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PZU Group's 2020 results

High rate of growth in insurance activity, investment portfolio resilient to economic slowdown.

The PZU Group is effectively building its profitability while maintaining a high level of sales. The PZU Group's net result net of banking activity was PLN 3.1 billion in 2020, signifying growth of nearly 12% versus 2019. After adjustment for the impact exerted by pandemic-related events, the net profit attributable to the equity holders of the PZU Group's parent company was PLN 3.8 billion, signifying growth of 17% versus 2019. Such a high level of profit implies a very high return on equity of 22.5% after adjustment for the impact exerted by the pandemic. Gross written premium in 2020 remained at a high level of almost PLN 24 billion.

"PZU has approximately 16 million clients holding its insurance products, which enabled us to generate nearly PLN 24 billion in gross written premium in 2020. These figures represent the great amount of trust placed in us and our enormous obligation to clients and shareholders who expect us to take efforts to grow value. I can say with complete certainty that we overcame these challenges in 2020. Nearly PLN 15 billion in premium in non-life insurance was generated on a combined ratio of 88.2%, a figure that is much better than the average combined ratio of our competitors. The other PLN 8.9 billion in premium was generated on life insurance where we also demonstrated our strength and determination. The operating margin was 18.8%, with the margin on just group and individually continued insurance being 19.7%. These results were achieved in very distinct conditions on capital ratios that were very sound at the same time. This proves that the capacity to generate high returns and pay dividends is regularly being augmented in PZU's business", says Beata Kozłowska-Chyła, Ph.D. Hab., CEO of PZU.

Resilient business model

The sound insurance activity model and the investment portfolio well-prepared to face an economic slowdown make the PZU Group's business more resilient in the face of the repercussions the pandemic has meant for the market.

The intensive development of the investment pillar has made TFI PZU one of the leaders in the sales of funds and portfolios and it has contributed to its assets under management growing to nearly PLN 1.3 billion. TFI PZU had a 35% market share in Employee Capital Schemes (PPK) measured by the number of contracts, translating into its ECSs holding assets of PLN 390 million at the end of 2020.

The PZU Group's portfolio delivered a return of 4.4%; in other words, it exceeded the risk-free rate by 3.7 percentage points.

Such good performance was achieved while maintaining a safe portfolio composition. At the end of 2020 debt instruments accounted for 84%. This would not have been possible had fundamental changes not been consistently implemented in how we manage our portfolios. We are raising the level of investment-grade corporate debt while simultaneously curtailing the risk of listed equities. We have also selected strategies to generate interest income thereby reducing

the impact exerted by asset revaluation on the result. This approach also worked very well in 2020, which featured a high level of volatility and uncertainty. At present, the main portfolio provides a stable level of interest income forming the basis for generating profitability in the long-term. In Q4 2020 alone the return on the main portfolio was 5.1%, constituting an above-average return in current economic conditions against the backdrop of the overall market”, says Tomasz Kulik, PZU Management Board Member and CFO.

The PZU Group’s net result attributable to equity holders of the parent company, i.e. including banks was PLN 1.9 billion in 2020, which consisted of the net result adjusted for the banks of PLN 3.1 billion, impairment losses related to the acquisition of the banks totaling PLN 1.3 billion and the result on banking activity of PLN 149 million.

Life and health insurance

In 2020 the PZU Group retained its dominant position on the life insurance market with a high gross written premium on individual insurance (PLN 1.7 billion) and a stable gross written premium on group and individually continued life insurance (PLN 7 billion).

The growing significance of new solutions in patient care and the rising demand for telemedicine formed the basis for the fast pace of growth in health. In 2020 PZU Zdrowie gradually enlarged its share of the health insurance market. At the end of 2020 PZU Zdrowie had more than 2.8 million clients holding its health products. The revenue in this period was PLN 949 million, constituting 65% growth in the last two years.

Support during the pandemic

In 2020 the PZU Group, and in particular the banks belonging to it, contributed to mitigating the pandemic’s economic repercussions through the transfer of public aid to businesses. Involvement in the battle against the pandemic also entailed mitigating its health effects: the PZU Group’s companies earmarked more than PLN 25 million for extensive charitable campaigns focusing on hospitals and services combating the pandemic.

PZU’s infrastructure was also used to create special aid hotlines for physicians and psychologists to provide free consultations. Multiple campaigns to promote safety during the pandemic were conducted.

Such multi-faceted activities made it possible to build value for all of the Group’s stakeholders and demonstrate these companies’ social commitment.

Strong capital position

Despite the demanding environment the PZU Group’s capital position continues to be very strong. The PZU Group has generated some of the best solvency ratios seen among European insurers, thereby confirming the high level of safety in the operations conducted. Solvency II as at 30 September 2020 was 257% for the overall Group, 284% for PZU and 381% for PZU Życie.

PZU Group's main accomplishments:

Financial results:

- The PZU Group's result net of its banks was PLN 3.1 billion: up 11.7% versus 2019
- High level of profitability in non-life insurance in Poland: combined ratio of 88.4% in 2020 has not changed y/y and has outpaced the targets set in the strategy
- High return on the main portfolio: 3.7 percentage points above the risk-free rate in 2020: above strategic ambitions despite the more challenging circumstances on the financial markets
- Operating margin in group and individually continued insurance of 19.7% in 2020: in line with the strategy
- Costs under strict control; despite the wage hike pressure and the incremental costs related to the COVID-19 pandemic the administrative expense ratio was 7.0% in 2020
- After adjusting for the pandemic's effect estimated to be PLN 1.9 billion, the result in 2020 was PLN 3.8 billion, up 17% y/y
- Return on equity of 10.9% in 2020 (22.5% net of the pandemic-related effects); PZU among the insurers generating the highest returns on equity in Europe
- Reported net result of PLN 1.9 billion; down from last year due to the impact exerted by the COVID-19 pandemic, especially the impairment losses related to banking activity

Business development

- Further improvement of the market position in life insurance; PZU Życie's record-breaking share of the life insurance market in Poland of 42.3% (up 2.4 percentage points y/y)
- Stable premium income on group and individually continued insurance in 2020 y/y despite the limitations placed on employee benefits
- Very high gross written premium in individual insurance (PLN 1.7 billion) with life protection insurance acting as the driver (22% growth y/y)
- Motor insurance under pressure on account of the slowdown on the car sales market in Poland, strong demand for residential insurance and small and medium enterprises
- Ongoing rapid growth in the demand for private medical services; PZU Zdrowie's income up 12% y/y in 2020
- The intensive development of the investment pillar - TFI PZU is one of the leaders in the sales of funds and portfolios and it has grown assets under management; it has sourced nearly PLN 1.3 billion from clients with there being virtually no new money on the market
- PLN 390 million of assets in Employee Capital Schemes (PPK) at the end of 2020. 35% market share (measured by the number of contracts)
- Continuing to strengthen cooperation with banks leading to significant growth in the new sales of life protection insurance in the bancassurance channel and the number of insureds