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Press Release

2015 results generate an impulse for change in PZU. The new Management Board will focus on the profitability of core business, growth and innovation.

The price war on the motor insurance market and the decline in the investment result were two of the factors that exerted an impact on the PZU Group's net profit in 2015, which fell by 21.1% to PLN 2,342.2 million. ROE also fell by 4.6 p.p. to 18% last year. The new PZU Management Board appointed at the end of January is conducting an indispensable strategy review.

The net financial result generated is the lowest since PZU went public – at PLN 2,342.2 million it fell by 21.1% from the previous year. With ROE at 18% it was down 4.6 p.p. Therefore, last year was another year in a row in which expenses rose and earnings fell. As a result of the soft market conditions on the financial markets, the performance of the investment portfolio compared to the previous year plummeted by more than 34%, representing slightly less than PLN 1 billion. At the same time, the profitability of the core underwriting business diminished.

"*This trend requires us to take firm measures",* says Michał Krupiński, the new CEO of PZU SA and he adds: "*The Group's results that have been lower recently do not however alter the fact that the foundations on which PZU's position is built remain strong and stable".*

In insurance PZU continues to hold the top place in Poland, both on the non-life market (31.2%) and the life market (43.9% on regular premium policies). The PZU Group also continues to be the leader in Lithuania and Latvia, where its market share is 31.1% and 25.1%, respectively (non-life insurance). Even though health insurance does not yet form an important part of the Group's revenues, it is achieving a very high pace of growth. This is visible in the example of gross written premium in group health business whose y/y growth is 46%. Consolidation is ongoing as is the process of tapping into the synergies flowing from Link 4 and the Group's companies acquired in the Baltic States.

"The Group's position in terms of its performance is above all an impulse to effect change and in this sense it also poses an opportunity for its growth. It inclines us to re-concentrate on what has been PZU's identity for more than 200 years, namely the underwriting business. Our major objective should be to offer our clients the best and most innovative insurance products to protect their future, health and assets. That is why the leading motive of all our actions will be to demonstrate care for our core business to be profitable, stable and forward-looking to the highest degree", emphasizes Michał Krupiński.

According to Chairman Krupiński it is the ambition of the PZU Group to build the most innovative and fully client-focused financial group in Europe. "*To this end we will utilize solutions that are already being employed in our group's companies, including Alior Banku, Link4 and the Baltic companies, chiefly in Estonia",* he adds.

Recap of PZU's 2015 results

The following factors contributed to the PZU Group's 2015 financial results:

- lower result in the mass insurance segment related mainly to suppressed profitability in motor insurance;
- higher profitability in the corporate insurance segment. Improvement mostly in third party liability insurance;
- lower profitability in the group and individually continued insurance segment primarily on account of the higher loss ratio in protection products;
- lower result in the pension insurance segment associated with the repercussions of the open-end pension fund (OFE) reform;
- lower investment income, particularly as a result of the decline in the valuation of interest-bearing financial assets.

In addition, the following non-recurring events affected the comparability of the results: the gross result on the sale of PZU Lithuania of PLN 165.5 million; loss of PLN 175.8 million on the movement in the fair value of the shares acquired in tranche I between the acquisition date and the date of acquiring control over Alior Bank, i.e. 18 December 2015; conversion of long-term insurance policies into yearly-renewable term insurance in type P group insurance.

In 2015 material changes transpired that affected the comparability of results and the total balance sheet value, including the acquisition of the Baltic companies (in 2015 they were subject to consolidation for the full period), the sale of PZU Lithuania in September 2015 and consolidation of Alior Bank. As a result of this last transaction, total assets climbed by roughly PLN 40 billion, with non-controlling stakes up by PLN 2.3 billion at yearend 2015.

Premiums
In 2015 the Group collected gross written premium of PLN 18,359.0 million compared to PLN 16,884.6 million in the previous year (+8.7%). Sales were up primarily in international companies (+PLN 652.0 million), mostly thanks to the premium written by entities acquired in 2014; in the mass client segment (+PLN 749.5 million) net of intersegment premiums, including chiefly motor insurance; in the group and individually continued insurance segment mostly as a result of developing protection insurance and writing premium in health insurance.

At the same time, sales fell in the corporate client segment, mainly in TPL insurance and the individual insurance segment, especially investment products in the bancassurance channel.

Investment activity
In 2015 the PZU Group's net investment result was PLN 1,739.3 million as opposed to PLN 2,646.9 million in 2014 (down by 34.3%). This change was mainly driven by the decline in income on interest-bearing financial assets and the lower results on derivatives. The impact exerted by the foregoing factors was partially offset by the better performance generated on equities.

Claims and benefits
In 2015, the net amount of claims and benefits and movements in PZU Group's provisions was PLN 11,857.1 million rising by 2.7% from 2014. The key contributing factors were: growth in the group protection insurance portfolio (with a higher loss ratio), higher loss ratio in motor insurance, lower technical provisions arising from the decision made by PZU Życie, during the annual determination of the indexation rules for sums insured in continued insurance, to modify those rules from the beginning of 2016, lower increase in provisions in individual unit-linked products in the bancassurance channel and a decreases in provisions for claims from previous years in general liability insurance products.

Administrative and acquisition expenses

In 2015, acquisition expenses were PLN 2,376.3 million, rising by 10.7% from 2014. The increase was driven mainly by the higher direct and indirect acquisition expenses in the mass client segment and consolidation of the insurance companies acquired in 2014. Acquisition expenses were driven down by the higher level of deferred costs.

The Group's administrative expenses in 2015 reached PLN 1,675.9 million, up by 8.5% from the previous year. This growth resulted from the consolidation of administrative expenses incurred by newly-acquired insurance companies in PZU Group's administrative expenses, increased expenses incurred to develop the Everest Platform (the ultimate policy system for property insurance) and other strategic projects aimed at increasing customer service quality. At the same time, a positive effect vis-à-vis the previous year was recorded in the pension insurance segment, as the 2014 expenses were elevated by the additional contribution made to the Indemnity Fund.

Profit

The 2015 net profit was PLN 2,342.2 million, down by 21.1% from PLN 2,967.6 million in 2014.

Ratios

At the end of 2015, the equity was PLN 15,178.9 million, marking a 15.3% increase from the end of 2014. The main contributor were non-controlling interests, which amounted to PLN 2,255.2 million after the consolidation of Alior Bank.

In 2015, return on equity attributable to the parent company was 18.0%, down by 4.6 percentage points from the previous year. The profitability ratios achieved by the PZU Group in 2015 were greater than the market average (based on data of 9M 2015).

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