Warsaw, 24 August 2016
Press release

PZU significantly grows market share while cutting costs

For the first time in 10 years, PZU significantly grew its market share in non-life insurance. In Q1 2016 it also had the largest periodical premium life insurance market share since 2006.

In H1 2016 the PZU Group generated PLN 5,335 million in gross written premium in the non-life insurance in Poland, i.e. 19.9% more than in the corresponding period of 2015. The 37.7% upsurge in premiums in motor insurance in the corporate client segment and the 26.6% upsurge in the mass client segment were particularly visible. In the overall Group, the gross written premium in H1 2016 rose 8.1% to PLN 9,862 million, while administrative expenses simultaneously fell 7.8% to PLN 758 million (net of Alior Bank).

- *Sales and market share are growing in line with our ambitions. Following a very robust first quarter when PZU grew much faster than the market in non-life insurance, thereby expanding its market share, the subsequent quarter led to strengthening its position even more. The motor insurance segment continued to be the driving force behind this growth. I am counting on our rapidly growing mutual, TUW PZUW, to provide support to sustain this positive trend in subsequent quarters. We have proposed a flexible and tailor-made insurance program to our members to optimize costs.*

H1 2016 has also been a period of improving our underlying costs: the administrative expense ratio[1] *in our Polish insurance companies edged down by 0.7 p.p. y/y to 7.9%*. - says Michał Krupiński, CEO of PZU.

The shares in Grupa Azoty SA weighed heavily on our investment result. This company's share price fell significantly compared to the growth recorded in the corresponding period of the previous year.

- Grupa Azoty is our strategic company and we believe in its result. Nevertheless, this asset is in a portfolio in which movements in its stock valuation affect our investment result. At the end of H1 2016 we had to recognize an unrealized loss of 200 m PLN, which on a year on year basis yields a difference in the result of more than PLN 300 million. - says Michał Krupiński, CEO of PZU.

Consolidated net profit was PLN 790 million versus PLN 1,322 million in the corresponding period of 2015.

Recap of PZU's results in H1 2016

The following factors exerted a positive impact on the PZU Group's financial results in the first six months of 2016:

- Considerably higher market share in non-life insurance and periodical premium life insurance;
- Rapid sales growth in the health care area;
- Rigorous cost discipline despite the growth in portfolio size;
- Higher profitability in group and individually continued insurance;

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

The following factors exerted a negative impact on the results in this period:

- Adverse consequences of ground frost in crop insurance and the persistently low profitability in the motor insurance portfolio;
- Significantly lower investment result chiefly due to the decline in the valuation of the equity stake in Grupy Azoty SA.

Commencing the consolidation of Alior Bank in December 2015 materially affected the comparability of the results and the overall balance sheet value. The banking segment contributed PLN 217.1 million to the PZU Group's operating result in H1 2016. The PZU Group's balance sheet expanded by approximately PLN 47 billion, while non-controlling interests rose by PLN 3.8 billion.

Gross written premium

In H1 2016 the PZU Group generated gross written premium of PLN 9,862.0 million, i.e. 8.1% more than in the corresponding period of 2015. This is the result of sales in the mass client segment climbing PLN 652.8 million. The gross written premium in the corporate client segment, chiefly in motor insurance, also rose (by PLN 164.3 million). The uplift in sales in the group and individually continued insurance segment also contributed to higher gross written premium (growth of protective group insurance and the premium growth in group health insurance).

Investments

In H1 2016 the PZU Group's net investment result[2] was PLN 1,456.1 million versus PLN 1,086.0 million in the corresponding period of 2015 (up 34.1%). The higher H1 result is chiefly the result of incorporating the activity conducted by the banking sector (among others, interest income, including loan interest and the trading result) following the commencement of Alior Bank's consolidation.

Moreover, the decline in the share price of Grupa Azoty, the result on other listed equities, especially on account of the deterioration in the conditions on the Warsaw Stock Exchange due to Brexit and the poorer performance of the asset portfolio to cover investment products contributed to the investment result.

Claims and benefits

In H1 2016 the net value of claims and benefits and of the incremental growth in the PZU Group's provisions was PLN 6,164.4 million. Compared to the corresponding period of last year, this represents growth of 2.6%. The following factors contributed to the movement in net claims and benefits: higher claims and benefits in the group of insurance for other physical losses in the mass client segment, including chiefly crop insurance and higher claims and benefits in motor TPL insurance in the mass client segment.

Administrative and acquisition expenses

In H1 2016 the Group's administrative expenses totaled PLN 1,253.0 million versus PLN 822.1 million in H1 2015, i.e. they were up 52.4% compared to the previous year.

This growth was primarily driven by commencing Alior Bank's consolidation; the PZU Group's costs rose by PLN 494.9 million as a result. At the same time, in comparison to last year, a positive effect was recorded in the insurance segments in Poland in conjunction with maintaining rigorous cost discipline.

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[2] The net investment result consists of net investment income, net realized result and impairment losses on investments and the net movement in the fair value of assets and liabilities measured at fair value.

Acquisition costs in H1 2016 rose by PLN 121.9 million compared to the corresponding period of the previous year. This growth was in particular the result of higher sales in the mass client and corporate client segment.

Profit

In H1 2016 the PZU Group generated a gross result of PLN 1,048.7 million versus PLN 1,619.0 million in the previous year (down 35.2%). Net profit was PLN 789.8 million, having fallen by PLN 531.7 million from the result in H1 2015. Net profit attributable to the parent company's shareholders was PLN 659.5 million versus PLN 1,321.6 million in 2015 (down by 50.1%).
The net result fell by 24.7% compared to last year, net of non-recurring events.

ROE

At the end of H1 2016 consolidated equity rose in comparison to the end of 2015 to PLN 15,600.7 million (up 3.2%). The growth in consolidated equity pertained to non-controlling interests, which in connection with Alior Bank's rights offering in H1 2016 climbed to PLN 3,829.5 million, up 74.5% from the end of 2015.

In H1 2016 the PZU Group generated a return on equity of 10.7%. ROE fell by 10.4 p.p. compared to the previous year. The PZU Group's profitability ratios in H1 2016 were put under pressure by the negative conditions on the Warsaw Stock Exchange.

Solvency according to Solvency II

As of 1 January 2016 the insurance and reinsurance activity act of 11 September 2015 introduced new capital requirements known as Solvency II in the Polish legal system. As at the end of Q1 2016, the estimated solvency ratio (calculated using the standard formula for Solvency II) was 266.3%. Such a high ratio ranks the PZU Group among the insurance groups with the greatest capital strength.

		Item (000s of PLN)	**For 6 months period ended**	
			30.06.2016	**30.06.2015**
1.		Gross written premium	9 861 987	9 126 450
2.		Net claims paid and movement of technical provisions	-6 164 436	-6 006 361
3.		Investment income, including:	1 456 074	1 085 973
	3a.	Net investment revenues	1 903 315	845 321
	3b.	Net realized result and impairments	-470 449	182 942
	3c.	Net movement of fair value of assets and liabilities measured at fair value	23 208	57 710
4.		Interest expenses	-396 811	-61 876
5.		Net profit	789 844	1 321 527
	5a.	Net profit attributable to shareholders of the parent company	659 540	1 321 593
	5b.	Net profitattributable to non-controlling interests	130 304	-66
6.		Equity	15 600 652	11 853 123
7.		Financial assets and investment properties	95 253 401	56 995 337
8.		Total assets	112 945 227	66 079 734

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