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Press release

PZU reports sound performance: gross written premium approaches PLN 17 billion (+2.5%) while profit hovers just under PLN 3 billion in 2014

Despite unfavorable regulatory and economic conditions the PZU Group's 2014 financial result was nearly PLN 3 billion. Compared to 2013 gross written premium climbed 2.5% to a total of PLN 16.9 billion. 2014 also marked fulfillment of the PZU2.0 strategy and work on defining strategic growth directions until 2020 (PZU3.0).

"Last year abounded in important events at PZU. Our record-breaking Eurobond issue, Everest platform roll-out, acquisition of RSA's assets in Poland and the Baltic States, revolutionary direct claims handling service and one-of-a-kind replacement vehicle fleet demonstrate the great determination with which we have fulfilled the promises we made under the previous PZU2.0 strategy. We achieved these outcomes while consistently growing the investment result, preserving high business profitability and expanding insurance sales in Poland and abroad. Last year we also finalized work on our new strategy calling for the PZU Group to attain the leadership position in all key business areas by 2020. In this same period, though facing unfavorable macroeconomic conditions, we generated robust and sound performance and we delivered a fair and decent profit to our shareholders", said Andrzej Kleszyk, CEO of PZU SA.

The following factors contributed to the PZU Group's 2014 financial results:

- lower profitability in the mass insurance segment, mostly in motor business in connection with the increase in claims provisions from previous years;
- lower profitability in the corporate insurance segment, mostly in motor business in connection with sales deceleration accompanied by the simultaneous increase in claims and benefits for claims from previous years, and other TPL and property claims;
- enhanced investment result related to the higher valuation of debt instruments;
- improved profitability in group and individually continued insurance in connection with portfolio growth and the decline in the loss ratio in protection products;
- lower pace of converting policies from long-term agreements into yearly renewable term agreements in type P group insurance.

Additionally, non-recurring events exerted a material impact on the comparability of results: improved performance in the pension insurance segment following the open-end pension fund (OFE) reform, the income from consolidating mutual funds in 2013 and the gross profit from entering into the Green Card insurance settlement with the reinsurer in 2013.

Gross Written Premium

In 2014 the PZU Group collected gross written premium of PLN 16 884.6 million compared to PLN 16 480.0 million in the previous year (+2.5%). We recorded sales growth primarily in regular premium life insurance (chiefly by expanding group protection insurance and health insurance premiums), premiums for fire insurance and property claims and premiums for accident and other insurance. At the same time, the sales of structured products in the bancassurance channel and the value of motor insurance premiums fell (due to lower prices for insurance policies evoked by fierce competition on the market).

The gross written premium in Ukraine and the Baltic States represented 4.2% of the PZU Group's gross written premium, signifying growth compared to 2013 following business expansion in the Baltic States. Since the premium income generated by the newly-acquired companies has been incorporated in the Group's results from the time of commencing consolidation (not for the full year), the percentage of the Group's gross written premium generated by international operations should be expected to continue to climb in the subsequent period.

Investment activity

In 2014 the PZU Group's net profit on investment activity was PLN 2 733.5 million compared to PLN 2 514.6 million in 2013 (8.7% growth) and grew mostly as a result of falling yields on Polish treasuries, the higher valuation of investment properties and portfolio expansion in assets denominated in Euro.

In addition, the income recognized in 2013 in the amount of PLN 172 718 thousand in conjunction with consolidating mutual funds as of 1 January 2013 affected the comparability of data.

Claims and benefits

In 2014 the PZU Group's net claims and benefits (including the incremental growth in provisions) rose by 3.4% to PLN 11 541.7 million compared to the result in 2013. This growth chiefly ensued from the slower pace of converting long-term agreements into yearly renewable term agreements in type P group insurance, portfolio expansion in group protection insurance, higher loss ratio in motor TPL insurance, the increase in loss ratio in other TPL insurance, fire insurance and other property claims and the higher level of claims in agricultural insurance.

Administrative and acquisition expenses

In 2014 acquisition expenses rose by 6.5% to PLN 2 147.0 million compared to 2013. This was above all the result of changing the commission rates in bundled motor insurance, modification of the commission system in the agency channel in the individual insurance segment, consolidation of newly-acquired insurance companies and expansion in the contract portfolio and high sales of new policies in group protection insurance.

The Group's administrative expenses in 2014 rose by 8.6% to PLN 1 527.7 million compared to last year. Higher project expenses, including strategy execution costs, IT costs, payroll and training costs related to client service, the compulsory fee of PLN 19.5 million remitted by PTE PZU to the Guarantee Fund in the National Securities Depository and the incorporation of the administrative expenses incurred by the newly-acquired insurance companies in the Group's results contributed to this cost level.

Profit

Compared to last year net profit fell by 9.9% to PLN 2 967.6 million from PLN 3 295.0 million in 2013.

Ratios

At yearend 2014 equity stood at PLN 13 167.6 million, a level similar to yearend 2013 (0.3% growth). The growth in consolidated equity stemming from the 2014 net profit of PLN 2 967.6 million was offset by the dividend payout of PLN 2 936.0 million. In 2014 the PZU Group generated a return on equity of 22.6%. This means that ROE was down by 1.5 p.p. compared to last year. The PZU Group's profitability ratios achieved in 2014 exceed the levels generated by the overall market (according to data for the first three quarters of 2014).