

PZU

Warsaw, 12 March 2014
Press Release

PZU Group Reports Profit in Excess of One Billion Dollars in 2013

For the PZU Group, 2013 was another consecutive year of strategy implementation bringing the shareholders excellent earnings, the highest since the IPO. Net profit increased 1.2% YoY, reaching PLN 3,293.7 million. Between 2006 and 2013, the contribution of non-recurring factors decreased more than tenfold, reflecting the healthy structure of the PZU Group's results.

"It is worth highlighting that for a number of years the structure of the PZU Group's net result has been changing. In the previous years, our record-high results were affected to a large extent by the dissolution of provisions associated with type P group insurance. The structure of our net profit in 2013 indicates that its main component is the Group's core business of insurance," said Andrzej Klesyk, CEO of PZU SA.

"Along with the publication of our results for 2013, I am proud to confirm that in the fourth quarter of last year we successfully launched the implementation of a new policy system at PZU SA. As we speak, the Everest system is used for issuing motor insurance policies in south-eastern Poland. By the end of this year, this new IT solution will be used by our insurance agents across the country. This move is very important to me, because technologically it lifts our company into the 21st century and allows us to focus on satisfying the needs of our customers," Mr. Klesyk added.

The main factors affecting the PZU Group's financial result in 2013 were the following:

- An increase in gross written premium. In 2013, gross written premium was PLN 16,480 million, up 1.5% compared to the previous year. Taking into account the share of reinsurers and changes in the balance of provisions, net earned premium was PLN 16,248.8 million, up 1.5% compared to 2012;
- A decrease in claims paid. They amounted to PLN 11,161.2 million, down 8.7% compared to 2012. In 2012, technical reserves increased significantly due to a one-off change in technical rates. The total negative impact of this operation on the PZU Group's gross result in 2012 was PLN 1,032.8 million.
- A decrease in net profit on investing activity. This decrease resulted mainly from lower prices of treasury securities. Net profit on investing activity was PLN 2,488.1 million, down 32.8% compared to 2012 which was a year of inflated prices of debt securities.
- Maintenance of cost discipline in terms of acquisition costs and administrative expenses. They totaled PLN 422.4 million and thanks to lower administrative expenses remained at the same level as in 2012.

Overview of financial results

Premiums

In 2013, the PZU Group collected gross premiums of PLN 16,480.0 million, i.e. 1.5% more than in 2012. For the most part, they consisted of regularly paid life insurance premiums (a 41.9% share in the total value of gross written premium), derived mostly from group life insurance, motor TPL insurance premiums (17.2% of the insurance portfolio), MOD insurance premiums (a 12.3% share), fire and property damage insurance premiums (11.5% of total premium) and premiums for life insurance with a single premium, ADD insurance premiums and other premiums with a share of 5.0%.

Investing activity

In 2013, the PZU Group's net result on investing activity was PLN 2,488.1 million compared to PLN 3,704.7 million in 2012 (down 32.8%). This decrease in income was largely caused by higher bond yields. The yield on 5-year State Treasury bonds increased 42 basis points YoY and the yield on 10-year bonds went up 61 basis points, compared to a decrease in 2012 by 211 basis points and 215 basis points, respectively. Investing activity was also affected by a worse situation in the capital markets compared to 2012. The WIG index increased only 8.1% in 2013, whereas in 2012 it surged 26.2%. As a result, the Group's income from equity instruments in 2013 was PLN 592.8 million, down PLN 253.2 million compared to 2012.

Claims paid

In 2013, the net value of claims and a change in the balance of reserves in the PZU Group was PLN 11,161.2 million. Compared to 2012, the value of claims combined with the change in the balance of reserves went down 8.7%. The decline in the value of net claims was largely the result of a low level of winter crop damage, the absence of frost in the winter or floods in the summer, the absence of a need for the establishment of additional provisions for losses on contractual guarantees in financial insurance, the maintenance of a low loss ratio in motor insurance thanks to favorable driving conditions and lighter traffic (low incidence of damage).

Administrative and acquisition expenses

In 2013, acquisition costs amounted to PLN 2,015.9 million, up 0.8% compared to 2012. This increase was mainly due to the rapid growth in sales of investment products through the bancassurance channel, in particular unit-linked products characterized by high acquisition costs, an increase in the share of more expensive distribution channels in the sale of insurance to mass customers, changes in commission rates for selected product groups and the launch of consolidation of life insurance companies in Lithuania and Ukraine – acquisition costs of the consolidated companies amounted to PLN 30.7 million.

The Group's administrative expenses in 2013 were PLN 1,406.5 million, down 2.3% compared to 2012. This decrease was affected by the PLN 19.1 million decline in personnel

costs resulting from the restructuring and reorganization of employment in the Group and lower advertising expenses compared to 2012 which was a year of a major image campaign.

Indicators

In 2013, the PZU Group improved its performance indicators. Of particular note is the achievement of a high return on equity. ROE was 24.1%, up 0.1 p.p. compared to the previous year. The PZU Group's profitability ratios in 2013 surpassed the levels calculated for the whole the market (based on data for the first three quarters of 2013).

Selected financial data

No.	Item (PLN thousand)	12 months ended		9 months ended		Q4 net	
		31 Dec 2013	31 Dec 2012	30 Sep 2013	30 Sep 2012	01 Oct 2013 – 31 Dec 2013	01 Oct 2012 – 31 Dec 2012
1.	Gross written premium	16,480,003	16,243,131	12,402,550	12,158,994	4,077,453	4,084,137
2.	Net insurance claims and change in the balance of technical reserves	(11,161,224)	(12,218,731)	(8,210,298)	(8,428,025)	(2,950,926)	(3,790,706)
3.	Investment income, including:	2,488,068	3,704,729	1,858,648	2,569,395	629,420	1,135,334
3a.	Net investment income	1,844,932	2,047,054	1,444,798	1,653,515	400,134	393,539
3b.	Net result on the realization of investments and impairment charges	25,045	521,268	(166,478)	367,091	191,523	154,177
3c.	Net change in the fair value of assets and liabilities restated to fair value	618,091	1,136,407	580,328	548,789	37,763	587,618
4.	Net profit	3,295,113	3,253,826	2,766,835	2,840,258	528,278	413,568
5.	Equity	13,127,787	14,269,269	12,681,967	13,800,615	13,127,787	14,269,269
6.	Financial assets and real properties held for investment purposes	56,163,484	50,987,480	55,511,250	49,705,862	56,163,484	50,987,480
7.	Total assets	62,362,421	55,909,560	61,640,113	56,800,666	62,362,421	55,909,560