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Press release

PZU Group's results in H1 2020

In H1 2020, the PZU Group posted robust sales results while maintaining a high level of profitability in its major insurance business lines. Its gross written premium in H1 2020 totaled PLN 11.7 billion. The net result attributable to the parent company was PLN 1.6 bn PLN net of impairments.

“The first half of 2020 was a period in which the Group’s business environment was subjected to highly dynamic change. This was a test of the PZU Group’s agility and flexibility in which we strove to integrate and digitalize many corporate structures. From the vantage point of the first half of the year we see that the adopted operating model has demonstrated a high measure of stability and resilience, enabling us to function effectively even in the face of large-scale market volatility in terms of our product offer and alignment to clients’ purchasing preferences. At the same time, we are working on the new PZU Group strategy to continue, strengthen and expand on the changes rolled out to-date. It will comprise objectives and targets to attain above-average financial results despite the more than challenging business world and market conditions. Further investment in the Group’s fundamental values will facilitate its development and augment its capital strength and competitive position. Notwithstanding the future evolution of business circumstances I am counting on PZU being able to continue to generate above-average dividends for its shareholders”, says **Beata Kozłowska-Chyła**, the acting CEO of PZU SA.

Sales in the major business lines held steady at very robust levels. The growth in the life segment was particularly visible against this backdrop. Our market share in this segment was 41.8% in Q1 2020, the best result since 2009. This was plausible due to climbing sales in the group and individual continuation segment and individual products. The health area also grew rapidly with revenue shooting up 20.6% y/y to PLN 439 million.

“This fast pace of growth is the outcome of very robust sales results in life insurance and health subscriptions. Poles need high quality medical services and we are meeting those needs. This was highly visible in the midst of the challenging pandemic situation. We offer medical insurance and we are steadily building our portfolio of subscription clients in PZU Zdrowie’s proprietary network”, emphasizes **Aleksandra Agatowska**, acting CEO of PZU Życie.

PZU is one of the largest medical operators in Poland. At the end of H1 2020, PZU Zdrowie had signed 2.7



million contracts. PZU's customers had access to nearly 2.2 thousand cooperating medical partners, the PZU Group's 130 locations, 48 hospitals and 2,200 physicians.

"We generated very robust results in key business areas because we are highly streamlined. In H1 2020 the margin in group and individually continued insurance climbed to 26.1%, the combined ratio (COR) was 87.1% and the investment yield was 3.2 p.p. above the risk-free rate. This performance is significantly better than last year's. This performance is also markedly better than stated in our strategic ambitions. The outcome is that ROE net of impairments was 19.1%", says **Tomasz Kulik**, CFO of the PZU Group.

An impairment on intangible assets and goodwill of PLN 1,343 million was debited to the H1 2020 results. This impairment pertains to banking assets recognized during the transaction to acquire Alior Bank and Bank Pekao. *"This impairment is the outcome of several factors that materially contributed to deterioration in the banking sector's business conditions. The most important factor entailed the economic repercussions precipitated by the coronavirus pandemic, including the cutting of interest rates by the Monetary Policy Council and the increase in credit risk accompanied by the ensuing formation of additional provisions"*, adds **Tomasz Kulik**. The net result attributable to the equity holders of the parent company in H1 2020 was PLN 301 million. Net of the impairments, the result would have been PLN 1,644 million, or up 11% y/y.

The PZU's capital position remains strong. The Solvency II ratio at the end of Q2 2020 was 258% and was markedly higher than the average for European insurance companies. On 27 August 2020 S&P Global Services upheld our A- rating with a stable outlook. The agency 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.

In the face of a global pandemic, the stable market position of the national insurer has made it possible to provide immediate help to Poles. The PZU Group earmarked over PLN 15 million for this purpose. This money was used to purchase medical equipment for hospitals, personal protection equipment for healthcare workers, the police and the border guard and 200 cars to transport laboratory test samples. Infectious disease hospitals also received nearly one thousand modern units which remotely monitor the patients' life parameters. In addition, as of the beginning of March, PZU launched free medical teleconsultations for all Poles, offered free legal aid to its clients and, additionally, free psychological help to health care professionals.



PZU Group's key accomplishments in the first half of 2020:

- **PZU Życie's life insurance market share in Poland of 41.8%** is the highest it has been since 2009
- Stable premium in **group and individually continued life insurance in H1 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% in Q1 2020)
- **Gross written premium on protection life insurance +16% y/y** in the individual insurance segment, chiefly in the **bancassurance** channel
- Ongoing dynamic growth in the demand for private medical services; PZU Zdrowie's revenue up **21% y/y** in H1 2020
- TFI PZU – **one of the leaders in the sales of funds** and growth of assets under management - nearly **0.5 bn PLN** obtained from clients
- **Further strengthening of collaboration with banks** leading to significant growth of new sales of life protection insurance in bancassurance and the number of insureds
- **Profitability in the non-life segment** in Poland of **87.1%** (measured by the combined ratio COR)); better y/y (by 2.1 p.p.), and much better than the targets stated in the strategy. **Non-life insurance result in Poland up 21% y/y**
- Operating margin in group and individually continued insurance of 26.1% - at its highest since H1 2011 and simultaneously beating the targets stated in the strategy. Life insurance result in Poland +27% y/y in H1 2020
- High return on the main portfolio of **3.2 p.p.** above the risk-free rate in H1 2020, outpacing strategic ambitions despite turbulence on the financial markets
- Costs under strict control; despite pressure to raise wages the cost ratio was **7.1%** in H1 2020
- ROE of **19.1% in H1 2020** net of impairments



PZU Group's consolidated highlights for H1 2018-2020 (PLN million)

	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2020
A) PZU GROUP NET OF ALIOR BANK AND BANK PEKAO			
Gross written premiums	11,881	11,839	11,691
Net result on investing activity including interest expense	468	1,032	830
Net insurance claims and benefits paid	(7,345)	(7,929)	(7,291)
Acquisition expenses	(1,519)	(1,616)	(1,647)
Administrative expenses	(812)	(832)	(905)
Operating profit	1,458	1,663	2,195
Net profit attributable to equity holders of the parent company	1,133	1,288	1,688
B) Impairment loss on goodwill (Alior Bank, Bank Pekao) and intangibles (Alior Bank)			(1,343)*
C) BANKS: ALIOR BANK AND BANK PEKAO			
Net profit attributable to equity holders of the parent company	277	193	(44)
(A+B+C) NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	1,410	1,481	301
Total assets	321,575	340,079	376,645
Equity attributable to the owners of the parent company	13,207	14,311	16,976

* including the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on intangibles arising from the acquisition of Alior Bank (i.e. trademark and relations with clients adjusted for the impact of deferred tax and minority interest) in the amount of PLN 42 million

Restated data for H1 2018 and H1 2019

Additional information:

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