

High dividend, foreign acquisitions and customer-oriented solutions – PZU sums up the first quarter of 2014

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The PZU Group's net profit after Q1 2014 was PLN 760,443 thousand, down 9.2% compared to the same period of the previous year. Excluding one-off events^[1], net profit increased 18.9% compared to last year's figure. The first quarter of this year marked a significant increase in the PZU Group's business. The Company achieved its two strategic objectives: the acquisition of RSA companies and the introduction of direct claims handling.

"During the first quarter of this year, the PZU Group was actively looking for growth opportunities and consistently pursued its policy of creating value for the shareholders. The best evidence of this is the assumed payment of dividend for 2013 in the highest amount since the Company's IPO. As regards the acquisition of the RSA assets, it was the realization of one of the key elements of PZU's strategy. The Company's results in the current moderately favorable macroeconomic environment are very good. This is predominantly the result of increased profitability and cost discipline," said Andrzej Klesyk, CEO of PZU SA.

The following factors had the greatest impact on the PZU Group's operations in the first quarter of 2014 compared to the same period of the previous year:

- a decrease in gross written premium as a result of lower sales of single premium insurance in the bancassurance channel and motor insurance partly offset by the development of group protection insurance products;
- improved profitability in group and individually continued insurance mainly as a result of portfolio growth and a drop in the claims ratio in protection products;
- maintenance of cost discipline in core business lines permitting the implementation of development programs coupled with a decrease in recurring administrative costs;
- a lower rate of conversion of multiannual policies into annual renewable agreements in type P group insurance;
- a higher valuation of equity instruments due to a better performance of stocks on the Warsaw Stock Exchange and debt instruments as a result of a decline in yields on 10-year bonds.

Furthermore, certain one-off events in 2013 had a significant distorting impact on the comparability of results: non-recurring income from the consolidation of mutual funds and non-recurring income from a settlement with a reinsurer in respect of Green Card insurance (partial reversal of an adjustment of estimates with the reinsurer reducing profit for 2011).

Premiums

Gross written premium during the first 3 months of 2014 was PLN 4,353,979 thousand compared to PLN 4,425,923 thousand in the same period of the previous year (-1.6%). The decrease in sales was mainly due to a decline in individual single-premium insurance (PLN -76,871 thousand), in particular endowment products in the bancassurance channel and in the mass insurance segment (PLN -39,052 thousand), including: motor insurance (PLN -51,725 thousand) as a result of portfolio aging and declines in average premiums and compulsory insurance of farm buildings caused by increasing competition in the market.

At the same time, an increase in the segment of group and individually continued regular-premium insurance was recorded (PLN 32,475 thousand) mainly as a result of growth in group protection insurance (increases in average premiums and the number of insureds, including a high level of new sales).

Investment activity

Investment income (including investment contracts, i.e. contracts without a significant insurance risk) in Q1 2014 and Q1 2013 was PLN 535,180 thousand and PLN 428,867 thousand, respectively. The increase was primarily due to a higher valuation of equity instruments caused by an upturn on the Warsaw Stock Exchange (the WIG index went up 2.1% in Q1 2014 compared to -4.9% a year before) and a higher valuation of debt instruments (e.g. yields on 10-year bonds went down 12 basis points in Q1 2014 compared to +20 bps in Q1 2013). Furthermore, due to the consolidation of mutual funds as of 1 January 2013, non-recurring (gross) income of PLN 167,453 thousand was recognized in Q1 2013.

Indemnifications and benefits

The decrease in net indemnifications and benefits of PLN 66,531 thousand (-2.4%) compared to the same period of the previous year was due to, in particular, a low loss ratio in motor insurance thanks to favorable road conditions (low incidence of damage) and low levels of mass damage and individual damage resulting in large indemnifications in non-life insurance.

Costs

Acquisition costs in Q1 2014 increased by PLN 27,036 thousand (+5.6%) compared to the same period of the previous year. This increase was a result, in particular, of the expansion of the portfolio of insurance agreements, high sales of new policies in group protection insurance and changes in commission rates in motor package insurance in the mass insurance segment. The increase in acquisition costs was partly offset by a rise in costs deferred in time for multiannual agreements in the corporate insurance segment.

The increase in administrative expenses by PLN 7,799 thousand (+2.4%) resulted mainly from a compulsory contribution of PLN 20,873 thousand to the Guarantee Fund of the National Depository of Securities, partly offset by the maintenance of cost discipline in the core business areas.

Profit

Net profit was PLN 760,443 thousand, down PLN 76,674 thousand (-9.2%) compared to Q1 2013.

Indicators

Consolidated equity according to IFRS as at 31 March 2014 was PLN 13,887,660 thousand compared to PLN 14,951,938 thousand as at 31 March 2013. Return on equity (ROE^[2]) for the period from 1 January 2014 to 31 March 2014 was 22.5%, down 0.4 percentage points compared to the same period of the previous year.

[1] One-off events include the commencement of consolidation of mutual funds, a settlement with a reinsurer in respect of Green Card insurance and the effect of conversion of multiannual policies into annual renewable agreements in type P group insurance.

[2] Annualized ratio.

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