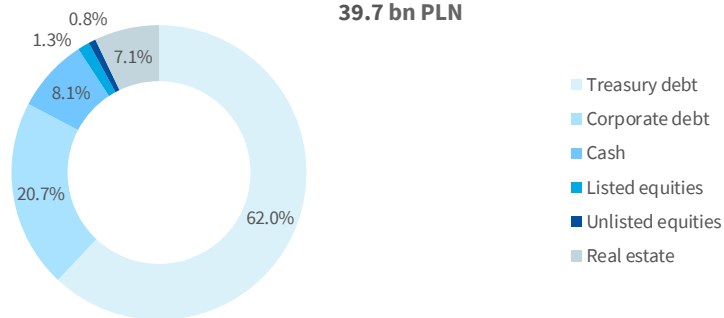
### Net investment result (m PLN)

Increase in the measurement of the Real Estate portfolio as an effect, among others, of the settlement of property development profits in the logistics sector



### December 2019 main portfolio investment composition

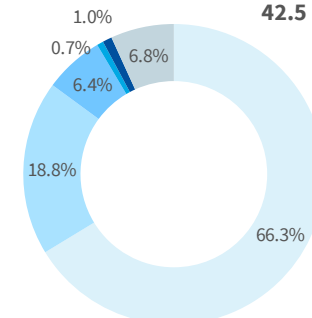
39.7 bn PLN



investment products 6.2 bn PLN

### September 2020 main portfolio investment composition

42.5 bn PLN



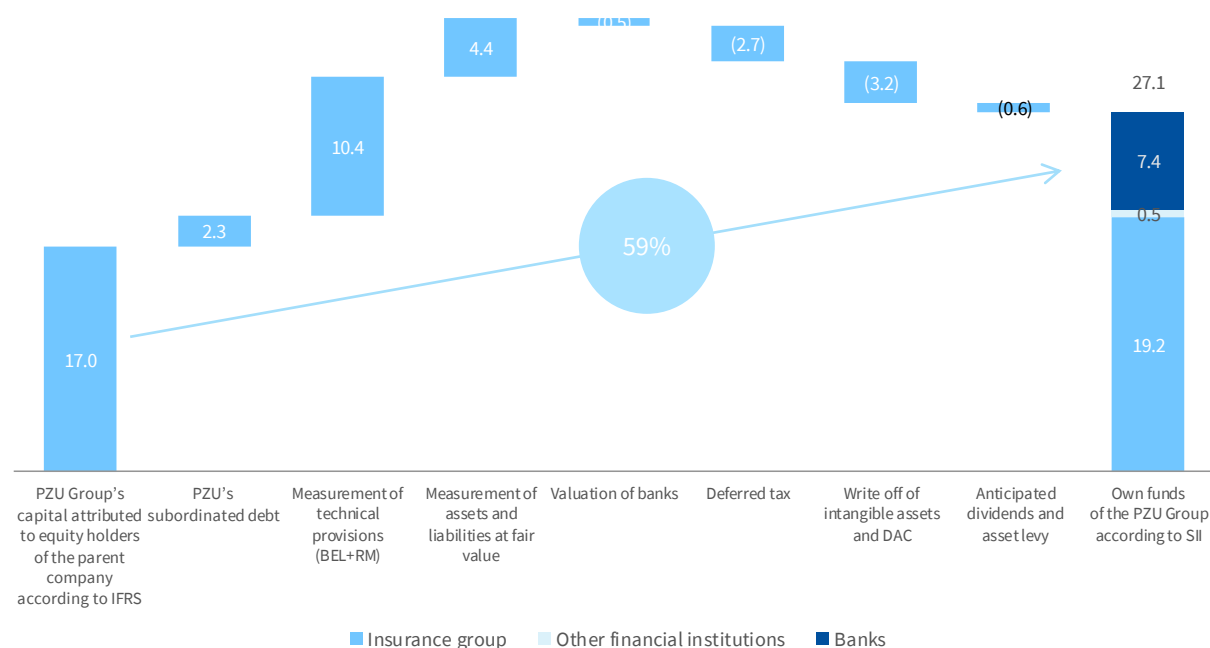
investment products 6.2 bn PLN



## Own funds

PZU Group's data in Solvency II as at 30 June 2020 (bn PLN)

### 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 (Bank 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:
  - 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)

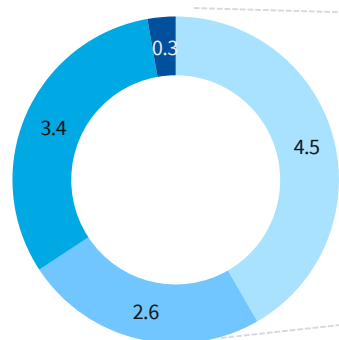
\* The exception pertains to intangible assets and deferred acquisition costs whose value for the purposes of SII is zero



## Solvency capital requirement (SCR)

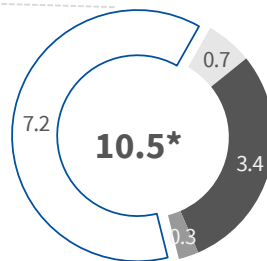
PZU Group's data in Solvency II as at 30 June 2020 (bn PLN, unaudited data)

### Basic solvency capital requirement (BSCR)



- Non-life and health insurance
- Life insurance
- Market risk
- Counterparty Default Risk (CDR)

### Solvency capital requirement (SCR)



- BSCR
- Operational risk
- Banks
- Other (TFI, PTE)

Effect of diversification  
-34%

Solvency requirement moved up in 2Q 2020 by 0.03 bn PLN. The main reasons for the movement in SCR:

- increase in market risk of 0.07 bn PLN\*\*
  - higher risk on equities, real estate and spread with rising asset prices (in total 0.2 bn PLN\*\*)
  - despite the yield falling, interest rate risk has not changed thanks to better matching (buying long-term securities)
  - equity and interest rate risk alleviated by using the mechanisms embedded in the Solvency II regulations (lower symmetrical matching in an equity shock and the lack of a requirement for short-term instruments with negative rates)
  - decline in the FX risk requirement by 0.15 bn PLN\*\* due to more effective hedging (reversal of changes in the previous quarter)
- growth in non-life insurance risk requirements due to higher planned premiums in insurance for calamities and rising claims provisions (+0.06 bn PLN\*\*).
- decline in the banking sector's requirements following regulatory amendments to the temporary regulations concerning IFRS9, requirements for SMEs and exposures to EU central governments, Polish aid programs (BGK de minimis guarantees).

\* 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.



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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.

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# Thank you

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