Warsaw, 12 May 2016
Press Release

# PZU generates higher sales while cutting costs in Q1 2016

**In Q1 2016 the PZU Group collected gross written premium totaling PLN 4,800.6 million, i.e. 2.6% more than in the corresponding period of 2015. The 29.5% spike in motor insurance premium income in the corporate client segment and the 20.0% growth in premium income in the mass client segment were particularly visible.**

**At the same time, the Group cut administrative expenses in the insurance business in Poland by 7.5% while cutting the administrative expenses of the companies acquired in 2014 by 2.8%. The Group's net profit was PLN 536.5 million compared to PLN 941.3 million in 2015.**

*"In Q1 2016 we successfully maintained a high degree of cost discipline. As a result, the administrative expense ratio*[1] *of the Polish insurance companies edged down by 0.7 p.p. y/y to 8.2%. It fell by 1.7 p.p. y/y in our international companies to 12.1%",* says Sebastian Klimek, PZU SA's CFO.

## The most important events affecting the results

The following factors affected PZU Group's operations in Q1 2016, as compared to the corresponding period of the previous year:

- higher gross written premium in motor insurance in the mass and corporate client segments (+ PLN 272,433 thousand) as a result of the upswing in average premium;
- higher operating margin in the segment of group and individually continued insurance (18% - up +3.3 p.p. y/y) associated mainly with the lower loss ratio of protection products due to a lower incidence of deaths;
- deterioration of profitability in the mass insurance segment (-PLN 190,863 thousand) related chiefly to the higher loss ratio in agricultural insurance as a consequence of the occurrence of numerous claims caused by the forces of nature (adverse effects of ground frost) - the non-recurring effect in agricultural insurance means that claims were higher than the average for the last 3 years by PLN 213,826 thousand;
- lower net investment result (net of banking activity) linked to the decline in the valuation of equity instruments and as a consequence of the recognition of high FX gains on its own debt securities denominated in Euro in the previous year.

The commencement of consolidating Alior Bank in December 2015 materially affected the comparability of the results and total assets and equity and liabilities year on year. As a result of this transaction, the total balance sheet value jumped by roughly PLN 42 billion, while non-controlling interests rose by PLN 2.3 billion (status as at 31 March 2016). In Q1 of this year the bank segment recorded operating profit of PLN 106,261 thousand. At the

[1]Administrative expense ratio calculated using the equation: *administrative expenses / net earned premium*

same time, taking into consideration the 29.22% equity stake held by the PZU Group in the bank, the bank segment contributed PLN 31,049 thousand to the operating result attributable to the parent company.

### Gross written premium

In the period of 3 months ended 31 March 2016, gross written premium was PLN 4,800,604 thousand compared to PLN 4,680,827 thousand in the corresponding period of the previous year (+2.6%). Higher sales were achieved on the following:

- motor insurance in the mass and corporate client segments - mainly due to the higher average premium;
- regular premium in the group and individually continued insurance segment, mainly as a result of expanding protection group insurance (higher average premium and more insureds) and collecting premiums in group health insurance (new clients in ambulatory insurance and sales of medicine plans);
- international insurance companies.

This growth was partially offset by the falling gross written premium in the following:

- unit-linked products in the bancassurance channel and individual investment products;
- fire and other property insurance in the corporate client segment – acquisition of a long-term contract for one of the segment's key clients in the corresponding period of 2015.

### Investment activity

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) in Q1 2016 and Q1 2015 were PLN 1,031,328 thousand and PLN 1,024,342 thousand, respectively, increasing due to investment income generated on banking activity - the commencement of consolidating Alior Bank. Net of banking activity, the level of investment income was lower than in the corresponding period of the previous year, mainly as a consequence of the lower valuation of equity instruments and as a consequence of the recognition of FX gains on its own debt securities denominated in Euro in the comparable period of 2015.

### Net claims and benefits

Net claims and benefits (including the movement in technical provisions) were PLN 3,066,628 thousand, oscillating at a level close to Q1 of the previous year. The following factors contributed to the movement in the category of net claims and benefits:

- the growth in claims and benefits in the group of insurance for other physical losses in the mass client segment, chiefly including insurance for subsidized crop insurance as an effect of the occurrence of numerous losses caused by the forces of nature;
- higher claims and benefits in motor TPL insurance in the mass client segment, mainly as a result of the rising average payout and the faster pace of reported claims;
- decline in technical provisions related to the negative investment result and lower unit-linked product sales in the bancassurance channel.

### Expenses

In Q1 2016 acquisition expenses rose by PLN 64,204 thousand (+11.6%) compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in distribution channels that pay commissions in the mass client and corporate client segments.

The increase in administrative expenses of PLN 211,484 thousand (+51.8%) was chiefly driven by commencing the consolidation of Alior Bank; the PZU Group's expenses rose by PLN 242,509 thousand as a result.

At the same time, a positive effect was recorded in comparison to last year in the insurance activity segments in Poland in connection with maintaining high cost discipline - a drop in administrative expenses by PLN 26,933 thousand.

## Net profit

The PZU Group's net financial result in Q1 2016 was PLN 536,456 thousand, down by 43.0% from the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 486,598 thousand, compared to PLN 941,332 thousand in 2015 (down 48.3%). Excluding one-off events[2], the net result fell 24.0% compared to the previous year.

## ROE

IFRS-compliant consolidated equity as at 31 March 2016 was PLN 15,704,806 thousand compared to PLN 14,084,460 thousand as at 31 March 2015. The growth in consolidated equity pertained to non-controlling interests, that in connection with the consolidation of Alior Bank among others totaled PLN 2,310,277 thousand. The return on equity (ROE[3]) attributable to the parent company in Q1 2016 was 14.8%, down 12.8 p.p. compared to the corresponding period of the previous year.

## Solvency according to Solvency II and directions of further development

According to preliminary data the coverage ratio of the group capital requirement for capital adequacy with permissible own funds according to Solvency II as at 31 December 2015 was 309.83% This level of equity should facilitate the achievement of our very ambitious growth plans pointed out by the Management Board during the presentation of the 2015 results, among which the following should be reiterated:

- growing the significance of international operations by materially increasing the revenues generated outside Poland – international business should account for more than 20% of the PZU Group's gross written premium;
- building the position as the largest asset manager in the CEE region – reaching the watermark of PLN 100 billion in assets under management by 2020;
- continuing to establish the brand and drive up PZU Health's revenues to the level of PLN 1 billion by 2020;
- continuing to participating in the bank sector consolidation process as a financial investor.

Work on the PZU Group's strategy review is in progress according to an internally defined schedule. The deliverables will be presented at the latest in connection with the results for H1 2016, subsequent to obtaining the acceptance of the appropriate corporate bodies, including the Supervisory Board of PZU SA and PZU Życie SA.

[2] Non-recurring events include the conversion effect caused by converting long-term policies into yearly renewable term agreements in type P group insurance and the claims in agricultural insurance that were higher than the average of the last 3 years.

[3] Annualized ratio.

| No. | Item (000s of PLN) | 3 month period ended | |
|---|---|---|---|
| | | 31 Mar. 2016 | 31 Mar. 2015 |
| 1. | Gross written premium | 4,800,604 | 4,680,827 |
| 2. | Net insurance claims and benefits and movement in technical provisions | -3,066,628 | -3,045,858 |
| 3. | Investment income, including: | 1,031,328 | 1,024,342 |
| 3a. | Net investment income | 967,732 | 446,550 |
| 3b. | Net result on the realization of investments and impairment losses | -90,742 | 117,784 |
| 3c. | Net movement in the fair value of assets and liabilities measured at fair value | 154,338 | 460,008 |
| 4. | Net profit, including: | 536,456 | 941,340 |
| 4a. | Profit attributable to the equity holders of the Parent Company | 486,598 | 941,332 |
| 4b. | Profit attributed to holders of non-controlling interests | 49,858 | 8 |
| 5. | Equity | 15,704,806 | 14,084,460 |
| 6. | Financial assets and investment properties | 90,610,210 | 62,429,670 |
| 7. | Total assets | 108,295,077 | 71,741,982 |

Additional information:
PZU Press Office
tel. (022) 582 58 07
e-mail: rzecznik@pzu.pl